

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. The overall mood is one of energy and forward motion.

Long-term Value Focus  
Annual Report 2018

Our management team enters 2019 more optimistic about Pine Cliff's outlook than we have been in a couple of years. Our natural gas market diversification strategy was successful in generating positive funds flow in 2018 despite enduring the lowest AECO natural gas prices in the past 19 years, and 2019 natural gas prices have started this year at materially higher levels than we experienced at this time last year. We were also able to use our extensive seismic database to expand our prospect inventory by identifying a number of operated, drilling locations on our existing land base. On the macro side, LNG Canada announced in the last quarter of 2018 that it will be proceeding with a \$40 billion LNG project in Western Canada that will initially export two Bcf per day of Western Canada gas. This project is one of Canada's largest infrastructure projects ever undertaken and will play a significant role in addressing the issue of getting Canadian natural gas to the world. Other significant Pine Cliff highlights from the fourth quarter and 2018 include:

- generated \$4.4 million of adjusted funds flow (\$0.01 per basic share) for the three months ended December 31, 2018;
- generated \$10.5 million (\$0.03 per basic share) of adjusted funds flow during the year ended December 31, 2018;
- realized a \$2.51 per Mcf gas price for the three months ended December 31, 2018, 44% higher than the AECO 5A benchmark of \$1.74 per Mcf;
- realized a \$2.07 per Mcf gas price for the year ended December 31, 2018, 34% higher than the AECO 5A benchmark of \$1.54 per Mcf;
- achieved average production of 19,684 Boe/d (94% natural gas) in 2018, only 8% lower than the 21,408 Boe/d in 2017, despite incurring only \$6.5 million of drilling and recompletion capital spending in 2018, over half of which was spent in the fourth quarter of 2018 with no corresponding increase in production from that specific spend until 2019;
- completed a private placement of \$19 million of term debt to Alberta Investment Management Corporation and extended \$12 million of insider debt to 2020 to eliminate \$18 million in bank debt, ending 2018 with \$3.6 million in cash; and
- drilled and completed a 100% working interest horizontal oil well that was successfully brought on production in January, 2019.

### Capital Allocation/Operations Update

Since 2012, Pine Cliff has grown by acquisitions as we have historically been able to purchase existing production at more accretive metrics than growing organically. In 2018, our team focused on identifying growth opportunities within our Central Alberta land base using the 420 square kilometers of 3D and 813 kilometers of 2D seismic we own or license in the area. This work resulted in Pine Cliff drilling our first horizontal oil well (100% working interest) targeting the Pekisko formation which came on production on January 14, 2019. Although the well was initially restricted for the first 14 days, it flowed at an average rate of 410 Boe/d for the first 30 days of production, consisting of 238 Bbl/d of 30 degree API oil and 940 Mcf/d of raw natural gas. This well produced at an average rate of 390 Boe/d (63% oil and NGLs) for the first 57 days of production.

The Pine Cliff team currently estimates that there are approximately 19 gross (15.8 net) Pekisko and Basal Quartz oil well locations on our Central Alberta lands that would be economic to drill at today's commodity strip pricing, with 3 (2.5 net) of these locations booked in our Reserve Report prepared by McDaniel & Associates Consultants Ltd at December 31, 2018. We own extensive infrastructure, operations and seismic in Central Alberta and we will continue to evaluate further development and acquisition potential in this area.

I think the success of this well is yet another example of how Pine Cliff has focused on optimizing the allocation of capital to create value for our shareholders. We have built a business that has consistently generated positive cash flow in volatile commodity price environments and our entire company views our job as allocating excess cash to the areas of our business where we think it can deliver the greatest return. Between 2012 and 2015, we felt that growth by acquisition was the best use of capital. When natural gas prices dropped in 2016 through 2018, we pivoted and focused on diversifying Pine Cliff's natural gas markets with our internal infrastructure, strengthening our balance sheet by reducing our \$156 million in bank debt to zero and bringing in strong equity partners to hold Pine Cliff's term debt. In 2019, we will continue to evaluate acquisition opportunities as well as opportunities to generate value on our existing lands through more drilling activity, all while maintaining a strong balance sheet. We believe that adding the option of oil drilling does not alter our value creation strategy in any way, but instead upgrades our portfolio of capital allocation options to generate positive returns. The fact that we were able to successfully deploy resources in such diverse areas of the energy industry in the past seven years is an affirmation of Pine Cliff's "bench strength" and I would like to commend each of our team members who have been involved in these initiatives.

## Natural Gas Outlook

Many areas of Western Canada have just experienced the coldest February in 40 years. In February, Pine Cliff achieved realized natural gas prices over \$3.00 per Mcf and storage inventories in Canada are 21% lower than we saw at this time in 2018. Unfortunately, with the cold weather we also experienced well freeze offs that impacted our production, but that is a trade we will always take. With the cold weather this past winter, natural gas storage in North America is currently below the five year average storage levels in both the United States and Canada, all at a time when the US is set to double their LNG export capacity from less than four Bcf/d to over eight Bcf/d. It appears it could be another volatile year in natural gas prices, but forward strip pricing currently indicates it should be a better year for natural gas prices than in 2018, which would translate to extra cash flow for Pine Cliff.

Thank you again from the Pine Cliff team for your patience as our shareholders and be assured that we will continue to do everything we can to build long term value in your investment in our company.

Yours truly,



Phil Hodge  
President and Chief Executive Officer  
March 13, 2019

*Please refer to the attached Management's Discussion and Analysis for Reader Advisories regarding forward-looking information, non-GAAP 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 period ended December 31, 2018, which can be found on [www.sedar.com](http://www.sedar.com) and is subject to the same cautionary statements as set out therein.*

**RESERVES INFORMATION**

McDaniel & Associates Consultants Limited (“**McDaniel**”) was engaged to prepare evaluations of the reserves of Pine Cliff Energy Ltd. (the “**Company**”) at December 31, 2018. 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, 2018. 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. 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 2018 year include:

- Positive technical revisions of 7.1 MMBOE on a proved basis and 6.1 MMBOE on a proved plus probable basis in Pine Cliff properties due to continued strong performance of base production;
- Prior to adjusting for 2018 production, total positive net changes to proved reserves were 4.4 MMBOE (9%), largely a result of improved well performance and a successful well recompletion program;
- Remaining proved reserves of 48.3 MMBOE (92% natural gas) at December 31, 2018, decreased by 2.8 MMBOE (5%) from 51.1 MMBOE (95% natural gas) at December 31, 2017;
- Prior to adjusting for 2018 production, total positive net changes to proved plus probable reserves were 1.6 MMBOE, largely a result of improved well performance;
- Remaining proved plus probable reserves of 61.6 MMBOE (92% natural gas) at December 31, 2018 decreased by 5.6 MMBOE (8%) from 67.2 MMBOE (94% natural gas) at December 31, 2017;
- Approximately 78% of total reserves are classified as proved reserves and approximately 22% are classified as probable reserves;
- Approximately 97% of proved reserves are classified as proved developed producing;
- Net present value for proved plus probable reserves of \$150.8 million, discounted at 10%, a decrease of \$89.3 million, or 37%, from December 31, 2017, mainly as a result of decreases in the future natural gas price deck; and
- In line with Pine Cliff’s historical focus on acquisitions rather than drilling existing reserves, the McDaniel reserve report reflects a conservative future development capital program of \$68.3 million over the next five years.

**Summary of Remaining Working Interest Reserves, as of December 31, 2018**

Reserve Category	Light, Medium and Heavy Oil	Natural Gas and CBM	Natural Gas Liquids	BOE
	MBbl	MMcf	MBbl	MBOE
<b>Proved</b>				
Developed Producing	492.4	260,512.8	2,843.4	46,754.6
Developed Non-Producing	86.2	995.9	39.1	291.3
Undeveloped	185.8	5,223.4	174.0	1,230.3
<b>Total Proved</b>	<b>764.4</b>	<b>266,732.1</b>	<b>3,056.4</b>	<b>48,276.1</b>
Probable	320.3	71,787.1	1,018.3	13,303.1
<b>Total Proved plus Probable</b>	<b>1,084.7</b>	<b>338,519.2</b>	<b>4,074.7</b>	<b>61,579.2</b>

Summary of Net Present Values of Future Net Revenue, Before Income Taxes, as of December 31, 2018<sup>1</sup>

(\$millions)	Discounted at (% per year)			
	0%	5%	10%	15%
<b>Reserve Category</b>				
<b>Proved</b>				
Developed Producing	43.4	79.3	88.1	87.0
Developed Non-Producing	6.7	5.2	4.3	3.7
Undeveloped	16.1	9.2	5.4	3.0
<b>Total Proved</b>	<b>66.1</b>	<b>93.7</b>	<b>97.7</b>	<b>93.7</b>
Probable	114.9	77.3	53.0	37.4
<b>Total Proved plus Probable</b>	<b>181.0</b>	<b>171.0</b>	<b>150.8</b>	<b>131.1</b>

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

## Reconciliation of Gross Reserves by Principal Product Type, as of December 31, 2018

	Light, Medium, and Heavy Oil and Natural Gas Liquids		Natural Gas and Coal Bed Methane		BOE	
	Proved	Proved plus Probable	Proved	Proved plus Probable	Proved	Proved plus Probable
	(MBbl)	(MBbl)	(MMcf)	(MMcf)	(MBOE)	(MBOE)
<b>December 31, 2017</b>	<b>3,054.8</b>	<b>4,312.9</b>	<b>288,108.5</b>	<b>377,431.5</b>	<b>51,072.9</b>	<b>67,218.2</b>
Extension	300.9	493.1	1,189.3	2,663.7	499.1	937.1
Technical Revisions	1,042.1	985.3	36,335.2	30,628.5	7,097.9	6,090.0
Acquisitions	0.0	0.5	3.5	2.9	0.6	1.0
Change in Working Interest	(56.9)	(112.4)	(599.8)	(1,435.5)	(156.9)	(351.7)
Economic Factors	(94.5)	(94.4)	(17,749.3)	(30,216.6)	(3,052.7)	(5,130.5)
<b>Total Changes</b>	<b>1,191.6</b>	<b>1,272.1</b>	<b>19,178.9</b>	<b>1,643.0</b>	<b>4,388.0</b>	<b>1,545.9</b>
Production	(425.6)	(425.6)	(40,555.3)	(40,555.3)	(7,184.8)	(7,184.8)
<b>December 31, 2018</b>	<b>3,820.8</b>	<b>5,159.4</b>	<b>266,732.1</b>	<b>338,519.2</b>	<b>48,276.1</b>	<b>61,579.2</b>

## Finding, Development and Acquisition ("FD&amp;A") Costs

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:

	2018 <sup>(1)</sup>	2017 <sup>(1)</sup>	2016 <sup>(2)</sup>	3 year average <sup>(1)</sup>
<b>\$/Boe</b>				
Proved Reserves	<b>5.29</b>	4.58	0.01	<b>3.34</b>
Proved plus probable reserves	<b>5.25</b>	6.29	0.33	<b>4.10</b>
<b>\$/Mcf</b>				
Proved Reserves	<b>0.88</b>	0.76	0.00	<b>0.56</b>
Proved plus probable reserves	<b>0.88</b>	1.05	0.05	<b>0.68</b>

<sup>1</sup> FD&A costs, including changes in future development capital, are calculated as the aggregate of development capital plus acquisition capital, net of dispositions (2016 capital and reserve dispositions are excluded in the three year average calculation), plus the change in future development capital for the period divided by the change in total reserves for the period, excluding production.

<sup>2</sup> 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 divided by the change in total reserves for the period, excluding dispositions and production.

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

	2018 <sup>(3)</sup>	2017 <sup>(3)</sup>	2016 <sup>(4)</sup>	3 year average <sup>(3)</sup>
<b>\$/Boe</b>				
Proved Reserves	<b>2.38</b>	2.55	1.86	<b>2.28</b>
Proved plus probable reserves	<b>6.76</b>	3.17	2.94	<b>3.75</b>
<b>\$/Mcf</b>				
Proved Reserves	<b>0.40</b>	0.43	0.31	<b>0.38</b>
Proved plus probable reserves	<b>1.13</b>	0.53	0.49	<b>0.62</b>

<sup>3</sup> FD&A costs, excluding changes in future development capital, are calculated as the aggregate of development capital plus acquisition capital, net of dispositions (2016 capital and reserve dispositions are excluded in the three year average calculation) for the period divided by the change in total reserves for the period, excluding production.

<sup>4</sup> FD&A costs, excluding 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.

### 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>
2019	58.58	1.32	67.30	1.88
2020	64.60	1.28	75.84	2.31
2021	68.20	1.25	80.17	2.74
2022	71.00	1.25	83.22	3.05
2023	72.81	1.24	85.34	3.21
2024-2033	82.41	1.24	96.61	3.65
Thereafter	+2.0%/yr	1.24	+2.0%/yr	+2.0%/yr

<sup>1</sup> Source: Average of three consultant price forecasts, effective January 1, 2019 (McDaniel, GLJ Petroleum Consultants Ltd. and Sproule Associates Limited).

Please refer to the attached Management's Discussion and Analysis for Reader Advisories regarding forward-looking information, non-GAAP 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, 2018, 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

This Management's Discussion and Analysis ("**MD&A**") is a review of the operations and current financial position of Pine Cliff Energy Ltd. ("**Pine Cliff**" or the "**Company**") for the period ended December 31, 2018. This MD&A is dated and based on information available as at March 13, 2019 and should be read in conjunction with audited consolidated financial statements for the year ended December 31, 2018 and 2017 ("**Financial Statements**"). The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board using Generally Accepted Accounting Principles ("**GAAP**"). 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 ("**Common Shares**") 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-GAAP MEASURES**" and "**FORWARD LOOKING INFORMATION**".

### *Other Measurements*

All amounts herein are presented in Canadian dollars unless otherwise specified. All references to \$CAD or \$ are to Canadian dollars and monetary 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 one (1) Bbl to six (6) thousand cubic feet. 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 terms Boe or Mcfe may be misleading, particularly if used in isolation.

