



Long-term Value Focus
Annual Report 2021

I hope all of Pine Cliff's shareholders and families are well. I also hope that you are pleased with our Q4 and 2021 annual financials. Pine Cliff's adjusted funds flow of \$26.3 million generated during the fourth quarter of 2021 was 75% higher than the previous highest quarterly adjusted funds flow in Pine Cliff history of \$15 million in Q4 2016 and the 2021 annual adjusted funds flow of \$59.1 million was 52% higher than the previous highest ever annual amount of \$39 million in 2014. We thought the quarter would be good, but these numbers exceeded our expectations. What a fantastic way to ring in our tenth anniversary!

Highlights from the fourth quarter and 2021 include:

- generated \$26.3 million of adjusted funds flow (\$0.08 per basic and \$0.07 per fully diluted share) for the three months ended December 31, 2021, and \$59.1 million (\$0.18 per basic and \$0.17 per fully diluted share) for the year ended December 31, 2021. This is 329% and 677% higher than the respective periods in the prior year;
- generated net earnings of \$80.5 million (\$0.24 per basic and \$0.23 per fully diluted share) for the three months ended December 31, 2021, and \$81.4 million (\$0.24 per basic and \$0.23 per fully diluted share) for the 2021 year;
- production averaged 19,056 Boe/d and 18,445 Boe/d during the three months and year ended December 31, 2021, compared to 19,130 Boe/d and 19,006 BOE/d for the comparable periods in 2020;
- closed the acquisition of a private company on December 29, 2021 for a cash consideration of \$22.2 million;
- repaid in full \$19.0 million of Term Debt due July 31, 2022 during the third quarter of 2021; and
- net debt decreased by 21.2% or \$13.4 million from \$63.0 million on December 31, 2020, to \$49.7 million as at December 31, 2021.

Earnings Explanation

During the fourth quarter and year ended December 31, 2021, Pine Cliff recognized a reversal of prior years' asset impairment provisions totaling \$14.0 million, due to an increase in future commodity prices. Higher future commodity prices also led to Pine Cliff recognizing a recovery of deferred income taxes in the amount of \$50.6 million, as it is now expected that Pine Cliff will be able to utilize these tax pools. These amounts resulted in Pine Cliff recognizing additional earnings of \$64.6 million during the fourth quarter (\$0.19 per basic and \$0.18 per fully diluted share) and year ended December 31, 2021 (\$0.19 per basic and fully diluted share). Each of these adjustments are reflective of the increased value of Pine Cliff's assets with the rise in commodity prices.

Drilling Update

We brought two 100% Pekisko oil wells on production in Q4 that were originally drilled in Q3 and we also drilled three more wells (2.4 net) in Central Alberta in the fourth quarter; one of which was placed on production in Q4 with the remaining two coming on production in February. We also were active in our Edson area, participating in three (0.6 net) non-operated wells all of which were placed on production in Q4. We are pleased with the overall results of our 2021 drilling program and we were particularly happy with the last two Pekisko oil wells that came on production last month. It is early days but they both appear to be producing materially above type curve, and the timing to bring on flush oil production in this commodity environment is fortuitous.

Outlook

Pine Cliff's portfolio of low decline natural gas assets, bolstered by the recent tuck-in acquisition of a private company with synergistic assets in our core Ghost Pine area, positions Pine Cliff to take advantage of improved commodity prices in 2022. The Company's 2022 capital budget of \$25.5 million is expected to be fully funded from adjusted funds flow and includes approximately \$18.0 million of development drilling, \$3.6 million on major maintenance and optimization capital and \$3.9 million on abandonments and reclamation (exclusive of abandonments conducted pursuant to government funded grants). We also expect to spend approximately \$6.9 million in government funded grants for site abandonment and reclamation activities in 2022. In 2021 we abandoned 335 well bores (310 net), and in 2022 we are targeting to abandon 300 well bores while applying for 75 reclamation certificates. All of this work is starting to show up as reduced fixed operating costs.

Annual production volumes for 2022 are expected to range between 20,000 and 21,000 BOE per day, weighted 87% to natural gas. Commodity prices have been volatile with the Russian invasion of Ukraine, but on today's 2022 forward strip pricing, Pine Cliff is expected to generate more than \$120 million of adjusted funds flow this year.

Capital Allocation and Dividends

Our team is actively considering the optimal way to return capital to shareholders. Funds flow and earnings are rising and our balance sheet has never been stronger. In my letter to you last quarter, I mentioned that the five primary capital allocation options to a natural gas producer such as Pine Cliff were debt repayment, drilling, asset purchases, share buybacks and dividends.

- a) **Debt Repayment**
Based on the forward strip commodity prices, at our projected 2022 funds flow, we could definitely be debt free in 2022 if we choose to, even though none of our \$42 million of debt is due until the end of 2024. That would be a rare position for a public company energy producer, but it is something we are contemplating. At a minimum, our goal is to pay back the \$30 Million of AIMCo debt in 2022.
- b) **Drilling**
Our Q4 drilling program was successful. Based on that success, we intend to spend approximately \$18 Million in 2022 on drilling four (3.4 net) Pekisko wells and participating in four (net one) gas wells in our Edson area. Our estimate is that Pine Cliff production for 2022 will be essentially flat with our current budget.
- c) **Asset Purchases**
Pine Cliff has now completed eleven acquisitions since we started in 2012. We continue to consider assets that would strengthen the sustainability of our business model. We continue to proceed on the basis that any potential asset acquisition, like the last one we did in Q4 2021, needs to increase the distributable funds flow per share and at the same time have a liability profile that we are comfortable with in the context of the purchase price.
- d) **Share Buybacks**
Given the high insider ownership of our stock, and the potential impact on liquidity, we do not think instituting a share buyback plan at this time would be an optimal use of capital for Pine Cliff shareholders.
- e) **Dividends**
The final return of capital alternative is instituting a dividend. We feel that implementing a dividend model is the best approach for Pine Cliff to return capital to our shareholders in 2022. We will be instigating this process by delivering commodity price sensitivity analysis at our next Board meeting in May to propose what we think will be a reasonable and sustainable dividend strategy going forward. Pine Cliff currently has the lowest production decline rate of any public oil and gas company in Canada and is currently generating one of the highest free cash flow yields, not just in the oil and gas industry, but in the public markets. I know that some of you have been anxiously waiting for that first PNE dividend payment. Our goal is that on May 4th, we will deliver on your patience.

I want to personally thank all of our shareholders for their support and willingness to invest your hard earned money in our company. I would like to give a special thanks to our long term shareholders for their continued loyalty and confidence, staying with us from the early days of Pine Cliff. Our Team is thrilled to be able to share our success with all of you and we are looking forward to an exciting and pivotal 2022.

Yours truly,



Phil Hodge
President and Chief Executive Officer
March 8, 2022

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, 2021, which can be found on 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. (“**Pine Cliff**” or the “**Company**”) at December 31, 2021. 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, 2021. 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 2021 year include:

- Net present value for proved plus probable (“**P+P**”) reserves of \$277.9 million, discounted at 10%, an increase of \$179.7 million, or 283% higher than December 31, 2020, primarily as a result of an increase in forecast commodity prices;
- Pine Cliff replaced its 2021 production by 218% on a P+P basis, or by 14.7 MMBoe (27%) largely as a result of 7.7 MMBoe from acquisitions (14%), 7.9 MMBoe (14%) due to economic factors, 0.5 MMBoe (1%) of extensions and a decrease of 1.4 MMBoe (2%) from negative technical revisions;
- Seven gross (5.8 net) Pekisko well locations were added to Pine Cliff’s booked locations, bringing the total booked locations in its P+P reserves to 31 gross (20.3 net) wells;
- Remaining P+P reserves of 62.8 MMBoe (84% conventional natural gas and coal bed methane) at December 31, 2021 increased by 8.0 MMBoe (15%) from 54.8 MMBOE (87% conventional natural gas and coal bed methane) at December 31, 2020, mainly as a result of acquisitions and economic factors; and
- Approximately 78% of total reserve volumes are classified as total proved reserves and approximately 22% are classified as probable reserves.

Pine Cliff’s Reserves

McDaniel has used a three consultant average price (McDaniel, GLJ & Sproule) forecast, resulting in a price forecast of \$3.56 and \$3.21 per MMBtu for AECO natural gas and US\$72.83 and US\$68.78 per Bbl for WTI oil in 2022 and 2023 respectively.

Summary of Remaining Working Interest Reserves, as of December 31, 2021

	Light, Medium and Heavy Oil	Natural Gas Liquids	Natural Gas and Coal Bed Methane	Oil Equivalent
Reserve Category	MBbl	MBbl	MMcf	MBOE
Proved				
Developed Producing	1,856.8	3,558.2	243,769.0	46,043.2
Developed Non-Producing	223.9	65.4	3,532.7	878.1
Undeveloped	963.3	229.7	5,990.7	2,191.5
Total Proved	3,044.0	3,853.3	253,292.4	49,112.7
Probable	1,629.1	1,468.1	63,620.6	13,700.7
Total Proved plus Probable	4,673.1	5,321.4	316,913.0	62,813.4

Summary of Net Present Values of Future Net Revenue, Before Income Taxes, as of December 31, 2021

(\$millions)	Discounted at (% per year)			
	0%	5%	10%	15%
Reserve Category				
Proved				
Developed Producing	(17.4)	136.4	167.9	167.3
Developed Non-Producing	15.9	12.6	10.1	8.4
Undeveloped	44.6	27.7	18.0	12.1
Total Proved	43.1	176.8	196.0	187.8
Probable	194.3	121.4	81.9	59.0
Total Proved plus Probable	237.4	298.1	277.9	246.8

Reconciliation of Gross Reserves by Principal Product Type, as of December 31, 2021

	Light, Medium, and Heavy Oil		Natural Gas Liquids		Natural Gas and Coal Bed Methane		Oil Equivalent	
	Proved (MBbl)	Proved plus Probable (MBbl)	Proved (MBbl)	Proved plus Probable (MBbl)	Proved (MMcf)	Proved plus Probable (MMcf)	Proved (MBOE)	Proved plus Probable (MBOE)
December 31, 2020	1,702.7	2,832.5	3,054.3	4,476.9	228,852.3	285,183.6	42,899.1	54,840.0
Extension	116.4	5.2	132.1	94.6	2,754.5	2,579.0	707.6	529.6
Technical Revisions	199.3	406.7	(215.7)	(365.7)	(4,119.5)	(8,482.0)	(703.0)	(1,372.7)
Acquisitions	1,077.3	1,482.9	306.4	420.8	25,979.2	34,650.0	5,713.6	7,678.7
Dispositions	-	-	(1.7)	(2.0)	(23.2)	(27.1)	(5.6)	(6.5)
Economic Factors	101.3	98.8	1,034.2	1,153.2	36,588.1	39,748.5	7,233.5	7,876.8
Total Changes	1,494.3	1,993.6	1,255.3	1,300.9	61,179.1	68,468.4	12,946.0	14,705.9
Production	(153.0)	(153.0)	(456.3)	(456.3)	(36,739.0)	(36,739.0)	(6,732.5)	(6,732.5)
December 31, 2021	3,044.0	4,673.1	3,853.3	5,321.5	253,292.4	316,913.0	49,112.6	62,813.4

Commodity Prices

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

Year	WTI Oil (US\$/Bbl) ¹	\$C to US\$ Foreign exchange rate ¹	Edmonton Light Crude Oil (Cdn\$/Bbl) ¹	AECO Gas (Cdn\$/MMBtu) ¹
2022	72.83	1.26	86.82	3.56
2023	68.78	1.26	80.73	3.21
2024	66.76	1.26	78.01	3.05
2025	68.09	1.26	79.57	3.11
2026	69.45	1.26	81.16	3.17
2027	70.84	1.26	82.78	3.23
2028-2036	78.32	1.26	91.52	3.57
Thereafter	+2.0%/yr	1.26	+2.0%/yr	+2.0%/yr

¹ Source: Average of three consultant price forecasts, effective January 1, 2022 (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, 2021, which can be found on 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 financial position of Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") for the period ended December 31, 2021. This MD&A is dated and based on information available as at March 8, 2022 and should be read in conjunction with audited consolidated financial statements for the year ended December 31, 2021 and 2020 ("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 and by visiting Pine Cliff's website at www.pinecliffenergy.com.

Pine Cliff's head office is based in Calgary, Alberta, Canada. Common shares of the Company ("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 ("NGLs") 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.

2021 AND FOURTH QUARTER 2021 HIGHLIGHTS

Highlights from 2021 and the fourth quarter of 2021 are as follows:

- generated \$26.3 million of adjusted funds flow (\$0.08 per basic and \$0.07 per fully diluted share) for the three months ended December 31, 2021, and \$59.1 million (\$0.18 per basic and \$0.17 per fully diluted share) for the year ended December 31, 2021, 329% and 677% higher than the respective periods in the prior year;
- generated net earnings of \$80.5 million (\$0.24 per basic and \$0.23 per fully diluted share) for the three months ended December 31, 2021, and \$81.4 million (\$0.24 per basic and \$0.23 per fully diluted share) for the year then ended;
- production averaged 19,056 Boe/d and 18,445 Boe/d during the three months and year ended December 31, 2021, compared to 19,130 Boe/d and 19,006 BOE/d for the comparable periods in 2020;
- closed the acquisition of a private company on December 29, 2021 for cash consideration of \$22.2 million;
- repaid in full \$19.0 million of Term Debt due July 31, 2022 during the third quarter of 2021;
- net debt decreased by 21.2% or \$13.4 million from \$63.0 million on December 31, 2020, to \$49.7 million as at December 31, 2021; and
- drilled four (3.4 net) Pekisko oil wells in the fourth quarter, two that were placed on production in Q4 and two that were placed on production on February 16, 2022.

