Pine Cliff Energy Ltd.

2012 Annual Report

STRONG PERFORMANCE

Providing Increased Value to Shareholders in 2012
(Year Over Year Comparison)

69.2%
Share Price Appreciation

621%
Increase in Average Daily Production

347%
Increase in Production per Share

$134.9 Million
Market Cap
at 12/31/12 as compared with $24.0 million at 01/03/12

794%
Increase in P+P Reserves per Share

181%
Increase in Funds Flow per Share

Pine Cliff Energy is a public company engaged in the exploration, development and production of natural gas, crude oil and liquids. The company's focus is on innovatively pursuing opportunities to acquire additional high-impact assets for future growth. Pine Cliff also has a minerals division through its wholly-owned subsidiary Geomark Exploration Ltd. which explores for precious and base metals. Pine Cliff's strong balance sheet and management team has positioned the company well to capitalize on its growth strategy and maximize value for shareholders.

REPORT TO SHAREHOLDERS

Our activities in the past 14 months have resulted in a significant transformation of Pine Cliff as we have repositioned ourselves as a Canadian growth-oriented exploration and production company. When we started down this path in January 2012, our team agreed on a vision to deliver long-term value to our shareholders by building a portfolio of high-return assets for future growth focusing on counter cyclical natural gas opportunities. In 2012, we proved that we were capable of executing on this strategy and in 2013 we continue to seek accretive growth for our shareholders.

2012 Highlights

Pine Cliff's strategic and structural accomplishments this past fiscal year include:

- Successfully completed major acquisitions with material liquids rich gas production, expanding the depth of our organic drilling inventory, strengthening our balance sheet and establishing core areas within the Western Canadian Sedimentary Basin;

- Completed a rights offering and two private placements for total gross proceeds of $8.3 million;

- Achieved average sales volumes of 775 barrels of oil equivalent (boe) per day in 2012, as compared to 101 boe per day in 2011;

- Realized funds flow from operations of $1,702,000 in 2012 as compared to $353,000 in 2011;

- Built capacity and strengthened our technical capabilities with the addition of new personnel in key operational roles; and

- Continued to grow investor awareness of the new Pine Cliff.

A Strong Foundation for Value Creation

Pine Cliff is focused on adding to or creating new core areas within our portfolio by acquiring assets that will either provide the potential for high-return drilling locations, existing low decline production or both. These asset additions could take the form of asset or corporate acquisitions, farm-ins or joint ventures, but at this point of the commodity cycle, our interest is primarily on assets that have strong leverage to an increase in natural gas prices. We believe that there are significant opportunities available in the market place for well-capitalized, innovative companies who can move quickly and in 2012 we think we proved this theory through the execution of three major acquisitions.

- On March 1, 2012, we closed the acquisition of assets in the Carrot Creek area of Alberta for $22.5 million creating our company's first core area. The properties added approximately 950 boe per day of production (weighted 77 percent natural gas) and added proved plus probable reserves of 3,105 Mboe;

- On October 19, 2012, we closed a $60 million all share acquisition of Geomark Exploration Ltd., which allowed Pine Cliff to repay both our bank and related party debts, increase our capital and add non-operated oil and gas interests in Alberta, primarily in the Harmattan area, and mineral properties to our asset base; and

- On November 12, 2012, we announced a unique transaction whereby Pine Cliff purchased from a Canadian financial institution all of the outstanding indebtedness and liabilities owing to it by Skope Energy Inc. for cash consideration of $28 million. Subsequent to year-end, Pine Cliff became the sole shareholder of Skope through a Companies' Creditors Arrangement Act (CCAA) process. The Skope assets include an 80 percent working interest in a package of high-quality, low-decline producing shallow gas assets in southeast Alberta and southwest Saskatchewan with production of approximately 3,500 boe per day.

We continue to believe that 2013 will expose more of the same kinds of value opportunities as natural gas prices remain weak and the number of deals being brought to us to assess has never been stronger than it is right now. This low natural gas price environment is continuing to pressure companies with depressed equity prices and diminished cash flow to divest assets in an attempt to lower debt or fund liquids drilling programs.

Pine Cliff is well positioned to continue to benefit from these unique conditions facing the oil and gas industry. Our recent transactions have given the company critical mass whereby we can consider larger deals and our strong balance sheet provides us with a competitive advantage over many of our peers.

Organic Growth Opportunities

In late 2012, Pine Cliff commenced our winter drill program in the Carrot Creek area aimed at further increasing sales volumes and our liquids weighting. To date, we have drilled and completed one gross (0.30 net) Rock Creek well and one gross (0.1875 net) Wilrich well, both of which are awaiting tie-in. Pine Cliff production in 2013 is expected to be between 3,500 boe per day and 4,000 boe per day, an increase of 395 percent over 2012 levels based on the mid-point of guidance.

We anticipate spending approximately $10 million on our capital development program in 2013 to drill an additional five gross (1.1 net) wells in the Carrot Creek area, two gross (0.1 net) wells in the Sundance area and three gross (2.2 net) recompletions. We will aggressively manage our capital budget to stay within our cash flow as we don’t intend to use debt to finance drilling in this price environment. Our drill program will continue to focus on liquids rich targets and proving up natural gas zones that we can more aggressively target when natural gas prices recover.

We are also continuing Geomark’s drilling program on the Kings Canyon project in Utah as we were encouraged by the inital gold results on the first phase of drilling. The goal of the drilling on the property is to develop a critical mass of near surface, low grade gold mineralization of sufficient size to justify a low cost, heap leach gold mining operation. A $0.6 million phase of drilling is planned in Q2 2013 to follow-up results of the initial drill program and test exploration targets elsewhere on the property to determine if we want to exercise a $1 million option to acquire additional lands with a historical gold resource in this area at the end of 2013.

Positioned for Success

We are proud of the substantial and meaningful progress on the path that we set out on in 2012 and our excited about the opportunities in front of us in 2013. In the near-term, Pine Cliff will continue to maintain a strong balance sheet, drill selected strategic wells, evaluate our mineral properties and continue to pursue opportunities for shareholder value creation. Our current view on natural gas prices is continued weakness through most of 2013. As such, we believe there are greater returns available in buying assets and existing production than drilling in this environment. We intend to remain disciplined by adding assets that will generate high cash flow when prices recover over the next few years at which time we will focus on organic drilling growth using the cash flow from our low decline asset base.

Pine Cliff’s management and insiders collectively own approximately 25 percent of shares outstanding and as such we are highly motivated and aligned with shareholders to increase share value and generate above average returns. Our focused strategy proved successful in 2012 delivering significant funds flow, production and reserves growth on a per share basis and it is these metrics that will continue to be our measure of success going forward.

We would like to thank all our shareholders, staff and the Board of Directors for their confidence in our plan and we look forward to updating you in the near future on the next stage of our development.

Yours truly,

Phil Hodge
President and Chief Executive Officer
March 21, 2013

Please refer to the attached Management’s Discussion and Analysis for Reader Advisories regarding forward-looking information, non-IFRS measures and oil and gas measurements. This Message to Shareholders should be read in conjunction with the audited consolidated financial statements of Pine Cliff Energy Ltd. together with Management’s Discussion and Analysis for the year ended December 31, 2012 and 2011, which can be found on www.sedar.com, and is subject to the same cautionary statements as set out therein.

March 21, 2013

INTRODUCTION

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

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

READER ADVISORIES

This MD&A contains financial measures that are not defined under International Financial Reporting Standards ("IFRS") and forward-looking statements. Readers are cautioned that the MD&A should be read in conjunction with the Company's disclosure under "Non-IFRS Measures" and "Forward-Looking Information" included at the end of the MD&A.

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

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

SENSITIVITIES

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

Business environment sensitivities		Impact on annual funds flow from operations [1]	
	Change	$000s	$ per share [3]
Crude oil price - Edmonton par ($/bbl) [2]	$1.00	50	0.00
Natural gas price - AECO ($/mcf) [2]	$0.10	130	0.00
Interest rate on variable rate debt	$0.01	30	0.00

[1] This analysis does not adjust for changes in working capital and uses current royalty rates.
[2] Pine Cliff has prepared this analysis using its fourth quarter 2012 daily sales volumes annualized for twelve months.
[3] Based on 2012 weighted average shares outstanding of 79,247,000.

PINE CLIFF'S BUSINESS

Pine Cliff is actively engaged in the exploration, development and production of natural gas, crude oil and natural gas liquids ("liquids" or "NGLs") (the "Oil and Gas Division"). The Company is seeking to acquire material asset positions in the Western Canadian Sedimentary Basin ("WCSB") to enlarge its Carrot Creek core area and create new core areas of production with significant reserves and drilling inventories, while also accelerating current oil and liquids drilling and optimization opportunities. Pine Cliff is also involved in the exploration for precious metals through its subsidiaries (the "Minerals Division"). Unless otherwise noted, the discussion in the MD&A will focus on the Oil and Gas Division as the Minerals Division does not currently have any revenue in 2012 and minimal expenses.

On March 1, 2012, Pine Cliff purchased assets in the Carrot Creek area of Alberta (the "Carrot Creek Assets") for cash consideration of $23.5 million ($22.7 million after operating funds flow adjustments for January and February 2012). The acquisition had an effective date of January 1, 2012 and provided Pine Cliff with its first core area in the WCSB. The results of the Carrot Creek Assets have been included in the financial results of the Company effective March 1, 2012.

The Carrot Creek Assets are located southeast of the town of Edson, Alberta, Canada and produce liquids rich natural gas as well as a small amount of oil. In addition to the producing assets, Pine Cliff has 17.3 net sections of prospective land, some of which has current vertical production. Pine Cliff is the operator of approximately 90% of the Company's production in the area. The Carrot Creek area has multi-zone potential which can be further exploited using horizontal drilling technology. Pine Cliff drilled one gross oil well (0.30 net well) in December 2012 in the Rock Creek zone which is currently awaiting tie-in and one gross well (0.1875 net well) in January 2013 in the Wilrich zone which is currently being completed. Horizontal drilling in the Rock Creek formation has been ongoing since 2006 and there have been significant improvements in both the drilling and completions of these wells, resulting in higher reservoir contact, more effective stimulations and improved performance. Pine Cliff and its partners were pleased to obtain an extension on a highly-prospective expiring lease and plan to drill one well (0.25 net) on that location in 2013 after completing further technical analysis. There are also significant natural gas prospects (over 50 gross potential locations) on these lands, most of which have been inventoried until natural gas prices improve.

The balance of Pine Cliff's 2012 year to date production comes mainly from non-operated properties in the Sundance area in northwest Alberta (the "Sundance Assets") and from non-operated properties in the Harmatten, Garrington and Carstairs areas in central Alberta (the "Geomark Oil and Gas Assets") acquired in the Geomark Transaction, as defined below, however the Company does not currently have large enough land positions or working interests to consider them significant core areas.

On October 19, 2012, Pine Cliff combined its operations with those of Geomark Exploration Ltd. ("Geomark") through a share exchange, pursuant to an arrangement agreement (the "Geomark Transaction"). Consideration for each common share of Geomark was 1.5 voting common shares of Pine Cliff (the "Pine Cliff Shares") which amounted to the issuance of 81,767,641 Pine Cliff Shares or $60,508,000, using the closing share price of $0.74 per share on the date of the Geomark Transaction. Geomark became a wholly-owned subsidiary and its strong working capital position, no debt and highly liquid investments in a related party added significant strength to the combined company. Geomark's non-monetary assets include the Geomark Oil and Gas Assets and mineral properties in Utah, Ontario, Nunavut and the Northwest Territories. Pine Cliff continued Geomark's initial drilling program on the King's Canyon gold property ("King's Canyon") in Utah in 2012 and was encouraged with the initial results. Drilling was completed on both the portion of the property on which Geomark has an option to acquire a 100% interest on a claim block for US$1,000,000 (which includes the historical, but presently non-compliant National Instrument 43-101 *Standards for Disclosure for Mineral Projects*, gold mineral resource in the Crown Zone) and on the 100% owned land surrounding the Crown Option Claims, which includes the Royal Zone. The second phase of drilling is planned for the second quarter of 2013 to follow up results of the initial drill program and test exploration targets elsewhere on the property.

On November 9, 2012, Pine Cliff completed the purchase from a Canadian financial institution of all of the outstanding indebtedness and liabilities owing by Skope Energy Inc. ("Skope") and all of the security documents granted by Skope to the financial institution (the "Skope Debt Purchase"), for cash consideration of $28,000,000. On November 27, 2012, Skope obtained an initial order granting relief under the *Companies' Creditors Arrangement Act* ("CCAA") and on February 19, 2013, the restructuring of Skope pursuant to the CCAA was completed and Pine Cliff became the sole shareholder of Skope. Skope owns an 80% working interest in a package of high-quality, low decline, producing shallow gas assets in southeast Alberta and southwest Saskatchewan. Skope's current production of approximately 3,500 boe/d, weighted 100% towards natural gas, is expected to provide Pine Cliff with increased cash flow and shareholders with considerable upside should natural gas prices recover. In addition to its oil and gas assets, Skope had positive working capital of approximately $2,000,000 and tax pools of approximately $94,000,000. Please see "Subsequent Events" for further details on the Skope Debt Purchase.

OUTLOOK FOR 2013

The 2013 outlook provides information as to management's expectation for results of operations for 2013. Readers are cautioned that the 2013 outlook may not be appropriate for other purposes. The Company's expected results are sensitive to fluctuations in the business environment and may vary accordingly. This outlook contains forward-looking information and should be read in conjunction with the Company's disclosure under "Forward-Looking Information" included on the final page of the MD&A.

Production

Production is expected to average between 3,500 boe/d and 4,000 boe/d, an increase of 395% over the 2012 average production (percent change based on the mid-point of the outlook).

Capital Expenditures – Oil and Gas Division

Pine Cliff is committed to maintaining its strong financial position and plans to fund its 2013 capital expenditures from funds flow from operations. In total, Pine Cliff plans to spend approximately $10 million on capital in 2013. The capital program includes the drilling of five gross wells (1.1 net wells) in the Carrot Creek area and two gross wells (0.1 net wells) in the Sundance area. In addition to the drilling program, Pine Cliff has identified three gross wells (2.2 net wells) in the Carrot Creek area for recompletions in 2013 and will spend approximately $2 million on its southeast Alberta shallow gas assets optimizing production. Pine Cliff's capital expenditure program is sensitive to commodity pricing and Pine Cliff's budget is designed to be flexible to balance capital expenditures against available funds flow. Before participating in a drill or recompletion, Pine Cliff will undertake to rigorously scrutinize the return on investment and the timing of the project.

