Long-term Value Focus

Annual Report 2022

2022 was a transformative year for Pine Cliff. We set multiple PNE financial records, became debt free and initiated dividend payments to our shareholders. Q4 2022 was our second highest quarterly adjusted funds flow[1] in our history at $40.2 million, resulting in a record annual adjusted funds flow total of $163.2 million. Our previous best annual adjusted funds flow was $59.1 million in 2021.

Highlights from the fourth quarter and full year 2022 include:

- generated $40.2 million of adjusted funds flow ($0.11 per basic and fully diluted share) for the three months ended December 31, 2022 and $163.2 million ($0.47 per basic and $0.45 per fully diluted share) for the year ended December 31, 2022. This is 53% and 176% higher than the respective periods in the prior year;
- generated net earnings of $24.7 million ($0.07 per basic and fully diluted share) for the three months ended December 31, 2022 and $108.9 million ($0.31 per basic and $0.30 per fully diluted share) for the year then ended;
- production averaged 21,041 Boe/d[2] and 21,015 Boe/d[2] during the three months and year ended December 31, 2022, which was 10% and 14% higher than the comparable periods in 2021;
- paid dividends of $10.8 million ($0.03 per share basic and fully diluted share) for the three months ended December 31, 2022 and $23.6 million ($0.07 per basic and fully diluted share) for the year ended December 31, 2022;
- repaid in full $30.0 million of term debt and $12.0 million of promissory notes to achieve debt free status by June 20, 2022; and
- had positive net cash[1] of $55.9 million at December 31, 2022 compared to $49.7 million of net debt at December 31, 2021, a year over year change of $105.6 million.

Future Capital Allocations

Pine Cliff is starting 2023 with the strongest and cleanest balance sheet in our history. I am frequently asked what Pine Cliff is going to do with its growing cash reserves. My standard response is that we will continue to make capital allocation decisions to optimize what we feel will be best for our shareholders. This may sound simplistic, however it is the same premise that has guided us since we started this business over 11 years ago with 100 Boe/d of production. To provide a little more colour on this topic, here are some of our current considerations concerning capital allocation:

a) Capital Expenditures

Our 2023 capital expenditure budget of $27.9 million includes $12.8 million to drill four (2.8 net) Pekisko oil wells in Central Alberta and three (0.3 net) Ellerslie natural gas wells, $8.6 million for facility optimization and maintenance capital and $6.5 million for abandonments and reclamation. Despite the 37% reduction in our 2023 drilling budget compared to 2022 development expenditures, we believe this capital investment should maintain our 2023 production between 20,000[2] – 21,000 Boe/d[2]. Those numbers highlight Pine Cliff's advantage of having one of the lowest production decline rates (approximately 7%) of all oil and gas producers in Canada.

b) Asset and Corporate Acquisitions

Our team continues to conduct weekly business development meetings assessing the various assets and companies for sale or those we think may come up for sale. The lower expected commodity prices in 2023 will result in a reduction in our funds flow compared to 2022 but should also reduce the price expectations that vendors held in 2022. Last year was one of the only years we did not purchase any material assets since our first acquisition in 2012. Our current cash balance gives us the benefit of looking at asset packages that could help grow our base without the requirement of issuing debt or additional equity. Our cash balance also extends Pine Cliff's reach to consider larger asset acquisitions or mergers that would not be attainable if we were carrying significant debt.

c) Dividends

The sustainability of dividends in the oil and gas sector will come under increasing scrutiny from investors if commodity prices show further weakness and volatility in 2023. Pine Cliff is currently committed to maintaining our current monthly dividend and will not be reluctant to use our cash balance if necessary. Although the current PNE dividend yield over 10% may raise eyebrows, we hope that investors will appreciate that our annual dividend commitment is approximately $45.7 million, which is less than our growing cash balance. We have raised our dividend twice since its inception in June 2022, and we believe that our unique business model will provide the opportunity to raise it again in the future. Although we cannot predict the future, at today's strip prices, our capital and dividend program for 2023 can be fully funded from Pine Cliff's forecasted adjusted funds flow.

The Importance of Mentorship

None of Pine Cliff's accomplishments mentioned above would have been possible without the original founder of Pine Cliff, Mr. George Fink. I have been fortunate to have had many mentors in my career, but George has been the one I have leaned on the most during my time at Pine Cliff. He has been a calming influence and a relentless financial and moral supporter of our company and our industry. Mr. Fink has advised the Board that he will not be standing for re-election at the next Annual Meeting of shareholders. In our 11 plus years of working together at Pine Cliff, and our many years before that as business acquaintances, George has been the consummate gentleman and a guiding light for both me and our team, showing us how we should treat others and take pride in delivering value and results to our shareholders.

George was the one who gave me the chance to invest in myself back in January 2012, with the vision of building a low decline natural gas focused producer. I will forever be grateful to George for that opportunity and the ongoing support he has provided to me as a leader of an organization I am very proud of. Although George will no longer be sitting on our Board, he remains a loyal supporter and one of Pine Cliff's largest shareholders, so I look forward to our ongoing interactions. On behalf of our entire team and the many Pine Cliff shareholders for whom he has helped build value, I thank George for his time on our Board and his numerous contributions to the success of Pine Cliff.

Outlook

North America experienced one of the warmest Januarys in recorded history this year. This warm weather coincided with the ongoing Freeport LNG export facility outage in Texas and resulted in a 41% reduction in Henry Hub natural gas pricing in January 2023. Although AECO pricing moved lower during this time, AECO Daily 5A still averaged $3.72 per Mcf in January. The AECO Daily 5A price this morning is $3.33 Mcf and the forward AECO strip price for the remainder of 2023 is $2.94 Mcf. At these projected prices, Pine Cliff is on track to generate the second highest annual adjusted funds flow in our history.

We have built Pine Cliff to be a long-term sustainable business and will not allow short term pricing volatility to take our focus off building a company that will deliver material rates of returns to our investors for many years to come. We manage our business as the significant shareholders we are, including adding physical hedges where we feel they are beneficial to protect us from short term volatility.

We continue to be optimistic about being a Western Canada natural gas producer. The Province of Alberta utilizes more natural gas than any other Province in Canada, and that demand is growing with the final coal to gas power plant conversions later this year. We also welcome the impact that LNG Canada and multiple other new LNG export facilities will have on our North American market when they start up in 2025.

Thank you for your support as we look forward to an exciting 2023 and beyond.

Yours truly,

Phil Hodge
President and Chief Executive Officer
March 7, 2023

[1]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, 2022, which can be found on www.sedar.com and is subject to the same cautionary statements as set out therein.
[2] Refer to the March 7, 2023 Press Release for commodity split by product.

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, 2022. 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, 2022. 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 2022 year include:

- Net present value for proved plus probable ("**P+P**") reserves of $411.5 million, discounted at 10%, an increase of $133.6 million, or 48%, from December 31, 2021, primarily as a result of an increase in forecast commodity prices;
- Pine Cliff increased its 2022 P+P reserves by 12.5 MMBoe (20%) prior to adjusting for 2022 production, a reserve replacement ratio of 163%, largely as a result of 10.0 MMBoe (16%) due to economic factors, 1.7 MMBoe (3%) of extensions and an increase of 0.8 MMBoe (1%) from technical revisions;
- Remaining P+P reserves of 67.6 MMBoe (86% conventional natural gas and coal bed methane) at December 31, 2022 increased by 4.8 MMBoe (8%) from 62.8 MMBoe (84% conventional natural gas and coal bed methane) at December 31, 2021, mainly as a result of economic factors; and
- Approximately 77% of total reserve volumes are classified as total proved reserves and approximately 23% 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 $4.23 and $4.40 per Mcf for AECO natural gas and US$80.33 and US$78.50 per Bbl for WTI oil in 2023 and 2024 respectively.

Summary of Remaining Working Interest Reserves, as of December 31, 2022

Reserve Category	Oil[1,2]	Natural Gas Liquids	Conventional Natural Gas	Coal Bed Methane	Oil Equivalent
	MBbl	MBbl	MMcf	MMcf	MBoe
Proved					
Developed Producing	2,069.2	3,408.4	232,665.8	27,934.2	48,911.0
Developed Non-Producing	17.5	10.4	2,101.1	-	378.1
Undeveloped	1,012.6	244.3	7,813.7	-	2,559.2
Total Proved	**3,099.3**	**3,663.1**	**242,580.6**	**27,934.2**	**51,848.3**
Probable	1,783.5	1,171.0	70,623.5	6,449.5	15,800.0
Total Proved plus Probable	**4,882.9**	**4,834.2**	**313,204.2**	**34,383.6**	**67,648.4**

[1] Amounts may not add due to rounding.
[2] Oil includes Light and Medium and Heavy Oil. Light and Medium oil represents 100 per cent of Total Proved and Proved plus Probable reserves.

Summary of Net Present Values of Future Net Revenue, Before Income Taxes, as of December 31, 2022

	Discounted at (% per year)				
($ millions)	**0%**	**5%**	**10%**	**15%**	**20%**
Reserve Category[1]					
Proved					
Developed Producing	91.7	279.1	275.9	251.5	228.0
Developed Non-Producing	6.9	5.4	4.5	3.9	3.4
Undeveloped	61.2	37.8	24.5	16.4	11.1
Total Proved	**159.8**	**322.3**	**304.9**	**271.8**	**242.5**
Probable	271.8	161.0	106.6	76.3	57.7
Total Proved plus Probable	**431.6**	**483.3**	**411.5**	**348.0**	**300.2**

[1] Amounts may not add due to rounding.

Reconciliation of Gross Reserves by Principal Product Type, as of December 31, 2022

Reserve Reconciliation Company Gross[1]	**Oil[2]**	**Natural Gas Liquids**	**Natural Gas[3]**	**Oil Equivalent**
	MBbl	MBbl	MMcf	MBoe
Total Proved				
December 31, 2021	3,044.0	3,853.4	253,292.5	49,112.8
Extension	228.4	186.7	4,413.4	1,150.7
Technical Revisions	343.8	(295.9)	5,737.2	1,004.1
Acquisitions	3.1	18.7	2,778.4	484.9
Dispositions	(191.2)	(3.3)	(1,815.3)	(497.1)
Economic Factors	129.8	436.1	46,183.7	8,263.2
Production	(458.5)	(532.6)	(40,075.1)	(7,670.3)
December 31, 2022	**3,099.3**	**3,663.1**	**270,514.8**	**51,848.3**
Total Proved plus Probable				
December 31, 2021	4,673.1	5,321.5	316,913.0	62,813.4
Extension	411.2	245.9	6,337.5	1,713.4
Technical Revisions	348.7	(725.5)	7,337.8	846.2
Acquisitions	3.3	23.9	3,205.4	561.4
Dispositions	(248.8)	(4.4)	(2,400.3)	(653.3)
Economic Factors	153.9	505.4	56,269.6	10,037.6
Production	(458.5)	(532.6)	(40,075.1)	(7,670.3)
December 31, 2022	**4,882.9**	**4,834.2**	**347,587.8**	**67,648.4**

[1] Amounts may not add due to rounding.
[2] Oil includes Light and Medium and Heavy Oil. Light and Medium oil represents 100 per cent of Total Proved and Proved plus Probable reserves.
[3] Natural gas includes Conventional Natural Gas and Coal Bed Methane. Conventional Natural Gas represents 90 per cent Total Proved and Proved plus Probable reserves.

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]
2023	80.33	1.34	103.76	4.23
2024	78.50	1.31	97.74	4.40
2025	76.95	1.30	95.27	4.21
2026	77.61	1.30	95.58	4.27
2027	79.16	1.29	97.07	4.34
2028	80.74	1.29	99.01	4.43
2029-2037	89.27	1.29	109.12	4.89
Thereafter	+2.0%/yr	1.29	+2.0%/yr	+2.0%/yr

[1] Source: Average of three consultant price forecasts, effective January 1, 2023 (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, 2022, which can be found on www.sedar.com and is subject to the same cautionary statements as set out therein.

This Management's Discussion and Analysis ("**MD&A**") is a review of the operations and current financial position of Pine Cliff Energy Ltd. ("**Pine Cliff**" or the "**Company**") for the year ended December 31, 2022. This MD&A is dated and based on information available as at March 7, 2023 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2022 and 2021 ("**Financial Statements**"). The Financial Statements have been prepared in accordance with International Accounting Standards ("**IFRS**") issued by the International Accounting Standards Board. Additional information relating to the Company, including the Company's annual information form ("**AIF**"), may be found on www.sedar.com and by visiting Pine Cliff's website at http://www.pinecliffenergy.com.