SELECTED ANNUAL FINANCIAL INFORMATION

	Year ended December 31,		
	2021	2020	2019
(\$000s, unless otherwise indicated)			
FINANCIAL¹			
Commodity sales (before royalties)	163,985	103,170	105,006
Commodity sales (net of royalties)	146,976	96,897	99,431
Cash provided by operating activities	49,483	8,787	15,536
Adjusted funds flow²	59,106	8,729	5,879
Per share – Basic (\$/share)	0.18	0.03	0.02
Per share – Diluted (\$/share)	0.17	0.03	0.02
Earnings/(Loss) for the year	81,421	(50,107)	(56,430)
Per share – Basic (\$/share)	0.24	(0.15)	(0.18)
Per share – Diluted (\$/share)	0.23	(0.15)	(0.18)
Total assets	378,997	288,899	323,735
Total non-current financial liabilities³	44,521	62,816	63,308
Total liabilities	333,579	326,216	313,225
Capital expenditures	21,568	7,518	8,379
Acquisitions	23,147	(6)	8,801
Dispositions	(320)	(829)	(1,542)
Net Debt²	49,652	63,050	64,038
Weighted average common shares outstanding (000s) - Basic	337,254	330,284	319,274
Weighted average common shares outstanding (000s) - Diluted	348,285	330,284	319,274
OPERATIONS			
Production			
Natural gas (Mcf/d)	100,655	104,277	105,725
NGLs (Bbl/d)	1,250	1,187	1,114
Crude oil (Bbl/d)	419	439	407
Total (Boe/d)	18,445	19,006	19,142
Total (Mcf/d)	110,670	114,036	114,852
Realized commodity sales prices			
Natural gas (\$/Mcf)	3.55	2.28	2.15
NGLs (\$/Boe)	48.65	23.11	31.92
Crude oil (\$/Bbl)	73.47	37.31	61.32
Total (\$/Boe)	24.36	14.83	15.03
Netback (\$/Boe)			
Operating netback ²	10.36	2.72	2.25
Corporate netback ²	8.78	1.26	0.84
Netback (\$/Mcf)			
Operating netback ²	1.73	0.45	0.38
Corporate netback ²	1.46	0.21	0.14

¹ Includes results for acquisitions and excludes results for dispositions from the closing dates.

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

³ Includes lease liabilities, due to related party, Term Debt and subordinated promissory notes.

	Three months ended December 31,		Year ended December 31,	
	2021	2020	2021	2020
(\$000s, unless otherwise indicated)				
FINANCIAL				
Commodity sales (before royalty expense)	54,413	31,292	163,985	103,170
Cash provided by operating activities	20,431	2,666	49,483	8,787
Adjusted funds flow¹	26,279	7,996	59,106	8,729
Per share – Basic (\$/share) ¹	0.08	0.02	0.18	0.03
Per share – Diluted (\$/share) ¹	0.07	0.02	0.17	0.03
Earnings/(Loss)	80,522	(3,822)	81,421	(50,107)
Per share – Basic (\$/share) ¹	0.24	(0.01)	0.24	(0.15)
Per share – Diluted (\$/share) ¹	0.23	(0.01)	0.23	(0.15)
Capital expenditures	10,741	1,307	21,568	7,517
Acquisitions	23,136	(11)	23,147	(6)
Dispositions	(133)	(613)	(320)	(829)
Net debt¹	49,652	63,050	49,652	63,050
Weighted-average common shares outstanding (000s)				
Basic	339,213	335,284	337,254	330,284
Diluted	350,806	335,284	348,285	330,284
OPERATIONS				
Production				
Natural gas (Mcf/d)	103,320	104,788	100,655	104,277
NGLs (Bbl/d)	1,258	1,270	1,250	1,187
Crude oil (Bbl/d)	578	395	419	439
Total (Boe/d)	19,056	19,130	18,445	19,006
Realized commodity sales prices				
Natural gas (\$/Mcf)	4.56	2.73	3.55	2.28
NGLs (\$/Boe)	57.42	28.89	48.65	23.11
Crude oil (\$/Bbl)	82.75	43.46	73.47	37.31
Combined (\$/Boe)	31.04	17.78	24.36	14.83
Netback (\$/Boe)				
Commodity sales	31.04	17.78	24.36	14.83
Processing and gathering	0.49	0.74	0.55	0.60
Royalty expense	(3.35)	(1.34)	(2.53)	(0.90)
Transportation expenses	(1.46)	(1.26)	(1.39)	(1.32)
Operating expenses	(10.22)	(9.84)	(10.63)	(10.49)
Operating netback (\$/Boe) ¹	16.50	6.08	10.36	2.72
General and administrative expenses	(0.88)	(0.76)	(0.86)	(0.72)
Interest and bank charges	(0.62)	(0.77)	(0.72)	(0.74)
Corporate netback (\$/Boe) ¹	15.00	4.55	8.78	1.26
Operating netback (\$ per Mcfe) ¹	2.75	1.01	1.73	0.45
Corporate netback (\$ per Mcfe) ¹	2.50	0.76	1.46	0.21

¹ 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. 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 ¹		
	Change	\$000s	\$ per share ³
Realized natural gas price ²	\$0.10	3,771	0.01
Realized NGLs price ²	\$1.00	459	0.00
Realized crude oil price ²	\$1.00	211	0.00

¹ This analysis does not adjust for changes in working capital and uses corporate royalty rates from the year ended December 31, 2021.

² Pine Cliff has prepared this analysis using its Q4 2021 production volumes annualized for twelve months.

³ Based on the Q4 2021 basic weighted average shares outstanding.

BENCHMARK PRICES

	Three months ended December 31,			Year ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Natural gas						
NYMEX (US\$/Mmbtu) ¹	5.83	2.66	119	3.84	2.08	85
AECO Daily 5A (C\$/Mcf) ²	4.63	2.63	76	3.61	2.22	63
Crude oil						
WTI (US\$/Bbl)	77.19	42.66	81	67.92	39.40	72
Edmonton Light (C\$/Bbl)	93.30	50.24	86	80.24	45.32	77
Foreign exchange						
US\$/C\$	1.260	1.303	(3)	1.254	1.340	(7)

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

² 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.

	Q4-2021	Q3-2021	Q2-2021	Q1-2021	Q4-2020	Q3-2020	Q2-2020	Q1-2020
Natural gas								
NYMEX (US\$/Mmbtu) ¹	5.83	4.01	2.83	2.69	2.66	1.98	1.72	1.95
AECO Daily 5A (C\$/Mcf) ²	4.63	3.58	3.08	3.14	2.63	2.23	1.98	2.02
Pine Cliff realized natural gas price (C\$/Mcf)	4.56	3.43	3.03	3.14	2.73	2.18	2.03	2.19
Crude oil								
WTI (US\$/Bbl)	77.19	70.56	66.07	57.84	42.66	40.93	27.85	46.17
Edmonton Light (C\$/Bbl)	93.30	83.78	77.28	66.58	50.24	49.83	29.77	51.44
Pine Cliff realized NGLs price (C\$/Bbl)	57.42	50.53	42.83	43.87	28.89	25.07	14.56	22.69
Pine Cliff realized Oil price (C\$/Bbl)	82.75	74.94	69.90	60.09	43.46	40.54	22.10	43.47
Foreign exchange								
US\$/C\$	1.260	1.260	1.231	1.266	1.303	1.332	1.386	1.345

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

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

In the three months and year ended December 31, 2021, the AECO daily benchmark was 76% and 63% higher compared to the same periods of 2020. The changes for the quarter are mainly due to supply and demand factors including North American industrial and

residential demand, increases in liquefied natural gas (“LNG”) exports due to increased US export capacity, natural gas exports to Mexico, weather, economic conditions in producing and consuming regions throughout North America and political factors. The price realized by the Company for natural gas production in Western Canada is primarily influenced by the Alberta price hub AECO, while diversification projects to delivery points such as Dawn in Ontario and TransGas into Saskatchewan have created diversification pricing options to complement AECO pricing.

The average benchmarks for WTI crude increased by 72% and 81%, for the three months and year ended December 31, 2021, as compared to the same periods in 2020, primarily due to the growth in global demand as vaccines were administered in response to the novel coronavirus (“COVID-19”). In March 2020, the World Health Organization declared COVID-19 a global pandemic, prompting many countries around the world to close international borders and order the closure of institutions and businesses deemed non-essential. At the same time, the Organization of Petroleum Exporting Countries (“OPEC”), and certain other countries, increased the planned supply of crude oil in an attempt to control market share. The sudden decrease in global crude oil demand due to COVID-19 coupled with a planned increase in supply significantly reduced crude oil prices in 2020.

Agreements have been made between OPEC, Russia and other crude oil producing countries globally that have reduced global crude oil production and brought the oversupply closer into balance with demand. While crude oil prices have recovered from the historic lows observed earlier in 2020, support from future demand remains uncertain. Vaccination programs have begun around the world with the pace of such vaccinations dependent upon the supply access and logistics organized by the individual countries. Local economies and international borders are re-opening and crude oil prices are reflecting current supply and demand dynamics.

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 NGLs 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. The fluctuations in NGLs price correlate significantly with changes in the Edmonton Light oil price.

SALES VOLUMES

Total sales volumes by product	Three months ended December 31,			Year ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Natural gas (Mcf)	9,505,398	9,640,494	(1)	36,739,008	38,165,490	(4)
NGLs (Bbl)	115,743	116,822	(1)	456,291	434,358	5
Crude oil (Bbl)	53,157	36,375	46	153,006	160,599	(5)
Total Boe	1,753,133	1,759,946	-	6,732,465	6,955,872	(3)
Total Mcfe	10,518,798	10,559,676	-	40,394,790	41,735,232	(3)
Natural gas weighting	90%	91%	(1)	91%	91%	-

Average daily sales volumes by product	Three months ended December 31,			Year ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Natural gas (Mcf/d)	103,320	104,788	(1)	100,655	104,277	(4)
NGLs (Bbl/d)	1,258	1,270	(1)	1,250	1,187	5
Crude oil (Bbl/d)	578	395	46	419	439	(5)
Total (Boe/d)	19,056	19,130	-	18,445	19,006	(3)
Total (Mcfe/d)	114,336	114,780	-	110,670	114,036	(3)

Average daily sales volumes by area	Three months ended December 31,			Year ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Central (Boe/d)	10,289	10,042	2	9,817	9,894	(1)
Southern (Boe/d)	7,187	7,517	(4)	7,171	7,527	(5)
Edson (Boe/d)	1,580	1,571	1	1,457	1,585	(8)
Total (Boe/d)	19,056	19,130	-	18,445	19,006	(3)

Pine Cliff's sales volumes decreased nominally to 19,056 Boe/d (114,336 Mcfe/d) and by 3% to 18,445 Boe/d (114,036 Mcfe/d) for the three months and year ended December 31, 2021, as compared to the same periods in 2020. The nominal decrease in production is from natural production declines, offset by incremental production from facility optimization and the 2021 drilling and recompletion programs.

Pine Cliff is projecting 2022 production volumes of 20,000 – 21,000 Boe/d (120,000 – 126,000 Mcfe/d), weighted approximately 87% towards natural gas.

COMMODITY SALES

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Natural gas	43,368	26,337	65	130,546	87,139	50
NGLs	6,646	3,374	97	22,198	10,040	121
Crude oil	4,399	1,581	178	11,241	5,991	88
Total commodity sales	54,413	31,292	74	163,985	103,170	59
% of revenue from natural gas sales	80%	84%	(4)	80%	84%	(4)

Realized prices

\$ per unit	Three months ended December 31,			Year ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Natural gas (\$/Mcf)	4.56	2.73	67	3.55	2.28	56
NGLs (\$/Bbl)	57.42	28.89	99	48.65	23.11	111
Crude oil (\$/Bbl)	82.75	43.46	90	73.47	37.31	97
Total (\$/Boe)	31.04	17.78	75	24.36	14.83	64
Total (\$/Mcfe)	5.17	2.96	75	4.06	2.47	64

Commodity sales in the three months ended December 31, 2021 of \$54.4 million increased 74% from \$31.3 million in the corresponding period in the prior year, primarily due to higher realized commodity prices. Commodity sales in the year ended December 31, 2021, increased \$60.8 million to \$164.0 million from \$103.2 million in the year ended December 31, 2020, with the increase primary attributable to higher realized commodity prices.

Pine Cliff's realized natural gas price was \$4.56 per Mcf in the three months ended December 31, 2021, 67% higher than the \$2.73 per Mcf realized in the corresponding period of the prior year. This correlates with the AECO 5A reference price increase of 76%, between those two periods primarily the result of robust demand across North America in the fourth quarter of 2021, increased LNG exports due to increased US export capacity, and exports to Mexico from the United States, all resulting in the expectation of lower natural gas storage volumes exiting the winter 21/22 season. Pine Cliff's realized natural gas price was \$3.55 per Mcf in the year ended December 31, 2021, 56% higher than the \$2.28 per Mcf realized in the corresponding period of the prior year. Pine Cliff's realized natural gas price was 2% lower than the AECO 5A benchmarks for the three months and year ended December 31, 2021, both a result of Pine Cliff's marketing diversification and fixed price physical natural gas sales contracts.

For the three months and year ended December 31, 2021, Pine Cliff's realized NGLs price was \$57.42 per Bbl and \$48.65 per Bbl, compared to \$28.89 per Bbl and \$23.11 per Bbl, in the corresponding periods of the prior year. For the three months and year ended December 31, 2021, Pine Cliff's realized oil price was \$82.75 per Bbl and \$73.47 per Bbl, compared to \$43.46 per Bbl and \$37.31 per Bbl in the corresponding periods of the prior year. Pine Cliff's realized crude oil prices in the three months and year ended December 31, 2021 were 89% and 92% of Edmonton Light compared to 87% and 82% in the corresponding period of the prior year. Pine Cliff's realized NGLs prices in the three months and year ended December 31, 2021 were 62% and 61% of Edmonton Light compared to 58% and 51% in the corresponding periods of the prior year. This increase in crude oil and NGLs pricing in the three months and year ended December 31, 2021, compared to the corresponding periods of 2020, is due primarily to improved market conditions arising from recovering demand and lower supply and inventories

ROYALTY EXPENSE

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Total royalty expense	5,868	2,354	149	17,009	6,273	171
\$ per Boe	3.35	1.34	150	2.53	0.90	181
\$ per Mcfe	0.56	0.22	150	0.42	0.15	181
Royalty expense as a % of commodity sales	11%	8%	38	10%	6%	67

For the three months ended December 31, 2021, total royalty expense increased by 149% to \$5.9 million from \$2.4 million in the corresponding period of the prior year. Royalty expense as a percentage of commodity sales increased to 11% in the three months ended December 31, 2021, compared to 8% in the corresponding period of the prior year, due to higher commodity prices.