Capital Expenditures – Minerals Division
Capital spending on the second phase of drilling at King's Canyon is anticipated to be approximately $0.6 million. Future capital spending at King's Canyon, including the December 6, 2013 option payment of US$1 million to acquire 100% of a claim block, will be evaluated following the results of the second phase of drilling.

Strategy
It has been a busy and active year for Pine Cliff. Management is pleased with its progress to date and the assets that we have assembled provide Pine Cliff with significant opportunities for returns upon the recovery of natural gas prices. We will continue to aggressively pursue, evaluate, and when warranted, execute accretive business opportunities in 2013 and beyond.

SELECTED ANNUAL INFORMATION

($000s, unless otherwise indicated)	**Year ended December 31, 2012** [1]	Year ended December 31, 2011	Year ended December 31, 2010 [2]
FINANCIAL			
Oil and gas sales	**7,547**	866	1,363
Total revenue	**7,061**	830	1,271
Cash flow from continuing operations	**1,773**	333	613
Cash flow from operating activities	**1,773**	333	219
Funds flow from continuing operations [3]	**1,702**	353	639
Basic per share ($/share)	**0.02**	0.01	0.01
Diluted per share ($/share)	**0.02**	0.01	0.01
Profit (loss) from continuing operations	**(1,071)**	(207)	(1,100)
Basic per share ($/share)	**(0.01)**	(0.00)	(0.02)
Diluted per share ($/share)	**(0.01)**	(0.00)	(0.02)
Profit (loss)	**(1,071)**	(207)	(667)
Basic per share ($/share)	**(0.01)**	(0.00)	(0.01)
Diluted per share ($/share)	**(0.01)**	(0.00)	(0.01)
Total assets	**80,689**	2,388	2,930
Total long term liabilities	**2,818**	82	71
Net debt [4]	**2,534**	(288)	45
OPERATIONS			
Production [5]			
Natural gas (mcf/d)	**3,638**	597	876
Crude oil (bbls/d)	**27**	-	-
Natural gas liquids (bbls/d)	**142**	1	2
Total (boe/d)	**775**	101	148
Netback ($/boe)			
Operating netback [6]	**12.43**	15.51	16.94

[1] The results of 2012 include the results of the Carrot Creek Assets for the period of March 1 to December 31, 2012 and the results of the Geomark Oil and Gas Assets for the period of October 19, 2012 to December 31, 2012.
[2] Continuing operations excludes the results of the operations of the South American assets which were designated as discontinued operations in 2010.
[3] Funds flow from operations is a non-IFRS measure that represents the total of funds provided by operating activities, before adjusting for changes in non-cash working capital and changes in interest payable.
[4] Net debt is a non-IFRS measure calculated as the sum of bank debt and trade and other payables less trade and other receivables and cash.
[5] The production for the year ended December 31, 2012 includes the results of the Carrot Creek Assets for the period of March 1 to December 31, 2012 and the results of the Geomark Oil and Gas Assets for the period of October 19, 2012 to December 31, 2012, averaged over 274 days.
[6] Operating netback is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties and operating expenses, averaged over the per boe production of the Company.

Annual 2012 highlights
During 2012, Pine Cliff reports that it:

- Closed the acquisition of its Carrot Creek Assets in the first quarter of 2012 for $22.7 million;
- Completed the combination of Pine Cliff's operations with those of Geomark in the fourth quarter of 2012, adding significant flexibility to Pine Cliff's balance sheet;
- Purchased the debt of Skope for cash consideration of $28,000,000 and subsequent to December 31, 2012 became the sole shareholder of Skope, adding approximately 3,500 boe/d of production to the consolidated Company (See "Subsequent Events");
- Attained record average daily sales volumes of 775 boe/d as compared to 101 boe/d in 2011. The increase is mainly due to the acquisition of the Carrot Creek Assets in the first quarter of 2012 and the combination with Geomark in the fourth quarter of 2012;
- Achieved annual funds flow from operations of $1,702,000 (2011 – funds flow from operations of $353,000), due to increased revenues from the Carrot Creek Assets and finance and dividend income, offset by higher royalties, operating, general and administration and interest expenses; and
- Realized a loss of $1,071,000 (2011 – loss of $207,000), mainly a result of non-cash depletion and depreciation and share-based payment expenses.

SELECTED QUARTERLY FINANCIAL INFORMATION

	2012				2011			
($000s, unless otherwise indicated)	**Q4**	Q3	Q2	Q1 [1]	Q4	Q3	Q2	Q1
Average sales volumes (boe/d) [2]	**832**	895	972	401	88	100	103	111
Operating netback ($/boe) [3]	**11.94**	13.36	11.78	13.11	12.20	15.63	17.34	16.31
Oil and gas sales	**2,319**	2,197	2,130	901	164	220	236	246
Oil and gas sales, net of royalties	**1,894**	1,824	1,735	750	159	211	230	231
Total revenue	**2,752**	1,824	1,735	750	159	211	230	231
Cash flow (deficiency) from operating activities	**660**	246	1,198	(331)	(4)	120	69	148
Funds flow (deficiency) from operations [4]	**775**	442	520	(35)	55	82	103	113
Per share - basic ($/share)	**0.01**	0.01	0.01	(0.00)	0.00	0.00	0.00	0.00
Per share - diluted ($/share)	**0.01**	0.01	0.01	(0.00)	0.00	0.00	0.00	0.00
Earnings (loss)	**(862)**	(472)	(450)	713	(47)	(74)	(53)	(33)
Per share - basic ($/share)	**(0.01)**	(0.01)	(0.01)	0.01	(0.00)	(0.00)	(0.00)	(0.00)
Per share - diluted ($/share)	**(0.01)**	(0.01)	(0.01)	0.01	(0.00)	(0.00)	(0.00)	(0.00)

[1] The results for Q1-2012 include the results of the Carrot Creek Assets for the period of March 1 to March 31, 2012. Pine Cliff's sales for the month of March 2012 were approximately 1,015 boe/d, inclusive of 930 boe/d from the Carrot Creek Assets.
[2] The sales volumes for Q4-2012 includes the results of the Geomark Oil and Gas Assets for the period of October 19 to December 31, 2012, averaged over 92 days. Pine Cliff's sales for the fourth quarter were approximately 853 boe/d, inclusive of 105 boe/d from the Geomark Oil and Gas Assets.
[3] Operating netback is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties and operating expenses, averaged over the boe production of the Company.
[4] Funds flow from operations is a non-IFRS measure that represents the total of funds provided by operating activities, before adjusting for changes in non-cash working capital and changes in interest payable.

Fourth quarter 2012 highlights
During the fourth quarter of 2012, Pine Cliff reports that it:

- Completed the combination of Pine Cliff's operations with those of Geomark, adding significant flexibility to Pine Cliff's balance sheet;
- Purchased the debt of Skope for cash consideration of $28 million and subsequent to December 31, 2012 became the sole shareholder of Skope, adding approximately 3,500 boe/d of production to the Company (See "Subsequent Events");
- Attained average daily sales volumes of 832 boe/d as compared to 88 boe/d in the fourth quarter of 2011. The increase is mainly due to the acquisition of the Carrot Creek Assets in the first quarter of 2012 and the combination with Geomark in the fourth quarter of 2012;
- Reported an 8% reduction in sales volumes as compared to the third quarter of 2012 due to downtime associated with workovers and sweetening Pine Cliff's natural gas;
- Achieved quarterly funds flow from operations of $775,000 (fourth quarter of 2011 – funds flow from operations of $55,000), due to increased revenues from the Carrot Creek Assets and finance and dividend income, offset by higher royalties, operating, general and administration and interest expenses; and

- Realized a quarterly loss of $862,000 (fourth quarter of 2011 – loss of $46,000), mainly a result of non-cash depletion and depreciation and share-based payment expenses.

SALES VOLUMES

Total sales volumes by product	Three months ended December 31 2012	2011	Year ended December 31 2012	2011
Natural gas (mcf)	**356,947**	48,024	**1,331,359**	217,856
Crude oil (bbls)	**3,506**	-	**9,820**	-
NGLs (bbls)	**13,567**	47	**52,134**	281
Barrels of oil equivalent	**76,564**	8,051	**283,847**	36,590
Oil and liquids weighting	**22%**	1%	**22%**	1%

Average daily sales volumes by product	Three months ended December 31 2012	2011	Year ended December 31 2012	2011
Natural gas (mcf/d)	**3,880**	522	**3,638**	597
Crude oil (bbls/d)	**38**	-	**27**	-
NGLs (bbls/d)	**147**	1	**142**	1
Total (boe/d)	**832**	88	**775**	101

Pine Cliff's sales volumes increased by 845% in the fourth quarter of 2012 to 832 boe/d as compared to 88 boe/d in the fourth quarter of 2011. The significant increase was a result of the Carrot Creek Assets being included in the full fourth quarter 2012 results, whereas in 2011 sales were only from the Sundance Assets. These increases have been partially offset by production disruptions during the fourth quarter of 2012 associated with sweetening Pine Cliff's sour gas and downtime associated with workovers and maintenance on wells. Due in part to multiple unscheduled third-party plant outages in July and September 2012 at the plant that was processing Pine Cliff's sour gas, Pine Cliff determined it would be more economical to sweeten its sour gas and flow it to an alternative third-party processing plant. Pine Cliff experienced production disruptions in October while this process was being tested.

Pine Cliff's sales volumes for the year ended December 31, 2012 were 775 boe/d as compared to 101 boe/d in the year ended December 31, 2011. The year-to-date sales volumes for 2012 are lower than the fourth quarter of 2012 as the sales volumes of the Carrot Creek Assets are included for only ten out of twelve months and averaged over 366 days.

Pine Cliff began operating the majority of its production in the fourth quarter of 2012 and the Company is evaluating long-term optimization opportunities for all of its wells. Many of the production issues Pine Cliff experienced in the latter half of 2012 have been resolved and Pine Cliff's net estimated sales volumes in March 2013 to date, inclusive of the southern Alberta and southern Saskatchewan assets acquired from Skope, is approximately 4,300 boe/d.

The Carrot Creek Assets produce liquids rich gas and oil, contributing to the increase in liquids weighting to 22% in 2012, as compared to just 1% in 2011.

OPERATING NETBACKS

The components of the operating netback are summarized as follows:

	Three months ended December 31 2012	2011	Year ended December 31 2012	2011
($ per boe)				
Oil and gas sales	**30.30**	20.37	**26.59**	23.67
Royalties	**5.55**	0.67	**4.74**	0.99
Operating expenses	**12.81**	7.43	**9.42**	7.17
Operating netback	**11.94**	12.27	**12.43**	15.51

Pine Cliff generated an operating netback of $11.94 per boe for the three months ended December 31, 2012 as compared to $12.27 per boe for the three months ended December 31, 2011. This reduction is a result of higher royalties per boe and higher operating expenses per boe offset by higher average realized commodity prices mainly as a result of higher liquids weighting.

Pine Cliff generated an operating netback of $12.43 per boe for the year ended December 31, 2012 as compared to $15.51 per boe for the year ended December 31, 2011. This reduction is a result of higher royalties per boe and higher operating expenses per boe offset by higher average realized commodity prices mainly as a result of higher liquids weighting.

OIL AND GAS SALES

	Three months ended December 31				Year ended December 31			
	2012		2011		**2012**		2011	
(000s, except per boe amounts)	$	$ per boe	$	$ per boe	$	$ per boe	$	$ per boe
Natural gas [1]	**1,299**	**3.64**	160	3.34	**3,555**	**2.67**	843	3.87
Crude oil	**271**	**77.36**	-	-	**772**	**78.57**	-	-
NGLs	**724**	**53.37**	4	76.41	**3,195**	**61.28**	23	80.96
Royalties	**25**	**-**	-	-	**25**	**-**	-	-
Total sales	**2,319**	**30.30**	164	23.97	**7,547**	**26.59**	866	23.67

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

Oil and gas sales increased by 1,314% from $164,000 in the fourth quarter of 2011 to $2,319,000 in the fourth quarter of 2012, reflecting increased sales volumes from the Carrot Creek Asset acquisition that closed on March 1, 2012. The increase in sales volumes and liquids weighting contributed to a higher realized price but was offset by an overall lower commodity price environment in 2012. Pine Cliff's realized price in the three months ended December 31, 2012 was $30.30 per boe as compared to $23.97 per boe in the same period of 2011.

For the year ended December 31, 2012, oil and gas sales were $7,547,000 ($26.59 per boe) as compared to $866,000 ($23.67 per boe) for the same period of 2011; an increase of $6,681,000. This increase is primarily a result of the increased sales volumes from the Carrot Creek Asset acquisition, offset by a lower commodity price environment for gas and liquids. Pine Cliff's increased weighting towards oil and liquids offset the significant decrease in natural gas prices.

Commodity prices and foreign exchange rates

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

	Q4-2012	Q3-2012	Q2-2012	Q1-2012	Q4-2011	Q3-2011	Q2-2011	Q1-2011
Natural gas								
NYMEX (U.S.$/mmbtu) [1]	3.36	2.81	2.26	2.77	3.61	4.19	4.36	4.14
AECO (C$/mcf)	3.20	2.31	1.89	2.15	3.19	3.65	3.86	3.79
Crude oil								
WTI (U.S.$/bbl)	88.18	92.22	93.49	102.93	94.06	89.76	102.56	94.10
Edmonton light (C$/bbl)	84.47	84.79	84.42	92.70	97.86	92.24	103.58	88.39
Foreign exchange								
C$/US$	0.9913	0.9948	1.0102	1.0012	1.0231	0.9802	0.9677	0.9860

[1] mmbtu is the abbreviation for millions of British thermal units. One mcf of natural gas is approximately 1.02 mmbtu.

The average NYMEX gas price in the United States has decreased by 7% in the fourth quarter of 2012 as compared to the fourth quarter of 2011, whereas benchmark AECO natural gas prices in Canada were consistent in the fourth quarter of 2012 as compared to the same period of 2011. NYMEX is linked to AECO through transportation tariffs from the respective hubs to common markets and through foreign exchange rates. Although the overall natural gas pricing environment in 2012 has been weaker than 2011, recoveries are starting to be seen with the average AECO price for natural gas being more than 90% higher in December ($3.00 per gigajoule) than April ($1.58 per gigajoule). AECO prices averaged $3.20 and $2.39 per mcf for the three months and year ended December 31, 2012, respectively, while Pine Cliff's realized natural gas price was $3.64 and $2.67 per mcf for the same periods, respectively, reflecting the heating content of Pine Cliff's natural gas.

