Pine Cliff Energy Ltd.

2005 ANNUAL REPORT

Pine Cliff Energy Ltd. *(TSX Venture symbol – PNE) is a junior energy company that explores for, develops and produces oil and natural gas primarily in the Western Sedimentary Basin in Canada and in the future will also assess and evaluate international opportunities.*

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

Contents

Notice of Annual General Meeting

The Annual General Meeting of Shareholders will be held on Wednesday, May 24, 2006, in the Nakiska Room at the Westin Hotel, 320 Fourth Avenue S.W., Calgary, Alberta, at 9:00 a.m. (Calgary time).

Forward-Looking Information

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

Pine Cliff Energy Ltd.

		2005[1]
Financial Highlights		
Revenue – oil and gas	$	633,873
Funds flow from Operations[2]	$	368,259
Per Share Basic	$	0.01
Per Share Fully Diluted	$	0.01
Net Loss	$	329,062
Per Share Basic	$	(0.01)
Per Share Fully Diluted	$	(0.01)
Capital Expenditures and Acquisitions	$	2,097,930
Shareholders' Equity	$	5,110,407
Shares Outstanding (000's)(December 31, 2005)		36,420,041
Operations		
Oil and Liquids (barrels per day)		7
Average Price ($ per barrel)	$	62.42
Natural Gas (MCF per day)		175
Average Price ($ per MCF)	$	10.78
Total Barrels per Day (BOE per day)[3]		36
Reserves[4]		
Oil and Liquids (barrels)		
Proved Developed Producing (Gross)		13,300
Proved plus Probable (Gross)		21,400
Natural Gas (MCF)		
Proved Developed Producing (Gross)		352,000
Proved plus Probable (Gross)		568,000
Share Trading Statistics		
Share Prices (based on daily closing price)		
High	$	0.61
Low	$	0.42
Close	$	0.55
Daily Average Trading Volume		7,535

(1) Operations commenced April 8, 2005

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

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

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

Report to Shareholders

Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") is pleased to report its operational and financial results for 2005. It is the Company's first annual report as Pine Cliff commenced its activities in April 2005.

During its short history the Company has mainly been focusing on:

- Drilling and evaluating its interests in the Sundance property located in west central Alberta.
- Researching and evaluating prospective oil and gas properties located in the Western Canadian Sedimentary Basin.
- Researching and evaluating investment opportunities in South America.

The Company is now in a position, whereby, it will be proceeding with acquisitions and farm-ins in these areas of interest.

Financial

Revenue from petroleum and natural gas sales for the year was $633,873. The fourth quarter sales figure was $372,315 accounting for 58.7 percent of the 2005 total figure. The Company experienced a loss in 2005 which is totally attributable to an asset write down of $588,256 in the fourth quarter for its Auburndale property. Pine Cliff's working capital at December 31, 2005 was $3,565,689. This working capital and the Company's 2006 cash flow should be sufficient to finance the capital expenditures for 2006.

Operations and Outlook

The Company's future operating philosophy will be to conduct exploration and development programs in Canada and internationally that are rated as low risk ventures, but will also proceed with activities in both areas that are in higher risk and potentially higher return categories. At the present time most of Pine Cliff's activities are being managed by a consulting contract with its former parent, Bonterra Energy Income Trust. Pine Cliff is presently in the process of hiring people to perform most of its technical requirements. The Company is optimistic with regard to the properties it will be exploring and developing in 2006.

The Board of Directors wish to thank the shareholders for their initial investment and advice and the staff for their contributions in setting up the Company.

Submitted on behalf of the Board of Directors,

George F. Fink
President, CEO and Director

Review of Operations

Reserves

The Company engaged the services of Sproule Associates Limited to prepare a reserve evaluation with an effective date of December 31, 2005. The reserves are located in the Province of Alberta. The majority of the Company's production is comprised of natural gas. The Company's main gas producing area is located in the Sundance area of West Central Alberta. The gross reserve figure in the following charts represents the Company's ownership interest before royalties and the net figure is after deductions for royalties.

