

A silhouette of a person running is shown against a dramatic sky at sunset or sunrise. The sun is low on the horizon, creating a bright glow and casting long shadows. The sky transitions from a deep blue at the top to a warm orange and yellow near the horizon. The runner is in mid-stride, moving from left to right.

Long-term Value Focus  
Annual Report 2016



2016 was a difficult year for the oil and gas industry and definitely the most challenging year since I have been at Pine Cliff. Despite annual AECO prices being the lowest in 18 years and our 2016 realized natural gas price only being \$2.13 per Mcf, we exited the year with a record quarter for both revenue, and more importantly, cash flow. The fourth quarter gave us insight into what our assets and team can achieve in an improved natural gas environment. Significant highlights from the fourth quarter of 2016 were:

- achieved record quarterly funds flow from operations of \$15.0 million (\$0.05 per basic share), 129% higher than the \$6.6 million (\$0.03 per basic share) in the fourth quarter of 2015;
- achieved record revenue of \$35.2 million, 73% higher than the \$20.3 million in the fourth quarter of 2015;
- achieved earnings of \$3.2 million (\$0.01 per basic share) compared to a loss of \$3.3 million ((\$0.01) per basic share) in the fourth quarter of 2015;
- increased production by 43% to 21,525 Boe/d (93% natural gas) from 15,051 Boe/d (94% natural gas) in the fourth quarter of 2015 (a 12% increase on a per basic share basis);
- closed the disposition of a non-core oil asset for total proceeds of \$31.7 million;
- continued to strengthen our balance sheet, paying down \$40.9 million of bank debt, ending the year with \$30.9 million in bank debt; and
- reduced net debt by \$46.1 million, ending the year with \$64.2 million in net debt.

Our primary focus in 2016 was to strengthen our balance sheet and integrate the largest asset acquisition we had ever undertaken. We are proud of the fact that we reduced our bank debt by \$125.0 million in 2016 without issuing equity to dilute our shareholders, and at the same time, we continued to improve margins in our business. We recognize that we cannot control the price of natural gas, weather or government policies, so we stayed focused controlling what we can, which is reducing costs, prudently spending capital and lowering our production decline, while still operating our assets to the same high standards that we always have. As natural gas prices recovered in the fourth quarter, we saw the benefits of these efforts with the record funds flow we reported, even though our realized natural gas price for the quarter was only \$2.95 per Mcf. Pine Cliff achieved 2016 funds flow from operations of \$19.7 million (\$0.06 per basic share) with minimal production decline (net of dispositions), while only spending \$8.4 million in net capital. We consider that to be strong evidence of the sustainability of our assets and the business model we have built.

#### Outlook

The 2016-2017 winter has turned out to be equally as warm in the Eastern markets as last year, which is continuing to put downward pressure on natural gas prices, but there is reason for optimism. We continue to believe that there have been three fundamental structural changes in North American natural gas demand that have been masked by back-to-back record warm winters. First, material shipments of LNG began leaving North America for the first time in 2016, and current shipments are expected to be approximately 3.8 Bcf per day by the end of 2017. This LNG export number is projected to rise to over ten Bcf per day by 2020, which would be over 14% of current U.S. natural gas production of 70 Bcf per day. Second, Mexican pipeline imports from the U.S. are expected to exceed 4.0 Bcf per day in 2017 from less than 2.0 Bcf per day in 2014. And finally, for the first time ever, natural gas surpassed coal in 2016 as the largest source of electricity generation in the U.S. All of these demand variables have improved while at the same time U.S. natural gas supply in 2016 dropped for the first time in 11 years. Canadian natural gas prices are already considerably stronger now than they were this time last year despite the warm weather. We remain confident that natural gas pricing will continue to react positively to these fundamental changes and that natural gas storage in North America will be reduced below historical averages if temperatures revert to more “normal” patterns.

Over the last five years, Pine Cliff has built up a portfolio of assets that we estimate can generate positive funds flow in 2017 at natural gas prices above \$1.70 per Mcf and generate positive funds flow while keeping production flat in 2017 at natural gas prices above \$2.15 per Mcf. Those numbers again speak to the sustainability of the business model we have built. If natural gas prices rise, as we expect they eventually will, we are well positioned as every \$0.10 per Mcf move in AECO prices equates to almost \$4.2 million of annual funds flow, or \$0.014 per outstanding basic share.

Exiting 2016 with a strong balance sheet will allow us to withstand volatility in natural gas prices as well as provide us flexibility for possible future acquisitions. We believe that our perseverance and discipline in building a company focused on increasing value on a per share basis will ultimately reward all those who share our long term vision on natural gas pricing.

Finally, I would like to thank our staff for their hard work and dedication through a difficult year and would like to thank our shareholders for your continued support.

Yours truly,



Phil Hodge  
President and Chief Executive Officer  
March 14, 2017

*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 and definitions. 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, 2016, which can be found on [www.sedar.com](http://www.sedar.com) and is subject to the same cautionary statements as set out therein.*

	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
(\$000s, unless otherwise indicated)				
<b>FINANCIAL<sup>1</sup></b>				
<b>Oil and gas sales (before royalty expense)</b>	<b>38,316</b>	21,548	<b>118,642</b>	78,593
<b>Cash flow from operating activities</b>	<b>12,632</b>	973	<b>22,489</b>	20,768
<b>Funds flow from operations<sup>2</sup></b>	<b>15,026</b>	6,550	<b>19,741</b>	25,818
Per share – Basic and Diluted (\$/share)	<b>0.05</b>	0.03	<b>0.06</b>	0.11
<b>Earnings (Loss)</b>	<b>3,210</b>	(3,300)	<b>(50,387)</b>	(24,257)
Per share – Basic and Diluted (\$/share)	<b>0.01</b>	(0.01)	<b>(0.16)</b>	(0.10)
<b>Capital expenditures</b>	<b>3,356</b>	1,875	<b>9,159</b>	7,259
<b>Acquisitions, after adjustments</b>	<b>(1,029)</b>	179,540	<b>(807)</b>	193,065
<b>Proceeds on dispositions</b>	<b>(33,032)</b>	-	<b>(63,112)</b>	-
<b>Net Debt<sup>3</sup></b>	<b>64,224</b>	141,770	<b>64,224</b>	141,770
Weighted-average common shares outstanding (000s)				
Basic	<b>306,977</b>	240,983	<b>306,329</b>	240,149
Diluted	<b>307,095</b>	240,983	<b>306,329</b>	240,149
<b>OPERATIONS</b>				
<b>Production</b>				
Natural gas (Mcf/d)	<b>120,540</b>	85,233	<b>124,906</b>	72,984
Crude oil (Bbls/d)	<b>602</b>	264	<b>753</b>	160
Natural gas liquids (Bbls/d)	<b>833</b>	581	<b>924</b>	530
Total (Boe/d)	<b>21,525</b>	15,051	<b>22,495</b>	12,854
<b>Realized commodity sales prices</b>				
Natural gas (\$/Mcf)	<b>2.95</b>	2.47	<b>2.13</b>	2.66
Crude oil (\$/Bbl)	<b>49.12</b>	44.07	<b>37.41</b>	48.26
Natural gas liquids (\$/Boe)	<b>37.08</b>	21.17	<b>32.53</b>	25.00
Combined (\$/Boe)	<b>19.35</b>	15.56	<b>14.41</b>	16.75
<b>Netback (\$/Boe)</b>				
Oil and gas sales	<b>19.35</b>	15.56	<b>14.41</b>	16.75
Royalty income	-	0.04	<b>0.13</b>	0.06
Royalty expense	<b>(1.59)</b>	(1.03)	<b>(1.07)</b>	(1.08)
Operating costs	<b>(8.95)</b>	(8.41)	<b>(9.39)</b>	(8.65)
Operating netback (\$/Boe) <sup>4</sup>	<b>8.81</b>	6.16	<b>4.08</b>	7.08
General and administrative	<b>(0.47)</b>	(0.98)	<b>(0.85)</b>	(1.24)
Interest and bank charges and dividend income	<b>(0.75)</b>	(0.44)	<b>(0.84)</b>	(0.33)
Corporate netback (\$/Boe) <sup>5</sup>	<b>7.59</b>	4.74	<b>2.39</b>	5.51
Operating netback (\$ per Mcfe) <sup>4</sup>	<b>1.47</b>	1.03	<b>0.68</b>	1.18
Corporate netback (\$ per Mcfe) <sup>5</sup>	<b>1.27</b>	0.79	<b>0.40</b>	0.92

<sup>1</sup> Includes results for acquisitions and excludes results for dispositions from the closing dates.

<sup>2</sup> Funds flow from operations is a non-IFRS measure that represents the total of funds provided by operating activities, before adjusting for changes in non-cash working capital, and decommissioning obligations settled.

<sup>3</sup> Net debt is a non-IFRS measure calculated as the sum of bank debt, subordinated promissory notes at the principal amount, amounts due to related party, and trade and other payables less trade and other receivables, cash, prepaid expenses and deposits and investments.

<sup>4</sup> Operating netback is a non-IFRS measure calculated as the Company's total revenue, less operating expenses, divided by the Boe production of the Company for the period.

<sup>5</sup> Corporate netback is a non-IFRS measure calculated as the Company's operating netback, less general and administrative expenses, interest and bank charges plus finance and dividend income, divided by the Boe production of the Company.

**RESERVES INFORMATION**

McDaniel's and Associates Limited was engaged to prepare evaluations of the Company's reserves at December 31, 2016. The evaluations of petroleum and natural gas reserves were conducted in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101") with the effective date of December 31, 2016. The gross reserves in the following tables represent Pine Cliff's ownership interest before royalties and before consideration of the Company's royalty interest reserves. Tables may not add due to rounding. As defined in NI 51-101, proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is 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 plus probable reserves. Tables may not add due to rounding.

Where amounts are expressed on a Boe basis, natural gas volumes have been converted to oil equivalence at six Mcf per one Bbl. Where amounts are expressed in Mcfe, natural gas liquids and oil volumes are converted to one Mcfe using the same ratio. The terms Boe and Mcfe may be misleading, particularly if used in isolation. This conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Highlights of Pine Cliff's reserves for the 2016 year include:

- Net present value for proved plus probable reserves of \$346.9 million, discounted at 10%, an increase of \$6.9 million, or 2%, from December 31, 2015, despite dispositions totaling \$64.0 million in 2016;
- Prior to adjusting for 2016 production, total positive net changes to proved reserves were 2.6 MMBoe (4%), including 1.9 MMBoe of dispositions, from December 31, 2015, which was largely as a result of improved well performance and lower production costs;
- Remaining proved reserves of 53.8 MMBoe (94% natural gas) at December 31, 2016, decreased by 5.7 MMBoe (10%) from 59.5 MMBoe (91% natural gas) at December 31, 2015;
- Prior to adjusting for 2016 production, total positive net changes to proved plus probable reserves were 0.5 MMBoe (1%), including 2.4 MMBoe of dispositions from December 31, 2015, which was largely as a result of improved well performance and lower production costs;
- Remaining proved plus probable reserves of 70.9 MMBoe (94% natural gas) at December 31, 2016, decreased by 7.8 MMBoe from 78.7 MMBoe (91% natural gas) at December 31, 2015;
- Approximately 76% of total proved plus probable reserves are classified as proved reserves and 24% are classified as probable reserves;
- Approximately 98% of proved reserves are classified as proved developed producing; and
- As Pine Cliff has historically focused on acquiring new assets rather than drilling existing reserves, the McDaniel reserve report reflects a conservative future development capital program of \$57.8 million over the next five years.

**Summary of Remaining Working Interest Reserves, as of December 31, 2016**

Reserve Category:	Light, Medium and Heavy Oil Gross MBbl	Natural Gas (Conventional natural gas and coal bed methane)	Natural Gas Liquids	Boe
		Gross MMcf	Gross MBbl	Gross MBoe
<b>Proved</b>				
Developed Producing	509.6	297,548.4	2,539.8	52,640.8
Developed Non-Producing	0.9	260.5	13.8	58.1
Undeveloped	26.2	4,731.8	287.4	1,102.2
<b>Total Proved</b>	<b>536.6</b>	<b>302,540.7</b>	<b>2,841.0</b>	<b>53,801.1</b>
Probable	233.3	96,094.8	885.2	17,134.3
<b>Total Proved plus Probable</b>	<b>770.0</b>	<b>398,635.5</b>	<b>3,726.2</b>	<b>70,935.5</b>

**Summary of Net Present Values of Future Net Revenue, Before Income Taxes, as of December 31, 2016<sup>1</sup>**

(\$000,000's)	Discounted at (% per Year)			
	0%	5%	10%	15%
<b>Reserve Category:</b>				
<b>Proved</b>				
Developed Producing	331.7	303.2	269.5	240.0
Developed Non-Producing	0.5	0.5	0.5	0.4
Undeveloped	8.7	5.6	3.6	2.4
<b>Total Proved</b>	<b>340.9</b>	<b>309.3</b>	<b>273.6</b>	<b>242.8</b>
Probable	176.9	112.0	73.4	49.7
<b>Total Proved plus Probable</b>	<b>517.8</b>	<b>421.2</b>	<b>346.9</b>	<b>292.5</b>

<sup>1</sup>Includes abandonment and reclamation costs.

**Reconciliation of Gross Reserves by Principal Product Type, as of December 31, 2016**

	Light, Medium and Heavy Oil and Natural Gas Liquids		Natural Gas		Boe	
	Proved	Proved plus Probable	Proved	Proved plus Probable	Proved	Proved Plus Probable
	(MBbl)	(MBbl)	(MMcf)	(MMcf)	(MBoe)	(MBoe)
<b>December 31, 2015</b>	<b>5,576.6</b>	<b>7,334.1</b>	<b>323,254.6</b>	<b>428,803.0</b>	<b>59,452.4</b>	<b>78,701.3</b>
Acquisition	19.2	23.3	1,143.2	1,492.5	209.7	272.1
Disposition	(1,780.1)	(2,219.3)	(756.7)	(920.0)	(1,906.2)	(2,372.6)
Extension	1.4	71.8	169.8	1,473.7	29.7	317.4
Technical revisions	174.2	0.1	24,445.6	13,502.0	4,248.5	2,250.5
Production <sup>1</sup>	(613.7)	(613.7)	(45,715.8)	(45,715.8)	(8,233.0)	(8,233.0)
<b>December 31, 2016</b>	<b>3,377.6</b>	<b>4,496.2</b>	<b>302,540.7</b>	<b>398,635.5</b>	<b>53,801.1</b>	<b>70,935.6</b>

<sup>1</sup>The production shown in the above reconciliation includes production from the acquisitions as of the closing dates.

**Finding, Development and Acquisition ("FD&A") Costs<sup>1</sup>**

Pine Cliff has been developing its asset base, primarily through acquisitions. Over the past three years, the Company has incurred the following FD&A costs, including changes in future development capital:

	2016 <sup>(1)</sup>	2015 <sup>(2)</sup>	2014 <sup>(2)</sup>	3 year average <sup>(2)</sup>
<b>\$/Boe</b>				
Proved Reserves	0.01	5.36	7.76	4.60
Proved plus probable reserves	0.33	4.58	7.06	4.32
<b>\$/Mcf</b>				
Proved Reserves	0.00	0.89	1.29	0.77
Proved plus probable reserves	0.05	0.76	1.18	0.72

<sup>1</sup>2016 FD&A costs, including changes in future development capital, are calculated as the aggregate of development capital plus acquisition capital and excluding disposition capital plus the change in future development capital dividend by the change in total reserves for the period, excluding dispositions and production.