## 2018 AND FOURTH QUARTER 2018 HIGHLIGHTS

Highlights from 2018 and the fourth quarter of 2018 are as follows:

- generated \$4.4 million of adjusted funds flow (\$0.01 per basic share) for the three months ended December 31, 2018;
- generated \$10.5 million (\$0.03 per basic share) of adjusted funds flow during the year ended December 31, 2018;
- realized a \$2.51 per Mcf gas price for the three months ended December 31, 2018, 44% higher than the AECO 5A benchmark of \$1.74 per Mcf;
- realized a \$2.07 per Mcf gas price for the year ended December 31, 2018, 34% higher than the AECO 5A benchmark of \$1.54 per Mcf;
- achieved average production of 19,684 Boe/d (94% natural gas) in 2018, only 8% lower than the 21,408 Boe/d in 2017, despite incurring minor drilling and recompletion capital spending in 2018, over half of which was spent in the fourth quarter of 2018 with no corresponding increase in production from that specific spend until 2019;
- completed a private placement of \$19 million of term debt to Alberta Investment Management Corporation and extended \$12 million of insider debt to 2020 to eliminate \$18 million in bank debt, ending 2018 with \$3.6 million in cash; and
- drilled and completed a 100% working interest horizontal oil well that was successfully brought on production in January, 2019.

## SELECTED ANNUAL FINANCIAL INFORMATION

	Year ended December 31,		
	2018	2017	2016
(\$000s, unless otherwise indicated)			
<b>FINANCIAL<sup>1</sup></b>			
<b>Oil and gas sales (before royalties)</b>	<b>107,385</b>	125,018	118,642
<b>Total revenue (net of royalties)</b>	<b>100,063</b>	115,076	111,052
<b>Cash flow from operating activities</b>	<b>8,616</b>	25,009	22,489
<b>Adjusted funds flow<sup>2</sup></b>	<b>10,513</b>	28,705	19,741
Per share – Basic and Diluted (\$/share)	<b>0.03</b>	0.09	0.06
<b>Loss for the year</b>	<b>(72,719)</b>	(67,864)	(50,387)
Per share – Basic and Diluted (\$/share)	<b>(0.24)</b>	(0.22)	(0.16)
<b>Total assets</b>	<b>354,215</b>	405,228	491,897
<b>Total non-current financial liabilities</b>	<b>60,280</b>	29,307	40,086
<b>Total liabilities</b>	<b>293,241</b>	276,135	296,139
<b>Capital expenditures</b>	<b>10,665</b>	13,477	9,159
<b>Acquisitions</b>	<b>307</b>	(62)	(807)
<b>Dispositions</b>	<b>(285)</b>	(429)	(63,112)
<b>Net Debt<sup>2</sup></b>	<b>56,819</b>	53,638	64,224
Weighted average common shares outstanding (000s) - Basic and Diluted	<b>307,076</b>	307,076	306,329
<b>OPERATIONS</b>			
<b>Production</b>			
Natural gas (Mcf/d)	<b>111,110</b>	121,718	124,906
Natural gas liquids (Bbl/d)	<b>940</b>	924	924
Crude oil (Bbl/d)	<b>226</b>	198	753
<b>Total (Boe/d)</b>	<b>19,684</b>	21,408	22,495
<b>Total (Mcf/d)</b>	<b>118,104</b>	128,448	134,970
<b>Realized commodity sales prices</b>			
Natural gas (\$/Mcf)	<b>2.07</b>	2.39	2.13
Natural gas liquids (\$/Boe)	<b>53.33</b>	43.81	32.53
Crude oil (\$/Bbl)	<b>59.74</b>	57.17	37.41
<b>Total (\$/Boe)</b>	<b>14.95</b>	16.00	14.41
<b>Netback (\$/Boe)</b>			
Operating netback <sup>2</sup>	<b>2.68</b>	4.88	4.08
Corporate netback <sup>2</sup>	<b>1.47</b>	3.68	2.39
<b>Netback (\$/Mcf)</b>			
Operating netback <sup>2</sup>	<b>0.45</b>	0.81	0.68
Corporate netback <sup>2</sup>	<b>0.25</b>	0.61	0.40

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

<sup>2</sup> This is a non-GAAP measure, see NON-GAAP MEASURES for additional information.



	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
(\$000s, unless otherwise indicated)				
<b>FINANCIAL</b>				
<b>Oil and gas sales (before royalty expense)</b>	<b>30,110</b>	28,663	<b>107,385</b>	125,018
<b>Cash flow from operating activities</b>	<b>1,415</b>	(4,350)	<b>8,616</b>	25,009
<b>Adjusted funds flow<sup>1</sup></b>	<b>4,433</b>	3,759	<b>10,513</b>	28,705
Per share – Basic and Diluted (\$/share) <sup>1</sup>	<b>0.01</b>	0.01	<b>0.03</b>	0.09
<b>Earnings (loss)</b>	<b>(28,520)</b>	(32,996)	<b>(72,719)</b>	(67,864)
Per share – Basic and Diluted (\$/share)	<b>(0.09)</b>	(0.11)	<b>(0.24)</b>	(0.22)
<b>Capital expenditures</b>	<b>4,302</b>	3,091	<b>10,665</b>	13,477
<b>Acquisitions</b>	<b>(61)</b>	44	<b>307</b>	(62)
<b>Dispositions</b>	<b>(51)</b>	(148)	<b>(285)</b>	(429)
<b>Net debt<sup>1</sup></b>	<b>56,819</b>	53,638	<b>56,819</b>	53,638
Weighted-average common shares outstanding (000s)				
Basic	<b>307,076</b>	307,076	<b>307,076</b>	307,076
Diluted	<b>307,076</b>	307,076	<b>307,076</b>	307,076
<b>OPERATIONS</b>				
<b>Production</b>				
Natural gas (Mcf/d)	<b>110,295</b>	122,304	<b>111,110</b>	121,718
Natural gas liquids (Bbl/d)	<b>957</b>	880	<b>940</b>	924
Crude oil (Bbl/d)	<b>236</b>	225	<b>226</b>	198
Total (Boe/d)	<b>19,576</b>	21,489	<b>19,684</b>	21,408
<b>Realized commodity sales prices</b>				
Natural gas (\$/Mcf)	<b>2.51</b>	2.09	<b>2.07</b>	2.39
Natural gas liquids (\$/Boe)	<b>44.85</b>	47.73	<b>53.33</b>	43.81
Crude oil (\$/Bbl)	<b>32.14</b>	62.41	<b>59.74</b>	57.17
Combined (\$/Boe)	<b>16.72</b>	14.50	<b>14.95</b>	16.00
<b>Netback (\$/Boe)</b>				
Oil and gas sales	<b>16.72</b>	14.50	<b>14.95</b>	16.00
Royalty expense	<b>(0.95)</b>	(1.06)	<b>(1.02)</b>	(1.30)
Transportation expenses	<b>(1.80)</b>	(1.34)	<b>(1.74)</b>	(1.12)
Operating expenses	<b>(10.41)</b>	(9.25)	<b>(9.51)</b>	(8.70)
Operating netback (\$/Boe) <sup>1</sup>	<b>3.56</b>	2.85	<b>2.68</b>	4.88
General and administrative expenses	<b>(0.42)</b>	(0.55)	<b>(0.67)</b>	(0.76)
Interest and bank charges, net of dividend income	<b>(0.68)</b>	(0.40)	<b>(0.54)</b>	(0.44)
Corporate netback (\$/Boe) <sup>1</sup>	<b>2.46</b>	1.90	<b>1.47</b>	3.68
Operating netback (\$ per Mcfe) <sup>1</sup>	<b>0.59</b>	0.48	<b>0.45</b>	0.81
Corporate netback (\$ per Mcfe) <sup>1</sup>	<b>0.41</b>	0.32	<b>0.25</b>	0.61

<sup>1</sup> This is a non-GAAP measure, see NON-GAAP MEASURES for additional information.

## 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 on variable rate debt. 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 adjusted funds flow <sup>1</sup>		
	Change	\$000s	\$ per share <sup>3</sup>
Realized crude oil price <sup>2</sup>	\$1.00	405	0.00
Realized natural gas price <sup>2</sup>	\$0.10	3,744	0.01
Interest rate on variable rate debt <sup>4</sup>	1.0%	84	0.00

<sup>1</sup> This analysis does not adjust for changes in working capital and uses corporate royalty rates from the year ended December 31, 2018.

<sup>2</sup> Pine Cliff has prepared this analysis using its Q4 2018 production volumes annualized for twelve months.

<sup>3</sup> Based on the Q4 2018 basic weighted average shares outstanding.

<sup>4</sup> Based on December 31, 2018 bank debt of \$nil, 2020 \$6 Million Notes and 2020 Related Party Notes, as defined herein, of \$6.0 million, less cash of \$3.6 million.

## BENCHMARK PRICES

	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
<b>Natural gas</b>						
NYMEX (US\$/Mmbtu) <sup>1</sup>	3.73	2.91	28	3.09	3.07	1
AECO Daily 5A (C\$/Mcf) <sup>2</sup>	1.74	1.68	4	1.54	2.14	(28)
<b>Crude oil</b>						
WTI (US\$/Bbl)	52.41	55.40	(5)	63.17	50.95	24
Edmonton Light (C\$/Bbl)	38.94	68.98	(44)	68.44	62.85	9
<b>Foreign exchange</b>						
US\$/C\$	1.331	1.270	5	1.300	1.295	-

<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.

## Quarterly Benchmark Prices

Pine Cliff's financial results are influenced by fluctuations in commodity prices, dollar exchange rates and 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.

	Q4-2018	Q3-2018	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017	Q1-2017
<b>Natural gas</b>								
NYMEX (US\$/Mmbtu) <sup>1</sup>	3.73	2.85	2.78	2.99	2.91	2.98	3.13	3.25
AECO Daily 5A (C\$/Mcf) <sup>2</sup>	1.74	1.19	1.18	2.07	1.68	1.45	2.77	2.68
Pine Cliff realized natural gas price (\$/Mcf)	2.51	1.88	1.55	2.35	2.09	1.86	2.82	2.83
<b>Crude oil</b>								
WTI (US\$/Bbl)	52.41	69.50	67.88	62.87	55.40	48.20	48.28	51.91
Edmonton Light (C\$/Bbl)	38.94	81.95	80.66	72.21	68.98	56.65	61.87	63.91
<b>Foreign exchange</b>								
US\$/C\$	1.331	1.310	1.290	1.270	1.270	1.250	1.340	1.320

<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.

During the three months and year ended December 31, 2018, the AECO daily benchmark increased by 4% and decreased 28% compared to the same periods of 2017. The changes for the quarter and year are mainly due to supply and demand factors including pipeline and storage constraints, weather, economic conditions in producing and consuming regions throughout North America and political factors. While the price realized by the Company for natural gas production from Western Canada is still influenced by the Alberta price hub AECO, diversification projects to delivery points such as Dawn, Empress and TransGas into Saskatchewan have decreased that influence significantly. The diversification projects materially increased realized natural gas pricing for Pine Cliff in

fiscal 2018. See "OIL AND GAS SALES" section for additional information on the diversification project premiums compared to AECO 5A.

The average benchmarks for WTI and Edmonton Light crude increased by 24% and 9%, for the year ended December 31, 2018, as compared to the same period in 2017, due to increasing global demand and the management of global crude oil production volumes by OPEC and several non-OPEC countries. Canadian crude prices are based upon refinery postings at Edmonton, Alberta and are linked to WTI through transportation tariffs to common markets and the foreign exchange rate.

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.

## SALES VOLUMES

Total sales volumes by product	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Natural gas (Mcf)	10,147,122	11,251,434	(10)	40,555,104	44,428,062	(9)
NGLs (Bbl)	88,039	80,985	9	343,162	337,130	2
Crude oil (Bbl)	21,757	20,762	5	82,420	73,784	12
Total Boe	1,800,983	1,976,986	(9)	7,184,766	7,815,591	(8)
Total Mcfe	10,805,898	11,861,916	(9)	43,108,596	46,893,546	(8)
Natural gas weighting	94%	95%	(1)	94%	95%	1

Average daily sales volumes by product	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Natural gas (Mcf/d)	110,295	122,304	(10)	111,110	121,718	(9)
NGLs (Bbl/d)	957	880	9	940	924	2
Crude oil (Bbl/d)	236	225	5	226	198	14
Total (Boe/d)	19,576	21,489	(9)	19,684	21,408	(8)
Total (Mcf/d)	117,456	128,934	(9)	118,104	128,448	(8)

Average daily sales volumes by area	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Central (Boe/d)	9,097	10,382	(12)	9,231	10,039	(8)
Southern (Boe/d)	8,517	8,958	(5)	8,462	9,141	(7)
Edson (Boe/d)	1,962	2,149	(9)	1,991	2,228	(11)
Total (Boe/d)	19,576	21,489	(9)	19,684	21,408	(8)

Pine Cliff's sales volumes decreased by 9% to 19,576 Boe/d (117,456 Mcfe/d) and 8% to 19,684 Boe/d (118,104 Mcfe/d) for the three months and year ended December 31, 2018, as compared to the same periods in 2017. The decreases relate mainly to natural gas production declines and short term voluntary shut-ins for the first three quarters of 2018 due to low natural gas commodity pricing, slightly offset by production gains from the Company's recompletion and drilling programs. Pine Cliff's sales volumes only decreased by 8% for the year ended December 31, 2018, despite only incurring \$6.5 million of drilling and recompletion capital spending with approximately half of that amount being spent in the fourth quarter of 2018 with no corresponding production until 2019.

Pine Cliff is projecting 2019 production volumes of 18,500 – 19,000 Boe/d (111,000 – 114,000 Mcfe/d), weighted approximately 93% towards natural gas.

**OIL AND GAS SALES**

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Natural gas	25,462	23,507	8	84,161	106,104	(21)
NGL	3,949	3,864	2	18,300	14,772	24
Crude oil	699	1,292	(46)	4,924	4,142	19
Total oil and gas sales	30,110	28,663	5	107,385	125,018	(14)
% of revenue from natural gas sales	85%	82%	3	78%	85%	(7)

**Realized prices**

\$ per unit	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Natural gas (\$/Mcf)	2.51	2.09	20	2.07	2.39	(13)
NGL (\$/Bbl)	44.85	47.73	(6)	53.33	43.81	22
Crude oil (\$/Bbl)	32.14	62.41	(49)	59.74	57.17	4
Total (\$/Boe)	16.72	14.50	15	14.95	16.00	(7)
Total (\$/Mcf)	2.79	2.42	15	2.49	2.67	(7)

Oil and gas sales in the three months ended December 31, 2018 of \$30.1 million increased by \$1.4 million from \$28.7 million in the three months ended December 31, 2017, with a \$4.0 million increase from higher realized commodity pricing being offset by a \$2.6 million decrease from lower production. Oil and gas sales for the year ended December 31, 2018, decreased by \$17.6 million to \$107.4 million from \$125.0 million for the year ended December 31, 2017, with \$7.5 million of the decrease attributable to lower realized prices and \$10.1 million from lower sales volumes.