SUMMARY OF OIL AND GAS RESERVES AS OF DECEMBER 31, 2005

(Forecast Prices and Costs)

	Reserves			
	Natural Gas		Natural Gas Liquids	
Reserve Category	Gross (MMcf)	Net (MMcf)	Gross (Mbbl)	Net (Mbbl)
Proved				
Developed producing	352	283	13.3	9.0
Total proved	352	283	13.3	9.0
Probable	216	167	8.1	5.6
Total proved plus probable	568	450	21.4	14.6

Reconciliation of Company Gross Reserves by Principal Product

(Forecast Prices and Costs)

	Natural Gas		
	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)
December 31, 2004	-	-	-
Extension	288	100	388
Improved recovery	-	58	58
Technical revisions	32	(24)	8
Discoveries	-	-	-
Acquisitions	52	82	134
Economic factors	-	-	-
Production	(20)	-	(20)
December 31, 2005	352	216	568

Summary of Net Present Values of Future Net Revenue as of December 31, 2005

(Forecast Prices and Costs)

	Net Present Value of Future Net Revenue After Income Taxes Discounted at (%/year)				
Reserve Category (M$)	0	5	10	15	20
Proved					
Developed Producing	2,686	2,460	2,277	2,126	1,999
Total Proved	2,686	2,460	2,277	2,126	1,999
Probable	1,132	902	745	633	549
Total Proved Plus Probable	3,818	3,362	3,022	2,759	2,548

Year	Edmonton Par Price (Cdn $ per barrel)	Alberta Gas Reference Price Plantgate (Cdn $ per MCF)	Propane (Cdn $ per barrel)	Butane (Cdn $ per barrel)	Pentane (Cdn $ per barrel)
2006	70.07	11.37	39.25	47.01	71.77
2007	70.99	10.63	39.76	47.62	72.71
2008	62.73	8.76	35.14	42.08	64.25
2009	57.53	7.69	32.22	38.59	58.92
2010	54.65	7.39	30.61	36.66	55.97
2011	55.47	7.52	31.07	37.21	56.81
2012	56.31	7.63	31.54	37.77	57.67
2013	57.16	7.77	32.01	38.34	58.54
2014	58.02	7.90	32.50	38.92	59.42
2015	58.89	8.04	32.99	39.51	60.31
2016	59.78	8.18	33.48	40.10	61.22

Natural gas and liquid prices escalate at various rates thereafter

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

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

Land Holdings

The Company's holdings of natural gas leases and rights as of December 31, 2005 are as follows:

	Gross Acres	Net Acres
Alberta	7,680	2,844

Petroleum and Natural Gas Capital Expenditures

The following table summarizes petroleum and natural gas capital expenditures incurred by the Company on acquisitions, land, seismic, exploration and development drilling and production facilities for the year ended December 31, 2005.

Exploration and development costs	$1,089,632
Acquisitions	999,701
Land costs	5,490
Seismic	2,433
Net petroleum and natural gas capital expenditures	$2,097,256

Drilling History

The following table summarizes the Company's 2005 gross and net drilling activity and success:

	Development		Exploratory		Total	
	Gross	Net	Gross	Net	Gross	Net
Natural Gas	2	0.2	-	-	2	0.2
Dry	-	-	1	1.0	1	1.0
Total	2	0.2	1	1.0	3	1.2
Success rate	100%	100%	0%	0%	67%	16.7%

Property Discussions

Pine Cliff's producing property is located in the Sundance area of West Central Alberta. The Company has a 13.2% average working interest in 4,320 acres (572 net) of Crown land in the area. There were initially two producing wells (0.308 net) on the lands when they were acquired.

Since the acquisition three more wells (0.226 net) were drilled on the lands with all three wells being productive for a 100% success rate. Two of the new drills (0.188 net) are on production and the third well (0.038) is completed and on production in early February 2006. The wells produce from multiple zones from the Cadomin to the Belly River. Current production from the four wells is approximately 3,150 Mcf/day gross, 365 Mcf/day net to Pine Cliff. NGL's are produced in association with the natural gas.