<sup>2</sup>FD&A costs are calculated as the aggregate of development capital plus acquisition capital, net of dispositions, plus the change in future development capital for the period divided by the change in total reserves for the period, excluding production.

Pine Cliff has incurred the following FD&A costs, excluding changes in future development capital:

	2016 <sup>(3)</sup>	2015 <sup>(4)</sup>	2014 <sup>(4)</sup>	3 year average <sup>(4)</sup>
<b>\$/Boe</b>				
Proved Reserves	1.86	5.26	9.89	5.23
Proved plus probable reserves	2.94	4.14	7.67	4.28
<b>\$/Mcf</b>				
Proved Reserves	0.31	0.88	1.65	0.87
Proved plus probable reserves	0.49	0.69	1.28	0.71

<sup>3</sup> 2016 FD&A costs, including changes in future development capital, are calculated as the aggregate of development capital plus acquisition capital and excluding disposition capital divided by the change in total reserves for the period, excluding dispositions and production.

<sup>4</sup> FD&A costs are calculated as the aggregate of development capital plus acquisition capital, net of dispositions for the period divided by the change in total reserves for the period, excluding production.

### Commodity Prices

The Commodity prices used in the above calculations of reserves are as follows:

Year	WTI Oil (US\$/Bbl) <sup>1</sup>	\$C to US\$ Foreign exchange rate <sup>1</sup>	Edmonton Light Crude Oil (Cdn\$/Bbl) <sup>1</sup>	AECO Gas (Cdn\$/MMBtu) <sup>1</sup>
2017	55.00	1.33	69.80	3.40
2018	58.70	1.29	72.70	3.15
2019	62.40	1.25	75.50	3.30
2020	69.00	1.21	81.10	3.60
2021	75.80	1.18	86.60	3.90
2022	77.30	1.18	88.30	3.95
2023	78.80	1.18	90.00	4.10
2024	80.40	1.18	91.80	4.25
2025	82.00	1.18	93.70	4.30
2026	83.70	1.18	95.60	4.40
2027	85.30	1.18	97.40	4.50
2028	87.00	1.18	99.40	4.60
2029	88.80	1.18	101.40	4.65
2030	90.60	1.18	103.50	4.75
2031	92.40	1.18	105.50	4.85
Thereafter	+2.0%/yr	1.18	+2.0%/yr	+2.0%/yr

<sup>1</sup> Source: McDaniel & Associates Consultants Ltd. Price forecasts, effective January 1, 2017

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 and definitions. This Reserves Information should be read in conjunction with the audited consolidated financial statements of Pine Cliff Energy Ltd. together with Management's Discussion and Analysis and Annual Information Form for the year ended December 31, 2016, which can be found on [www.sedar.com](http://www.sedar.com) and is subject to the same cautionary statements as set out therein.

## 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, 2016, 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, 2016 and 2015, together with the notes related thereto (the "Financial Statements"). The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional information relating to the Company, including the Company's Annual Information Form, may be found on [www.sedar.com](http://www.sedar.com) and by visiting Pine Cliff's website at [www.pinecliffenergy.com](http://www.pinecliffenergy.com).

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

## READER ADVISORIES

This MD&A contains financial measures that are not defined under IFRS and forward-looking statements. Please refer to the sections titled "NON-IFRS MEASURES" and "FORWARD LOOKING INFORMATION".

### 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.

Natural gas liquids and oil volumes are recorded in barrels of oil ("Bbl") and are converted to a thousand cubic feet equivalent ("Mcf") using a ratio of six (6) thousand cubic feet to one (1) Bbl. Natural gas volumes recorded in thousand cubic feet ("Mcf") are converted to barrels of oil equivalent ("Boe") using the ratio of six (6) thousand cubic feet to one (1) Bbl. 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 or Mcfe 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 <sup>1</sup>		
	Change	\$000s	\$ per share <sup>3</sup>
Crude oil price - Edmonton par (\$/Bbl) <sup>2</sup>	\$1.00	420	0.00
Natural gas price -AECO (\$/Mcf) <sup>2</sup>	\$0.10	4,180	0.01
Interest rate on variable rate debt <sup>4</sup>	1.0%	420	0.00

<sup>1</sup>This analysis does not adjust for changes in working capital and uses current royalty rates.

<sup>2</sup>Pine Cliff has prepared this analysis using its fourth quarter of 2016 production volumes annualized for twelve months.

<sup>3</sup>Based on the fourth quarter of December 31, 2016 basic weighted average shares outstanding of 306,976,657.

<sup>4</sup>Based on December 31, 2016 bank debt of \$30.9 million, 2018 Notes, as defined herein, of \$6.0 million, and 2018 Related Party Notes, as defined herein, of \$5.0 million.

## Fourth quarter 2016 highlights

Significant highlights from the fourth quarter of 2016 are as follows:

- achieved record quarterly funds flow from operations of \$15.0 million (\$0.05 per basic share), 129% higher than the \$6.6 million (\$0.03 per basic share) in the fourth quarter of 2015;
- achieved record revenue of \$35.2 million, 73% higher than the \$20.3 million in the fourth quarter of 2015;
- achieved earnings of \$3.2 million (\$0.01 per basic share) compared to a loss of \$3.3 million ((\$0.01) per basic share) in the fourth quarter of 2015;
- increased production by 43% to 21,525 Boe/d (93% natural gas) from 15,051 Boe/d (94% natural gas) in the fourth quarter of 2015 (a 12% increase on a per basic share basis);
- closed the disposition of a non-core oil asset for total proceeds of \$31.7 million;
- continued to strengthen our balance sheet, paying down \$40.9 million of bank debt, ending the year with \$30.9 million in bank debt; and
- reduced net debt by \$46.1 million, ending the year with \$64.2 million in net debt.



## PINE CLIFF'S STRATEGIC OBJECTIVES AND ACQUISITIONS

Pine Cliff is a natural gas focused, exploration and production company operating in the Western Canadian Sedimentary Basin ("WCSB"). The Company's strategy is to deliver long-term value to shareholders by building upon and developing its existing portfolio of long-life, low decline natural gas assets, while also actively seeking counter cyclical growth opportunities to acquire natural gas assets.

The Company has been active in the acquisition and divestiture market since January 2012, with the most recent transactions including the:

- Acquisition of certain shallow natural gas assets in the Southern core area and Edson core area in May 2015 (the "**May 2015 Acquisition**");
- Acquisition of certain oil and natural gas assets in the Viking and Ghost Pine areas of Central Alberta in December 2015 (the "**December 2015 Acquisition**");
- Disposition of certain fee lands and royalty interests in June 2016 (the "**Royalty Disposition**"); and
- Disposition of non-core oil assets in December 2016 (the "**December 2016 Disposition**").

Management believes the assets that have been assembled to date, and the cash flow from these assets, provide Pine Cliff with a strong foundation from which to generate long-term growth in shareholder value.

## PINE CLIFF'S OPERATIONS

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

- Central Area – Pine Cliff holds low decline assets in the Ghost Pine/Three Hills and Camrose/Viking areas of Central Alberta with average mineral working interests of 76% and 79% respectively. Both areas are characterized with multiple stacked productive horizons. Ghost Pine/Three Hills production and development opportunities are mostly from the late Cretaceous Horse Shoe Canyon Edmonton group and the stacked Belly River sands. The majority of the Viking production comes from the Viking shore face sands but there is potentially material upside in the Colorado Shale which is a deep water siltstone. Pine Cliff has identified 892 gross (525 net) potential vertical drilling locations in the Ghost Pine/Three Hills Horseshoe Canyon Coal Bed Methane fairway, 138 gross (138 net) potential horizontal gross drilling locations in the Viking Colorado Shale and additional recompletion opportunities in this area.
- Southern Area – Pine Cliff holds an approximate 85% working interest in a number of low decline, producing shallow gas assets mainly in Southeast Alberta and Southwest Saskatchewan. 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 some of the largest gas fields in Western Canada. These fields are characterized by their shallow depths, low-permeability, clay-rich sands and long production life.
- Edson Area – Pine Cliff holds an average 42% working interest in a group of liquid rich natural gas assets located near the town of Edson, Alberta. In addition to the producing assets, Pine Cliff has, in aggregate, 42 gross (11.9 net) sections of undeveloped land with over 91 gross (33 net) potential gross drilling locations. The Edson Assets are "deep basin" assets with multi-zone potential, many of which can be exploited using horizontal drilling technology.
- Other Areas – Pine Cliff also has working interests in non-core and non-operated properties in the Sundance, Harmattan, and Garrington areas of Alberta, and in the Cadillac area of Southern Saskatchewan.

## GUIDANCE FOR 2017

The Pine Cliff 2017 guidance provides information as to management's expectation for results of operations for 2017. Readers are cautioned that the 2017 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. See "**FORWARD-LOOKING INFORMATION**".

**Production<sup>1</sup>**

	<b>2017 Guidance</b>	Year ended December 31, 2016
Barrels of oil equivalent per day (Boe/d)	<b>21,250 – 21,750</b>	22,495
Million of cubic feet equivalent per day (Mcf/d)	<b>127,500 – 130,500</b>	134,968

<sup>1</sup> Includes results for acquisitions and excludes results for dispositions from the closing dates.

Pine Cliff is projecting 2017 production volumes of 21,250 – 21,750 Boe/d (127,500 – 130,500 Mcfe/d), weighted approximately 94% towards natural gas.

**Capital Expenditures**

(\$000s)	<b>2017 Guidance</b>	Year ended December 31, 2016
Total, excluding acquisitions	<b>18,500</b>	9,159

Pine Cliff's board of directors has approved a capital budget of \$18.5 million for 2017. Pine Cliff anticipates directing \$13.5 million of the capital budget to drilling in the Edson and Central areas of Alberta and conducting recompletions in various areas. Additionally, Pine Cliff anticipates spending approximately \$3.3 million on major maintenance capital and \$1.7 million on facility and other capital. Pine Cliff will monitor its capital spending throughout the year, and it may be modified depending on commodity prices, drilling results and non-operated drilling activity.

Pine Cliff will continue to focus on additional opportunities to enhance shareholders' long term value which could include additional asset acquisitions or dispositions.

**Operating and General & Administrative Expenditures**

Pine Cliff anticipates operating expenses to average approximately \$9.20 per Boe (\$1.53 per Mcfe) in 2017, and general & administrative expenses to average approximately \$1.05 per Boe (\$0.18 per Mcfe) in 2017.

**QUARTERLY INFORMATION**

**BENCHMARKS PRICES**

Pine Cliff's financial results are significantly influenced by fluctuations in commodity prices, including price differentials. The following table shows select market benchmark average 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.

	<b>Q4-2016</b>	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015	Q2-2015	Q1-2015
<b>Natural gas</b>								
NYMEX (US\$/Mmbtu) <sup>1</sup>	<b>2.95</b>	2.78	1.95	2.05	2.28	2.77	2.67	2.96
AECO Daily 5A (C\$/Mcf) <sup>2</sup>	<b>3.08</b>	2.31	1.39	1.82	2.45	2.89	2.64	2.74
<b>Crude oil</b>								
WTI (US\$/Bbl)	<b>49.29</b>	44.94	45.59	33.45	42.18	46.43	57.94	48.63
Edmonton light (C\$/Bbl)	<b>61.61</b>	54.71	54.71	40.69	52.87	56.17	67.63	51.78
<b>Foreign exchange</b>								
US\$/C\$	<b>1.334</b>	1.305	1.289	1.375	1.335	1.309	1.229	1.241

<sup>1</sup> Mmbtu is the abbreviation for millions of British thermal units. One Mcf of natural gas is approximately 1.02 Mmbtu.

<sup>2</sup> AECO prices are quoted in \$/Gigajoule. Price has been converted from \$/GJ to \$/Mcf by multiplying by 1.05.

North American natural gas benchmarks continued to recover in the three months ended December 31, 2016, increasing by 6% from the three months ended September 30, 2016, and increasing by 29% from the three months ended December 31, 2015. The increase in prices in the second half of 2016 is a result of decreased natural gas supply and increasing natural gas demand from coal to natural gas shifting, LNG exports leaving North America and increasing exports to Mexico from the US. The price realized by the Company for natural gas production from Western Canada is determined primarily by the Alberta price hub AECO/NIT since all of Pine Cliff's natural gas production is in Alberta and Saskatchewan.

The average WTI benchmarks and Edmonton light crude increased by 13% and 10% in the three months ended December 31, 2016 the three months ended September 30, 2016. Oil prices continue to be range bound as an oversupplied market, and increases in production from the shale plays in the United States have countered production cuts that were announced by OPEC in late 2016. 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. Pine Cliff's oil is sold at a discount to the Edmonton Light crude oil price as a result of quality differences.

The supply and demand dynamics for certain NGL components such as ethane, propane, butane, and condensate in the recent past has impacted the relationship between the price of NGLs and the price of oil. In the three months ended December 31, 2016, the realized price of Pine Cliff's NGL's was \$37.08, which was 56% of WTI.

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.

#### QUARTERLY TRENDS AND SELECTED FINANCIAL AND OPERATIONS INFORMATION<sup>1</sup>

(\$000s, unless otherwise indicated)	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>FINANCIAL</b>								
Total revenue	35,189	30,067	19,905	25,891	20,258	19,517	16,784	17,608
Cash flow from operating activities	12,632	4,606	(4,371)	9,622	973	6,617	4,182	8,996
Cash flow from operating activities per share – basic and diluted (\$/share)	0.05	0.02	(0.01)	0.00	0.03	0.03	0.02	0.03
Funds flow from operations <sup>2</sup>	15,026	6,972	(3,655)	1,398	6,550	7,507	5,555	6,206
Impairments	4,648	-	-	-	-	7,586	-	-
Earnings (loss)	3,210	(11,558)	(25,862)	(16,177)	(3,300)	(10,697)	(4,757)	(5,503)
Earnings (loss) per share – basic and diluted (\$/share)	0.01	(0.04)	(0.08)	(0.05)	(0.01)	(0.05)	(0.02)	(0.03)
Capital expenditures	3,356	1,437	749	3,617	1,875	2,051	447	2,886
Acquisitions, after adjustments	(1,029)	(603)	240	585	179,540	(166)	13,304	387
Capital dispositions	(33,032)	(5,378)	(24,702)	-	-	-	-	-
Net debt <sup>3</sup>	64,224	110,312	122,032	143,587	141,770	35,208	38,405	31,279
Weighted average common shares outstanding:								
Basic	306,977	306,878	305,928	305,512	240,983	236,920	236,022	234,446
Diluted	307,095	306,878	305,928	305,512	240,983	236,920	236,022	234,446
<b>PRODUCTION VOLUMES</b>								
Natural gas (Mcf/d)	120,540	125,082	124,966	129,085	85,233	70,843	67,502	68,208
Crude oil (Bbls/d)	602	803	886	723	264	128	119	128
Natural gas liquids (Bbls/d)	833	871	933	1,060	581	569	445	525
Average sales volumes (Boe/d)	21,525	22,521	22,647	23,297	15,051	12,504	11,814	12,021
Average sales volumes (Mcf/d)	129,150	135,126	135,880	139,783	90,303	75,025	70,886	72,126
<b>PRICES AND NETBACKS</b>								
Total oil and gas sales (\$/Boe)	19.35	15.64	10.04	12.84	15.56	18.19	16.12	17.37
Operating netback (\$/Boe) <sup>4</sup>	8.81	5.08	(0.02)	2.68	6.16	7.92	7.08	7.33
Corporate netback (\$/Boe) <sup>5</sup>	7.59	3.36	(1.76)	0.66	4.74	6.52	5.19	5.72
Total oil and gas sales (\$/Mcf)	3.23	2.61	1.67	2.14	2.59	3.03	2.69	2.90
Operating netback (\$/Mcf) <sup>4</sup>	1.47	0.85	-	0.45	1.03	1.32	1.18	1.22
Corporate netback (\$/Mcf) <sup>5</sup>	1.27	0.56	(0.29)	0.11	0.79	1.09	0.87	0.95

<sup>1</sup> Includes results for acquisitions and excludes results for dispositions from the closing dates.