For the year ended December 31, 2021, total royalty expense increased by 171% to \$17.0 million from \$6.3 million in the corresponding period of the prior year. Royalty expense as a percentage of commodity sales increased to 10% during the year ended December 31, 2021, compared to 6% in the corresponding period of the prior year. The increase in royalty expenses as a percentage of commodity sales for the year ended December 31, 2021 is due to an increase in commodity prices.

Pine Cliff anticipates royalty expenses to average approximately 11% of commodity sales in 2022, due to higher commodity prices.

TRANSPORTATION COSTS

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Total transportation costs	2,564	2,221	15	9,328	9,172	2
\$ per Boe	1.46	1.26	16	1.39	1.32	5
\$ per Mcfe	0.24	0.21	16	0.23	0.22	5

For the three months and year ended December 31, 2021, total transportation costs increased by 15% and 2% to \$2.6 million and \$9.3 million from \$2.2 million and \$9.2 million in the corresponding periods of the prior year. The higher transportation expenses in the quarter are related to the Company delivering a higher proportion of its natural gas to markets with higher pricing points than AECO during that period.

Pine Cliff anticipates transportation expenses to average approximately \$1.50 per Boe (\$0.25 per Mcfe) in 2022.

OPERATING EXPENSES

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Operating expenses	17,923	17,319	3	71,590	72,968	(2)
Less: Processing income	(854)	(1,295)	(34)	(3,730)	(4,151)	(10)
Net production expenses	17,069	16,024	7	67,860	68,817	(1)
\$ per Boe	9.73	9.10	4	10.08	9.89	(8)
\$ per Mcfe	1.70	1.52	4	1.77	1.65	(8)

Net production expenses increased by 7% and decreased by 1% to \$17.1 million and \$67.9 million for the three months and year ended December 31, 2021, as compared to \$16.0 million and \$68.8 million in the corresponding periods of the prior year. The increase during the quarter is primarily due to field optimization initiatives that are expected to increase production rates in the short-term. On a per Boe basis, operating costs increased to \$9.73 per Boe and \$10.08 per Boe for the three months and year ended December 31, 2021 compared to \$9.10 per Boe and \$9.89 per Boe in the corresponding periods of 2020.

Pine Cliff anticipates operating expenses to average approximately \$10.50 per Boe (\$1.75 per Mcfe) in 2022, net of processing and gathering income.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Gross G&A	3,506	2,011	74	8,847	7,275	22
Less: overhead recoveries	(1,960)	(666)	(194)	(3,040)	(2,278)	(33)
Total G&A expenses	1,546	1,345	15	5,807	4,997	16
\$ per Boe	0.88	0.76	16	0.86	0.72	19
\$ per Mcfe	0.15	0.13	16	0.14	0.12	19

G&A increased by 15% to \$1.5 million in the three months ended December 31, 2021, as compared to \$1.3 million in the corresponding period of the prior year. The increase in G&A during the three months ended December 31, 2021 is primarily a result of higher compensation costs pursuant to the Company's short term incentive bonus program. G&A increased to \$5.8 million for the year ended December 31, 2021 as compared to \$5.0 million in the corresponding period of the prior year and reflects the increase in compensation costs from the bonus program.

On a per Boe basis, G&A for the three months ended December 31, 2021, increased 16% to \$0.88 per Boe from \$0.76 per Boe in the corresponding period of the prior year, primarily due to higher compensation costs. On a per Boe basis, G&A for the year ended December 31, 2021 increased 19% to \$0.86 per Boe from \$0.72 per Boe in the prior year.

Pine Cliff anticipates G&A expenses to average \$0.98 per Boe (\$0.16 per Mcfe) in 2022.

SHARE-BASED PAYMENTS

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Total share-based payments	337	168	101	997	737	35
\$ per Boe	0.19	0.10	90	0.15	0.11	36
\$ per Mcfe	0.03	0.02	90	0.02	0.02	36

Share based payments increased by 101% and 35% for the three months and year ended December 31, 2021 compared to the corresponding periods of 2020 primarily as a result of the increase in the fair value of stock options granted in 2021. 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 the outstanding Common Shares.

During the year ended December 31, 2021, Pine Cliff granted 11,386,600 stock options to purchase Common Shares at a weighted average exercise price of \$0.34 (December 31, 2020 - 8,656,850 at an average exercise price of \$0.14). As at December 31, 2021, the Company had 25,269,810 stock options outstanding, representing 7.4% of Common Shares outstanding (December 31, 2020 - 25,561,498 representing 7.6% of Common Shares outstanding).

DEPLETION, DEPRECIATION, AND IMPAIRMENT

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Total depletion and depreciation	10,661	11,032	(3)	40,994	45,411	(10)
\$ per Boe	6.08	6.27	(3)	6.09	6.53	(7)
\$ per Mcfe	1.01	1.04	(3)	1.01	1.09	(7)
Impairment (reversal)	(13,979)	-	-	(13,979)	7,900	(277)
Total depletion, depreciation, and impairment	(3,318)	11,032	(130)	27,015	53,311	(49)
\$ per Boe	(1.89)	6.27	(130)	4.01	7.66	(48)
\$ per Mcfe	(0.32)	1.04	(130)	0.67	1.28	(48)

Depletion and depreciation expense for the three months and year ended December 31, 2021, totaled \$10.7 million and \$41.0 million compared to \$11.0 million and \$45.4 million in the corresponding periods of the prior year. The decrease for the year is a result of a lower depletable base and changes in reserves volumes. Depletion and depreciation per Boe will fluctuate from one period to the next depending on changes in reserves and the amount and success of capital expenditures. 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, 2021, the Company had four CGU’s being the Southern CGU, Central CGU, Edson CGU, and Coal Bed Methane CGU. The Company reviewed each CGU’s PP&E at December 31, 2021 and identified indicators of an impairment reversal in the Coal Bed Methane and Edson CGUs due to increased forward commodity prices and an increase in the Company’s market capitalization since the impairment expense recognized as at March 31, 2020. As a result, recovery testing was performed by preparing estimates of future cash flows to determine the recoverable amount of the respective assets.

At December 31, 2021, the Company determined that the recoverable amounts of the Company’s Edson CGU and Coal Bed Methane CGU exceeded their carrying value. A total impairment recovery of \$14.0 million was recognized in the Company’s PP&E.

Impairment can be reversed for PP&E up to the lower of the recoverable amount of the original carrying value less any associated depletion and depreciation that would have been incurred had the impairment not occurred.

The following table outlines the forecasted benchmark commodity prices and exchange rates used in the reversal of impairment calculation of PP&E at December 31, 2021.

Year	WTI Oil (US\$/Bbl) ¹	\$C to US\$ Foreign exchange rate ¹	Edmonton Light Crude Oil (Cdn\$/Bbl) ¹	AECO Gas (Cdn\$/MMBtu) ¹
2022	72.83	1.26	86.82	3.56
2023	68.78	1.26	80.73	3.21
2024	66.76	1.26	78.01	3.05
2025	68.09	1.26	79.57	3.11
2026	69.45	1.26	81.16	3.17
2027	70.84	1.26	82.78	3.23
2028-2036	78.32	1.26	91.52	3.57
Thereafter	+2.0%/yr	1.26	+2.0%/yr	+2.0%/yr

¹ Source: Average of three independent consultant price forecasts, effective January 1, 2022 (McDaniel & Associates Consultants Ltd., GLJ Petroleum Consultants Ltd. and Sproule Associates Limited).

The Company used a pre-tax 15% discount rate for the December 31, 2021 impairment test which took into account risks specific to the CGU’s and inherent in the oil and gas business. Changes in the key judgements, such as a revision in reserves, changes in forecast benchmark commodity prices, discount rates, foreign exchange rates, capital or operating costs would impact the recoverable amounts of assets as any recoveries or impairment changes would affect net earnings. The most sensitive assumptions to the calculation are the discount rate and the forecast benchmark commodity price estimates at December 31, 2021. The Company concluded that no reasonable change in the key assumptions, such as a two percent change in commodity prices or a one percent change in the discount rate, would result in a different impairment reversal being recorded.

The following CGU were impaired (reversed) as at December 31:

CGU	2021	2020
Edson	(12,000)	7,900
CBM	(1,979)	-
Total impairment (reversal)	(13,979)	7,900

During the year ended December 31, 2020, the Company had four CGU’s being the Southern CGU, Central CGU, Edson CGU, and Coal Bed Methane CGU. The Company reviewed each CGU’s property and equipment at December 31, 2020 for indicators of impairment and determined that an indicator related to future commodity prices was present. The company prepared estimates of both the value in use (“VIU”) and fair value less cost to sell (“FVLCS”) 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, 2020:

Year	WTI Oil (US\$/Bbl) ¹	\$C to US\$ Foreign exchange rate ¹	Edmonton Light Crude Oil (Cdn\$/Bbl) ¹	AECO Gas (Cdn\$/MMBtu) ¹
2021	47.17	1.30	55.76	2.78
2022	50.17	1.31	59.89	2.70
2023	53.17	1.31	63.48	2.61
2024	54.97	1.31	65.76	2.65
2025	56.07	1.31	67.13	2.70
2026	57.19	1.31	68.53	2.76
2027-2035	62.63	1.31	69.95	3.02
Thereafter	+2.0%/yr	1.31	+2.0%/yr	+2.0%/yr

¹ Source: Average of three independent consultant price forecasts, effective January 1, 2021 (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, 2020 were estimated at their FVLCS, 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, 2020. The FVLCS 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's best estimates.

The Company used a pre-tax 15% discount rate for the December 31, 2020 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 FVLCS for the Company's CGU's at December 31, 2020 is greater than the carrying amounts and therefore no impairment was recorded in the fourth quarter of 2020. An impairment of \$7.9 million was recorded for the period ending March 31, 2020.

At March 31, 2020, an impairment test was conducted on Pine Cliff's PP&E in response to the economic impact of the global COVID-19 pandemic and the global oversupply of crude oil and the impact on commodity prices. The Company prepared estimates of both the FVLCS and VIU 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 March 31, 2020:

Year	WTI Oil (US\$/Bbl) ¹	\$C to US\$ Foreign exchange rate ¹	Edmonton Light Crude Oil (Cdn\$/Bbl) ¹	AECO Gas (Cdn\$/MMBtu) ¹
2020 (9 months)	32.50	1.43	32.14	1.85
2021	43.35	1.38	49.45	2.30
2022	52.02	1.33	62.69	2.44
2023	58.37	1.33	71.02	2.49
2024	59.53	1.33	72.44	2.54
2025	60.72	1.33	73.89	2.59
2026-2035	67.13	1.33	81.69	2.87
Thereafter	+2.0%/yr	1.33	+2.0%/yr	+2.0%/yr

¹ Source: Average of three independent consultant price forecasts, effective April 1, 2020 (McDaniel & Associates Consultants Ltd., GLJ Petroleum Consultants Ltd. and Sproule Associates Limited).

The recoverable amounts of each of the Company's CGU's at March 31, 2020 were estimated at their FVLCS, 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, 2019, adjusted for production and future pricing changes during the three months ended March 31, 2020. 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's best estimates.

The Company used a pre-tax 15% discount rate for the March 31, 2020 impairment test which took into account risks specific to the CGU's and inherent in the oil and gas business.

The following CGU was impaired as at March 31, 2020:

CGUs	2020
Edson	7,900
Total Impairment	7,900

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, 2021 and 2020, the Company determined that no indicators of impairment existed for E&E assets transferred to PP&E.

FINANCE EXPENSES

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Interest expense and bank charges	1,088	1,352	(20)	4,876	5,182	(6)
\$ per Boe	0.62	0.77	(19)	0.72	0.74	(3)
\$ per Mcfe	0.10	0.13	(19)	0.12	0.12	(3)
Non cash:						
Accretion on decommissioning provision	1,348	1,363	(1)	5,373	5,455	(2)
Accretion on subordinated promissory notes	8	27	(70)	156	105	49
Total finance expenses	2,444	2,742	(11)	10,405	10,742	(3)
\$ per Boe	1.39	1.56	(11)	1.55	1.54	1
\$ per Mcfe	0.23	0.26	(11)	0.26	0.26	1

Finance expenses decreased by 11% and 3% to \$2.4 million and \$10.4 million for the three months and year ended December 31, 2021, as compared to \$2.7 million and \$10.7 million in the corresponding periods of the prior year, primarily a result of a decrease in interest expenses related to the Term Debt. Please refer to the “**DEBT, LIQUIDITY AND CAPITAL RESOURCES**” section for additional information.

DEFERRED INCOME TAX

For the three months and year ended December 31, 2021, Pine Cliff recorded a deferred tax recovery of \$50.6 million (December 31, 2020 - \$nil). The 2021 recovery reflects the temporary timing differences arising from the book basis of Pine Cliff’s assets and liabilities relative to the tax basis.

The Company had the following tax pools, including non-capital loss carry-forwards, at December 31, 2021:

Category of tax pool	Rate of Utilization (%)	2021
Undepreciated capital costs	7 - 100	28,399
Canadian oil and gas property expenditures	10	185,365
Canadian development expenditures	30	14,756
Canadian exploration expenditures	100	167
Share issue costs	20	46
Non-capital losses carried forward ¹	100	136,433
Capital losses carried forward ²		5,583
		370,750

¹ Non-capital losses expire between the years 2035 and 2040.