There is still significant industry activity in the Sundance area. With the success of last years drilling program the interests in non producing properties are being analyzed to determine whether there are additional prospective drilling locations.

Pine Cliff drilled a 100% Devonian well for sweet natural gas in the Auburndale area of East Central Alberta in 2005. Gas was encountered but production rates were not sufficient enough to justify the cost of tieing in the well at this time due to lack of nearby infrastructure. The company is continuing to evaluate the potential of this play.

Management's Discussion and Analysis

The following report dated March 17, 2006 is a review of the operations, current financial position and outlook for the Company and should be read in conjunction with the audited financial statement for the period ended December 31, 2005, including the notes related thereto.

General

The Company is continuing to focus on expanding its operations in the following areas:

(a) Assessing various opportunities to purchase producing properties with exploitation potential and non producing properties.

(b) Assessing international opportunities in various countries that provide sound technical prospects and are not high risk from a political and personal safety aspect.

(c) Continuing to add technical people to assist in developing prospects domestically and on an international basis.

A lot of progress has been made in these areas during the past few months and the Company is optimistic with regard to the potential in these areas of focus.

Officers Certification of Evaluation of Disclosure Controls

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2005 and have concluded that such disclosure controls were effective to provide reasonable assurance that material information relating to the Company is made known to them.

Financial and Operational

The Company was incorporated in the Province of Alberta on November 10, 2004 and commenced operations on April 8, 2005. The Company did not have operations as of December 31, 2004 and therefore is only presenting quarterly statements for the year ended December 31, 2005. The Company had no income or expenditures to be recognized in an income statement and had no cash transactions to December 31, 2004.

Quarterly Financial and Operational Highlights

	2005			
	4th	3rd	2nd	1st
Revenue - oil and gas	$ 372,315	$ 121,141	$ 140,417	$ -
Funds Flow from Operations (1)	275,942	68,119	48,374	(24,176)
Per Share Basic	0.01	0.00	0.00	(0.00)
Per Share Diluted	0.01	0.00	0.00	(0.00)
Net (Loss) Earnings	(223,241)	(37,092)	(44,553)	(24,176)
Per Share Basic	(0.01)	(0.00)	(0.00)	(0.00)
Per Share Diluted	(0.01)	(0.00)	(0.00)	(0.00)
Capital Expenditures and Acquisitions	160,809	321,206	1,615,915	-
Total Assets	5,267,988	5,609,386	5,481,085	192,458
Working Capital (Deficiency)	3,565,689	3,450,555	3,513,801	(185,983)
Shareholder's Equity	5,110,407	5,305,042	5,308,028	(24,175)
Operations				
Oil and Liquids (barrels per day)	8	4	6	-
Natural Gas (MCF per day)	279	116	153	-

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

Production

On April 8, 2005, with an effective date of January 1, 2005, the Company acquired interests in two natural gas properties for $999,701. The Sundance land, located in West Central Alberta was the major property acquired. Pine Cliff now has a 13.2 percent working interest (subject to crown royalty) in 4,320 acres in this area. There are two wells (0.308 net) on these lands that have been producing for approximately two years. Two additional multi-zone wells were drilled in 2005 (net .2). Production commenced in April at one location (net .038) and in October for the other location (net .15). In 2005 production from this area averaged 175 MCF of natural gas and seven barrels of natural gas liquids per day. In December 2005 daily production rates from the Sundance property was 349 Mcf and 10 barrels of natural gas liquids.

Pine Cliff also acquired a 100 percent interest in a 256 hectare Crown lease in the Auburndale area of East Central Alberta. The Company drilled a Devonian well for sweet natural gas during the second quarter. The Company has tested this well and has concluded that the projected production volume is not sufficient to construct a five kilometer pipeline to tie it in. The drilling and land costs have been written off in 2005 (see Write-down of Asset).

Revenue

Revenue from petroleum and natural gas sales for the year was $633,873. This includes $372,315 for the fourth quarter. This is an increase of $251,174 from the third quarter. The increase was due to higher commodity prices and commencement of production in October from the new Sundance well. As previously mentioned the Company commenced its oil and gas operations on April 8. Average price received in 2005 for its natural gas was $10.78 per MCF and $62.42 per barrel for natural gas liquids. The Company did not have hedging agreements in 2005 and presently does not have any future hedging agreements.