<sup>2</sup> Funds flow from operations is a non-IFRS measure that represents the total of funds provided by operating activities, before adjusting for changes in non-cash working capital, and decommissioning obligations settled.

<sup>3</sup> Net debt is a non-IFRS measure calculated as the sum of bank debt, subordinated promissory notes at the principal amount, amounts due to related party, and trade and other payables less trade and other receivables, cash, prepaid expenses and deposits and investments.

<sup>4</sup> Operating netback is a non-IFRS measure calculated as the Company's total revenue, less operating expenses, divided by the Boe production of the Company for the period.

<sup>5</sup> Corporate netback is a non-IFRS measure calculated as the Company's operating netback, less general and administrative expenses, interest and bank charges plus finance and dividend income, divided by the Boe production of the Company.

Over the past eight quarters, Pine Cliff's revenues, cash and funds flow from operating activities and earnings (loss) have fluctuated due to changes in commodity prices and sales volumes. Earnings (loss) also fluctuates with non-cash expenditures, including depletion, depreciation and impairments. Selected highlights for the past eight quarters are presented below:

- Average sales volumes increased from the third quarter in 2015 to the first quarter of 2016 as a result of the May 2015 Acquisition and the December 2015 Acquisition. Sales volumes decreased in the second to fourth quarters of 2016 related to natural production declines and dispositions in the third and fourth quarters of 2016, partially offset by production additions from modest capital spending in 2016.
- Total revenue of \$35.2 million in the fourth quarter of 2016 was the highest in the past eight quarters due to higher natural gas prices and was higher than the first quarter of 2015 to the third quarter of 2015 due to higher production from the May 2015 and the December 2015 Acquisitions, partially offset by production decreases related to dispositions in the third and fourth quarters of 2016 and lower realized crude oil and natural gas prices.
- Funds flow from operating activities of \$15.0 million in the fourth quarter of 2016 was the highest in the past eight quarters as a result of higher natural gas prices.
- Earnings of \$3.2 million in the fourth quarter of 2016 was the highest in the past eight quarters as a result of higher natural gas prices.
- In the fourth quarter of 2016, the Company recorded an impairment to exploration and evaluation assets of \$4.6 million relating to the Southern Assets. In the third quarter of 2015, the Company recorded an impairment to property, plant and equipment of \$7.6 million relating to the Edson Assets.

#### SALES VOLUMES

Total sales volumes by product	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Natural gas (Mcf)	11,089,678	7,841,432	41	45,715,776	26,639,158	72
Crude oil (Bbls)	55,418	24,259	128	275,691	58,408	372
NGLs (Bbls)	76,611	53,419	43	338,025	193,616	75
Total Boe	1,980,309	1,384,583	43	8,233,012	4,691,884	75
Total Mcfe	11,881,852	8,307,500	43	49,398,072	28,151,302	75
Natural gas weighting	93%	94%	(1)	93%	95%	(2)

Average daily sales volumes by product	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Natural gas (Mcf/d)	120,540	85,233	41	124,906	72,984	71
Crude oil (Bbls/d)	602	264	128	753	160	371
NGLs (Bbls/d)	833	581	43	924	530	74
Total (Boe/d)	21,525	15,051	43	22,495	12,854	75
Total (Mcfe/d)	129,150	90,303	43	134,968	77,124	75

Average daily sales volumes by area	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Central Assets (Boe/d)	10,099	2,425	316	10,662	611	1645
Southern Assets (Boe/d)	9,264	10,301	(10)	9,487	10,125	(6)
Edson (Boe/d)	1,932	2,049	(6)	2,081	1,902	9
Other properties (Boe/d)	230	276	(17)	265	216	23
Total (Boe/d)	21,525	15,051	43	22,495	12,854	75
Total (Mcfe/d)	129,150	90,303	43	134,968	77,124	75

Pine Cliff's sales volumes increased 43% to 21,525 Boe/d (129,150 Mcfe/d) and 75% to 22,495 Boe/d (134,968 Mcfe/d) in the three months and year ended December 31, 2016, as compared to the same periods of 2015. The increases were primarily the result of the May 2015 Acquisition and the December 2015 Acquisition along with production additions from modest 2015 and 2016 capital programs, slightly offset by minor shut-in production and property dispositions. Base production continues to perform well in all areas with an estimated corporate decline rate of approximately 10%.

## OIL AND GAS SALES

### Oil and Gas Sales

(\$000s)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Natural gas	32,753	19,348	69	97,331	70,933	37
Crude oil	2,722	1,069	155	10,314	2,819	266
NGL	2,841	1,131	151	10,997	4,841	127
Total oil and gas sales	38,316	21,548	78	118,642	78,593	51

### Benchmark Pricing

	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
<b>Natural gas</b>						
NYMEX (US\$/Mmbtu) <sup>1</sup>	2.95	2.28	29	2.43	2.67	(9)
AECO Daily 5A (C\$/Mcf) <sup>2</sup>	3.08	2.45	26	2.15	2.68	(20)
<b>Crude oil</b>						
WTI (US\$/Bbl)	49.29	42.18	17	43.32	48.80	(11)
Edmonton light (C\$/Bbl)	61.61	52.87	17	52.93	57.11	(7)
<b>Foreign exchange</b>						
US\$/C\$	1.334	1.335	-	1.326	1.278	4

<sup>1</sup> Mmbtu is the abbreviation for millions of British thermal units. One Mcf of natural gas is approximately 1.02 Mmbtu.

<sup>2</sup> AECO prices are quoted in \$/Gigajoule. Price has been converted from \$/GJ to \$/Mcf by multiplying by of 1.05.

### Realized prices

\$ per unit	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Natural gas (\$/Mcf)	2.95	2.47	19	2.13	2.66	(20)
Crude oil (\$/Bbl)	49.12	44.07	11	37.41	48.26	(22)
NGL (\$/Bbl)	37.08	21.17	75	32.53	25.00	30
Total (\$/Boe)	19.35	15.56	24	14.41	16.75	(14)
Total (\$/Mcfe)	3.22	2.59	24	2.40	2.79	(14)

Oil and gas sales in the three months ended December 31, 2016 increased 78% to \$38.3 million from \$21.5 million in the three months ended December 31, 2015, with \$11.6 million of this increase attributable to higher production and sales volumes and \$5.2 million due to higher realized prices.

For the three months ended December 31, 2016, Pine Cliff's realized natural gas price was \$2.95 per Mcf, 19% higher than in the corresponding period of the prior year primarily as a result of an increase in the AECO price. For the three months ended December 31, 2016, Pine Cliff's realized oil and NGL prices were \$49.12 and \$37.08 per Bbl, compared to \$44.07 and \$21.17 per Bbl in the three months ended December 31, 2015. The increases in oil and NGL prices were a result of a corresponding increase in the Edmonton Light oil price. Pine Cliffs realized oil and NGL prices in the three months ended December 31, 2016, were 80% and 60% of Edmonton Light compared to 83% and 40% in the three months ended December 31, 2015.

Oil and gas sales in the year ended December 31, 2016 increased by 51% to \$118.6 million from \$78.6 million in 2015 as a result of higher production volumes partially offset by lower realized pricing. Natural gas sales represented 82% of total oil and gas sales in the year ended December 31, 2016, as compared to 90% in the year ended December 31, 2015. The decline is mainly attributable to 20% lower natural gas prices in the year ended December 31, 2016 compared to December 31, 2015.

For the year ended December 31, 2016, Pine Cliff's realized natural gas price was \$2.13 per Mcf, 20% lower than in 2015 a result of a decrease in the AECO price. For the year ended December 31, 2016, Pine Cliff's realized oil and NGL prices were \$37.41 and \$32.53 per Bbl, compared to \$48.26 and \$25.00 per Bbl in the three months ended December 31, 2015. The decrease in oil and NGL prices were as a result of a corresponding decrease in the Edmonton Light prices. For the year ended, December 31, 2016, Pine Cliff's realized oil and NGL prices were 71% and 61% of Edmonton Light compared to 84% and 44% in the year ended December 31, 2015.

#### ROYALTY REVENUE

(\$000s)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Total royalty revenue	-	50	(100)	1,111	260	327

Royalty revenue for the year increased as compared to the same period of 2015, primarily as a result of the royalty stream from the fee lands acquired in the December 2015 Acquisition. On June 29, 2016, Pine Cliff sold most of its fee title lands and other minor overriding royalty interests (the "Royalty Assets") for cash proceeds of \$24.7 million.

#### ROYALTY EXPENSE

(\$000s)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Total royalty expense	3,145	1,432	120	8,821	5,083	74
\$ per Boe	1.59	1.03	54	1.07	1.08	(1)
\$ per Mcfe	0.26	0.17	53	0.18	0.18	-
% of oil and gas sales	8%	7%	14	7%	6%	17

For the three months and year ended December 31, 2016, total royalty expense increased by 120% and 74% to \$3.1 million and \$8.8 million from \$1.4 million and \$5.1 million in the three months and year ended December 31, 2015. Royalty expense as a percentage of oil and gas sales increased to 8% and 7% in the three months and year ended December 31, 2016, compared to 7% and 6% in the three months and year ended December 31, 2015. The increase in royalty expense is a result of higher oil and gas sales and a higher royalty rate due to the sale of fee title lands in June 2016.

#### OPERATING EXPENSES

(\$000s)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Total operating expenses	17,716	11,648	52	77,318	40,591	90
\$ per Boe	8.95	8.41	6	9.39	8.65	9
\$ per Mcfe	1.49	1.40	6	1.57	1.44	9

Operating expenses increased by 52% and 90% to \$17.7 million and \$77.3 million for the three months and year ended December 31, 2016, as compared to \$11.6 million and \$40.6 million for the three months and year ended December 31, 2015, primarily as a result of higher sales volumes, and increased operated assets acquired in the May 2015 Acquisition and the December 2015 Acquisition. On a per Boe basis, operating costs were \$8.95 and \$9.39 for the three months and year ended December 31, 2016, 6% and 9% higher than the three months and year ended December 31, 2015, primarily as a result of higher cost production from the December 2015 Acquisition.

Pine Cliff anticipates operating expenses to average approximately \$9.20 per Boe (\$1.53 per Mcfe) in 2017. Pine Cliff is committed to continuously seeking to increase efficiencies and decrease field operating expenses.

**GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")**

(\$000s)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Gross G&A	<b>1,662</b>	1,253	33	<b>8,465</b>	5,768	47
Add: non-recurring transaction costs	-	160	(100)	-	283	(100)
Less: overhead recoveries	<b>(726)</b>	(54)	1244	<b>(1,506)</b>	(212)	610
Total G&A expenses	<b>936</b>	1,359	(31)	<b>6,959</b>	5,839	19
\$ per Boe	<b>0.47</b>	0.98	(52)	<b>0.85</b>	1.24	(31)
\$ per Mcfe	<b>0.08</b>	0.16	(50)	<b>0.14</b>	0.21	(33)

Despite production increasing by 75% in the year ended December 31, 2016, as compared to the year ended December 31, 2015, G&A only increased 19%, reflecting cost efficiencies, economies of scale and reducing or eliminating discretionary expenses. The 19% increase in G&A relates to increased staffing requirements, expenses related to the TSX listing, and other incremental G&A costs associated with the integration of the December 2015 Acquisition, somewhat offset by higher overhead recoveries charged to partners associated with the December 2015 Acquisition.

G&A decreased by 31% to \$0.9 million in the three months ended December 31, 2016, from \$1.4 million in the three months ended December 31, 2015, primarily as a result higher overhead recoveries charged to partners associated with the December 2015 Acquisition.

On a per Boe basis, G&A for the three months and year ended December 31, 2016, decreased by 52% and 31% to \$0.47 and \$0.85, from \$0.98 and \$1.24 for the same periods of 2015. The decreases on a per Boe basis were primarily as a result of higher production volumes and increases in overhead recoveries, which more than offset the increase in G&A expenses.

Pine Cliff anticipates G&A expenses to average approximately \$1.05 per Boe (\$0.18 per Mcfe) in 2017.

**SHARE-BASED PAYMENTS**

(\$000s)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Total share-based payments	<b>791</b>	832	(5)	<b>3,196</b>	3,383	(6)
\$ per Boe	<b>0.40</b>	0.60	(33)	<b>0.39</b>	0.72	(46)
\$ per Mcfe	<b>0.07</b>	0.10	(30)	<b>0.06</b>	0.12	(50)

The Company has an equity settled stock-based compensation plan. Stock options are granted to certain officers, directors, employees and consultants, with the number, term and vesting period of the options granted being determined at the discretion of the Company's board of directors to a maximum of 10% of outstanding Pine Cliff common shares ("**Common Shares**").

During the year ended December 31, 2016, Pine Cliff granted 12,030,000 stock options to purchase Common Shares at a weighted average exercise price of \$1.12. As at December 31, 2016, the Company had 22,773,431 stock options outstanding (December 31, 2015 - 17,237,700), representing 7.4% of Common Shares outstanding. In the three months and year ended December 31, 2016, Pine Cliff recorded share-based payments expense of \$0.8 million and \$3.2 million, (three months and year ended December 31, 2015 - \$0.8 million and \$3.4 million), related to the stock options outstanding.

**DEPLETION, DEPRECIATION AND IMPAIRMENT**

(\$000s)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Depletion and depreciation	12,877	10,716	20	64,387	45,831	40
\$ per Boe	6.50	7.74	(16)	7.82	9.77	(20)
\$ per Mcfe	1.08	1.29	(16)	1.30	1.63	(20)
Impairment of oil and gas assets	-	-	-	-	7,586	(100)
Impairment of exploration and evaluation assets	4,648	-	-	4,648	-	-
Total depletion, depreciation and impairment	17,525	10,716	64	69,035	53,417	29
\$ per Boe	8.85	7.74	14	8.39	11.38	(26)
\$ per Mcfe	1.47	1.29	14	1.40	1.90	(26)

Total depletion and depreciation expense, excluding impairments, increased 20% and 40% for the three-months and year ended December 31, 2016, as compared to the same periods in 2015. This increase is primarily due to higher production in the current year periods.