Pine Cliff's realized natural gas price was \$2.51 per Mcf in the three months ended December 31, 2018, 20% higher than the \$2.09 per Mcf realized in the corresponding period of the prior year, despite the AECO 5A reference prices being only 4% higher, as a result of Pine Cliff's marketing diversification to non-AECO markets and fixed price physical natural gas sales contracts. Pine Cliff's realized natural gas price was \$2.07 per Mcf for the year ended December 31, 2018, 13% lower than the \$2.39 per Mcf in the corresponding period of the prior year as a result of lower natural gas market prices, somewhat offset by marketing diversification premiums and fixed price physical natural gas sales contracts. For the three months and year ended December 31, 2018, Pine Cliff's realized natural gas pricing was 44% and 34% higher than the AECO 5A benchmark compared to 24% and 12% in the corresponding periods of the prior year.

For the three months and year ended December 31, 2018, Pine Cliff's realized NGL prices were \$44.85 per Bbl and \$53.33 per Bbl, compared to \$47.73 per Bbl and \$43.81 per Bbl in the corresponding periods of the prior year. For the three months and year ended December 31, 2018, Pine Cliff's realized oil prices were \$32.14 per Bbl and \$59.74 per Bbl, compared to \$62.41 per Bbl and \$57.17 per Bbl in the corresponding periods of the prior year. The fluctuations in NGL and oil prices were a direct result of changes in the Edmonton Light oil price. Pine Cliff's realized NGL prices in the three months and year ended December 31, 2018 were 115% and 69% of Edmonton Light compared to 69% and 70% in the corresponding periods of the prior year. Pine Cliff's realized oil prices in the three months and year ended December 31, 2018 were 83% and 87% of Edmonton Light compared to 90% and 91% in the corresponding periods of the prior year.

**ROYALTY EXPENSE**

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Total royalty expense	1,714	2,095	(18)	7,357	10,152	(28)
\$ per Boe	0.95	1.06	(10)	1.02	1.30	(22)
\$ per Mcfe	0.16	0.18	(10)	0.17	0.22	(22)
Royalty expense as a % of oil and gas sales	6%	7%	(14)	7%	8%	(13)

For the three months and year ended December 31, 2018, total royalty expense decreased by 18% and 28% to \$1.7 million and \$7.4 million from \$2.1 million and \$10.2 million in the corresponding periods of the prior year. Royalty expense as a percentage of oil and gas sales decreased to 6% and 7% in the three months ended December 31, 2018, compared to 7% and 8% in the corresponding

periods of the prior year. The decrease in royalty expenses as a percentage of oil in gas sales for the three months ended December 31, 2018, primarily due to gas crown royalties being charged on a reference price that is lower than Pine Cliff's realized gas price and higher gas cost allowance adjustments as realized sales prices increased compared to 2017. The decrease in royalty expenses as a percentage of oil in gas sales for the year ended December 31, 2018 is due to lower commodity prices, gas crown royalties being charged on a reference price that is lower than Pine Cliff's realized gas price and higher gas cost allowance adjustments.

Pine Cliff anticipates royalty expenses to average 7% of oil and gas sales in 2019.

#### TRANSPORTATION COSTS

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Total transportation costs	<b>3,244</b>	2,648	23	<b>12,525</b>	8,733	43
\$ per Boe	<b>1.80</b>	1.34	34	<b>1.74</b>	1.12	55
\$ per Mcfe	<b>0.30</b>	0.22	34	<b>0.29</b>	0.19	55

Transportation costs increased by 23% and 43% to \$3.2 million and \$12.5 million for the three months and year ended December 31, 2018, as compared to \$2.6 million and \$8.7 million in the corresponding periods of the prior year, primarily a result of higher transportation expenses related to the Company diversifying its natural gas sales delivery to non-AECO markets, including the delivery of approximately 11,000 Mcf/d to Dawn during the three months and year ended December 31, 2018. The increase in transportation costs was more than offset by a higher realized natural gas price during the three months and year ended December 31, 2018.

Pine Cliff anticipates transportation expenses to average \$1.80 per Boe (\$0.30 per Mcfe) in 2019.

#### OPERATING EXPENSES

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Total operating expenses	<b>18,745</b>	18,288	2	<b>68,332</b>	68,029	-
\$ per Boe	<b>10.41</b>	9.25	13	<b>9.51</b>	8.70	9
\$ per Mcfe	<b>1.73</b>	1.54	13	<b>1.59</b>	1.45	9

Operating expenses increased by 2% to \$18.7 million for the three months ended December 31, 2018, as compared to \$18.3 million in the corresponding period of the prior year, primarily a result of timing of fixed costs and lower third party revenues. On a per Boe basis, operating costs increased to \$10.41 per Boe for the three months ended December 31, 2018 compared \$9.25 per Boe in the corresponding period of 2017, primarily as a result of lower sales volumes, timing of fixed costs and lower third party fee revenue.

Operating expenses were consistent for the year ended December 31, 2018 at \$68.3 million from \$68.0 million in the previous year. On a per Boe basis, operating costs increased to \$9.51 per Boe for the year ended December 31, 2018 compared \$8.70 per Boe in the corresponding period of 2017, primarily as a result of lower sales volumes, higher power costs and lower third party fee revenue.

Pine Cliff anticipates operating expenses to average \$9.80 per Boe (\$1.63 per Mcfe) in 2019.

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

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Gross G&A	<b>1,703</b>	1,705	-	<b>7,516</b>	8,162	(8)
Less: overhead recoveries	<b>(947)</b>	(622)	52	<b>(2,678)</b>	(2,247)	19
Total G&A expenses	<b>756</b>	1,083	(30)	<b>4,838</b>	5,915	(18)
\$ per Boe	<b>0.42</b>	0.55	(24)	<b>0.67</b>	0.76	(12)
\$ per Mcfe	<b>0.07</b>	0.09	(24)	<b>0.11</b>	0.13	(12)

G&A expenses decreased to \$0.8 million and \$4.8 million for the three months and year ended December 31, 2018, as compared to \$1.1 million and \$5.9 million in the corresponding periods of the prior year. The decrease in G&A during the three months and year ended December 31, 2018, primarily a result of higher overhead recoveries and lower discretionary staffing costs.

Despite a decrease in production in 2018 compared to 2017, G&A per Boe decreased 24% to \$0.42 per Boe and 12% to \$0.67 per Boe for the three months and year ended December 31, 2018 compared to \$0.55 per Boe and \$0.76 per Boe in the corresponding periods of 2017, primarily as a result of higher overhead recoveries and lower discretionary staffing costs.

Pine Cliff anticipates G&A expenses to average \$0.75 per Boe (\$0.13 per Mcfe) in 2019.

#### SHARE-BASED PAYMENTS

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Total share-based payments	505	868	(42)	2,231	3,578	(38)
\$ per Boe	0.28	0.44	(36)	0.31	0.46	(33)
\$ per Mcfe	0.05	0.07	(36)	0.05	0.08	(33)

The decrease in share-based payments of 42% and 38% for the three months and year ended December 31, 2018 compared to the prior periods of 2017, primarily due to the decrease in the fair value of the stock options granted in 2018 to \$0.12 from \$0.26 per option granted in 2017 and a decrease in stock options granted in 2018 as compared to 2017. 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.

During the year ended December 31, 2018, Pine Cliff granted 7,697,800 stock options to purchase Common Shares at a weighted average exercise price of \$0.33. As at December 31, 2018, the Company had 21,028,804 stock options outstanding representing 6.8% of Common Shares outstanding (December 31, 2017 – 21,316,406 representing 6.9% of Common Shares outstanding).

#### DEPLETION, DEPRECIATION, AND IMPAIRMENT

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Total depletion and depreciation	11,420	11,992	(5)	43,760	49,150	(11)
\$ per Boe	6.34	6.07	4	6.09	6.29	(3)
\$ per Mcfe	1.06	1.01	4	1.02	1.05	(3)
Impairment	-	-	-	-	17,800	(100)
Total depletion, depreciation, and impairment	11,420	11,992	(5)	43,760	66,950	(35)
\$ per Boe	6.34	6.07	4	6.09	8.57	(29)
\$ per Mcfe	1.06	1.01	4	1.02	1.43	(29)

Depletion and depreciation expense, excluding impairment for the three months and year ended December 31, 2018, totaled \$11.4 million and \$43.8 million compared to \$12.0 million and \$49.2 million in the corresponding periods of the prior year. The decreases are a result of lower sales volumes and a lower depletable base. Depletion and depreciation per Boe will fluctuate from one period to the next depending on the amount and type of capital spending and changes in reserves. Depletion is calculated using total proved and probable reserves and reserves estimates are subject to revision.

#### Property, Plant and Equipment ("PP&E") Impairment Assessment

As at December 31, 2018, the Company had four Cash Generating Units ("CGU") being the Southern CGU, Central Gas CGU, Edson CGU, and Coal Bed Methane CGU. The Company reviewed each CGU's property and equipment at December 31, 2018 for indicators of impairment and determined that an indicator related to the decrease in future commodity prices was present. The company prepared estimates of both the value in use and fair value less cost to sell of each of the Company's CGUs. When it is determined that any CGU carrying value exceeds its recoverable amount, that CGU is considered impaired and an impairment expense is reported that equals this excess.

The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at December 31, 2018:

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>
2019	58.58	1.32	67.30	1.88
2020	64.60	1.28	75.84	2.31
2021	68.20	1.25	80.17	2.74
2022	71.00	1.25	83.22	3.05
2023	72.81	1.24	85.34	3.21
2024-2033	82.41	1.24	96.61	3.65
Thereafter	+2.0%/yr	1.24	+2.0%/yr	+2.0%/yr

<sup>1</sup> Source: Average of three consultant price forecasts, effective January 1, 2019 (McDaniel & Associates Consultants Ltd., GLJ Petroleum Consultants Ltd. and Sproule Associates Limited).

The recoverable amounts of each of the Company's CGU's at December 31, 2018 were estimated at their fair value less cost to sell, based on the net present value of discounted future cash flow from operating activities from oil and gas reserves as estimated by the Company's independent reserves evaluator at December 31, 2018. The fair value less costs to sell used to determine the recoverable amounts are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data, but rather, the Company's management best estimates.

The Company used a pre-tax 15% discount rate for the December 31, 2018 impairment test which took into account risks specific to the CGU's and inherent in the oil and gas business. The impairment testing concluded that the fair value less costs to sell for the Company's CGU's at December 31, 2018 is greater than the carrying amounts and therefore no impairment was recorded in 2018.

The following CGU's were impaired as at December 31, 2017:

CGUs	2018	2017
Edson	-	14,000
Coal Bed Methane	-	3,800
Total Impairment	-	17,800

### Exploration and Evaluation Assets ("E&E") Impairment Assessment

In accordance with IFRS, an impairment test is performed if the Company identified an indication of impairment. An E&E asset shall be assessed for impairment before reclassification to PP&E if the Company determines technical feasibility and commercial viability of extraction. At December 31, 2018 and 2017, the Company determined that no indicators of impairment existed on its E&E assets and therefore an impairment test was only performed for E&E assets transferred to PP&E.

### FINANCE EXPENSES

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Interest expense and bank charges	<b>1,218</b>	842	45	<b>3,855</b>	3,694	4
Non cash:						
Accretion on decommissioning provision	<b>1,453</b>	1,305	11	<b>5,389</b>	4,984	8
Accretion on subordinated promissory notes	<b>77</b>	57	35	<b>267</b>	221	21
Total finance expenses	<b>2,748</b>	2,204	25	<b>9,511</b>	8,899	7
\$ per Boe	<b>1.53</b>	1.11	38	<b>1.32</b>	1.14	16
\$ per Mcfe	<b>0.25</b>	0.19	38	<b>0.22</b>	0.19	16

Finance expenses increased by 25% and 7% to \$2.7 million and \$9.5 million for the three months and year ended December 31, 2018, as compared to \$2.2 million and \$8.9 million in the corresponding periods of the prior year, primarily a result of higher interest costs due to higher interest rates paid on the additional subordinated promissory notes as well as an increase in accretion expenses related to a higher inflation rate used to unwind the discount. Please refer to the "DEBT, LIQUIDITY AND CAPITAL RESOURCES" section for additional information.

**DIVIDEND INCOME**

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Total dividend income	-	52	(100)	35	210	(83)
\$ per Boe	-	0.03	(100)	-	0.03	(100)

During the year ended December 31, 2018, Pine Cliff received \$0.035 million in dividends from its investment in one dividend paying company.

**DEFERRED INCOME TAX**

For the year ended December 31, 2018, deferred income tax expenses amounted to \$28.9 million from \$20.8 million in the same period of 2017.

As at December 31, 2018, the Company did not record a future income tax asset (December 31, 2017 - \$29.3 million) as it is not currently probable that Pine Cliff can utilize its tax pools against taxable profit. As at December 31, 2018, a deferred income tax asset has not been recognized on \$73.4 million (December 31, 2017 - \$33.3 million) of deductible temporary differences as it is not probable that future taxable earnings will be available against which the Company can utilize the benefits.

The Company had the following tax pools, including non-capital loss carry-forwards, at December 31, 2018:

Category of tax pool	Rate of Utilization (%)	2018
Undepreciated capital costs	4 - 100	34,726
Canadian oil and gas property expenditures	10	226,174
Canadian development expenditures	30	12,760
Canadian exploration expenditures	100	167
Share issue costs	20	1,680
Non-capital losses carried forward <sup>1</sup>	100	109,941
Capital losses carried forward <sup>2</sup>		4,119
		<b>389,567</b>

<sup>1</sup> Non-capital losses expire between the years 2030 and 2038.