Royalties

Royalties consist of Crown royalties ($17,464) paid to the Province of Alberta and gross overriding royalties ($21,366). The Company receives a partial rebate (currently 25%) from royalties paid to the Province of Alberta. The Company received a royalty holiday on a portion of its new production. An adjustment for the royalty holiday was recorded in the fourth quarter resulting in a reduction of previously reported Crown royalties and a corresponding reduction in royalty rebate.

Interest Income

The Company maintains an investment account with its principal banker that pays interest at prime less 2.25 percent as long as the Company maintains a minimum balance of $1,500,000.

Production Costs

Production costs for the year ended December 31, 2005 were $53,449 or $5.41 per BOE (Q4 – $4.37 per BOE, Q3 – $9.51 per BOE and Q2 - $7.37 per BOE). BOE's are calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation. Lower production costs from the natural gas well that commenced production in the fourth quarter was the main reason for the decline in costs per BOE from Q3.

General and Administrative

Pine Cliff does not have any employees at the present time but has engaged the services of a geologist on a consulting basis during the third quarter of 2005. Effective February 1, 2005, Pine Cliff entered into a management agreement with Comstate Resources Ltd. ("Comstate"), a wholly owned subsidiary of Bonterra Energy Income Trust and a company with common directors and management, to have Comstate provide executive services (President and CEO, CFO and COO), accounting services, oil and gas administration and office administration. The management fee consists of a monthly fee of $12,000 ($18,000 effective January 1, 2006), three percent of net earnings before income taxes, plus out of pocket costs. Total fees for the year ended December 31, 2005 were $132,000 plus minimal out of pocket costs. The majority of the remaining general and administrative expenses consist of $44,160 for geological consulting, accounting and legal costs of $19,453 associated with continuous disclosure requirements and general start up costs of $16,458.

Stock Based Compensation

The Company has a stock-based compensation plan. The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. In the second quarter the Company issued 1,732,000 stock options with the fair value estimated using the Black-Scholes option pricing model, assuming a weighted risk free interest rate of 3.5 percent, expected weighted average volatility of 88 percent, expected weighted average life of 3.5 years and no annual dividend rate. The total expense to be amortized over the vesting period of the options is $136,536 of which $29,049 (Q3 - $29,806, Q2 - $28,186) was expensed in the fourth quarter.

Write-down of Asset

As previously discussed, the Company drilled a Devonian gas well in the second quarter of 2005. The well, although capable of production, does not contain sufficient reserves to warrant a five kilometer pipeline. Given the lack of current economics for this well, no proved or probable reserves were assigned to the well in the preparation of the third party engineering report. With the Company following the successful efforts method of accounting (see below), capital costs associated with each field that are in excess of that fields economic value are to be written off. As such the Company wrote off $588,256 in respect of the cost of the land and development costs incurred in drilling the Devonian well.

Depletion, Depreciation and Amortization

The Company follows the successful efforts method of accounting for petroleum and natural gas properties and related equipment. Costs of acquiring unproved properties are capitalized. When petroleum and natural gas properties are found to contain proved reserves as determined by Company engineers, the related net book value is depleted on the unit-of-production basis, calculated by field. The costs of dry holes and abandoned properties are charged to operations. Geological costs, lease rentals and carrying costs are charged to income as incurred. Costs of drilling exploratory and development wells that result in additions to proved reserves are capitalized and depleted on the unit-of-production basis. Tangible equipment is depreciated on a straight-line basis over ten years.

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

At December 31, 2005, the estimated total undiscounted amount required to settle the asset retirement obligations was $42,796. These obligations will be settled based on the useful lives of the underlying assets, which extend up to eight years into the future. This amount has been discounted using a credit-adjusted risk-free interest rate of five percent. The discount rate is reviewed annually and adjusted if considered necessary. A change in the rate would not have a significant impact on the amount recorded for asset retirement obligations.