On a per Boe basis, depletion and depreciation, excluding impairments, decreased 16% and 20% to \$6.50 and \$7.82 for the three months and year ended December 31, 2016, as compared to \$7.74 and \$9.77 in the same periods of 2015, as a result of lower per unit depletion rates for the assets acquired in the December 2015 Acquisition.

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.

As at December 31, 2016 the Company has four Cash Generating Units (“CGUs”) being the Southern CGU, Edson CGU, Central Gas CGU, and Coal Bed Methane CGU. The Company disposed of its Central Oil CGU during the year ended December 31, 2016. Impairment testing of all CGUs was performed as at December 31, 2016. The Company determined the fair value less costs to sell for all four CGUs exceeds the carrying amounts as at December 31, 2016.

In the three months and year ended December 31, 2016, the Company recorded an impairment to exploration and evaluation assets of \$4.6 million relating to the Southern CGU as it was determined that the assets would not become commercially viable at existing price forecasts and therefore the carrying amount exceeded the recoverable amount.

**FINANCE EXPENSES**

(\$000s)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Accretion on decommissioning liabilities	1,469	701	110	5,189	3,532	47
Accretion on subordinated promissory notes	53	-	100	82	-	100
Interest and bank charges	1,511	701	116	7,034	1,919	267
Total finance expenses	3,033	1,402	116	12,305	5,451	126
\$ per Boe	1.53	1.01	51	1.49	1.16	28
\$ per Mcfe	0.26	0.17	53	0.25	0.19	32

In the three months and year ended December 31, 2016, Pine Cliff incurred finance expenses of \$3.0 million and \$12.3 million, as compared to \$1.4 million and \$5.5 million in the same periods of 2015. Total finance expenses increased in the three months ended December 31, 2016, as compared to the same periods of 2015 due to increased interest and bank charges from higher debt levels, and one-time costs associated with the borrowing base redetermination and the subordinated promissory notes. During 2016, Pine Cliff issued subordinated promissory notes and a related party subordinated promissory note, which decreased the Company's bank debt. Please refer to the “CAPITAL RESOURCES” and “LIQUIDITY” sections for additional information.



**DIVIDEND INCOME**

(\$000s)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Total dividend income	18	92	(80)	120	397	(70)
\$ per Boe	0.01	0.07	(86)	0.01	0.08	(88)
\$ per Mcfe	-	0.01	(100)	-	0.01	(100)

During the years ended December 31, 2016 and 2015, Pine Cliff received \$0.1 million and \$0.4 million in dividends from its investments in two public dividend paying companies. As at December 31, 2016, the Company had an investment in one public company, which was received as partial consideration for properties disposed of during 2016.

The Company had an investment in Bonterra Energy Corp. ("Bonterra") acquired through the acquisition of Geomark Exploration Ltd. which was sold in the second quarter of 2016 for cash proceeds of \$5.4 million.

**OPERATING AND CORPORATE NETBACKS**

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

(\$ per Boe)	Three months ended December 31			Year ended December 31		
	2016	2015	\$ Change	2016	2015	\$ Change
Oil and gas sales	19.35	15.56	3.79	14.41	16.75	(2.34)
Royalty income	-	0.04	(0.04)	0.13	0.06	0.07
Royalty expense	(1.59)	(1.03)	(0.56)	(1.07)	(1.08)	0.01
Operating expenses	(8.95)	(8.41)	(0.54)	(9.39)	(8.65)	(0.74)
Operating netback	8.81	6.16	2.65	4.08	7.08	(3.00)
General and administrative expense	(0.47)	(0.98)	0.51	(0.85)	(1.24)	0.39
Interest and bank charges	(0.76)	(0.51)	(0.25)	(0.85)	(0.41)	(0.44)
Finance and dividend income	0.01	0.07	(0.06)	0.01	0.08	(0.07)
Corporate netback	7.59	4.74	2.85	2.39	5.51	(3.12)
Operating netback (\$ per Mcfe)	1.47	1.03	0.44	0.68	1.18	(0.50)
Corporate netback (\$ per Mcfe)	1.27	0.79	0.48	0.40	0.92	(0.52)

Pine Cliff's corporate netback increased to \$7.59 per Boe for the three months ended December 31, 2016, from \$4.74 per Boe in the three months ended December 31, 2015. This increase is primarily due to higher commodity prices and lower G&A expenses, somewhat offset by higher royalty and operating expenses compared to the same period of 2015.

For the year ended December 31, 2016, Pine Cliff's corporate netback decreased to \$2.39 per Boe from \$5.51 per Boe in the year ended December 31, 2015. This decrease is primarily a result of lower commodity prices and higher operating costs, interest and bank charges, partially offset by reduced G&A expenses, as compared to 2015.

**INCOME TAXES**

For the three months and year ended December 31, 2016, Pine Cliff deferred tax recoveries increased by 234% and 8% to \$8.0 million and \$11.1 million from \$2.4 million and \$10.3 million in the three months and year ended December 31, 2015. The 2016 recovery 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 \$407.9 million in tax pools at December 31, 2016, (December 31, 2014 - \$480.8 million) available for future use as deductions from taxable income. The decrease in tax pools is mainly a result of the reduction to tax pools from the sale of assets during the year ended December 31, 2016.

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

Category of tax pool	Rate of Utilization (%)	2016
Undepreciated capital costs	20 - 100	50,982
Canadian oil and gas property expenditures	10	261,452
Canadian development expenditures	30	10,537
Canadian exploration expenditures	100	74
Eligible capital expenditures (CEC)	7	113
Share issue costs	20	4,968
Non-capital losses carried forward <sup>1</sup>	100	77,703
Capital losses carried forward <sup>2</sup>		2,027
		<b>407,856</b>

<sup>1</sup> Non-capital losses expire between the years 2030 and 2036.

<sup>2</sup> The capital losses carried forward can only be claimed against taxable capital gains.

The Company does not expect to pay any cash taxes in 2017 and 2018, subject to substantial changes to projected future commodity prices.

### EARNINGS (LOSS)

Year to year end variance analysis:

(\$000s)	
<b>Loss for the year ended December 31, 2015</b>	<b>(24,257)</b>
Price variance	(10,655)
Volume variance	51,555
Royalty expenses	(3,738)
Operating expenses	(36,727)
General and administrative	(1,120)
Share-based payments	187
Depletion and depreciation	(18,556)
Finance expenses	(6,854)
Realized loss in investments	(4,270)
Gain on disposition	518
Finance and dividend income	(277)
Deferred tax recovery (expense)	869
Impairment of property, plant, and equipment	7,586
Impairment of exploration and evaluation assets	(4,648)
<b>Loss for the year ended December 31, 2016</b>	<b>(50,387)</b>

During the year ended December 31, 2016, Pine Cliff's net loss increased by \$26.1 million to \$50.4 million as compared to a net loss of \$24.3 million during the year ended December 31, 2015. The increase in net loss is mainly a result of lower commodity prices, higher depletion and depreciation, royalty and operating expenses, partially offset by increased sales volumes.

### Other comprehensive earnings

Activity in other comprehensive earnings ("OCI") relates to the revaluation of investments held at December 31, 2016 of \$0.3 million and the realization of losses previously recorded in OCI for investments sold during 2016 of \$6.3 million.

**FUNDS FLOW FROM OPERATIONS**

(\$000s)	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Earnings (loss) for the period	<b>3,210</b>	(3,300)	<b>(50,387)</b>	(24,257)
Adjustments for:				
Share-based payments	<b>791</b>	832	<b>3,196</b>	3,383
Accretion expense	<b>1,522</b>	701	<b>5,271</b>	3,532
Realized loss on sale of investments	-	-	<b>4,270</b>	-
Gain on disposition	-	-	<b>(518)</b>	-
Depletion, depreciation and impairment	<b>17,525</b>	10,716	<b>69,035</b>	53,417
Deferred tax recovery	<b>(8,022)</b>	(2,399)	<b>(11,126)</b>	(10,257)
<b>Funds flow from operations</b>	<b>15,026</b>	6,550	<b>19,741</b>	25,818
Funds flow from operations (\$/Boe)	<b>7.59</b>	4.74	<b>2.39</b>	5.51
Funds flow from operations (\$/Mcfe)	<b>1.27</b>	0.79	<b>0.40</b>	0.92

Funds flow from operations, which represents cash flow used in operating activities before changes in non-cash working capital and decommissioning obligations settled, was \$15.0 million in the three months ended December 31, 2016, as compared to \$6.6 million in the same period of 2015. The increase in funds flow from operations is due to higher commodity prices and higher production volumes somewhat offset by higher operating expenses, interest and bank charges.

Funds flow from operations was \$19.7 million in the year ended December 31, 2016, compared to \$25.8 million in 2015. The decrease is due primarily to lower commodity prices, higher operating expenses, and interest and bank charges, partially offset by increased production volumes.

**CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS**

(\$000s)	Year ended December 31	
	2016	2015
Exploration and evaluation assets	<b>127</b>	1,338
Oil and gas assets	<b>8,842</b>	5,417
Vehicles and administrative assets	<b>190</b>	504
<b>Capital expenditures</b>	<b>9,159</b>	7,259
Acquisitions, after adjustments	<b>(807)</b>	193,065
Dispositions	<b>(63,112)</b>	-
<b>Total</b>	<b>(54,760)</b>	200,324

Capital additions of \$9.2 million in the year ended December 31, 2016, were primarily directed towards participation in drilling five gross (1.5 net) wells in the Edson area, reactivations of approximately 20 wells that had been shut-in in the Southern Area and recompletions of seven wells in the Central Area.

During 2016 Pine Cliff disposed of the following assets for aggregate proceeds of \$63.1 million:

- June 2016 – sold substantially all of the Company’s fee title lands and other minor overriding royalty interests, which were mostly acquired in the December 2015 Acquisition, for cash proceeds of \$24.7 million.
- September 2016 – sold a non-core oil asset located in Central Alberta for cash proceeds of \$5.4 million. These assets were also acquired in the December 2015 Acquisition.
- December 2016 – sold a non-core oil property, located in Central Alberta, for gross proceeds of \$31.6 million consisting of \$26.7 million in cash and \$4.9 million common shares in a TSX listed public company. These properties were also acquired in the December 2015 acquisition.
- Other minor dispositions for cash consideration of \$1.3 million.

In 2015 Pine Cliff acquired the Central Area assets for \$178.1 million and additional producing assets in the Edson Area and Southern Area for \$13.4 million. During the year ended December 31, 2016 Pine Cliff completed minor acquisitions of \$1.1 million and received (\$1.9 million) of adjustments relating to acquisition that were closed in previous years.

## RELATED PARTY TRANSACTIONS

### Management services agreement

Pine Cliff had a management services agreement with Bonterra, an oil and gas corporation that is publicly traded on the TSX and that has some common directors and management to Pine Cliff, to provide executive services, technical services, accounting services, oil and gas administration and office administration for Pine Cliff. Total fees for the year ended December 2016 and 2015 were \$0.02 million and \$0.06 million, plus the reimbursement of certain administrative costs. This agreement was terminated on March 31, 2016. As at December 31, 2016, Pine Cliff owed Bonterra \$Nil (December 31, 2015 - \$0.3 million).

### Investment in Bonterra

During the second quarter of 2016 Pine Cliff sold 204,633 Bonterra common shares for proceeds of \$5.4 million (as at December 31, 2015 - Pine Cliff held 204,633 shares with a fair value of approximately \$3.5 million). For the year ended December 31, 2016, Pine Cliff received dividend income of \$0.1 million (year ended December 31, 2015 - \$0.4 million) from its Bonterra Common shares.

Related party transactions are in the normal course of operations and from time to time Pine Cliff and Bonterra may enter into various transactions at market value in circumstances that are considered mutually beneficial.

## CAPITAL RESOURCES

### Bank Debt

As at December 31, 2016, the Company had a \$60.0 million syndicated credit facility (the "**Credit Facility**") with five Canadian Financial Institutions (the "**Syndicate**") (December 31, 2015 - \$185.0 million Credit Facility). The Credit Facility consists of a \$50.0 million revolving syndicated credit facility and a \$10.0 million revolving operating facility for a total facility of \$60.0 million. Security for the Credit Facility consists of floating demand debentures totaling \$150.0 million and a general security agreement with first ranking over all current and acquired properties. Amounts drawn under the Credit Facility at December 31, 2016, were \$30.9 million (December 31, 2015 - \$156.0 million). Amounts borrowed under the Credit Facility bear interest at the Canadian prime rate plus 1.0% to 3.5% or the bankers' acceptance rates plus 2.0% to 4.5%, depending, in each case, on the ratio of consolidated debt to EBITDA and the Company's borrowing base. EBITDA is calculated as earnings (loss) excluding depreciation, depletion and accretion, share based payments, interest, taxes and other non-cash items.

The Credit Facility has a 364 day revolving period maturing July 28, 2017, and if it is not renewed it will convert to a one day term loan due on July 29, 2017. The Credit Facility is subject to semi-annual reviews on November 30<sup>th</sup> and May 31<sup>st</sup>. As a result of the dispositions and associated bank line repayments, the November 30, 2016 review was waived and the May 31, 2017 review was rescheduled to March 31, 2017. The Credit Facility has no fixed terms of repayment.

As at December 31, 2016, the Company had \$1.7 million of letters of credit issued against its Credit Facility (December 31, 2015 - \$0.6 million). The Credit Facility does not contain any financial covenants but Pine Cliff is subject to various nonfinancial covenants under its Credit Facility. Compliance with these covenants is monitored on a regular basis and as at December 31, 2016, Pine Cliff was in compliance with all covenants.

### Subordinated promissory notes due September 30, 2020

On August 10, 2016, the Company issued 30,000 units ("**Units**" or "**Unit**") at a price of \$1,000 per Unit for aggregate proceeds of \$30.0 million. Each Unit is comprised of: (i) one promissory note with a par value of \$1,000 per note and bearing interest at 6.75% per annum ("**2020 Note**"), which is payable semi-annually; and (ii) 150 Common Share purchase warrants ("**Warrants**"). The 2020 Notes mature on September 30, 2020 and all or a portion of the principal amount outstanding can be repaid without penalty after August 10, 2017. The 2020 Notes are secured by a \$30.0 million floating charge debenture over all of the Company's assets and is subordinated to any and all claims in favor of the Credit Facility. A total of 4.5 million Warrants were issued, entitling the holder to purchase one Common Share for \$1.38 until August 10, 2018.

The 2020 Notes were determined to be a hybrid instrument with an embedded derivative. The fair value of the debt component of the 2020 Notes was determined on issuance to be 7.8%, using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to Warrants. The value of the debt will accrete up to the principal balance at maturity.

**Subordinated promissory notes due July 29, 2018**

On July 29, 2016, the Company issued \$6.0 million in promissory notes maturing on July 29, 2018 (“**2018 Notes**”) and bearing interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility, payable monthly. The 2018 Notes were issued to a shareholder and relative of the shareholder of the Company, owning directly or by discretion and control, greater than 10% of the Company’s outstanding Common Shares and can be repaid at any time without penalty. The 2018 Notes are secured by \$6.0 million of floating charge debentures over all of the Company’s assets and are subordinated to any and all claims in favor of the Credit Facility and the 2020 Note holder.