Pine Cliff is a dividend-paying company headquartered 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.

Please refer to the section titled "**GLOSSARY**" for measurements and abbreviations that may be used in the MD&A.

Natural gas liquids ("**NGLs**") and oil volumes are recorded in barrels of oil ("**Bbl**") and are converted to a thousand cubic feet equivalent ("**Mcfe**") 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.

2022 AND FOURTH QUARTER 2022 HIGHLIGHTS

Highlights from 2022 and the fourth quarter of 2022 are as follows:

- generated $40.2 million of adjusted funds flow ($0.11 per basic and fully diluted share) for the three months ended December 31, 2022, and $163.2 million ($0.47 per basic and $0.45 per fully diluted share) for the year ended December 31, 2022, 53% and 176% higher than the respective periods in the prior year;
- generated net earnings of $24.7 million ($0.07 per basic and fully diluted share) for the three months ended December 31, 2022, and $108.9 million ($0.31 per basic and $0.30 per fully diluted share) for the year then ended;
- production averaged 21,041 Boe/d and 21,015 Boe/d during the three months and year ended December 31, 2022, 10% and 14% higher than the comparable periods in 2021;
- paid dividends of $10.8 million ($0.03 per share basic and fully diluted share) for the three months ended December 31, 2022 and $23.6 million ($0.07 per basic and fully diluted share) for the year ended December 31, 2022;
- repaid in full $30.0 million of term debt and $12.0 million of promissory notes outstanding by the end of the second quarter of 2022 to be debt free;
- had positive net cash of $55.9 million at December 31, 2022 compared to $49.7 million of net debt at December 31, 2021, a year over year change of $105.6 million;
- drilled, four (2.8 net) Pekisko oil wells and seven (1.4 net) Ellerslie liquids rich natural gas wells in 2022; and
- 2022 capital expenditures totaled $34.7 million, including development capital of $20.5 million, facilities optimization and maintenance capital of $8.4 million and abandonment and reclamation expenditures of $5.8 million.

SELECTED ANNUAL FINANCIAL INFORMATION

	Year ended December 31,		
	2022	2021	2020
($000s, unless otherwise indicated)			
FINANCIAL[1]			
Commodity sales (before royalties)	**306,208**	163,985	103,170
Commodity sales (net of royalties)	**270,448**	146,976	96,897
Cash provided by operating activities	**150,452**	49,483	8,787
Adjusted funds flow[2]	**163,206**	59,106	8,729
Per share – Basic ($/share)	**0.47**	0.18	0.03
Per share – Diluted ($/share)	**0.45**	0.17	0.03
Net earnings/(loss) for the year	**108,939**	81,421	(50,107)
Per share – Basic ($/share)	**0.31**	0.24	(0.15)
Per share – Diluted ($/share)	**0.30**	0.23	(0.15)
Total assets	**375,053**	378,997	288,899
Total liabilities	**241,325**	333,579	326,216
Capital expenditures	**29,077**	21,568	7,518
Acquisitions	**1,119**	23,147	(6)
Dispositions	**(2,649)**	(320)	(829)
Dividends	**23,574**	-	-
Per share – Basic ($/share)	**0.07**	-	-
Per share – Diluted ($/share)	**0.07**	-	-
Positive net cash (net debt)[2]	**55,913**	(49,652)	(63,050)
Total non-current financial liabilities[3]	**2,296**	44,521	62,816
Weighted average common shares outstanding (000s) - Basic	**346,443**	337,254	330,284
Weighted average common shares outstanding (000s) - Diluted	**360,033**	348,285	330,284
OPERATIONS			
Production			
Natural gas (Mcf/d)	**109,801**	100,655	104,277
NGLs (Bbl/d)	**1,459**	1,250	1,187
Crude oil (Bbl/d)	**1,256**	419	439
Total (Boe/d)	**21,015**	18,445	19,006
Total (Mcfe/d)	**126,090**	110,670	114,036
Realized commodity sales prices			
Natural gas ($/Mcf)	**5.43**	3.55	2.28
NGLs ($/Boe)	**72.38**	48.65	23.11
Crude oil ($/Bbl)	**108.79**	73.47	37.31
Total ($/Boe)	**39.92**	24.36	14.83
Netback ($/Boe)			
Operating netback[2]	**22.41**	10.36	2.72
Corporate netback[2]	**21.28**	8.78	1.26
Netback ($/Mcfe)			
Operating netback[2]	**3.74**	1.73	0.45
Corporate netback[2]	**3.55**	1.46	0.21

[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, term debt, due to related party and promissory notes.

	Three months ended December 31,		Year ended December 31,	
	2022	2021	**2022**	2021
($000s, unless otherwise indicated)				
FINANCIAL				
Commodity sales (before royalty expense)	**76,928**	54,413	**306,208**	163,985
Cash provided by operating activities	**33,791**	20,431	**150,452**	49,483
Adjusted funds flow[1]	**40,200**	26,279	**163,206**	59,106
Per share – Basic ($/share)[1]	**0.11**	0.08	**0.47**	0.18
Per share – Diluted ($/share)[1]	**0.11**	0.07	**0.45**	0.17
Net earnings	**24,685**	80,522	**108,939**	81,421
Per share – Basic ($/share)	**0.07**	0.24	**0.31**	0.24
Per share – Diluted ($/share)	**0.07**	0.23	**0.30**	0.23
Capital expenditures	**6,637**	10,741	**29,077**	21,568
Acquisitions	**528**	23,136	**1,119**	23,147
Dispositions	**(137)**	(133)	**(2,649)**	(320)
Dividends	**10,797**	-	**23,574**	-
Per share – Basic ($/share)	**0.03**	-	**0.07**	-
Per share – Diluted ($/share)	**0.03**	-	**0.07**	-
Positive net cash (net debt)[1]	**55,913**	(49,652)	**55,913**	(49,652)
Weighted-average common shares outstanding (000s)				
Basic	**350,216**	339,213	**346,443**	337,254
Diluted	**360,322**	350,806	**360,033**	348,285
OPERATIONS				
Production				
Natural gas (Mcf/d)	**109,307**	103,320	**109,801**	100,655
NGLs (Bbl/d)	**1,463**	1,258	**1,459**	1,250
Crude oil (Bbl/d)	**1,360**	578	**1,256**	419
Total (Boe/d)	**21,041**	19,056	**21,015**	18,445
Realized commodity sales prices				
Natural gas ($/Mcf)	**5.53**	4.56	**5.43**	3.55
NGLs ($/Boe)	**65.91**	57.42	**72.38**	48.65
Crude oil ($/Bbl)	**99.13**	82.75	**108.79**	73.47
Combined ($/Boe)	**39.74**	31.04	**39.92**	24.36
Netback ($/Boe)				
Commodity sales	**39.74**	31.04	**39.92**	24.36
Processing and gathering	**0.54**	0.49	**0.49**	0.55
Royalty expense	**(4.42)**	(3.35)	**(4.66)**	(2.53)
Transportation expenses	**(1.42)**	(1.46)	**(1.41)**	(1.39)
Operating expenses	**(13.38)**	(10.22)	**(11.93)**	(10.63)
Operating netback ($/Boe)[1]	**21.06**	16.50	**22.41**	10.36
General and administrative expenses	**(0.41)**	(0.88)	**(0.89)**	(0.86)
Interest and bank charges	**(0.06)**	(0.62)	**(0.31)**	(0.72)
Interest income	**0.17**	-	**0.07**	-
Corporate netback ($/Boe)[1]	**20.76**	15.00	**21.28**	8.78
Operating netback ($ per Mcfe)[1]	**3.51**	2.75	**3.74**	1.73
Corporate netback ($ per Mcfe)[1]	**3.46**	2.50	**3.55**	1.46

[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[1,2]		
	Change	$000s	$ per share[4]
Realized natural gas price[3]	$0.10	3,527	0.01
Realized NGLs price[3]	$1.00	469	0.00
Realized crude oil price[3]	$1.00	403	0.00

[1] This is a non-GAAP measure, see NON-GAAP MEASURES for additional information.
[2] This analysis does not adjust for changes in working capital and uses corporate royalty rates from the year ended December 31, 2022.
[3] Pine Cliff has prepared this analysis using its Q4 2022 production volumes annualized for twelve months.
[4] Based on the Q4 2022 basic weighted average shares outstanding.

BENCHMARK PRICES

	Three months ended December 31,			Year ended December 31,		
	2022	2021	% Change	**2022**	2021	% Change
Natural gas						
NYMEX (US$/Mmbtu)[1]	**6.26**	5.83	7	**6.64**	3.84	73
AECO Daily 5A (C$/Mcf)[2]	**5.09**	4.63	10	**5.29**	3.61	47
Crude oil						
WTI (US$/Bbl)	**82.64**	77.19	7	**94.23**	67.92	39
Edmonton Light (C$/Bbl)	**110.13**	93.30	18	**120.10**	80.24	50
Foreign exchange						
US$/C$	**1.358**	1.260	8	**1.303**	1.254	4

[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.

	Q4-2022	Q3-2022	Q2-2022	Q1-2022	Q4-2021	Q3-2021	Q2-2021	Q1-2021
Natural gas								
NYMEX (US$/Mmbtu)[1]	**6.26**	8.20	7.17	4.95	5.83	4.01	2.83	2.69
AECO Daily 5A (C$/Mcf)[2]	**5.09**	4.14	7.20	4.72	4.63	3.58	3.08	3.14
Pine Cliff realized natural gas price (C$/Mcf)	**5.53**	4.85	6.45	4.88	4.56	3.43	3.03	3.14
Crude oil								
WTI (US$/Bbl)	**82.64**	91.56	108.41	94.29	77.19	70.56	66.07	57.84
Edmonton Light (C$/Bbl)	**110.13**	116.79	137.84	115.66	93.30	83.78	77.28	66.58
Pine Cliff realized NGLs price (C$/Bbl)	**65.91**	72.02	81.73	69.72	57.42	50.53	42.83	43.87
Pine Cliff realized Oil price (C$/Bbl)	**99.13**	103.56	126.23	108.68	82.75	74.94	69.90	60.09
Foreign exchange								
US$/C$	**1.358**	1.306	1.277	1.266	1.260	1.260	1.231	1.266

[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, 2022, the AECO daily benchmark was 10% and 47% higher compared to the same periods of 2022. 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, 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 7% and 39%, for the three months and year ended December 31, 2022, as compared to the same periods in 2021, primarily due to the sanctions placed on Russian crude oil production and growth in global demand as economies recovered from the impacts of the novel coronavirus.

Agreements made between the Organization of Petroleum Exporting Countries ("**OPEC**") and other crude oil producing countries globally have brought the supply of global oil production into approximate balance with demand. While crude oil prices are reflecting current supply and demand dynamics, future crude oil prices remain uncertain, due to the geopolitical situation in eastern Europe, impacts from a potential recession in areas of the world and the impact global monetary policy will have on the global economy.

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 normally correlate with changes in the Edmonton Light oil price.