The calculation of the above requires an estimation of the amount of the Company's petroleum reserves by field. This figure is calculated annually by an independent engineering firm and any adjustments are used to recalculate depletion and asset retirement obligations. This calculation is to a large extent subjective. Reserve adjustments are affected by economic assumptions as well as estimates of petroleum products in place and methods of recovering those reserves. To the extent reserves are increased or decreased, depletion costs will vary. The result of the independent engineering firm reserve evaluation was a substantial increase to managements determined reserve estimates. As a result fourth quarter depletion was only a nominal amount of $12,795 to adjust for the reserve increase.

Income Taxes

The Company follows the liability method of accounting for income taxes under which the income tax provision is based on the temporary differences in the accounts calculated using income tax rates expected to apply in the year in which the temporary differences will reverse. The Company has sufficient tax pools so it is not liable for current income tax in 2005. Should the Company not incur additional exploration and development expenditure in 2006, based on current pricing, the Company may be taxable in 2006.

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

	Rate of Utilization %	Amount
Undepreciated capital costs	25	$ 216,298
Canadian oil and gas expenditures	10	809,254
Canadian development expenditures	30	392,275
Canadian exploration expenditures	100	387,062
Share issue costs	20	134,118
		$ 1,939,007

Net Loss

Pine Cliff is in the start up phase and as such anticipates incurring a certain amount of losses during its first months of operations. The net loss in the fourth quarter of $223,241 (Q3 - $37,092, Q2 - $44,553, and Q1 - $24,176) was primarily due to the write-down of the Auburndale property ($588,256). Excluding the write-down, the Company had pre-tax profits of $234,540 in the fourth quarter. The Company is optimistic that current planned activity will result in improved results in the future.

Liquidity and Capital Resources

As of December 31, 2005, Pine Cliff had positive working capital of $3,565,689. These funds will be used to fund future development of existing properties and to acquire additional oil and gas properties. Subsequent to year-end, the Company incorporated a 93 percent owned subsidiary CanAmericas Energy Ltd. (CanAmericas) to carry on exploration and development work in South America. The Company funded CanAmericas with an equity injection of $1.4 million US.

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

	Shares	Amount
Balance, December 31, 2004	10	$ 1
Issued pursuant to public offering	36,420,031	5,463,005
Share issue costs	-	(167,647)
Future tax adjustment on share issue costs	-	57,069
Balance, December 31, 2005	36,420,041	$ 5,352,428

On April 7, 2005, the Company concluded its initial public offering of 36,420,031 Common Shares at $0.15 per share for gross proceeds of $5,463,005. Total expenses related to the initial public offering were $167,647. The Company granted 930,000 stock options to its directors and officers, and an additional 802,000 stock options to other service providers at an exercise price of $0.15 per share. The Company commenced trading on the TSX Venture Exchange on April 11, 2005.

A summary of the status of the Company's stock option plan as of December 31, 2005 and December 31, 2004, and changes during the twelve months and from incorporation periods ending on those dates is presented below:

	December 31, 2005		December 31, 2004	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	-	$0.00	-	$0.00
Options granted	1,752,000	0.16	-	0.00
Options cancelled	(66,000)	0.15	-	0.00
Outstanding at end of period	1,686,000	$0.16	-	$0.00
Options exercisable at end of period	-	$0.00	-	$0.00

Of the 1,686,000 options that are outstanding as of December 31, 2005, 1,666,000 are exercisable 50 percent on April 5, 2006 and the remaining 50 percent on April 5, 2007. The options all expire on January 31, 2010.