**Due to Related Party**

On July 29, 2016, Pine Cliff issued a \$5.0 million promissory note to the Company’s Chairman of the Board maturing on July 29, 2018 (“**2018 Related Party Note**”) that bears interest, payable monthly, at 0.25% less than the monthly average effective interest rate paid to the Credit Facility. The 2018 Related Party Note can be repaid at any time without penalty and is secured by a \$5.0 million floating charge debenture over all of the Company’s assets and is subordinated to any and all claims in favor of the Credit Facility, and the 2020 Note holder, as defined herein. Interest paid on the 2018 Related Party Note during 2016 was \$0.1 million (December 31, 2015 - \$Nil).

**Share Capital**

Share capital	December 31, 2016	December 31, 2015	March 14, 2017
Common shares	307,075,787	305,192,287	307,075,787
Stock options	22,773,431	17,237,700	21,631,431
Warrants	4,500,000	-	4,500,000

During 2016, Pine Cliff issued 1,883,500 Common Shares as a result of stock option exercises for gross proceeds of \$1.0 million.

As of December 31, 2016, a total of 307,075,787 Common Shares were issued and outstanding and 22,773,431 stock options were issued and outstanding. As at March 14, 2017, a total of 4,500,000 Warrants were issued and outstanding. As at March 14, 2017, a total of 307,075,787 Common Shares were issued and outstanding and 21,631,431 stock options were issued and outstanding.

**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.

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 selling non-core assets, additional short-term financing or issuing equity in order to meet its future liabilities.

The following table summarizes Pine Cliff's sources and uses of cash for the three months and years ended December 31, 2016 and 2015:

(\$000s)	Three months ended December 31			Year ended December 31		
	2016	2015	\$ Change	2016	2015	\$ Change
Funds from operations	15,026	6,550	8,476	19,741	25,818	(6,077)
Bank debt proceeds (repayment)	(40,524)	112,392	(152,916)	(125,087)	108,183	(233,270)
Issuance of common shares, net of share issue costs	-	68,813	(68,813)	-	68,813	(68,813)
Issuance of related party debt	-	-	-	5,000	-	5,000
Issuance of subordinated promissory notes	-	-	-	35,963	-	35,963
Abandonments	(104)	-	(104)	(279)	-	(279)
Dispositions	28,082	-	28,082	58,162	-	58,162
Realized loss on sale of investments	-	-	-	5,573	-	5,573
Exercise of stock options	116	935	(819)	1,033	3,530	(2,497)
Increase (decrease) in non-cash working capital	(231)	(6,875)	6,644	7,561	(5,387)	12,948
Increase (decrease) in cash	(38)	(400)	362	685	(633)	1,318
Total capital expenditures	3,356	1,875	1,481	9,159	7,259	1,900
Total acquisitions	(1,029)	179,540	(180,569)	(807)	193,065	(193,872)

In the year ended December 31, 2016, Pine Cliff's uses of cash included \$9.2 million of capital expenditures including acquisitions and bank debt repayment of \$125.1 million. In the year ended December 31, 2015, Pine Cliff's sources of cash included funds flow from operations of \$19.7 million, dispositions of oil and gas assets of \$58.2 million, the sale of investments of \$5.6 million, exercises of stock options of \$1.0 million, issuance of subordinated promissory notes of \$36.0 million, issuance of a related party debt of \$5.0 million and decreases in working capital of \$7.6 million.

#### COMMITMENTS AND CONTINGENCIES

As at December 31, 2016, the Company has the following lease commitments and other contractual obligations:

(\$000s)	2017	2018	2019	2020	2021	Thereafter
Subordinated promissory notes <sup>1</sup>	-	6,000	-	30,000	-	-
Trade and other payables	21,319	-	-	-	-	-
Due to related party	-	5,000	-	-	-	-
Bank loan – principal	30,851	-	-	-	-	-
Future interest	3,629	2,370	2,025	1,519	-	-
Firm service commitments	4,615	2,816	1,613	1,326	867	688
Vehicle leases	506	451	344	266	106	-
Office and equipment leases	495	438	436	464	464	922
Total commitments and contingencies	61,415	17,075	4,418	33,575	1,437	1,610

SELECTED ANNUAL FINANCIAL INFORMATION <sup>1</sup>

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
(\$000s, unless otherwise indicated)			
<b>FINANCIAL</b>			
<b>Oil and gas sales (before royalties)</b>	<b>118,642</b>	78,593	78,450
<b>Total revenue (net of royalties)</b>	<b>111,052</b>	74,167	71,084
<b>Cash flow from operating activities</b>	<b>22,489</b>	20,768	37,641
<b>Funds flow from operations<sup>2</sup></b>	<b>19,741</b>	25,818	38,988
Per share – Basic and Diluted (\$/share)	<b>0.06</b>	0.11	0.18
<b>Loss for the year</b>	<b>(50,387)</b>	(24,257)	(1,942)
Per share – Basic and Diluted (\$/share)	<b>(0.16)</b>	(0.10)	(0.01)
<b>Total assets</b>	<b>491,897</b>	640,775	410,697
<b>Total non-current financial liabilities</b>	<b>40,086</b>	155,938	-
<b>Total liabilities</b>	<b>296,139</b>	406,368	233,548
<b>Capital expenditures</b>	<b>9,159</b>	7,259	11,087
<b>Acquisitions, after adjustments</b>	<b>(807)</b>	193,065	135,213
<b>Capital dispositions, proceeds</b>	<b>(63,112)</b>	-	-
<b>Net Debt<sup>3</sup></b>	<b>64,224</b>	141,770	33,512
Weighted average common shares outstanding (000s) - Basic and Diluted	<b>306,329</b>	240,149	211,025
<b>OPERATIONS</b>			
<b>Production</b>			
Natural gas (Mcf/d)	<b>124,906</b>	72,984	45,022
Crude oil (Bbls/d)	<b>753</b>	160	75
Natural gas liquids (Bbls/d)	<b>924</b>	530	320
<b>Total (Boe/d)</b>	<b>22,495</b>	12,854	7,899
<b>Total (Mcf/d)</b>	<b>134,968</b>	77,124	47,394
<b>Realized commodity sales prices</b>			
Natural gas (\$/Mcf)	<b>2.13</b>	2.66	4.27
Crude oil (\$/Bbl)	<b>37.41</b>	48.26	79.38
Natural gas liquids (\$/Boe)	<b>32.53</b>	25.00	51.70
<b>Total (\$/Boe)</b>	<b>14.41</b>	16.75	27.20
<b>Netback (\$/Boe)</b>			
Operating netback <sup>4</sup>	<b>4.08</b>	7.08	15.20
Corporate netback <sup>5</sup>	<b>2.39</b>	5.51	13.53
<b>Netback (\$/Mcf)</b>			
Operating netback <sup>4</sup>	<b>0.68</b>	1.18	2.53
Corporate netback <sup>5</sup>	<b>0.40</b>	0.92	2.26

<sup>1</sup> Includes results for acquisitions and excludes results for dispositions from the closing dates.

<sup>2</sup> Funds flow from operations is a non-IFRS measure that represents the total of funds provided by operating activities, before adjusting for changes in non-cash working capital, and decommissioning obligations settled.

<sup>3</sup> Net debt is a non-IFRS measure calculated as the sum of bank debt, subordinated promissory notes at the principal amount, amounts due to related party, and trade and other payables less trade and other receivables, cash, prepaid expenses and deposits and investments.

<sup>4</sup> Operating netback is a non-IFRS measure calculated as the Company's total revenue, less operating expenses, divided by the Boe production of the Company for the period.

<sup>5</sup> Corporate netback is a non-IFRS measure calculated as the Company's operating netback, less general and administrative expenses, interest and bank charges plus finance and dividend income, divided by the Boe production of the Company.

## OFF BALANCE SHEET TRANSACTIONS

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

## FINANCIAL INSTRUMENTS AND 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 loss for the year ended December 31, 2016, would have increased or decreased, respectively, by \$0.4 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 States 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 primarily enters into relationships with larger purchasers with established credit histories.

The Company's trade and other receivables balance at December 31, 2016, of \$20.0 million (December 31, 2015 - \$16.5 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. The Company generally considers amounts greater than 90 days to be past due. As at December 31, 2016, there was



\$1.8 million (December 31, 2015 - \$1.3 million) of trade and other receivables over 90 days. As at December 31, 2016, the Company does not consider any trade and other receivables to be impaired.

Pine Cliff assesses its financial assets quarterly to determine if there has been any impairment. During the year ended December 31, 2016, the Company recorded \$0.5 million (December 31, 2015 - \$Nil) for bad debt expense against trade and other accounts receivables.

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due or can do so only at excessive cost. 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.

At December 31, 2016, the Company had a \$60.0 million Credit Facility, of which \$30.9 million was drawn. 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. Pine Cliff will also consider additional short-term financing or issuing equity, if required, in order to meet its future liabilities.

### **RISK FACTORS**

Certain activities of the Company are affected by factors that are beyond its control or influence. Additional risks and uncertainties that management may be unaware of, or that they determine to be immaterial may also become important factors which affect the Company. Along with the risks discussed in this MD&A, other business risks faced by the Company may be found under "Risk Factors" in the Company's most recent Annual Information Form which is available under the Company's profile at [www.sedar.com](http://www.sedar.com) or by contacting the Company.

#### *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 attempted to design 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.

#### *Safety, Environmental and Regulatory Risks*

Safety, environmental and regulatory risks are the risks of loss or lost opportunity resulting from changes to laws governing safety, the environment, royalties and taxation. Safety, environmental and regulatory risks Pine Cliff is exposed to include: aboriginal land claims; uncertainties associated with regulatory approvals; uncertainty of government policy changes; the risk of carrying out operations with minimal environmental impact; changes in or adoption of new laws and regulations or changes in how they are interpreted or enforced; obtaining required approvals of regulatory authorities and stakeholder support for activities and growth plans.

In November 2015, the Province of Alberta released its Climate Leadership Plan which will impact businesses that contribute to carbon emissions in Alberta. The plan's four key areas include imposing carbon pricing that is applied across all sectors, starting at \$20 per tonne on January 1, 2017 and moving to \$30 per tonne on January 1, 2018, and a 45 percent reduction in methane emissions

by the oil and gas sector by 2025. The Company is currently monitoring developments in this plan and will evaluate the expected impact of the plan on its results of operations.

In October 2016, the Government of Canada announced a pan-Canadian approach to the pricing of carbon emissions. The plan includes imposing carbon pricing beginning at a minimum of \$10 per tonne in 2018 and rising by \$10 per tonne each year to \$50 per tonne in 2022. Provinces and territories have a year to introduce their own carbon pricing or adopt a cap-and trade system that meets or exceeds the federal benchmark. If provinces and territories fail to implement a price or cap-and-trade plan by 2018, the Government of Canada has indicated that they will implement a price in that jurisdiction. The Company is currently monitoring developments in this plan and will evaluate the expected impact of the plan on its results of operations after further clarifying information is provided by the provincial and Federal governments.

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. A small number 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 expects that environmental legislation and regulations will continue to be assessed, may become stricter over time, and that the costs of compliance may grow. The international and domestic debate upon controls of greenhouse gas emissions will continue, with unpredictable but potentially material consequences for the oil and gas industry and its participants like Pine Cliff.

To mitigate environmental risk the Company conducts its operations to target 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 to the best of the Company's ability, environmental and regulatory standards are met.

#### *Staffing*

Pine Cliff functions in a very competitive environment for professional staff, and this staff is key to the Company's ultimate success. Recognizing this, Pine Cliff's 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 incentives and to retain staff.

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 industries 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 and income tax regime has been stable, the royalty regime has not been. A 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 taxation and royalty regime in Alberta and Saskatchewan and corresponding changes in other jurisdictions where Pine Cliff may operate has created uncertainty surrounding the ability to accurately estimate future taxation and 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 through 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.

### *Cash Generating Units*

CGUs are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, share infrastructures and the way in which management monitors Pine Cliff's operations.

### *Impairment indicators*

Judgments are required to assess when impairment indicators exist and impairment testing is required. When assessing the recoverability of petroleum and natural gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on reserve estimates, market value of undeveloped lands and other relevant assumptions.

### *Reserves base*

Petroleum and natural gas reserves are used in the calculation of depletion, impairment and impairment reversals and 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* which incorporate the estimated future cost of developing and extracting those reserves. Reserve estimates and their resulting cash flows are based on engineering data, probability assessments of reserve recoveries, future prices and costs, future production rates, discount rates and the timing and extent of future capital expenditures, all of which are subject to many uncertainties and interpretation. Management expects that over time Pine Cliff's reserve estimates will be revised, either upward or downward, based on updated information such as the results of future drilling, production costs, testing and production levels and changes to forward petroleum and natural gas prices.

### *Exploration and evaluation ("E&E") assets*

The application of the Company's accounting policy for E&E expenditures requires judgment in determining whether it is likely that future economic benefit exists when activities have not reached a stage where technical feasibility and commercial viability can be reasonably determined. Factors such as drilling results, future capital programs, future operating expenses, as well as estimated reserves are considered. In addition, Pine Cliff management uses judgment to determine when E&E assets are reclassified to Property, Plant and Equipment ("PP&E").

### *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 and expected 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 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.

## 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 2016 Annual Financial Statements ("**Annual Financial Statements**").

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

### Changes in accounting policies

#### IFRS 11 *Joint Arrangements* ("IFRS 11")

In May 2014 IFRS 11, *Joint Arrangements*, was clarified by adding new guidance on the accounting for the acquisition of an interest in joint operations that constitute a business. The International Accounting Standards Board ("**IASB**") decided that acquirers of such interests shall apply all of the principles on business combinations accounting in IFRS 3, *Business Combinations*, and other IFRSs, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRSs in relation to business combinations. The new IFRS 11 guidance is effective for annual periods beginning on or after January 1, 2016. Adoption of this policy amendment did not result in an impact to the Company's Financial Statements.

### Future accounting pronouncements

#### IFRS 16 *Leases* ("IFRS 16")

In January 2016, the IASB issued IFRS 16 – *Leases*, which replaces IAS 17 – *Leases* and related interpretations. IFRS 16 eliminates the classification of leases as finance or operating and introduces a single lessee accounting model for recognition and measurement, which will require the recognition of assets and liabilities for most leases. IFRS 16 is effective for years beginning on or after January 1, 2019. The Company is currently assessing the impact the adoption of this standard will have on the Financial Statements.

#### 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, 2018, 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.

## ADDITIONAL INFORMATION

### DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures ("**DC&P**"), as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, are designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the Chief Executive Officer ("**CEO**") and the Chief Financial Officer ("**CFO**"), as appropriate, to allow timely decisions regarding required disclosure. The CEO and the CFO of Pine Cliff evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the CEO and CFO concluded that Pine Cliff's DC&P were effective as at December 31, 2016.

### INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal control over financial reporting ("**ICFR**"), as defined in National Instrument 52-109, includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of Pine Cliff.

- Are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of Pine Cliff are being made in accordance with authorizations of management of Pine Cliff.
- Are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

The CEO and CFO have designed, or caused to be designed under their supervision, ICFR as defined in National Instrument 52-109 of the Canadian Securities Administrators, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework the Company used to design its ICFR was in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013).

The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal controls over financial reporting at the financial period end of the Company and concluded that such internal controls over financial reporting are effective.

In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") published an updated Internal Control - Integrated Framework and related illustrative documents which supersedes the 1992 COSO Framework as of December 14, 2014. During the year, Pine Cliff has converted to the 2013 COSO framework.