SALES VOLUMES

	Three months ended December 31,			Year ended December 31,		
Total sales volumes by product	**2022**	2021	% Change	**2022**	2021	% Change
Natural gas (Mcf)	**10,056,224**	9,505,398	6	**40,075,125**	36,739,008	9
NGLs (Bbl)	**134,597**	115,743	16	**532,567**	456,291	17
Crude oil (Bbl)	**125,166**	53,157	135	**458,539**	153,006	200
Total Boe	**1,935,800**	1,753,133	10	**7,670,294**	6,732,465	14
Total Mcfe	**11,614,802**	10,518,798	10	**46,021,761**	40,394,790	14
Natural gas weighting	**87%**	90%	(3)	**87%**	91%	(4)

	Three months ended December 31,			Year ended December 31,		
Average daily sales volumes by product	**2022**	2021	% Change	**2022**	2021	% Change
Natural gas (Mcf/d)	**109,307**	103,320	6	**109,801**	100,655	9
NGLs (Bbl/d)	**1,463**	1,258	16	**1,459**	1,250	17
Crude oil (Bbl/d)	**1,360**	578	135	**1,256**	419	200
Total (Boe/d)	**21,041**	19,056	10	**21,015**	18,445	14
Total (Mcfe/d)	**126,246**	114,336	10	**126,090**	110,670	14

	Three months ended December 31,			Year ended December 31,		
Average daily sales volumes by area	**2022**	2021	% Change	**2022**	2021	% Change
Central (Boe/d)	**12,269**	10,289	19	**12,124**	9,817	24
Southern (Boe/d)	**6,733**	7,187	(6)	**6,853**	7,171	(4)
Edson (Boe/d)	**2,039**	1,580	29	**2,038**	1,457	40
Total (Boe/d)	**21,041**	19,056	10	**21,015**	18,445	14

Pine Cliff's sales volumes increased by 10% to 21,041 Boe/d (126,246 Mcfe/d) and by 14% to 21,015 Boe/d (126,090 Mcfe/d) for the three months and year ended December 31, 2022, as compared to the same periods in 2021. The increase in production is due primarily from the private company acquisition that closed December 29, 2021, (the "**December 2021 Acquisition**") and the 2022 drilling program, facility optimization and well re-activations, offset by weather related issues during the quarter and natural production declines.

Pine Cliff is projecting 2023 production volumes of 20,000 – 21,000 Boe/d (120,000 – 126,000 Mcfe/d), weighted approximately 85% towards natural gas.

COMMODITY SALES

	Three months ended December 31,			Year ended December 31,		
($000s)	**2022**	2021	% Change	**2022**	2021	% Change
Natural gas	**55,650**	43,368	28	**217,772**	130,546	67
NGLs	**8,871**	6,646	33	**38,549**	22,198	74
Crude oil	**12,407**	4,399	182	**49,887**	11,241	344
Total commodity sales	**76,928**	54,413	41	**306,208**	163,985	87
% of revenue from natural gas sales	**72%**	80%	(8)	**71%**	80%	(9)

Realized Prices

	Three months ended December 31,			Year ended December 31,		
$ per unit	**2022**	2021	% Change	**2022**	2021	% Change
Natural gas ($/Mcf)	**5.53**	4.56	21	**5.43**	3.55	53
NGLs ($/Bbl)	**65.91**	57.42	15	**72.38**	48.65	49
Crude oil ($/Bbl)	**99.13**	82.75	20	**108.79**	73.47	48
Total ($/Boe)	**39.74**	31.04	28	**39.92**	24.36	64
Total ($/Mcfe)	**6.62**	5.17	28	**6.65**	4.06	64

Commodity sales in the three months ended December 31, 2022 of $76.9 million increased 41% from $54.4 million in the corresponding period in the prior year. The quarter increase of $22.5 million consists of $16.8 million attributed to higher realized commodity prices and $5.7 million attributed to higher production volumes. Commodity sales in the year ended December 31, 2022 increased $142.2 million to $306.2 million from $164.0 million in the year ended December 31, 2021. The year-to-date increase of $142.2 million consists of $119.4 million attributed to higher realized commodity prices and $22.8 million attributed to higher production volumes.

Pine Cliff's realized natural gas price was $5.53 per Mcf in the three months ended December 31, 2022, 21% higher than the $4.56 per Mcf realized in the corresponding period of the prior year. This correlates with the AECO 5A reference price increase of 10%, between those two periods primarily the result of demand for LNG exports from the United States, resulting in the expectation of lower natural gas storage volumes during the winter 22/23 season. Pine Cliff's realized natural gas price was $5.43 per Mcf during the year ended December 31, 2022, 53% higher than the $3.55 per Mcf realized in the corresponding period of the prior year. Pine Cliff's realized natural gas price was 9% and 3% higher than the AECO 5A benchmarks for the three months and year ended December 31, 2022 respectively, both a result of Pine Cliff's marketing diversification programs and fixed price physical natural gas sales contracts.

For the three months and year ended December 31, 2022, Pine Cliff's realized NGLs price was $65.91 per Bbl and $72.38 per Bbl, compared to $57.42 per Bbl and $48.65 per Bbl, in the corresponding periods of the prior year. For the three months and year ended December 31, 2022, Pine Cliff's realized oil price was $99.13 per Bbl and $108.79 per Bbl, compared to $82.75 per Bbl and $73.47 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, 2022 were 90% and 91% of Edmonton Light compared to 89% and 92% in the corresponding period of the prior year. Pine Cliff's realized NGLs prices in the three months and year ended December 31, 2022 were 60% of Edmonton Light compared to 62% and 61% 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, 2022, compared to the corresponding periods of 2021, is due primarily to balanced market conditions following the effect of sanctions on Russian oil production arising from the war in Ukraine and OPEC oil supply reductions.

ROYALTY EXPENSE

($000s)	Three months ended December 31, 2022	2021	% Change	Year ended December 31, 2022	2021	% Change
Total royalty expense	**8,554**	5,868	46	**35,760**	17,009	110
$ per Boe	**4.42**	3.35	32	**4.66**	2.53	84
$ per Mcfe	**0.74**	0.56	32	**0.78**	0.42	84
Royalty expense as a % of commodity sales	**11%**	11%	-	**12%**	10%	20

For the three months ended December 31, 2022, total royalty expense increased by 46% to $8.6 million from $5.9 million in the corresponding period of the prior year. Royalty expense as a percentage of commodity sales were 11% in the three months ended December 31, 2022, unchanged from the corresponding period of the prior year.

For the year ended December 31, 2022, total royalty expense increased by 110% to $35.8 million from $17.0 million in the corresponding period of the prior year. Royalty expense as a percentage of commodity sales increased to 12% during the year ended December 31, 2022, compared to 10% 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, 2022 is due to the increase in NGLs and crude oil as a percentage of natural gas sales combined with an increase in commodity prices.

Pine Cliff anticipates royalty expenses to average between 9% - 11% of commodity sales in 2023.

TRANSPORTATION COSTS

($000s)	Three months ended December 31, 2022	2021	% Change	Year ended December 31, 2022	2021	% Change
Total transportation costs	**2,743**	2,564	7	**10,806**	9,328	16
$ per Boe	**1.42**	1.46	(3)	**1.41**	1.39	1
$ per Mcfe	**0.24**	0.24	(3)	**0.24**	0.23	1

For the three months and year ended December 31, 2022, total transportation costs increased by 7% and 16% to $2.7 million and $10.8 million from $2.6 million and $9.3 million in the corresponding periods of the prior year. The higher transportation expenses are from increased natural gas sales volumes and the Company delivering to markets with higher pricing points than AECO during the respective periods.

Pine Cliff anticipates transportation expenses to average between $1.40 - $1.50 per Boe ($0.23 - $0.25 per Mcfe) in 2023.

NET OPERATING EXPENSES

($000s)	Three months ended December 31, 2022	2021	% Change	Year ended December 31, 2022	2021	% Change
Operating expenses	**25,898**	17,923	44	**91,490**	71,590	28
Less: processing and gathering income	**(1,046)**	(854)	22	**(3,780)**	(3,730)	1
Net operating expenses	**24,852**	17,069	46	**87,710**	67,860	29
$ per Boe	**12.84**	9.73	32	**11.44**	10.08	13
$ per Mcfe	**2.14**	1.62	32	**1.91**	1.68	13

Net operating expenses increased by 46% and 29% to $24.9 million and $87.7 million for the three months and year ended December 31, 2022, as compared to $17.1 million and $67.9 million in the corresponding periods of the prior year. The increase during the quarter and the year ended December 31, 2022 is primarily due to the December 2021 Acquisition, inflationary pressures primarily on power and variable field costs and incremental operating costs associated with petroleum handling and weather related issues. On a per Boe basis, operating costs increased to $12.84 per Boe and $11.44 per Boe for the three months and year ended December 31, 2022 compared to $9.73 per Boe and $10.08 per Boe in the corresponding periods of 2021.

Pine Cliff anticipates net operating expenses to average between $11.50 - $12.00 per Boe ($1.92 - $2.00 per Mcfe) in 2023.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

	Three months ended December 31,			Year ended December 31,		
($000s)	**2022**	2021	% Change	**2022**	2021	% Change
Gross G&A	**1,853**	3,506	(47)	**10,183**	8,847	15
Less: overhead recoveries	**(1,060)**	(1,960)	46	**(3,364)**	(3,040)	(11)
Total G&A expenses	**793**	1,546	(49)	**6,819**	5,807	17
$ per Boe	**0.41**	0.88	(53)	**0.89**	0.86	3
$ per Mcfe	**0.07**	0.15	(53)	**0.15**	0.14	3

G&A decreased by 49% to $0.8 million in the three months ended December 31, 2022, as compared to $1.5 million in the corresponding period of the prior year. The decrease in G&A during the three months ended December 31, 2022 is primarily a result of a reduction in the provision for compensation costs pursuant to the Company's short term incentive bonus program. G&A increased to $6.8 million for the year ended December 31, 2022 as compared to $5.8 million in the corresponding period of the prior year and reflects an increase in annual compensation costs arising from the December 2021 Acquisition and an increase in the short-term incentive bonus from the prior year.

On a per Boe basis, G&A for the three months ended December 31, 2022, decreased 53% to $0.41 per Boe from $0.88 per Boe in the corresponding period of the prior year, primarily due to a reduction in the provision for compensation costs. On a per Boe basis, G&A for the year ended December 31, 2022 increased 3% to $0.89 per Boe from $0.86 per Boe in the prior year.

Pine Cliff anticipates G&A expenses to average between $0.90 - $1.10 per Boe ($0.15 - $0.18 per Mcfe) in 2023.

SHARE-BASED PAYMENTS

	Three months ended December 31,			Year ended December 31,		
($000s)	**2022**	2021	% Change	**2022**	2021	% Change
Total share-based payments	**725**	337	115	**2,456**	997	146
$ per Boe	**0.37**	0.19	95	**0.32**	0.15	113
$ per Mcfe	**0.06**	0.03	95	**0.05**	0.03	113

Share based payments increased by 115% and 146% for the three months and year ended December 31, 2022 compared to the corresponding periods of 2021 primarily as a result of the increase in the fair value of stock options granted in 2022, as calculated using the Black-Scholes option pricing model. The Company has an equity settled stock-based compensation plan. Stock options are granted to certain officers, directors, and employees 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, 2022, Pine Cliff granted 7,161,600 stock options to purchase Common Shares at a weighted average exercise price of $1.89 (December 31, 2021 – 11,386,600 at an average exercise price of $0.34). As at December 31, 2022, the Company had 18,323,519 stock options outstanding, representing 5.2% of Common Shares outstanding (December 31, 2021 – 25,269,810 representing 7.4% of Common Shares outstanding).

DEPLETION, DEPRECIATION, AND IMPAIRMENT

	Three months ended December 31,			Year ended December 31,		
($000s)	**2022**	2021	% Change	**2022**	2021	% Change
Total depletion and depreciation	**10,835**	10,661	2	**44,074**	40,994	8
$ per Boe	**5.60**	6.08	(8)	**5.75**	6.09	(6)
$ per Mcfe	**0.93**	1.01	(8)	**0.96**	1.01	(6)
Impairment reversal	**-**	(13,979)	(100)	**(4,500)**	(13,979)	(68)
Total depletion, depreciation, and impairment	**10,835**	(3,318)	(427)	**39,574**	27,015	46
$ per Boe	**5.60**	(1.89)	(396)	**5.16**	4.01	29
$ per Mcfe	**0.93**	(0.32)	(396)	**0.86**	0.67	29

Depletion and depreciation expense for the three months and year ended December 31, 2022, totaled $10.8 million and $44.1 million compared to $10.7 million and $41.0 million in the corresponding periods of the prior year. The increase for the year is a result of a higher 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, the amount and success of capital expenditures and the amount of future development costs. 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, 2022, the Company had three cash generating units ("**CGU's**") being the Southern CGU, Central CGU and Edson CGU. In accordance with IFRS, an impairment test is performed if the Company identifies indicators of impairment at the end of a reporting period. At December 31, 2022, there were no indicators of impairment or additional impairment reversals for PP&E assets and therefore an impairment test was not required.

At June 30, 2022, the Company identified indicators of an impairment reversal in the Edson CGU due to increased forward commodity prices since its previously completed impairment assessment at December 31, 2021. As a result, recovery testing was performed by preparing estimates of future funds flows to determine the recoverable amount of the respective assets.