Sensitivity Analysis

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

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

Submitted on behalf of the Board of Directors,

George F. Fink
President, CEO and Director

Management's Responsibility for Financial Statements

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

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

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

George F. Fink
President and CEO

Garth E. Schultz
Vice President, Finance and CFO

Auditors' Report

To the Shareholders of Pine Cliff Energy Ltd.:

We have audited the balance sheets of Pine Cliff Energy Ltd. as at December 31, 2005 and 2004 and the statements of loss and deficit and cash flow for the year ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004, and the results of its operations and cash flows for the year ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Calgary, Alberta
March 17, 2006

Balance Sheets	2005	2004
As at December 31		
Assets		
Current		
Cash	$ 3,334,961	$ 1
Due from related party (Note 2)	16,006	–
Accounts receivable	339,330	–
Prepaid expenditures	3,460	–
	3,693,757	1
Deferred Charges (Note 3)	–	78,845
Future Income Tax Asset (Note 4)	216,254	–
Property and Equipment (Note 5)		
Property and equipment	1,538,809	–
Accumulated depletion and depreciation	(180,832)	–
	1,357,977	–
	$ 5,267,988	$ 78,846
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 127,903	$ 25,000
Due to related party (Note 2)	165	53,845
	128,068	78,845
Asset Retirement Obligations (Note 6)	29,513	–
Shareholders' Equity		
Share capital (Note 7)	5,352,428	1
Contributed surplus	87,041	–
Deficit	(329,062)	–
	5,110,407	1
	$ 5,267,988	$ 78,846

On Behalf of the Board:

George F. Fink
Director

F. William Woodward
Director

Pine Cliff Energy Ltd.

Statement of Loss and Deficit		2005
For the year ended December 31, 2005 (Note 1)		
Revenue		
Oil and gas sales	$	633,873
Royalties		(38,830)
Alberta royalty tax credits		4,366
Interest income		61,715
		661,124
Expenses		
Production costs		53,449
General and administrative		239,417
Stock based compensation		87,041
Write-down of assets (Note 5)		588,256
Depletion, depreciation and accretion		181,208
		1,149,371
Loss Before Income Taxes		(488,247)
Income Taxes (Recovery)		
Current		–
Future		(159,185)
		(159,185)
Loss for the Year and Deficit End of Year	$	(329,062)
Loss Per Share – Basic	$	(0.01)
Loss Per Share – Diluted	$	(0.01)

Pine Cliff Energy Ltd.

Statement of Cash Flow	2005
For the year ended December 31, 2005 (Note 1)	
Operating Activities	
Net loss for the year	$ (329,062)
Items not affecting cash	
Stock based compensation	87,041
Write-down of assets	588,256
Depletion, depreciation and accretion	181,208
Future income taxes	(159,185)
	368,259
Change in non-cash working capital	
Due from related party	(16,006)
Accounts receivable	(339,329)
Prepaid expenditures	(3,460)
Accounts payable and accrued liabilities	127,903
Due to related party	165
	(230,727)
Cash Provided by Operating Activities	137,532
Financing Activities	
Proceeds received on initial public offering	5,463,005
Issue costs	(88,802)
Change in non-cash working capital	
Accounts payable and accrued liabilities	(25,000)
Due to related party (Note 2)	(53,845)
Cash Provided by Financing Activities	5,295,358
Investing Activities	
Property and equipment expenditures	(2,097,930)
Cash Used in Investing Activities	(2,097,930)
Net Cash Inflow	3,334,960
Cash, Beginning of Year	1
Cash, End of Year	$ 3,334,961
Cash Interest Paid	$ –
Cash Taxes Paid	$ –

For the Periods Ended December 31 (Note 1)

1. SIGNIFICANT ACCOUNTING POLICIES

Commencement of Operations

The Company was incorporated in the Province of Alberta on November 10, 2004 and commenced operations on April 8, 2005.

Basis of Presentation

The Company had not commenced operations as of December 31, 2004 and therefore is only presenting a statement of loss and statement of cash flow for the year ended December 31, 2005. The Company had no income or expenditures to be recognized in an income statement and had no cash transactions to December 31, 2004.

Measurement Uncertainty

The amounts recorded for depletion and depreciation of petroleum and natural gas properties and equipment and for asset retirement obligations are based on estimates of petroleum and natural gas reserves and future costs. By their nature, these estimates are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

Petroleum and Natural Gas Properties and Related Equipment

The Company follows the successful efforts method of accounting for petroleum and natural gas properties and related equipment. Costs of acquiring unproved properties are capitalized. These costs are assessed at least annually, and when circumstances change, for impairment. When petroleum and natural gas properties are found to contain proved reserves as determined by Company engineers, the related net book value is depleted on the unit-of-production basis, calculated by field. The costs of dry holes and abandoned properties are charged to operations. Geological costs, lease rentals and carrying costs are charged to income as incurred. Costs of drilling exploratory and development wells that result in additions to proved reserves are capitalized and depleted on the unit-of-production basis. Tangible equipment is depreciated on a straight-line basis over ten years.