² The capital losses carried forward can only be claimed against taxable capital gains.

As at December 31, 2021, the unused non-capital losses expire between 2035 and 2040, and the unused capital losses have no expiry date. The deductible temporary differences do not expire under tax legislation. Pine Cliff has approximately \$370.8 million in tax pools as at December 31, 2021 (December 31, 2020 - \$398.2 million), available for future use as deductions from taxable income.

CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS

(\$000s)	Year ended December 31,	
	2021	2020
Exploration and evaluation	103	37
Property, plant and equipment	21,465	7,480
Capital expenditures	22,479	7,517
Acquisitions	23,147	(6)
Dispositions	(320)	(829)
Total	44,395	6,682

Capital expenditures on PP&E of \$21.5 million was spent during the year ended December 31, 2021. \$14.5 million was directed towards the drilling of four gross (3.4 net) Pekisko oil wells, one gross (0.9 net) Basal Quartz natural gas well, two gross (0.4 net) Ellerslie natural gas wells and one (0.2 net) Notikewin natural gas well, \$6.1 million on facility maintenance and optimization capital, \$0.5 million on capitalized lease rentals and \$0.4 million on seismic.

DECOMMISSIONING PROVISION

The total current and long-term decommissioning provision of \$248.4 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, 2021, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$263.2 million (December 31, 2020 - \$247.5 million). The discounted and inflated amount required to settle the decommissioning liabilities of \$248.4 million has been calculated assuming a 2.00% inflation rate (December 31, 2020 - 2.00%) and discounted using an average risk-free interest rate of 2.30% (December 31, 2020 - 2.30%). 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**Due to Related Party**

Pine Cliff has a \$6.0 million subordinated promissory note to the Company's Chairman of the Board. This promissory note matures on December 31, 2024, bears interest at 6.5% per annum and is payable monthly. This promissory 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 holder of the Term Debt, as defined herein. Interest paid on this promissory note for the year ended December 31, 2021 was \$0.4 million (December 31, 2021 - \$0.4 million).

The Company has a \$4.0 million borrowing facility (the "**Facility**") with the Company's Chairman of the Board (the "**Lender**"), whereby the Lender provides up to \$4.0 million of borrowings at an interest rate of 6.5% per annum, payable monthly. The term (the "**Term**") of the Facility expires on the later of: (i) December 31, 2024; or (ii) the date of full repayment of any outstanding borrowings. Amounts can be drawn, repaid and redrawn by the Company at any time during the Term and borrowings under the Facility are payable on demand to the Lender on 60 days written notice. The Facility can be cancelled at any time by the Lender on 60 days written notice, while the Term may also be extended by mutual consent of the Company and the Lender. There was no amount drawn on the Facility as at or during the year ended December 31, 2021. Interest paid on the Facility for the year ended December 31, 2021 was Nil (December 31, 2020 - \$0.007 million).

Subordinated Promissory Notes

Pine Cliff has issued \$6.0 million subordinated promissory notes to a shareholder and a relative of that shareholder, owning directly or by discretion and control, greater than 10% of the Common Shares. These subordinated promissory notes mature on December 31, 2024, bear interest at 6.5% per annum and are payable monthly. These subordinated promissory notes are secured by a \$6.0 million floating charge debenture over all of the Company's assets and are subordinated to any and all claims in favor of the holder of the Term Debt.

Term Debt

The non-revolving credit facility (“**Term Debt**”) with Alberta Investment Management Corporation (“**AIMCO**”), acting on behalf of its clients, consists of a first tranche with a principal amount of \$30.0 million that matures on December 31, 2024 (the “**2024 Tranche**”) and a second tranche with a principal amount of \$19.0 million that would have matured on July 31, 2022 (the “**2022 Tranche**”). Interest on the 2024 Tranche was payable at a rate of 9.75% per annum until September 30, 2021 and thereafter such interest rate increased by 1% per annum up to 12.75% and interest was payable on the 2022 Tranche at a rate of 7.05% per annum. All or a portion of the principal amount outstanding can be repaid at any time, but without any penalty or premium after September 30, 2022 with respect to the 2024 Tranche and, July 13, 2021 with respect to the 2022 Tranche. The security for the Term Debt consists of floating demand debentures totaling \$150.0 million and a general security agreement with first ranking over all current and acquired properties. During the year ended December 31, 2021, the Company repaid in full the 2022 Tranche.

Demand Loan Facility

The Company currently has a demand operating loan of \$5.0 million with a Canadian chartered bank, of which no amount had been drawn as at December 31, 2021. Borrowings bear interest at the banks’ prime lending rate plus 2.5%. The demand operating loan is secured by a general security agreement over certain tangible field facilities of the Company.

Letter of Credit Facility

As at December 31, 2021, the Company had a \$2.6 million letter of credit facility (“**LC Facility**”) with a Canadian bank which is supported by a performance guarantee from Export Development Canada (December 31, 2020 – \$2.6 million). 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 4.5% per annum. The LC Facility does not contain any financial covenants. As at December 31, 2021, the Company had \$2.5 million in letters of credit issued against its LC Facility (December 31, 2020 - \$2.5 million).

Liquidity and Capital Resources

Pine Cliff’s approved capital budget for 2022 is \$25.5 million, including \$18.0 million in development capital, \$3.6 million on maintenance and optimization capital and \$3.9 million for abandonments and reclamation. This capital budget does not include acquisitions and dispositions. Pine Cliff anticipates funding its capital budget from 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.

The Company’s capital comprises shareholders’ equity, Term Debt, subordinated promissory notes, due to related party and working capital. Pine Cliff manages the capital structure and makes adjustments considering economic conditions and the risks of the underlying assets. The Company carries a working capital deficiency as cash balances are used to fund ongoing operations. However Pine Cliff has and will continue to manage its working capital needs through its physical diversification program, adjusting timing of capital expenditures, executing asset dispositions and issuing equity when practical.

The Company defines and computes its net debt as follows:

(\$000s)	Year ended December 31,	
	2021	2020
Due to related party ¹	6,000	6,000
Subordinated promissory notes ¹	6,000	6,000
Term Debt ²	30,000	49,000
Trade and other payables	39,585	27,275
Less:		
Trade and other receivables	(21,613)	(14,863)
Cash	(6,874)	(7,878)
Prepaid expenses and deposits	(3,446)	(2,484)
Net debt ³	49,652	63,050

¹ The due to related party and subordinated promissory notes are due on December 31, 2024.

² The Term Debt for net debt are presented at the principal amount with \$19.0 million repaid in 2021 and \$30.0 million due on December 31, 2024.

³ This is a non-GAAP measure, see NON-GAAP MEASURES for additional information.

	Year ended December 31,	
	2021	2020
Net debt-to-adjusted funds flow calculation:		
Cash provided by operating activities	49,483	8,787
Changes in non-cash working capital	7,990	(1,561)
Decommissioning obligations settled	1,633	1,503
Adjusted funds flow ¹	59,106	8,729
Net debt ¹	49,652	63,050
Net debt-to-adjusted funds flow	0.8	7.2

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

At December 31, 2021, approximately 85 percent of the Company's net debt is long-term with 15 percent of the net debt due within the next twelve months.

The Company remains focused on developing its natural gas and oil properties while further reducing the net debt to adjusted funds flow ratio. The Company continuously monitors changes in forecasted adjusted funds flow as a result of changes to forward commodity prices and will make adjustments to planned capital expenditures as appropriate.

Share Capital

Share capital	March 8, 2022	December 31, 2021	December 31, 2020
Common Shares	341,008,441	339,539,415	335,284,193
Stock options	23,538,970	25,269,810	25,561,498
Warrants	-	-	2,850,000

COMMITMENTS AND CONTINGENCIES

As at December 31, 2021, the Company has the following commitments and other contractual obligations:

	2022	2023	2024	2025	2026	Thereafter
(\$000s)						
Trade and other payables	39,586	-	-	-	-	-
Term Debt ¹	-	-	30,000	-	-	-
Due to related party	-	-	6,000	-	-	-
Subordinated promissory notes	-	-	6,000	-	-	-
Future interest	4,080	4,380	4,680	-	-	-
Lease obligations	1,050	1,027	856	703	473	-
Transportation ²	8,027	5,229	4,589	4,232	3,879	2,991
Total commitments and contingencies	52,743	10,636	52,125	4,935	4,352	2,991

¹Principal amount.

²Firm transportation agreements.

QUARTERLY TRENDS AND SELECTED FINANCIAL INFORMATION

(\$000s, unless otherwise indicated)	Q4-2021	Q3-2021	Q2-2021	Q1-2021	Q4-2020	Q3-2020	Q2-2020	Q1-2020
FINANCIAL								
Total revenue	49,399	36,747	31,390	33,170	30,233	24,701	21,463	24,651
Cash provided by operating activities	20,431	12,411	8,171	8,471	2,665	3,945	539	1,637
Adjusted funds flow ¹	26,279	13,333	9,494	10,000	7,996	809	(1,229)	1,153
Adjusted funds flow per share – basic (\$/share) ¹	0.08	0.04	0.03	0.03	0.02	0.00	(0.00)	0.00
Adjusted funds flow per share – diluted (\$/share) ¹	0.07	0.04	0.03	0.03	0.02	0.00	(0.00)	0.00
Earnings/(Loss)	80,522	2,323	(744)	(680)	(3,822)	(12,110)	(14,164)	(20,011)
Earnings/(Loss) per share – basic (\$/share)	0.24	0.01	(0.00)	(0.00)	(0.01)	(0.04)	(0.04)	(0.06)
Earnings/(Loss) per share – diluted (\$/share)	0.23	0.01	(0.00)	(0.00)	(0.01)	(0.04)	(0.04)	(0.06)
Capital expenditures	10,741	8,903	1,556	368	1,307	2,213	2,175	1,822
Acquisitions	23,136	11	-	-	(11)	10	(75)	70
Dispositions	(133)	(10)	(152)	(25)	(613)	(181)	(30)	(5)
Net debt ¹	49,652	41,413	45,292	53,122	63,050	69,312	69,273	65,532
Weighted average common shares outstanding:								
Basic	339,213	337,921	336,802	335,556	335,284	330,230	327,784	327,784
Diluted	350,806	346,732	336,802	335,556	335,284	330,230	327,784	327,784
PRODUCTION VOLUMES								
Natural gas (Mcf/d)	103,320	100,462	99,528	99,267	104,788	103,304	104,611	104,412
Natural gas liquids (Bbl/d)	1,258	1,178	1,166	1,400	1,270	1,171	1,075	1,231
Crude oil (Bbl/d)	578	394	341	362	395	367	458	536
Average sales volumes (Boe/d)	19,056	18,316	18,095	18,307	19,130	18,755	18,968	19,169
Average sales volumes (Mcf/d)	114,336	109,896	108,570	109,842	114,780	112,530	113,808	115,014
PRICES AND NETBACKS								
Total commodity sales (\$/Boe)	31.04	23.67	20.75	21.56	17.78	14.34	12.57	14.58
Operating netback (\$/Boe) ¹	16.50	9.22	7.50	7.88	6.08	1.90	0.59	2.25
Corporate netback (\$/Boe) ¹	15.00	7.92	5.77	6.05	4.55	0.47	(0.71)	0.65
Total commodity sales (\$/Mcf)	5.17	3.95	3.46	3.59	2.96	2.39	2.10	2.43
Operating netback (\$/Mcf) ¹	2.75	1.54	1.25	1.31	1.01	0.32	0.10	0.38
Corporate netback (\$/Mcf) ¹	2.50	1.32	0.96	1.01	0.76	0.08	(0.12)	0.11

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

Over the past eight quarters, Pine Cliff's revenues, cash flow provided by 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:

- Average sales volumes in the first quarter of 2020 were lower than the fourth quarter in 2019 due to natural production decline and downtime due to inclement weather conditions. Sales volumes in the second quarter of 2020 were higher than the preceding quarter due primarily to better weather conditions offset by natural production declines. The third quarter sales volumes were lower than the second quarter of 2020 primarily due to natural production declines. The fourth quarter 2020 sales volumes were higher than the third quarter of 2020 primarily due seven gross (7.0 net) natural gas well recompletions conducted and placed on production during the fourth quarter. Average sales volumes in the first quarter of 2021 were lower than the fourth quarter in 2020 due to natural production decline and downtime due to inclement weather conditions. Sales volumes in the second quarter of 2021 were lower than the preceding quarter due primarily to natural production declines. The third quarter sales volumes were higher than the second quarter of 2021 primarily due to field production optimization initiatives offset by natural production declines. The fourth quarter 2021 sales volumes were higher

than the third quarter of 2021 primarily due to two gross (2.0 net) oil wells and two gross (0.4 net) natural gas wells that were drilled during the third quarter and placed on production during the fourth quarter.