WTI oil prices averaged US$88.18 per bbl in the fourth quarter of 2012 as compared to US$94.06 per bbl in the fourth quarter of 2011. Canadian crude prices are based upon refiner postings at Edmonton, Alberta and are linked to WTI through transportation tariffs to common markets and the foreign exchange rate. Earlier in 2012, the price differentials between Edmonton light oil prices and WTI widened substantially, due in part to refinery outages and seasonal turnarounds as well as transportation capacity issues. The disconnect between the indices largely evaporated by the end of the fourth quarter of 2012, with the fourth quarter price differential being less than $4.00, however there remains potential for the price differentials to remain volatile in future periods. In the three months and year ended December 31, 2012, the realized price of Pine Cliff's oil was $77.36 and $78.57 per bbl, respectively, as a result of quality adjustments to the average posted Edmonton light crude oil price of $84.47 and $86.60 per bbl for the same periods, respectively.

Historically, the average price of NGLs has tracked the price of oil. However, beginning in the later part of the second quarter of 2012, changes in the supply and demand for NGLs negatively affected the relationship between the price of NGLs and the price of oil. In the three months ended December 31, 2012, the realized price of Pine Cliff's NGLs was $53.37 per bbl, representing 63% of the Edmonton light crude oil prices as compared to 71% in the year ended December 31, 2012.

Price differentials for commodities have the potential to remain volatile in 2013.

ROYALTIES

	Three months ended December 31				Year ended December 31			
	2012		2011		**2012**		2011	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe	**$**	**$ per boe**	$	$ per boe
Total	**425**	**5.55**	5	0.67	**1,344**	**4.73**	36	0.99
% of oil and gas sales	**18%**		3%		**18%**		4%	

Royalties for the three months and year ended December 31, 2012 were $5.55 and $4.73 per boe, respectively, as compared to $0.67 and $0.99 per boe for the three months and year ended December 31, 2011, respectively. As a percentage of oil and gas sales, royalties averaged 18% in 2012 (three months ended December 31, 2012 – 18%) as compared to 4% in 2011 (three months ended December 31, 2011 – 3%). The increase in royalties on a per boe basis and as a percentage of oil and gas sales is due to the increased oil and liquids weighting and higher production volumes per well resulting from the Carrot Creek Asset acquisition. Royalty rates, which are dependent on production volumes per well and commodity prices, are presently higher for oil and liquids than natural gas.

OPERATING EXPENSES

	Three months ended December 31				Year ended December 31			
	2012		2011		**2012**		2011	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe	**$**	**$ per boe**	$	$ per boe
Operating expenses	**981**	**12.81**	60	7.43	**2,676**	**9.42**	262	7.17
% of oil and gas sales	**42%**		37%		**35%**		30%	

As compared to the same periods in 2011, operating expenses per boe increased 72% and 31% in the three months and year ended December 31, 2012, respectively, to $12.81 and $9.42 per boe, respectively. On an annual basis, the increase in operating expenses is primarily due to a different operating environment and product mix in the Carrot Creek Assets as compared to the legacy Sundance Assets, such that oil and liquids production results in a higher average per boe cost to produce and transport to market than gas production. Pine Cliff's operating expenses in the fourth quarter of 2012 were also inflated as a result of the costs associated with sweetening Pine Cliff's sour production and as a result of a thirteenth month adjustment at the third-party gas processing plant that processes the majority of Pine Cliff's production. Pine Cliff is committed to seeking ways to increase efficiencies in the field which should decrease the operating expenses per boe in future periods.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended December 31				Year ended December 31			
	2012		2011		**2012**		2011	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe	**$**	**$ per boe**	$	$ per boe
Total	**908**	**11.86**	44	5.36	**2,083**	**7.34**	215	5.88
Less: non-recurring transaction costs	**398**	**5.20**	-	-	**776**	**2.73**	-	-
	510	**6.66**	44	5.36	**1,307**	**4.60**	215	5.88
% of oil and gas sales	**22%**		27%		**17%**		25%	

General and administrative expenses ("G&A"), excluding non-recurring transaction costs, decreased on a per boe basis to $4.60 per boe in the year ended December 31, 2012 as compared to $5.88 per boe in the year ended December 31, 2011. G&A expenses in the three months ended December 31, 2012 were $6.66 per boe as compared to $5.36 per boe in the same period of 2011 as a result of increased staffing costs as a result of the Geomark Transaction and annual expenses such as the audit and bonuses. In the fourth quarter of 2012, Pine Cliff incurred $51,000 of G&A related to its minerals division, which has been included in the consolidated totals above. On an absolute dollar basis, G&A has increased considerably as a reflection of the revitalized strategic focus of the Company which has, most notably, increased staffing costs.

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

In the year ended December 31, 2012, Pine Cliff incurred $185,000 in non-recurring transaction costs related to the acquisition of the Carrot Creek Assets, which closed in the first quarter of 2012, $241,000 in non-recurring transaction costs related to the Geomark Transaction, which closed in the fourth quarter of 2012 and $350,000 in non-recurring transaction costs related to the Skope Debt Purchase and subsequent CCAA proceedings. The non-recurring transaction costs are comprised of legal, accounting, consulting and regulatory expenses associated with those business combinations.

SHARE-BASED PAYMENTS

	Three months ended December 31				Year ended December 31			
	2012		2011		**2012**		2011	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe	**$**	**$ per boe**	$	$ per boe
Total	**467**	**6.10**	-	-	**983**	**3.46**	-	-
% of oil and gas sales	**20%**		0%		**13%**		0%	

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

In 2012, Pine Cliff granted stock options to purchase 10,400,000 common shares at a weighted average exercise price of $0.58 per share. During 2012, 160,000 of those options were forfeited, resulting in an ending balance of 10,240,000 stock options outstanding. Subsequent to December 31, 2012, Pine Cliff issued 400,000 stock options (See "Subsequent Events"). In the three months and year ended December 31, 2012, Pine Cliff recorded share-based payment expense of $467,000 and $983,000, respectively, (December 31, 2011 – nil) related to the stock options issued. In the fourth quarter of 2012, Pine Cliff incurred $26,000 of share-based payment expense related to its minerals division, which has been included in the consolidated totals above.

DEPLETION AND DEPRECIATION

	Three months ended December 31				Year ended December 31			
	2012		2011		**2012**		2011	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe	**$**	**$ per boe**	$	$ per boe
Oil and gas assets	**829**	**10.83**	94	11.68	**2,823**	**9.95**	537	14.68
Office furniture and equipment	**-**	**-**	-	-	**-**	**-**	-	-
Total	**829**	**10.83**	94	11.68	**2,823**	**9.95**	537	14.68
% of oil and gas sales	**36%**		57%		**37%**		62%	

Pine Cliff's depletion and depreciation expense decreased 7% and 32% on a per boe basis in the year ended December 31, 2012, as compared to the same periods in 2011, respectively. The reduction in depletion and depreciation expense per boe in 2012 is due in part to an increase in oil and gas reserves as a result of the acquisition of the Carrot Creek Assets. Additionally, Pine Cliff prospectively began depleting all of its oil and gas properties and facilities, including future development costs, using the unit-of-production method over their proved plus probable reserve life ("Proved plus Probable Method"); a change from the unit-of-production method over their proved developed reserve life ("Proved Developed Method") for oil and gas properties and the straight-line method for production facilities. This change of estimate was due to management of the Company believing that the Proved plus Probable Method provides a better reflection of the estimated service life of the related assets.

FINANCE EXPENSES

	Three months ended December 31				Year ended December 31			
	2012		2011		**2012**		2011	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe	**$**	**$ per boe**	$	$ per boe
Unwinding of the discounted value of decommissioning liabilities	**16**	**0.21**	1	0.12	**46**	**0.16**	3	0.08
Interest and bank charges	**88**	**1.15**	-	-	**600**	**2.11**	-	-
Total	**104**	**1.36**	1	0.12	**646**	**2.28**	3	0.08
% of oil and gas sales	**4%**		1%		**9%**		0%	

In the three months and year ended December 31, 2012, Pine Cliff incurred finance expenses of $104,000 and $646,000, respectively, as compared to insignificant amounts in the year ended December 31, 2011. Finance expenses in 2012 predominately consist of interest on the related party note payable which was repaid on October 31, 2012, interest on Pine Cliff's revolving demand credit facility and bank charges incurred as a result of the implementation of the revolving demand credit facility. Amounts drawn under the revolving demand credit facility are in the form of Canadian prime lending rate based loans, guaranteed notes or letters of credit. The revolving demand credit facility bears interest at the prime lending rate plus 0.75% per annum. The related party note payable bore interest at 5% per annum. Overall, Pine Cliff realized an effective interest rate of 4.3% for the year ended December 31, 2012.

FINANCE AND DIVIDEND INCOME

	Three months ended December 31				Year ended December 31			
	2012		2011		**2012**		2011	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe	**$**	**$ per boe**	$	$ per boe
Finance income	**731**	**9.55**	-	-	**731**	**2.58**	-	-
Dividend income	**127**	**1.66**	-	-	**127**	**0.45**	-	-
Total	**858**	**11.21**	-	-	**858**	**3.03**	-	-
% of oil and gas sales	**37%**		0%		**11%**		0%	

In the three months and year ended December 31, 2012, Pine Cliff received $731,000 in finance income as a result of the Skope Debt Purchase (December 31, 2011 – nil). During the period of November 9, 2012 to December 31, 2012, Pine Cliff collected 8.2% interest on the face value of debt, being $53.5 million, purchased from the financial institution. Based on Pine Cliff's purchase price of $28 million, this is an effective interest rate of 15.6%. Pine Cliff received interest on the Skope Debt Purchase until February 19, 2013 at which time Pine Cliff became the sole shareholder of Skope and as a result the interest payments on the loan receivable ceased.

In the three months and year ended December 31, 2012, Pine Cliff received $127,000 in dividends from its investment in Bonterra (December 31, 2011 – nil). The investment in Bonterra common shares was acquired through the Geomark Transaction.

INCOME TAXES

	Three months ended December 31				Year ended December 31			
	2012		2011		**2012**		2011	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe	**$**	**$ per boe**	$	$ per boe
Deferred tax expense (recovery)	**75**	**0.98**	7	0.87	**(1,329)**	**(4.68)**	20	0.55

During the fourth quarter of 2012, a deferred tax expense of $75,000 was recorded, as compared to a deferred tax expense of $7,000 in the fourth quarter of 2011. The fourth quarter 2012 expense is primarily related to temporary differences arising from the book basis of Pine Cliff's assets and liabilities relative to the tax basis.

Pine Cliff recognized a deferred tax recovery of $1,329,000 in the year ended December 31, 2012, as compared to a deferred tax expense of $20,000 in the year ended December 31, 2011. The recovery is due in part to a deferred tax asset being recognized upon the acquisition of the Carrot Creek Assets, and the related reversal of the benefit of the tax pools that was not recognized in prior periods. Prior to the acquisition of the Carrot Creek Assets, it had been determined that it was not probable that the tax pools would be recovered. Given the increase in taxable earnings from the Carrot Creek Assets, it is now considered probable that the tax pools will be recovered and a recovery of the benefit of the tax pools was recognized in the first quarter of 2012.

Pine Cliff has approximately $39,375,000 in tax pools at December 31, 2012 (December 31, 2011 – $6,483,000) available for future use as deductions from taxable income. Included in these pools are estimated non-capital loss carry forwards of $8,120,000 (December 31, 2011 – $3,483,000) that expire between the years 2026 and 2032.

EARNINGS (LOSS) AND FUNDS FLOW FROM OPERATIONS

	Three months ended December 31		Year ended December 31	
	2012	2011	**2012**	2011
($000s, except per boe amounts)				
Earnings (loss)	**(862)**	(47)	**(1,071)**	(207)
Adjustments for:				
Share-based payments	**467**	-	**983**	-
Depletion and depreciation	**829**	94	**2,823**	537
Impairment of investment	**250**	-	**250**	-
Unwinding of the discount on decommissioning liabilities	**16**	1	**46**	3
Deferred tax expense (recovery)	**75**	7	**(1,329)**	20
Funds flow from operations	**775**	55	**1,702**	353
Funds flow from operations ($/boe)	**10.12**	5.99	**6.00**	9.65

In the year ended December 31, 2012, the loss increased by $864,000 to $1,071,000 as compared to the year ended December 31, 2011. This is a function of the finance income from the loan receivable as well as the acquisition of the Carrot Creek Assets on March 1, 2012, which significantly increased oil and gas sales, royalties, operating expenses and a significant deferred income tax recovery in the first quarter of 2012. This was more than offset by increased general and administration expenses, finance expenses, share-based payments and depletion and depreciation, predominately a result of the increased activity of the Company with the acquisition of the Carrot Creek Assets.

In the three months ended December 31, 2012, Pine Cliff recorded a loss of $862,000 as compared to a loss of $47,000 in the three months ended December 31, 2011. Despite the increased activity of the Company, the non-cash depletion and depreciation of $829,000 (three months ended December 31, 2011 – $94,000) and non-cash share-based payment expense of $467,000 (three months ended December 31, 2011 – nil), primarily created a loss for the quarter.

Funds flow from operations, which represents cash flow from operating activities before changes in non-cash working capital and interest payable, was $775,000 and $1,702,000 in the three months and year ended December 31, 2012, respectively, as compared to $55,000 and $353,000 in the same periods of 2011, respectively. The increase in funds flow from operations in both periods is primarily due to the increase in activity of the Company with the acquisition of the Carrot Creek Assets in addition to finance and dividend income.

Other comprehensive income
Other comprehensive income relates to the increase and decrease in fair value of Pine Cliff's investments in publicly traded corporations. In the fourth quarter of 2012, Pine Cliff determined that one of its investments was impaired and recognized an impairment of $250,000 in the statement of earnings (loss).

SHARE CAPITAL

As of December 31, 2012, a total of 153,331,759 Pine Cliff Shares were issued and outstanding.

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

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

On November 29, 2012, Pine Cliff completed a brokered private placement and issued 8,000,000 Pine Cliff Shares at a price of $0.70 for gross proceeds of $5,600,000. All of the Pine Cliff Shares issued under the private placement were subject to a four-month plus one day holding period from the date of close. Pine Cliff's President and Chief Executive Officer purchased 71,400 of the Pine Cliff Shares issued.