The Company determined that the recoverable amounts of the Company's Edson CGU exceeded its carrying value. A total impairment recovery of $4.5 million was recognized in the Company's PP&E.

Impairment can be reversed for PP&E up to the lower of the recoverable amount and 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 June 30, 2022:

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 July 1, 2022 (McDaniel & Associates Consultants Ltd., GLJ Petroleum Consultants Ltd. and Sproule Associates Limited).

The recoverable amounts of each of the Company's CGU's at June 30, 2022 were estimated at their fair value less cost to sell ("**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 reserves evaluator at June 30, 2022. 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 June 30, 2022 impairment test which considered 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 an 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 June 30, 2022. 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's were reversed as at December 31:

CGU	**2022**	2021
Edson	**(4,500)**	(12,000)
CBM	**-**	(1,979)
Total impairment reversal	**(4,500)**	(13,979)

Asset Exchange

On December 1, 2022, the Company closed an asset exchange agreement for non-core assets in Central Alberta, resulting in a gain of $2.5 million.

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

At December 31, 2022, the Company determined that no indicators of impairment existed for E&E assets.

FINANCE EXPENSES

	Three months ended December 31,			Year ended December 31,		
($000s)	**2022**	2021	% Change	**2022**	2021	% Change
Interest expense and bank charges	**112**	1,088	(90)	**2,407**	4,876	(51)
$ per Boe	**0.06**	0.62	(90)	**0.31**	0.72	(57)
$ per Mcfe	**0.01**	0.10	(90)	**0.05**	0.12	(57)
Non cash:						
Accretion on decommissioning provision	**1,644**	1,348	22	**6,157**	5,373	15
Accretion on subordinated promissory notes	**-**	8	(100)	**97**	156	(38)
Total finance expenses	**1,756**	2,444	(28)	**8,661**	10,405	(17)
$ per Boe	**0.91**	1.39	(35)	**1.13**	1.55	(27)
$ per Mcfe	**0.15**	0.23	(35)	**0.19**	0.26	(27)

Finance expenses decreased by 28% and 17% to $1.8 million and $8.7 million for the three months and year ended December 31, 2022, as compared to $2.4 million and $10.4 million in the corresponding periods of the prior year. The outstanding Term Debt, as defined herein, due to related party and subordinated promissory notes were all repaid in full during the six months ended June 30, 2022. Please refer to the "**DEBT, LIQUIDITY AND CAPITAL RESOURCES**" section for additional information.

DEFERRED INCOME TAX

The Company has recorded a deferred tax asset of $37.0 million (December 31, 2021 - $50.6 million) related to the benefit of tax pools, as it is probable that they will be recovered.

The Company had the following tax pools, including non-capital loss carry-forwards, at December 31, 2022:

Category of tax pool ($000s)	Rate of Utilization (%)	**2022**
Undepreciated capital costs	7 - 55	**27,285**
Canadian oil and gas property expenditures	10	**166,196**
Canadian development expenditures	30	**20,683**
Canadian exploration expenditures	100	**156**
Share issue costs	20	**82**
Non-capital losses carried forward[1]	100	**20,759**
Capital losses carried forward[2]		**5,523**
		240,684

[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.

CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS

	Year ended December 31,	
($000s)	**2022**	2021
Exploration and evaluation	**63**	103
Property, plant and equipment	**29,014**	21,465
Capital expenditures	**29,077**	21,568
Acquisitions	**1,119**	23,147
Dispositions	**(2,649)**	(320)
Total	**27,547**	44,395

Capital expenditures on PP&E of totaled $29.1 million, including development capital of $20.5 million, facilities optimization and maintenance capital of $8.6 million. In 2022, the Company completed and tied-in of two gross (1.4 net) Pekisko oil wells drilled during the fourth quarter of 2021, drilled and completed four (2.8 net) Pekisko oil wells and seven (1.4 net) Ellerslie liquids rich natural gas wells.

DECOMMISSIONING PROVISION

The total current and long-term decommissioning provision of $208.4 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, 2022, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was $277.3 million (December 31, 2021 - $263.2 million). The discounted and inflated amount required to settle the decommissioning liabilities of $208.4 million has been calculated assuming a 2.00% inflation rate (December 31, 2021 – 2.00%) and discounted using an average risk-free interest rate of 3.33% (December 31, 2021 – 2.30%). These obligations are currently expected to be settled based on the useful lives of the underlying assets, some of which extend beyond 50 years into the future.

DEBT, LIQUIDITY AND CAPITAL RESOURCES

Due to Related Party

Pine Cliff had a $6.0 million promissory note to the Company's Chairman of the Board bearing interest at 6.5% per annum, payable monthly. On June 30, 2022, Pine Cliff repaid in full the $6.0 million promissory note. Interest paid on this promissory note for the year ended December 31, 2022 was $0.2 million (December 31, 2021 - $0.4 million).

Borrowing Facility

The Company had a $4.0 million borrowing facility (the "**Facility**") with the Company's Chairman of the Board (the "**Lender**"), whereby the Lender provided up to $4.0 million of borrowings at an interest rate of 6.5% per annum, payable monthly. The Facility was cancelled effective December 1, 2022. There was no amount drawn on the Facility at any time during the year ended December 31, 2022 (December 31, 2021 - $nil). Interest paid on the Facility for the year ended December 31, 2022, was $nil (December 31, 2021 - $nil).

Promissory Notes

Pine Cliff had issued $6.0 million promissory notes to a shareholder, owning at the time, directly or by discretion, greater than 10% of the Common Shares. Those promissory notes bore interest at 6.5% per annum, payable monthly. On June 30, 2022, Pine Cliff repaid in full the $6.0 million promissory notes.

Term Debt

The non-revolving credit facility ("**Term Debt**") with Alberta Investment Management Corporation ("**AIMCO**"), acting on behalf of its clients, consisted of a first tranche with a principal amount of $30.0 million that was due to mature on December 31, 2024 (the "**2024 Tranche**") and a second tranche with a principal amount of $19.0 million that was due to mature on July 31, 2022 (the "**2022 Tranche**"). Interest on the 2024 Tranche was payable at a rate of 10.75% per annum until September 30, 2022 and thereafter such interest rate would 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 was able to 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. During the first six months of 2022, the Company repaid in full the 2024 Tranche, resulting in an interest penalty of $0.7 million. The security for the Term Debt consisting of floating demand debentures totaling $150.0 million and a general security agreement with first ranking over all current and acquired properties, was fully discharged.

Demand Loan Facility

The Company has a demand operating loan (the "**Demand Loan**") of $8.0 million with a Canadian chartered bank, of which no amount was drawn at December 31, 2022 (December 31, 2021 - $nil). Borrowings bear interest at the bank's prime lending rate plus 2.0%. Letters of credit issued under the Demand Loan are supported by a performance guarantee from Export Development Canada for an amount up to $2.60 million and incur an issuance fee ranging from 3.12% to 3.62%. At December 31, 2022, the Company had issued $1.68 million in letters of credit (December 31, 2021 - $2.50 million).

The Demand Loan is secured by a general security agreement over certain tangible field facilities of the Company.

Liquidity and Capital Resources

Pine Cliff's approved capital budget for 2023 is $27.9 million, including $12.8 million in development capital, $8.6 million on facility optimization and maintenance capital and $6.5 million on 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.

As at December 31, 2022, the Company's capital comprises shareholders' equity and working capital. Pine Cliff manages the capital structure and adjusts considering economic conditions and the risks of the underlying assets. The Company currently has a working capital surplus. 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 positive net cash/net debt as follows:

($000s)	**December 31, 2022**	December 31, 2021	$ Change
Cash	**54,428**	6,874	47,554
Trade and other receivables	**27,187**	21,613	5,574
Prepaid expenses and deposits	**3,767**	3,446	321
Investments	**171**	-	171
Less:			
Trade and other payables	**(29,640)**	(39,585)	9,945
Term debt[1]	**-**	(30,000)	30,000
Due to related party	**-**	(6,000)	6,000
Promissory notes	**-**	(6,000)	6,000
Positive net cash (net debt)[2]	**55,913**	(49,652)	105,565

[1] The Term Debt for positive net cash/net debt is presented at the principal amount with $30.0 million repaid in 2022.
[2] This is a non-GAAP measure, see NON-GAAP MEASURES for additional information.

Share Capital

Share capital	**March 7, 2023**	December 31, 2022	December 31, 2021
Common Shares	**351,298,608**	350,908,570	339,539,415
Stock options	**17,620,366**	18,323,519	25,269,810

COMMITMENTS AND CONTINGENCIES

As at December 31, 2022, the Company has the following commitments and other contractual obligations:

($000s)	2023	2024	2025	2026	2027	Thereafter
Trade and other payables	29,640	-	-	-	-	-
Lease obligations	1,154	1,017	847	585	-	-
Transportation[1]	9,039	6,969	6,423	5,619	4,328	-
Total commitments and contingencies	**39,833**	**7,986**	**7,270**	**6,204**	**4,328**	**-**

[1] Firm transportation agreements.

SUBSEQUENT EVENTS

Dividends

On January 31, 2023 and February 28, 2023, the Company paid a monthly dividend of $0.01083 per Common Share.

On March 2, 2023, the Company declared a monthly dividend of $0.01083 per Common Share. The dividend is payable March 31, 2023, to all shareholders of record on March 15, 2023.

QUARTERLY TRENDS AND SELECTED FINANCIAL INFORMATION

($000s, unless otherwise indicated)	**Q4-2022**	Q3-2022	Q2-2022	Q1-2022	Q4-2021	Q3-2021	Q2-2021	Q1-2021
FINANCIAL								
Total revenue	**69,746**	62,778	82,755	59,449	49,399	36,747	31,390	33,170
Cash provided by operating activities	**33,791**	42,258	50,532	23,871	20,431	12,410	8,171	8,471
Adjusted funds flow[1]	**40,200**	34,883	55,816	32,307	26,279	13,333	9,494	10,000
Per share – Basic ($/share)	**0.11**	0.10	0.16	0.09	0.08	0.04	0.03	0.03
Per share – Diluted ($/share)	**0.11**	0.10	0.15	0.09	0.07	0.04	0.03	0.03
Net earnings (loss)	**24,685**	18,629	50,192	15,433	80,522	2,323	(744)	(680)
Per share – Basic ($/share)	**0.07**	0.05	0.15	0.05	0.24	0.01	(0.00)	(0.00)
Per share – Diluted ($/share)	**0.07**	0.05	0.14	0.04	0.23	0.01	(0.00)	(0.00)
Capital expenditures	**6,637**	12,591	4,282	5,567	10,741	8,903	1,556	368
Dividends	**10,797**	9,888	2,889	-	-	-	-	-
Per share – Basic ($/share)	**0.03**	0.03	0.01	-	-	-	-	-
Per share – Diluted ($/share)	**0.03**	0.03	0.01	-	-	-	-	-
Acquisitions	**528**	-	319	272	23,136	11	-	-
Positive net cash (net debt)[1]	**55,913**	35,068	22,496	(24,752)	(49,652)	(41,413)	(45,292)	(53,122)
Weighted average common shares outstanding (000s):								
Basic	**350,216**	349,187	345,402	340,835	339,213	337,921	336,802	335,556
Diluted	**360,322**	360,654	360,703	349,304	350,806	346,732	336,802	335,556
PRODUCTION VOLUMES								
Natural gas (Mcf/d)	**109,307**	109,936	111,951	107,955	103,320	100,462	99,528	99,267
NGLs (Bbl/d)	**1,463**	1,547	1,475	1,347	1,258	1,178	1,166	1,400
Crude oil (Bbl/d)	**1,360**	1,406	1,197	1,057	578	394	341	362
Average sales volumes (Boe/d)	**21,041**	21,276	21,331	20,397	19,056	18,316	18,095	18,307
Average sales volumes (Mcfe/d)	**126,246**	127,656	127,986	122,382	114,336	109,896	108,570	109,842
PRICES AND NETBACKS								
Total commodity sales ($/Boe)	**39.74**	37.13	46.59	36.05	31.04	23.67	20.75	21.56
Operating netback ($/Boe)[1]	**21.06**	18.66	30.40	19.41	16.50	9.22	7.50	7.88
Corporate netback ($/Boe)[1]	**20.76**	17.82	28.76	17.60	15.00	7.92	5.77	6.05
Total commodity sales ($/Mcfe)	**6.62**	6.19	7.77	6.01	5.17	3.95	3.46	3.59
Operating netback ($/Mcfe)[1]	**3.51**	3.11	5.07	3.24	2.75	1.54	1.25	1.31
Corporate netback ($/Mcfe)[1]	**3.46**	2.97	4.79	2.93	2.50	1.32	0.96	1.01

[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 from operating activities, adjusted funds flow, and net earnings (loss) have fluctuated primarily due to changes in commodity prices and sales volumes. Net earnings (loss) also fluctuate with non-cash expenditures, including depletion, depreciation and impairments. Selected highlights for the past eight quarters are consistent with those disclosed in the Annual MD&A, except as described below.