It should be noted that while Pine Cliff's CEO and CFO believe that the Company's internal controls and procedures provide a reasonable level of assurance and are effective, however they do not expect that these controls will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that its objectives are met.

#### NON-IFRS MEASURES

This MD&A uses the terms "funds flow from operations", "operating netbacks", "corporate 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.

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 and per Boe or Mcfe should not be considered as an alternative to, or more meaningful than, cash flow from operating activities presented on the statement of cash flows which is considered the most directly comparable measure under IFRS. Funds flow from operations is calculated as cash flow from operating activities before changes in non-cash working capital and decommissioning obligations settled. 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. Funds flow from operations per Boe or Mcfe is calculated using the sales volumes reported for a reporting period.

Funds Flow from Operations (\$000s)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Cash flow from operating activities	12,632	973	1198	22,489	20,768	8
Adjusted by:						
(Increase) decrease in non-cash working capital	2,290	5,577	(59)	(3,027)	5,050	(160)
Decommissioning liabilities settled	104	-	100	279	-	100
<b>Funds flow from operations</b>	<b>15,026</b>	<b>6,550</b>	<b>129</b>	<b>19,741</b>	<b>25,818</b>	<b>(24)</b>

The Company considers operating netback to be a key indicator of profitability relative to current commodity prices. Operating netback and operating netback per Boe and per Mcfe are calculated as oil and gas sales, less royalties and operating expenses on an absolute and a per Boe or per Mcfe basis, respectively. Management uses operating netback on a per Boe basis in operational and capital allocation decisions.

The Company considers corporate netback to be a key indicator of overall profitability. Corporate netback and corporate netback per Boe and per Mcfe are calculated as operating netback, less G&A and interest expense plus finance and dividend income on an absolute and a per Mcfe basis, respectively.

The Company considers net debt to be a key indicator of liquidity. Net debt is calculated as the sum of bank debt and trade and other payables less trade and other receivables, cash, prepaid expenses and deposits and investments as shown in the table below:

Net Debt (\$000s)	Year ended December 31		
	2016	2015	\$ Change
Bank debt	30,851	155,938	(125,087)
Due to related party	5,000	-	5,000
Subordinated promissory notes <sup>1</sup>	36,000	-	36,000
Trade and other payables and accrued liabilities	21,319	9,978	11,341
Less:			
Trade and other receivables	(20,012)	(16,473)	(3,539)
Cash	(148)	(833)	685
Prepaid expenses and deposits	(3,491)	(3,250)	(241)
Investments	(5,295)	(3,590)	(1,705)
<b>Net Debt</b>	<b>64,224</b>	<b>141,770</b>	<b>(77,546)</b>

<sup>1</sup>The subordinated promissory notes for net debt are presented at the principal amount.

### 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 developments, 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; future acquisition opportunities including Pine Cliff’s ability to execute on those opportunities; future drilling opportunities and Pine Cliff’s ability to generate reserves and production from the undrilled locations; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and guidance; expansion and growth of our business and operations; amounts drawn on Pine Cliff’s credit facility and repayment thereof; maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; 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.

Undrilled locations consist of drilling and recompletion locations booked in the independent reserve report dated February 13, 2017 prepared by McDaniel & Associates Consultants Limited and unbooked drilling and recompletion locations. Unbooked drilling and recompletion locations are internal estimates based on evaluation of geologic, reserves and spacing based on industry practice. There is no guarantee that Pine Cliff will drill these locations and there is no certainty that the drilling or completing of these locations will result in additional reserves and production or achieve expected internal rates of return. Pine Cliff activity depends on availability of capital, regulatory approvals, commodity prices, drilling costs and other factors.

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"

"Signed Cheryne A. Lowe"

Philip B. Hodge, President and Chief Executive Officer

Cheryne A. Lowe, Chief Financial Officer and Corporate 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, 2016 and 2015, and the consolidated statements of comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in equity 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, 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, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"Signed Deloitte LLP"

Chartered Professional Accountants  
March 14, 2017  
Calgary, Canada



**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Canadian dollars, 000s)

	Note	As at December 31,	
		2016	2015
<b>ASSETS</b>			
Current assets			
Cash		148	833
Trade and other receivables	20	20,012	16,473
Prepaid expenses and deposits		3,491	3,250
Investments	4,7	5,295	3,590
Total current assets		28,946	24,146
Exploration and evaluation assets	5,6,8	33,610	45,950
Property, plant and equipment	5,6,9	379,643	532,059
Deferred taxes	10	49,698	38,620
Total assets		491,897	640,775
<b>LIABILITIES</b>			
Current liabilities			
Trade and other payables		21,319	9,978
Bank debt	11	30,851	-
Total current liabilities		52,170	9,978
Bank debt	11	-	155,938
Due to related party	7	5,000	-
Subordinated promissory notes	12	35,086	-
Decommissioning liabilities	13	203,883	240,452
Total liabilities		296,139	406,368
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	14	268,743	266,809
Warrants	14	958	-
Contributed surplus	14	5,748	3,453
Accumulated other comprehensive gain (loss)		298	(6,253)
Deficit		(79,989)	(29,602)
Total shareholders' equity		195,758	234,407
Total liabilities and shareholders' equity		491,897	640,775

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

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

“Signed George F. Fink”

George F. Fink, Director

“Signed Randy M. Jarock”

Randy M. Jarock, Director

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(Canadian dollars, 000s except per share data)

	Note	Years ended December 31,	
		2016	2015
<b>REVENUE</b>			
Oil and gas sales		<b>118,642</b>	78,593
Royalty income		<b>1,111</b>	260
Royalty expense		<b>(8,821)</b>	(5,083)
Dividend income	4,7	<b>120</b>	397
Total revenue		<b>111,052</b>	74,167
<b>EXPENSES</b>			
Operating		<b>77,318</b>	40,591
General and administration		<b>6,959</b>	5,839
Depletion and depreciation	9	<b>64,387</b>	45,831
Share-based payments	14	<b>3,196</b>	3,383
Impairment of property, plant, and equipment	9	-	7,586
Impairment of exploration and evaluation assets	8	<b>4,648</b>	-
Gain on disposition	6	<b>(518)</b>	-
Realized loss on sale of investments	4	<b>4,270</b>	-
Finance expenses	15	<b>12,305</b>	5,451
Total expenses		<b>172,565</b>	108,681
Loss before income taxes		<b>(61,513)</b>	(34,514)
Deferred tax recovery	10	<b>(11,126)</b>	(10,257)
<b>LOSS FOR THE YEAR</b>		<b>(50,387)</b>	(24,257)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Unrealized gain (loss) on investments	4	<b>345</b>	(5,166)
Deferred taxes on unrealized (gain) loss on investments	4,10	<b>(47)</b>	-
Amounts reclassified from comprehensive loss	4	<b>6,253</b>	-
<b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX</b>		<b>6,551</b>	(5,166)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(43,836)</b>	(29,423)
<b>Loss per share (\$)</b>			
Basic and diluted	14	<b>(0.16)</b>	(0.10)

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

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

	Note	Years ended December 31,	
		2016	2015
<b>CASH PROVIDED BY (USED IN):</b>			
<b>OPERATING ACTIVITIES</b>			
Loss for the year		(50,387)	(24,257)
Items not affecting cash:			
Share-based payments	14	3,196	3,383
Depletion and depreciation	9	64,387	45,831
Finance expenses	15	12,305	5,451
Deferred tax recovery	10	(11,126)	(10,257)
Gain on disposition	6	(518)	-
Impairment of property, plant, and equipment	9	-	7,586
Impairment of exploration and evaluation assets	8	4,648	-
Loss on sale of investments	4	4,270	-
Changes in non-cash working capital accounts	19	3,027	(5,050)
Interest and bank charges paid	15,19	(7,034)	(1,919)
Decommissioning obligation settled	13	(279)	-
Cash provided by (used in) operating activities		22,489	20,768
<b>INVESTING ACTIVITIES</b>			
Expenditures on property, plant and equipment	9	(9,032)	(5,921)
Expenditures on exploration and evaluation assets	8	(127)	(1,338)
Acquisitions, net of working capital acquired	5	807	(193,065)
Proceeds on dispositions	6,8	58,162	-
Proceeds on sale of investments	7	5,573	-
Changes in non-cash working capital accounts	19	4,304	(107)
Cash provided by (used in) investing activities		59,687	(200,431)
<b>FINANCING ACTIVITIES</b>			
Issuance of common shares, net of share issue costs		-	68,813
Issuance of related party debt	7	5,000	-
Issuance of units, net of issue costs	12	35,963	-
Exercise of stock options	14	1,033	3,530
Bank debt	11	(125,087)	108,183
Changes in non-cash working capital accounts	20	230	(230)
Cash provided by (used in) financing activities		(82,861)	180,296
Increase (decrease) in cash		(685)	633
Cash - beginning of year		833	200
<b>CASH - END OF YEAR</b>		<b>148</b>	<b>833</b>

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 <sup>1</sup>	Accumulated other comprehensive income (loss) <sup>2</sup>	Warrants	Deficit	Total Equity
<b>BALANCE AT JANUARY 1, 2015</b>		<b>191,319</b>	<b>2,262</b>	<b>(1,087)</b>	-	<b>(5,345)</b>	<b>187,149</b>
Issuance of shares	14	71,999	-	-	-	-	71,999
Share issue costs, net of tax	14	(2,231)	-	-	-	-	(2,231)
Loss for the year		-	-	-	-	(24,257)	(24,257)
Other comprehensive loss for the year		-	-	(5,166)	-	-	(5,166)
Share-based payments	14	-	3,383	-	-	-	3,383
Exercise of stock options	14	5,722	(2,192)	-	-	-	3,530
<b>BALANCE AT DECEMBER 31, 2015</b>		<b>266,809</b>	<b>3,453</b>	<b>(6,253)</b>	-	<b>(29,602)</b>	<b>234,407</b>
Issuance of warrants	12,14	-	-	-	995	-	995
Unit issue costs, net of tax		-	-	-	(37)	-	(37)
Loss for the year		-	-	-	-	(50,387)	(50,387)
Transfer of realized loss on sale of investments	4	-	-	6,253	-	-	6,253
Unrealized gain on investments	4	-	-	345	-	-	345
Deferred taxes on unrealized gain on investments	4	-	-	(47)	-	-	(47)
Share-based payments	14	-	3,196	-	-	-	3,196
Exercise of options	14	1,934	(901)	-	-	-	1,033
<b>BALANCE AT DECEMBER 31, 2016</b>		<b>268,743</b>	<b>5,748</b>	<b>298</b>	<b>958</b>	<b>(79,989)</b>	<b>195,758</b>

<sup>1</sup>Contributed surplus is comprised of share-based payments.

<sup>2</sup>Accumulated other comprehensive income (loss) 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, 2016 and 2015 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 Toronto Stock Exchange ("**TSX**") 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 acquisition, 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.

**2. BASIS OF PREPARATION****a) Statement of compliance**

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The Financial Statements were authorized for issue by the Company's board of directors on March 14, 2017.

**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 notes.

**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:

Note 5 – Acquisitions  
Note 6 – Dispositions  
Note 8 – Exploration and evaluation assets ("**E&E**")  
Note 9 – Property, plant and equipment ("**PP&E**")  
Note 13 – Decommission liabilities  
Note 14 – Share capital  
Note 18 – Financial instruments

*Cash Generating Units*

Cash Generating Units ("**CGUs**") are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, share infrastructures and the way in which management monitors Pine Cliff's operations.

### *Impairment indicators*

Judgments are required to assess when impairment indicators exist and impairment testing is required. When assessing the recoverability of petroleum and natural gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on reserve estimates, market value of undeveloped lands and other relevant assumptions.

### **Estimates**

#### *Reserves base*

Petroleum and natural gas reserves are used in the calculation of depletion, impairment and impairment reversals and 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* which incorporate the estimated future cost of developing and extracting those reserves. Reserve estimates and their resulting cash flows are based on engineering data, probability assessments of reserve recoveries, future prices and costs, future production rates, discount rates and the timing and extent of future capital expenditures, all of which are subject to many uncertainties and interpretation. Management expects that over time Pine Cliff's reserve estimates will be revised, either upward or downward, based on updated information such as the results of future drilling, production costs, testing and production levels and changes to forward petroleum and natural gas prices.

#### *Exploration and evaluation assets*

The application of the Company's accounting policy for E&E expenditures requires judgment in determining whether it is likely that future economic benefit exists when activities have not reached a stage where technical feasibility and commercial viability can be reasonably determined. Factors such as drilling results, future capital programs, future operating expenses, as well as estimated reserves are considered. In addition, management uses judgment to determine when E&E assets are reclassified to PP&E.

#### *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 and expected 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 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. Revenue is measured at the fair value of the consideration received or receivable. Petroleum and natural gas revenues are recognized when all of the following conditions have been satisfied:

- Pine Cliff has transferred the significant risks and rewards of ownership of the production to the buyer which usually occurs at the time petroleum or natural gas passes through a terminal point.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the Company.
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.

Dividend income is recorded when earned.

#### c) Foreign currency transactions

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

#### d) 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. Contractual arrangements for the Company's jointly controlled operations, whereby it does not have a 100% working interest, govern that the partners have rights to the assets and obligations for the liability. It is possible that at some future date allocation adjustments to revenues and expenditures could result from revised billings, audit or litigation with these other participants. Pine Cliff does not have any joint arrangements that are individually material to the Company or that are structured through joint venture arrangements.

#### e) Cash

Cash includes short-term, highly liquid investments that mature within three months of the date of their purchase.

#### f) 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 or loss. Net gains and losses arising on disposal are recognized in net earnings.

#### g) Exploration and evaluation assets

E&E costs are initially capitalized with the intent to establish commercially viable reserves.

E&E includes undeveloped land license acquisitions, un-booked locations in acquisitions, exploration drilling and testing and directly attributable general and administrative costs. Expenditures incurred prior to obtaining the legal right to explore are expensed as incurred. 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.

**h) Property, plant and equipment**

PP&E assets include developed assets acquired, transferred-in E&E costs, development drilling and other surface 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, 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.

**i) 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. Furniture, fixtures and other equipment are depreciated over their estimated useful lives on a straight line basis. Overhauls and turnarounds are depreciated over their expected life on unit of production. Depletion and depreciation is recognized in the consolidated statement of 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.

**j) Impairment of E&E and PP&E**

The carrying amounts of the Company's E&E and 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 that are not evaluated individually are grouped together into CGUs.

The recoverable amount of an asset or a CGU is the greater of its value-in-use and its fair value. 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 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.

**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. 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 consolidated statement of comprehensive 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 loss. For financial assets measured at amortized cost, the reversal is recognized in the consolidated statement of comprehensive loss.



**l) Decommissioning liabilities**

The Company recognizes a decommissioning obligation in the period in which it has a present legal or constructive liability and a reasonable estimate of the amount can be made. On a periodic basis, management reviews these estimates, and changes, if any, are prospectively applied. The decommissioning obligation is recorded as a liability, with a corresponding increase to the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the associated proved plus probable reserves. Periodic revisions to the liability specific discount rates, estimated timing of cash flows and/or to the original estimated undiscounted costs can also result in change to the decommissioning obligation. The decommissioning obligation is increased each reporting period with the passage of time as reported in accretion expense and changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the obligations are recorded against the provision to the extent of the liability recorded and the remaining balance of the actual costs is recorded in the consolidated statement of comprehensive loss.

