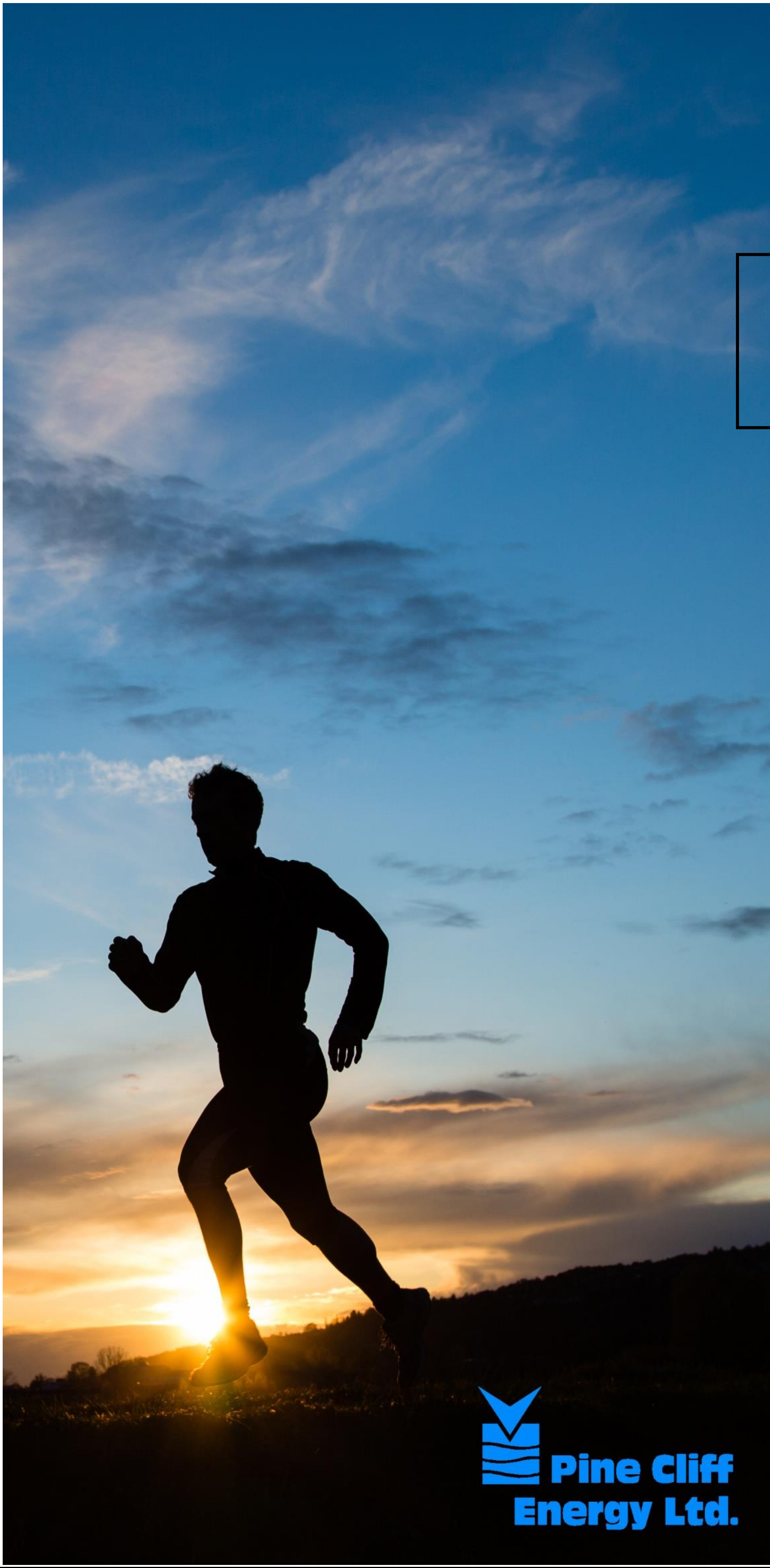

Long-term Value Focus

Annual Report 2014

The 2014 year was a very busy time at Pine Cliff resulting in its most significant growth since the company was revitalized in 2012. As a result of two acquisitions in the latter half of the year, we exited 2014 with production of approximately 12,000 Boe per day, almost two times Pine Cliff's 2013 exit production rate.

Highlights during the fourth quarter are as follows:

- Closed our largest transaction to date with a $100 million acquisition of shallow natural gas assets in our Southern core area, adding approximately 5,300 Boe per day of production;
- Attained record average daily sales volumes of 12,095 Boe per day as compared to 6,810 Boe/d in the third quarter of 2014. This represents a quarter-over-quarter per basic share production growth of 55%;
- Generated record quarterly funds flow from operations of $11.6 million ($0.05 per share), an increase of 43% as compared to the third quarter of 2014 funds flow from operations of $8.1 million, despite lower commodity prices. This represents a quarter-over-quarter per basic share funds flow from operations growth of 25%;
- Achieved significant growth in both proved (1P) and proved plus probable (2P) reserves in 2014. Our independent reserve engineers, McDaniels and Associates Consultants Limited, assessed an increase of 80% in 1P reserves to 26 million Boe, while 2P reserves increased by 82% to 35 million Boe. This represents year-over-year 1P and 2P per basic share reserves growth of 54% and 56%, respectively;
- Exited the quarter and year with net debt of $33.5 million and a net debt to trailing 12 months funds flow from operations ratio of 0.9:1; and
- Recognized as a TSX Venture 50 company in 2015 and was selected as the number one oil and gas producer and fifth overall in *Alberta Venture* magazine's 2015 Fast Growth 50 List.

Built to Last and be Opportunistic

The upstream energy environment continues to be challenged by the dramatic decline in commodity prices that began in 2014. Today, more than ever, Pine Cliff is proving that it is not only built to withstand such downturns, but built to capitalize on the opportunities that will emerge from this downturn. Our strong balance sheet, low production decline, low operating expenses and low overhead costs have left us competitively advantaged compared to most of our peers. Proactive measures including salary freezes from our dedicated employees and discussions with our suppliers regarding cost reductions are designed to maximize long-term shareholder returns while prioritizing balance sheet protection.

Despite our defensive strength, it is during these troubled times of low commodity prices for our industry that we think we can acquire additional quality assets. As other companies are looking to sell non-core assets to strengthen their balance sheets, we are continuing to analyze acquisition opportunities to enhance our portfolio of assets and further increase the per share metrics highlighted above. Be assured that the discipline we have displayed in the past three years as we have grown Pine Cliff will remain firmly in place.

Management Alignment

Pine Cliff has often been described as "unique" by analysts and investors. I would like to briefly comment on one of the reasons why we think that is. We have never sought growth for the sake of growth at Pine Cliff. Every transaction and decision we make at Pine Cliff is driven by the goal of increasing per share value.

It is rare to find public companies that have grown to the size of Pine Cliff that still have such significant insider ownership. The insiders of Pine Cliff are fully aligned with the rest of our shareholders and collectively hold approximately 16% of the fully diluted shares outstanding. We remain committed to delivering above average long-term per share returns to our shareholders. You are invested in a counter-cyclical company that firmly believes that natural gas prices will increase in the years to come and that the assets we buy today will only increase in value over time.

Our team is excited about 2015 and the acquisition opportunities we are already beginning to see. We thank you for your continued support and confidence in our ability to thrive and prudently grow our organization in this environment. We look forward to rewarding your faith in us.

Yours truly,

Phil Hodge
President and Chief Executive Officer
March 19, 2015

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 President's Message 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, 2014, which can be found on www.sedar.com and is subject to the same cautionary statements as set out therein.

March 19, 2015

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, 2014 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, 2014 and 2013, together with the notes related thereto (the "Financial Statements"). 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]	$1.00	200	0.00
Natural gas price - AECO ($/Mcf) [2]	$0.10	2,280	0.01
Interest rate on variable rate debt	1.0%	480	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 2014 daily sales volumes annualized for twelve months.
[3] Based on 2014 basic weighted average shares outstanding of 211,025,000.

SELECTED ANNUAL INFORMATION

	Year ended December 31, 2014 [1]	Year ended December 31, 2013 [2]	Year ended December 31, 2012 [3]
($000s, unless otherwise indicated)			
FINANCIAL			
Oil and gas sales	**78,450**	36,882	7,547
Total revenue	**71,084**	34,695	7,061
Cash flow from operating activities	**37,641**	16,062	1,773
Funds flow from operations [4]	**38,988**	14,700	1,702
Basic per share ($/share)	**0.18**	0.09	0.02
Diluted per share ($/share)	**0.18**	0.08	0.02
Earnings (loss)	**(1,942)**	10,910	(1,071)
Basic per share ($/share)	**(0.01)**	0.06	(0.01)
Diluted per share ($/share)	**(0.01)**	0.06	(0.01)
Total assets	**410,697**	180,486	80,689
Total long term liabilities	**164,513**	42,685	2,818
Capital expenditures, excluding acquisitions	**11,087**	8,401	2,303
Capital dispositions	**(3,229)**	-	-
Acquisitions	**135,213**	32,116	22,684
Net debt [5]	**33,512**	(13,621)	(7,077)
Weighted-average common shares outstanding (000s)			
Basic	**211,025**	172,494	79,247
Diluted	**211,025**	179,707	79,247
OPERATIONS			
Production			
Natural gas (Mcf/d)	**45,022**	27,042	3,638
Crude oil (Bbls/d)	**75**	64	27
Natural gas liquids (Bbls/d)	**320**	216	142
Total (Boe/d)	**7,899**	4,787	775
Realized commodity sales prices			
Natural gas ($/Mcf)	**4.27**	3.04	2.67
Crude oil ($/Bbl)	**79.38**	93.08	78.57
Natural gas liquids ($/Boe)	**51.70**	58.62	61.28
Combined ($/Boe)	**27.20**	21.11	26.59
Netback ($/boe)			
Operating netback [6]	**15.20**	9.70	12.43
Corporate netback [7]	**13.53**	8.40	6.01

[1] The results for 2014 include the results of the Carrot Creek/Edson Asset Acquisition, as defined herein, for the period of August 7, 2014 to December 31, 2014 and the Shallow Gas Acquisition, as defined herein, for the period of October 1, 2014 to December 31, 2014.

[2] The results of 2013 include the results of the Skope Acquisition, as defined herein, for the period of February 19, 2013 to December 31, 2014, the results of the Monogram Asset Acquisition, as defined herein, for the period of July 24, 2013 to December 31, 2014 and the results of the Additional Interests Acquisition, as defined herein, for the period of August 30, 2013 to December 31, 2014.