- The first and second quarters of 2020 had lower adjusted funds flow than the fourth quarter of 2019 primarily due to lower commodity prices and changes to sales volumes. The third quarter of 2020 had increased adjusted funds flow compared to the previous quarter in 2020 due to better commodity pricing. The fourth quarter of 2020 had higher adjusted funds flow than the third quarter of 2020 due to a combination of higher realized commodity pricing and increased production volumes. The first and second quarters of 2021 had higher adjusted funds flow than the fourth quarter of 2020 primarily due to higher commodity prices, despite lower sales volumes. The third quarter of 2021 had increased adjusted funds flow compared to the previous quarter in 2021 due to higher commodity pricing. The fourth quarter of 2021 had higher adjusted funds flow than the third quarter of 2021 due to a combination of higher realized commodity pricing and increased sales volumes.
- Losses in the first quarter of 2020 were higher than the fourth quarter of 2019 due to an impairment charge. Losses in the second and third quarters of 2020 were lower than the first quarter due to no impairment charges, but still impacted by fluctuating price and volumes. Losses in the fourth quarter of 2020 were lower than the third quarter of 2020 due to increased production and higher commodity prices. Losses in the first quarter of 2021 were lower than the fourth quarter of 2020 due to higher commodity prices. Losses in the second quarter of 2021 were slightly higher than the first quarter due to lower sales volumes. Earnings in the third quarter of 2021 were due to an increase in sales volumes and higher commodity prices. Earnings in the fourth quarter of 2021 were higher than the third quarter of 2021 due to an increase in sales volumes and higher commodity prices, the impairment reversal and the recovery of deferred incomes taxes.
- Total revenues from the first quarter of 2020 decreased relative to the fourth quarter of 2019, due to lower realized commodity pricing and lower average production. Total revenues decreased from the first quarter of 2020 to the second quarter of 2020 primarily due to lower realized commodity prices and production decline. Total revenues increased from the second quarter of 2020 to the third quarter due to better realized commodity prices. Total revenues for the fourth quarter of 2020 were higher than third quarter of 2020 due to a combination of increased production and higher realized commodity prices. Total revenues from the first quarter of 2021 increased relative to the fourth quarter of 2020, due to higher realized commodity pricing. Total revenues decreased from the first quarter of 2021 to the second quarter of 2021 primarily due to natural production decline. Total revenues increased from the second quarter of 2021 to the third quarter due to higher realized commodity prices. Total revenues for the fourth quarter of 2021 were higher than the third quarter of 2021 due to a combination of increased sales volumes and higher realized commodity prices.

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

Financial instruments and fair value measurement

Financial instruments of the Company consist of cash, trade and other receivables, trade and other payables, due to related party, subordinated promissory notes and Term Debt. The carrying values of cash, restricted cash, trade and other receivables and trade and other payables approximate their respective fair values due to the short time before maturing. The carrying values of due to related party, subordinated promissory notes and Term 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.

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 provided by 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, NGLs 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, NGLs 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, NGLs 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, NGLs 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. During the year ended December 31, 2021, Pine Cliff's average sales volumes were 91% natural gas.

Physical Sales Contracts

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 in the financial statements.

At December 31, 2021, the Company had the following physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (G/day)	Fixed Sale Price (\$CAD/GJ) ¹	Fixed Sale Price (\$CAD/Mcf) ^{1,2}
January 1, 2022 to March 31, 2022	AECO	7,500	\$4.16	\$4.37
April 1, 2022 to October 31, 2022	AECO	12,500	\$3.28	\$3.45
January 1, 2022 to October 31, 2022	TransGas ³	4,000	\$4.62	\$4.85
January 1, 2022 to October 31, 2022	TransGas ^{3,4}	5,500		
January 1, 2022 to October 31, 2022	TransGas ^{3,5}	5,500		

¹ Prices reported are the weighted average prices of the periods.

² Price has been converted from \$/GJ to \$/Mcf by multiplying by 1.05.

³ Subsidiary of SaskEnergy, Saskatchewan.

⁴ The contract terms of the physical fixed price natural gas sales contract to TransGas delivery point are AECO 5A plus \$0.22/GJ.

⁵ The contract terms of the physical fixed price natural gas sales contract to Suffield#2 delivery point (Suffield, Alberta) are AECO 5A plus \$0.58/GJ.

At March 8, 2022, the Company had the following additional physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (G/day)	Fixed Sale Price (\$CAD/GJ)	Fixed Sale Price (\$CAD/Mcf) ^{1,2}
April 1, 2022 to October 31, 2022	AECO	10,000	\$3.65	\$3.83
April 1, 2022 to October 31, 2022	Dawn ³	5,000	\$4.63	\$4.86
April 1, 2022 to October 31, 2022	AECO	2,600	\$4.36	\$4.58

¹ Prices reported are the weighted average prices of the periods.

² Price has been converted from \$/GJ to \$/Mcf by multiplying by 1.05.

³ Dawn Hub into Dawn Township, Ontario.

At March 8, 2022, the Company had the following additional physical crude oil sales contracts in place:

Contractual Term	Crude Oil	Physical Delivery Quantity (Bbl/day)	Fixed Sale Price (\$CAD/Bbl) ¹
April 1, 2022 to June 30, 2022	WTI Fixed Price	250	\$117.45
July 1, 2022 to September 30, 2022	WTI Fixed Price	250	\$110.75

¹ Prices reported are the weighted average prices of the periods.

Interest Rate Risk

The Company is principally exposed to interest rate risk to the extent it draws on variable rate debt. The Company currently has a demand operating loan (the “**Demand Loan Facility**”) with a Canadian chartered bank, of which no amount had been drawn as at December 31, 2021. Borrowings under the Demand Loan Facility bears interest at the banks’ prime lending rate plus 2.5%.

All of the Company’s outstanding debt is with due to related party, subordinated promissory notes and Term Debt. They are all fixed rate debt and are not exposed to interest rate risk.

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 commodity 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 provided by 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 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 a major Canadian chartered bank. To mitigate the credit risk on trade and other receivables, Pine Cliff assesses the financial strength of its counterparties and endeavors to enter into relationships with larger purchasers with established credit histories.

The Company’s trade and other receivables balance at December 31, 2021 of \$21.6 million (December 31, 2020 – \$14.9 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, 2021, there was \$0.2 million (December 31, 2020 - \$1.1 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, 2021, the Company recorded \$nil (December 31, 2020 - \$0.5 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 provided by operating, financing and investing activities 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. If required, Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities. 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 or by contacting the Company.

Environmental

All production phases of oil, NGLs and natural gas are subject to environmental regulation pursuant to a variety of Canadian federal, provincial and municipal laws and regulations (collectively, the “**Environmental Regulations**”). Environmental Regulations provide that wells, facility sites and other properties and practices associated with the company’s operations be constructed, operated, maintained, abandoned, reclaimed and undertaken in accordance with the requirements set out therein. In addition, certain types of operations, including exploration and development projects and changes to certain existing projects, may require the submission and approval of environmental impact assessments or permit applications. Environmental Regulations impose, among other things, costs, restrictions, liabilities and obligations in connection with the generation, handling, use, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances in the environment. They also impose restrictions, liabilities and obligations in connection with the management of water sources that are being used, or whose use is contemplated, in connection with oil and gas operations. The complexities of changes in Environmental Regulations make it difficult to predict the potential future impact to Pine Cliff.

Compliance with Environmental Regulations requires expenditures. Pine Cliff’s future capital expenditures and operating expenses could increase as a result of, among other things, developments in the Company’s business, operations, plans and objectives and changes to existing, or implementation of new, Environmental Regulations. Failure to comply with Environmental Regulations may result in, among other things, the imposition of fines, penalties, environmental protection orders, suspension of operations, and could adversely affect the Company’s reputation. The costs of complying with Environmental Regulations may have a material adverse effect on Pine Cliff’s business, financial condition, results of operations and cash flows from operating activities. The implementation of new Environmental Regulations or the modification of existing Environmental Regulations affecting the oil and natural gas industry generally could reduce demand for crude oil and natural gas as well as shift hydrocarbon demand toward relatively lower carbon sources, increase compliance costs, lengthen project implementation times, and have an adverse effect on Pine Cliff’s business, financial condition, results of operations and cash flows.

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, Pine Cliff has no ability to mitigate this risk other than through geographic diversification.

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.

Regulatory Risks

Regulatory risk is the risk of loss or lost opportunity resulting from the introduction of, or changes in, regulatory requirements or the failure to secure regulatory approval for upstream or downstream development projects. The implementation of new regulations or the modification of existing regulations could impact the Company’s existing and planned projects as well as result in increased compliance costs, adversely impacting Pine Cliff’s financial condition, results of operations and cash flows.

The oil and gas industry in general and the Company’s operations in particular are subject to regulation and intervention under federal, provincial, territorial, state and municipal legislation in Canada in matters such as, but not limited to: land tenure; permitting of production projects; royalties; taxes (including income taxes); government fees; production rates; environmental protection controls; protection of certain species or lands; provincial and federal land use designations; the reduction of greenhouse gases and other emissions; the export of crude oil, natural gas and other products; the transportation of crude-by-rail or marine transport; the awarding or acquisition of exploration and production, oil sands or other interests; the imposition of specific drilling obligations; control over the development, abandonment and reclamation of fields (including restrictions on production) and/or facilities; and possibly expropriation or cancellation of contract rights. Changes to government regulation could impact the Company’s existing and planned projects or increase capital investment or operating expenses, adversely impacting Pine Cliff’s financial condition, results of operations and cash flows from operating activities.

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 oil, NGLs and natural gas prices.

Safety

The operation of Pine Cliff's properties is subject to hazards of finding, recovering, transporting and processing hydrocarbons including, but not limited to: blowouts; fires; explosions; gaseous leaks; migration of harmful substances; oil spills; corrosion; acts of vandalism; and other accidents or hazards that may occur at or during transport to or from commercial or industrial sites. Any of these hazards can interrupt operations, impact the Company's reputation, cause loss of life or personal injury, result in loss of or damage to equipment, property, information technology systems, related data and control systems, cause environmental damage that may include polluting water, land or air, and may result in fines, civil suits, or criminal charges against Pine Cliff, any of which may have a material adverse effect on Pine Cliff's business, financial condition, results of operations, cash flows, and reputation.

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.

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The timely preparation of the Financial Statements in conformity with IFRS requires Pine Cliff 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.

Novel Coronavirus COVID-19

In March 2020, the World Health Organization declared COVID-19 a global pandemic, prompting many countries around the world to close international borders and order the closure of institutions and businesses deemed non-essential. At the same time, OPEC and certain other countries, increased the planned supply of crude oil in an attempt to control market share. The sudden decrease in global crude oil demand due to COVID-19 coupled with a planned increase in supply significantly reduced crude oil prices.

In addition to the impact on commodity prices and commodity sales, the effects of COVID-19 have created uncertainties in the crude oil and natural gas industry, including increased counterparty risk and decreased valuation of long-lived crude oil and natural gas assets. At December 31, 2021, Pine Cliff has incorporated the uncertainties from COVID-19 in its estimates and judgements in preparation of these financial statements.

Judgements

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 judgement 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

Judgements 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 FVLCS and VIU. 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 judgement 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 judgement 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, but are not limited to, 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.

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 judgement and estimates of the outcome of future events.

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, 2021.

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, 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 provided by 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 Common Share and per Boe or Mcfe should not be considered as an alternative to, or more meaningful than, cash flow provided by 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 provided by operating activities before changes in non-cash working capital and decommissioning obligations settled. Adjusted funds flow per Common Share is calculated using the same weighted average number of Common Shares outstanding as in the case of the earnings per Common 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,		
	2021	2020	Change	2021	2020	Change
Cash provided by operating activities	20,431	2,666	17,765	49,483	8,787	40,696
Adjusted by:						
Change in non-cash working capital	5,120	4,570	550	7,990	(1,561)	9,551
Decommissioning obligations settled	728	760	(32)	1,633	1,503	130
Adjusted funds flow	26,279	7,996	18,283	59,106	8,729	50,377
Adjusted funds flow (\$/Boe)	15.00	4.55	10.45	8.78	1.26	7.52
Adjusted funds flow (\$/Mcfe)	2.50	0.76	1.74	1.46	0.21	1.25
Adjusted funds flow – basic (\$/Common Share)	0.08	0.02	0.06	0.18	0.03	0.15
Adjusted funds flow – diluted (\$/Common Share)	0.08	0.02	0.06	0.17	0.03	0.14

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 commodity sales and processing and gathering income, 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.

Pine Cliff uses these measures to assist in understanding the Company's ability to generate positive cash provided by 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,		
	2021	2020	\$ Change	2021	2020	\$ Change
(\$ per Boe, unless otherwise indicated)						
Commodity sales	31.04	17.78	13.26	24.36	14.83	9.53
Processing and Gathering	0.49	0.74	(0.25)	0.55	0.60	(0.05)
Royalty expense	(3.35)	(1.34)	(2.01)	(2.53)	(0.90)	(1.63)
Transportation costs	(1.46)	(1.26)	(0.20)	(1.39)	(1.32)	(0.07)
Operating expenses	(10.22)	(9.84)	(0.38)	(10.63)	(10.49)	(0.14)
Operating netback	16.50	6.08	10.42	10.36	2.72	7.64
General and administrative	(0.88)	(0.76)	(0.12)	(0.86)	(0.72)	(0.14)
Interest and bank charges	(0.62)	(0.77)	0.15	(0.72)	(0.74)	0.02
Corporate netback	15.00	4.55	10.45	8.78	1.26	7.52
Operating netback (\$ per Mcfe)	2.75	1.01	1.74	1.73	0.45	1.28
Corporate netback (\$ per Mcfe)	2.50	0.76	1.74	1.46	0.21	1.25

Net Debt

The Company considers net debt to be a key indicator of leverage. Net debt is calculated as the sum of due to related party, subordinated promissory notes, Term Debt and trade and other payables, less trade and other receivables, cash and prepaid expenses and deposits. See "DEBT, LIQUIDITY AND CAPITAL RESOURCES" section for table.

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 processing and gathering income, expected operating costs, expected transportation costs, expected interest costs, royalty and G&A levels; expected current and deferred income taxes, future capital expenditures, including the amount and nature thereof; future drilling opportunities and Pine Cliff’s ability to generate reserves and production from the undrilled locations; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and guidance; expansion and growth of our business and operations; amounts due to related party, subordinated promissory notes and due pursuant to Term Debt and repayment thereof; maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; risks; Pine Cliff’s ability to generate cash provided by 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 provided by 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 8, 2022 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.

NGLs 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.

The management of Pine Cliff Energy Inc. (the "**Company**") is responsible for the financial information and operating data presented in this financial report. The consolidated financial statements (the "**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 judgements of management where appropriate. Operational and other financial information contained throughout the annual report is consistent with that provided in the 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 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 Financial Statements with management and the external auditors and recommended approval to the Board of Directors, who approved these Financial Statements.