Income Taxes

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

Asset Retirement Obligations

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

Stock-based Compensation

The Company has a stock-based compensation plan which is described in Note 7. The Company records compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. These amounts are recorded as contributed surplus. Any consideration paid by employees, directors or consultants on the exercise of these options is recorded as share capital together with the related contributed surplus associated with the excersised options.

Revenue Recognition

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

Joint Interest Operations

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

Loss Per Share

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

The number of common shares used to calculate diluted loss per share for the year ended December 31, 2005 of 27,545,132 included the weighted average number of common shares outstanding of 26,641,512 plus 903,620 common shares related to the dilutive effect of common share options.

2. RELATED PARTY TRANSACTIONS

Bonterra Energy Income Trust ("Bonterra"), an organization with common directors and management and former parent of the Company, through its wholly owned subsidiaries Comstate Resources Ltd. ("Comstate"), Bonterra Energy Corp. ("Bonterra Corp.") and Novitas Energy Ltd. ("Novitas") has provided working capital, management services and has sold natural gas properties to the Company. Fees paid for management services totalled $132,000 for the year. As of December 31, 2005, the Company owed $165 (2004 - $53,845) to Bonterra and its wholly owned subsidiaries for these items. The Company has an accounts receivable from Novitas of $16,006 relating to post closing adjustments in relation to the natural gas properties acquired (see Note 5).

3. DEFERRED CHARGES

The Company incurred $78,845 of costs in 2004 in respect to its initial public offering. These costs were recorded as deferred charges and were charged to share capital when the public offering was completed in April 2005 (see Note 7).

4. INCOME TAXES

The Company has recorded a future income tax asset. The asset relates to the following temporary differences:

	2005
Temporary differences related property and equipment and asset retirement obligations	$ 168,749
Finance costs	47,505
	$ 216,254

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

	2005
Loss before income taxes	$ (488,247)
Combined federal and provincial income tax rates	37.62%
Income tax provision calculated using statutory tax rates	(183,679)
Increase (decrease) in income taxes resulting from:	
Stock based compensation	32,745
Non-deductible crown royalties	4,667
Resource allowance	(19,059)
Other	6,141
	$ (159,185)

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

	Rate of Utilization %	Amount
Undepreciated capital costs	25	$ 216,298
Canadian oil and gas property expenditures	10	809,254
Canadian development expenditures	30	392,275
Canadian exploration expenditures	100	387,062
Share Issue costs	20	134,118
		$ 1,939,007

5. PROPERTY AND EQUIPMENT

	2005	
	Cost	Accumulated Depletion and Depreciation
Undeveloped land	$ 5,490	$ –
Petroleum and natural gas properties and related equipment	1,533,319	180,832
	$ 1,538,809	$ 180,832

On April 8, 2005, the Company purchased its original properties from Bonterra (see Note 2) for approximately $1,000,000, with an effective date of January 1, 2005. The properties included one producing property and some exploration lands. The Company wrote off $588,256 in respect of the cost of the land and development costs incurred in drilling an exploratory well. The well although capable of production does not contain sufficient reserves to warrant tie-in. No proved or probable reserves were assigned to the well in the preparation of the third party engineering report.

6. ASSET RETIREMENT OBLIGATIONS

At December 31, 2005, the estimated total undiscounted amount required to settle the asset retirement obligations was $42,796. Costs for asset retirement have been calculated assuming a 2.5 percent inflation rate for 2006 to 2010 and 1.5 percent ther after. These obligations will be settled based on the useful lives of the underlying assets, which extend up to 8 years into the future. This amount has been discounted using a credit-adjusted risk-free interest rate of 5 percent. Changes to asset retirement obligations were as follows:

	2005
Asset retirement obligations, December 31, 2004	$ –
Obligations associated with acquisition and development programs	29,138
Liabilities settled during the year	–
Accretion	375
Asset retirement obligations, December 31, 2005	$ 29,513

7. SHARE CAPITAL

Authorized

Unlimited number of Common Shares without nominal or par value.