- Average sales volumes increased in the first quarter of 2022 compared to the fourth quarter of 2021 due primarily to the additional sales volumes from the private company acquisition which closed December 29, 2021. Average sales volumes increased in the second quarter of 2022 compared to the first quarter of 2022 due primarily to the additional sales volumes from the completion of the 2021 capital program and weather variations. Average sales volumes decreased from the second through to the fourth quarter of 2022 due primarily to normal production declines and shut-ins for scheduled maintenance turnarounds, slightly offset by incremental sales volumes from the 2022 capital program.

- Adjusted funds flow increased from the fourth quarter of 2021 to the first quarter of 2022 mainly as a result of increases in commodity prices and additional sales volumes. Adjusted funds flow increased from the first quarter of 2022 to the second quarter of 2022 mainly as a result of increases in commodity prices and additional sales volumes. Adjusted funds flow decreased from the second quarter of 2022 to the third quarter of 2022 mainly as a result of decreases in commodity prices and sales volumes. Adjusted funds flow increased from the third quarter of 2022 to the fourth quarter of 2022 mainly as a result of increases in commodity prices, slightly offset by a decrease in sales volumes.

- Net earnings increased in the first quarter of 2022 compared to the fourth quarter of 2021 as a result of an increase in commodity sales. Net earnings increased in the second quarter of 2022 compared to the first quarter of 2022 as a result of an increase in commodity sales and impairment reversal. Net earnings decreased in the third quarter of 2022 compared to the second quarter of 2022 mainly as a result of a decrease in commodity sales and sales volumes. Net earnings increased in the fourth quarter of 2022 compared to the third quarter of 2022 mainly as a result of an increase in commodity sales, slightly offset by a decrease in sales volumes.

- Total revenues increased from the fourth quarter of 2021 to the first quarter of 2022, mainly as a result of higher commodity prices and higher sales volumes. Total revenues increased from the first quarter of 2022 to the second quarter of 2022, mainly as a result of higher commodity prices and higher sales volumes. Total revenues decreased from the second quarter of 2022 to the third quarter of 2022, mainly as a result of a decrease in commodity prices and sales volumes. Total revenues increased in the fourth quarter of 2022 compared to the third quarter of 2022 mainly as a result of an increase in commodity sales, slightly offset by a decrease in sales volumes.

OFF BALANCE SHEET TRANSACTIONS

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

FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement

Financial instruments of the Company consist of cash, trade and other receivables, investments, trade and other payables, due to related party, 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, promissory notes and Term Debt approximate their respective fair values due to their interest rates reflecting current market conditions. Investments are measured at fair value based on quoted market prices.

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.

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 natural gas, crude oil and NGL 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 natural gas, crude oil or NGL prices will result in a reduction of net production revenue. The economics of producing from some wells may change because of lower prices, which will result in reduced production of natural gas, crude oil or NGL prices 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, 2022, Pine Cliff's average sales volumes were 87% 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, 2022, the Company had the following physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Contract Price ($CAD/GJ)[1]	Contract Price ($CAD/Mcf)[1,2]
April 1, 2023 to October 31, 2023	AECO	7,500	$3.94	$4.14
April 1, 2023 to October 31, 2023	Dawn[3]	2,500	$6.27	$6.58
January 1, 2023 to March 31, 2023	Suffield[4]	5,000	AECO 5A + 0.98/GJ	AECO 5A + 1.03/Mcf
January 1, 2023 to October 31, 2023	TransGas[5]	9,500	AECO 5A + 0.56/GJ	AECO 5A + 0.59/Mcf

[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.
[4] The contract terms of the physical fixed price natural gas sales contract to Suffield#2 delivery point (Suffield, Alberta).
[5] Subsidiary of SaskEnergy, Saskatchewan.

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Contract Price ($CAD/GJ)[1]	Contract Price ($CAD/Mcf)[1,2]
January 1, 2023 to March 31, 2023	AECO	5,000	$4.75 - $6.00	$4.99 - $6.30
January 1, 2023 to March 31, 2023	AECO	5,000	$6.00 - $11.60	$6.30 - $12.18
April 1, 2023 to October 31, 2023	AECO	5,000	$4.00 - $5.45	$4.20 - $5.72

[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.

Subsequent to December 31, 2022, the Company had the following additional physical natural gas sales contracts in place:

Contractual Term	Type of Contract	Physical Delivery Quantity (Mmbtu/day)[1]	Contract Price ($USD/ Mmbtu)[2,3]
April 1, 2023 to October 31, 2023	AECO[3]	5,000	NYMEX Henry Hub less US$1.335/Mmbtu

[1] One Mcf of natural gas is approximately 1.02 Mmbtu.
[2] Prices reported are the weighted average prices of the periods.
[3] AECO basis differential.

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Contract Price ($CAD/GJ)[1]	Contract Price ($CAD/Mcf)[1,2]
April 1, 2023 to October 31, 2023	AECO	7,500	$2.73	$2.87
April 1, 2023 to June 30, 2023	AECO	5,000	$2.54	$2.67

[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.

At December 31, 2022, the Company had the following physical crude oil sales contract in place:

Contractual Term	Crude Oil	Physical Delivery Quantity (Bbl/day)	Contract Price ($CAD/Bbl)[1]
January 1, 2023 to March 31, 2023	WTI Fixed Price	250	$117.50

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

Subsequent to December 31, 2022, the Company had the following additional physical crude oil sales contracts in place:

Contractual Term	Crude Oil	Physical Delivery Quantity (Bbl/day)	Contract Price ($CAD/Bbl)[1]
April 1, 2023 to June 30, 2023	WTI Fixed Price	250	$108.30

[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 Loan with a Canadian chartered bank, of which no amount is drawn as at December 31, 2022. Borrowings under the Demand Loan bears interest at the banks' prime lending rate plus 2.5%. Pine Cliff has not entered into any derivative financial instruments to manage this risk at this time.

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 reflect management's assessment of the associated maximum exposure to such credit risk.

To mitigate the credit risk on its cash, the Company maintains its cash balances with a Canadian chartered bank. To mitigate the credit risk on trade and other receivables, Pine Cliff assesses the financial strength of its counterparties through internal evaluation and limiting exposure to any one counterparty.

The Company's trade and other receivables balance at December 31, 2022 of $28.0 million (December 31, 2021 – $21.6 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, 2022, there was $0.4 million (December 31, 2021 - $0.2 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, 2022, the Company recorded a bad debt recovery of $0.4 million (December 31, 2021 - $nil) 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 several 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; current and future 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 accordance 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.

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 (impairment recovery) indicators

At each reporting date, the Company is required to assess whether there are any internal or external indicators that its petroleum and natural gas properties and equipment within a CGU may be impaired or recovered. Pine Cliff is required to consider information from both external sources (such as negative downturn in forecasted oil and gas commodity prices, significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in the estimate of proved and probable oil and gas reserves and the related cash flows, significant adverse effect on the financial and operational performance of a CGU, evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgment.

Changing Regulation

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social and governance and climate reporting, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standards with the aim to develop sustainability disclosure standards that are globally consistent, comparable, and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters. The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified and it is possible that the long-term effects of these new regulations will affect the Company's business, results from operations, access to capital and financial condition.

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 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.

Income tax

Tax regulations and legislation are subject to change and there are differing interpretations requiring management judgment. Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in future periods. Deferred tax liabilities are recognized when it is considered probable that temporary differences will be payable to tax authorities in future periods. Income tax filings are subject to audits and re-assessments and changes in facts, circumstances, and interpretations of the standards may result in a material increase or decrease in the Company's provision for income taxes.

Impairment (impairment recovery)

The impairment calculation is based on significant assumptions of proved plus probable oil and natural gas reserves, production rates, benchmark commodity prices, future costs, discount rates and other relevant assumptions. By their nature, these significant assumptions are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

Future Accounting Pronouncements

The following are future accounting pronouncements issued and not yet effective as at December 31, 2022. The Company intends to adopt these standards as they become effective and does not expect a significant impact.

IAS 1 –Presentation of Financial Statements

Effective January 1, 2024, amendments to the classification of liabilities as non-current include the requirement that a right to defer settlement must have substance and exist at the end of the reporting period.

IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

Effective January 1, 2023, amendments to IAS 8 include additional clarification on the determination of changes in accounting policies from changes in accounting estimates. The development of accounting estimates includes selecting a measurement technique and choosing the inputs to be used when applying the chosen measurement technique.

IAS 12 – Income Taxes

Effective January 1, 2023, amendments to IAS 12 require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

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, 2022.

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" "positive net cash" 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, 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.

	Three months ended December 31,			Year ended December 31,		
($000s)	**2022**	2021	Change	**2022**	2021	Change
Cash provided by operating activities	**33,791**	20,431	65	**150,452**	49,483	204
Adjusted by:						
Change in non-cash working capital	**5,252**	5,120	3	**6,997**	7,990	(12)
Decommissioning obligations settled	**1,157**	728	59	**5,757**	1,633	253
Adjusted funds flow	**40,200**	26,279	53	**163,206**	59,106	176
Adjusted funds flow ($/Boe)	**20.76**	15.00	38	**21.28**	8.78	142
Adjusted funds flow ($/Mcfe)	**3.46**	2.50	38	**3.55**	1.46	142
Adjusted funds flow – basic ($/Common Share)	**0.11**	0.08	38	**0.47**	0.18	161
Adjusted funds flow – diluted ($/Common Share)	**0.11**	0.07	57	**0.45**	0.17	165

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, plus interest income, less G&A and interest expense.

Pine Cliff uses these measures to assist in understanding the Company's ability to generate 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,		
	2022	2021	$ Change	**2022**	2021	$ Change
($ per Boe, unless otherwise indicated)						
Commodity sales	**39.74**	31.04	8.70	**39.92**	24.36	15.56
Processing and gathering	**0.54**	0.49	0.05	**0.49**	0.55	(0.06)
Royalty expense	**(4.42)**	(3.35)	(1.07)	**(4.66)**	(2.53)	(2.13)
Transportation costs	**(1.42)**	(1.46)	0.04	**(1.41)**	(1.39)	(0.02)
Operating expenses	**(13.38)**	(10.22)	(3.16)	**(11.93)**	(10.63)	(1.30)
Operating netback	**21.06**	16.50	4.56	**22.41**	10.36	12.05
General and administrative	**(0.41)**	(0.88)	0.47	**(0.89)**	(0.86)	(0.03)
Interest and bank charges	**(0.06)**	(0.62)	0.56	**(0.31)**	(0.72)	0.41
Interest income	**0.17**	-	0.17	**0.07**	-	0.07
Corporate netback	**20.76**	15.00	5.76	**21.28**	8.78	12.50
Operating netback ($ per Mcfe)	**3.51**	2.75	0.76	**3.74**	1.73	2.01
Corporate netback ($ per Mcfe)	**3.46**	2.50	0.96	**3.55**	1.46	2.09

Positive Net Cash/Net Debt

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

Positive net cash/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, 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 March 7, 2023 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 ("**Mcfe**") 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.

GLOSSARY

The following is a list of abbreviations that may be used in the MD&A:

Measurement

Bbl/d[1] – barrels per day
Boe/d[1] – barrels of oil equivalent per day
Mcf/d[1] – thousand cubic feet per day
Mcfe/d[1] – thousand cubic feet equivalent per day
MMBoe – millions of barrels of oil equivalent

[1]Pine cliff has adopted the standard natural gas liquids ("**NGLs**") and crude oil volumes are recorded in barrels of oil ("**Bbl**") and are converted to a thousand cubic feet equivalent ("**Mcfe**") 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 MMBoe, 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.