The 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 Alan MacDonald"

Philip B. Hodge, President and Chief Executive Officer

Alan MacDonald, 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, 2021 and 2020, and the consolidated statements of comprehensive income or (loss), cash flows and changes in equity or (deficit) 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, 2021 and 2020, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of Property, Plant and Equipment — Refer to Note 8 to the financial statements

Key Audit Matter Description

The Company's property, plant and equipment includes developed assets acquired, transferred-in E&E costs, development drilling, right-of-use asset and other surface expenditures ("oil and gas properties"). These properties are depleted on a unit of production basis ("depletion") and are evaluated for impairment through determination of each CGU's recoverable amount by using the higher of value-in-use and fair value less costs to sell. The Company engages an independent reserve evaluator to estimate reserves using estimates, assumptions and engineering data. The development of the Company's reserves and the related future net cash flows used to evaluate the depletion and impairment or impairment reversal requires management to make significant estimates and assumptions related to commodity prices and costs, future production rates, discount rates and future capital expenditures.

Given the significant judgments made by management related to future commodity prices, discount rates, future production rates, future operating costs, and future development costs used to measure oil and gas properties, these estimates and assumptions are subject to a high degree of estimation uncertainty. Auditing these estimates and assumptions required auditor judgment in applying audit procedures and in evaluating the results of those procedures, which resulted in an increased extent of audit effort including the involvement of fair value specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to future commodity prices, discount rates, future production rates, future operating costs, and future development costs used to measure oil and gas properties included the following, among others:

- With the assistance of fair value specialists,
 - Evaluated future commodity prices by independently developing a reasonable range of forecasts based on reputable third-party forecasts and market data and comparing those to the future commodity prices selected by management.
 - Evaluated the reasonableness of the discount rates by developing a range of independent estimates and comparing those to the discount rates selected by management.
- Assessed future production rates by evaluating the Company's independent external reserve evaluator by:
 - Examining reports and assessing their scope of work and findings;

- Assessing the competence, capability and objectivity by evaluating their relevant professional qualifications and experience.
- Evaluated the reasonableness of future production rates by testing the source financial information underlying the rates and comparing the future production volumes to historical production volumes.
- Evaluated the reasonableness of future operating and development costs by testing the source financial information underlying the estimate, comparing future costs to historical results, and evaluating whether they are consistent with evidence obtained in other areas of the audit.
- Performed a retrospective review to evaluate management's ability to accurately forecast and to assess for indications of estimation bias over time.

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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
March 8, 2022

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian dollars, 000s)

	Note	2021	As at December 31, 2020
ASSETS			
Current assets			
Cash		6,874	7,878
Trade and other receivables	4, 17	21,613	14,863
Prepaid expenses and deposits		3,446	2,484
Total current assets		31,933	25,225
Non-current assets			
Exploration and evaluation	7	2,350	8,731
Property, plant and equipment	8	294,073	254,943
Deferred income taxes	10	50,641	-
Total assets		378,997	288,899
LIABILITIES			
Current liabilities			
Trade and other payables	4, 17	39,585	27,275
Lease liabilities	9	1,050	1,120
Decommissioning provision	14	3,900	1,500
Total current liabilities		44,535	29,895
Non-current liabilities			
Lease liabilities	9	2,618	2,069
Due to related party	11	6,000	6,000
Subordinated promissory notes	12, 13	6,000	6,000
Term Debt	13	29,903	48,747
Decommissioning provision	14	244,523	233,505
Total liabilities		333,579	326,216
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	15	275,766	274,964
Warrants	15	-	288
Contributed surplus		15,400	14,540
Accumulated other comprehensive loss	6	(60)	-
Deficit		(245,688)	(327,109)
Total shareholders' equity (deficit)		45,418	(37,317)
Total liabilities and shareholders' equity		378,997	288,899

Commitments (Note 20)

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

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

"Signed George F. Fink"

"Signed Jacqueline R. Ricci"

George F. Fink, Chair of the Board of Directors and Director
Jacqueline R. Ricci, Chair of the Audit Committee and Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OR (LOSS)

(Canadian dollars, 000s except per share data)

	Note	Years ended December 31,	
		2021	2020
REVENUE			
Commodity sales	16	163,985	103,170
Royalty expense		(17,009)	(6,273)
Commodity sales, net of royalties		146,976	96,897
Processing and gathering		3,730	4,151
Total revenue		150,706	101,048
EXPENSES			
Operating		71,590	72,968
Transportation		9,328	9,172
Depletion and depreciation	8	40,994	45,411
Impairment (reversal)	8	(13,979)	7,900
Site decommissioning grants	14	(5,047)	(772)
Gain on disposition	7	(169)	-
Share-based payments	15	997	737
Finance	17	10,405	10,742
General and administrative	18	5,807	4,997
Total expenses		119,926	151,155
Earnings/(loss) before income taxes		30,780	(50,107)
Deferred income tax recovery	10	50,641	-
EARNINGS / (LOSS) FOR THE YEAR		81,421	(50,107)
OTHER COMPREHENSIVE LOSS			
Realized loss on investments	6	(60)	-
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		81,361	(50,107)
Earnings / (Loss) per share (\$)			
Basic	15	0.24	(0.15)
Diluted	15	0.23	(0.15)

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,	
		2021	2020
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Earnings/(Loss) for the year		81,421	(50,107)
Items not affecting cash:			
Depletion and depreciation	8	40,994	45,411
Impairment (reversal)	8	(13,979)	7,900
Gain on disposition	7	(169)	-
Deferred income tax recovery	10	(50,641)	-
Site decommissioning grants	14	(5,047)	(772)
Share-based payments	15	997	737
Finance expenses	17	10,405	10,742
Interest and bank charges	17	(4,875)	(5,182)
Decommissioning obligations settled	14	(1,633)	(1,503)
Changes in non-cash working capital accounts	17	(7,990)	1,561
Cash provided by operating activities		49,483	8,787
INVESTING ACTIVITIES			
Property, plant and equipment	8	(21,465)	(7,481)
Exploration and evaluation	7	(103)	(37)
Acquisitions	8	(23,147)	6
Dispositions	8	320	829
Proceeds on sale of investments	6	340	-
Changes in non-cash working capital accounts	17	13,283	(3,332)
Cash used in investing activities		(30,772)	(10,015)
FINANCING ACTIVITIES			
Exercise of stock options	15	377	-
Issuance of common shares, net of share issue costs	15	-	1,543
Repayment of Term Debt	13	(19,000)	-
Payments on lease obligations	9	(1,092)	(1,098)
Cash provided by (used in) financing activities		(19,715)	445
Decrease in cash		(1,004)	(783)
Cash - beginning of year		7,878	8,661
CASH - END OF YEAR		6,874	7,878

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY OR (DEFICIT)

(Canadian dollars, 000s)

	Note	Share capital	Contributed surplus ¹	Warrants	Accumulated other comprehensive loss ²	Deficit	Total Shareholders' equity (deficit)
BALANCE AT DECEMBER 31, 2019		273,421	13,631	460	-	(277,002)	10,510
Loss for the year		-	-	-	-	(50,107)	(50,107)
Exercise of warrants		-	172	(172)	-	-	-
Issuance of common shares, on exercise of warrants	15	1,543	-	-	-	-	1,543
Share-based payments	15	-	737	-	-	-	737
BALANCE AT DECEMBER 31, 2020		274,964	14,540	288	-	(327,109)	(37,317)
Earnings for the year		-	-	-	-	81,421	81,421
Share-based payments		-	997	-	-	-	997
Realized loss on investments		-	-	-	(60)	-	(60)
Exercise of stock options	15	802	(425)	-	-	-	377
Expiry of warrants		-	288	(288)	-	-	-
BALANCE AT DECEMBER 31, 2021		275,766	15,400	-	(60)	(245,688)	45,418

¹Contributed surplus is comprised of share-based payments.

²Accumulated other comprehensive loss is comprised of realized 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, 2021 and 2020 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 natural gas and oil 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 8, 2022.

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 judgements and estimates

The timely preparation of the Financial Statements in conformity with IFRS requires Pine Cliff management to make judgements, 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.

Judgements

In the process of applying Pine Cliff's accounting policies, judgements, 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 4 – Financial instruments
- Note 7 – Exploration and evaluation assets ("**E&E**")
- Note 8 – Property, plant and equipment ("**PP&E**")
- Note 14 – Decommissioning provision
- Note 15 – 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 judgement 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

Judgements 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 ("FVLCS") and value in use ("VIU"). 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 judgement 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 judgement 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.

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 judgement 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, Pine Cliff Border Pipelines Limited and Apogee Petroleum Inc. All subsidiary companies are wholly owned. All intercompany balances, transactions and earnings or losses are eliminated upon consolidation.

b) Revenue recognition

Revenue associated with the sale of natural gas and natural gas liquids ("NGLs") 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 natural gas, NGLs and crude oil usually coincides with title passing to the customer and the customer taking physical possession.

The collection of revenue associated with the sale of natural gas, NGLs and crude oil occurs on or about the 25th of the month following production.

Revenues from fees charged to third parties for product processing and gathering services provided at facilities are recorded as these services are provided.

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 income or (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, where 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) 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, unbooked 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.

g) Property, plant and equipment

PP&E assets include developed assets acquired, transferred-in E&E costs, development drilling, right-of-use assets (“ROU”) and other surface expenditures. PP&E assets are carried at cost less accumulated depletion and depreciation and impairment. The initial cost of an asset is comprised of its purchase price, construction cost or estimated lease payments over the term of a lease, 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.

h) Lease obligations

Lease obligations are initially measured at the present value of the minimum lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate for that asset. Generally, the Company uses the implicit interest rate of the lease. The lease obligation is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate or a change in estimate of the amount expected to be payable.

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- leases of low value assets; and
- leases with a duration of 12 months or less.

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. Other equipment are depreciated over their estimated useful lives on a straight line basis. Overhauls and turnarounds are depreciated over their expected life. Depletion and depreciation is recognized in the consolidated statement of comprehensive income or (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 FVLCS and VIU. An impairment 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 is recognized in the consolidated statement of loss. Impairment recognized in respect of a CGU is 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.

Impairment recognized in prior periods are assessed at each reporting date for any indications that the impairment has decreased or no longer exists. If the amount of the impairment decreases in a subsequent period and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment 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 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 provided by 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 in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Impairment is recognized in the consolidated statement of comprehensive income or (loss). Impairment is reversed if there is an indicator that the impairment reversal can be related objectively to an event occurring after the impairment was recognized. For financial assets measured at amortized cost, the reversal is recognized in the consolidated statement of comprehensive income or 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 changes to the decommissioning provision. The decommissioning provision is increased each reporting period with the passage of time as an accretion of decommissioning provision expense as reported in finance expenses 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 income or (loss).

m) Site decommissioning grants

Site decommissioning grants are recognized when there is reasonable assurance that Pine Cliff will comply with the conditions attached to them and the grants will be received. If a grant is received before it is certain whether compliance with all conditions will be achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the conditions of a grant relate to income or expense, it is recognized in the statement of income. When the conditions of a grant relate to an underlying asset, it is recognized as a reduction to the carrying amount of the related asset.

n) 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 tax is 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 tax is 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.

o) Share-based payments

Under the Company's stock option plan described in note 15, 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 income or (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.

p) 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. Trade and other payables, due to related party, Term Debt and subordinated promissory notes 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.

q) 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 (or loss) in the period they occur. The Company has not designated any of its risk management contracts as effective accounting hedges.

r) Earnings (loss) per share

Basic per share amounts are calculated by dividing the earnings or loss attributable to holders of Common Shares 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 and warrants were exercised and that the proceeds from such exercises were used to acquire Common Shares at the average market price during the reporting period.

s) Finance expenses

Finance expenses are comprised of interest expenses and bank charges on borrowings and the accretion of decommissioning provision and Term Debt. 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. FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement

Financial instruments of the Company consist of cash, trade and other receivables, trade and other payables, due to related party, subordinated promissory notes and Term Debt. The carrying values of cash, trade and other receivables and trade and other payables approximate their respective fair values due to the short time before maturing. The carrying values of due to related party, subordinated promissory notes and Term 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 judgement 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, 2021 and December 31, 2020:

Description	December 31, 2021		December 31, 2020	
	Carrying value	Fair value	Carrying value	Fair value
Cash	6,874	6,874	7,878	7,878
Trade and other receivables	21,613	21,613	14,863	14,863
Trade and other payables	(39,585)	(39,585)	(27,275)	(27,275)
Due to related party	(6,000)	(6,000)	(6,000)	(6,000)
Subordinated promissory notes	(6,000)	(6,000)	(6,000)	(6,000)
Term Debt	(29,903)	(29,903)	(48,747)	(48,747)

5. 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 provided by 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, NGLs, 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, NGLs 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, NGLs 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, NGLs 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

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 in the financial statements.

At December 31, 2021, the Company had the following physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (G/day)	Fixed Sale Price (\$CAD/GJ) ¹	Fixed Sale Price (\$CAD/Mcf) ^{1,2}
January 1, 2022 to March 31, 2022	AECO	7,500	\$4.16	\$4.37
April 1, 2022 to October 31, 2022	AECO	12,500	\$3.28	\$3.45
January 1, 2022 to October 31, 2022	TransGas ³	4,000	\$4.62	\$4.85
January 1, 2022 to October 31, 2022	TransGas ^{3,4}	5,500		
January 1, 2022 to October 31, 2022	TransGas ^{3,5}	5,500		

¹ Prices reported are the weighted average prices of the periods.

² Price has been converted from \$/GJ to \$/Mcf by multiplying by 1.05.

³ Subsidiary of SaskEnergy, Saskatchewan.

⁴ The contract terms of the physical fixed price natural gas sales contract to TransGas delivery point are AECO 5A plus \$0.22/GJ.

⁵ The contract terms of the physical fixed price natural gas sales contract to Suffield#2 delivery point (Suffield, Alberta) are AECO 5A plus \$0.58/GJ.