Geomark Transaction
On October 19, 2012, Pine Cliff issued 81,767,641 Pine Cliff Shares in connection with the Geomark Transaction.

ADDITIONS TO PROPERTY AND EQUIPMENT AND EXPLORATION AND EVALUATION ASSETS

($000s)	**Year ended December 31, 2012**	Year ended December 31, 2011
Exploration and evaluation assets - oil and gas division	**92**	-
Exploration and evaluation assets - minerals division	**248**	-
Oil and gas assets	**1,961**	30
Furniture and office equipment	**3**	2
Acquistions	**32,007**	-
Capitalized asset retirement costs	**169**	-
Total	**34,480**	32

In the year ended December 31, 2012, Pine Cliff added $34,480,000 in capital assets to its balance sheet as compared to $32,000 in the year ended December 31, 2011. The acquisition of the Carrot Creek Assets included property and equipment of $24,032,000 and exploration and evaluation assets of $507,000. The Geomark Transaction included property and equipment of $5,525,000 and $1,943,000 of exploration and evaluation assets. In the fourth quarter of 2012, Pine Cliff drilled its first well in the Carrot Creek area targeting the Rock Creek zone. This oil well was completed in 2013 and is currently awaiting tie-in.

In 2012, Pine Cliff also acquired prospective land at crown land sales, purchased 3-D seismic, successfully reactivated a well and attempted to recomplete an existing wellbore. Given the current condition of the wellbore and depressed commodity prices, Pine Cliff has chosen to suspend this recompletion work and revisit the opportunity at a later date.

As part of its Minerals Division, Pine Cliff spent $248,000 on Geomark's initial drilling program on King's Canyon in Utah, subsequent to the October 19, 2012 Geomark Transaction, and was encouraged with the initial results.

GOODWILL

In connection with the Geomark Transaction, Pine Cliff recognized goodwill of $3,535,000 at December 31, 2012 (December 31, 2011 – nil).

RELATED PARTY TRANSACTIONS

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

Related party note payable
On February 28, 2012, the Company's Executive Chairman of the Board and major shareholder loaned the Company $7,000,000. The promissory note bore interest at 5% per annum and was repayable on August 31, 2013 or at any time prior to that without penalty. Security under the promissory note was over all of the Company's assets and was subordinated to any and all claims in favour of the lender providing a credit facility to the Company. On October 31, 2012, Pine Cliff repaid the entire amount of the promissory note plus interest. Interest paid on this note during the year ended December 31, 2012 was $237,000 (December 31, 2011 – nil).

Management services agreement
Pine Cliff has a management services agreement with Bonterra, an oil and gas corporation that is publicly traded on the Toronto Stock Exchange with some common directors and management, to provide executive services, technical services, accounting services, oil and gas administration and office administration for Pine Cliff. Total fees for each of the years ended December 31, 2012 and 2011 were $60,000, plus minimal administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As at December 31, 2012, Pine Cliff owed Bonterra $48,000 (December 31, 2011 – $3,800).

Investment in Bonterra
As at December 31, 2012, Pine Cliff owns 204,633 common shares in Bonterra (December 31, 2011 - nil) representing just over 1% of the outstanding shares of Bonterra at that date. The shares, as of December 31, 2012, have a fair value of $9,339,000 (December 31, 2011 - nil). For the year ended December 31, 2012, Pine Cliff received dividend income of $127,000 from this investment (December 31, 2011 - nil).

Loan to Bonterra
At the time of the business combination with Geomark, Geomark had loaned Bonterra a total of $20,000,000. The loan was secured and bore interest at Canadian chartered bank prime less 5/8 of a percent and had no set repayment terms. Security under the debenture was over all of Bonterra's assets and was subordinated to any and all claims in favour of Bonterra's syndicate of senior lenders providing credit facilities to Bonterra. The loan was payable upon demand subject to availability under Bonterra's line of credit. Pine Cliff demanded the repayment of the entire loan balance on November 6, 2012 and the loan plus accrued interest was repaid on November 9, 2012. Interest earned on the loan between October 19, 2012 and November 9, 2012 was $7,000.

Business Combination with Geomark
On October 19, 2012 Geomark and Pine Cliff combined their operations pursuant to an arrangement agreement. Geomark had some common directors and some common management with Pine Cliff. At the time of the Geomark Transaction, Geomark owned 432,812 common shares of Pine Cliff which were subsequently sold in the public market for a loss on sale of investment of $34,000, net of tax.

LIQUIDITY

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

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

	Three months ended December 31		Year ended December 31	
	2012	2011	**2012**	2011
($000s)				
Funds flow (deficiency) from operations	**775**	55	**1,702**	353
Bank debt proceeds (repayment)	**(8,881)**	-	**3,037**	-
Proceeds from related party note payable	**-**	-	**7,000**	-
Repayment of related party note payable	**(7,000)**	-	**(7,000)**	-
Issuance of common shares, net of share issue costs	**5,545**	-	**8,430**	-
Restricted cash	**(33)**	-	**(33)**	-
Purchase of loan receivable	**(28,000)**	-	**(28,000)**	-
Loan to a related party from acquisition	**20,000**	-	**20,000**	-
Cash and cash equivalents from acquisition	**19,887**	-	**19,887**	-
Changes in non-cash working capital	**273**	(21)	**504**	(160)
Decrease (increase) in cash	**(817)**	(126)	**(540)**	(169)
Total capital expenditures including acquisitions	**1,749**	(92)	**24,987**	24
Capital expenditures including acquisitions:				
Oil and gas division	**1,501**	(92)	**24,739**	24
Mining division	**248**	-	**248**	-

In 2012, Pine Cliff raised $8,430,000 (net of share issue costs) through a rights offering and two private placements, set up a revolving demand credit facility and obtained $7,000,000 in short-term financing from a related party, which was subsequently repaid. By in large, the largest source of cash during 2012 was through the Geomark Transaction in the fourth quarter of 2012. Pine Cliff issued 81.8 million shares with a fair value on the closing date of $60,508,000, which provided Pine Cliff non-liquid assets, liquid securities of $9,611,000 and $40,233,000 of working capital. Of note, the working capital included a $20,000,000 demand loan to Bonterra which was recalled to fund the Skope Debt Purchase and cash and cash equivalents of $19,887,000 which was used to repay Pine Cliff's related party note and its bank loan.

The existing banking arrangements at December 31, 2012 are comprised of a revolving demand credit facility in the amount of $15,000,000, of which $3,037,000 is drawn at December 31, 2012. The current revolving period will end on May 31, 2013 and if the revolving demand credit facility is not renewed it will become payable in full on demand.

Funds flow from operations and the unused portion of the credit facility will allow Pine Cliff to meet its short-term financial liabilities, as well as future capital requirements, at a reasonable cost. The Company believes it has sufficient funding and access to capital to meet its obligations as they come due and, if required, will consider additional short-term financing or issuing equity in order to meet its future liabilities.

Working capital is calculated as current assets minus current liabilities and represents the ability of a company to satisfy both maturing short-term debt and upcoming operational expenses. The capital intensive nature of the oil and gas business may result in working capital deficiencies from time to time. Pine Cliff manages its working capital ratio to ensure that it has sufficient unused funds under its credit facility and access to capital to accommodate such circumstances. Additionally, the revolving demand credit facility requires Pine Cliff to maintain a working capital ratio, excluding both the related party note payable and the current portion of bank debt and inclusive of unused funds under the credit facility, of greater than 1:1. As at December 31, 2012, the Company had a working capital of $35,077,000 (December 31, 2011 – working capital of $482,000).

The Company was in compliance with its quantitative bank debt covenants during the year ended December 31, 2012 and will take steps to ensure that it remains in compliance with its covenants in future periods. In order to remain in compliance with its qualitative bank debt covenants in the year ended December 31, 2012, the Company received waivers from the bank prior to closing the Geomark Transaction and the Skope Debt Purchase.

COMMITMENTS AND CONTINGENCIES

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

	Total	< 6 months	6 - 12 months	> 12 months
($000s)				
Trade and other payables	3,813	3,813	-	-
Bank loan - principal	3,037	3,037	-	-
Bank loan - future interest	47	47	-	-
	6,897	6,897	-	-

Upon disposal of the South American properties in 2010, the Company received a contingent consideration whereby Pine Cliff would be entitled to $200,000 (payable in cash or shares from the purchaser corporation) if by September 24, 2012 the purchaser, or an affiliate to the purchaser, was 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 granted a concession to substitute for the Laguna de Piedra concession and the purchaser or affiliate entity drilled a well on the substitute concession. The purchaser did not drill on the concession before the expiry date of this contingent receivable.

OFF BALANCE SHEET TRANSACTIONS

Pine Cliff was not involved in any off-balance sheet transactions during the periods presented, nor have we entered into any such arrangements as of the effective date of this MD&A.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company faces both financial and non-financial risks inherent in the oil and gas business. Financial risks include: commodity price risk, foreign exchange risk, interest rate risk, and credit risk. Financial risks can be managed, at least to a degree, through the utilization of financial instruments. Certain non-financial risks can be mitigated through the use of insurance and/or other risk transfer mechanisms, good business practices and process controls, while others must simply be borne. All risks can have an impact upon the financial performance of the Company. In the remainder of this section, the principal risks and how they have been addressed will be discussed.

Commodity Price Risk

In principle, management and the board of directors believe that Pine Cliff's shareholders buy its shares for, among other reasons, the opportunity to benefit from increases in commodity prices. Therefore, whenever possible, management and the board of directors will implement commodity price risk management strategies which do not remove this opportunity for shareholders, specifically Pine Cliff may purchase put options which set floors for such indices as WTI and AECO. There will be times when management and the board of directors believe that Pine Cliff's liquidity may be insufficient to acquire the level and type of protection considered ideal, or that Pine Cliff requires liquidity for other more immediate opportunities to create value, and in those instances Pine Cliff may consider alternatives such as collars or swaps. Pine Cliff monitors its commodity price risk and will continue to evaluate its risk and potential program on a regular basis. The use of derivative instruments is governed under formal policies and is subject to limits established by the board of directors and the revolving credit facility.

Foreign Exchange

Of the financial risks which can be managed through the use of financial instruments, foreign exchange is second in importance to commodity prices. Most of this exposure is related to the revenues, which are directly or indirectly (in the case of natural gas), affected by the rate of exchange between Canadian dollars and US dollars. When the Canadian dollar is relatively strong, as it has been recently, Pine Cliff's revenue stream as expressed in Canadian dollars is adversely impacted.

The Canadian dollar has become a petro-currency as it tends to move in accordance with the variance in international crude prices denominated in US dollars. As a result, for a company with Canadian dollar as its reporting currency, the exchange rate has become a dampening factor for variance in commodity prices. As crude prices strengthen, for example, the currency tends to strengthen as well, which offsets at least in part the benefit of the increase in the commodity price. Conversely, the negative impact of falling prices can be reduced to the extent that the exchange rate weakens in harmony.

Foreign exchange risk can be managed through financial instruments such as forward foreign exchange contracts, cross-currency swaps, and various types of options strategies. Pine Cliff continues to review its overall financial outlook with the board of directors.

Interest Rates
Interest rates are third in the hierarchy of risks to oil and gas companies which can be managed through financial instruments and they tend to be a material consideration only for companies with significant leverage. In Pine Cliff's case, management will balance its free funds flow from operations to capital expenditures in order to minimize amounts outstanding on the revolving credit facility.

If interest rates applicable to Pine Cliff's bank debt at December 31, 2012 were to have increased or decreased by one percent it is estimated that Pine Cliff's annual funds flow from operations would decrease or increase, respectively, by less than $100,000. We have not seen this risk as sufficiently material to warrant an active program of risk management in the short-term.

Credit Risk
Credit risk is the risk that Pine Cliff will suffer a financial loss as a result of counterparty default under a financial or commercial arrangement. Examples include failure of a financial institution to honor obligations under a financial instrument, or failure of a purchaser of Pine Cliff's hydrocarbon production to meet its obligations to pay Pine Cliff for the production. Additionally, a joint venture partner might be unable to fund its commitments to a capital program with which Pine Cliff wishes to proceed; however, this risk is limited due to Pine Cliff's high working interest properties. Accounts receivable, cash and cash equivalents, and derivative financial instruments are subject to credit risk exposure and the carrying values reflect management's assessment of the associated maximum exposure to such credit risk.

With respect to Pine Cliff's product sales, its exposure is short-term in nature as the Company generally receives payment, in accordance with industry practices, on the 25th day of the month following production. Pine Cliff's contractual arrangements are with reputable and creditworthy counterparties, are short-term in nature, and do not include fixed prices, which helps to further mitigate risk. Pine Cliff is in active discussions with other counterparties of comparable credit quality to diversify as its production base grows and the Company's potential requirements for risk management services increases.

Liquidity Risk
Liquidity risk is the risk that the Company will not be able to generate enough cash or obtain financing to meet its financial obligations as they come due. Companies operating in the upstream oil and gas industry require sufficient cash in order to fund capital programs necessary to maintain and increase production and proved reserves, to acquire strategic oil and gas assets and to repay debt. Pine Cliff actively maintains a revolving term credit facility to ensure it has sufficient funds available to meet its financial liabilities, as well as its capital requirements, at a reasonable cost. The existing banking arrangements at December 31, 2012 consist of a revolving term credit facility of $15,000,000 of which $3,037,000 is drawn. The Company will consider issuing equity in order to meet future capital requirements or fund acquisitions, if required. Management believes it has sufficient funding to meet its obligations as they come due.

Pine Cliff will prudently manage our liquidity position, and the Company has designed its capital program to be scalable in the sense that capital can be deferred into future years, if required. In this regard, Pine Cliff monitors its liquidity position relative to budget monthly and in a detailed formal review quarterly. As at the date of this MD&A, Pine Cliff is in line with respect to our funding capacity target levels.

Operational
This category encompasses a number of risks. Wells may produce at lower initial production rates than planned, or face steeper decline rates. Operating costs can increase due to such considerations as unanticipated workovers or higher than expected costs associated with corrosion. Pine Cliff follows prudent industry practices with respect to insurance where practicable and as guided by external experts, but cannot fully insure against all risks. With respect to non-insurable operating risks, the Company has designed business process controls and accountability to identify problems at the earliest possible occasion and implement solutions. However, investors must appreciate that operational risk is very much a characteristic of the business, and can never be entirely eliminated.