Financial and Business Environment

AECO – Alberta Energy Company
CGU – Cash Generating Unit
GJ - Gigajoule
NGTL – Nova Gas Transmission Line
WTI – West Texas Intermediate
MMBtu – One million British Thermal Units

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"

Philip B. Hodge, President and Chief Executive Officer

"Signed Alan MacDonald"

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, 2022 and 2021, and the consolidated statements of comprehensive income, changes in equity (deficit) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, 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, 2022. 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.

Property, Plant and Equipment - Oil and gas properties - Refer to Notes 3 and 8 to the financial statements

Key Audit Matter Description

The Company's property, plant and equipment includes oil and gas properties. Oil and gas properties are depleted using the unit-of-production method ("depletion") over their proved plus probable reserves. The Company engages an independent reserve evaluator to estimate reserves using estimates, assumptions and engineering data. The Company assesses at each reporting date whether there is an indicator of impairment or impairment reversal. If an indicator exists, the Company estimates the recoverable amount of the cash generating unit ("CGU"), which is the higher of fair value less costs to sell or value-in-use. The determination of (1) the Company's proved plus probable reserves used to determine depletion and (2) the recoverable amount of a CGU requires management to make significant estimates and assumptions related to future commodity prices, discount rates, future production rates, and future operating and development costs. The Company identified indicators of impairment reversal related to the Edson CGU and recorded an impairment reversal.

Given the significant judgments made by management related to future commodity prices, discount rates, future production rates, and future operating and development costs used to determine depletion of all oil and gas properties and the recoverable amount of the Edson CGU, 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. This resulted in an increased extent of audit effort.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to future commodity prices, discount rates, future production rates, and future operating and development costs used to determine depletion of all oil and gas properties and the recoverable amount of the Edson CGU included the following, among others:

- 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 Company's reserve evaluators by examining reports and assessing their scope of work and findings and 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.

Deferred Income Taxes — Refer to Notes 3 and 10 to the financial statements

Key Audit Matter Description

The Company recognizes deferred income taxes for the tax expected to be payable or recoverable on differences arising between the financial statement and tax basis of assets and liabilities and is recorded at enacted or substantively enacted tax rates in effect for the years in which the differences are expected to be realized. The Company recognized a deferred income tax asset primarily arising from unused tax losses.

To determine whether it is probable that the deferred income tax assets will be realized, management makes assumptions related to the forecasts of future taxable income, specifically forecasts of future commodity prices, future production rates, and future operating and development costs. As a result of the significant measurement uncertainty, auditing the probability of the deferred income tax assets being realized and the forecast of future taxable income required a high degree of auditor judgment, which resulted in an increased extent of audit effort.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to the assessing the probability of the deferred income tax assets being realized and management's forecasts of future taxable income included the following, among others:

- Evaluated management's ability to accurately forecast future taxable income by comparing actual results to management's historical forecasts;
- Evaluated forecasts of future taxable income, specifically forecasts of future commodity prices, future production rates, and future operating and development costs by performing the audit procedures described above in the Property, Plant and Equipment – Oil and gas properties Key Audit Matter;
- Evaluating whether management's estimates of future taxable income are consistent with the requirements of IAS 12 - Income Taxes relating to the probability of forecasted taxable income and the length of the forecasted period.

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 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 and the Annual Report 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.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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 7, 2023

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian dollars, 000s)

	Note	**2022**	As at December 31, 2021
ASSETS			
Current assets			
Cash		**54,428**	6,874
Trade and other receivables	5	**27,187**	21,613
Prepaid expenses and deposits		**3,767**	3,446
Investments	7	**171**	-
Total current assets		**85,553**	31,933
Exploration and evaluation	8	**2,413**	2,350
Property, plant and equipment	9	**250,045**	294,073
Deferred income taxes	11	**37,042**	50,641
Total assets		**375,053**	378,997
LIABILITIES			
Current liabilities			
Trade and other payables	5	**29,640**	39,585
Lease liabilities	11	**1,002**	1,050
Decommissioning provision	15	**6,900**	3,900
Total current liabilities		**37,542**	44,535
Lease liabilities	10	**2,296**	2,618
Term debt	14	**-**	29,903
Due to related party	12	**-**	6,000
Promissory notes	13	**-**	6,000
Decommissioning provision	15	**201,487**	244,523
Total liabilities		**241,325**	333,579
SHAREHOLDERS' EQUITY			
Share capital	16	**277,650**	275,766
Contributed surplus		**16,617**	15,400
Accumulated other comprehensive loss		**(216)**	(60)
Deficit		**(160,323)**	(245,688)
Total shareholders' equity		**133,728**	45,418
Total liabilities and shareholders' equity		**375,053**	378,997

Commitments (Note 21)
Subsequent events (Note 23)

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 Philip B Hodge" — "Signed Jacqueline R. Ricci"

Philip B. Hodge, President & CEO and Director

Jacqueline R. Ricci, Chair of the Audit Committee and Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Canadian dollars, 000s except per share data)

	Note	Years ended December 31, 2022	2021
REVENUE			
Commodity sales	17	**306,208**	163,985
Royalty expense		**(35,760)**	(17,009)
Commodity sales, net of royalties		**270,448**	146,976
Processing and gathering		**3,780**	3,730
Interest income		**500**	-
Total revenue		**274,728**	150,706
EXPENSES			
Operating		**91,490**	71,590
Transportation		**10,806**	9,328
Depletion and depreciation	9	**44,074**	40,994
Impairment reversal	9	**(4,500)**	(13,979)
Site decommissioning grants	15	**(5,142)**	(5,047)
Share-based payments	16	**2,456**	997
Finance	18	**8,661**	10,405
General and administrative	19	**6,819**	5,807
Gain on disposition	8,9	**(2,495)**	(169)
Total expenses		**152,169**	119,926
Earnings before income taxes		**122,559**	30,780
Deferred income taxes	11	**(13,620)**	50,641
NET EARNINGS FOR THE YEAR		**108,939**	81,421
OTHER COMPREHENSIVE LOSS			
Unrealized loss on investments		**(177)**	-
Realized loss on investments		**-**	(60)
Deferred income tax on unrealized loss on investments		**21**	-
OTHER COMPREHENSIVE LOSS, NET OF TAX		**(156)**	(60)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**108,783**	81,361
Net earnings per share ($)			
Basic	16	**0.31**	0.24
Diluted	16	**0.30**	0.23

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, 2022	2021
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net earnings for the year		**108,939**	81,421
Items not affecting cash:			
Depletion and depreciation	9	**44,074**	40,994
Impairment reversal	9	**(4,500)**	(13,979)
Site decommissioning grants	15	**(5,142)**	(5,047)
Share-based payments	16	**2,456**	997
Finance expenses	18	**8,661**	10,405
Deferred income taxes	11	**13,620**	(50,641)
Gain on disposition	8,9	**(2,495)**	(169)
Interest and bank charges	18	**(2,407)**	(4,875)
Decommissioning obligations settled	15	**(5,757)**	(1,633)
Changes in non-cash working capital accounts	18	**(6,997)**	(7,990)
Cash provided by operating activities		**150,452**	49,483
INVESTING ACTIVITIES			
Property, plant and equipment	9	**(29,014)**	(21,465)
Exploration and evaluation	8	**(63)**	(103)
Acquisitions	9	**(1,119)**	(23,147)
Dispositions	8,9	**2,649**	320
Proceeds on sale of investments	7	**-**	340
Changes in non-cash working capital accounts	18	**(9,190)**	13,283
Cash used in investing activities		**(36,737)**	(30,772)
FINANCING ACTIVITIES			
Exercise of stock options	16	**645**	377
Repayment of term debt	14	**(30,000)**	(19,000)
Repayment of related party debt	12	**(6,000)**	-
Repayment of promissory notes	13	**(6,000)**	-
Dividends	16	**(23,574)**	-
Payments on lease obligations	10	**(1,232)**	(1,092)
Cash used in financing activities		**(66,161)**	(19,715)
Increase (decrease) in cash		**47,554**	(1,004)
Cash - beginning of year		**6,874**	7,878
CASH - END OF YEAR		**54,428**	6,874

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (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, 2020		**274,964**	**14,540**	**288**	**-**	**(327,109)**	**(37,317)**
Net earnings for the year		-	-	-	-	81,421	81,421
Share-based payments		-	997	-	-	-	997
Other comprehensive loss, net of tax		-	-	-	(60)	-	(60)
Exercise of stock options	16	802	(425)	-	-	-	377
Expiry of warrants		-	288	(288)	-	-	-
BALANCE AT DECEMBER 31, 2021		**275,766**	**15,400**	**-**	**(60)**	**(245,688)**	**45,418**
Net earnings for the year		-	-	-	-	108,939	108,939
Dividends	16	-	-	-	-	(23,574)	(23,574)
Share-based payments		-	2,456	-	-	-	2,456
Other comprehensive loss, net of tax		-	-	-	(156)	-	(156)
Exercise of stock options	16	1,884	(1,239)	-	-	-	645
BALANCE AT DECEMBER 31, 2022		**277,650**	**16,617**	**-**	**(216)**	**(160,323)**	**133,728**

[1]Contributed surplus is comprised of share-based payments.
[2]Accumulated other comprehensive loss is comprised of realized and unrealized losses on financial assets held at fair value through other comprehensive loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at December 31, 2022 and 2021 and for the years then ended
(all tabular amounts in Canadian dollars 000s, unless otherwise indicated)

1. NATURE OF BUSINESS

Pine Cliff Energy Ltd. ("**Pine Cliff**" or the "**Company**") is a public company listed on the Toronto Stock Exchange ("**TSX**") and incorporated under the *Business Corporations Act (Alberta)*. The address of the Company's registered office is Suite 850, 1015 - 4th Street SW, Calgary, Alberta, T2R 1J4.

Pine Cliff is engaged in the acquisition, exploration, development and production of 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

These consolidated financial statements have been prepared under International Financial Reporting Standards ("**IFRS**"), as issued by the International Accounting Standards Board as at and for the year ended December 31, 2022, including 2021 comparative periods. The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 7, 2023, the date the Board of Directors approved the statements.

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. The methods used to measure fair values are discussed in Note 5.

c) 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. Foreign exchange gains and losses are recorded as income or expense in the period in which they occur.

d) Use of judgements and estimates

The timely preparation of the Financial Statements in accordance 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 statements 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 5 – Financial instruments
Note 8 – Exploration and evaluation assets ("**E&E**")
Note 9 – Property, plant and equipment ("**PP&E**")
Note 15 – Decommissioning provision
Note 16 – Share capital

Cash Generating Units

Cash generating units ("**CGUs**") are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The classification of assets into CGUs requires significant 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 (impairment recovery) indicators

At each reporting date, the Company is required to assess whether there are any internal or external indicators that its petroleum and natural gas properties and equipment within a CGU may be impaired or recovered. Pine Cliff is required to consider information from both external sources (such as negative downturn in forecasted oil and gas commodity prices, significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in the estimate of proved and probable oil and gas reserves and the related cash flows, significant adverse effect on the financial and operational performance of a CGU, evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgment.

Changing Regulation

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social and governance and climate reporting, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standards with the aim to develop sustainability disclosure standards that are globally consistent, comparable, and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters. The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified and it is possible that the long-term effects of these new regulations will affect the Company's business, results from operations, access to capital and financial condition.

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 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.

Income tax

Tax regulations and legislation are subject to change and there are differing interpretations requiring management judgment. Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in future periods. Deferred tax liabilities are recognized when it is considered probable that temporary differences will be payable to tax authorities in future periods. Income tax filings are subject to audits and re-assessments and changes in facts, circumstances, and interpretations of the standards may result in a material increase or decrease in the Company's provision for income taxes.

Impairment (impairment recovery)

The impairment calculation is based on significant assumptions of proved plus probable oil and natural gas reserves, production rates, benchmark commodity prices, future costs, discount rates and other relevant assumptions. By their nature, these significant assumptions are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the Financial Statements.

a) Basis of consolidation

The Financial Statements include the accounts of Pine Cliff and its subsidiary companies, Geomark Exploration Ltd. and Pine Cliff Border Pipelines Limited. All subsidiary companies are wholly owned. All intercompany balances, transactions and earnings or losses are eliminated upon consolidation.

b) Revenue recognition

Revenue associated with the sale of natural gas, crude oil 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, crude oil and NGLs coincides with legal 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.