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

As at December 31, 2018, the unused non-capital losses expire between 2030 and 2038, and the unused capital losses have no expiry date. The deductible temporary differences do not expire under tax legislation. Pine Cliff has approximately \$389.6 million in tax pools as at December 31, 2018 (December 31, 2017 - \$383.0 million), available for future use as deductions from taxable income.

**REALIZED LOSS IN INVESTMENTS**

Pine Cliff sold its investment in one public dividend paying company for proceeds of \$2.3 million and realized a loss on that sale of \$2.7 million during the first quarter of 2018.



**EARNINGS (LOSS)**

Year to year variance analysis:

(\$000s)

<b>Loss for the year ended December 31, 2017</b>	<b>(67,864)</b>
Price variance	(7,542)
Volume variance	(10,091)
Royalty expense	2,795
Transportation costs	(3,792)
Operating expenses	(303)
General and administrative	1,077
Depletion and depreciation	5,390
Share-based payments	1,347
Finance expenses	(612)
Realized loss in investments	(2,687)
Dividend income	(175)
Deferred income expense	(8,062)
Impairment	17,800
<b>Loss for the year ended December 31, 2018</b>	<b>(72,719)</b>

**CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS**

(\$000s)	Year ended December 31,	
	2018	2017
Exploration and evaluation	239	79
Property, plant and equipment	10,426	13,398
Capital expenditures	10,665	13,477
Acquisitions	307	(62)
Dispositions	(285)	(429)
Total	10,687	12,986

Capital expenditures on PP&E of \$10.4 million during the year ended December 31, 2018 were directed towards drilling nine gross (2.0 net) wells in the Edson and Central areas for \$5.9 million, facility and maintenance capital of \$3.2 million, recompletions of \$0.6 million and \$0.7 million of other miscellaneous capital additions.

**DECOMMISSIONING PROVISION**

The total future decommissioning provision of \$216.2 million was estimated by management based on the Company's working interest and estimated costs to remediate, reclaim and abandon its wells, pipelines, and facilities and estimated timing of the costs to be incurred in future periods.

At December 31, 2018, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$264.6 million (December 31, 2017 - \$244.3 million). The discounted and inflated amount required to settle the decommissioning liabilities of \$216.2 million has been calculated assuming a 1.88% inflation rate (December 31, 2017 - 1.72%) and discounted using an average risk-free interest rate of 2.88% (December 31, 2017 - 2.57%). These obligations are currently expected to be settled based on the useful lives of the underlying assets, some of which extend beyond 35 years into the future.

## DEBT, LIQUIDITY AND CAPITAL RESOURCES

### Bank Credit Facilities

As at December 31, 2018, the Company had an \$11.0 million syndicated credit facility (the "**Credit Facility**") with three Canadian Financial Institutions (the "**Syndicate**") (December 31, 2017 - \$45.0 million Credit Facility). The Credit Facility of \$11.0 million consists of a \$6.0 million revolving syndicated credit facility and a \$5.0 million revolving operating facility. Security 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, 2018, were \$nil (December 31, 2017 - \$18.0 million). Borrowings under the Credit Facility bear interest at the Canadian prime rate plus 1.5% to 4.0% or the bankers' acceptance rates plus 2.5% to 5.0%, depending, in each case, on the ratio of consolidated debt to EBITDA, plus applicable standby fees. EBITDA is calculated as earnings (loss) excluding depreciation, depletion, impairment and accretion, share based payments, interest, taxes and other non-cash items. The Credit Facility matures July 28, 2019, and if it is not renewed it will convert to a one day term loan due on July 29, 2019. The Credit Facility is reviewed semi-annually on November 30<sup>th</sup> and May 31<sup>st</sup>.

As at December 31, 2018, the Company had \$2.9 million in letters of credit issued against its Credit Facility (December 31, 2017 - \$2.0 million). The Credit Facility does not contain any financial covenants but Pine Cliff is subject to non-financial covenants under its Credit Facility. Compliance with these covenants is monitored on a regular basis and as at December, 2018, Pine Cliff was in compliance with all covenants.

#### *Letter of Credit Facility*

In the first quarter of 2019, the Company entered into a \$2.6 million letter of credit facility (the "**LC Facility**") with a Canadian bank which is supported by a performance guarantee from Export Development Canada. The LC Facility is for issuing letters of credit to counterparties and is available on a demand basis. Letters of credit issued under the LC Facility incur an issuance fee of 4% per annum. The Company transferred \$1.1 million of the existing \$2.9 million letters of credit to the LC Facility.

### Due to Related Party Note

As at December 31, 2018, Pine Cliff had a \$6.0 million promissory note outstanding to the Company's Chairman of the Board maturing on September 30, 2020 ("**2020 Related Party Note**") that bears interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility and is payable monthly. The 2020 Related Party Note is secured by a \$6.0 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 holder of the \$30 Million 2020 Notes and \$19 Million 2022 Notes, as defined herein. Interest paid on the 2020 Related Party Note for the year December 31, 2018 was \$0.3 million (December 31, 2017 - \$0.2 million).

### \$6 Million Subordinated Promissory Notes due September 30, 2020

On July 29, 2016, the Company issued \$6.0 million in promissory notes maturing on July 29, 2018. In July 2018, these notes were amended to mature on September 30, 2020 ("**\$6 Million 2020 Notes**"). The \$6 Million 2020 Notes bear interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility, payable monthly. The \$6 Million 2020 Notes were issued to a shareholder and a relative of that shareholder, owning directly or by discretion and control, greater than 10% of the Common Shares. The \$6 Million 2020 Notes are secured by a \$6.0 million of floating charge debenture over all of the Company's assets and are subordinated to any and all claims in favor of the Credit Facility and the \$30 Million 2020 Note and \$19 Million 2022 Note holders.

### \$30 Million Subordinated Promissory Notes due September 30, 2020

On August 10, 2016, the Company issued 30,000 units ("**2020 Units**" or "**2020 Unit**") at a price of \$1,000 per 2020 Unit for aggregate proceeds of \$30.0 million. Each 2020 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 ("**\$30 Million 2020 Note**" or "**\$30 Million 2020 Notes**"), which are payable semi-annually; and (ii) 150 Common Share purchase warrants ("**2018 Warrants**"). The \$30 Million 2020 Notes mature on September 30, 2020 and all or a portion of the principal amount outstanding can be repaid earlier without penalty and the \$30 Million 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 2018 Warrants were issued, entitling the holder to purchase one Common Share for each 2018 Warrant at a price of \$1.38. The 2018 Warrants all expired on August 10, 2018.

The \$30 Million 2020 Notes were determined to be a hybrid instrument with an embedded derivative. The fair value of the debt component of the \$30 Million 2020 Notes were 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.

**\$19 Million Subordinated Promissory Notes due July 31, 2022**

On July 13, 2018, the Company issued 19,000 units ("2022 Units" or "2022 Unit") at a price of \$1,000 per 2022 Unit for aggregate proceeds of \$19.0 million. Each 2022 Unit is comprised of: (i) one promissory note with a par value of \$1,000 per note and bearing interest at 7.05% per annum ("**\$19 Million 2022 Note**" or "**\$19 Million 2022 Notes**"), which are payable semi-annually; and (ii) 150 Common Share purchase warrants ("**2021 Warrants**"). The \$19 Million 2022 Notes mature on July 31, 2022 and all or a portion of the principal amount outstanding can be repaid without penalty after three years. A total of 2.85 million 2021 Warrants were issued, entitling the holder to purchase one Common Share of Pine Cliff for each 2021 Warrant at a price of \$0.51, until July 13, 2021.

The \$19 Million 2022 Notes were determined to be a hybrid instrument with an embedded derivative. The fair value of the debt component of the \$19 Million 2022 Notes were determined on issuance to be 7.6%, 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.

**Share Capital**

Share capital	March 13, 2019	December 31, 2018	December 31, 2017
Common Shares	307,075,787	307,075,787	307,075,787
Stock options	20,545,804	21,028,804	21,316,406
Warrants	2,850,000	2,850,000	4,500,000

**Capital Resources**

Pine Cliff's capital budget for 2019 has been approved by its board of directors at approximately \$10.0 million, including \$2.5 million for abandonments and reclamation and before acquisitions and dispositions. Pine Cliff anticipates funding its capital budget through adjusted funds flow. Budgeted future capital expenditures related to drilling are largely discretionary in nature and Pine Cliff is able to adjust the nature, amount and timing of most planned capital expenditures to changes in the business and commodity price environment.

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

**Liquidity**

It is anticipated that cash flows from operating activities and the unused portion of the Credit Facility will allow Pine Cliff to meet its financial liabilities, as well as fund future capital requirements, at a reasonable cost. The Company believes it has sufficient funding to meet its obligations as they come due and, if required, would consider selling non-core assets, additional debt financing, or issuing equity in order to meet its future liabilities.

During the year ended December 31, 2018, the Company financed its capital expenditures with cash flow from operating activities and its Credit Facility.

**COMMITMENTS AND CONTINGENCIES**

As at December 31, 2018, the Company has the following commitments and other contractual obligations:

	2019	2020	2021	2022	2023	Thereafter
(\$000s)						
Subordinated promissory notes <sup>1</sup>	-	36,000	-	19,000	-	-
Trade and other payables	16,772	-	-	-	-	-
Due to related party	-	6,000	-	-	-	-
Future interest	4,229	3,506	1,340	1,005	-	-
Lease Obligations	963	980	885	692	517	-
Transportation <sup>2</sup>	9,244	7,066	6,096	5,249	3,168	12,145
<b>Total commitments and contingencies</b>	<b>31,208</b>	<b>53,552</b>	<b>8,321</b>	<b>25,946</b>	<b>3,685</b>	<b>12,145</b>

<sup>1</sup> Principal amount.

<sup>2</sup> Firm transportation agreements.

## QUARTERLY TRENDS AND SELECTED FINANCIAL INFORMATION

(\$000s, unless otherwise indicated)	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>FINANCIAL</b>								
Total revenue	<b>28,396</b>	24,148	20,419	27,100	25,444	23,892	34,005	31,735
Cash flow from operating activities	<b>1,415</b>	(309)	531	6,979	(4,350)	5,517	10,007	13,835
Adjusted funds flow <sup>1</sup>	<b>4,433</b>	1,920	(977)	5,137	3,759	2,879	10,834	11,233
Adjusted funds flow per share – basic and diluted (\$/share) <sup>1</sup>	<b>0.01</b>	0.01	0.00	0.02	0.01	0.01	0.04	0.04
Impairments	-	-	-	-	-	17,800	-	-
Earnings (loss)	<b>(28,520)</b>	(10,710)	(17,909)	(15,580)	(32,996)	(30,214)	(2,118)	(2,536)
Earnings (loss) per share – basic and diluted (\$/share)	<b>(0.09)</b>	(0.03)	(0.06)	(0.05)	(0.11)	(0.10)	(0.01)	(0.01)
Capital expenditures	<b>4,302</b>	1,910	1,276	3,177	3,091	3,318	3,267	3,801
Acquisitions	<b>(61)</b>	659	(3)	(288)	44	(9)	(97)	-
Dispositions	<b>(51)</b>	(16)	(135)	(83)	(148)	(65)	(216)	-
Net debt <sup>1</sup>	<b>56,819</b>	56,325	54,737	52,414	53,638	53,377	52,562	58,930
Weighted average common shares outstanding:								
Basic	<b>307,076</b>	307,076	307,076	307,076	307,076	307,076	307,076	307,076
Diluted	<b>307,076</b>	307,076	307,076	307,076	307,076	307,076	307,076	307,076
<b>PRODUCTION VOLUMES</b>								
Natural gas (Mcf/d)	<b>110,295</b>	111,067	110,242	112,871	122,304	124,450	119,410	120,677
Natural gas liquids (Bbl/d)	<b>957</b>	861	967	977	880	998	912	903
Crude oil (Bbl/d)	<b>236</b>	231	216	219	225	123	263	198
Average sales volumes (Boe/d)	<b>19,576</b>	19,603	19,557	20,008	21,489	21,863	21,077	21,214
Average sales volumes (Mcf/d)	<b>117,456</b>	117,618	117,342	120,048	128,934	131,178	126,462	127,284
<b>PRICES AND NETBACKS</b>								
Total oil and gas sales (\$/Boe)	<b>16.72</b>	14.21	12.33	16.50	14.50	12.75	18.55	18.41
Operating netback (\$/Boe) <sup>1</sup>	<b>3.56</b>	2.34	0.72	4.04	2.85	2.30	7.41	7.14
Corporate netback (\$/Boe) <sup>1</sup>	<b>2.46</b>	1.06	(0.55)	2.86	1.90	1.44	5.65	5.88
Total oil and gas sales (\$/Mcf)	<b>2.79</b>	2.37	2.06	2.75	2.49	2.13	3.09	3.07
Operating netback (\$/Mcf) <sup>1</sup>	<b>0.59</b>	0.39	0.12	0.67	0.48	0.38	1.24	1.19
Corporate netback (\$/Mcf) <sup>1</sup>	<b>0.41</b>	0.18	(0.09)	0.48	0.32	0.24	0.94	0.98

<sup>1</sup>This is a non-GAAP measure, see NON-GAAP MEASURES for additional information.

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

- Sales volumes decreased from the first quarter of 2017 until the second quarter of 2017, mainly related to natural production declines. Average sales volumes increased in the third quarter of 2017 due to a successful recompletion program in the Company's Central Area. Average sales volumes decreased in the fourth quarter of 2017 through the second quarter of 2018 related to natural production declines and short term production outages, primarily due to voluntary shut-ins in response to low natural gas commodity prices. Average sales volumes increased in the third quarter of 2018 compared to the second quarter of 2018, mainly due to realizing a full quarter of production from wells drilled in the first half of 2018. Average sales volumes decreased in the fourth quarter of 2018 compared to the third quarter of 2018 due to natural production declines, partially offset by production from fourth quarter 2018 capital projects.
- Adjusted funds flow of \$11.2 million in the first quarter of 2017 was the highest in the eight quarters presented as a result of the highest natural gas prices in the eight quarters. Adjusted funds flow decreased from the first quarter of 2017 through the third quarter of 2017, largely a result of fluctuations in natural gas prices and sales volumes. Adjusted funds flow increased

from in the fourth quarter of 2017 and the first quarter of 2018 as a result of higher natural gas prices, slightly offset by lower sales volumes. Adjusted funds flow decreased from the first quarter of 2018 to the second quarter of 2018, mainly as a result of lower commodity prices and sales volumes. Adjusted funds flow increased from the third quarter of 2018 to the fourth quarter of 2018 compared to the second quarter of 2018, mainly as a result of higher commodity prices.