**m) Income taxes**

Income tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive loss or directly in equity.

Current tax is the expected tax on taxable income less adjustments to prior periods using tax rates enacted, or substantively enacted as at the reporting date in jurisdictions where the Company operates.

Deferred income taxes are recognized based on temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the Financial Statements. Deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill and are not accounted for if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred income taxes are calculated on the basis of the tax laws enacted or substantively enacted as at the reporting date and apply to when the related deferred income tax asset is realized or the deferred income tax liability is settled. Current and deferred income tax assets and liabilities are offset when there is a legally enforceable right to settle on a net basis and when such assets and liabilities relate to income taxes imposed by the same taxation authority.

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

**n) Share-based payments**

Under the Company's stock option plan described in note 14, options to purchase common shares are granted to directors, officers, employees, and consultants. The fair value of common share purchase options is calculated at the date of grant using the Black-Scholes option pricing model and that value is recorded as compensation expense over the vesting period of the option with an offsetting credit to contributed surplus. At the end of each reporting period, the Company assesses for subsequent periods its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the consolidated statement of comprehensive loss. Upon exercise of share purchase options, the proceeds received net of any transaction costs and the fair value of the exercised share purchase options are credited to share capital.

The Company estimates future forfeitures for stock options and expenses stock options based on the Company's estimate of stock options expected to reach vesting. Any difference between the number of stock options expected to vest and the number of stock options which actually vest is accounted for as a change in estimate when those stock options become vested or are forfeited before vesting.

**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, due to related party, subordinated promissory notes 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 statement of consolidated comprehensive loss. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired at which time the cumulative loss that had been recognized in other comprehensive income (loss) (“OCI”) 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.

#### **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 expenses**

Finance expenses are comprised of interest expenses and bank charges on borrowings and the accretion of decommissioning liabilities and subordinated promissory notes. 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.

### **ACCOUNTING POLICY AND STANDARD CHANGES**

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

#### **Changes in accounting policies**

##### **IFRS 11 *Joint Arrangements* (“IFRS 11”)**

In May 2014, IFRS 11 *Joint Arrangements*, was clarified by adding new guidance on the accounting for the acquisition of an interest in joint operations that constitute a business. The International Accounting Standards Board (“IASB”) decided that acquirers of such interests shall apply all of the principles on business combinations accounting in IFRS 3, *Business Combinations*, and other IFRSs, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRSs in relation to business combinations. The new IFRS 11 guidance is effective for annual periods beginning on or after January 1, 2016. Adoption of this policy amendment did not result in an impact to the Company’s Financial Statements.

#### **Future accounting pronouncements**

##### **IFRS 16 *Leases* (“IFRS 16”)**

In January 2016, the IASB issued IFRS 16 – *Leases*, which replaces IAS 17 – *Leases* and related interpretations. IFRS 16 eliminates the classification of leases as finance or operating and introduces a single lessee accounting model for recognition and measurement, which will require the recognition of assets and liabilities for most leases. IFRS 16 is effective for years beginning on or after January 1, 2019. The Company is currently assessing the impact the adoption of this standard will have on the Financial Statements.

**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, 2018, 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. INVESTMENTS**

As at December 31, 2015, the Company had investments in three public companies, including Bonterra Energy Corp. (“**Bonterra**”) a related party (see Note 7). All of the investments owned at December 31, 2015 were sold during the year ended December 31, 2016, for proceeds of \$5.6 million and a realized loss on investments of \$4.3 million.

As at December 31, 2016, the Company had an investment in one public dividend paying company of \$5.3 million, which was received as partial consideration of \$5.0 million (see Note 6), and an increase in fair value of \$0.3 million recorded to OCI.

**Other comprehensive earnings**

Activity in OCI relates to the revaluation of investments held at December 31, 2016 of \$0.3 million and the realization of losses previously recorded in OCI for investments sold during 2016 of \$6.3 million.

**5. ACQUISITIONS**

**Acquisitions during the year ended December 31, 2016**

Pine Cliff completed minor property acquisitions during the year for cash consideration of \$1.1 million (\$1.5 million of PP&E, net of \$0.4 million of decommissioning costs), not including prior year acquisition adjustments.

**Acquisitions during the year ended December 31, 2015**

Acquisition of new core area in December 2015

On December 11, 2015, Pine Cliff completed the acquisition of certain oil and natural gas assets in the Ghost Pine and Viking areas in the Province of Alberta (the “**December 2015 Acquisition**”) for cash consideration of \$185.0 million, prior to any adjustments.

Net assets acquired:	
Property and equipment	161,073
Exploration and evaluation assets	35,177
Decommissioning liabilities	(18,083)
	178,167
Consideration paid:	
Cash	178,167

Transaction costs related to the December 2015 acquisition of \$0.2 million were expensed in the year ended December 31, 2015 and are included in general and administrative expenses in the consolidated statement of loss and are part of operating cash flows in the consolidated statement of cash flows.

Acquisition of core area assets in May 2015

On May 29, 2015, Pine Cliff completed the acquisition of certain oil and natural gas assets in the Edson area and in the Southern Assets area in the Province of Alberta (the “**May 2015 Acquisition**”) for cash consideration of \$14.1 million, prior to any adjustments.

The May 2015 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:

<u>Net assets acquired:</u>	
Property and equipment	14,604
Exploration and evaluation assets	684
Decommissioning liabilities	(1,888)
	<u>13,400</u>
<u>Consideration paid:</u>	
Cash	13,400

Transaction costs related to the May 2015 acquisition of \$0.1 million were expensed in the year ended December 31, 2015 and are included in general and administrative expenses in the consolidated statement of loss and are part of operating cash flows in the consolidated statement of cash flows.

## 6. DISPOSITIONS

### Disposition of non-core oil assets in December 2016

On December 7, 2016 the Company disposed of certain non-core oil assets located in Central Alberta. The net assets sold and the sales proceeds received consisted of:

<u>Net assets disposed:</u>	
Property and equipment	35,696
Exploration and evaluation assets	5,618
Decommissioning liabilities	(9,642)
	<u>31,672</u>
<u>Consideration received:</u>	
Cash	26,722
Common shares in TSX listed acquirer	4,950
	<u>31,672</u>

### Disposition of non-core oil assets in September 2016

On September 12, 2016 the Company disposed of certain non-core oil assets located in Central Alberta. The net assets sold and the sales proceeds received consisted of:

<u>Net assets disposed:</u>	
Property and equipment	5,149
Exploration and evaluation assets	980
Decommissioning liabilities	(751)
	<u>5,378</u>
<u>Consideration received:</u>	
Cash	5,378

### Disposition of royalty assets in June 2016

On June 29, 2016, Pine Cliff completed the disposition of fee title land and other minor overriding royalty interests (the "Royalty Assets"). The Royalty Assets included 99,930 net fee title acres that were acquired in December 2015.

<u>Net assets disposed:</u>	
Property and equipment	24,184
Gain on disposition	518
	<u>24,702</u>
<u>Consideration received:</u>	
Cash	24,702

**Minor property dispositions**

Pine Cliff completed minor property dispositions during the year ended December 31, 2016 for cash consideration of \$1.3 million allocated to property, plant and equipment.

**7. TRANSACTIONS WITH RELATED PARTIES**

**Management services agreement**

Pine Cliff had a management services agreement with Bonterra, an oil and gas corporation that is publicly traded on the TSX and that has some common directors and management to Pine Cliff, to provide executive services, technical services, accounting services, oil and gas administration and office administration for Pine Cliff. Total fees for the year ended December 2016 and 2015 were \$0.02 million and \$0.06 million, plus the reimbursement of certain administrative costs. This agreement was terminated on March 31, 2016. As at December 31, 2016, Pine Cliff owed Bonterra \$Nil (December 31, 2015 - \$0.3 million).

**Investment in Bonterra**

During the second quarter of 2016 Pine Cliff sold 204,633 Bonterra common shares for proceeds of \$5.4 million (as at December 31, 2015 - Pine Cliff held 204,633 shares with a fair value of approximately \$3.5 million). See investment Note 4. For the year ended December 31, 2016, Pine Cliff received dividend income of \$0.1 million (year ended December 31, 2015 - \$0.4 million) from its Bonterra Common shares.

Related party transactions are in the normal course of operations and from time to time Pine Cliff and Bonterra may enter into various transactions at market value in circumstances that are considered mutually beneficial.

**Due to Related Party**

On July 29, 2016, Pine Cliff issued a \$5.0 million promissory note to the Company's Chairman of the Board maturing on July 29, 2018 ("**2018 Related Party Note**") that bears interest, payable monthly, at 0.25% less than the monthly average effective interest rate paid to the Credit Facility. The 2018 Related Party Note can be repaid at any time without penalty and is secured by a \$5.0 million floating charge debenture over all of the Company's assets and is subordinated to any and all claims in favor of the Credit Facility, and the 2020 Note holder, as defined herein, in Note 11 and 12. Interest paid on the 2018 Related Party Note during 2016 was \$0.1 million for the year ended December 31, 2016 (December 31, 2015 - \$Nil).

**8. EXPLORATION AND EVALUATION ASSETS**

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

Exploration and evaluation assets:	Oil and gas properties	Mineral properties	Total
Balance at December 31, 2014	7,097	2,029	9,126
Additions	1,301	963	2,264
Transfer to property, plant, and equipment	(1,301)		(1,301)
Acquisitions	35,861	-	35,861
Balance at December 31, 2015	42,958	2,992	45,950
Additions	88	39	127
Transfer to property, plant, and equipment	(1,176)	-	(1,176)
Impairment	(4,648)	-	(4,648)
Dispositions	(6,643)	-	(6,643)
<b>Balance at December 31, 2016</b>	<b>30,579</b>	<b>3,031</b>	<b>33,610</b>

In 2016, \$4.6 million of E&E costs relating to undeveloped land in Pine Cliff's Southern CGU were deemed not to be commercially viable and recorded as impairment of exploration and evaluation assets.

**9. 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, 2014	401,651	810	402,461
Additions	5,417	504	5,921
Transfer from exploration and evaluation	1,301	-	1,301
Acquisitions	177,258	-	177,258
Decommissioning liabilities	52,373	-	52,373
Balance at December 31, 2015	638,000	1,314	639,314
Additions	8,842	190	9,032
Transfer from exploration and evaluation	1,176	-	1,176
Acquisitions	(807)	-	(807)
Dispositions	(59,952)	-	(59,952)
Decommissioning liabilities	(41,479)	-	(41,479)
<b>Balance at December 31, 2016</b>	<b>545,780</b>	<b>1,504</b>	<b>547,284</b>

Accumulated depletion and depreciation:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 2014	(53,510)	(328)	(53,838)
Depletion and depreciation	(45,486)	(345)	(45,831)
Impairment	(7,586)	-	(7,586)
Balance at December 31, 2015	(106,582)	(673)	(107,255)
Depletion and depreciation	(63,944)	(443)	(64,387)
Dispositions	4,001	-	4,001
<b>Balance at December 31, 2016</b>	<b>(166,525)</b>	<b>(1,116)</b>	<b>(167,641)</b>

Carrying value at:	Oil and gas properties	Administrative assets	Total
December 31, 2015	531,418	641	532,059
<b>December 31, 2016</b>	<b>379,255</b>	<b>388</b>	<b>379,643</b>

**Impairment Assessment**

Property, plant and equipment includes oil and natural gas development and production assets that are grouped into CGUs for the purpose of assessing impairment. An impairment test is performed whenever events and circumstances arising during the development and production phase indicate that the carrying value of a CGU may exceed its recoverable amount. On a CGU basis, each carrying amount is compared against its expected recoverable amount, defined as the greater of fair value less costs to sell or its value in use. Fair value less costs to sell is determined as the amount that would be obtained for the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. Fair value less costs to sell a CGU can also be determined by using assumptions that an independent market participant may take into account. This evaluation could use discounted future net cash flows of proved and probable reserves using forecast prices and costs including the development of prospective lands. Management determines value in use for each CGU by estimating the present value of future net cash flows from continued production through exploitation of its proved and probable reserves. Management applies a present value to these cash flows using a discount rate range depending on the category of reserves being discounted. When it is determined that any CGU's carrying value exceeds its recoverable amount, that CGU is considered impaired and an impairment expense is reported that equals this excess.

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.

As at December 31, 2016 the Company has four CGUs being the Southern CGU, Edson CGU, Central Gas CGU, and Coal Bed Methane CGU. The Company disposed of its Central Oil CGU during the year ended December 31, 2016. Impairment testing of all CGUs was performed as at December 31, 2016. The Company determined the fair value less costs to sell for all four CGUs exceeds the carrying amounts as at December 31, 2016.

The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at December 31, 2016.

Year	WTI Oil (US\$/Bbl) <sup>1</sup>	\$C to US\$ Foreign exchange rate <sup>1</sup>	Edmonton Light Crude Oil (Cdn\$/Bbl) <sup>1</sup>	AECO Gas (Cdn\$/MMBtu) <sup>1</sup>
2017	55.00	1.33	69.80	3.40
2018	58.70	1.29	72.70	3.15
2019	62.40	1.25	72.50	3.30
2020	69.00	1.21	81.10	3.60
2021	75.80	1.18	86.60	3.90
2022-2030	84.63	1.18	96.66	4.44
Thereafter	+2.0%/yr	1.18	+2.0%/yr	+2.0%/yr

<sup>1</sup> Source: McDaniel & Associates Consultants Ltd. price forecasts, effective January 1, 2017.

## 10. DEFERRED TAXES

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

	Year ended December 31	
	2016	2015
Loss before income taxes	(61,513)	(34,514)
Corporate income tax rate	27%	26%
Computed income tax recovery	(16,609)	(8,974)
Non-taxable dividends	(28)	(103)
Non-deductible compensation expense	863	880
Changes in tax rate	-	(2,330)
Changes in the unrecorded benefit of tax pools	3,418	392
Realized loss on sale of investments	1,955	-
Other	(725)	(122)
Deferred income tax recovery	(11,126)	(10,257)

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

	Year ended December 31	
	2016	2015
Deferred income tax assets (liabilities):		
Share issue costs	1,341	1,813
Investment	(47)	496
Decommissioning liabilities	55,981	64,913
Property and equipment	(24,710)	(41,192)
Capital losses carried forward	155	128
Non-capital losses carried forward	20,980	13,499
Asset before unrecognized deferred tax	53,700	39,657
Less: unrecognized deferred tax	(4,002)	(1,037)
Net deferred income tax asset	49,698	38,620

Pine Cliff has approximately \$407.9 million in tax pools at December 31, 2016 (December 31, 2015 - \$480.8 million) available for future use as deductions from taxable income. Included in these pools are estimated non-capital loss carry forwards of \$77.7 million (December 31, 2015 - \$50.0 million) that expire between the years 2030 and 2036.

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

	Rate of Utilization (%)	2016
Undepreciated capital costs	20 - 100	50,982
Canadian oil and gas property expenditures	10	261,452
Canadian development expenditures	30	10,537
Canadian exploration expenditures	100	74
Eligible capital expenditures (CEC)	7	113
Share issue costs	20	4,968
Non-capital losses carried forward	100	77,703
Capital losses carried forward <sup>1</sup>		2,027
		<b>407,856</b>

<sup>1</sup>The capital losses carried forward can only be claimed against taxable capital gains.