[3] The results of 2012 include the results of the Carrot Creek Assets, as defined herein, for the period of March 1 to December 31, 2012 and the results of the Geomark Oil and Gas Assets, as defined herein, for the period of October 19, 2012 to December 31, 2012.

[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.

[5] Net debt is a non-IFRS measure calculated as the sum of bank debt and trade and other payables less trade and other receivables, cash, prepaid expenses and deposits and liquid investments.

[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.

[7] Corporate netback is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties, operating expenses, general and administrative expenses and interest and bank charges plus finance income and dividend income averaged over the per Boe production of the Company.

Annual 2014 highlights
During 2014, Pine Cliff reports that it:

- Closed the acquisition of additional assets in the Southern Assets core area, as defined herein, on October 1, 2014, which added approximately 5,300 Boe/d of production;
- Closed the acquisition of additional assets in the Carrot Creek/Edson core area, as defined herein, of Alberta, on August 7, 2014, which added approximately 900 Boe/d of production;
- Achieved annual funds flow from operations of $39.0 million (2013 – $14.7 million), due to increased production and higher commodity prices, offset by higher royalties, operating, general and administration and interest expenses;
- Maintained a strong balance sheet ending the year with net debt of $33.5 million with a net debt to cash flow of less than 1.0 to 1.0;
- Completed a common share issuance at a price of $2.05 per share for gross proceeds of $60.1 million;
- Achieved record oil and gas sales volumes of 7,899 Boe/d as compared to 4,787 Boe/d in 2013, mainly as a result of our acquisitions; and
- Incurred impairment of property, plant and equipment and goodwill associated with the Carrot Creek/Edson Assets, as defined herein, in the amount of $3.8 million and $3.5 million, respectively.

PINE CLIFF'S STRATEGIC OBJECTIVES AND ACQUISITIONS

Pine Cliff is a growth oriented oil and gas exploration and production company seeking to acquire material asset positions in the Western Canadian Sedimentary Basin ("WCSB") to enlarge its current core areas and create new core areas of production with significant reserves, drilling inventories, low operating costs and low declines. The Company's current vision is to deliver long-term value to shareholders by building a portfolio of high-return assets for future growth focusing on counter cyclical natural gas opportunities and oil and liquids drilling and optimization opportunities.

The Company has been active in the acquisition and divestiture market and has executed the following seven key transactions since January 2012:

- The acquisition of certain oil and natural gas assets in the Carrot Creek area of Alberta (the "Carrot Creek Asset Acquisition") in March 2012;
- The combining of its operations with those of Geomark Exploration Ltd. ("Geomark") in October 2012;
- The acquisition of Skope Energy Ltd. (the "Skope Acquisition") in February 2013;
- The acquisition of additional working interests in the Monogram Unit (the "Monogram Unit") that is a portion of the Southern Assets, as defined herein, and related infrastructure (the "Monogram Asset Acquisition") in July 2013;
- The acquisition of additional interests in the Southern Assets (the "Additional Interests Acquisition") in August 2013;
- The acquisition of certain oil and natural gas assets in the Carrot Creek/Edson area of Alberta (the "Carrot Creek/Edson Asset Acquisition") in August 2014; and
- The acquisition of certain shallow gas natural assets in Alberta and Southern Saskatchewan (the "Shallow Gas Asset Acquisition") in October 2014.

Management is pleased with its progress and believes that the assets that have been assembled to date and the cash flow from these assets will provide Pine Cliff with significant future opportunities. In the near-term, Pine Cliff will continue to maintain a strong financial position, drill, recomplete or optimize selected strategic wells and aggressively pursue, evaluate and attempt to execute on further accretive business acquisitions.

PINE CLIFF'S OPERATIONS

Pine Cliff's main areas of production are as follows:

- Southern Assets – at December 31, 2014, Pine Cliff holds an approximate 95% working interest in a package of high-quality, low decline, producing shallow gas assets mainly in southeast Alberta and minor interests in southwest Saskatchewan (collectively, the "Southern Assets"). The majority of the producing zones in these properties are from the upper Cretaceous Milk River, Medicine Hat and Second White Specks sands, which together constitute a meaningful interest for Pine Cliff in one of the largest Canadian gas fields in Western Canada. These fields are characterized by their shallow depths, low-permeability, clay-rich sands and long production life;

- Carrot Creek/Edson – Pine Cliff holds a working interest in a package of liquid rich natural gas assets which are located near the town of Edson, Alberta (the "Carrot Creek/Edson Assets"). In addition to the producing assets, Pine Cliff has, in aggregate, 23 gross (9.33 net) sections of undeveloped land. The Carrot Creek/Edson Assets have multi-zone potential which can be further exploited using horizontal drilling technology; and

- Minor properties – the balance of Pine Cliff's 2014 production comes from non-operated properties in the Sundance area of northwest Alberta, shallow natural gas assets in the Wetaskiwin area of northeast Alberta, and from non-operated properties in the Harmatten, Garrington and Carstairs areas of central Alberta, however the Company does not currently have large enough land positions or working interests in these areas to consider them significant core areas.

GUIDANCE FOR 2015

The 2015 guidance provides information as to management's expectation for results of operations for 2015. Readers are cautioned that the 2015 guidance 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 guidance 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

	2015 Guidance	Year ended December 31, 2014
Barrels of oil equivalent per day	11,300 - 11,800	7,899

Pine Cliff is projecting productions volumes in 2015 to average between 11,300 Boe/d and 11,800 Boe/d, representing an increase of 46% over the 2014 average production (percent change based on the mid-point of the 2015 guidance). Pine Cliff's 2014 production was within its 2014 guidance range of 7,500 to 7,900 Boe/d.

Capital Expenditures

	2015 Guidance	Year ended December 31, 2014
($000's)		
Total	10,000	11,087

Pine Cliff remains committed to adding assets to its portfolio and is optimistic that the current depressed commodity pricing environment may provide accretive acquisition opportunities for the Company. In light of the recent volatility and uncertainly in commodity pricing, Pine Cliff's board of directors has approved a 2015 capital budget of $10.0 million (the "Capital Budget") which may be modified depending on commodity prices and wells proposed on non-operated lands. Pine Cliff's Capital Budget is designed to be flexible based on natural gas pricing and is expected to be substantially lower than the Company's estimated 2015 funds flow from operations, based on current strip pricing, positioning Pine Cliff to continue to strengthen its balance sheet in 2015.

Operating Expenses and Overhead

Pine Cliff expects 2015 operating expenses to average approximately $9.15 per Boe, royalties to average approximately 10% of revenue and general and administrative and net interest expenses to average approximately $1.80 per Boe, for an approximate corporate breakeven natural gas price of $2.00 per Mcf.

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 especially with the recovery of natural gas prices during the year. We will continue to aggressively pursue, evaluate, and when warranted, execute accretive business opportunities in 2015 and beyond.

SELECTED QUARTERLY FINANCIAL INFORMATION

	2014				2013			
($000s, unless otherwise indicated)	**Q4 [1]**	Q3 [2]	Q2	Q1	Q4	Q3 [3]	Q2	Q1 [4]
Average sales volumes (boe/d)	**12,095**	6,810	6,371	6,276	6,443	5,784	4,335	2,536
Operating netback ($/boe) [5]	**11.74**	15.08	17.45	19.82	10.26	7.32	10.75	10.26
Oil and gas sales	**25,469**	17,469	17,136	18,376	12,621	9,719	9,084	5,458
Oil and gas sales, net of royalties	**22,819**	15,700	15,339	16,447	11,634	8,595	8,546	4,584
Total revenue	**23,003**	15,907	15,540	16,634	11,839	8,783	8,727	5,346
Cash flow from operating activities	**13,969**	6,390	7,242	10,039	6,631	2,579	3,751	3,101
Funds flow from operations [6]	**11,615**	8,104	9,180	10,089	5,564	3,014	3,721	2,401
Per share - basic ($/share)	**0.05**	0.04	0.05	0.05	0.03	0.02	0.02	0.02
Per share - diluted ($/share)	**0.05**	0.04	0.04	0.05	0.02	0.02	0.02	0.02
Earnings (loss)	**(8,929)**	918	2,333	2,969	3,772	(709)	(183)	8,271
Per share - basic ($/share)	**(0.04)**	0.00	0.01	0.01	0.01	(0.00)	(0.00)	0.05
Per share - diluted ($/share)	**(0.04)**	0.00	0.01	0.01	0.01	(0.00)	(0.00)	0.05

[1] The results from Q4-2014 include the results of the Shallow Gas Asset Acquisition for the period of October 1 to December 31, 2014.
[2] The results for Q3-2014 include the results of the Carrot Creek/Edson Asset Acquisition for the period of August 7 to September 30, 2014.
[3] The results for Q3-2013 include the results of the Monogram Asset Acquisition for the period of July 24 to September 30, 2013 and the Additional Interests Acquisition for the period of August 30 to September 30, 2013.
[4] The results for Q1-2013 include the results of the Southern Assets Acquisition for the period of February 19 to March 31, 2013.
[5] 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.
[6] 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.

Fourth quarter 2014 highlights

During the fourth quarter of 2014, Pine Cliff reports that it:

- Closed the Shallow Gas Asset Acquisition on October 1, 2014, adding approximately 5,300 Boe/d of production to the Company;
- Achieved record oil and gas sales volumes of 12,095 Boe/d as compared to 6,443 Boe/d in the fourth quarter of 2013;
- Achieved quarterly funds flow from operations of $11.6 million (fourth quarter of 2013 – $5.6 million), due to increased revenues from the Southern Assets, offset by higher royalties, operating, general and administration and interest expenses; and
- Realized a quarterly loss of $8.9 million (earnings in the fourth quarter of 2013 – $3.8 million), mainly a result of higher oil and gas sales being offset by an impairment to plant, property and equipment and goodwill as well as higher aggregate operating expenses and depletion and depreciation expenses.