- Loss of \$2.1 million in the second quarter of 2018 was the lowest in the eight quarters presented as a result of that quarter having the highest natural gas price in the eight quarters. Losses decreased from the first and second quarters of 2017, primarily as a result of higher oil and gas sales, slightly offset by a decrease in sales volumes. Losses increased in the third quarter of 2017 compared to the second quarter of 2017, primarily as a result of impairment and lower commodity prices, slightly offset by higher sales volumes. Losses increased in the fourth quarter of 2017 compared to the third quarter of 2017, primarily as a result of a deferred income tax expense. Losses decreased in the first quarter of 2018 compared to the fourth quarter of 2017, mainly as a result of higher oil and gas revenues and a lower deferred income tax expense. Losses increased in the second quarter of 2018 compared to the first quarter of 2018, mainly as a result of lower oil and gas revenues. Losses decreased from the second quarter of 2018 to the third quarter of 2018, mainly as a result of higher commodity prices and higher sales volumes. Losses increased from the third quarter of 2018 to the fourth quarter of 2018 compared as a result of a deferred income tax expense, slightly offset by higher commodity prices.
- Total revenue of \$34.0 million in the second quarter of 2017 was the highest in the eight quarters presented due to high natural gas prices. Total revenues have fluctuated from the first quarter of 2017 to the third quarter of 2018, mainly as a result of changes in commodity prices and sales volumes. Total revenues increased in the fourth quarter of 2018 compared to the third quarter of 2018, mainly as a result of higher commodity prices, slightly offset by lower sales volumes.

#### **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**

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 of 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.

#### **Market Risk**

Market risk is the risk that the fair value or future cash flows from operating activities 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 changes and geopolitical factors and instability. 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. A material decline or extended period of low oil or natural gas prices could result in a reduction of net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas and a reduction in the volumes of Pine Cliff's reserves. Management may also elect not to produce from certain wells at lower prices.

*Physical Sales Contracts*

At December 31, 2018, the Company had the following physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price (\$CAD/GJ)	Fixed Sale Price (\$CAD/Mcf) <sup>1</sup>
January 1, 2019 to March 31, 2019	AECO	5,000	\$2.46	\$2.58
January 1, 2019 to March 31, 2019	DAWN <sup>2</sup>	4,000	\$5.30	\$5.57
January 1, 2019 to March 31, 2019 <sup>3</sup>	EMPRESS	2,500	+\$2.60	+\$2.73
January 1, 2019 to March 31, 2019 <sup>3</sup>	EMPRESS	2,500	+\$3.35	+\$3.52

<sup>1</sup> Price has been converted from \$/GJ to \$/Mcf by multiplying by 1.05.

<sup>2</sup> Dawn Hub into Dawn Township, Ontario.

<sup>3</sup> AECO 5A plus listed premium.

Subsequent to December 31, 2018, the Company entered into the following additional physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price (\$CAD/GJ)	Fixed Sale Price (\$CAD/Mcf) <sup>1</sup>
April 1, 2019 to October 31, 2019	AECO	5,000	\$1.20	\$1.26
April 1, 2019 to October 31, 2019	AECO	5,000	\$1.29	\$1.35
April 1, 2019 to October 31, 2019	DAWN <sup>2</sup>	4,000	\$3.40	\$3.57
April 1, 2019 to October 31, 2019	DAWN <sup>2</sup>	4,000	\$3.44	\$3.62
April 1, 2019 to October 31, 2019	AECO	2,500	\$1.33	\$1.40

<sup>1</sup> Price has been converted from \$/GJ to \$/Mcf by multiplying by 1.05.

<sup>2</sup> Dawn Hub into Dawn Township, Ontario.

*Interest Rate Risk*

The Company is principally exposed to interest rate risk to the extent it draws on its variable rate debt less cash. Changes in market interest rates could affect the cash flow from operating activities associated with variable rate debt. If interest rates applicable to Pine Cliff's variable rate debt less cash increased or decreased by one percent, it is estimated that Pine Cliff's loss for the year ended December 31, 2018, would have increased or decreased, respectively, by \$0.1 million (December 31, 2017 - \$0.3 million).

*Equity Price Risk*

Equity price risk refers to the risk that the fair value of investments will fluctuate due to changes in equity markets for each company. Equity price risk is also influenced from the estimated realizable value of investments that the Company holds.

*Foreign Exchange Risk*

The Company and its share price are exposed to risk on foreign exchange rates because the oil and natural gas prices it receives are indirectly 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 flow from operating activities. Pine Cliff has not entered into any derivative financial instruments to manage this risk at this time.

**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, commodity contracts and cash, which are a reflection of 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 and commodity contracts, 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, 2018 of \$13.5 million (December 31, 2017 - \$15.1 million), 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, 2018, there was \$1.0 million (December 31, 2017 - \$0.5 million) of trade and other receivables over 90 days. Pine Cliff assesses its trade and other receivables quarterly to determine if there has been any impairment. During the year ended December 31, 2018, the Company recorded \$0.3 million (December 31, 2017 - \$0.2 million) of bad debt expense against trade and other accounts receivables.

### **Liquidity Risk**

Liquidity risk is the risk that Pine Cliff will not be able to meet its financial obligations as they become due. Pine Cliff manages its liquidity risk through actively managing its capital, which it defines as cash, debt and equity. Capital management strategies include continuously monitoring forecasted and actual cash flow from operating, financing and investing activities, available credit under the Credit Facility, and opportunities to issue additional equity. Pine Cliff actively monitors its credit and working capital to ensure that it has sufficient available funds to meet its financial requirements at a reasonable cost. Management believes that funds generated from these sources currently will be adequate to settle Pine Cliff's financial liabilities.

The Company currently has an \$11.0 million Credit Facility, as defined herein, of which none was drawn at December 31, 2018. 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. There is a risk that the borrowing base of the Credit Facility could be reduced or withdrawn, which may create liquidity risk. Additionally, Pine Cliff has a \$6.0 million promissory note and a \$6.0 million subordinated promissory note that are both due on September 30, 2020 and if this Credit Facility along with the promissory notes are not renewed it may create liquidity risk. If required, Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities.

The Credit Facility matures July 28, 2019. The lenders review the Credit Facility semi-annually on May 31<sup>st</sup> and November 30<sup>th</sup>, with the next review scheduled for May 31, 2019. In the event the Credit Facility is not extended, indebtedness under the Credit Facility will become due and repayable on July 29, 2019. There is also a risk that the Credit Facilities will not be renewed for the same amount or on the same terms or that the lenders reduce the borrowing base as a result of their regularly scheduled borrowing base review. Any of these events could affect Pine Cliff's ability to fund ongoing operations.

### **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 the 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. Pine Cliff believes this risk is moderate to low as it is 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 Government of Alberta has indicated that it intends to meet the federal carbon pricing guidelines, and accordingly the Government of Canada proposals are not expected to significantly impact the Company's results of operations. However, both the Government of Alberta and Government of Canada's approaches to pricing of carbon emissions could nonetheless have material adverse effects on the Company's results of operations, which may include, but are not limited to: increased compliance costs, permitting delays, substantial costs to generate or purchase applicable emission credits or allowance, all of which may increase operating expenses.

The oil and gas industry 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.

Resource industries in Canada 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.

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 adjusted funds flow 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*

Resource 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 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 JUDGMENTS AND 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, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. 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 judgments or estimates.

### Judgments

#### *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*

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 NI 51-101 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 provision*

Decommissioning, abandonment and site reclamation expenditures will be incurred by the Company at the end of the operating life of the Company's facilities and properties. Decommissioning expenditures 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 expenditures 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.

#### *Deferred 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 flow from operating activities and the application of existing tax laws in each jurisdiction. To the extent that future cash flow from

operating activities 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.

#### *Share-based payments*

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

#### *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**

#### **Adopted Accounting Pronouncements**

Effective January 1, 2018 the Company adopted IFRS 9. IFRS 9 replaces the sections of IAS 39 Financial Instruments: Recognition and Measurements.

IFRS 9 includes a new classification and measurement approach for financial assets and a forward-looking 'expected credit loss' model. IFRS 9 replaces the multiple classification and measurements models for financial assets with a new model that only has two measurements categories; amortized cost and fair value through profit or loss or other comprehensive income (loss). This determination is made at initial recognition. As a result of adopting IFRS 9, the Company's accounts receivables were reclassified from loans and receivables at amortized cost to financial assets at amortized cost. For financial liabilities, the new standard retains most of the IAS 39 requirements. The main change arises in cases where the Company chooses to designate a financial liability as fair value through earnings (loss). In these situations, the portion of the fair value change related to the Company's own credit risk is recognized in FVOCI. The Company has no financial liabilities that are measured at fair value through net earnings.

The classification of the Company's investments changed from available-for-sale to financial assets measured at fair value. On the day an investment is acquired the Company can make an irrevocable election (on an instrument by instrument basis) to designate investments in equity instruments as at FVTPL, provided those investments are not recorded as FVOCI. The Company's investments will be measured at FVTPL, with gains or losses arising from changes in fair value recognized in the statements of comprehensive loss. The Company has designated its investment as FVTPL on its initial adoption of IFRS 9. The adoption of IFRS 9 did not have a material impact on the Company's consolidated financial statements.

#### **IFRS 15 Revenue from Contracts with Customers ("IFRS 15")**

Effective January 1, 2018 the Company adopted IFRS 15 using a modified retrospective approach. IFRS 15 replaces IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser.

#### *Revenue Recognition Policy*

Revenue associated with the sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when Pine Cliff satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas and natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession. The Company principally satisfies its performance obligations at a point in time and the amounts of revenue recognized relating to performance obligations satisfied over time are not significant. Collection of revenue associated with the sale of crude oil, natural gas and natural gas liquids occurs on or about the 25<sup>th</sup> of the month following production. Pine Cliff enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value through profit or loss.

## Future Accounting Changes

### IFRS 16 Leases (“IFRS 16”)

In January 2016, the IASB issued IFRS 16, which replaces IAS 17 Leases. IFRS 16 requires the recognition of lease assets and liabilities on the balance sheet for most leases, where the entity is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets less than \$5,000 USD are exempt from the balance sheet recognition requirements, and may continue to be treated as operating leases. Lessors will continue with the dual classification model for leases and the accounting for lessors remains virtually unchanged.

The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15. IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

IFRS 16 will be applied by Pine Cliff on January 1, 2019. The Company will adopt IFRS 16 using the modified retrospective approach, whereby the initial effect of applying the standard is estimated to have an impact on the Financial Statements. The impact on the opening balance sheet at January 1, 2019, is expected to increase PP&E and a corresponding increase to accounts payable and finance lease obligations. Interest expense will be recognized on the lease obligation and lease payments will be applied against the lease obligation and accounts payable.

## CONTROL ENVIRONMENT

### 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, 2018.

### Internal control 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; and
- 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. 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-GAAP MEASURES**

This MD&A uses the terms “adjusted funds flow”, “operating netbacks”, “corporate netbacks” and “net debt” which are not recognized measures 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. These measures should not be considered as an alternative to, or more meaningful than, IFRS measures including earnings (loss), cash flow from operating activities, or total liabilities.

**Adjusted Funds Flow**

The Company considers adjusted funds flow 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. Adjusted funds flow and adjusted funds flow 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 flow which is considered the most directly comparable measure under IFRS. Adjusted funds flow is calculated as cash flow from operating activities before changes in non-cash working capital and decommissioning obligations settled. Adjusted funds flow 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. Adjusted funds flow per Boe or Mcfe is calculated using the sales volumes reported for a reporting period. Pine Cliff’s method of calculating this measure may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Cash flow from operating activities	<b>1,415</b>	(4,350)	(133)	<b>8,616</b>	25,009	(66)
Adjusted by:						
Change in non-cash working capital	<b>2,281</b>	6,891	(67)	<b>(833)</b>	1,313	(163)
Decommissioning obligation settled	<b>737</b>	1,218	(39)	<b>2,730</b>	2,383	15
Adjusted funds flow	<b>4,433</b>	3,759	18	<b>10,513</b>	28,705	(63)
Adjusted funds flow (\$/Boe)	<b>2.46</b>	1.90	29	<b>1.47</b>	3.68	(60)
Adjusted funds flow (\$/Mcfe)	<b>0.41</b>	0.32	29	<b>0.25</b>	0.61	(60)
Adjusted funds flow – basic and diluted (\$/share)	<b>0.01</b>	0.01	-	<b>0.03</b>	0.09	(67)

**Operating and Corporate Netback**

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 the sum of oil and gas sales, less royalties, transportation and operating expenses on an absolute and a per Boe or per Mcfe basis, respectively. Company 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 results. Corporate netback on an absolute dollar and corporate netback per Boe and per Mcfe are calculated as operating netback, less G&A and interest expense plus dividend income.