Revenue from interest on cash on hand is recognized when earned.

c) Foreign currency transactions

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

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 include developed assets acquired, transferred-in E&E costs, development drilling, right-of-use assets 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, plant turnaround costs, or major 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.

Subsequent costs incurred to the determination of technical feasibility and commercial viability are recognized as PP&E when they increase the future economic benefits in the specific asset to which they relate. Such capitalized developed and producing petroleum and natural gas interests generally represent costs incurred in developed proved and/or probable reserves and bringing in or enhancing production from such reserves. The cost of day-to-day servicing petroleum and natural gas properties and equipment is expensed as incurred.

Gains and losses on disposal of PP&E are determined as the difference between proceeds from disposal and the carrying amount of the asset sold and are recognized as a gain or loss on disposal in the statements of comprehensive income.

h) Lease obligations

Lease obligations are initially measured at the present value of the lease payments 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. Plant turnarounds and major overhauls are depreciated over their expected life. Other equipment is depreciated over estimated useful lives on a straight-line basis. Depletion and depreciation is recognized in the consolidated statements of comprehensive income.

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 fair value less cost to sell ("**FVLCS**") and value-in-use. 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 considers 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 statements of comprehensive income. Impairment recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU.

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

Impairment of financial assets is determined by measuring the assets' expected credit loss ("**ECL**"). The ECL pertaining to accounts receivable is assessed at initial recognition and this provision is re-assessed at each reporting date. 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. Financial assets are tested for impairment on an individual basis. An impairment in respect of a financial assets held at fair value through other comprehensive loss financial asset is calculated by reference to its current fair value.

Impairment is recognized in the consolidated statements of comprehensive income. 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 statements 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 is 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 statements of comprehensive income.

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 statements of comprehensive 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 decommissioning obligation.

n) Income taxes

Income tax comprises current and deferred taxes. Income tax is recognized in the statements of comprehensive income except to the extent that it relates to items recognized in other comprehensive loss or directly in equity, in which the related income tax expense or recovery is also recognized directly into other comprehensive loss or elsewhere in shareholders' equity.

Current tax expense is the expected cash tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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 16, options to purchase common shares of Pine Cliff ("**Common Shares**") are granted to directors, officers and employees. 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 statements of comprehensive income. 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 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 net earnings. FVOCI financial instruments including investments are measured at fair value and changes in fair value are recognized in other comprehensive income/loss. 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 per share

Basic per share amounts are calculated by dividing the earnings 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 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 statements 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. FUTURE ACCOUNTING PRONOUNCEMENTS

The following are future accounting pronouncements issued and not yet effective as at December 31, 2022. The Company intends to adopt these standards as they become effective and does not expect a significant impact.

IAS 1 –Presentation of Financial Statements

Effective January 1, 2024, amendments to the classification of liabilities as non-current include the requirement that a right to defer settlement must have substance and exist at the end of the reporting period.

IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

Effective January 1, 2023, amendments to IAS 8 include additional clarification on the determination of changes in accounting policies from changes in accounting estimates. The development of accounting estimates includes selecting a measurement technique and choosing the inputs to be used when applying the chosen measurement technique.

IAS 12 – Income Taxes

Effective January 1, 2023, amendments to IAS 12 require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

5. FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement

Financial instruments of the Company consist of cash, trade and other receivables, investments, trade and other payables, due to related party, 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, promissory notes and term debt approximate their respective fair values due to their interest rates reflecting current market conditions. Investments are measured at fair value based on quoted market prices.

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, 2022 and December 31, 2021:

($000s)	**December 31, 2022**		December 31, 2021	
Description	**Carrying value**	**Fair value**	Carrying value	Fair value
Cash	**54,428**	**54,428**	6,874	6,874
Trade and other receivables	**27,187**	**27,187**	21,613	21,613
Investments	**171**	**171**	-	-
Trade and other payables	**(29,640)**	**(29,640)**	(39,585)	(39,585)
Due to related party	**-**	**-**	(6,000)	(6,000)
Promissory notes	**-**	**-**	(6,000)	(6,000)
Term debt	**-**	**-**	(29,903)	(29,903)

6. 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 natural gas, crude oil and NGL 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 natural gas, crude oil or NGL prices will result in a reduction of net production revenue. The economics of producing from some wells may change because of lower prices, which will result in reduced production of natural gas, crude oil or NGL prices 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, 2022, the Company had the following physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Contract Price ($CAD/GJ)[1]	Contract Price ($CAD/Mcf)[1,2]
April 1, 2023 to October 31, 2023	AECO	7,500	$3.94	$4.14
April 1, 2023 to October 31, 2023	Dawn[3]	2,500	$6.27	$6.58
January 1, 2023 to March 31, 2023	Suffield[4]	5,000	AECO 5A + 0.98/GJ	AECO 5A + 1.03/Mcf
January 1, 2023 to October 31, 2023	TransGas[5]	9,500	AECO 5A + 0.56/GJ	AECO 5A + 0.59/Mcf

[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.
[4] The contract terms of the physical fixed price natural gas sales contract to Suffield#2 delivery point (Suffield, Alberta).
[5] Subsidiary of SaskEnergy, Saskatchewan.

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Contract Price ($CAD/GJ)[1]	Contract Price ($CAD/Mcf)[1,2]
January 1, 2023 to March 31, 2023	AECO	5,000	$4.75 - $6.00	$4.99 - $6.30
January 1, 2023 to March 31, 2023	AECO	5,000	$6.00 - $11.60	$6.30 - $12.18
April 1, 2023 to October 31, 2023	AECO	5,000	$4.00 - $5.45	$4.20 - $5.72

[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.

Subsequent to December 31, 2022, the Company had the following additional physical natural gas sales contracts in place:

Contractual Term	Type of Contract	Physical Delivery Quantity (Mmbtu/day)[1]	Contract Price ($USD/ Mmbtu)[2,3]
April 1, 2023 to October 31, 2023	AECO[3]	5,000	NYMEX Henry Hub less US$1.335/Mmbtu

[1] One Mcf of natural gas is approximately 1.02 Mmbtu.
[2] Prices reported are the weighted average prices of the periods.
[3] AECO basis differential.

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Contract Price ($CAD/GJ)[1]	Contract Price ($CAD/Mcf)[1,2]
April 1, 2023 to October 31, 2023	AECO	7,500	$2.73	$2.87
April 1, 2023 to June 30, 2023	AECO	5,000	$2.54	$2.67

[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.

At December 31, 2022, the Company had the following physical crude oil sales contract in place:

Contractual Term	Crude Oil	Physical Delivery Quantity (Bbl/day)	Contract Price ($CAD/Bbl)[1]
January 1, 2023 to March 31, 2023	WTI Fixed Price	250	$117.50

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

Subsequent to December 31, 2022, the Company had the following additional physical crude oil sales contracts in place:

Contractual Term	Crude Oil	Physical Delivery Quantity (Bbl/day)	Contract Price ($CAD/Bbl)[1]
April 1, 2023 to June 30, 2023	WTI Fixed Price	250	$108.30

[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 Loan, as defined herein, with a Canadian chartered bank, of which no amount is drawn as at December 31, 2022. Borrowings under the Demand Loan bears interest at the banks' prime lending rate plus 2.5%. Pine Cliff has not entered into any derivative financial instruments to manage this risk at this time.

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 reflect management's assessment of the associated maximum exposure to such credit risk.

To mitigate the credit risk on its cash, the Company maintains its cash balances with a Canadian chartered bank. To mitigate the credit risk on trade and other receivables, Pine Cliff assesses the financial strength of its counterparties through internal evaluation and limiting exposure to any one counterparty.

The Company's trade and other receivables balance at December 31, 2022 of $27.2 million (December 31, 2021 – $21.6 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, 2022, there was $0.4 million (December 31, 2021 - $0.2 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, 2022, the Company recorded a bad debt recovery of $0.4 million (December 31, 2021 - $nil) 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.

7. INVESTMENTS

At December 31, 2022, the Company had an investment in a public company of $0.2 million, which was received as partial consideration of $0.3 million (see Note 8).

8. EXPLORATION AND EVALUATION

Cost:	Oil and gas properties	Mineral properties	Total
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**
Additions	-	63	63
Balance at December 31, 2022	-	**2,413**	**2,413**

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. Once 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 two years. The first payment of $0.40 million was received on February 17, 2021 (340,000 common shares of Nighthawk) and all these shares were subsequently sold in 2021. The second payment of $0.35 million was received on February 17, 2022 (475,996 common shares of Nighthawk). Nighthawk will not earn an interest in the property until all amounts have been paid. The present value of the remaining payment has been recorded as a receivable from Nighthawk and payment of $0.35 million was received on February 17, 2023 (865,693 common shares of Nighthawk).

E&E Impairment Assessment

At December 31, 2022, the Company determined that no indicators of impairment existed for E&E assets.

9. PROPERTY, PLANT AND EQUIPMENT

Cost:	($000s)
Balance at December 31, 2020	**641,518**
Additions	21,465
Right-of-use assets	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**
Additions	29,014
Right-of-use assets	500
Acquisitions	1,119
Dispositions	(7,046)
Decommissioning provision	(35,295)
Balance at December 31, 2022	**695,955**

Accumulated depletion and depreciation:	($000s)
Balance at December 31, 2020	**(386,575)**
Depletion and depreciation	(40,994)
Impairment reversal	13,979
Balance at December 31, 2021	**(413,590)**
Depletion and depreciation	(44,074)
Impairment reversal	4,500
Dispositions	7,254
Balance at December 31, 2022	**(445,910)**

Carrying value at:	($000s)
December 31, 2021	294,073
December 31, 2022	**250,045**

PP&E Impairment Assessment

As at December 31, 2022, the Company had three cash generating units ("**CGU's**") being the Southern CGU, Central CGU and Edson CGU. In accordance with IFRS, an impairment test is performed if the Company identifies indicators of impairment at the end of a reporting period. At December 31, 2022, there were no indicators of impairment or additional impairment reversals for PP&E assets and therefore an impairment test was not required.

At June 30, 2022, the Company identified indicators of an impairment reversal in the Edson CGU due to increased forward commodity prices since the latest impairment reversal recognized at December 31, 2021. As a result, recovery testing was performed by preparing estimates of future funds flows to determine the recoverable amount of the respective assets.

The Company determined that the recoverable amounts of the Company's Edson CGU exceeded its carrying value. A total impairment recovery of $4.5 million was recognized in the Company's PP&E.

Impairment can be reversed for PP&E up to the lower of the recoverable amount and 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 June 30, 2022:

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 July 1, 2022 (McDaniel & Associates Consultants Ltd., GLJ Petroleum Consultants Ltd. and Sproule Associates Limited).

The recoverable amounts of each of the Company's CGU's at June 30, 2022 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 reserves evaluator at June 30, 2022. 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 June 30, 2022 impairment test which considered 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 an 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 June 30, 2022. 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's were reversed as at December 31:

CGU	**2022**	2021
Edson	**(4,500)**	(12,000)
CBM	**-**	(1,979)
Total impairment reversal	**(4,500)**	(13,979)

Asset Exchange

On December 1, 2022, the Company closed an asset exchange agreement for non-core assets in Central Alberta, resulting in a gain of $2.5 million.

10. LEASE LIABILITIES

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

	As at December 31,	
($000s)	**2022**	2021
2023	**1,154**	1,050
2024	**1,017**	1,027
2025	**847**	856
2026	**585**	703
2027	**-**	473
Thereafter	**-**	-
Total lease payments as at December 31	**3,603**	4,109
Amounts representing interest	**(305)**	(441)
Present value of lease payments	**3,298**	3,668
Current portion of lease obligations	**(1,002)**	(1,050)
Non-current portion of lease obligations	**2,296**	2,618

For the year ended December 31, 2022, interest expense of $0.2 million (December 31, 2021 - $0.2 million) and a total cash outflow of $1.2 million (December 31, 2021 - $1.1 million) was recognized relating to lease obligations.