Reserves
The Company retains independent reserve evaluators and had 100% of the reserves reviewed. The methodologies used assess the certainty of recovery on reserve categories under National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). As per NI 51-101, there is a 90% probability of attaining proven reserves and a 50% probability of attaining the proven plus probable reserves assigned. The Company plans to fund additional drilling and infrastructure expenditures from internal funds flows from operations, as well as its credit facility, in order to achieve the reserve assignments. There remains a probability that for technical or economic reasons, the reserves assigned may not be attained. In our case, Pine Cliff believes the risk is moderate to low as we are operating in well-established environments. As with operational risk, however, Pine Cliff again cautions investors that reserve risk is endemic and cannot be eliminated.

Environmental and Regulatory Risks
Both the oil and gas and mining industries activities entail numerous environmental impacts which can be detrimental. Even normal operations can generate carbon emissions. Wells can blow out, or pipelines can fail with consequent contamination of soil, air, and water. Some of Pine Cliff's wells produce natural gas with a high content of hydrogen sulphide, which is poisonous and can be fatal, thus requiring the highest standards of operational responsibility and emergency response practices and procedures.

The industries are subject to extensive environmental legislation and regulations at Federal, Provincial, and Municipal levels. Thus, the Company is at risk not only to the cost of the incidents themselves, but to various sanctions which can be imposed by governments or government instrumentalities. The Company fully expects that environmental legislation and regulations will become only stricter over time, and that the costs of compliance will grow. The international, and domestic, debate upon controls of greenhouse gas emissions will continue, with unpredictable but potentially material consequences for the industry.

To mitigate environmental risk the Company conducts its operations to ensure compliance with government regulations and guidelines. Monitoring and reporting programs for environmental health and safety performance in day-to-day operations, as well as inspections and assessments, are designed to provide assurance that environmental and regulatory standards are met.

Staffing
Pine Cliff functions in a very competitive environment for professional staff, and this staff is key to our ultimate success. Recognizing this, our board of directors approved a competitive compensation program including: bonuses based on the annual performance of the Company, benefits and a stock option program to provide for long-term incentive and retention.

To date, Pine Cliff has found that it has been able to attract qualified individuals to complement its existing team and to build strength in areas where required.

Fiscal Environment
The oil and gas and minerals industry are subject to payments to various levels of government, predominantly corporate income taxes to the federal and provincial governments and royalties to provincial governments. In recent years, while the corporate income tax regime has been stable, the royalty regime has not. The series of changes have had at times both positive and negative effects, but have certainly served to emphasize the materiality of this risk. There is potential for additional future changes to the royalty regime in Alberta and Saskatchewan and corresponding changes in the royalty regimes in other jurisdictions where Pine Cliff may operate has created uncertainty surrounding the ability to accurately estimate future royalties, resulting in additional volatility and uncertainty in the oil and gas market. As a single company, we have no ability to mitigate this risk other than geographic diversification.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make judgments, assumptions and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses for the period reported. The significant accounting policies used by the Company are disclosed in the notes to the consolidated financial statements. Management believes that the most critical accounting policies that may have an impact on the Company's financial results are those that specifically relate to the accounting for its oil and gas interests, including amounts recorded for depletion and the impairment test which are both based on estimates of proved and probable reserves, production rates, oil prices, future costs and other relevant assumptions. Actual results could differ materially from such estimates.

Reserves base
Oil and gas property and equipment is depreciated on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with NI 51-101 and incorporating the estimated future development costs associated with extracting those reserves. Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of oil, natural gas and NGLs which geological, geophysical and engineering data demonstrate with a degree of certainty to be recoverable in future years from reservoirs and which are considered commercially producible. The level of estimated reserves is also a key determinant in assessing whether the carrying value of any of the Company's property and equipment has been impaired.

Impairment Indicators and Discount Rate
The recoverable amounts of the Company's cash generating units and individual assets have been determined based on the higher of the present value of value-in-use calculations and discounted fair values less costs to sell. These calculations require the use of estimates and assumptions, including the discount rate. It is reasonably possible that the commodity price assumptions may change, which may then impact the estimated life of the field and economical reserves recoverable and may then require a material adjustment to the carrying value of property and equipment. The Company monitors internal and external indicators of impairment relating to its tangible assets.

Decommissioning Costs
Decommissioning costs will be incurred by the Company at the end of the operating life of the Company's facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, and changes to the risk-free discount rate. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Income Taxes
The Company recognizes the net future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

Business Combinations
Business combinations are viewed from the acquirer's perspective and it is assumed that one of the parties can be identified as the acquirer. The determination of the acquirer requires judgment as to which entity has obtained control or the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities. A judgment is reached through a combination of quantitative and qualitative factors. Pine Cliff was identified as the acquirer in both the acquisition of the Carrot Creek Assets and the Geomark Transaction. Due to the nature of the Geomark Transaction, significant judgment was used. Pine Cliff identified as the acquirer, owing to the fact that Pine Cliff's 2012 revenues were higher than Geomark's, Pine Cliff's non-monetary assets were larger than Geomark's and post-transaction, Pine Cliff controls the board of directors, the key officer positions and has overall power to govern the day-to-day financial and operating policies of the combined entities.

Contingencies
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

ACCOUNTING POLICY AND STANDARD CHANGES

Changes to accounting estimate – property and equipment
On January 1, 2012, the Company prospectively began depleting all of its oil and gas properties and facilities and its decommissioning asset using the Proved plus Probable Method; a change from the unit of production method over their proved developed reserve life ("Proved Developed Method") for oil and gas properties and the straight-line method for production facilities. The change of estimate was due to the Proved plus Probable Method providing a better reflection of the estimated service life of the related assets. For 2012, the Company recorded $1,152,000 less depletion and depreciation under the Proved plus Probable Method, as compared to what would have been recorded using the Proved Developed Method. The Company believes it is not practical to estimate the effect on depletion and depreciation expense for future periods.

The following standards and interpretations have not been adopted as they apply to future periods. They may result in future changes to our existing accounting policies and other note disclosures. Pine Cliff is evaluating the impacts that these standards may have on its results of operations, financial position and disclosure.

IFRS 7 *Financial Instruments: Disclosures*—in December 2011, the IASB issued final amendments to the disclosure requirements for the offsetting of a financial asset and financial liabilities when offsetting is permitted under IFRS. The disclosure amendments are required to be adopted retrospectively for periods beginning January 1, 2013. Adoption of this standard will result in additional disclosures in the Financial Statements.

IFRS 9 *Financial Instruments* ("IFRS 9")—in November 2009, the IASB issued IFRS 9 to address classification and measurement of financial assets. In October 2010, the IASB issued additions to the standard to include financial liabilities. The standard is required to be adopted for periods beginning January 1, 2015. Portions of the standard remain in development and the full impact of the standard will not be known until the project is complete.

IFRS 10 *Consolidated Financial Statements* ("IFRS 10")—in May 2011, the IASB issued IFRS 10 which provides additional guidance to determine whether an investee should be consolidated and establishes a new control model which applies to all entities including special purpose entities. The standard replaces the consolidation guidance in IAS 27 *Separate Financial Statements* and is required to be adopted for periods beginning January 1, 2013. Adoption of IFRS 10 is not expected to have a significant impact on the Financial Statements.

IFRS 11 *Joint Arrangements* ("IFRS 11")—in May 2011, the IASB issued IFRS 11 which presents a new model for determining whether joint arrangements should be accounted for as a joint operation or as a joint venture. Joint operations are accounted for by recording an entity's relevant share of assets, liabilities, revenues and expenses. Under IFRS 11, an entity will follow the substance of the joint arrangement rather than legal form and will no longer have a choice of the accounting method to apply. In conjunction with this new standard, amendments to IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28") have been made to specify that joint ventures are accounted for using the equity method. Both IFRS 11 and the amendments to IAS 28 are required to be adopted for periods beginning January 1, 2013. Adoption of IFRS 11 is not expected to have a significant impact on the Financial Statements.

IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12")—in May 2011, the IASB issued IFRS 12 which aggregates and amends disclosure requirements included within other standards. The standard requires companies to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning January 1, 2013. Adoption of this standard will result in additional disclosures in the Financial Statements.

IFRS 13 *Fair Value Measurement* ("IFRS 13")—in May 2011, the IASB issued IFRS 13 to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for periods beginning January 1, 2013. Pine Cliff does not expect a material impact on the Financial Statements from the adoption of this standard; however, additional disclosures will be required.

IAS 1 *Presentation of Items of Other Comprehensive Income* ("IAS 1")—in June 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to separate items of other comprehensive income ("OCI") between those that are reclassified to income and those that are not. The standard is required to be adopted for periods beginning on or after July 1, 2012. Adoption of this standard is not expected to have a significant impact on the Financial Statements.

IAS 19 *Employee Benefits* ("IAS 19")—in June 2011, the IASB issued amendments to IAS 19 to revise certain aspects of the accounting for pension plans and other benefits. The amendments eliminate the corridor method of accounting for defined benefit plans, change the recognition pattern of gains and losses and require additional disclosures. The standard is required to be adopted for periods beginning on or after January 1, 2013. Adoption of this standard is not expected to have a significant impact on the Financial Statements.

IAS 32 *Financial Instruments: Presentation* ("IAS 32")—in December 2011, the IASB issued amendments to clarify certain of the criteria required to be met in order to permit the offsetting of financial assets and financial liabilities. The standard is required to be adopted retrospectively for periods beginning January 1, 2014. Adoption of this standard is not expected to have a significant impact on the Financial Statements.

SUBSEQUENT EVENTS

On February 19, 2013, the Court of Queen's Bench of Alberta approved the Plan of Compromise and Arrangement (the "Plan") filed under the Companies' Creditors Arrangement Act ("CCAA") by Pine Cliff. The purpose of the Plan was to restructure Skope's debt and to effect a compromise of the claims of all unsecured creditors of Skope. In addition to restructuring Skope's unsecured claims, the implementation of the Plan resulted in the redemption, without compensation, of all of the outstanding shares of Skope (and the cancellation, without compensation, of all related options, warrants and other rights to acquire such shares) and the creation of a new class of Class A Voting Shares, 100 of which were issued to Pine Cliff (the "Skope Shares"). Accordingly, Pine Cliff became the sole shareholder of Skope on February 19, 2013. Consideration for Skope Shares was $28,000,000, representing the amount that Pine Cliff paid to a Canadian financial institution for the Skope Debt Purchase. Skope's assets include an 80% working interest in a package of high quality, long-term, low decline producing shallow gas assets located in southeast Alberta and southwest Saskatchewan. This transaction will be accounted for as a business combination with Pine Cliff identified as the acquirer. The purchase price allocation using the acquisition method is incomplete as of the date hereof. These details will be disclosed in Pine Cliff's March 31, 2013 unaudited quarterly financial statements.

Subsequent to December 31, 2012, Pine Cliff issued 400,000 stock options to its employees and consultants with a weighted-average exercise price of $0.90 per share, based on the market price immediately preceding the date of grant. The options vest between one and three years and expire between July 30, 2014 and July 30, 2016.

NON-IFRS MEASURES

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

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

	Three months ended December 31		Year ended December 31	
	2012	2011	2012	2011
($000s)				
Cash flow from operating activities	**660**	(4)	**1,773**	333
Less:				
Change in non-cash working capital	**(115)**	(59)	**71**	(20)
Change in interest payable	**-**	-	**-**	-
Funds flow from operations	**775**	55	**1,702**	353

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

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

FORWARD-LOOKING INFORMATION

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

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

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

The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

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

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

The audit committee has reviewed these consolidated financial statements with management and has reported to the board of directors. The board of directors have approved the consolidated financial statements as presented in this annual report.

Robb D. Thompson, Chief Financial Officer and Secretary

Philip B. Hodge, President and Chief Executive Officer

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, 2012 and 2011, and the consolidated statements of earnings (loss), consolidated statements of comprehensive earnings (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, 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, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

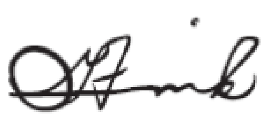
Chartered Accountants
March 21, 2013
Calgary, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Canadian dollars, 000s)

	Note	**As at December 31, 2012**	As at December 31, 2011
ASSETS			
Current assets			
Cash		**817**	277
Trade and other receivables		**3,499**	110
Prepaid expenses and deposits		**193**	23
Loan receivable	5	**28,000**	-
Investments	6	**9,418**	172
Total current assets		**41,927**	582
Exploration and evaluation assets	7	**2,790**	-
Property and equipment	8	**30,673**	1,806
Restricted cash		**33**	-
Goodwill	9	**3,535**	-
Deferred taxes	10	**1,731**	-
Total assets		**80,689**	2,388
LIABILITIES			
Trade and other payables	11	**3,813**	99
Bank debt	12	**3,037**	-
Total current liabilities		**6,850**	99
Decommissioning liabilities	13	**2,818**	82
Total liabilities		**9,668**	181
SHAREHOLDERS' EQUITY			
Share capital	14	**83,542**	14,819
Contributed surplus		**1,749**	766
Accumulated other comprehensive earnings (loss)		**43**	(136)
Deficit		**(14,313)**	(13,242)
Total shareholders' equity		**71,021**	2,207
Total liabilities and shareholders' equity		**80,689**	2,388

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

The consolidated financial statements were approved by the Board of Directors and signed on its behalf by:



George F. Fink, Director

F. William Woodward, Director

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

	Note	Year ended December 31, 2012	December 31, 2011
Oil and gas sales		**7,547**	866
Royalties		**(1,344)**	(36)
Dividend income	6	**127**	-
Finance income	15	**731**	-
REVENUE		**7,061**	830
EXPENSES			
Operating		**2,676**	262
General and administration	16	**2,083**	215
Depletion and depreciation	8	**2,823**	537
Share-based payments	14	**983**	-
Impairment of investment	18	**250**	-
Finance expenses	15	**646**	3
Total expenses		**9,461**	1,017
Loss before income taxes		**(2,400)**	(187)
Deferred tax expense (recovery)	10	**(1,329)**	20
LOSS FOR THE YEAR		**(1,071)**	(207)
Loss per share ($)	14		
Basic		**(0.01)**	(0.00)
Diluted		**(0.01)**	(0.00)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)
(Canadian dollars, 000s)