Pine Cliff uses these measures to assist in understanding the Company’s ability to generate positive cash flow from operating activities at current commodity prices and it provides an analytical tool to benchmark changes in operational performance against prior periods. Readers are cautioned, however, that these measures should not be construed as an alternative to other terms such as earnings (loss) determined in accordance with IFRS as a measure of performance. Pine Cliff’s method of calculating these measures may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

	Three months ended December 31,			Year ended December 31,		
	2018	2017	\$ Change	2018	2017	\$ Change
(\$ per Boe, unless otherwise indicated)						
Oil and gas sales	16.72	14.50	2.22	14.95	16.00	(1.05)
Royalty expense	(0.95)	(1.06)	0.11	(1.02)	(1.30)	0.28
Transportation costs	(1.80)	(1.34)	(0.46)	(1.74)	(1.12)	(0.62)
Operating expenses	(10.41)	(9.25)	(1.16)	(9.51)	(8.70)	(0.81)
Operating netback	3.56	2.85	0.71	2.68	4.88	(2.20)
General and administrative	(0.42)	(0.55)	0.13	(0.67)	(0.76)	0.09
Interest and bank charges, net of dividend income	(0.68)	(0.40)	(0.28)	(0.54)	(0.44)	(0.10)
Corporate netback	2.46	1.90	0.56	1.47	3.68	(2.21)
Operating netback (\$ per Mcfe)	0.59	0.48	0.11	0.45	0.81	(0.36)
Corporate netback (\$ per Mcfe)	0.41	0.32	0.09	0.25	0.61	(0.36)

### Net Debt

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

(\$000s)	Year ended December 31,		
	2018	2017	\$ Change
Bank debt	-	18,000	(18,000)
Due to related party – due September 30, 2020	6,000	5,000	1,000
Subordinated promissory notes <sup>1</sup>	55,000	36,000	19,000
Trade and other payables	16,772	17,288	(516)
Less:			
Trade and other receivables	(13,536)	(15,148)	1,612
Cash	(3,563)	(1,075)	(2,488)
Prepaid expenses and deposits	(3,854)	(3,882)	28
Investments	-	(2,545)	2,545
Net debt	56,819	53,638	3,181

<sup>1</sup> The subordinated promissory notes for net debt are presented at the principal amount with \$36.0 million due on September 30, 2020 and \$19.0 million due on July 31, 2022.

Net debt is not a recognized measure under IFRS and Pine Cliff's method of calculating this measure may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

## 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 the MD&A and Annual MD&A includes, but is not limited to: expected production levels, expected operating costs, expected transportation costs, royalty and G&A 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; ability to implement a dividend or buy back shares; 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; amounts due to related party and due pursuant to subordinated promissory notes and repayment thereof; maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; risks; Pine Cliff’s ability to generate cash flow from operating activities and adjusted funds flow; 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 operating activities 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 12, 2018 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.

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 one (1) Bbl to six (6) thousand cubic feet. 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 terms Boe or Mcfe may be misleading, particularly if used in isolation.

Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of oil, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

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

Management is responsible for the preparation and presentation of the consolidated financial statements together with all operational and other financial information contained in the annual report. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and utilize the best estimates and careful judgments of Management where appropriate. Operational and other financial information contained throughout the annual report is consistent with that provided in the consolidated financial statements.

Management has developed and maintains a system of internal controls designed to provide reasonable assurance that all transactions are accurate and reliably recorded, that the consolidated financial statements accurately report the Company's operating and financial results within acceptable limits of materiality, that all other operational and financial information presented is accurate and that the Company's assets are properly safeguarded.

The Audit Committee, comprised of non-management directors, acts on behalf of the Board of Directors to ensure that management fulfills its financial reporting and internal control responsibilities. The Audit Committee meets regularly with management and the external auditors to discuss financial reporting and internal control matters and ensures each party is properly discharging its responsibilities. The Audit Committee reviewed the consolidated financial statements with Management and the external auditors and recommended approval to the Board of Directors, who approved these consolidated financial statements.

The consolidated financial statements have been audited by Deloitte LLP, Chartered Professional Accountants, in accordance with generally accepted auditing standards on behalf of the shareholders and have unlimited and unrestricted access to the Audit Committee.

"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.

**Opinion**

We have audited the consolidated financial statements of Pine Cliff Energy Ltd. (the "**Company**"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("**IFRS**").

**Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards ("**Canadian GAAS**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Information**

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Langlois.

/s/ Deloitte LLP

Chartered Professional Accountants  
Calgary, Alberta  
March 13, 2019

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Canadian dollars, 000s)

	Note	2018	As at December 31, 2017
<b>ASSETS</b>			
Current assets			
Cash		3,563	1,075
Trade and other receivables	7, 18	13,536	15,148
Prepaid expenses and deposits		3,854	3,882
Investments	8	-	2,545
<b>Total current assets</b>		<b>20,953</b>	22,650
Exploration and evaluation	9	22,620	29,387
Property, plant and equipment	10	310,642	323,958
Deferred income taxes	11	-	29,233
<b>Total assets</b>		<b>354,215</b>	405,228
<b>LIABILITIES</b>			
Current liabilities			
Trade and other payables	6	16,772	17,288
Bank debt	12	-	18,000
Due to related party	13	-	5,000
Subordinated promissory notes	14	-	6,000
Decommissioning provision	15	2,466	1,309
<b>Total current liabilities</b>		<b>19,238</b>	47,597
Due to related party	13	6,000	-
Subordinated promissory notes	14	54,280	29,307
Decommissioning provision	15	213,723	199,231
<b>Total liabilities</b>		<b>293,241</b>	276,135
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	16	268,743	268,743
Warrants		288	958
Contributed surplus		12,515	9,326
Accumulated other comprehensive loss		-	(2,081)
Deficit		(220,572)	(147,853)
<b>Total shareholders' equity</b>		<b>60,974</b>	129,093
<b>Total liabilities and shareholders' equity</b>		<b>354,215</b>	405,228

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,	
		2018	2017
<b>REVENUE</b>			
Oil and gas sales	17	107,385	125,018
Royalty expense		(7,357)	(10,152)
Oil and gas sales, net of royalties		100,028	114,866
Dividend income		35	210
Total revenue		100,063	115,076
<b>EXPENSES</b>			
Operating		68,332	68,029
Transportation		12,525	8,733
Depletion and depreciation	10	43,760	49,150
Impairment	10	-	17,800
Share-based payments	16	2,231	3,578
Finance	18	9,511	8,899
General and administrative	19	4,838	5,915
Realized loss on investments	8	2,687	-
Total expenses		143,884	162,104
Loss before income taxes		(43,821)	(47,028)
Deferred income tax expense	11	(28,898)	(20,836)
<b>LOSS FOR THE YEAR</b>		<b>(72,719)</b>	<b>(67,864)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Unrealized loss on investments		(2,081)	(2,750)
Deferred income taxes on unrealized loss on investments		-	371
Amounts reclassified from comprehensive loss		2,081	-
<b>OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX</b>		<b>-</b>	<b>(2,379)</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(72,719)</b>	<b>(70,243)</b>
<b>Loss per share (\$)</b>			
Basic and diluted	16	(0.24)	(0.22)

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,	
		2018	2017
<b>CASH PROVIDED BY (USED IN):</b>			
<b>OPERATING ACTIVITIES</b>			
Loss for the year		(72,719)	(67,864)
Items not affecting cash:			
Depletion and depreciation	10	43,760	49,150
Impairment	10	-	17,800
Share-based payments	16	2,231	3,578
Finance expenses	18	9,511	8,899
Loss on sale of investments	8	2,687	-
Deferred income tax expense	11	28,898	20,836
Interest and bank charges	18	(3,855)	(3,694)
Decommissioning obligations settled	15	(2,730)	(2,383)
Changes in non-cash working capital accounts	18	833	(1,313)
Cash provided by operating activities		8,616	25,009
<b>INVESTING ACTIVITIES</b>			
Property, plant and equipment	10	(10,426)	(13,398)
Exploration and evaluation	9	(239)	(79)
Acquisitions	10	(307)	62
Dispositions	10	285	429
Sale of investments	8	2,274	-
Changes in non-cash working capital accounts	18	291	1,755
Cash used in investing activities		(8,122)	(11,231)
<b>FINANCING ACTIVITIES</b>			
Bank debt	12	(18,000)	(12,851)
Issuance of subordinated promissory notes, net of share issue costs	14	18,994	-
Issuance of related party debt	13	1,000	-
Cash provided by (used in) financing activities		1,994	(12,851)
Increase (decrease) in cash		2,488	927
Cash - beginning of year		1,075	148
<b>CASH - END OF YEAR</b>		<b>3,563</b>	<b>1,075</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 gain (loss) <sup>2</sup>	Warrants	Deficit	Total Equity
<b>BALANCE AT JANUARY 1, 2017</b>		<b>268,743</b>	<b>5,748</b>	<b>298</b>	<b>958</b>	<b>(79,989)</b>	<b>195,758</b>
Loss for the period		-	-	-	-	(67,864)	(67,864)
Unrealized loss on investments, net of tax		-	-	(2,379)	-	-	(2,379)
Share-based payments		-	3,578	-	-	-	3,578
<b>BALANCE AT DECEMBER 31, 2017</b>		<b>268,743</b>	<b>9,326</b>	<b>(2,081)</b>	<b>958</b>	<b>(147,853)</b>	<b>129,093</b>
Loss for the period		-	-	-	-	(72,719)	(72,719)
Realized loss on sale of investments		-	-	2,081	-	-	2,081
Issuance of warrants		-	-	-	288	-	288
Expiry of warrants		-	958	-	(958)	-	-
Share-based payments	16	-	2,231	-	-	-	2,231
<b>BALANCE AT DECEMBER 31, 2018</b>		<b>268,743</b>	<b>12,515</b>	<b>-</b>	<b>288</b>	<b>(220,572)</b>	<b>60,974</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, 2018 and 2017 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**") as issued by the International Accounting Standards Board ("**IASB**").

The Financial Statements were authorized for issue by the Company's board of directors on March 13, 2019.

**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 6 – Financial instruments

Note 9 – Exploration and evaluation assets ("**E&E**")

Note 10 – Property, plant and equipment ("**PP&E**")

Note 15 – Decommissioning provision

Note 16 – Share capital

*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*

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 its 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 provision*

Decommissioning, abandonment and site reclamation expenditures will be incurred by the Company at the end of the operating life of the Company's facilities and properties. Decommissioning expenditures 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 expenditures 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.

### *Deferred 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 flow from operating activities and the application of existing tax laws in each jurisdiction. To the extent that future cash flow from operating activities 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.

### *Share-based payments*

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

### *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. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the Financial Statements. Certain comparative amounts have been reclassified to conform to the current year's presentation.

#### a) Basis of consolidation

The Financial Statements include the accounts of Pine Cliff and its subsidiary companies, Geomark Exploration Ltd., 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; and
- 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 is comprised of cash on hand and 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, turnaround 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 comprehensive 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 flow from operating activities 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. For financial assets measured at amortized cost, the reversal is recognized in the consolidated statement of comprehensive loss.

### l) Decommissioning provision

The Company recognizes a decommissioning provision 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, Pine Cliff management reviews these estimates, and changes, if any, are prospectively applied. The decommissioning provision 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 provision. The decommissioning provision is increased each reporting period with the passage of time as reported in the finance expenses as an accretion of decommissioning liabilities expense and changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the provision 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 income 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 16, options to purchase common shares of Pine Cliff ("**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 three categories: amortized cost, fair value through other comprehensive income ("**FVOCI**") or fair value through profit or loss ("**FVTPL**").

Cash, trade and other receivables, are classified as financial assets at amortized cost and reported at amortized cost. A provision for impairment of trade and other receivables is established when there is evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Investments are classified as financial assets measured at FVTPL. 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. FVTPL financial instruments are measured at fair value and changes in fair value are recognized in the statement of consolidated comprehensive loss. All other financial instruments are measured at fair value with changes in fair value recorded at FVTPL depending on their initial classification and measurement. 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. 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 earnings (loss) in the period they occur. The Company has not designated any of its risk management contracts as effective accounting hedges.

**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 income 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.

#### **4. ADOPTED ACCOUNTING PRONOUNCEMENTS**

As of January 1, 2018, the Company adopted the following new accounting pronouncements, in accordance with the transitional provision of the standard. A brief description of each new accounting policy and its impact on the Company's financial statements are as follows:

**IFRS 9 *Financial Instruments* ("IFRS 9")**

Effective January 1, 2018 the Company adopted IFRS 9. IFRS 9 replaces the sections of IAS 39 Financial Instruments: Recognition and Measurements.

IFRS 9 includes a new classification and measurement approach for financial assets and a forward-looking 'expected credit loss' model. IFRS 9 replaces the multiple classification and measurements models for financial assets with a new model that only has two measurements categories; amortized cost and fair value through profit or loss or other comprehensive income (loss). This determination is made at initial recognition. As a result of adopting IFRS 9, the Company's accounts receivables were reclassified from loans and receivables at amortized cost to financial assets at amortized cost. For financial liabilities, the new standard retains most of the IAS 39 requirements. The main change arises in cases where the Company chooses to designate a financial liability as fair value through earnings (loss). In these situations, the portion of the fair value change related to the Company's own credit risk is recognized in FVOCI. The Company has no financial liabilities that are measured at fair value through net earnings.

The classification of the Company's investments changed from available-for-sale to financial assets measured at fair value. On the day an investment is acquired the Company can make an irrevocable election (on an instrument by instrument basis) to designate investments in equity instruments as at FVTPL, provided those investments are not recorded as FVOCI. The Company's investments will be measured at FVTPL, with gains or losses arising from changes in fair value recognized in the statements of comprehensive loss. The Company has designated its investment as FVTPL on its initial adoption of IFRS 9. The adoption of IFRS 9 did not have a material impact on the Company's consolidated financial statements.

### **IFRS 15 Revenue from Contracts with Customers ("IFRS 15")**

Effective January 1, 2018 the Company adopted IFRS 15 using a modified retrospective approach. IFRS 15 replaces IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. Additional disclosures required by IFRS 15 are detailed in note 17.

#### *Revenue Recognition Policy*

Revenue associated with the sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when Pine Cliff satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas and natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession. The Company principally satisfies its performance obligations at a point in time and the amounts of revenue recognized relating to performance obligations satisfied over time are not significant. Collection of revenue associated with the sale of crude oil, natural gas and natural gas liquids occurs on or about the 25<sup>th</sup> of the month following production. Pine Cliff enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value through profit or loss.

## **5. FUTURE ACCOUNTING CHANGES**

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

In January 2016, the IASB issued IFRS 16, which replaces IAS 17 Leases. IFRS 16 requires the recognition of lease assets and liabilities on the balance sheet for most leases, where the entity is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets less than \$5,000 USD are exempt from the balance sheet recognition requirements, and may continue to be treated as operating leases. Lessors will continue with the dual classification model for leases and the accounting for lessors remains virtually unchanged.