Subsequent to December 31, 2021, the Company had the following additional physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (G/day)	Fixed Sale Price (\$CAD/GJ)	Fixed Sale Price (\$CAD/Mcf) ^{1,2}
April 1, 2022 to October 31, 2022	AECO	10,000	\$3.65	\$3.83
April 1, 2022 to October 31, 2022	Dawn ³	5,000	\$4.63	\$4.86
April 1, 2022 to October 31, 2022	AECO	2,600	\$4.36	\$4.58

¹ Prices reported are the weighted average prices of the periods.

² Price has been converted from \$/GJ to \$/Mcf by multiplying by 1.05.

³ Dawn Hub into Dawn Township, Ontario.

Subsequent to December 31, 2021, the Company had the following additional physical crude oil sales contracts in place:

Contractual Term	Crude Oil	Physical Delivery Quantity (Bbl/day)	Fixed Sale Price (\$CAD/Bbl) ¹
April 1, 2022 to June 30, 2022	WTI Fixed Price	250	\$117.45
July 1, 2022 to September 30, 2022	WTI Fixed Price	250	\$110.75

¹ Prices reported are the weighted average prices of the periods.

Interest Rate Risk

The Company is principally exposed to interest rate risk to the extent it draws on variable rate debt. The Company currently has a demand operating loan (the “**Demand Loan Facility**”) with a Canadian chartered bank, of which no amount had been drawn as at December 31, 2021. Borrowings under the Demand Loan Facility bears interest at the banks’ prime lending rate plus 2.5%.

All of the Company’s outstanding debt is with due to related party, subordinated promissory notes and Term Debt. They are all fixed rate debt and are not exposed to interest rate risk.

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 commodity 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 provided by operating activities. Pine Cliff has not entered into any derivative financial instruments to manage this risk at this time.

Novel Coronavirus COVID-19 (“COVID-19”)

In March 2020, the World Health Organization declared COVID-19 a global pandemic, prompting many countries around the world to close international borders and order the closure of institutions and businesses deemed non-essential. At the same time, the Organization of Petroleum Exporting Countries (“**OPEC**”), and certain other countries, increased the planned supply of crude oil in an attempt to control market share. The sudden decrease in global crude oil demand due to COVID-19 coupled with a planned increase in supply significantly reduced crude oil prices in 2020.

Credit Risk

Credit risk is the risk that a third party will not complete its contractual obligations under a financial instrument and cause the Company to incur a financial loss. Pine Cliff’s maximum exposure to credit risk is the sum of the carrying values of its trade and other receivables and cash, 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 a major Canadian chartered bank. To mitigate the credit risk on trade and other receivables, Pine Cliff assesses the financial strength of its counterparties and endeavors to enter into relationships with larger purchasers with established credit histories.

The Company’s trade and other receivables balance at December 31, 2021 of \$21.6 million (December 31, 2020 – \$14.9 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, 2021, there was \$0.2 million (December 31, 2020 - \$1.1 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, 2021, the Company recorded a credit of \$nil (December 31, 2020 - \$0.5 million) in 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 provided by operating, financing and investing activities 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. If required, Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities. Any of these events could affect Pine Cliff’s ability to fund ongoing operations.

6. INVESTMENTS

Pine Cliff sold its investment in a public company for \$0.3 million, which was received as partial consideration of \$0.4 million (see Note 7). The realized loss on sale was recognized in Other Comprehensive Income (Loss).

7. EXPLORATION AND EVALUATION

Cost:	Oil and gas properties	Mineral properties	Total
Balance at December 31, 2019	5,521	3,173	8,694
Additions	(14)	51	37
Balance at December 31, 2020	5,507	3,224	8,731
Additions	51	52	103
Transfer to property, plant and equipment	(5,558)	-	(5,558)
Dispositions	-	(926)	(926)
Balance at December 31, 2021	-	2,350	2,350

On February 17, 2021, Pine Cliff entered into an option agreement with Nighthawk Gold Corp. (“**Nighthawk**”) for the disposition of its Kim Cass gold property located in the Northwest Territories. If the full option is exercised, Pine Cliff will receive a 2.5% net smelter royalty (of which 100% can be repurchased by Nighthawk for \$2.5 million) and \$1.1 million, with payments payable over the next two years. The first payment of \$0.4 million was received on February 17, 2021 (340,000 common shares of Nighthawk). Nighthawk will not earn an interest in the property until all amounts have been paid. The present value of future payments has been recorded as a receivable from Nighthawk. Pine Cliff has recognized a gain of \$0.2 million on the disposition of these assets.

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, 2021 and 2020, the Company determined that no indicators of impairment existed for E&E assets transferred to PP&E.

8. PROPERTY, PLANT AND EQUIPMENT

Cost:	(\$000s)
Balance at December 31, 2019	623,829
Additions	7,481
Lease obligations	576
Acquisitions	(6)
Dispositions	(829)
Decommissioning provision	10,467
Balance at December 31, 2020	641,518
Additions	21,465
Lease obligations	1,568
Transfer from exploration and evaluation	5,558
Acquisitions	23,147
Dispositions	(320)
Decommissioning provision	14,727
Balance at December 31, 2021	707,663
Accumulated depletion and depreciation:	(\$000s)
Balance at December 31, 2019	(333,264)
Depletion and depreciation	(45,411)
Impairment	(7,900)
Balance at December 31, 2020	(386,575)
Depletion and depreciation	(40,994)
Impairment reversal	13,979
Balance at December 31, 2021	(413,590)
Carrying value at:	(\$000s)
December 31, 2020	254,943
December 31, 2021	294,073

PP&E Impairment Assessment

As at December 31, 2021, the Company had four CGU's being the Southern CGU, Central CGU, Edson CGU, and Coal Bed Methane CGU. The Company reviewed each CGU's PP&E at December 31, 2021 and identified indicators of an impairment reversal in the Coal Bed Methane and Edson CGUs due to increased forward commodity prices and an increase in the Company's market capitalization since the impairment expense recognized as at March 31, 2020. As a result, recovery testing was performed by preparing estimates of future cash flows to determine the recoverable amount of the respective assets.

At December 31, 2021, the Company determined that the recoverable amounts of the Company's Edson CGU and Coal Bed Methane CGU exceeded their carrying value. A total impairment recovery of \$14.0 million was recognized in the Company's PP&E.

Impairment can be reversed for PP&E up to the lower of the recoverable amount of the original carrying value less any associated depletion and depreciation that would have been incurred had the impairment not occurred.

The following table outlines the forecasted benchmark commodity prices and exchange rates used in the reversal of impairment calculation of PP&E at December 31, 2021.

Year	WTI Oil (US\$/Bbl) ¹	\$C to US\$ Foreign exchange rate ¹	Edmonton Light Crude Oil (Cdn\$/Bbl) ¹	AECO Gas (Cdn\$/MMBtu) ¹
2022	72.83	1.26	86.82	3.56
2023	68.78	1.26	80.73	3.21
2024	66.76	1.26	78.01	3.05
2025	68.09	1.26	79.57	3.11
2026	69.45	1.26	81.16	3.17
2027	70.84	1.26	82.78	3.23
2028-2036	78.32	1.26	91.52	3.57
Thereafter	+2.0%/yr	1.26	+2.0%/yr	+2.0%/yr

¹ Source: Average of three independent consultant price forecasts, effective January 1, 2022 (McDaniel & Associates Consultants Ltd., GLJ Petroleum Consultants Ltd. and Sproule Associates Limited).

The Company used a pre-tax 15% discount rate for the December 31, 2021 impairment test which took into account risks specific to the CGU's and inherent in the oil and gas business. Changes in the key judgements, such as a revision in reserves, changes in forecast benchmark commodity prices, discount rates, foreign exchange rates, capital or operating costs would impact the recoverable amounts of assets and any recoveries or impairment changes would affect net earnings. The most sensitive assumptions to the calculation are the discount rate and the forecast benchmark commodity price estimates at December 31, 2021. The Company concluded that no reasonable change in the key assumptions, such as a two percent change in commodity prices or a one percent change in the discount rate, would result in a different impairment reversal being recorded.

The following CGU were impaired (reversed) as at December 31:

CGU	2021	2020
Edson	(12,000)	7,900
CBM	(1,979)	-
Total Impairment (reversal)	(13,979)	7,900

During the year ended December 31, 2020, an impairment test was conducted following decreases in the outlook for future commodity prices since Pine Cliff's previous impairment test at December 31, 2019. The Company reviewed each CGU's property and equipment at December 31, 2020 for indicators of impairment and determined that an indicator related to future commodity prices was present. The company prepared estimates of both the VIU and FVLCS 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, 2020:

Year	WTI Oil (US\$/Bbl) ¹	\$C to US\$ Foreign exchange rate ¹	Edmonton Light Crude Oil (Cdn\$/Bbl) ¹	AECO Gas (Cdn\$/MMBtu) ¹
2021	47.17	1.30	55.76	2.78
2022	50.17	1.31	59.89	2.70
2023	53.17	1.31	63.48	2.61
2024	54.97	1.31	65.76	2.65
2025	56.07	1.31	67.13	2.70
2026	57.19	1.31	68.53	2.76
2027-2035	62.63	1.31	69.95	3.02
Thereafter	+2.0%/yr	1.31	+2.0%/yr	+2.0%/yr

¹ Source: Average of three independent consultant price forecasts, effective January 1, 2021 (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, 2020 were estimated at their FVLCS, 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, 2020. The FVLCS 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's best estimates.

The Company used a pre-tax 15% discount rate for the December 31, 2020 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 FVLCS for the Company's CGU's at December 31, 2020 is greater than the carrying amounts and therefore no impairment was recorded in the fourth quarter of 2020. An impairment of \$7.9 million was recorded for the period ending March 31, 2020.

At March 31, 2020, an impairment test was conducted on Pine Cliff's PP&E in response to the economic impact of the global COVID-19 pandemic and the global oversupply of crude oil and the impact on commodity prices. The Company prepared estimates of both the FVLCS and VIU 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 March 31, 2020:

Year	WTI Oil (US\$/Bbl) ¹	\$C to US\$ Foreign exchange rate ¹	Edmonton Light Crude Oil (Cdn\$/Bbl) ¹	AECO Gas (Cdn\$/MMBtu) ¹
2020 (9 months)	32.50	1.43	32.14	1.85
2021	43.35	1.38	49.45	2.30
2022	52.02	1.33	62.69	2.44
2023	58.37	1.33	71.02	2.49
2024	59.53	1.33	72.44	2.54
2025	60.72	1.33	73.89	2.59
2026-2035	67.13	1.33	81.69	2.87
Thereafter	+2.0%/yr	1.33	+2.0%/yr	+2.0%/yr

¹ Source: Average of three independent consultant price forecasts, effective April 1, 2020 (McDaniel & Associates Consultants Ltd., GLJ Petroleum Consultants Ltd. and Sproule Associates Limited).

The recoverable amounts of each of the Company's CGU's at March 31, 2020 were estimated at their FVLCS, 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, 2019, adjusted for production and future pricing changes during the three months ended March 31, 2020. 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's best estimates

The Company used a pre-tax 15% discount rate for the March 31, 2020 impairment test which took into account risks specific to the CGU's and inherent in the oil and gas business.

The following CGU was impaired as at March 31, 2020:

CGUs	2020
Edson	7,900
Total Impairment	7,900

Acquisitions

On December 29, 2021, the Company acquired a private oil and gas company for total cash consideration of \$22.2 million. The assets are located adjacent to Pine Cliff's Ghost Pine area within the Central CGU. The acquired assets complement Pine Cliff's existing Ghost Pine operations and was funded from existing cash resources. The Company applied the optional concentration test under IFRS 3 Business Combinations which resulted in the acquisition being accounted for as an asset acquisition.

9. LEASE LIABILITIES

Pine Cliff had the following future commitments associated with its lease liabilities:

(\$000s)	As at December 31,	
	2021	2020
2022	1,050	1,237
2023	1,027	1,046
2024	856	870
2025	703	226
2026	473	56
Thereafter	-	-
Total lease payments as at December 31, 2021	4,109	3,435
Amounts representing interest	(441)	(246)
Present value of lease payments	3,668	3,189
Current portion of lease obligations	(1,050)	(1,120)
Non-current portion of lease obligations	2,618	2,069

For the year ended December 31, 2021, interest expense of \$0.4 million (December 31, 2020 - \$0.2 million) and a total cash outflow of \$1.5 million (December 31, 2020 - \$1.1 million) was recognized relating to lease obligations.

The ROU and lease obligation relates to the Company's vehicle/head office leases in Calgary. An ROU of \$3.8 million is included in PP&E. Refer to Note 8.

10. DEFERRED INCOME TAXES

The Company has recorded a deferred tax asset of \$50.6 million (December 31, 2020 - \$nil) related to the benefit of tax pools, as it is probable that they will be recovered.

	As at December 31,	
	2021	2020
Deferred income tax assets:		
Share issue costs	11	14
Decommissioning provision	58,371	55,218
Property and equipment	(15,384)	(6,180)
Lease liabilities	862	750
Capital losses carried forward	475	464
Non-capital losses carried forward	31,959	37,150
Asset before unrecognized deferred income tax	76,294	87,416
Less: unrecognized deferred income tax	(25,653)	(87,416)
Net deferred income tax asset	50,641	-

Pine Cliff has approximately \$370.8 million in tax pools as at December 31, 2021 (December 31, 2020 - \$398.2 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 \$136.4 million (December 31, 2020 - \$158.2 million) that expire between the years 2035 and 2040.