	Year ended December 31, 2012	December 31, 2011
Loss for the year	**(1,071)**	(207)
OTHER COMPREHENSIVE EARNINGS (LOSS)		
Unrealized loss on investments	**(46)**	(156)
Deferred taxes on unrealized loss on investments	**6**	20
Impairment of investment transferred to net earnings	**250**	-
Deferred taxes on impairment of investment transferred to net earnings	**(31)**	-
OTHER COMPREHENSIVE EARNINGS (LOSS) FOR THE YEAR	**179**	(136)
COMPREHENSIVE LOSS FOR THE YEAR	**(892)**	(343)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Canadian dollars, 000s)

	Note	Year ended December 31, 2012	December 31, 2011
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Loss for the year		**(1,071)**	(207)
Items not affecting cash:			
Share-based payments		**983**	-
Depletion and depreciation		**2,823**	537
Finance expenses		**646**	3
Deferred tax expense (recovery)		**(1,329)**	20
Impairment of investment	18	**250**	-
Changes in non-cash working capital	19	**71**	(20)
Interest and bank charges paid		**(600)**	-
Cash provided by operating activities		**1,773**	333
INVESTING ACTIVITIES			
Expenditures on property and equipment	8	**(1,963)**	(24)
Expenditures on exploration and evaluation assets	7	**(340)**	-
Acquisition	4	**(22,684)**	-
Purchase of loan receivable	5	**(28,000)**	-
Cash and cash equivalents from acquisition	4	**19,887**	-
Restricted cash		**(33)**	-
Changes in non-cash working capital	19	**433**	(140)
Cash used in investing activities		**(32,700)**	(164)
FINANCING ACTIVITIES			
Issuance of common shares, net of share issue costs	14	**8,430**	-
Proceeds from related party note payable	6	**7,000**	-
Repayment of related party note payable	6	**(7,000)**	-
Bank debt	12	**3,037**	-
Repayment of loan from related party	6	**20,000**	-
Cash provided by financing activities		**31,467**	**-**
Increase in cash		**540**	169
Cash - beginning of year		**277**	108
CASH - END OF YEAR		**817**	277

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

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

	Note	Share capital	Contributed surplus [1]	Accumulated other comprehensive earnings (loss) [2]	Deficit	Total equity
BALANCE AT JANUARY 1, 2011		14,819	766	-	(13,035)	2,550
Comprehensive loss for the year		-	-	(136)	(207)	(343)
BALANCE AT DECEMBER 31, 2011		**14,819**	**766**	**(136)**	**(13,242)**	**2,207**
Shares issued pursuant to a rights offering	14	1,961	-	-	-	1,961
Shares issued pursuant to private placements	14	6,600	-	-	-	6,600
Shares issued to Geomark shareholders	4	60,508				60,508
Share issue costs, net of tax	14	(312)	-	-	-	(312)
Comprehensive loss for the year		-	-	179	(1,071)	(892)
Share-based payments	14	-	983	-	-	983
Cancellation of shares		(280)				(280)
Issuance of shares		246	-	-	-	246
BALANCE AT DECEMBER 31, 2012		**83,542**	**1,749**	**43**	**(14,313)**	**71,021**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at December 31, 2012 and 2011 and for the years then ended
(all tabular amounts in Canadian dollars 000s, unless otherwise indicated)

1. NATURE OF BUSINESS

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

Pine Cliff is engaged in the exploration, development and production of oil and natural gas in the Western Canadian Sedimentary Basin and conducts many of its activities jointly with others; these consolidated financial statements (the "Financial Statements") reflect only the Company's proportionate interest in such activities. The Company is also involved in the exploration for precious metals through its subsidiaries.

2. BASIS OF PREPARATION

a) Statement of compliance
The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Financial Statements were authorized for issue by the Company's board of directors on March 21, 2013.

b) Basis of measurement
The 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 in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities as at the date of the statement of financial position. Actual results could differ materially from estimated amounts and affect the results reported in the Financial Statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty in applying accounting principles that have the most significant effect on the amounts recognized in the Financial Statements are included in the following notes:

Note 4 – Acquisitions
Note 7 – Valuation of exploration and evaluation assets
Note 8 – Valuation of property and equipment
Note 9 – Valuation of goodwill
Note 13 – Provisions for decommissioning costs
Note 14 – Measurement of share-based payments
Note 18 – Valuation of financial instruments

Judgments
In the process of applying Pine Cliff's accounting policies, judgments, apart from those involving estimates, have been made, of which the following may have the most significant effect on the amounts recognized in the Financial Statements:

Reserves base
Property and equipment ("P&E") assets are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* and incorporating the estimated future cost of developing and extracting those reserves. Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainly to be recoverable in future years from known reservoirs and which are considered commercially producible. Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is 90% likely that the actual remaining quantities recovered will exceed the estimated proved reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved and probable reserves. The level of estimated reserves is a key determinant in assessing whether the carrying value of any of the Company's P&E assets has been impaired.

Impairment indicators and discount rate
The recoverable amounts of Pine Cliff's cash generating units ("CGUs") and individual assets have been determined based on the higher of the present value of value-in-use calculations and discounted fair values less costs to sell. These calculations require the use of estimates and assumptions, including the discount rate. It is quite likely that the commodity price assumptions may change, which would then impact the estimated life of the field and economical reserves recoverable and may then require a material adjustment to the carrying value of P&E. The Company monitors internal and external indicators of impairment relating to its tangible assets.

Decommissioning costs
Decommissioning costs will be incurred by the Company at the end of the operating life of the Company's facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, and changes to the risk-free discount rate. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Business combinations
Business combinations are viewed from the acquirer's perspective and it is assumed that one of the parties can be identified as the acquirer. The determination of the acquirer requires judgment as to which entity has obtained control or the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities. A judgment is reached through a combination of quantitative and qualitative factors.

Income taxes
The Company recognizes the net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

Contingencies
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation
The Financial Statements include the accounts of Pine Cliff and its subsidiary companies, Geomark Exploration Ltd., Geomark Minerals USA Inc., and WMC International Limited. All subsidiary companies are wholly owned. All intercompany balances, transactions and earnings or losses are 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. Revenue represents Pine Cliff's share and is recorded net of royalty obligations to governments and other mineral interest owners.

Finance and dividend is recorded when earned.

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 earnings (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. The Company has no interests in jointly controlled entities. The Company has no material individual capital commitments in any joint venture interests or in a joint venture.

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 equity securities 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 ("E&E") assets
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 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.

No depletion is charged on 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 accumulated depletion and depreciation and impairment losses. 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, finance expenses on qualifying assets and costs that are directly attributable to bringing the asset to the location and condition necessary to operate as intended by management and which result in an identifiable future benefit. Improvements that increase capacity or extend the useful lives of the assets are capitalized.

Expenditures on major maintenance of producing assets include the cost of replacement assets or parts of assets, inspection costs or overhaul costs. Where an asset, or part of an asset that was separately depreciated, is replaced and it is probable that there are future economic benefits associated with the item, the expenditure is capitalized and the carrying amount of the replaced item is derecognized. Inspection costs associated with major maintenance programs and necessary for continued operation of the asset are capitalized and amortized over the period to the next inspection. All other maintenance costs are expensed as incurred.

h) Depletion and depreciation
When commercial production has commenced in an area, P&E assets, including estimated future development costs, are depleted using the unit-of-production method over their proved plus probable reserve life ("Proved plus Probable Method"). Furniture, fixtures and other equipment are depreciated over their estimated useful lives. Depletion and depreciation is recognized in the consolidated statement of earnings (loss).

Depletion and depreciation methods, useful lives and residual values are reviewed annually, with any amendments considered to be changes in estimates and accounted for prospectively.

i) Impairment of P&E
The carrying amounts of the Company's P&E 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 assets' 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, CGUs.

The recoverable amount of an asset or a CGU is the greater of its value-in-use and its fair value less costs to sell. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. In assessing the carrying value of its unproved properties, the Company takes into account future plans for those properties, the remaining terms of the leases and other factors that may be indicators of potential impairment. Impairment losses are recognized in the consolidated statement of earnings (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.

For assets excluding goodwill, 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 asset's 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.

j) Goodwill

Goodwill acquired in a business combination is initially recorded at cost, and for impairment testing purposes, is allocated to each of the CGUs that are expected to benefit from the expenditure. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The Company tests goodwill for impairment at least annually, or more frequently if events or circumstances indicate that goodwill may be impaired. The Company bases its test on the assessment of the recoverable amount of the CGU. Where the recoverable amount of the CGU is less than the carrying amount, the Company reduces the carrying value to the estimated recoverable amount and a goodwill impairment loss is included in the consolidated statement of earnings (loss). An impairment loss in respect of goodwill cannot be reversed.

k) 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 the statement of earnings (loss). 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 the statement of earnings (loss). For financial assets measured at amortized cost, the reversal is recognized in the statement of earnings (loss).

l) Decommissioning liabilities

The Company recognizes a decommissioning liability, with a corresponding increase to the carrying amount of the related P&E, in the period in which a reasonable estimate of the fair value can be made of the statutory, contractual, constructive or legal liabilities associated with the retirement and reclamation of the Company's oil and gas properties, facilities and pipelines. The amount recognized is the estimated cost of decommissioning, discounted to its present value using a risk free rate. The estimated future decommissioning liabilities may be adjusted for risks such as project, physical, regulatory and timing. The estimates are reviewed periodically. Changes in the provision as a result of changes to the timing of expenditures, costs or risk free rates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to P&E. The unwinding of the discount on the decommissioning provision is charged to the consolidated statement of earnings (loss).

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 earnings (loss).

m) Income taxes

Tax expense comprises current and deferred taxes. Tax is recognized in the consolidated statement of earnings (loss) except to the extent that it relates to items recognized 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 loses, unused tax credits and temporary differences can be utilized. Deferred tax assets are reviewed at the end of each period and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

n) 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 consolidated statement of earnings (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 reassesses for subsequent periods its estimate of the number of awards that are expected to vest and recognizes the impact of the revisions in the consolidated statement of earnings (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.

o) 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.

Cash is classified as fair-value through profit or loss. Trade and other receivables and loan receivable are classified as loans and receivables which are measured at amortized cost. Investments are classified as available-for-sale which are measured at fair value. Trade and other payables and bank debt are classified as financial liabilities at amortized cost.

Subsequent measurement of financial instruments is based on their initial classification. Fair-value through profit or loss financial instruments are measured at fair value and changes in fair value are recognized in the consolidated statement of earnings (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 at which time the cumulative loss that had been recognized in other comprehensive income is reclassified to earnings or loss. The remaining categories of financial instruments are recognized at amortized cost using the effective interest method.

p) Earnings (loss) per share
Basic per share amounts are calculated by dividing the earnings or 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.

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

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

r) Segment reporting
The Company has two operating segments being oil and gas exploration and production and mineral exploration. The chief operating decision maker of both segments is Pine Cliff's President and Chief Executive Officer.

s) Change in accounting estimate
On January 1, 2012, the Company prospectively began depleting all of its oil and gas properties and facilities and its decommissioning asset using the Proved plus Probable Method; a change from the unit of production method over their proved developed reserve life ("Proved Developed Method") for oil and gas properties and the straight-line method for production facilities. The change of estimate was due to the Proved plus Probable Method providing a better reflection of the estimated service life of the related assets. For 2012, the Company recorded $1,152,000 less depletion and depreciation under the Proved plus Probable Method, as compared to what would have been recorded using the Proved Developed Method. The Company believes it is not practical to estimate the effect on depletion and depreciation expense for future periods.

t) Recent pronouncements issued
Pine Cliff has adopted all relevant IFRS accounting standards in effect on December 31, 2012.

The following standards and interpretations have not been adopted as they apply to future periods. They may result in future changes to Pine Cliff's existing accounting policies and other note disclosures. Pine Cliff is evaluating the impacts that these standards may have on its results of operations, financial position and disclosure.

IFRS 7 *Financial Instruments: Disclosures*—in December 2011, the IASB issued final amendments to the disclosure requirements for the offsetting of a financial asset and financial liabilities when offsetting is permitted under IFRS. The disclosure amendments are required to be adopted retrospectively for periods beginning January 1, 2013. Adoption of this standard will result in additional disclosures in the Financial Statements.

IFRS 9 *Financial Instruments* ("IFRS 9")—in November 2009, the IASB issued IFRS 9 to address classification and measurement of financial assets. In October 2010, the IASB issued additions to the standard to include financial liabilities. The standard is required to be adopted for periods beginning January 1, 2015. Portions of the standard remain in development and the full impact of the standard will not be known until the project is complete.

IFRS 10 *Consolidated Financial Statements* ("IFRS 10")—in May 2011, the IASB issued IFRS 10 which provides additional guidance to determine whether an investee should be consolidated and establishes a new control model which applies to all entities including special purpose entities. The standard replaces the consolidation guidance in IAS 27 *Separate Financial Statements* and is required to be adopted for periods beginning January 1, 2013. Adoption of IFRS 10 is not expected to have a significant impact on the Financial Statements.

IFRS 11 *Joint Arrangements* ("IFRS 11")—in May 2011, the IASB issued IFRS 11 which presents a new model for determining whether joint arrangements should be accounted for as a joint operation or as a joint venture. Joint operations are accounted for by recording an entity's relevant share of assets, liabilities, revenues and expenses. Under IFRS 11, an entity will follow the substance of the joint arrangement rather than legal form and will no longer have a choice of the accounting method to apply. In conjunction with this new standard, amendments to IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28") have been made to specify that joint ventures are accounted for using the equity method. Both IFRS 11 and the amendments to IAS 28 are required to be adopted for periods beginning January 1, 2013. Adoption of IFRS 11 is not expected to have a significant impact on the Financial Statements.

IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12")—in May 2011, the IASB issued IFRS 12 which aggregates and amends disclosure requirements included within other standards. The standard requires companies to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning January 1, 2013. Adoption of this standard will result in additional disclosures in the Financial Statements.

IFRS 13 *Fair Value Measurement* ("IFRS 13")—in May 2011, the IASB issued IFRS 13 to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for periods beginning January 1, 2013. Pine Cliff does not expect a material impact on the Financial Statements from the adoption of this standard; however, additional disclosures will be required.

IAS 1 *Presentation of Items of Other Comprehensive Income* ("IAS 1")—in June 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to separate items of other comprehensive income ("OCI") between those that are reclassified to income and those that are not. The standard is required to be adopted for periods beginning on or after July 1, 2012. Adoption of this standard is not expected to have a significant impact on the Financial Statements.