The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15. IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

IFRS 16 will be applied by Pine Cliff on January 1, 2019. The Company will adopt IFRS 16 using the modified retrospective approach, whereby the initial effect of applying the standard is estimated to be a \$3.6 million increase to the right of use assets (included in "PP&E") with the corresponding lease obligations measured equally in trade and accounts payable and lease obligations. The weighted average incremental borrowing rate that will be used to determine the lease obligation at adoption is 4.7%. The right of use assets and lease obligations are mainly from the Company's head office lease in Calgary and vehicles for the field operations staff.

## **6. 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 of 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, 2018 and December 31, 2017:

Description	December 31, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Cash	3,563	3,563	1,075	1,075
Trade and other receivables	13,536	13,536	15,148	15,148
Investments	-	-	2,545	2,545
Trade and other payables	(16,772)	(16,772)	(17,288)	(17,288)
Due to related party	(6,000)	(6,000)	(5,000)	(5,000)
Subordinated promissory notes	(54,280)	(54,280)	(35,307)	(35,307)
Bank debt	-	-	(18,000)	(18,000)

## 7. RISK MANAGEMENT

The Company is exposed to both financial and non-financial risks inherent in the oil and gas business. Financial risks include: commodity prices, interest rates, equity price, foreign exchange, credit availability and liquidity. Financial risks can be managed, at least to a degree, through the utilization of financial instruments. Certain non-financial risks can be mitigated through the use of insurance and/or other risk transfer mechanisms, good business practices and process controls, while others must simply be borne. All risks can have an impact upon the financial performance of the Company.

### Market Risk

Market risk is the risk that the fair value or future cash flow from operating activities 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 changes and geopolitical factors and instability. 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. A material decline or extended period of low oil or natural gas prices could result in a reduction of net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas and a reduction in the volumes of Pine Cliff's reserves. Management may also elect not to produce from certain wells at lower prices.

#### Physical Sales Contracts

At December 31, 2018, the Company had the following physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price (\$CAD/GJ)	Fixed Sale Price (\$CAD/Mcf) <sup>1</sup>
January 1, 2019 to March 31, 2019	AECO	5,000	\$2.46	\$2.58
January 1, 2019 to March 31, 2019	DAWN <sup>2</sup>	4,000	\$5.30	\$5.57
January 1, 2019 to March 31, 2019 <sup>3</sup>	EMPRESS	2,500	+\$2.60	+\$2.73
January 1, 2019 to March 31, 2019 <sup>3</sup>	EMPRESS	2,500	+\$3.35	+\$3.52

<sup>1</sup> Price has been converted from \$/GJ to \$/Mcf by multiplying by 1.05.

<sup>2</sup> Dawn Hub into Dawn Township, Ontario.

<sup>3</sup> AECO 5A plus listed premium.

Subsequent to December 31, 2018, the Company entered into the following additional physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price (\$CAD/GJ)	Fixed Sale Price (\$CAD/Mcf) <sup>1</sup>
April 1, 2019 to October 31, 2019	AECO	5,000	\$1.20	\$1.26
April 1, 2019 to October 31, 2019	AECO	5,000	\$1.29	\$1.35
April 1, 2019 to October 31, 2019	DAWN <sup>2</sup>	4,000	\$3.40	\$3.57
April 1, 2019 to October 31, 2019	DAWN <sup>2</sup>	4,000	\$3.44	\$3.62
April 1, 2019 to October 31, 2019	AECO	2,500	\$1.33	\$1.40

<sup>1</sup> Price has been converted from \$/GJ to \$/Mcf by multiplying by 1.05.

<sup>2</sup> Dawn Hub into Dawn Township, Ontario.

#### *Interest Rate Risk*

The Company is principally exposed to interest rate risk to the extent it draws on its variable rate debt less cash. Changes in market interest rates could affect the cash flow from operating activities associated with variable rate debt. If interest rates applicable to Pine Cliff's variable rate debt less cash increased or decreased by one percent, it is estimated that Pine Cliff's loss for the year ended December 31, 2018, would have increased or decreased, respectively, by \$0.1 million (December 31, 2017 - \$0.3 million).

#### *Equity Price Risk*

Equity price risk refers to the risk that the fair value of investments will fluctuate due to changes in equity markets for each company. Equity price risk is also influenced from the estimated realizable value of investments that the Company holds.

#### *Foreign Exchange Risk*

The Company and its share price are exposed to risk on foreign exchange rates because the oil and natural gas prices it receives are indirectly 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 flow from operating activities. Pine Cliff has not entered into any derivative financial instruments to manage this risk at this time.

#### **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, commodity contracts and cash, which are a reflection of 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 and commodity contracts, 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, 2018 of \$13.5 million (December 31, 2017 - \$15.1 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, 2018, there was \$1.0 million (December 31, 2017 - \$0.5 million) of trade and other receivables over 90 days. Pine Cliff assesses its trade and other receivables quarterly to determine if there has been any impairment. During the year ended December 31, 2018, the Company recorded \$0.3 million (December 31, 2017 - \$0.2 million) of bad debt expense against trade and other accounts receivables.

#### **Liquidity Risk**

Liquidity risk is the risk that Pine Cliff will not be able to meet its financial obligations as they become due. Pine Cliff manages its liquidity risk through actively managing its capital, which it defines as cash, debt and equity. Capital management strategies include continuously monitoring forecasted and actual cash flow from operating, financing and investing activities, available credit under the Credit Facility, as defined in note 12, and opportunities to issue additional equity. Pine Cliff actively monitors its credit and working capital to ensure that it has sufficient available funds to meet its financial requirements at a reasonable cost. Management believes that funds generated from these sources currently will be adequate to settle Pine Cliff's financial liabilities.

The Company currently has an \$11.0 million Credit Facility, as defined herein, of which none was drawn at December 31, 2018. 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. There is a risk that the borrowing base of the Credit Facility could be reduced or withdrawn, which may create liquidity risk, see Note 12. Additionally, Pine Cliff has a \$6.0 million promissory note and a \$6.0 million subordinated promissory note that are both due on September 30, 2020, see Note 13 and Note 14 and if this Credit Facility along with the promissory notes are not renewed it may create liquidity risk. If required, Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities.

The Credit Facility matures July 28, 2019. The lenders review the Credit Facility semi-annually on May 31<sup>st</sup> and November 30<sup>th</sup>, with the next review scheduled for May 31, 2019. In the event the Credit Facility is not extended, indebtedness under the Credit Facility will become due and repayable on July 29, 2019. There is also a risk that the Credit Facilities will not be renewed for the same amount or on the same terms or that the lenders reduce the borrowing base as a result of their regularly scheduled borrowing base review. Any of these events could affect Pine Cliff's ability to fund ongoing operations.

## 8. INVESTMENTS

Pine Cliff sold its investment in one public dividend paying company for proceeds of \$2.3 million and realized a loss on that sale of \$2.7 million during the first quarter of 2018.

## 9. EXPLORATION AND EVALUATION

Exploration and evaluation assets:	Oil and gas properties	Mineral properties	Total
Balance at December 31, 2016	30,579	3,031	33,610
Additions	36	43	79
Transfer to property, plant, and equipment	(4,302)	-	(4,302)
<b>Balance at December 31, 2017</b>	<b>26,313</b>	<b>3,074</b>	<b>29,387</b>
Additions	193	46	239
Transfer to property, plant and equipment	(7,006)	-	(7,006)
<b>Balance at December 31, 2018</b>	<b>19,500</b>	<b>3,120</b>	<b>22,620</b>

## E&E Impairment Assessment

In accordance with IFRS, an impairment test is performed if the Company identified an indication of impairment. An E&E asset shall be assessed for impairment before reclassification to PP&E if the Company determines technical feasibility and commercial viability of extraction. At December 31, 2018 and 2017, the Company determined that no indicators of impairment existed on its E&E assets and therefore an impairment test was only performed for E&E assets transferred to PP&E.

## 10. PROPERTY, PLANT AND EQUIPMENT

Cost:	(\$000s)
Balance at December 31, 2016	547,284
Additions	13,398
Transfer from exploration and evaluation	4,302
Acquisitions	(62)
Dispositions	(496)
Decommissioning provision	(5,944)
<b>Balance at December 31, 2017</b>	<b>558,482</b>
Additions	10,426
Transfer from exploration and evaluation	7,006
Acquisitions	307
Dispositions	(369)
Decommissioning provision	12,990
<b>Balance at December 31, 2018</b>	<b>588,842</b>

Accumulated depletion and depreciation:	(\$000s)
Balance at December 31, 2016	(167,641)
Depletion and depreciation	(49,150)
Impairment	(17,800)
Dispositions	67
<b>Balance at December 31, 2017</b>	<b>(234,524)</b>
Depletion and depreciation	(43,760)
Dispositions	84
<b>Balance at December 31, 2018</b>	<b>(278,200)</b>
Carrying value at:	(\$000s)
December 31, 2017	323,958
<b>December 31, 2018</b>	<b>310,642</b>

### PP&E Impairment Assessment

As at December 31, 2018, the Company had four CGU's being the Southern CGU, Central Gas CGU, Edson CGU, and Coal Bed Methane CGU. The Company reviewed each CGU's property and equipment at December 31, 2018 for indicators of impairment and determined that an indicator related to the decrease in future commodity prices was present. The company prepared estimates of both the value in use and fair value less cost to sell of each of the Company's CGUs. When it is determined that any CGU carrying value exceeds its recoverable amount, that CGU is considered impaired and an impairment expense is reported that equals this excess.

The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at December 31, 2018:

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>
2019	58.58	1.32	67.30	1.88
2020	64.60	1.28	75.84	2.31
2021	68.20	1.25	80.17	2.74
2022	71.00	1.25	83.22	3.05
2023	72.81	1.24	85.34	3.21
2024-2033	82.41	1.24	96.61	3.65
Thereafter	+2.0%/yr	1.24	+2.0%/yr	+2.0%/yr

<sup>1</sup> Source: Average of three consultant price forecasts, effective January 1, 2019 (McDaniel & Associates Consultants Ltd., GLJ Petroleum Consultants Ltd. and Sproule Associates Limited).

The recoverable amounts of each of the Company's CGU's at December 31, 2018 were estimated at their fair value less cost to sell, based on the net present value of discounted future cash flow from operating activities from oil and gas reserves as estimated by the Company's independent reserves evaluator at December 31, 2018. The fair value less costs to sell used to determine the recoverable amounts are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data, but rather, the Company's management best estimates.

The Company used a pre-tax 15% discount rate for the December 31, 2018 impairment test which took into account risks specific to the CGU's and inherent in the oil and gas business. The impairment testing concluded that the fair value less costs to sell for the Company's CGU's at December 31, 2018 is greater than the carrying amounts and therefore no impairment was recorded in 2018.

The following CGU's were impaired as at December 31, 2017:

CGUs	2018	2017
Edson	-	14,000
Coal Bed Methane	-	3,800
<b>Total Impairment</b>	<b>-</b>	<b>17,800</b>



**11. DEFERRED INCOME TAXES**

At December 31, 2018, a deferred income tax asset of \$nil (December 31, 2017 - \$29.2 million) has been recognized as the Company believes, based on estimated cash flows, its realization is not probable within the allowable timeframes.

	<b>As at December 31,</b>	
	<b>2018</b>	<b>2017</b>
Deferred income tax assets (liabilities):		
Share issue costs	454	863
Investment	-	324
Decommissioning provision	58,362	54,044
Property and equipment	(15,474)	(15,124)
Capital losses carried forward	336	155
Non-capital losses carried forward	29,676	22,271
Asset before unrecognized deferred income tax	73,354	62,533
Less: unrecognized deferred income tax	(73,354)	(33,300)
Net deferred income tax asset	-	29,233

As at December 31, 2018, a deferred income tax asset has not been recognized on \$73.4 million (December 31, 2017 - \$33.3 million) of deductible temporary differences as it is not probable that future taxable earnings will be available against which the Company can utilize the benefits.

Pine Cliff has approximately \$389.6 million in tax pools as at December 31, 2018 (December 31, 2017 - \$383.0 million), available for future use as deductions from taxable income. Included in the Company's tax pools are estimated non-capital loss carry-forwards of \$109.9 million (December 31, 2017 - \$82.6 million) that expire between the years 2030 and 2038.

Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial tax rates to income before income taxes as follows:

	<b>Years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Loss before income taxes	(43,821)	(47,028)
Corporate income tax rate	27%	27%
Computed income tax recovery	(11,832)	(12,676)
Non-taxable dividends	(9)	(57)
Non-deductible compensation expense	675	964
Changes in tax rate	(106)	(31)
Changes in the unrecorded benefit of tax pools	39,435	29,689
Realized loss on sale of investments	725	-
Return to provision true-up	10	2,910
Other	-	37
Deferred income tax expense	28,898	20,836

**12. BANK DEBT**

As at December 31, 2018, the Company had an \$11.0 million syndicated credit facility (the "Credit Facility") with three Canadian Financial Institutions (the "Syndicate") (December 31, 2017 - \$45.0 million Credit Facility). The Credit Facility of \$11.0 million consists of a \$6.0 million revolving syndicated credit facility and a \$5.0 million revolving operating facility. Security 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, 2018, were \$nil (December 31, 2017 - \$18.0 million). Borrowings under the Credit Facility bear interest at the Canadian prime rate plus 1.5% to 4.0% or the bankers' acceptance rates plus 2.5% to 5.0%, depending, in each case, on the ratio of consolidated debt to EBITDA, plus applicable standby fees. EBITDA is calculated as earnings (loss) excluding depreciation, depletion, impairment and accretion, share based payments, interest, taxes and other non-cash items. The Credit Facility matures July 28, 2019, and if it is not renewed it will convert to a one day term loan due on July 29, 2019. The Credit Facility is reviewed semi-annually on November 30<sup>th</sup> and May 31<sup>st</sup>.

As at December 31, 2018, the Company had \$2.9 million in letters of credit issued against its Credit Facility (December 31, 2017 - \$2.0 million). The Credit Facility does not contain any financial covenants but Pine Cliff is subject to non-financial covenants under its Credit Facility. Compliance with these covenants is monitored on a regular basis and as at December, 2018, Pine Cliff was in compliance with all covenants.

*Letter of Credit Facility*

In the first quarter of 2019, the Company entered into a \$2.6 million letter of credit facility (the “**LC Facility**”) with a Canadian bank which is supported by a performance guarantee from Export Development Canada. The LC Facility is for issuing letters of credit to counterparties and is available on a demand basis. Letters of credit issued under the LC Facility incur an issuance fee of 4% per annum. The Company transferred \$1.1 million of the existing \$2.9 million letters of credit to the LC Facility.