SALES VOLUMES

	Three months ended December 31		Year ended December 31	
Total sales volumes by product	**2014**	2013	**2014**	2013
Natural gas (Mcf)	**6,295,554**	3,368,440	**16,433,043**	9,870,229
Crude oil (Bbls)	**11,406**	4,751	**28,219**	23,520
NGLs (Bbls)	**52,033**	26,562	**116,872**	78,988
Barrels of oil equivalent	**1,112,698**	592,720	**2,883,932**	1,747,546
Natural gas weighting	**94%**	95%	**95%**	94%

	Three months ended December 31		Year ended December 31	
Average daily sales volumes by product	**2014**	2013	**2014**	2013
Natural gas (Mcf/d)	**68,430**	36,613	**45,022**	27,042
Crude oil (Bbls/d)	**124**	52	**75**	64
NGLs (Bbls/d)	**566**	289	**320**	216
Total (Boe/d)	**12,095**	6,443	**7,899**	4,787

Average daily sales volumes by property	Three months ended December 31 **2014**	2013	Year ended December 31 **2014**	2013
(Boe/d)				
Southern Assets	**10,322**	5,375	**6,548**	3,746
Carrot Creek	**1,595**	874	**1,136**	855
Minor properties	**178**	194	**215**	186
Total	**12,095**	6,443	**7,899**	4,787

On a quarter over quarter basis, Pine Cliff's sales volumes increased 88% to a record 12,095 Boe/d as compared to 6,443 Boe/d in 2013. On a year over year basis, Pine Cliff's sales volumes increased 65% to 7,899 Boe/d, as compared to 4,787 Boe/d in 2013. The significant increase was mainly a result of the Shallow Gas Asset Acquisition which closed on October 1, 2014 adding approximately 5,300 Boe/d to Pine Cliff's production base, and the Carrot Creek/Edson Asset Acquisition in the third quarter of 2014, adding approximately 900 Boe/d to Pine Cliff's production base.

Production on the assets acquired in the Shallow Gas Asset Acquisition in October 2014 remained steady at 5,300 Boe/d for the fourth quarter. Production on the Carrot Creek/Edson acquired assets averaged approximately 850 Boe/d in August and approximately 725 Boe/d in September, as a result of an outage at a third party gas processing plant. The outages were resolved in the fourth quarter and 0.4 net new wells were added bringing the fourth quarter average production for the Carrot Creek/Edson acquired assets up to approximately 1,049 Boe/d.

Pine Cliff operates the majority of its assets and the Company focused its attention in 2014 on minimizing production declines, particularly in the Southern Assets core area. Through swabbing programs and regular maintenance, Pine Cliff has been able to arrest the declines on its shallow gas assets and Pine Cliff estimates its corporate decline on its base production to be less than 15%.

OPERATING AND CORPORATE NETBACKS

The components of the operating and corporate netback are summarized as follows:

	Three months ended December 31 **2014**	2013	Year ended December 31 **2014**	2013
($ per Boe)				
Oil and gas sales	**22.89**	21.29	**27.20**	21.11
Royalties	**(2.38)**	(1.67)	**(2.82)**	(2.02)
Operating expenses	**(8.77)**	(8.71)	**(9.18)**	(9.39)
Operating netback	**11.74**	10.91	**15.20**	9.70
General and administrative expense	**(0.97)**	(1.69)	**(1.71)**	(1.85)
Interest and bank charges	**(0.49)**	(0.25)	**(0.23)**	(0.20)
Finance and dividend income	**0.17**	0.28	**0.27**	0.75
Corporate netback	**10.45**	9.25	**13.53**	8.40
Operating netback ($ per Mcf)	**1.96**	1.82	**2.53**	1.62
Corporate netback ($ per Mcf)	**1.74**	1.54	**2.26**	1.40

Pine Cliff generated an operating netback of $11.74 and $15.20 per Boe for the three months and year ended December 31, 2014, respectively, as compared to $10.91 and $9.70 per Boe for the three months and year ended December 31, 2013, respectively. Overall, Pine Cliff generated a corporate netback of $10.45 and $13.52 per Boe for the three months and year ended December 31, 2014, as compared to $9.25 and $8.40 per Boe in the same period of 2013. The increases in Q4 and the full year in 2014 are mainly due to higher commodity prices, partially offset by higher royalties per Boe and a lower liquids weighting.

OIL AND GAS SALES

	Three months ended December 31				Year ended December 31			
	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Natural gas [1]	**22,864**	**3.63**	11,082	3.30	**70,168**	**4.27**	30,063	3.04
Crude oil	**789**	**69.15**	458	96.33	**2,240**	**79.38**	2,189	93.08
NGLs	**1,816**	**34.90**	1,081	40.71	**6,042**	**51.70**	4,630	58.62
Realized gain on risk management contract	**-**	**-**	37	-	**-**	**-**	37	-
Total sales	**25,469**	**22.89**	12,658	21.29	**78,450**	**27.20**	36,919	21.11

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

Oil and gas sales for the three months and year ended December 31, 2014 increased by 101% and 112%, respectively, as compared to the same periods of 2013, reflecting increased sales volumes from acquisitions completed in the latter half of both 2013 and 2014 and an overall higher commodity price environment in 2014. Pine Cliff's realized price in the three months and year ended December 31, 2014 was $22.89 and $27.20 per Boe, respectively, as compared to $21.29 and $21.11 per Boe in the three months and year ended December 31, 2013, respectively, reflecting an overall increase in the commodity price environment.

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.

	Q4-2014	Q3-2014	Q2-2014	Q1-2014	Q4-2013	Q3-2013	Q2-2013	Q1-2013
Natural gas								
NYMEX (US$/Mmbtu) [1]	**3.96**	4.07	4.56	4.90	3.63	3.60	4.09	3.35
AECO (C$/Mcf)	**3.41**	3.81	4.44	5.42	3.52	2.43	3.52	3.18
Crude oil								
WTI (US$/Bbl)	**73.15**	97.17	102.99	98.68	97.44	105.82	94.22	94.37
Edmonton light (C$/Bbl)	**75.58**	97.01	105.33	100.23	86.75	105.18	93.03	88.65
Foreign exchange								
US$/C$	**1.1357**	1.0893	1.0905	1.1035	1.0498	1.0385	1.0234	1.0089

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

In the first six months of 2014, North American natural gas prices reached their highest average levels since 2008 as a result of a cold winter that established record setting demand resulting in depleted inventory levels in both Canada and the United States. Strong prices contributed to significant drilling activity resulting in supply growth leading to a supply-demand imbalance resulting in price deterioration for natural gas in the latter part of 2014. In the fourth quarter of 2014 the benchmark AECO natural gas price in Canada decreased by 3% in the fourth quarter of 2014 as compared to the fourth quarter of 2013, and average NYMEX gas price in the United States increased by 9% in the same period. The AECO monthly strip for the next 12 months is currently trading in the $3.09 per Mcf range. Pine Cliff's realized natural gas price during the fourth quarter of 2014 was $3.63 per Mcf, a decrease of 15% over the third quarter of 2014 and an increase of 10% over the fourth quarter of 2013.

Similarly, in the first six months of 2014, the North American crude oil prices reached their highest average levels since 2008, however the over-supplied nature of the oil market became apparent late in 2014, with the continued production from the shale plays in the United States, slower than expected global demand growth, and sustained production levels by OPEC. As a result, there is currently a crude oil supply-demand imbalance. The sell-off in global oil prices was a market reaction to restore the supply-demand balance, given that OPEC did not reduce production. Current oil prices are below marginal supply costs for new production from many areas, resulting in a significant reduction in 2015 budgeted capital spending for the global energy sector. Reduced drilling activity is expected to slow supply growth and re-balance markets, however there is a lag between drilling activity levels and resultant oil production due to the life cycle of well completions and tie-ins. WTI oil prices averaged US$73.15 per Bbl in the fourth quarter of 2014 as compared to US$97.44 per Bbl in the fourth quarter of 2013. 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. In the three months ended December 31, 2014, the realized price of Pine Cliff's oil was $69.15 per Bbl, as a result of quality adjustments to the average posted Edmonton light crude oil price of $75.58 per Bbl.

Historically, the average price of NGLs has tracked the price of oil. However, changes in the supply and demand for certain NGLs such as ethane, propane and butane have impacted the relationship between the price of NGLs and the price of oil. In the three months and year ended December 31, 2014, the realized price of Pine Cliff's NGLs was $34.90 per Bbl and $51.70 per Bbl, representing approximately 46% and 55% of the Edmonton light crude oil prices as compared to 47% and 63% in the three months and year ended December 31, 2013, respectively.

Pine Cliff does not currently utilize a hedging strategy and thereby has not eliminated any of the upside, or potential downside, of price fluctuations for its shareholders. The Company continues to monitor the fluctuating commodity prices closely and their impact on our results and strategies.

ROYALTIES

	Three months ended December 31				Year ended December 31			
	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Total	**2,650**	**2.38**	988	1.67	**8,145**	**2.82**	3,523	2.02
% of oil and gas sales	**10%**		8%		**10%**		10%	

Royalties for the three months and year ended December 31, 2014 were $2.38 and $2.82 per Boe, respectively, as compared to $1.67 and $2.02 per Boe for the three months and year ended December 31, 2013, respectively. As a percentage of oil and gas sales, royalties remained consistent year over year, averaging 10% in 2013 and 2014. Pine Cliff anticipates royalties to average approximately 10% in 2015.

OPERATING EXPENSES

	Three months ended December 31				Year ended December 31			
	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Operating expenses	**9,758**	**8.77**	5,162	8.71	**26,489**	**9.18**	16,408	9.39
% of oil and gas sales	**38%**		41%		**34%**		44%	

Operating expenses on a per Boe basis for the three months ended December 31, 2014 remained consistent as compared to the same period of 2013. The result is due in part to the newly added Carrot Creek/Edson Assets that have a slightly higher operating cost per Boe offset by the newly added Shallow Gas Assets that have slightly lower costs per Boe. Operating expenses per Boe for the year ended December 31, 2014 were consistent with the same period of 2013.

Pine Cliff anticipates operating expenses to average approximately $9.15 per Boe in 2015. Pine Cliff remains committed to seeking ways to increase efficiencies in the field on its operated properties and is working with its partners on its non-operated properties to attempt to decrease the operating expenses per Boe in future periods. In addition, as a result of the downturn in the oil and gas sector because of the current commodity price environment, Pine Cliff has been working diligently with its suppliers to find additional cost savings and to date has been able to realize meaningful reductions in service costs.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended December 31				Year ended December 31			
	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Total G&A	**1,083**	**0.97**	1,000	1.69	**4,946**	**1.71**	3,234	1.85
Less: transaction costs	**239**	**0.21**	-	-	**313**	**0.11**	194	0.11
Add back: overhead recoveries	**164**	**0.15**	47	0.08	**190**	**0.07**	153	0.09
Adjusted G&A	**1,008**	**0.91**	1,047	1.77	**4,823**	**1.67**	3,193	1.83
% of oil and gas sales	**4%**		8%		**6%**		8%	

General and administrative expenses ("G&A") per Boe, excluding transaction costs and overhead recoveries, decreased 43% per Boe in the three months ended December 31, 2014, as compared to the same period of 2013 while G&A expenses per Boe year over year modestly increased. On an absolute dollar basis, G&A has increased in 2014 mainly due to increased staffing requirements associated with the 2013 and 2014 acquisitions. To keep G&A at a low level, Pine Cliff shares some common expenses with Bonterra Energy Corp. ("Bonterra"), a related party. As a result of the downturn in the commodity price environment in 2015, Pine Cliff has presently implemented a salary freeze for all staff and is working diligently to cut discretionary G&A.