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

Issued	Number	Amount
Common Shares Balance, December 31, 2004	10	$ 1
Issued pursuant to public offering	36,420,031	5,463,005
Share issue costs	–	(167,647)
Future tax benefit on share issue costs	–	57,069
Balance, December 31, 2005	36,420,041	$ 5,352,428

On April 7, 2005, the Company concluded its initial public offering of 36,420,031 Common Shares at $0.15 per share for gross proceeds of $5,463,005. The Company granted 930,000 stock options to its directors and officers, and an additional 802,000 stock options to other service providers at an exercise price of $0.15 per share. The Company commenced trading on the TSX Venture Exchange on April 11, 2005.

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

A summary of the status of the Company's stock option plan as of December 31, 2005 and December 31, 2004, and changes during the twelve months and from incorporation periods ending on those dates is presented below:

	December 31, 2005		December 31, 2004	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	–	$0.00	–	$0.00
Options granted	1,752,000	0.16	–	0.00
Options cancelled	(66,000)	0.15	–	0.00
Outstanding at end of period	1,686,000	$0.16	–	$0.00
Options exercisable at end of period	–	$0.00	–	$0.00

Of the 1,686,000 options that are outstanding as of December 31, 2005, 1,666,000 are exercisable 50 percent on April 5, 2006 and the remaining 50 percent on April 5, 2007. The options all expire on January 31, 2010.

The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. On April 5, 2005, the Company issued 1,732,000 stock options with the fair value of $136,536 ($0.09 per option) estimated using the Black-Scholes option pricing model, assuming a weighted risk free interest rate of 3.5 percent, expected volatility of 88 percent, expected life of 3.5 years and no annual dividend rate.

8. COMMITMENTS

Commencing February 1, 2005, the Company entered into a management agreement with Comstate (see Note 2). The management agreement consists of a monthly fee of $12,000 per month plus out of pocket costs, a fee of three percent of net earnings before income taxes, $250 per month per operated producing well and $150 per month per water injector well. Effective January 1, 2006, the monthly fee increases to $18,000 per month.

9. FINANCIAL INSTRUMENTS

Fair Values

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

Credit Risk

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

Commodity Price Risk

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

10. SUBSEQUENT EVENT

The Company has incorporated a subsidiary company, CanAmericas Energy Ltd. ("CanAmericas") to explore and develop oil and gas properties primarily in South America. CanAmericas will be owned 93 percent by the Company and seven percent by a foreign private corporation ("Foreign Corp."). CanAmericas was initially financed in late February with $1,400,000 U.S. (for 5,600,000 common shares) from the Company and $100,000 U.S. (for 400,000 common shares) from Foreign Corp.

Foreign Corp. has been granted an option to acquire an additional 1,000,000 common shares of CanAmericas at $0.25 U.S. per common share. This option vests at a rate of 50 percent per year over a two year period.

Board of Directors

G.J. Drummond, Nassau, Bahamas

G.F. Fink, Calgary, Alberta

C.R. Jonsson, Vancouver, British Columbia

F. W. Woodward, Calgary, Alberta

Officers

G.F. Fink – President and Chief Executive Officer

R.M. Jarock – Chief Operating Officer

G.E. Schultz – Vice President Finance, Chief Financial Officer, and Secretary

Registrar & Transfer Agent

Olympia Trust Company, Calgary, Alberta

Auditors

Deloitte & Touche LLP, Calgary, Alberta

Solicitors

Borden, Ladner Gervais LLP, Calgary, Alberta

Tupper, Jonsson & Yeadon, Vancouver, British Columbia

Bankers

The Royal Bank of Canada, Calgary, Alberta

Stock Listing

The TSX Venture Exchange, Toronto, Ontario

Trading symbol: **PNE**

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