Category of tax pool	Rate of Utilization (%)	2021
Undepreciated capital costs	7 - 100	28,399
Canadian oil and gas property expenditures	10	185,365
Canadian development expenditures	30	14,756
Canadian exploration expenditures	100	167
Share issue costs	20	47
Non-capital losses carried forward ¹	100	136,433
Capital losses carried forward ²		5,583
		370,750

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:

	Years ended December 31,	
	2021	2020
Earnings /(loss) before income taxes	30,780	(50,107)
Corporate income tax rate	23.5%	25.2%
Computed income tax expense (recovery)	7,235	(12,623)
Non-deductible compensation expense	271	212
Changes in the unrecorded benefit of tax pools	(61,365)	11,507
Gain on sale	(40)	-
Return to provision true-up	3,258	904
Deferred income tax recovery	(50,641)	-

11. DUE TO RELATED PARTY

Pine Cliff has a \$6.0 million subordinated promissory note to the Company's Chairman of the Board. This promissory note matures on December 31, 2024, bears interest at 6.5% per annum and is payable monthly. This promissory 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 holder of the Term Debt, as defined herein. Interest paid on this promissory note for the year ended December 31, 2021 was \$0.4 million (December 31, 2021 - \$0.4 million).

The Company has a \$4.0 million borrowing facility (the “**Facility**”) with the Company’s Chairman of the Board (the “**Lender**”), whereby the Lender provides up to \$4.0 million of borrowings at an interest rate of 6.5% per annum, payable monthly. The term (the “**Term**”) of the Facility expires on the later of: (i) December 31, 2024; or (ii) the date of full repayment of any outstanding borrowings. Amounts can be drawn, repaid and redrawn by the Company at any time during the Term and borrowings under the Facility are payable on demand to the Lender on 60 days written notice. The Facility can be cancelled at any time by the Lender on 60 days written notice, while the Term may also be extended by mutual consent of the Company and the Lender. There was no amount drawn on the Facility as at or during the year ended December 31, 2021. Interest paid on the Facility for the year ended December 31, 2021 was Nil (December 21, 2020 - \$0.007 million).

12. SUBORDINATED PROMISSORY NOTES

Pine Cliff has issued \$6.0 million subordinated promissory notes to a shareholder and a relative of that shareholder, owning directly or by discretion and control, greater than 10% of the Common Shares. These subordinated promissory notes mature on December 31, 2024, bear interest at 6.5% per annum and are payable monthly. These subordinated promissory notes are secured by a \$6.0 million floating charge debenture over all of the Company’s assets and are subordinated to any and all claims in favor of the holder of the Term Debt.

13. TERM DEBT

	2021	As at December 31, 2020
Term Debt - beginning of year	48,747	48,642
Repayment on Term Debt	(19,000)	
Accretion expense	156	105
Term Debt - end of year	29,903	48,747

The non-revolving credit facility (“**Term Debt**”) with Alberta Investment Management Corporation (“**AIMCO**”), acting on behalf of its clients, consists of a first tranche with a principal amount of \$30.0 million that matures on December 31, 2024 (the “**2024 Tranche**”) and a second tranche with a principal amount of \$19.0 million that was to mature on July 31, 2022 (the “**2022 Tranche**”). Interest on the 2024 Tranche is payable at a rate of 10.75% per annum until September 30, 2022 and thereafter such interest rate will increase by 1% per annum up to 12.75% and interest was payable on the 2022 Tranche at a rate of 7.05% per annum. All or a portion of the principal amount outstanding can be repaid at any time, but without any penalty or premium after September 30, 2022 with respect to the 2024 Tranche and, July 13, 2021 with respect to the 2022 Tranche. During the year ended December 31, 2021, the Company repaid in full the 2022 Tranche. The security for the Term Debt consists of floating demand debentures totaling \$150.0 million and a general security agreement with first ranking over all current and acquired properties.

Non-Financial Covenants

The Term Debt contains various covenants on the part of the Company and its subsidiaries, including covenants that place limitations on certain types of activities, including restrictions or requirements with respect to additional debt, liens, assets sales, hedging activities, management of environmental liabilities, investments, distributions, and mergers and acquisitions. The Term Debt does not include any financial covenants.

Demand Loan Facility

The Company currently has a demand operating loan of \$5.0 million with a Canadian chartered bank, of which no amount had been drawn as at December 31, 2021. Borrowings bear interest at the banks’ prime lending rate plus 2.5%. The demand operating loan is secured by a general security agreement over certain tangible field facilities of the Company.

Letter of Credit Facility

As at December 31, 2020, the Company had a \$2.6 million letter of credit facility (“**LC Facility**”) with a Canadian bank which is supported by a performance guarantee from Export Development Canada (December 31, 2020 - \$2.6 million). 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 4.5% per annum. The LC Facility does not contain any financial covenants. As at December 31, 2021, the Company had \$2.5 million in letters of credit issued against its LC Facility (December 31, 2020 - \$2.5 million).

14. DECOMMISSIONING PROVISION

The total current and long-term decommissioning provision of \$248.4 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, 2021, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$263.2 million (December 31, 2020 - \$247.5 million). The discounted and inflated amount required to settle the decommissioning liabilities of \$248.4 million has been calculated assuming a 2.00% inflation rate (December 31, 2020 - 2.00%) and discounted using an average risk-free interest rate of 2.30% (December 31, 2020 - 2.30%). 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, 2020	221,360
Increase in liabilities relating to development activities	125
Provisions related to acquisitions	875
Provisions related to dispositions	(493)
Site decommissioning grants	(772)
Decommissioning expenditures	(1,503)
Revisions (changes in estimates, inflation rate, and discount rates)	9,958
Accretion	5,455
Decommissioning provision, December 31, 2020	235,005
Increase in liabilities relating to development activities	322
Provisions related to acquisitions	25,728
Provisions related to dispositions	-
Site decommissioning grants	(5,047)
Decommissioning expenditures	(1,633)
Revisions (changes in estimates, inflation rate, and discount rates)	(11,325)
Accretion	5,373
Decommissioning provision, December 31, 2021	248,423
Less current portion of decommissioning provision	(3,900)
Non-current portion of decommissioning provision	244,523

15. 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 and outstanding

	Common Shares (000s)	Share capital (\$000s)
Issued and outstanding share capital continuity:		
Balance, January 1, 2020	327,784	273,421
Shares issued pursuant to exercise of warrants	7,500	1,543
Balance, December 31, 2020	335,284	274,964
Exercise of stock options	4,255	802
Balance, December 31, 2021	339,539	275,766

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 Common Shares immediately preceding the date of grant and the option’s maximum term is five years.

	Options (000s)	Weighted-average exercise price (\$ per Common Share)
Stock options issued and outstanding:		
Outstanding, January 1, 2020	25,829	0.40
Granted	8,657	0.14
Expired	(6,782)	0.78
Forfeited	(2,142)	0.35
Outstanding, December 31, 2020	25,562	0.22
Granted	11,387	0.34
Exercised	(6,457)	0.19
Expired	(3,143)	0.50
Forfeited	(2,079)	0.22
Outstanding, December 31, 2021	25,270	0.25
Exercisable, December 31, 2021	5,406	0.21

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
\$0.10-\$0.15	9,210	1.5	2,628	0.6
\$0.16-\$0.21	3,279	1.0	1,357	0.4
\$0.22-\$0.33	12,586	2.2	1,421	0.4
\$0.34-\$0.82	195	2.8	-	-
	25,270	1.8	5,406	0.5

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. Typically, 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, 2021, the Company granted 11,386,600 stock options (December 31, 2020 – 8,656,850) with a fair value of \$0.16 (December 31, 2020 - \$0.07) per option using the Black-Scholes option pricing model using the following key assumptions:

Assumptions (weighted average):	Years ended December 31,	
	2021	2020
Exercise price (\$)	0.34	0.14
Estimated volatility of underlying Common Shares (%)	78.4	69.6
Expected life (years)	3.0	3.0
Risk-free rate (%)	0.5	0.3
Forfeiture rate (%)	3.9	3.9

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

Warrants

	Warrants (000s)	Weighted-average exercise price (\$ per Common Share)
Warrants outstanding:		
Outstanding, January 1, 2020	10,350	0.29
Exercised	(7,500)	0.21
Outstanding, December 31, 2020	2,850	0.51
Expired	(2,850)	0.51
Outstanding, December 31, 2021	Nil	Nil

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 and warrants were outstanding. In calculating the weighted average number of diluted Common Shares outstanding for the year ended December 31, 2020, all stock options and warrants were excluded as they were not dilutive.

	Years ended December 31,	
	2021	2020
Earnings/(Loss) per Common Share calculation:		
Numerator		
Earnings/(Loss) for the year	81,421	(50,107)
Denominator (000s)		
Weighted-average Common Shares outstanding – basic	337,254	330,284
Effect of options outstanding	11,031	-
Weighted-average Common Shares outstanding – diluted	348,285	330,284
Earnings/(Loss) per Common Share – basic (\$)	0.24	(0.15)
Earnings/(Loss) per Common Share – diluted (\$)	0.23	(0.15)

16. COMMODITY SALES

The Company's commodity sales revenue is determined pursuant to the terms of the marketing agreements. The revenue for natural gas, NGLs 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. Commodity sales revenues are based on marketed indices that are determined on a monthly or daily basis.

	Years ended December 31,	
(\$000s)	2021	2020
Natural gas	130,546	87,139
NGLs	22,198	10,040
Crude oil	11,241	5,991
Total commodity sales	163,985	103,170

17. SUPPLEMENTAL CASH FLOW INFORMATION

	Years ended December 31,	
	2021	2020
Changes in non-cash working capital:		
Trade and other receivables	(6,055)	(1,266)
Prepaid expenses and deposits	(962)	(266)
Trade and other payables and accrued liabilities	12,310	(239)
	5,293	(1,771)
Change related to:		
Operating activities	(7,990)	1,561
Investing activities	13,283	(3,332)
	5,293	(1,771)

Changes in non-cash working capital excludes the receivable amount referred to in Note 7.

	Years ended December 31,	
	2021	2020
Finance expenses:		
Interest expense and bank charges	4,876	5,182
Non cash:		
Accretion on decommissioning provision	5,373	5,455
Accretion on subordinated promissory notes and Term Debt	156	105
Total finance expenses	10,405	10,742

Cash interest paid in the year ended December 31, 2021, was \$5.1 million (December 31, 2020 - \$4.1 million).

18. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses by nature were as follows:

General and administration expenses:	Years ended December 31,	
	2021	2020
Salary and benefits	6,433	4,651
Administrative and other costs	2,414	2,624
Overhead recoveries	(3,040)	(2,278)
Total general and administrative expenses	5,807	4,997

19. 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 and directors and officers also participate in the Option Plan. Director and officer compensation was as follows:

Key management remuneration:	Years ended December 31,	
	2021	2020
Short-term benefits ¹	1,939	1,432
Share-based payments ²	895	349
Total key management remuneration	2,834	1,781

¹ Short-term benefits includes the salary, other non-cash short-term benefits and directors fees paid to the Company's officers and directors.

² Share-based payments computed for officers and directors are included in Note 15 and include the fair value of awards expensed in the year.

20. COMMITMENTS

As at December 31, 2021, the Company has the following commitments and other contractual obligations:

	2022	2023	2024	2025	2026	Thereafter
(\$000s)						
Trade and other payables	39,586	-	-	-	-	-
Term Debt ¹	-	-	30,000	-	-	-
Due to related party	-	-	6,000	-	-	-
Subordinated promissory notes	-	-	6,000	-	-	-
Future interest	4,080	4,380	4,680	-	-	-
Lease obligations ²	1,050	1,027	856	703	473	-
Transportation ³	8,027	5,229	4,589	4,232	3,879	2,991
Total commitments and contingencies	52,743	10,636	52,125	4,935	4,352	2,991

¹ Principal amount.

² See Note 9

³ Firm transportation agreements.

21. CAPITAL STRUCTURE

The Company's objectives when managing capital, which the Company defines to include shareholders' equity and net debt, is to ensure that it has the financial capacity, liquidity and flexibility to fund its capital program and acquisitions. As it is not unusual for capital expenditures and acquisitions to exceed cash flow provided by 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, Common 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,	
	2021	2020
Due to related party ¹	6,000	6,000
Subordinated promissory notes ¹	6,000	6,000
Term Debt ²	30,000	49,000
Trade and other payables and accrued liabilities	39,585	27,275
Less:		
Trade and other receivables	(21,613)	(14,863)
Cash	(6,874)	(7,878)
Prepaid expenses and deposits	(3,446)	(2,484)
Net debt	49,652	63,050
Equity (deficit)	45,418	(37,317)

¹ The due to related party and promissory notes are due on December 31, 2024.

² The Term Debt for net debt is presented at the principal amount with \$19.0 million repaid in 2021 and \$30.0 million due on December 31, 2024.

The Company's cash provided by operating activities is expected to 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 service costs, the Company may not generate sufficient cash provided by 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 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:

	As at December 31,	
	2021	2020
Net debt-to-adjusted funds flow calculation:		
Cash provided by operating activities	49,483	8,787
Changes in non-cash working capital	7,990	(1,561)
Decommissioning obligations settled in cash	1,633	1,503
Adjusted funds flow	59,106	8,729
Net debt	49,652	63,050
Net debt-to-adjusted funds flow	0.8	7.2

The Company's financial objectives and strategy as described above have remained substantially unchanged over the reporting periods. These objectives and strategy are reviewed on an annual basis. The Company believes its ratios are within reasonable limits, in light of the relative size of the Company, the long-term nature of its net debt, including its Term Debt, subordinated promissory notes and due to related party and its capital management objectives.

BOARD OF DIRECTORS

George F. Fink - Chairman
Philip B. Hodge
Robert B. Fryk
Jacqueline R. Ricci
William S. Rice

OFFICERS

Philip B. Hodge
President and Chief Executive Officer
Terry L. McNeill
Chief Operating Officer
Alan MacDonald
Chief Financial Officer and Corporate Secretary
Christopher S. Lee
Vice President, Exploration

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REGISTRAR AND TRANSFER AGENT

Odyssey Trust Company of Canada

AUDITORS

Deloitte LLP

BANK

Toronto-Dominion Bank

STOCK EXCHANGE LISTING

TSX Exchange
Trading Symbol: PNE

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