In the year ended December 31, 2014, Pine Cliff incurred $0.3 million in transaction costs related to the Carrot Creek/Edson Asset Acquisition and the Shallow Gas Asset Acquisition. In the year ended December 31, 2013, Pine Cliff incurred $0.2 million in transaction costs related to the Skope Acquisition, the Monogram Assets Acquisition and the Additional Interests Acquisition. The transaction costs are comprised of legal, accounting, consulting, regulatory and other one-time expenses associated with those business transactions.

SHARE-BASED PAYMENTS

	Three months ended December 31				Year ended December 31			
	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Total	**746**	**0.67**	525	0.89	**2,245**	**0.78**	2,201	1.26
% of oil and gas sales	**3%**		4%		**3%**		6%	

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 2014, Pine Cliff granted stock options to purchase 6,837,800 common shares at a weighted average exercise price of $1.62 per share. As at December 31, 2014, the Company had 15,694,800 stock options outstanding (December 31, 2013 – 14,478,000), representing 6.7% of common shares outstanding. In the three months and year ended December 31, 2014, Pine Cliff recorded share-based payment expense of $0.7 million and $2.2 million, respectively, (three months and year ended December 31, 2013 – $0.5 million and $2.2 million, respectively), related to the stock options issued.

DEPLETION, DEPRECIATION AND IMPAIRMENT

	Three months ended December 31				Year ended December 31			
	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Depletion and depreciation:								
Oil and gas assets	**12,326**	**11.08**	5,946	10.03	**28,690**	**9.95**	16,035	9.18
Office furniture and equipment	**113**	**0.10**	46	0.08	**224**	**0.08**	104	0.06
Impairment:				-				
Oil and gas assets	**3,835**	**3.45**	-	-	**3,835**	**1.33**	-	-
Goodwill	**3,535**	**3.18**	-	-	**3,535**	**1.23**	-	-
Total	**19,809**	**17.81**	5,992	10.11	**36,284**	**12.59**	16,139	9.24
% of oil and gas sales	**78%**		47%		**46%**		44%	

Pine Cliff's depletion, depreciation and impairment expense increased 76% and 36% on a per Boe basis in the three months and year ended December 31, 2014, respectively, as compared to the same periods in 2013. The depletion and depreciation expense, excluding impairments, per Boe in 2014 increased mainly as a result of a change in estimated outflows for the Company's decommissioning liabilities at year end, resulting in a higher base for the depletion calculation. This was offset by a lower depletion rate on the Southern Assets and higher reserves at December 31, 2014.

At December 31, 2014, the Company determined that the carrying amount of the Carrot Creek/Edson cash generating unit ("CGU") exceeded its fair value less costs of disposal. The full amount of the impairment was attributed to property, plant and equipment, and as a result, an impairment loss of $3.8 million was recorded. The impairment in 2014 was largely a result of a decrease in forecast benchmark commodity prices. Additionally, the Company determined that the entire balance of goodwill was impaired at December 31, 2014 as it related to the same CGU.

FINANCE EXPENSES

	Three months ended December 31				Year ended December 31			
	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Unwinding of the discounted value of decommissioning liabilities	**946**	**0.85**	315	0.53	**1,922**	**0.67**	904	0.52
Interest and bank charges	**548**	**0.49**	147	0.25	**661**	**0.23**	353	0.20
Total	**1,494**	**1.34**	462	0.78	**2,583**	**0.90**	1,257	0.72
% of oil and gas sales	**6%**		4%		**3%**		3%	

In the three months and year ended December 31, 2014, Pine Cliff incurred finance expenses of $1.5 million and $2.6 million, respectively, as compared to $0.5 million and $1.3 million in the three months and year ended December 31, 2013, respectively. Finance expenses in 2014 primarily relate to the unwinding of the discounted value of the decommissioning liabilities, which has increased as a result of the significant decommissioning liabilities associated with the Southern Assets.

Interest expense in 2014 primarily relates to interest on Pine Cliff's revolving demand credit facility and bank charges incurred as a result of increasing Pine Cliff's borrowing base on the revolving demand credit facility of $70.0 million. 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. Overall, Pine Cliff realized an effective interest rate of 3.75% for the year ended December 31, 2014.

FINANCE AND DIVIDEND INCOME

	Three months ended December 31				Year ended December 31			
	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Finance income	**-**	**-**	-	-	**46**	**0.02**	624	0.36
Dividend income	**184**	**0.17**	168	0.28	**733**	**0.25**	675	0.39
Total	**184**	**0.17**	168	0.28	**779**	**0.27**	1,299	0.75
% of oil and gas sales	**1%**		1%		**1%**		4%	

Finance income in the year ended December 31, 2013 is mainly a result of interest received from the Skope Debt Purchase (December 31, 2014 – $0.1 million) whereas finance income in the year ended December 31, 2014 is mainly a result of interest earned on term deposits during the year. During the period of November 9, 2012 to February 19, 2013, Pine Cliff collected 8.2% interest on the face value of debt, being $53.5 million, purchased from a financial institution. 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, 2014 and 2013, Pine Cliff received $0.2 million and $0.8 million, respectively, in dividends from its investment in Bonterra. The investment in Bonterra common shares was acquired through the Geomark Transaction.

INCOME TAXES

	Three months ended December 31				Year ended December 31			
	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Deferred tax expense (recovery)	**(957)**	**(0.86)**	(1,518)	(2.56)	**479**	**0.17**	(1,101)	(0.63)
% of oil and gas sales	**4%**		12%		**1%**		3%	

During the fourth quarter of 2014, a deferred tax recovery of $1.0 million was recorded, as compared to a deferred tax recovery of $1.5 million in the fourth quarter of 2013. Pine Cliff recognized a deferred tax expense of $0.5 million in the year ended December 31, 2014, as compared to a deferred tax recovery of $1.1 million in the year ended December 31, 2013. The 2014 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 has approximately $302.8 million in tax pools at December 31, 2014 (December 31, 2013 – $195.4 million) available for future use as deductions from taxable income. The significant increase in tax pools is a result of tax pools that were acquired in the Carrot Creek/Edson Asset Acquisition and Shallow Gas Assets Acquisition.

EARNINGS

Year to date to year to date variance analysis:

($000s)	
Earnings for the year ended December 31, 2013	**10,910**
Price variance	10,643
Volume variance	30,925
Royalties	(4,622)
Operating expenses	(10,081)
General and administrative	(1,712)
Share-based payments	(44)
Depletion and depreciation	(12,775)
Finance expenses	(1,326)
Gain on acquisition	(14,161)
Gain on disposal of exploration and evaluation assets	(204)
Realized gain on risk management contract	(37)
Dividend income	58
Finance income	(578)
Deferred tax expense (recovery)	(1,580)
Impairment of investment	12
Impairment of property, plant and equipment and goodwill	(7,370)
Loss for the year ended December 31, 2014	**(1,942)**

In the year ended December 31, 2014, earnings (loss) decreased by $12.9 million to a loss of $1.9 million as compared to earnings of $10.9 million in the year ended December 31, 2013. The decrease in earnings is due to the impairment of property, plant and equipment and goodwill of $7.4 million in the fourth quarter of 2014 (likely one-time items), higher depletion and depreciation expense and operating expenses in 2014 and a one-time gain of $14.2 million on acquisition in 2013. This was offset by positive volume and price variances resulting in increased oil and gas sales in 2014.

Other comprehensive earnings

Other comprehensive earnings relates to the increase and decrease in fair value of Pine Cliff's investment in Bonterra, Nighthawk Gold Corp. and another public corporation. At December 31, 2014, Pine Cliff's investments have a fair value of $8.8 million as compared to $11.3 million at December 31, 2013.

FUNDS FLOW FROM OPERATIONS

	Three months ended December 31		Year ended December 31	
	2014	2013	**2014**	2013
($000s, except per Boe amounts)				
Earnings (loss) for the period	**(8,929)**	3,531	**(1,942)**	10,910
Adjustments for:				
Share-based payments	**746**	525	**2,245**	2,201
Unwinding of the discount on decommissioning liabilities	**946**	315	**1,922**	904
Depletion, depreciation and impairment	**19,809**	5,992	**36,284**	16,139
Gain on disposal of exploration and evaluation assets	**-**	(204)	**-**	(204)
Gain on acquisition	**-**	(3,044)	**-**	(14,161)
Deferred tax expense (recovery)	**(957)**	(1,551)	**479**	(1,089)
Funds flow from operations	**11,615**	5,564	**38,988**	14,700
Funds flow from operations ($/Boe)	**10.45**	9.38	**13.52**	8.40

Funds flow from operations, which represents cash flow from operating activities before changes in non-cash working capital was $11.6 million and $39.0 million in the three months and year ended December 31, 2014, respectively, as compared to $5.6 million and $14.7 million in the same periods of 2013, 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 and Southern Assets in addition to finance and dividend income.

SHARE CAPITAL

As of December 31, 2014, a total of 233,879,259 Pine Cliff shares were issued and outstanding. On September 23, 2014, Pine Cliff completed a short form prospectus offering and issued 29,300,000 Pine Cliff shares at a price of $2.05 per common share for gross proceeds of $60.1 million. During 2014, Pine Cliff issued 4,386,500 common shares as a result of stock option exercises.

ADDITIONS TO PROPERTY AND EQUIPMENT AND EXPLORATION AND EVALUATION ASSETS

	Year ended December 31, 2014	Year ended December 31, 2013
($000s)		
Exploration and evaluation assets - oil and gas division	**-**	170
Exploration and evaluation assets - minerals division	**50**	990
Oil and gas assets	**10,765**	10,468
Vehicles and administrative assets	**272**	185
Acquistions	**144,543**	94,348
Dispositions	**(3,229)**	(1,202)
Capitalized decomissioning liabilities	**110,666**	5,148
Total	**263,067**	110,107

In the year ended December 31, 2014, Pine Cliff added $263.1 million in capital assets to its balance sheet as compared to $110.1 million in the year ended December 31, 2013. Included in these additions are $110.7 million of capitalized decommissioning liabilities for the year ended December 31, 2014 (December 31, 2013 - $5.1 million) as a result of decommissioning liabilities recognized through acquisitions and revisions to the estimated discount rate and the outflows to settle the decommissioning liability in the future. Pine Cliff completed two significant acquisitions during 2014 which added $142.8 million of property, plant and equipment and $1.7 million of exploration and evaluation assets.