IAS 19 *Employee Benefits* ("IAS 19")—in June 2011, the IASB issued amendments to IAS 19 to revise certain aspects of the accounting for pension plans and other benefits. The amendments eliminate the corridor method of accounting for defined benefit plans, change the recognition pattern of gains and losses and require additional disclosures. The standard is required to be adopted for periods beginning on or after January 1, 2013. Adoption of this standard is not expected to have a significant impact on the Financial Statements.

IAS 32 *Financial Instruments: Presentation* ("IAS 32")—in December 2011, the IASB issued amendments to clarify certain of the criteria required to be met in order to permit the offsetting of financial assets and financial liabilities. The standard is required to be adopted retrospectively for periods beginning January 1, 2014. Adoption of this standard is not expected to have a significant impact on the Financial Statements.

4. ACQUISITIONS

Carrot Creek Assets

On March 1, 2012, Pine Cliff acquired certain oil and natural gas assets in the Carrot Creek area of Alberta (the "Carrot Creek Assets") for cash consideration of $22,684,000. The results of the Carrot Creek Assets have been included in the Financial Statements since that date. The Carrot Creek Assets contributed oil and gas sales, net of royalties, of $5,543,000 and operating expenses of $2,443,000 for the period from March 1, 2012 to December 31, 2012. If the acquisition had occurred on January 1, 2012, total oil and gas sales, net of royalties, would have been approximately $7,670,000 and total operating expenses would have been approximately $3,310,000 for the year ended December 31, 2012.

The acquisition has been accounted for using the acquisition method. The purchase price allocation was finalized in the fourth quarter of 2012 and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

Net assets acquired:	
Property and equipment	24,032
Exploration and evaluation assets	507
Decommissioning provision	(2,182)
Working capital	31
Deferred income tax asset	296
Total net assets acquired	22,684

Consideration:	
Cash	22,684
Total purchase price	22,684

Geomark Exploration Ltd.

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

Geomark's assets contributed revenue of $359,000 and expenses of $210,000 for the period from October 19, 2012 to December 31, 2012. If the acquisition had occurred on January 1, 2012, total revenue would have been approximately $9,493,000 and total expenses would have been approximately $11,793,000 for the year ended December 31, 2012.

The Geomark Transaction has been accounted for as a business combination with Pine Cliff identified as the acquirer, owing to the fact that Pine Cliff's 2012 revenues were higher than Geomark's, Pine Cliff's non-monetary assets were larger than Geomark's and post-transaction, Pine Cliff controls the board of directors, the key officer positions and has overall power to govern the day-to-day financial and operating policies of the combined entities. The purchase price allocation was finalized in the fourth quarter of 2012 and the purchase price was allocated to the Geomark assets acquired and the liabilities assumed as follows:

Net assets acquired:	
Property and equipment	5,525
Exploration and evaluation assets	1,943
Investments	9,611
Decommissioning provision	(339)
Working capital, including cash and cash equivalents of $19,887	40,233
Goodwill	3,535
Total net assets acquired	60,508

Consideration:	
Shares issued (81,767,641 at $0.74 per share)	60,508
Total purchase price	60,508

As the total purchase price was greater than the monetary and non-monetary assets acquired, primarily due to the appreciation of the price of Pine Cliff's common shares between the date of announcement and the date of closing, Pine Cliff has recognized $3,535,000 in goodwill on this transaction. The fair value of the trade and other receivables acquired as part of this transaction was $1,215,000.

5. LOAN RECEIVABLE

On November 9, 2012, Pine Cliff completed the purchase from a Canadian financial institution of all of the outstanding indebtedness and liabilities owing by Skope Energy Partners ("Skope" will collectively refer to Skope Energy Partners, Skope Energy Inc. and Skope Energy International Inc.) and all of the security documents granted by Skope to the financial institution (the "Skope Debt Purchase"). The security documents include a $200 million demand debenture secured by a first floating charge over all of Skope's assets. Consideration for the Skope Debt Purchase was $28,000,000 which was funded with cash acquired in the Geomark Transaction of $20,000,000 and a drawdown of $8,000,000 on Pine Cliff's Credit Facility. The effective date of the Skope Debt Purchase was November 9, 2012.

Subsequent to December 31, 2012, Pine Cliff realized upon the security purchased in the Skope Debt Purchase and became the sole shareholder of Skope (see Note 23).

6. TRANSACTIONS WITH RELATED PARTIES

Related party note payable
On February 28, 2012, the Company's Executive Chairman of the Board and major shareholder loaned the Company $7,000,000. The promissory note bore interest at 5% per annum and was repayable on August 31, 2013 or at any time prior to that without penalty. Security under the promissory note was over all of the Company's assets and was subordinated to any and all claims in favour of the lender providing a credit facility to the Company. On October 31, 2012, Pine Cliff repaid the entire amount of the promissory note plus interest. Interest paid on this note during the year ended December 31, 2012 was $237,000 (December 31, 2011 – nil).

Management services agreement
Pine Cliff has a management services agreement with Bonterra Energy Corp. ("Bonterra"), an oil and gas corporation that is publicly traded on the Toronto Stock Exchange with some common directors and management, to provide executive services, technical services, accounting services, oil and gas administration and office administration for Pine Cliff. Total fees for each of the years ended December 31, 2012 and 2011 were $60,000, plus minimal administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As at December 31, 2012, Pine Cliff owed Bonterra $48,000 (December 31, 2011 – $3,800).

Investment in Bonterra
As at December 31, 2012, Pine Cliff owns 204,633 common shares in Bonterra (December 31, 2011 - nil) representing just over 1% of the outstanding shares of Bonterra at that date. The shares as of December 31, 2012 have a fair value of $9,339,000 (December 31, 2011 - nil). For the year ended December 31, 2012, Pine Cliff received dividend income of $127,000 from this investment (December 31, 2011 - nil).

Loan to Bonterra
At the time of the business combination with Geomark (Note 4), Geomark had loaned Bonterra a total of $20,000,000. The loan was secured and bore interest at Canadian chartered bank prime less 5/8 of a percent and had no set repayment terms. Security under the debenture was over all of Bonterra's assets and was subordinated to any and all claims in favour of Bonterra's syndicate of senior lenders providing credit facilities to Bonterra. The loan was payable upon demand subject to availability under Bonterra's line of credit. Pine Cliff demanded the repayment of the entire loan balance on November 6, 2012 and the loan plus accrued interest was repaid on November 9, 2012. Interest earned on the loan between October 19, 2012 and November 9, 2012 was $7,000.

Business combination with Geomark
As disclosed in Note 4, on October 19, 2012 Geomark and Pine Cliff combined their operations pursuant to an arrangement agreement. Geomark had some common directors and some common management with Pine Cliff. At the time of the Geomark Transaction, Geomark owned 432,812 common shares of Pine Cliff which were subsequently sold in the public market for a loss on sale of investment of $34,000, net of tax.

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

7. EXPLORATION AND EVALUATION ASSETS

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

Cost:	Oil and gas properties	Minerals properties	Total
Balance at December 31, 2011 and 2010	-	-	-
Additions	92	248	340
Acquisitions	507	1,943	2,450
Balance at December 31, 2012	**599**	**2,191**	**2,790**

During the year ended December 31, 2012, $26,000 (December 31, 2011 - nil) of directly attributable general and administration costs related to mineral exploration and evaluation assets were capitalized.

The Company, as part of its impairment analysis, evaluates its mineral exploration assets or mineral properties based on management's thresholds of whether a property is technically feasible and potential commercial viability exists. No impairment provision has been recorded for the year ended December 31, 2012.

8. PROPERTY AND EQUIPMENT

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

Cost:	Oil and gas properties	Office equipment	Total
Balance at December 31, 2010	4,570	-	4,570
Additions	30	2	32
Balance at December 31, 2011	4,600	2	4,602
Additions	2,130	3	2,133
Acquisitions	29,557	-	29,557
Balance at December 31, 2012	**36,287**	**5**	**36,292**

Accumulated depletion and depreciation:	Oil and gas properties	Office equipment	Total
Balance at December 31, 2010	(2,259)	-	(2,259)
Depletion and depreciation	(537)	-	(537)
Balance at December 31, 2011	(2,796)	-	(2,796)
Depletion and depreciation	(2,823)	-	(2,823)
Balance at December 31, 2012	**(5,619)**	**-**	**(5,619)**

Carrying value at:	Oil and gas properties	Office equipment	Total
December 31, 2011	1,804	2	1,806
December 31, 2012	**30,668**	**5**	**30,673**

Impairment

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

Management has determined that the Company has two CGUs. As part of its annual impairment analysis, the Company assessed its property and equipment assets of each CGU for possible impairment 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, 2012, 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 Alberta Energy Company or 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% per annum.

Projected estimates of cash flows from each CGU have been determined based on the economic life of the reserves. The impairment testing undertaken concluded that the value in use is greater than the carrying amount of each CGU and no impairment provision has been recorded for the years ended December 31, 2012 and 2011.

9. GOODWILL

Carrying value:	
Balance at December 31, 2011 and 2010	-
Acquisitions	3,535
Balance at December 31, 2012	**3,535**

Goodwill is attributable to the oil and gas segment (Note 4) which has been allocated for impairment testing purposes to the CGUs that reflect the lowest level at which goodwill is attributable. The recoverable amounts are based on cash flow projections with assumptions regarding commodity prices, discount rates, production volumes, capital investment and operating costs. No impairment provision has been recorded for the year ended December 31, 2012.

10. DEFERRED TAXES

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

	December 31, 2012	December 31, 2011
Deferred income tax assets (liabilities):		
Share issue costs	**95**	-
Investment	**(269)**	20
Decommissioning provision	**704**	20
Property and equipment	**144**	91
Capital loss carry forward	**103**	103
Non-capital losses carry forward	**2,030**	871
Exploration and evaluation assets	**(697)**	-
Asset before the unrecorded benefit of tax pools	**2,110**	1,105
Less: unrecorded benefit of tax pools	**(379)**	(1,105)
Net deferred income tax asset	**1,731**	-

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

	Year ended December 31	
	2012	2011
Loss before income taxes	**(2,400)**	(187)
Corporate income tax rate	**25.0%**	26.5%
Computed income tax recovery	**(600)**	(50)
Increase (decrease) resulting from:		
Permanent differences and other	**(3)**	(10)
Changes in the unrecorded benefit of tax pools	**(726)**	80
Deferred income tax expense (recovery)	**(1,329)**	20

Pine Cliff has approximately $39,375,000 in tax pools at December 31, 2012 (December 31, 2011 – $6,483,000) available for future use as deductions from taxable income. Included in these pools are estimated non-capital loss carry forwards of $8,120,000 (December 31, 2011 – $3,483,000) that expire between the years 2026 and 2032.

11. TRADE AND OTHER PAYABLES

Total trade and other payables comprises the following categories:

Trade and other payables:	**December 31, 2012**	December 31, 2011
Trade payables	**2,139**	12
Accrued payables	**1,674**	87
	3,813	99

12. BANK DEBT

On March 1, 2012, Pine Cliff set up a $15,000,000 revolving demand credit facility (the "Credit Facility") with a Canadian chartered bank, of which $3,037,000 was drawn at December 31, 2012. The Credit Facility is considered a current liability at December 31, 2012 as the current revolving period will end on May 31, 2013 and if the Credit Facility is not renewed it will become payable in full on demand. Amounts drawn under this Credit Facility are in the form of Canadian prime lending rate based loans, guaranteed notes or letters of credit. The Credit Facility bears interest at the prime lending rate plus 0.75% per annum and Pine Cliff realized an effective interest rate of 3.75% for the year ended December 31, 2012. The Credit Facility is secured by a first priority security interest on all present and after acquired property of the Company.

The Credit Facility requires Pine Cliff to maintain a working capital ratio, excluding the related party note payable and the current portion of the bank debt and inclusive of unused funds under the Credit Facility, of greater than 1:1. The Company was in compliance with its quantitative bank debt covenants during the year ended December 31, 2012. In order to remain in compliance with its qualitative bank debt covenants in the year ended December 31, 2012, the Company received waivers from the bank prior to closing the Geomark Transaction and the Skope Debt Purchase.

13. DECOMMISSIONING LIABILITIES

The total future decommissioning provision was estimated by management based on the Company's working interest in its wells and facilities, estimated costs to remediate, reclaim and abandon the wells and facilities and estimated timing of the costs to be incurred in future periods.

At December 31, 2012, the estimated total undiscounted amount required to settle the decommissioning liabilities was $5,465,000 (December 31, 2011 - $103,000). The provision has been calculated assuming a 1.7% inflation rate (December 31, 2011 – 2.0%). These obligations will be settled based on the useful lives of the underlying assets which extend up to 44 years into the future. This amount has been discounted using a risk-free interest rate of 2.2% (December 31, 2011 – 2.5%).

Changes to decommissioning liabilities were as follows:

	December 31, 2012	December 31, 2011
Decommissioning provision, beginning of year	**82**	72
Provisions acquired through acquisitions	**2,521**	-
Provisions incurred during the year	**26**	-
Revisions (change in estimate and discount rate)	**143**	7
Accretion expense during year	**46**	3
Decommissioning provision, end of year	**2,818**	82

14. SHARE CAPITAL

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

Issued

Issued and outstanding share capital continuity:	Common shares (000s)	Share capital
Balance at December 31, 2011 and 2010	46,146	14,819
Shares issued pursuant to a rights offering	11,536	1,961
Shares issued pursuant to private placements	13,882	6,600
Shares issued to Geomark shareholders	81,768	60,508
Cancellation of shares	(433)	(280)
Issuance of shares	433	246
Share issue costs, net of tax	-	(312)
Balance at December 31, 2012	**153,332**	**83,542**

Of the shares issued pursuant to private placements in the year ended December 31, 2012, a total of 5,953,353 shares were issued to the President and Chief Executive Officer and his associates.

Per share calculations
The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding. In calculating the weighted average number of diluted shares outstanding for the year ended December 31, 2012 and 2011, all options were excluded as there was a loss both years.