**13. DUE TO RELATED PARTY**

As at December 31, 2018, Pine Cliff had a \$6.0 million promissory note outstanding to the Company’s Chairman of the Board maturing on September 30, 2020 (“**2020 Related Party Note**”) that bears interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility and is payable monthly. The 2020 Related Party Note is secured by a \$6.0 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 holder of the \$30 Million 2020 Notes and \$19 Million 2022 Notes, as defined herein. Interest paid on the 2020 Related Party Note for the year December 31, 2018 was \$0.3 million (December 31, 2017 - \$0.2 million).

**14. SUBORDINATED PROMISSORY NOTES**

Subordinated promissory notes due September 30, 2020:	
Issued – July 29, 2016	6,000
<b>Subordinated promissory notes due September 30, 2020, as at December 31, 2018 and December 31, 2017</b>	<b>6,000</b>
Subordinated promissory notes due September 30, 2020:	
Subordinated promissory notes due September 30, 2020, as at December 31, 2016	29,086
Accretion expense	221
Subordinated promissory notes due September 30, 2020, as at December 31, 2017	29,307
Accretion expense	237
<b>Subordinated promissory notes due September 30, 2020, as at December 31, 2018</b>	<b>29,544</b>
Subordinated promissory notes due July 31, 2022, as at December 31, 2017	-
Subordinated promissory notes due July 31, 2022, issued July 13, 2018	18,706
Accretion expense	30
<b>Subordinated promissory notes due July 31, 2022, as at December 31, 2018</b>	<b>18,736</b>
Total subordinated promissory notes, as at December 31, 2017	35,307
<b>Total subordinated promissory notes, as at December 31, 2018</b>	<b>54,280</b>

**\$6 Million Subordinated Promissory Notes due September 30, 2020**

On July 29, 2016, the Company issued \$6.0 million in promissory notes maturing on July 29, 2018. In July 2018, these notes were amended to mature on September 30, 2020 (“**\$6 Million 2020 Notes**”). The \$6 Million 2020 Notes bear interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility, payable monthly. The \$6 Million 2020 Notes were issued to a shareholder and a relative of that shareholder, owning directly or by discretion and control, greater than 10% of the Common Shares. The \$6 Million 2020 Notes are secured by a \$6.0 million of floating charge debenture over all of the Company’s assets and are subordinated to any and all claims in favor of the Credit Facility and the \$30 Million 2020 Note and \$19 Million 2022 Note holders.

**\$30 Million Subordinated Promissory Notes due September 30, 2020**

On August 10, 2016, the Company issued 30,000 units (“**2020 Units**” or “**2020 Unit**”) at a price of \$1,000 per 2020 Unit for aggregate proceeds of \$30.0 million. Each 2020 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 (“**\$30 Million 2020 Note**” or “**\$30 Million 2020 Notes**”), which are payable semi-annually; and (ii) 150 Common Share purchase warrants (“**2018 Warrants**”). The \$30 Million 2020 Notes mature on September 30, 2020 and all or a portion of the principal amount outstanding can be repaid earlier without penalty. The \$30 Million 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 2018 Warrants were issued, entitling the holder to purchase one Common Share for each 2018 Warrant at a price of \$1.38. The 2018 Warrants all expired on August 10, 2018.

The \$30 Million 2020 Notes were determined to be a hybrid instrument with an embedded derivative. The fair value of the debt component of the \$30 Million 2020 Notes were 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.

**\$19 Million Subordinated Promissory Notes due July 31, 2022**

On July 13, 2018, the Company issued 19,000 units (“**2022 Units**” or “**2022 Unit**”) at a price of \$1,000 per 2022 Unit for aggregate proceeds of \$19.0 million. Each 2022 Unit is comprised of: (i) one promissory note with a par value of \$1,000 per note and bearing interest at 7.05% per annum (“**\$19 Million 2022 Note**” or “**\$19 Million 2022 Notes**”), which are payable semi-annually; and (ii) 150 Common Share purchase warrants (“**2021 Warrants**”). The \$19 Million 2022 Notes mature on July 31, 2022 and all or a portion of the principal amount outstanding can be repaid without penalty after three years. A total of 2.85 million 2021 Warrants were issued, entitling the holder to purchase one Common Share of Pine Cliff for each 2021 Warrant at a price of \$0.51, until July 13, 2021.

The \$19 Million 2022 Notes were determined to be a hybrid instrument with an embedded derivative. The fair value of the debt component of the \$19 Million 2022 Notes were determined on issuance to be 7.6%, 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.

**15. DECOMMISSIONING PROVISION**

The total future decommissioning provision of \$216.2 million was estimated by management based on the Company’s working interest and estimated costs to remediate, reclaim and abandon its wells, pipelines, and facilities and estimated timing of the costs to be incurred in future periods.

At December 31, 2018, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$264.6 million (December 31, 2017 - \$244.3 million). The discounted and inflated amount required to settle the decommissioning liabilities of \$216.2 million has been calculated assuming a 1.88% inflation rate (December 31, 2017 - 1.72%) and discounted using an average risk-free interest rate of 2.88% (December 31, 2017 - 2.57%). These obligations are currently expected to be settled based on the useful lives of the underlying assets, some of which extend beyond 35 years into the future.

	(\$000s)
Decommissioning provision, January 1, 2017	203,883
Increase relating to development activities	99
Provisions related to acquisitions	261
Decommissioning expenditures	(2,383)
Revisions (changes in estimates, inflation rate, and discount rates)	(6,304)
Accretion	4,984
<b>Decommissioning provision, December 31, 2017</b>	<b>200,540</b>
Increase relating to development activities	82
Decommissioning expenditures	(2,730)
Revisions (changes in estimates, inflation rate, and discount rates)	12,908
Accretion	5,389
<b>Decommissioning provision, December 31, 2018</b>	<b>216,189</b>
<b>Less current portion of decommissioning provision</b>	<b>(2,466)</b>
<b>Non-current portion of decommissioning provision</b>	<b>213,723</b>

**16. 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**

	Common Shares (000s)	Share capital (\$000s)
Issued and outstanding share capital continuity:		
Balance, January 1, 2017	307,076	268,743
<b>Balance, December 31, 2017 and December 31, 2018</b>	<b>307,076</b>	<b>268,743</b>

**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 Company's 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.

Stock options issued and outstanding:	Options (000s)	Weighted-average exercise price (\$ per share)
Outstanding, January 1, 2017	22,773	1.20
Granted	5,710	0.78
Expired	(4,839)	1.19
Forfeited	(2,328)	1.32
<b>Outstanding, December 31, 2017</b>	<b>21,316</b>	<b>1.06</b>
Granted	7,698	0.33
Expired	(6,598)	1.23
Forfeited	(1,387)	0.82
<b>Outstanding, December 31, 2018</b>	<b>21,029</b>	<b>0.75</b>
<b>Exercisable, December 31, 2018</b>	<b>6,438</b>	<b>1.02</b>

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
\$0.31 - \$0.71	7,457	2.4	15	0.9
\$0.72 - \$1.12	5,783	1.3	1,938	0.4
\$1.13 - \$1.53	7,789	1.3	4,485	0.9
	<b>21,029</b>	<b>1.7</b>	<b>6,438</b>	<b>0.7</b>

The Company records share-based payment expense over the vesting period, based on the fair value of the options granted to employees, directors and consultants. One third of the stock options granted vest annually on the first, second, and third anniversaries of the grant date and expire one year after each respective vesting date. During the year ended December 31, 2018, the Company granted 7,697,800 stock options (December 31, 2017 - 5,710,150) with a fair value of \$0.12 (December 31, 2017 - \$0.26) per option using the Black-Scholes option pricing model using the following key assumptions:

Assumptions (weighted average):	Years ended December 31,	
	2018	2017
Exercise price (\$)	0.33	0.78
Estimated volatility of underlying common shares (%)	49.8	50.2
Expected life (years)	3.0	3.0
Risk-free rate (%)	2.1	0.8
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.

### Per Share Calculations

The average market value of the Common Shares for the purposes of calculating the dilutive effect of stock options and warrants was based on quoted market prices for the period that the options were outstanding. In calculating the weighted average number of diluted shares outstanding for the year ended December 31, 2018 and 2017, all stock options and warrants were excluded as they were not dilutive.

Loss per share calculation:	Years ended December 31,	
	2018	2017
<b>Numerator</b>		
Loss for the year	(72,719)	(67,864)
<b>Denominator (000s)</b>		
Weighted-average Common Shares outstanding - basic and diluted	307,076	307,076
<b>Loss per share - basic and diluted (\$)</b>	<b>(0.24)</b>	<b>(0.22)</b>

**17. OIL AND GAS SALES**

The Company's oil and gas sales revenue is determined pursuant to the terms of the marketing agreements. The revenue for natural gas, NGL and crude oil is based on the commodity price in the month of production, adjusted for quality, location, allowable deductions, if any, or other factors. Oil and gas sales revenues are based on marketed indices that are determined on a monthly or daily basis.

(\$000s)	Years ended December 31,	
	2018	2017
Natural gas	84,161	106,104
NGL	18,300	14,772
Crude oil	4,924	4,142
Total oil and gas sales	107,385	125,018

**18. SUPPLEMENTAL CASH FLOW INFORMATION**

	Years ended December 31,	
	2018	2017
Changes in non-cash working capital:		
Trade and other receivables	1,612	4,864
Prepaid expenses and deposits	28	(391)
Trade and other payables and accrued liabilities	(516)	(4,031)
	1,124	442
Change related to:		
Operating activities	833	(1,313)
Investing activities	291	1,755
	1,124	442

	Years ended December 31,	
	2018	2017
Finance expenses:		
Interest expense and bank charges	3,855	3,694
Non cash:		
Accretion on decommissioning provision	5,389	4,984
Accretion on subordinated promissory notes	267	221
Total finance expenses	9,511	8,899

Cash interest paid in the year ended December 31, 2018, was \$2.6 million (December 31, 2017 - \$3.4 million). Dividends received during the year ended December 31, 2018, were \$0.035 million (December 31, 2017 - \$0.2 million).

**19. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses by nature were as follows:

	Years ended December 31,	
	2018	2017
General and administration expenses:		
Staff expenses	4,876	5,069
Public company expenses	299	349
Professional fees	686	836
Investor relations	23	37
Office and other costs	1,371	1,672
Bad debt expense	261	200
Overhead recoveries	(2,678)	(2,248)
Total general and administration expenses	4,838	5,915

## 20. 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:	Years ended December 31,	
	2018	2017
Short-term benefits <sup>1</sup>	1,498	1,809
Share-based payments <sup>2</sup>	1,157	1,580
<b>Total key management remuneration</b>	<b>2,655</b>	<b>3,389</b>

<sup>1</sup> Short-term benefits includes the salary, other non-cash short-term benefits and directors fees paid to Pine Cliff's officers and directors.

<sup>2</sup> Share-based payments computed for officers and the board of directors are included in Note 16 and include the fair value of awards expensed in the year.

## 21. COMMITMENTS

As at December 31, 2018, the Company has the following commitments and other contractual obligations:

	2019	2020	2021	2022	2023	Thereafter
(\$000s)						
Subordinated promissory notes <sup>1</sup>	-	36,000	-	19,000	-	-
Trade and other payables	16,772	-	-	-	-	-
Due to related party	-	6,000	-	-	-	-
Future interest	4,229	3,506	1,340	1,005	-	-
Lease Obligations	963	980	885	692	517	-
Transportation <sup>2</sup>	9,244	7,066	6,096	5,249	3,168	12,145
<b>Total commitments and contingencies</b>	<b>31,208</b>	<b>53,552</b>	<b>8,321</b>	<b>25,946</b>	<b>3,685</b>	<b>12,145</b>

<sup>1</sup> Principal amount.

<sup>2</sup> Firm transportation agreements.

## 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:

	As at December 31,	
	2018	2017
Bank debt	-	18,000
Due to related party	6,000	5,000
Subordinated promissory notes <sup>1</sup>	55,000	36,000
Trade and other payables and accrued liabilities	16,772	17,288
Less:		
Trade and other receivables	(13,536)	(15,148)
Cash	(3,563)	(1,075)
Prepaid expenses and deposits	(3,854)	(3,882)
Investments	-	(2,545)
<b>Net debt</b>	<b>56,819</b>	<b>53,638</b>
<b>Equity</b>	<b>60,974</b>	<b>129,093</b>

<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-adjusted funds flow (cash flow from operating activities before changes in non-cash working capital and decommissioning liabilities) ratio. Net debt-to-adjusted funds flow 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 flow from operating activities are 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 flow from operating activities to entirely fund its planned oil and gas capital programs or future acquisitions. Accordingly, the Company will continually evaluate the stage of development of its proved and producing reserves 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:

	<b>As at December 31,</b>	
Net debt to equity ratio:	<b>2018</b>	2017
Net debt	<b>56,819</b>	53,638
Equity	<b>60,974</b>	129,093
Net debt to equity	<b>0.9</b>	0.4

The Company considers adjusted funds flow 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-adjusted funds flow is computed as follows:

	<b>As at December 31,</b>	
Net debt-to-adjusted funds flow calculation:	<b>2018</b>	2017
Cash provided by operating activities	<b>8,616</b>	25,009
Increase (decrease) in non-cash working capital	<b>(833)</b>	1,313
Decommissioning obligations settled	<b>2,730</b>	2,383
Adjusted funds flow	<b>10,513</b>	28,705
Net debt	<b>56,819</b>	53,638
Net debt-to-adjusted funds flow	<b>5.4</b>	1.9

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

**BOARD OF DIRECTORS**

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

**OFFICERS**

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

**HEAD OFFICE**

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**REGISTRAR AND TRANSFER AGENT**

Odyssey Trust Company of Canada

**AUDITORS**

Deloitte LLP

**BANKERS**

Toronto-Dominion Bank  
Canadian Western Bank  
Business Development Bank of Canada

**STOCK EXCHANGE LISTING**

TSX Exchange  
Trading Symbol: PNE

**WEBSITE**

[www.pinecliffenergy.com](http://www.pinecliffenergy.com)

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