In 2014, Pine Cliff participated in four gross (1.12 net) wells in the Carrot Creek/Edson area, and one gross (0.15 net) well in the Sundance area. Although one gross (0.25 net) well in the Carrot Creek area was determined to not be economic and therefore not tied in, the other three gross (0.88 net) wells were tied in during the latter half of the year while the Sundance well was brought on production in May 2014. Additionally, Pine Cliff recompleted an existing wellbore in the Carrot Creek/Edson Assets, conducted major turnarounds and upgrades on facilities on the Southern Assets and the Carrot Creek/Edson Assets. Pine Cliff also expanded a compressor station in the Carrot Creek/Edson Assets and disposed of a portion of its working interest in the same facility.

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.

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 and has some common directors and management with Pine Cliff, to provide executive services, technical services, accounting services, oil and gas administration and office administration. Total fees for each of the years ended December 31, 2014 and 2013 were $0.06 million, plus certain administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As at December 31, 2014, Pine Cliff owed Bonterra $0.2 million (Pine Cliff owed Bonterra at December 31, 2013 – $0.2 million).

Investment in Bonterra
As at December 31, 2014, Pine Cliff owns 204,633 common shares in Bonterra (December 31, 2013 – 204,633) representing less than 1% of the outstanding shares of Bonterra at that date. The shares, as of December 31, 2014, have a fair value of $8.5 million (December 31, 2013 – $11.1 million). For the year ended December 31, 2014, Pine Cliff received dividend income of $0.7 million from this investment (December 31, 2013 – $0.7 million).

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 three months and years ended December 31, 2014 and 2013:

	Three months ended December 31		Year ended December 31	
	2014	2013	**2014**	2013
($000s)				
Funds flow from operations	**11,615**	5,564	**38,988**	14,700
Bank debt proceeds (repayment)	**44,473**	(20,285)	**47,555**	(2,837)
Purchase of term deposit	**-**	-	**-**	(21,500)
Maturity of term deposit	**-**	-	**-**	21,500
Issuance of common shares, net of share issue costs	**(24)**	18,992	**57,142**	42,699
Restricted cash	**29**	-	**29**	-
Exercise of stock options	**233**	21	**2,605**	67
Disposition of exploration and evaluation assets	**-**	125	**-**	125
Cash from acquisitions	**-**	-	**-**	1,477
Increase (decrease) in non-cash working capital	**10,799**	(487)	**(4,357)**	(203)
Decrease (increase) in cash	**38,358**	(985)	**1,109**	(488)
Total capital expenditures, including acquisitions	**105,483**	2,945	**143,071**	55,540
Capital expenditures, including acquisitions:				
Oil and gas	**105,482**	2,750	**143,021**	54,550
Minerals	**1**	195	**50**	990

In 2014, Pine Cliff funded its capital expenditures and acquisitions with funds flow from operations, debt and funds raised through an issuance of shares completed in the third quarter for a total of $60.1 million ($57.1 million net of share issue costs). Throughout much of 2014, Pine Cliff's credit facility was undrawn. In August, Pine Cliff drew down approximately $10.0 million for the Carrot Creek/Edson Asset Acquisition. This balance was subsequently repaid in September 2014. On October 1, 2014, Pine Cliff drew down approximately $57.0 million for the Shallow Gas Asset Acquisition. Pine Cliff repaid $9.2 million of that amount in the fourth quarter and exited the year with $47.8 million drawn on its credit facility.

The existing banking arrangements at December 31, 2014 are comprised of a revolving demand credit facility in the amount of $70.0 million. The current revolving period will end on May 31, 2015 and if the revolving demand credit facility is not renewed any amounts owing will become payable in full on demand. The revolving demand credit facility requires Pine Cliff to maintain a working capital ratio, computed as current assets less current liabilities, excluding the current portion of 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, 2014 and will take steps to ensure that it remains in compliance with its covenants in future periods and anticipates renewing the credit facility at the end of the revolving period.

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. As at December 31, 2014, the Company had a working capital deficit of $33.5 million (working capital at December 31, 2013 of $13.6 million) mainly a result of the revolving demand credit facility being considered a current liability. Pine Cliff anticipates renewing the revolving demand credit facility on May 31, 2015 for one year on the same or similar terms and conditions.

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:

($000s)	Total	< 6 months	6 - 12 months	> 12 months
Trade and other payables	11,280	11,280	-	-
Office and equipment leases	79	36	36	7
Vehicle leases	360	55	55	250
Bank loan - principal	47,755	47,755	-	-
Bank loan - future interest	746	746	-	-
Total commitments and contingencies	60,220	59,872	91	257

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. As at December 31, 2014, Pine Cliff had not entered into any commodity price risk management contracts.

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, 2014 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 $0.1 million. 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, 2014 consist of a revolving term credit facility of $70 million of which $47.8 million 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 discount and inflation 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 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.

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.

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

The accounting policies and method of computation followed in the preparation of the Financial Statements are the same as those followed in the preparation of Pine Cliff's 2013 Annual Financial Statements, except for the adoption of new standards and interpretations effective as of January 1, 2014.

The nature and impact of each new standard or amendment is described below:

IAS 32 *Financial Instruments: Presentation* ("IAS 32")
Effective January 1, 2014, the Company applied the amendment to IAS 32 clarifying certain of the criteria required to be met in order to permit the offsetting of financial assets and financial liabilities. The amendment has been applied retrospectively and did not result in any adjustments for the three months ended December 31, 2014 or any prior periods.

IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39")
Effective January 1, 2014, the Company applied the amendment to IAS 39 under which there is no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendment has been applied prospectively

as required by transitional provisions. The application had no impact on the financial statements for the three months ended December 31, 2014.

IAS 36 *Impairment of Assets* ("IAS 36")
Effective January 1, 2014, the Company applied the amendment to IAS 36 under which certain disclosure requirements were altered. The amendment has been applied retrospectively and did not result in any changes to the financial statements for the three months ended December 31, 2014 or any prior periods.

IFRIC 21 *Levies* ("IFRIC 21")
Effective January 1, 2014, the Company retrospectively adopted IFRIC 21, developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (for example, IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation did not have any impact on the Company's financial statements.

Future accounting pronouncements

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")
In May 2014, the IASB published the new revenue standard, IFRS 15, which specifies how and when revenue should be recognized and requires more informative and relevant disclosures. The standard is required to be applied on first interim periods beginning on or after January 1, 2017, with early application permitted. The Company is currently assessing the impact the adoption of this standard will have on the Financial Statements.

IFRS 9 *Financial Instruments* ("**IFRS 9**")
In July 2014, the IASB has amended IFRS 9 which amends its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The Company is currently assessing the impact the adoption of this standard will have on the Financial Statements.

SUBSEQUENT EVENTS

Subsequent to December 31, 2014, Pine Cliff issued 747,500 common shares as a result of stock option exercises completed at a weighted average exercise price of $0.87 per share.

On February 2, 2015, Pine Cliff issued a standby letter of credit to the National Energy Board for $0.6 million.

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. 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	
	2014	2013	**2014**	2013
($000s)				
Cash flow from operating activities	**13,969**	6,631	**37,641**	16,062
Adjusted by:				
Increase (decrease) in non-cash working capital	**2,354**	1,067	**(1,347)**	1,362
Funds flow from operations	**11,615**	5,564	**38,988**	14,700

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.

The Company considers corporate netback to be a key indicator of overall profitability. Corporate netback and corporate netback per Boe are calculated as operating netback, less G&A and interest expense plus finance and dividend income on an absolute and 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 and trade and other payables, less trade and other receivables, cash, prepaid expenses and deposits and liquid investments. 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.

"Signed Philip B. Hodge"

Philip B. Hodge, President and Chief Executive Officer

"Signed Kristi L. Kunec"

Kristi L. Kunec, Chief Financial Officer and Secretary

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. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of earnings (loss) and other comprehensive earnings (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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 as issued by the International Accounting Standards Board, 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, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

"Signed Deloitte LLP"

Chartered Accountants
March 19, 2015
Calgary, Canada

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

	Note	**As at December 31, 2014**	As at December 31, 2013
ASSETS			
Current assets			
Cash and cash equivalents		**196**	1,305
Trade and other receivables		**14,582**	9,217
Prepaid expenses and deposits		**1,990**	591
Investments	5	**8,755**	11,287
Total current assets		**25,523**	22,400
Exploration and evaluation assets	6	**9,126**	7,415
Property, plant and equipment	7	**348,623**	120,016
Restricted cash		**4**	33
Goodwill	8	**-**	3,535
Deferred taxes	9	**27,421**	27,087
Total assets		**410,697**	180,486
LIABILITIES			
Current liabilities			
Trade and other payables	10	**11,280**	8,579
Bank debt	11	**47,755**	200
Total current liabilities		**59,035**	8,779
Decommissioning liabilities	12	**164,513**	42,685
Total liabilities		**223,548**	51,464
SHAREHOLDERS' EQUITY			
Share capital	13	**191,319**	127,002
Contributed surplus		**2,262**	3,856
Accumulated other comprehensive (loss) earnings		**(1,087)**	1,567
Deficit		**(5,345)**	(3,403)
Total shareholders' equity		**187,149**	129,022
Total liabilities and shareholders' equity		**410,697**	180,486

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:

"Signed George F. Fink" "Signed Randy M. Jarock"

George F. Fink, Director Randy M. Jarock, Director

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

		Year ended	
	Note	**December 31, 2014**	December 31, 2013
Oil and gas sales		**78,450**	36,882
Royalties		**(8,145)**	(3,523)
Realized gain on risk management contract		**-**	37
Dividend income	5	**733**	675
Finance income	14	**46**	624
REVENUE		**71,084**	34,695
EXPENSES			
Operating		**26,489**	16,408
General and administration	15	**4,946**	3,234
Depletion and depreciation	7	**28,914**	16,139
Share-based payments	13	**2,245**	2,201
Impairment of plant, property and equipment	7	**3,835**	-
Impairment of goodwill	8	**3,535**	-
Impairment of investment		**-**	12
Finance expenses	14	**2,583**	1,257
Total expenses		**72,547**	39,251
Loss before other income and income taxes		**(1,463)**	(4,556)
Gain on disposal of exploration and evaluation assets	6	**-**	204
Gain on acquisition		**-**	14,161
Earnings (loss) before income taxes		**(1,463)**	9,809
Deferred tax expense (recovery)	9	**479**	(1,101)
EARNINGS (LOSS) FOR THE YEAR		**(1,942)**	10,910
Earnings (loss) per share ($)	13		
Basic		**(0.01)**	0.06
Diluted		**(0.01)**	0.06