	Year ended December 31	
Loss per share calculation:	**2012**	2011
Numerator		
Loss for the year	**(1,071)**	(207)
Denominator (000s)		
Weighted-average common shares outstanding - basic	**79,247**	46,146
Effect of options outstanding	**-**	-
Weighted-average common shares outstanding - diluted	**79,247**	46,146
Loss per share - basic ($)	**(0.01)**	(0.00)
Loss per share - diluted ($)	**(0.01)**	(0.00)

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

A summary of the status of the Company's stock option plan as at December 31, 2012 and changes during the year then ended is presented as follows:

Stock options issued and outstanding:	Options (000s)	Weighted-average exercise price ($ per share)
Outstanding at December 31, 2011	-	-
Granted	10,400	0.58
Forfeited	(160)	0.38
Outstanding at December 31, 2012	10,240	0.58
Exercisable at December 31, 2012	-	-

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

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
$0.38	2,815	3.2	-	-
$0.50 - $0.65	7,030	2.2	-	-
$0.66 - $0.76	395	2.5	-	-
	10,240	2.5	-	-

The Company records share-based payment expense over the vesting period, which ranges between one to three years, based on the fair value of the options granted to employees, directors and consultants. In the year ended December 31, 2012, the Company granted 10,400,000 stock options with an estimated fair value of $4,056,000 or $0.39 per option using the Black-Scholes option pricing model with the following key assumptions (weighted-average):

Assumptions:	Year ended December 31, 2012
Exercise price ($)	0.58
Estimated volatility of underlying common shares (%)	123
Weighted average expected life (years)	2.9
Risk-free rate (%)	1.2
Forfeiture rate (%)	3.8
Expected dividend yield (%)	0.0

Estimated volatility is measured as the standard deviation of expected share price returns based on statistical analysis of historical daily share prices for a representative period.

15. FINANCE INCOME AND EXPENSES

Finance income and expenses are comprised of:

Net finance income and expenses:	Year ended December 31 **2012**	2011
Finance income:		
Interest income	**731**	-
Finance expenses:		
Interest expense and bank charges	**(600)**	-
Unwinding of the discount on decommissioning liabilities	**(46)**	(3)
	(646)	**(3)**
	85	**(3)**

16. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses by nature were as follows:

	Year ended December 31	
General and administration expenses:	**2012**	2011
Staff expenses	**917**	32
Public company expenses	**104**	28
Professional fees	**977**	90
Intercompany administration	**60**	60
Business development	**36**	-
Office and other costs	**42**	5
Capitalized G&A and overhead recoveries	**(53)**	-
	2,083	215

17. KEY MANAGEMENT REMUNERATION

Key management personnel are those persons, including all directors and officers, having authority and responsibility for planning, directing and controlling the activities of the Company. In addition to their salaries, the Company also provides non-cash benefits to its directors and officers. Directors and officers also participate in the Company's option program. Director and officer compensation was as follows:

	Year ended December 31	
Key management remuneration:	**2012**	2011
Short-term benefits [1]	**388**	32
Share-based payments [2]	**567**	-
	955	32

[1] Short-term benefits includes the salary and other non-cash short-term benefits of Pine Cliff's President and Chief Executive Officer as well as director fees paid through Pine Cliff. Other officers are not paid through Pine Cliff as their services are included in the management fee charged by Bonterra (Note 6).
[2] Share-based payments computed for officers and the board of directors as described in Note 14 includes the change in fair value of outstanding awards.

18. FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement
Financial instruments of the Company consist of cash, trade and other receivables, loan receivable, investments, trade and other payables and bank debt. The carrying values of the financial instruments presented in the Financial Statements approximate their respective fair values.

Assets and liabilities that are measured at fair value are classified into levels, reflecting the method used to make the measurements. Level 1 fair value measurements are based on quoted prices that 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. Pine Cliff has no level 2 or level 3 financial instruments. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

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

		December 31, 2012		December 31, 2011	
Description:	Level	**Carrying value**	**Fair value**	Carrying value	Fair value
Cash	1	**817**	**817**	277	277
Trade and other receivables		**3,499**	**3,499**	110	110
Loan receivable		**28,000**	**28,000**	-	-
Investments [1]	1	**9,418**	**9,418**	172	172
Trade and other payables		**(3,813)**	**(3,813)**	(99)	(99)
Bank debt		**(3,037)**	**(3,037)**	-	-

[1] One investment was determined to be permanently impaired and the cumulative loss of $250,000 that had been recognized in other comprehensive income was reclassified from other comprehensive income to earnings (loss) in 2012 and included with impairment of investment.

19. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31	
	2012	2011
Operating activities		
Changes in non-cash working capital:		
Trade and other receivables	**(3,225)**	35
Prepaid expenses and deposits	**(136)**	3
Trade and other payables and accrued liabilities	**3,432**	(58)
	71	(20)
Investing activities		
Changes in non-cash working capital:		
Trade and other receivables	**(167)**	12
Prepaid expenses and deposits	**(7)**	-
Trade and other payables and accrued liabilities	**607**	(152)
	433	(140)

Interest paid in the year ended December 31, 2012 was $560,000 (December 31, 2011 – nil). Interest received in the year ended December 31, 2012 and 2011 was nil. Dividends received during the year ended December 31, 2012 was $76,000 (December 31, 2011 – nil).

20. RISK MANAGEMENT

The Company is exposed to a number of financial risks arising from its financial assets and liabilities. The financial risks include market risk, credit risk and liquidity risk. Financial risk management is carried out by Pine Cliff management under the direction of the board of directors.

Market risk

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 is exposed to commodity price risk since its revenues are dependent on the prices of crude oil and natural gas. Commodity prices have fluctuated widely during recent years due to global and regional factors including, but not limited to, supply and demand, inventory levels, weather, economic and geopolitical factors. Changes in oil and natural gas prices may have a significant effect, positively or negatively, on the ability of the Company to meet its obligations, capital spending targets and expected operational results. Currently, the Company has not entered into any risk management contracts to sell its oil and gas commodities. Commodities are sold at market prices at the date of sale.

Interest Rate Risk

The Company is principally exposed to interest rate risk to the extent it draws on its variable rate debt. Changes in market interest rates could affect the cash flow associated with the credit facility. If interest rates applicable to Pine Cliff's credit facility increased or decreased by one percent it is estimated that Pine Cliff's loss for the year ended December 31, 2012 would have increased or decreased, respectively, by less than $100,000.

Equity price risk
Equity price risk refers to the risk that the fair value of the investments will fluctuate due to changes in equity markets. Equity price risk arises from the realizable value of the investments that 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 is exposed to foreign exchange risk because the oil and natural gas prices it receives are primarily determined in reference to United Stated dollar denominated commodity prices. The Company manages this risk by monitoring the foreign exchange rate and evaluating its effect on cash flows. Pine Cliff has not entered into any derivative financial instruments to manage this risk.

Credit Risk
Credit risk is the risk that a third party will not complete its contractual obligations under a financial instrument and cause the Company to incur a financial loss. Pine Cliff's maximum exposure to credit risk is the sum of the carrying values of its trade and other receivables, loan receivable and cash. The carrying values of these financial assets reflect management's assessment of the associated maximum exposure to such credit risk.

To mitigate the credit risk on its cash, the Company maintains its cash balances with major Canadian chartered banks. To mitigate the credit risk on trade and other receivables, Pine Cliff assesses the financial strength of its counterparties and enters into relationships with larger purchasers with established credit histories.

The Company's trade and other receivables balance at December 31, 2012 of $3,499,000 (December 31, 2011 – $110,000), is primarily with oil and gas marketers, joint venture partners and crown royalty credits with the Province of Alberta. Amounts due from these parties have generally been received within 30 to 60 days. There are no material financial assets that Pine Cliff considers past due.

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.

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 or ability to obtain financing to settle a transaction on the due date or continue to fund its exploration and development projects. This could result in Pine Cliff being forced to sell assets at a value which is less than what they are worth or the Company may be unable to settle or recover financial assets.

In 2012, Pine Cliff raised $8,249,000 (net of share issue costs) through a rights offering and two private placements, set up a revolving demand credit facility, obtained short-term financing from a related party and completed the Geomark Transaction adding $40,233,000 of working capital. The existing banking arrangements at December 31, 2012 comprise of a revolving demand credit facility in the amount of $15,000,000, of which $3,037,000 is drawn at December 31, 2012. The unused portion of the credit facility and cash provided by operating activities are expected to allow Pine Cliff to meet its financial liabilities, as well as future capital requirements, at a reasonable cost. Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities, if required.

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

Maturity dates of financial liabilities	Recognized in Financial Statements	Total	< 6 months	6 - 12 months	> 12 months
Trade and other payables	Yes - Liability	3,813	3,813	-	-
Bank loan - principal	Yes - Liability	3,037	3,037	-	-
Bank loan - future interest	No	47	47	-	-
		6,897	6,897	-	-

21. CAPITAL STRUCTURE

The Company's objectives when managing capital, which the Company defines to include shareholders' equity and net debt, is to ensure that it has the financial capacity, liquidity and flexibility to fund its capital program and acquisitions. As it is not unusual for capital expenditures and acquisitions to exceed cash flow from operating activities in a given period, the Company is required to maintain financial flexibility and liquidity 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 and make adjustments to its capital investment programs.

The Company's defines and computes its capital as follows:

Capital structure:	**December 31, 2012**	December 31, 2011
Bank debt	**3,037**	-
Trade and other payables	**3,813**	99
Less:		
Trade and other receivables	**(3,499)**	(110)
Cash	**(817)**	(277)
Net debt	**2,534**	(288)
Equity	**71,021**	2,207

The Company's monitors the leverage in its capital structure and the strength of its balance sheet by reviewing its net debt to equity ratio and its debt-to- funds flow from operations (cash flow from operating activities before changes in non-cash working capital) ratio. Debt-to-funds flow from operations and net debt do not have a specified meaning under IFRS and may not be comparable to measures used by other companies.

As Pine Cliff's oil and gas production increases, cash provided by operating activities is expected to increasingly provide the necessary capital for oil and gas exploration and development activities. However, due to the potential impact of adverse changes in commodity prices, production rates, capital efficiencies and material and service costs, Pine Cliff may not generate sufficient cash from operating activities to entirely fund its planned oil and gas capital programs, minerals exploration programs or future acquisitions. Accordingly, the Company will continually evaluate the stage of development of its proved and producing oil reserves, the results of the minerals exploration program and the expected return on investment of acquisitions and consider issuing equity and/or debt to provide additional financing to maintain appropriate net debt and equity levels. The Company sets the amount of capital in proportion to risk and manages to ensure the Company's net debt to equity ratio is less than one. Net debt to equity is computed as follows:

Net debt to equity ratio:	**December 31, 2012**	December 31, 2011
Net debt	**2,534**	(288)
Equity	**71,021**	2,207
Net debt to equity ratio	**0.04**	(0.13)

The Company considers funds flow from operations to be a key performance measure as it demonstrates the Company's ability to generate funds necessary to repay debt and to fund future growth through capital investment. Debt-to-funds flow from operations is computed as follows:

	Trailing twelve months ended	
Debt-to-funds flow from operations calculation:	**December 31, 2012**	December 31, 2011
Cash provided by operating activities	**1,773**	333
Changes in non-cash working capital	**(71)**	20
Funds flow from operations	**1,702**	353
Bank debt	**3,037**	-
Debt-to-funds flow from operations	**1.8**	**-**

The Company's financial objectives and strategy as described above have remained substantially unchanged over the reporting periods. These objectives and strategy are reviewed on an annual basis. The Company believes its ratios are within reasonable limits, in light of the relative size of the Company, the growth of the Company in the year ended December 31, 2012 and its capital management objectives.

22. BUSINESS SEGMENT INFORMATION

Pine Cliff's activities for the year ended December 31, 2012 are represented by two industry segments comprised of oil and gas exploration and production, and mineral exploration. For the year ended December 31, 2011, Pine Cliff's results were represented by only the oil and gas exploration and production segment and therefore segmented results for 2011 are not presented.

	For the twelve months ended December 31, 2012		
	Oil and gas	Minerals	**Total**
Oil and gas sales	7,547	-	**7,547**
Royalties	(1,344)	-	**(1,344)**
Dividend income	127	-	**127**
Finance income	731	-	**731**
REVENUE	7,061	-	**7,061**
EXPENSES			
Operating	2,676	-	**2,676**
General and administration	2,032	51	**2,083**
Depletion and depreciation	2,823	-	**2,823**
Share-based payments	957	26	**983**
Impairment of investment	250	-	**250**
Finance expenses	646	-	**646**
Total expenses	9,384	77	**9,461**
Loss before income taxes	(2,323)	(77)	**(2,400)**
Deferred tax recovery	(1,329)	-	**(1,329)**
LOSS FOR THE YEAR	(994)	(77)	**(1,071)**

	As at December 31, 2012		
	Oil and gas	Minerals	**Total**
TOTAL ASSETS	78,498	2,191	**80,689**
TOTAL LIABILITIES	9,592	76	**9,668**

23. SUBSEQUENT EVENTS

On February 19, 2013, the Court of Queen's Bench of Alberta approved the Plan of Compromise and Arrangement (the "Plan") filed under the Companies' Creditors Arrangement Act ("CCAA") by Pine Cliff. The purpose of the Plan was to restructure Skope's debt and to effect a compromise of the claims of all unsecured creditors of Skope. In addition to restructuring Skope's unsecured claims, the implementation of the Plan resulted in the redemption, without compensation, of all of the outstanding shares of Skope (and the cancellation, without compensation, of all related options, warrants and other rights to acquire such shares) and the creation of a new class of Class A Voting Shares, 100 of which were issued to Pine Cliff (the "Skope Shares"). Accordingly, Pine Cliff became the sole shareholder of Skope Energy Inc. on February 19, 2013. Consideration for Skope Shares was $28,000,000, representing the amount that Pine Cliff paid to a Canadian financial institution for the Skope Debt Purchase. Skope's assets include an 80% working interest in a package of producing shallow gas assets located in southeast Alberta and southwest Saskatchewan. This transaction will be accounted for as a business combination with Pine Cliff identified as the acquirer. The purchase price allocation using the acquisition method is incomplete as of the date hereof. These details will be disclosed in Pine Cliff's March 31, 2013 unaudited quarterly financial statements.

Subsequent to December 31, 2012, Pine Cliff issued 400,000 stock options to its employees and consultants with a weighted-average exercise price of $0.90 per share, based on the market price immediately preceding the date of grant. The options vest between one and three years and expire between July 30, 2014 and July 30, 2016.

BOARD OF DIRECTORS

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

OFFICERS

George F. Fink
Executive Chairman of the Board

Philip B. Hodge
President and Chief Executive Officer

Robb D. Thompson
Chief Financial Officer and Secretary

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Olympia Trust Company
Calgary, Alberta

AUDITORS

Deloitte LLP
Calgary, Alberta

SOLICITORS

Borden Ladner Gervais LLP
Calgary, Alberta

BANKERS

Alberta Treasury Branch
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: PNE

WEBSITE

www.pinecliffenergy.com

Pine Cliff Energy Ltd.