## 11. BANK DEBT

As at December 31, 2016, the Company had a \$60.0 million syndicated credit facility (the “**Credit Facility**”) with five Canadian Financial Institutions (the “**Syndicate**”) (December 31, 2015 - \$185.0 million Credit Facility). The Credit Facility consists of a \$50.0 million revolving syndicated credit facility and a \$10.0 million revolving operating facility for a total facility of \$60.0 million. Security for the Credit Facility consists of floating demand debentures totaling \$150.0 million and a general security agreement with first ranking over all current and acquired properties. Amounts drawn under the Credit Facility at December 31, 2016, were \$30.9 million (December 31, 2015 - \$156.0 million). Amounts borrowed under the Credit Facility bear interest at the Canadian prime rate plus 1.0% to 3.5% or the bankers’ acceptance rates plus 2.0% to 4.5%, depending, in each case, on the ratio of consolidated debt to EBITDA and the Company’s borrowing base. EBITDA is calculated as earnings (loss) excluding depreciation, depletion and accretion, share based payments, interest, taxes and other non-cash items.

The Credit Facility has a 364 day revolving period maturing July 28, 2017, and if it is not renewed it will convert to a one day term loan due on July 29, 2017. The Credit Facility is subject to semi-annual reviews on November 30<sup>th</sup> and May 31<sup>st</sup>. As a result of the dispositions and associated bank line repayments, the November 30, 2016 review was waived and the May 31, 2017 review was rescheduled to March 31, 2017. The Credit Facility has no fixed terms of repayment.

As at December 31, 2016, the Company had \$1.7 million of letters of credit issued against its Credit Facility (December 31, 2015 - \$0.6 million). The Credit Facility does not contain any financial covenants but Pine Cliff is subject to various nonfinancial covenants under its Credit Facility. Compliance with these covenants is monitored on a regular basis and as at December 31, 2016, Pine Cliff was in compliance with all covenants.

## 12. SUBORDINATED PROMISSORY NOTES

Subordinated promissory notes due September 30, 2020:	
Issued – August 10, 2016	29,004
Accretion expense	82
Subordinated promissory notes due September 30, 2020 as at December 31, 2016	29,086
Subordinated promissory notes due July 29, 2018:	
Issued – July 29, 2016	6,000
Subordinated promissory notes due July 29, 2018 as at December 31, 2016	6,000
Total subordinated promissory notes, as at December 31, 2016	35,086

### Subordinated promissory notes due September 30, 2020

On August 10, 2016, the Company issued 30,000 units (“**Units**” or “**Unit**”) at a price of \$1,000 per Unit for aggregate proceeds of \$30.0 million. Each Unit is comprised of: (i) one promissory note with a par value of \$1,000 per note and bearing interest at 6.75% per annum (“**2020 Note**”), which is payable semi-annually; and (ii) 150 Common Share purchase warrants (“**Warrants**”). The 2020 Notes mature on September 30, 2020 and all or a portion of the principal amount outstanding can be repaid without penalty after August 10, 2017. The 2020 Notes are secured by a \$30.0 million floating charge debenture over all of the Company’s assets and is subordinated to any and all claims in favor of the Credit Facility. A total of 4.5 million Warrants were issued, entitling the holder to purchase one Common Share for \$1.38 until August 10, 2018.



The 2020 Notes were determined to be a hybrid instrument with an embedded derivative. The fair value of the debt component of the 2020 Notes was determined on issuance to be 7.8%, using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to Warrants. The value of the debt will accrete up to the principal balance at maturity.

**Subordinated promissory notes due July 29, 2018**

On July 29, 2016, the Company issued \$6.0 million in promissory notes maturing on July 29, 2018 (“2018 Notes”) and bearing interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility, payable monthly. The 2018 Notes were issued to a shareholder and a relative of that shareholder of the Company, owning directly or by discretion and control, greater than 10% of the Company’s outstanding Common Shares and can be repaid at any time without penalty. The 2018 Notes are secured by \$6.0 million of floating charge debentures over all of the Company’s assets and are subordinated to any and all claims in favor of the Credit Facility and the 2020 Note holder.

**13. DECOMMISSIONING LIABILITIES**

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

At December 31, 2016, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$240.2 million (December 31, 2015 - \$315.4 million). The provision has been calculated assuming a 1.76% inflation rate (December 31, 2015 - 1.72%). These obligations are currently expected to be settled based on the useful lives of the underlying assets which extend beyond 40 years into the future. This amount has been discounted using an average risk-free interest rate of 2.39% (December 31, 2015 - 2.61%).

Changes to decommissioning liabilities were as follows:

	As at December 31,	
	2016	2015
Decommissioning provision, January 1, 2016	240,452	164,513
Provisions related to dispositions	(10,393)	-
Provisions related to acquisitions	505	20,034
Increase in liabilities relating to development activities	301	44
Decommissioning expenditures	(279)	-
Revisions (change in estimate and discount rates)	(31,892)	52,329
Accretion expense during period	5,189	3,532
Decommissioning provision, December 31, 2016	203,883	240,452

**14. SHARE CAPITAL**

**Authorized**

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

**Issued**

Issued and outstanding share capital continuity (000s):	Common Shares	Share capital
Balance at January 1, 2015	233,879	191,319
Shares issued pursuant to public share offerings	66,666	71,999
Exercise of options	4,647	5,722
Share issue costs, net of tax	-	(2,231)
Balance at December 31, 2015	305,192	266,809
Share issue costs, net of tax	-	-
Exercise of options	1,884	1,934
Balance at December 31, 2016	307,076	268,743

**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 years ended December 31, 2016 and 2015, all stock options were excluded as they were anti-dilutive.

Earnings per share calculation:	Year ended December 31	
	2016	2015
<b>Numerator</b>		
Loss for the year	(50,387)	(24,257)
<b>Denominator (000s)</b>		
Weighted-average common shares outstanding – basic and diluted	306,329	240,149
Loss per share – basic and diluted (\$)	(0.16)	(0.10)

**Stock options**

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 stock options up to 10% of outstanding common shares on the grant date. 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.

The following table summarizes changes in the number of stock options outstanding:

Stock options issued and outstanding:	Options (000s)	Weighted-average exercise price (\$ per share)
Outstanding, December 31, 2014	15,695	1.15
Granted	6,878	1.11
Exercised	(4,647)	0.76
Expired	(350)	1.55
Forfeited	(338)	1.29
Outstanding, December 31, 2015	17,238	1.23
Granted	12,030	1.12
Exercised	(1,884)	0.55
Expired	(3,471)	1.43
Forfeited	(1,140)	1.22
Outstanding, December 31, 2016	22,773	1.20

The following table summarizes information about stock options outstanding at December 31, 2016:

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
\$0.73 - \$1.15	8,432	1.8	2,821	0.7
\$1.16 - \$1.58	11,327	2.8	350	0.6
\$1.59 - \$1.97	3,014	0.8	1,463	0.3
	22,773	2.2	4,634	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, 2016, the Company granted 12,030,000 stock options (2015 - 6,877,900) with a fair value of \$0.39 (2015 - \$0.46) per option using the Black-Scholes option pricing model using the following key assumptions:

Assumptions (weighted average):	Year ended December 31,	
	2016	2015
Exercise price (\$)	1.12	1.11
Estimated volatility of underlying common shares (%)	52.1	63
Expected life (years)	3.0	2.9
Risk-free rate (%)	0.8	0.7
Forfeiture rate (%)	3.9	3.9
Expected dividend yield (%)	0.0	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.

### Warrants

The Warrants were issued as part of the Unit financing completed on August 10, 2016 (see note 12). Each Warrant entitles the holder to purchase one common share of the Company for \$1.38 until August 10, 2018.

The following table summarizes changes in the number of Warrants outstanding:

	Number of Warrants (000s)	Amount of Warrants (\$000s)
Issued with 2020 Note	4,500	995
Unit issue costs	-	(37)
Balance, December 31, 2016	4,500	958

### 15. FINANCE EXPENSES

Finance expenses are comprised of:

Finance expenses:	Year ended December 31	
	2016	2015
Interest expense and bank charges	7,034	1,919
Accretion on decommissioning liabilities	5,189	3,532
Accretion on subordinated promissory notes	82	-
Total finance expenses	12,305	5,451

### 16. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses by nature were as follows:

General and administration expenses:	Year ended December 31	
	2016	2015
Staff expenses	3,946	3,452
Consultants	1,246	779
Public company expenses	265	78
Professional fees	970	485
Intercompany administration	20	60
Business development	39	32
Foreign exchange	-	(145)
Office and other costs	1,521	1,027
Bad debt expense	458	-
Transaction fees (non-recurring)	-	283
Overhead recoveries	(1,506)	(212)
Total general and administration expenses	6,959	5,839

**17. KEY MANAGEMENT REMUNERATION**

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

Key management remuneration:	Year ended December 31	
	2016	2015
Short-term benefits <sup>1</sup>	1,182	1,483
Share-based payments <sup>2</sup>	1,768	1,952
<b>Total key management remuneration</b>	<b>2,950</b>	<b>3,435</b>

<sup>1</sup> Short-term benefits includes the salary and other non-cash short-term benefits of Pine Cliff's President and Chief Executive Officer, Chief Financial Officer (10.5 months), Vice President Finance (1.5 months), Chief Operations Officer, Vice President of Business Development (previously Manager of Business Development), Senior Geologist, and former Chief Financial Officer (1.5 months), as well as director fees paid through Pine Cliff.

<sup>2</sup> Share-based payments computed for officers and the board of directors are included in Note 14 includes the fair value of awards expensed in the year.

**18. FINANCIAL INSTRUMENTS**

**Financial instruments and fair value measurement**

Financial instruments of the Company consist of cash, trade and other receivables, investments, trade and other payables, due to related party, subordinated promissory notes, and bank debt. The carrying values of cash, trade and other receivables, and trade and other payables approximate their respective fair values due to their short-term to maturity. The carrying values due to related party, subordinated promissory notes, and bank debt approximate their respective fair values due to their interest rates reflecting current market conditions.

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, 2016 and December 31, 2015:

Description	Level	December 31, 2016		December 31, 2015	
		Carrying value	Fair value	Carrying value	Fair value
Cash	1	148	148	833	833
Trade and other receivables		20,012	20,012	16,473	16,473
Investments	1	5,295	5,295	3,590	3,590
Trade and other payables		(21,319)	(21,319)	(9,978)	(9,978)
Due to related party		(5,000)	(5,000)	-	-
Subordinated promissory notes		(35,086)	(35,086)	-	-
Bank Debt		(30,851)	(30,851)	(155,938)	(155,938)

**19. SUPPLEMENTAL CASH FLOW INFORMATION**

	Year ended December 31	
	2016	2015
Changes in non-cash working capital:		
Trade and other receivables	(3,539)	(2,817)
Prepaid expenses and deposits	(241)	(1,260)
Trade and other payables and accrued liabilities	11,341	(1,310)
	<b>7,561</b>	<b>(5,387)</b>
Change related to:		
Operating activities	3,027	(5,050)
Investing activities	4,304	(107)
Financing activities	230	(230)
	<b>7,561</b>	<b>(5,387)</b>

Cash interest paid in the year ended December 31, 2016 was \$7.0 million (December 31, 2015 - \$1.9 million). Dividends received during the year ended December 31, 2016 were \$0.1 million (December 31, 2015 - \$0.4 million).

**20. 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 loss for the year ended December 31, 2016 would have increased or decreased, respectively, by \$0.4 million (December 31, 2015 - \$0.6 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 States 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, 2016 of \$20.0 million (December 31, 2015 - \$16.5 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. The Company generally considers amounts greater than 90 days to be past due. As at December 31, 2016, there was \$1.8 million (December 31, 2015 - \$1.3 million) of trade and other receivables over 90 days. As at December 31, 2016 the Company does not consider any trade and other receivables to be impaired.

Pine Cliff assesses its financial assets quarterly to determine if there has been any impairment. During the year ended December 31, 2016, the Company recorded \$0.5 million (December 31, 2015 - \$Nil) bad debt expense against trade and other accounts receivables.

**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.

At December 31, 2016 the Company had a \$60.0 million Credit Facility, of which \$30.9 million was drawn. 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. Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities, if required.

**21. COMMITMENTS**

As at December 31, 2016, the Company has the following lease commitments and other contractual obligations:

	2017	2018	2019	2020	2021	Thereafter
(\$000s)						
Subordinated promissory notes <sup>1</sup>	-	6,000	-	30,000	-	-
Trade and other payables	21,319	-	-	-	-	-
Due to related party	-	5,000	-	-	-	-
Bank loan – principal	30,851	-	-	-	-	-
Future interest	3,629	2,370	2,025	1,519	-	-
Firm service commitments	4,615	2,816	1,613	1,326	867	688
Vehicle leases	506	451	344	266	106	-
Office and equipment leases	495	438	436	464	464	922
<b>Total commitments and contingencies</b>	<b>61,415</b>	<b>17,075</b>	<b>4,418</b>	<b>33,575</b>	<b>1,437</b>	<b>1,610</b>

<sup>1</sup> The subordinated promissory notes for commitments are presented at the principal amount.

**22. 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 defines and computes its net debt as follows:

	December 31, 2016	December 31, 2015
Bank debt	30,851	155,938
Due to related party	5,000	-
Subordinated promissory notes <sup>1</sup>	36,000	-
Trade and other payables and accrued liabilities	21,319	9,978
Less:		
Trade and other receivables	(20,012)	(16,473)
Cash	(148)	(833)
Prepaid expenses and deposits	(3,491)	(3,250)
Investments	(5,295)	(3,590)
Net debt	64,224	141,770
Equity	195,758	234,407

<sup>1</sup>The subordinated promissory notes for net debt are presented at the principal amount.

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 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 amounts 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, 2016	December 31, 2015
Net debt	64,224	141,770
Equity	195,758	234,407
Net debt to equity	0.33	0.60

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:

Net debt-to-funds flow from operations calculation:	December 31, 2016	December 31, 2015
Cash provided by operating activities	22,489	20,768
Increase (decrease) in non-cash working capital	(3,027)	5,050
Abandonments	279	-
Funds flow from operations	19,741	25,818
Net debt	64,224	141,770
Net debt-to-funds flow from operations	3.3	5.5

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 and its capital management objectives.

**BOARD OF DIRECTORS**

Gary J. Drummond  
George F. Fink - Chairman  
Philip B. Hodge  
Randy M. Jarock  
Carl R. Jonsson  
William S. Rice

**OFFICERS**

Philip B. Hodge  
President and Chief Executive Officer  
Cheryne A. Lowe  
Chief Financial Officer and Corporate Secretary  
Terry L. McNeill  
Chief Operating Officer  
Heather A. Isidoro  
Vice President, Business Development

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**REGISTRAR AND TRANSFER AGENT**

Computershare Trust Company of Canada

**AUDITORS**

Deloitte LLP

**BANKERS**

Toronto-Dominion Bank  
Alberta Treasury Branches  
National Bank of Canada  
Canadian Western Bank  
Business Development Bank of Canada

**STOCK EXCHANGE LISTING**

TSX Exchange  
Trading Symbol: PNE

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