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, 2014	December 31, 2013
Earnings (loss) for the year	**(1,942)**	10,910
OTHER COMPREHENSIVE EARNINGS (LOSS)		
Unrealized gain (loss) on investments	**(2,988)**	1,748
Deferred taxes on unrealized gain (loss) on investments	**334**	(224)
OTHER COMPREHENSIVE EARNINGS (LOSS) FOR THE YEAR, NET OF TAX	**(2,654)**	1,524
TOTAL COMPREHENSIVE EARNINGS (LOSS) FOR THE YEAR	**(4,596)**	12,434

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, 2014	December 31, 2013
CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Earnings (loss) for the year		**(1,942)**	10,910
Items not affecting cash:			
Share-based payments		**2,245**	2,201
Depletion and depreciation		**28,914**	16,139
Finance expenses		**2,583**	1,257
Gain on disposal of exploration and evaluation assets		**-**	(204)
Gain on acquisition		**-**	(14,161)
Deferred tax expense		**479**	(1,101)
Impairment of plant, property and equipment	7	**3,835**	-
Impairment of goodwill	8	**3,535**	-
Impairment of investments		**-**	12
Changes in non-cash working capital accounts	18	**(1,347)**	1,362
Interest and bank charges paid		**(661)**	(353)
Cash and cash equivalents provided by operating activities		**37,641**	16,062
INVESTING ACTIVITIES			
Expenditures on property and equipment	7	**(11,037)**	(10,653)
Disposition of property, plant and equipment	7	**3,229**	-
Expenditures on exploration and evaluation assets	6	**(50)**	(1,160)
Disposition of exploration and evaluation assets	6	**-**	125
Acquisitions, net of working capital acquired	4	**(135,213)**	(42,250)
Restricted cash		**29**	-
Changes in non-cash working capital accounts	18	**(3,010)**	(1,505)
Cash and cash equivalents used in investing activities		**(146,052)**	(55,443)
FINANCING ACTIVITIES			
Issuance of common shares, net of share issue costs	13	**57,142**	42,699
Exercise of stock options	13	**2,605**	67
Bank debt		**47,555**	(2,837)
Changes in non-cash working capital accounts	18	**-**	(60)
Cash and cash equivalents provided by financing activities		**107,302**	39,869
Increase (decrease) in cash and cash equivalents		**(1,109)**	488
Cash and cash equivalents - beginning of year		**1,305**	817
CASH AND CASH EQUIVALENTS - END OF YEAR		**196**	1,305

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]	Retained earnings (deficit)	Total equity
BALANCE AT JANUARY 1, 2013		**83,542**	**1,749**	**43**	**(14,313)**	**71,021**
Issuance of shares		45,100	-	-	-	45,100
Share issue costs, net of tax		(1,801)	-	-	-	(1,801)
Earnings for the year		-	-	-	10,910	10,910
Other comprehensive earnings for the year		-	-	1,524	-	1,524
Share-based payments	13	-	2,201	-	-	2,201
Exercise of options		161	(94)	-	-	67
BALANCE AT DECEMBER 31, 2013		**127,002**	**3,856**	**1,567**	**(3,403)**	**129,022**
Issuance of shares	13	60,065	-	-	-	60,065
Share issue costs, net of tax	13	(2,192)	-	-	-	(2,192)
Loss for the year		-	-	-	(1,942)	(1,942)
Other comprehensive loss for the year		-	-	(2,654)	-	(2,654)
Share-based payments	13	-	2,245	-	-	2,245
Exercise of options		6,444	(3,839)	-	-	2,605
BALANCE AT DECEMBER 31, 2014		**191,319**	**2,262**	**(1,087)**	**(5,345)**	**187,149**

[1] Contributed surplus is comprised of share-based payments.

[2] Accumulated other comprehensive earnings 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, 2014 and 2013 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 850, 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 19, 2015.

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 6 – Valuation of exploration and evaluation assets ("E&E")
Note 7 – Valuation of property, plant and equipment ("PP&E")
Note 8 – Valuation of goodwill
Note 12 – Provisions for decommissioning costs
Note 13 – Measurement of share-based payments
Note 17 – 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

PP&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 PP&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 of disposal. 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 PP&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 credit-adjusted 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"), Geomark Minerals USA Inc., WMC International Limited and Pine Cliff Border Pipelines 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 income 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) Joint arrangements
Pine Cliff conducts significant portions of its oil and gas operations through jointly controlled operations and the financial statements reflect only the Company's proportionate interest in such activities. Joint control exists for contractual arrangements governing the Company's assets whereby Pine Cliff has less than 100% working interest, all the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. The Company has no interests in jointly controlled entities. The Company recognizes in its financial statements its interests in assets that it owns, the liabilities and expenses that it incurs and its share of income earned by the joint arrangements.

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 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 PP&E. E&E assets are assessed for impairment either annually, upon transfer to PP&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, plant and equipment
PP&E assets include transferred-in E&E costs, development drilling and other subsurface expenditures. PP&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, PP&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 PP&E
The carrying amounts of the Company's PP&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 PP&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 the risk free rate. 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 PP&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 receivables 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) Risk management contracts
The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign currency exchange rates and interest rates in the normal course of its business. The Company may use a variety of instruments to manage these exposures. For transactions where hedge accounting is not applied, the Company accounts for such instruments using the fair value method by initially recording an asset or liability, and recognizing changes in the fair value of the instruments in earnings as unrealized gains or losses on risk management contracts. Fair values of financial instruments are based on third party quotes or valuations provided by independent third parties. Any realized gains or losses on risk management contracts are recognized in net earnings in the period they occur.

The Company may elect to use hedge accounting when there is a high degree of correlation between the price movements in the financial instruments and the items designated as being hedged and the Company has documented the relationship between the instruments and the hedged item as well its risk management objective and strategy for undertaking hedge transactions. During the years ended December 31, 2014 and 2013, the Company did not designate any of its financial instruments as hedges. There were no risk management contracts outstanding as at December 31, 2014 and 2013.

q) 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.

r) 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.

s) Recent and future pronouncements issued
The accounting policies and method of computation followed in the preparation of the Financial Statements are the same as those followed in the preparation of Pine Cliff's 2013 Annual Financial Statements, except for the adoption of new standards and interpretations effective as of January 1, 2014.

The nature and impact of each new standard or amendment is described below:

IAS 32 *Financial Instruments: Presentation* ("IAS 32")
Effective January 1, 2014, the Company applied the amendment to IAS 32 clarifying certain of the criteria required to be met in order to permit the offsetting of financial assets and financial liabilities. The amendment has been applied retrospectively and did not result in any adjustments to the Financial Statements for the year ended December 31, 2014 or any prior periods.

IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39")
Effective January 1, 2014, the Company applied the amendment to IAS 39 under which there is no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendment has been applied prospectively as required by transitional provisions. The application had no impact on the Financial Statements for the year ended December 31, 2014.

IAS 36 *Impairment of Assets* ("IAS 36")
Effective January 1, 2014, the Company applied the amendment to IAS 36 under which certain disclosure requirements were altered. The amendment has been applied retrospectively and did not result in any changes to the Financial Statements for the year ended December 31, 2014 or any prior periods.

IFRIC 21 *Levies* ("IFRIC 21")
Effective January 1, 2014, the Company retrospectively adopted IFRIC 21, developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (for example, IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation did not have any impact on the Company's financial statements.

Future accounting pronouncements

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")
In May 2014, the IASB published the new revenue standard, IFRS 15, which specifies how and when revenue should be recognized and requires more informative and relevant disclosures. The standard is required to be applied on first interim periods beginning on or after January 1, 2017, with early application permitted. The Company is currently assessing the impact the adoption of this standard will have on the Financial Statements.

IFRS 9 *Financial Instruments* ("**IFRS 9**")
In July 2014, the IASB has amended IFRS 9 which amends its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The Company is currently assessing the impact the adoption of this standard will have on the Financial Statements.

4. ACQUISITIONS

Acquisition of Carrot Creek/Edson Assets
On August 7, 2014, Pine Cliff completed the acquisition of certain oil and natural gas assets in the Carrot Creek/Edson area in the Province of Alberta (the "Carrot Creek/Edson Assets") for cash consideration of $33.25 million, prior to any adjustments. The Carrot Creek/Edson Assets acquired are located within areas or immediately adjacent to areas where Pine Cliff owns assets.

The results of the Carrot Creek/Edson Assets acquisition have been included in the financial statements since August 7, 2014. The Carrot Creek/Edson Assets have contributed oil and gas sales, net of royalties, of $3.4 million and operating expenses of $1.4 million for the period from August 7, 2014 to December 31, 2014. If the acquisition had occurred on January 1, 2014, total oil and gas sales, net of royalties, would have been approximately $80.1 million and operating expenses would have been approximately $29.3 million for the year ended December 31, 2014, for the Carrot Creek/Edson Assets. Pine Cliff does not believe it is practical to estimate the effect on future periods.

The acquisition has been accounted for using the acquisition method and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

Net assets acquired:	
Property and equipment	32,051
Exploration and evaluation assets	292
Decommissioning liabilities	(140)
Total net assets acquired	32,203

Consideration:	
Cash	32,203
Total purchase price	32,203

Transaction costs of $0.02 million have been expensed in the year ended December 31, 2014 and are included in general and administrative expenses in the condensed consolidated statement of earnings (loss) and are part of operating cash flows in the condensed consolidated statement of cash flows. The purchase price allocation is preliminary and is subject to change.

Acquisition of Shallow Gas Assets
On October 1, 2014, Pine Cliff completed the acquisition of certain shallow natural gas assets in Alberta and Saskatchewan (the "Shallow Gas Assets") for cash consideration of $100.0 million, prior to any adjustments. The Shallow Gas Assets acquired are part of a large land spread with a high working interest that have a similar production profile to other assets owned by Pine Cliff.

The results of the Shallow Gas Assets acquisition have been included in the financial statements since October 1, 2014. The Shallow Gas Assets have contributed oil and gas sales, net of royalties, of $9.8 million and operating expenses of $2.4 million for the period from October 1, 2014 to December 31, 2014. If the acquisition had occurred on January 1, 2014, total oil and gas sales, net of royalties, would have been approximately $105.4 million and operating expenses would have been approximately $40.6 million for the year ended December 31, 2014, for the Shallow Gas Assets. Pine Cliff does not believe it is practical to estimate the effect on future periods.

The acquisition has been accounted for using the acquisition method and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

Net assets acquired:	
Property and equipment	110,831
Exploration and evaluation assets	1,281
Decommissioning liabilities	(9,102)
Total net assets acquired	103,010

Consideration:	
Cash	103,010
Total purchase price	103,010

Transaction costs of $0.3 million have been expensed in the year ended December 31, 2014 and are included in general and administrative expenses in the condensed consolidated statement of earnings (loss) and are part of operating cash flows in the condensed consolidated statement of cash flows. The purchase price allocation is preliminary and is subject to change.

Information on prior year acquisitions

Skope Energy Inc.

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 included a $200.0 million demand debenture secured by a first floating charge over all of Skope's assets. Consideration for the Skope Debt Purchase was $28.0 million which was funded with cash acquired in the Geomark Transaction of $20.0 million and a drawdown of $8.0 million on Pine Cliff's Credit Facility.

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 million, representing the amount that Pine Cliff paid to a Canadian financial institution for the Skope Debt Purchase, less $0.2 million received during the CCAA process as consideration for Pine Cliff's unsecured claim. 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 has been accounted for as a business combination with Pine Cliff identified as the acquirer.

The results of Skope's assets have been included in the financial statements since February 19, 2013. Skope's assets contributed oil and gas sales, net of royalties, of $23.9 million and operating expenses of $11.3 million for the period from February 19, 2013 to December 31, 2013. If the acquisition had occurred on January 1, 2013, total oil and gas sales, net of royalties, would have been approximately $35.9 million and operating expenses would have been approximately $17.4 million for the year ended December 31, 2013. Pine Cliff does not believe it is practical to estimate the effect on future periods.

The acquisition has been accounted for using the acquisition method and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

Net assets acquired:	
Property and equipment	41,638
Exploration and evaluation assets	3,565
Decommissioning provision	(30,428)
Working capital, including cash of $1,275	3,313
Deferred tax asset	23,871
Total net assets acquired	41,959

Consideration:	
Realization of security of the Skope Debt Purchase	28,000
Less: cash consideration for Pine Cliff's unsecured claim	(202)
Total purchase price	27,798
Gain on acquisition	14,161

As the total net assets acquired are greater than the purchase price of the assets, Pine Cliff has recognized a gain on the acquisition of Skope. The gain on acquisition is attributed to the unique nature of this transaction whereby Pine Cliff purchased Skope's debt and security from a Canadian financial institution and realized on its security through the CCAA process to acquire Skope.

Transaction costs of $0.1 million have been expensed in the year ended December 31, 2013 and are included in general and administrative expenses in the statement of earnings (loss) and are part of operating cash flows in the consolidated statement of cash flows. In addition to the transaction costs incurred in 2013, Pine Cliff incurred transaction costs of $0.4 million in the three months ended December 31, 2012.

Additional interest in Monogram unit

On July 24, 2013, Pine Cliff completed the acquisition of an additional approximate 52% working interest in the Monogram unit and related infrastructure (the "Monogram Assets"). The Monogram Assets are located near the City of Medicine Hat, Alberta and produce dry natural gas mainly from the Milk River, Medicine Hat and Second White Specks zones. The total consideration paid was $32.2 million.

The results of the additional interest in the Monogram Assets have been included in the financial statements since July 24, 2013. The Monogram Assets have contributed oil and gas sales, net of royalties, of $6.0 million and operating expenses of $1.3 million for the period from July 24, 2013 to December 31, 2013. If the acquisition had occurred on January 1, 2013, total oil and gas sales, net of royalties, would have been approximately $39.2 million and operating expenses would have been approximately $17.7 million for the year ended December 31, 2013. Pine Cliff does not believe it is practical to estimate the effect on future periods.

The acquisition has been accounted for using the acquisition method and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

Net assets acquired:	
Property and equipment	33,121
Decommissioning provision	(963)
Total net assets acquired	32,158

Consideration:	
Cash	32,158
Total purchase price	32,158

Transaction costs of $0.02 million have been expensed and are included in general and administrative expenses in the statements of earnings (loss) and are part of operating cash flows in the consolidated statements of cash flows.

Acquisition of interest in shallow gas assets

On August 30, 2013, Pine Cliff completed the acquisition of an additional interest in the Southern Alberta and Southern Saskatchewan properties ("Southern Assets") that Pine Cliff had originally acquired an interest in through the acquisition of Skope in February 2013. As part of the acquisition, the current asset management agreement governing Pine Cliff's current and additional interests in the Southern Assets was terminated and Pine Cliff became the operator of the Southern Assets. The acquisition includes a further approximate 7% working interest in the Monogram unit in the Province of Alberta, a further approximate 20% working interest in the Pendor, Black Butte and Eagle Butte areas in the Province of Alberta and a further approximate 18% working interest in the Vidora, Cadillac and Wymark areas in the Province of Saskatchewan. The total consideration paid was approximately $13.6 million.

The results of the additional interest in the Southern Assets have been included in the financial statements since August 30, 2013. The Southern Assets have contributed oil and gas sales, net of royalties, of $3.4 million and operating expenses of $1.4 million for the period from August 30, 2013 to December 31, 2013. If the acquisition had occurred on January 1, 2013, total oil and gas sales, net of royalties, would have been approximately $36.6 million and operating expenses would have been approximately $18.5 million for the year ended December 31, 2013. Pine Cliff does not believe it is practical to estimate the effect on future periods.

The acquisition has been accounted for using the acquisition method and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

Net assets acquired:	
Property and equipment	14,922
Exploration and evaluation assets	1,102
Decommissioning provision	(2,417)
Total net assets acquired	13,607

Consideration:	
Cash	13,607
Total purchase price	13,607

Transaction costs of $0.04 million have been expensed and are included in administrative expenses in the income statement and are part of operating cash flows in the consolidated statement of cash flows.

5. TRANSACTIONS WITH RELATED PARTIES

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, 2014 and 2013 were $0.06 million, plus certain administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As at December 31, 2014, Pine Cliff owed Bonterra $0.2 million (Pine Cliff owed Bonterra at December 31, 2013 – $0.2 million).

Investment in Bonterra
As at December 31, 2014, Pine Cliff owns 204,633 common shares in Bonterra (December 31, 2013 – 204,633) representing just less than 1% of the outstanding shares of Bonterra at that date. The shares as of December 31, 2014 have a fair value of $8.5 million (December 31, 2013 – $11.1 million). For the year ended December 31, 2014, Pine Cliff received dividend income of $0.7 million from this investment (December 31, 2013 - $0.7 million).

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.

6. 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, 2012	599	2,191	2,790
Additions	170	990	1,160
Acquisitions	4,667	-	4,667
Dispositions	-	(1,202)	(1,202)
Balance at December 31, 2013	5,436	1,979	7,415
Additions	-	50	50
Acquisitions	1,661	-	1,661
Balance at December 31, 2014	**7,097**	**2,029**	**9,126**

During the years ended December 31, 2014 and 2013, minimal directly attributable general and administration costs related to mineral exploration and evaluation assets were capitalized.

On December 18, 2013, Pine Cliff entered into an option agreement with Nighthawk Gold Corp. ("Nighthawk") for the disposition of its Kim gold property located in the Northwest Territories. Pine Cliff received a 2.5% net smelter royalty (of which 1.5% can be repurchased by Nighthawk for $1.5 million) and $1.6 million, with payments payable over the next three years. The first payment of $0.3 million was received in December 2013 ($0.1 million cash and 1,768,345 common shares of Nighthawk) and the second payment was received in December 2014 ($0.1 million cash and 462,392 common shares of Nighthawk). Nighthawk will not earn an interest in the property until all amounts have been paid. The present value of future payments has been recorded as a receivable from Nighthawk. Pine Cliff has recognized a gain of $0.2 million on the disposition of these assets in 2013.

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 years ended December 31, 2014 and 2013.

7. PROPERTY, PLANT AND EQUIPMENT

The following table reconciles Pine Cliff's PP&E assets:

Cost:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 2012	36,287	5	36,292
Additions	15,616	185	15,801
Acquisitions	90,501	348	90,849
Decomissioning liabilities	(1,168)	-	(1,168)
Balance at December 31, 2013	141,236	538	141,774
Additions	10,765	272	11,037
Acquisitions	142,882	-	142,882
Decomissioning liabilities	110,666	-	110,666
Dispositions	(3,898)	-	(3,898)
Balance at December 31, 2014	**401,651**	**810**	**402,461**

Accumulated depletion and depreciation:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 2012	(5,619)	-	(5,619)
Depletion and depreciation	(16,035)	(104)	(16,139)
Balance at December 31, 2013	(21,654)	(104)	(21,758)
Depletion and depreciation	(28,690)	(224)	(28,914)
Impairment	(3,835)	-	(3,835)
Dispositions	669	-	669
Balance at December 31, 2014	**(53,510)**	**(328)**	**(53,838)**

Carrying value at:	Oil and gas properties	Administrative assets	Total
December 31, 2013	119,582	434	120,016
December 31, 2014	**348,141**	**482**	**348,623**

Impairment

For the purposes of determining whether impairment of assets has occurred, the extent of any impairment or its reversal, management exercises their judgment in estimating future cash flows for the recoverable amount, being the higher of fair value less costs to sell and value in use. These key judgments include estimates about recoverable reserves, forecast benchmark commodity prices, royalties, operating costs and discount rates.

The expected future cash flows 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.

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. Projected estimates of cash flows from each CGU have been determined based on the economic life of the reserves using a pre-tax discount rate of 10%. The impairment testing undertaken concluded that the value in use for the Southern Assets CGU is greater than the carrying amount, however, testing concluded that the value in use was less than the carrying amount for the Carrot Creek CGU.

The Company reported an impairment loss of $3.8 million for the year ended December 31, 2014 related to the Carrot Creek CGU largely as a result of the decrease in forecast benchmark commodity prices. The impairment of PP&E assets and any subsequent reversal of such impairment losses are recognized in the statement of earnings (loss).

8. GOODWILL

Carrying value:	
Balance at December 31, 2013 and 2012	3,535
Impairment of goodwill	(3,535)
Balance at December 31, 2014	-

Goodwill is attributable to the oil and gas segment 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. At December 31, 2014, the Company completed an impairment test and determined that the recoverable amount was less than the carrying value of the Carrot Creek/Edson CGU, including goodwill and as such, the entire balance of goodwill was impaired.

9. 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.

	Year ended December 31	
	2014	2013
Earnings (loss) before income taxes	**(1,463)**	9,809
Corporate income tax rate	**25.0%**	25.0%
Computed income tax expense (recovery)	**(366)**	2,452
Increase (decrease) resulting from:		
Goodwill impairment	**885**	-
Gain on acquisition	**-**	(3,658)
Non-taxable dividends	**(183)**	49
Non-deductible compensation expense	**565**	551
Changes in tax rate	**(162)**	-
Changes in the unrecorded benefit of tax pools	**(2)**	(377)
Other	**(258)**	(118)
Deferred income tax expense (recovery)	**479**	(1,101)

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

	December 31, 2014	December 31, 2013
Deferred income tax assets (liabilities):		
Accounts receivable	**(352)**	-
Share issue costs	**1,322**	1,031
Investment	**(186)**	(487)
Decommissioning provision	**41,429**	10,680
Property and equipment	**(17,995)**	12,130
Capital loss carry forward	**16**	104
Non-capital losses carry forward	**4,986**	5,345
Exploration and evaluation assets	**(1,799)**	(1,714)
Asset before the unrecorded benefit of tax pools	**27,421**	27,089
Less: unrecorded benefit of tax pools	**-**	(2)
Net deferred income tax asset	**27,421**	27,087

Pine Cliff has approximately $302.8 million in tax pools at December 31, 2014 (December 31, 2013 – $195.4 million) available for future use as deductions from taxable income. Included in these pools are estimated non-capital loss carry forwards of $19.3 million (December 31, 2013 – $21.4 million) that expire between the years 2026 and 2033.

10. TRADE AND OTHER PAYABLES

Total trade and other payables comprises the following categories:

	December 31, 2014	December 31, 2013
Trade payables	**4,867**	7,041
Accrued payables	**6,413**	1,538
Trade and other payables	**11,280**	8,579

11. BANK DEBT

On October 1, 2014, Pine Cliff increased the borrowing base of its revolving demand credit facility (the "Credit Facility") with a Canadian chartered bank from $40.0 million to $70.0 million, of which $47.8 million was drawn at December 31, 2014 (December 31, 2013 - $0.2 million). The Credit Facility is considered a current liability at December 31, 2014 as the current revolving period will end on May 31, 2015 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, bankers acceptances, 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 period ended December 31, 2014. 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, 2014 and will take steps to ensure that it remains in compliance with its covenants in future periods and anticipates renewing the credit facility at the end of the revolving period.

12. 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, 2014, the estimated total undiscounted amount required to settle the decommissioning liabilities was $196.3 million (December 31, 2013 - $90.9 million). The provision has been calculated assuming a 1.6% inflation rate (December 31, 2013 – 1.6%). These obligations will be settled based on the useful lives of the underlying assets which extend up to 56 years into the future. This amount has been discounted using an average risk-free interest rate of 2.2% (December 31, 2013 – 3.2%).

Changes to decommissioning liabilities were as follows:

	December 31, 2014	December 31, 2013
Decommissioning provision, beginning of year	**42,685**	2,818
Provisions acquired through acquisitions	**9,242**	33,808
Provisions incurred during the year	**-**	7
Revisions (change in estimate and discount rate)	**110,664**	5,148
Accretion expense during year	**1,922**	904
Decommissioning provision, end of year	**164,513**	42,685

13. 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 January 1, 2013	153,332	83,542
Shares issued pursuant to public share offerings	46,700	45,100
Exercise of options	161	161
Share issue costs, net of tax	-	(1,801)
Balance at December 31, 2013	200,193	127,002
Shares issued pursuant to public share offerings	29,300	60,065
Exercise of options	4,387	6,444
Share issue costs, net of tax	-	(2,192)
Balance at December 31, 2014	**233,880**	**191,319**

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, 2014, all options were excluded as there was a loss in the year then ended. For the year ended December 31, 2013, the Company excluded 3,947,000 options as their effect is anti-dilutive.

	Year ended December 31	
Earnings per share calculation:	**2014**	2013
Numerator		
Earnings (loss) for the year	**(1,942)**	10,910
Denominator (000s)		
Weighted-average common shares outstanding - basic	**211,025**	172,494
Effect of options outstanding	**-**	7,213
Weighted-average common shares outstanding - diluted	**211,025**	179,707
Earnings (loss) per share - basic ($)	**(0.01)**	0.06
Earnings (loss) per share - diluted ($)	**(0.01)**	0.06

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, 2014. 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, 2014 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, December 31, 2012	10,240	0.58
Granted	5,268	1.05
Exercised	(161)	0.41
Forfeited	(869)	0.88
Outstanding, December 31, 2013	14,478	0.73
Granted	6,838	1.62
Exercised	(4,387)	0.59
Cancelled	(45)	1.07
Forfeited	(1,190)	0.76
Outstanding, December 31, 2014	15,694	1.15
Exercisable, December 31, 2014	3,906	0.92

The following table summarizes information about stock options outstanding:

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
$0.38 - $0.90	5,103	1.0	2,658	0.7
$0.91 - $1.49	5,124	1.2	1,248	0.3
$1.50 - $1.97	5,467	2.5	-	0.0
	15,694	1.6	3,906	0.6

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, 2014, the Company granted 6,837,800 stock options with an estimated fair value of $0.73 per option using the Black-Scholes option pricing model with the following key assumptions (weighted-average):

Assumptions:	December 31, 2014
Exercise price ($)	1.15
Estimated volatility of underlying common shares (%)	71
Weighted average expected life (years)	1.6
Risk-free rate (%)	1.1
Forfeiture rate (%)	3.9
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.

14. FINANCE INCOME AND EXPENSES

Finance income and expenses are comprised of:

	Year ended December 31	
	2014	2013
Finance income:		
Interest income	**46**	624
Finance expenses:		
Interest expense and bank charges	**(661)**	(353)
Unwinding of the discount on decommissioning liabilities	**(1,922)**	(904)
Total finance expenses	**(2,583)**	(1,257)
Net finance income and expenses	**(2,537)**	(633)

15. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses by nature were as follows:

	Year ended December 31	
General and administration expenses:	**2014**	2013
Staff expenses	**3,120**	1,790
Consultants	**428**	332
Public company expenses	**45**	74
Professional fees	**709**	495
Intercompany administration	**60**	56
Business development	**74**	30
Office and other costs	**700**	610
Capitalized G&A and overhead recoveries	**(190)**	(153)
	4,946	3,234

16. 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:	**2014**	2013
Short-term benefits [1]	**956**	420
Share-based payments [2]	**952**	952
	1,908	1,372

[1] Short-term benefits includes the salary and other non-cash short-term benefits of Pine Cliff's President and Chief Executive Officer, Vice President Finance and Vice President Operations 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 5).

[2] Share-based payments computed for officers and the board of directors as described in Note 13 includes the change in fair value of outstanding awards.

17. FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement

Financial instruments of the Company consist of cash, restricted cash, trade and other receivables, 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 due to their short-term to maturity.

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, 2014 and December 31, 2013:

		December 31, 2014		December 31, 2013	
Description:	Level	**Carrying value**	**Fair value**	Carrying value	Fair value
Cash	1	**196**	**196**	1,305	1,305
Trade and other receivables		**14,582**	**14,582**	9,217	9,217
Investments	1	**8,755**	**8,755**	11,287	11,287
Trade and other payables		**(11,280)**	**(11,280)**	(8,579)	(8,579)
Bank debt		**(47,755)**	**(47,755)**	(200)	(200)

18. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31	
	2014	2013
Operating activities		
Changes in non-cash working capital:		
Trade and other receivables	**(3,345)**	3,900
Prepaid expenses and deposits	**(1,399)**	54
Trade and other payables and accrued liabilities	**3,397**	(2,592)
	(1,347)	1,362
Investing activities		
Changes in non-cash working capital:		
Trade and other receivables	**(2,370)**	863
Prepaid expenses and deposits	**-**	(7)
Trade and other payables and accrued liabilities	**(640)**	(2,361)
	(3,010)	(1,505)
Financing activities		
Changes in non-cash working capital:		
Trade and other payables and accrued liabilities	**-**	(60)
	-	(60)

Interest paid in the year ended December 31, 2014 was $0.7 million (December 31, 2013 – $0.2 million). Interest received in the year ended December 31, 2014 was $0.1 million (December 31, 2013 – $0.6 million). Dividends received during the year ended December 31, 2014 were $0.7 million (December 31, 2013 – $0.7 million).

19. RISK MANAGEMENT

The Company is exposed to a number of risks associated with its financial assets and liabilities. These risks include commodity price risk, interest rate risk, equity price risk, foreign exchange risk, credit risk and liquidity risk. The Company has several practices and policies in place to help mitigate these risks.

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 does not have 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 earnings for the year ended December 31, 2014 would have increased or decreased, respectively, by $0.5 million.

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 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, 2014 of $14.6 million (December 31, 2013 – $9.2 million), 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. When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. 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 2014, Pine Cliff raised $57.1 million (net of share issue costs) through a public share offerings and increased the revolving demand credit facility. The existing banking arrangements at December 31, 2014 comprise of a revolving demand credit facility in the amount of $70.0 million, of which $47.8 million is drawn at December 31, 2014. 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	11,280	11,280	-	-
Bank loan - principal	Yes - Liability	47,755	47,755	-	-
Bank loan - future interest	No	746	746	-	-
Office and equipment leases	Yes - Liability	79	36	36	7
Vehicle leases	Yes - Liability	360	55	55	250
		60,220	59,872	91	257

20. 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:

	December 31, 2014	December 31, 2013
Bank debt	**47,755**	200
Trade and other payables and accrued liabilities	**11,280**	8,579
Less:		
Trade and other receivables	**(14,582)**	(9,217)
Cash and cash equivalents	**(196)**	(1,305)
Prepaid expenses and deposits	**(1,990)**	(591)
Investments	**(8,755)**	(11,287)
Net debt	**33,512**	(13,621)
Equity	**187,149**	129,022

The Company 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, 2014**	December 31, 2013
Net debt	**33,512**	(13,621)
Equity	**187,149**	129,022
Net debt to equity	**0.18**	(0.11)

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. Net debt-to-funds flow from operations is computed as follows:

		Trailing twelve months ended
Net debt-to-funds flow from operations calculation:	**December 31, 2014**	December 31, 2013
Cash provided by operating activities	**37,641**	16,062
Changes in non-cash working capital	**(1,347)**	1,362
Funds flow from operations	**38,988**	14,700
Net debt	**33,512**	(13,621)
Net debt-to-funds flow from operations	**0.9**	(0.9)

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, 2014 and its capital management objectives.

21. SUBSEQUENT EVENTS

Subsequent to December 31, 2014, Pine Cliff issued 747,500 common shares as a result of stock option exercises completed at a weighted average exercise price of $0.87 per share.

On February 2, 2015, Pine Cliff issued a standby letter of credit to the National Energy Board for $0.6 million.

BOARD OF DIRECTORS

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

OFFICERS

George F. Fink
Executive Chairman of the Board

Philip B. Hodge
President and Chief Executive Officer

Kristi L. Kunec
Chief Financial Officer and Secretary

Terry L. McNeill
Chief Operating Officer

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Deloitte LLP
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BANKERS

Alberta Treasury Branches
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: PNE

WEBSITE

www.pinecliffenergy.com

Pine Cliff Energy Ltd.