The right-of-use assets and lease obligation relates to the Company's vehicle and head office lease in Calgary. A right-of-use asset of $7.2 million and $4.0 million in depreciation on the right-of-use-assets are included in PP&E. Refer to Note 9.

11. DEFERRED INCOME TAXES

The Company has recorded a deferred tax asset of $37.0 million (December 31, 2021 - $50.6 million) related to the benefit of tax pools, as it is probable that they will be recovered.

	As at December 31,	
Deferred income tax assets:	**2022**	2021
Share issue costs	**19**	11
Investment	**21**	-
Decommissioning provision	**48,963**	58,371
Property and equipment	**(8,254)**	(15,384)
Lease liabilities	**775**	862
Capital losses carried forward	**475**	475
Non-capital losses carried forward	**4,741**	31,959
Asset before unrecognized deferred income tax	**46,740**	76,294
Less: unrecognized deferred income tax	**(9,698)**	(25,653)
Net deferred income tax asset	**37,042**	50,641

Pine Cliff has approximately $240.7 million in tax pools as at December 31, 2022 (December 31, 2021 - $370.8 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 $20.8 million (December 31, 2021 - $136.4 million) that expire between the years 2035 and 2040.

Category of tax pool ($000s)	Rate of Utilization (%)	**2022**
Undepreciated capital costs	7 - 55	**27,285**
Canadian oil and gas property expenditures	10	**166,196**
Canadian development expenditures	30	**20,683**
Canadian exploration expenditures	100	**156**
Share issue costs	20	**82**
Non-capital losses carried forward[1]	100	**20,759**
Capital losses carried forward[2]		**5,523**
		240,684

[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.

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, **2022**	2021
Earnings before income taxes	**122,559**	30,780
Corporate income tax rate	**23.5%**	23.5%
Computed income tax expense	**28,807**	7,235
Non-deductible compensation expense	**600**	271
Changes in the unrecorded benefit of tax pools	**(15,955)**	(61,365)
Return to provision true-up	**168**	3,218
Deferred income tax expense (recovery)	**13,620**	(50,641)

12. DUE TO RELATED PARTY

Pine Cliff had a $6.0 million promissory note to the Company's Chairman of the Board bearing interest at 6.5% per annum, payable monthly. On June 30, 2022, Pine Cliff repaid in full the $6.0 million promissory note. Interest paid on this promissory note for the year ended December 31, 2022 was $0.2 million (December 31, 2021 - $0.4 million).

Borrowing Facility

The Company had a $4.0 million borrowing facility (the "**Facility**") with the Company's Chairman of the Board (the "**Lender**"), whereby the Lender provided up to $4.0 million of borrowings at an interest rate of 6.5% per annum, payable monthly. The Facility was cancelled effective December 1, 2022. There was no amount drawn on the Facility at any time during the year ended December 31, 2022 (December 31, 2021 - $nil). Interest paid on the Facility for the year ended December 31, 2022, was $nil (December 31, 2021 - $nil).

13. PROMISSORY NOTES

Pine Cliff had issued $6.0 million promissory notes to a shareholder, owning at the time, directly or by discretion, greater than 10% of the Common Shares. Those promissory notes bore interest at 6.5% per annum, payable monthly. On June 30, 2022, Pine Cliff repaid in full the $6.0 million promissory notes.

14. TERM DEBT

	As at December 31, **2022**	2021
Term debt – beginning of year	**29,903**	48,747
Repayment on term debt	**(30,000)**	(19,000)
Accretion expense	**97**	156
Term debt - end of year	**-**	29,903

The non-revolving credit facility ("**Term Debt**") with Alberta Investment Management Corporation ("**AIMCO**"), acting on behalf of its clients, consisted of a first tranche with a principal amount of $30.0 million that was due to mature on December 31, 2024 (the "**2024 Tranche**") and a second tranche with a principal amount of $19.0 million that was due to mature on July 31, 2022 (the "**2022 Tranche**"). Interest on the 2024 Tranche was payable at a rate of 10.75% per annum until September 30, 2022 and thereafter such interest rate would 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 was able to 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 remaining 2022 Tranche. During the first six months of 2022, the Company repaid in full the 2024 Tranche, resulting in an interest penalty of $0.7 million. The security for the Term Debt consisting of floating demand debentures totaling $150.0 million and a general security agreement with first ranking over all current and acquired properties, was fully discharged.

Demand Loan Facility

The Company has a demand operating loan (the "**Demand Loan**") of $8.0 million with a Canadian chartered bank, of which no amount was drawn at December 31, 2022 (December 31, 2021 - $nil). Borrowings bear interest at the bank's prime lending rate plus 2.0%. Letters of credit issued under the Demand Loan are supported by a performance guarantee from Export Development Canada for an amount up to $2.60 million and incur an issuance fee ranging from 3.12% to 3.62%. At December 31, 2022, the Company had issued $1.68 million in letters of credit (December 31, 2021 - $2.50 million).

The Demand Loan is secured by a general security agreement over certain tangible field facilities of the Company.

15. DECOMMISSIONING PROVISION

The total current and long-term decommissioning provision of $208.4 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, 2022, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was $277.3 million (December 31, 2021 - $263.2 million). The discounted and inflated amount required to settle the decommissioning liabilities of $208.4 million has been calculated assuming a 2.00% inflation rate (December 31, 2021 – 2.00%) and discounted using an average risk-free interest rate of 3.33% (December 31, 2021 – 2.30%). These obligations are currently expected to be settled based on the useful lives of the underlying assets, some of which extend beyond 50 years into the future.

	($000s)
Decommissioning provision, January 1, 2021	235,005
Increase in liabilities relating to development activities	322
Provisions related to acquisitions	25,728
Site decommissioning grants	(5,047)
Decommissioning expenditures	(1,633)
Revisions (changes in estimates and discount rates)	(11,325)
Accretion	5,373
Decommissioning provision, December 31, 2021	**248,423**
Increase in liabilities relating to development activities	113
Provisions related to acquisitions	2,835
Provisions related to dispositions	(7,965)
Site decommissioning grants	(5,142)
Decommissioning expenditures	(5,757)
Revisions (changes in estimates and discount rates)	(30,278)
Accretion	6,158
Decommissioning provision, December 31, 2022	**208,387**
Less current portion of decommissioning provision	(6,900)
Non-current portion of decommissioning provision	**201,487**

16. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of Common Shares without nominal or par value. Common Shares carry one vote per share and the right to any dividends declared. 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

Issued and outstanding share capital continuity:	Common Shares (000s)	Share capital ($000s)
Balance, January 1, 2021	335,284	274,964
Exercise of stock options	4,255	802
Balance, December 31, 2021	339,539	275,766
Exercise of stock options	11,370	1,884
Balance, December 31, 2022	**350,909**	**277,650**

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.

Stock options issued and outstanding:	Options (000s)	Weighted-average exercise price ($ per Common Share)
Outstanding, January 1, 2021	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**
Granted	7,162	1.89
Exercised	(12,896)	0.23
Expired	(291)	0.52
Forfeited	(921)	0.81
Outstanding, December 31, 2022	**18,324**	**0.87**
Exercisable, December 31, 2022	**2,145**	**0.22**

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
$0.10 - $0.15	3,568	1.2	1,254	0.7
$0.16 - $0.33	7,752	1.7	826	0.4
$0.34 - $0.99	195	1.8	65	0.8
$1.00 - $1.92	6,809	2.4	-	-
	18,324	**1.9**	**2,145**	**0.6**

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, 2022, the Company granted 7,161,600 stock options (December 31, 2021 – 11,386,600) with a fair value of $0.73 (December 31, 2021 - $0.16) per option using the Black-Scholes option pricing model using the following key assumptions:

Assumptions (weighted average):	Years ended December 31, **2022**	2021
Exercise price ($)	**1.89**	0.34
Estimated volatility of underlying Common Shares (%)	**73.2**	78.4
Expected life (years)	**3.0**	3.0
Risk-free rate (%)	**2.7**	0.5
Forfeiture rate (%)	**7.7**	3.9
Expected dividend yield (%)	**5.1**	-

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

Per Share Calculations

The average market value of the Common Shares for the purposes of calculating the dilutive effect of stock options and warrants was based on quoted market prices for the period that the options were outstanding.

Net earnings per share calculation ($000s):	Years ended December 31, **2022**	2021
Numerator		
Net earnings for the year	**108,939**	81,421
Denominator (000s)		
Weighted-average Common Shares outstanding – basic	**346,443**	337,254
Dilutive effect of options outstanding	**13,590**	11,031
Weighted-average Common Shares outstanding – diluted	**360,033**	348,285
Net earnings per Common Share – basic ($)	**0.31**	0.24
Net earnings per Common Share – diluted ($)	**0.30**	0.23

Dividends declared and paid for the year ended December 31, 2022 were $23.6 million (December 31, 2021 - $nil) or $0.07 per Common Share ($nil per Common Share for the year ended December 31, 2021).

17. COMMODITY SALES

The Company's commodity sales revenue is determined pursuant to the terms of the marketing agreements. The revenue for natural gas, crude oil and NGLs 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)	**2022**	2021
Natural gas	**217,772**	130,546
NGLs	**38,549**	22,198
Crude oil	**49,887**	11,241
Total commodity sales	**306,208**	163,985

18. SUPPLEMENTAL CASH FLOW INFORMATION

	Years ended December 31,	
	2022	2021
Changes in non-cash working capital:		
Trade and other receivables[1]	**(5,574)**	(6,055)
Prepaid expenses and deposits	**(321)**	(962)
Trade and other payables and accrued liabilities	**(9,945)**	12,310
	(15,840)	5,293
Change related to:		
Operating activities	**(6,997)**	(7,990)
Investing activities	**(9,190)**	13,283
	(16,187)	5,293

[1] Changes in non-cash working capital excludes the receivable amount referred to in note 8.

	Years ended December 31,	
Finance expenses:	**2022**	2021
Interest expense and bank charges	**2,407**	4,876
Non cash:		
Accretion on decommissioning provision	**6,157**	5,373
Accretion on promissory notes and term debt	**97**	105
Total finance expenses	**8,661**	10,405

Cash interest paid in the year ended December 31, 2022, was $3.6 million (December 31, 2021 - $5.1 million).

19. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses by nature were as follows:

	Years ended December 31,	
General and administration expenses:	**2022**	2021
Salary and benefits	**7,424**	6,433
Administrative and other costs	**2,759**	2,414
Overhead recoveries	**(3,364)**	(3,040)
Total general and administrative expenses	**6,819**	5,807

20. KEY MANAGEMENT RENUMERATION

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 short-term cash benefits and its directors and officers also participate in the Option Plan. Director and officer compensation was as follows:

	Years ended December 31,	
Key management remuneration:	**2022**	2021
Short-term benefits[1]	**2,587**	1,939
Share-based payments[2]	**1,007**	895
Total key management remuneration	**3,594**	2,834

[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 16 and include the fair value of awards expensed in the year.

21. COMMITMENTS

As at December 31, 2022, the Company has the following commitments and other contractual obligations:

($000s)	**2023**	**2024**	**2025**	**2026**	**2027**	**Thereafter**
Trade and other payables	29,640	-	-	-	-	-
Lease obligations[1]	1,154	1,017	847	585	-	-
Transportation[2]	9,039	6,969	6,423	5,619	4,328	-
Total commitments and contingencies	**39,833**	**7,986**	**7,270**	**6,204**	**4,328**	**-**

[1] See Note 10.
[2] Firm transportation agreements.

22. CAPITAL STRUCTURE

The Company's objectives when managing capital, which the Company defines to include shareholders' equity and positive net cash/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 positive net cash/net debt as follows:

($000s)	**December 31, 2022**	December 31, 2021
Cash	**54,428**	6,874
Trade and other receivables	**27,187**	21,613
Prepaid expenses and deposits	**3,767**	3,446
Investments	**171**	-
Less:		
Trade and other payables	**(29,640)**	(39,585)
Term debt[1]	**-**	(30,000)
Due to related party	**-**	(6,000)
Promissory notes	**-**	(6,000)
Positive net cash (net debt)	**55,913**	(49,652)
Equity	**133,728**	45,418

[1] The term debt for positive net cash/net debt is presented at the principal amount with $30.0 million repaid in 2022.

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 positive net cash (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 fund future growth through capital investment, to pay dividends and where necessary repay debt. Positive net cash (net debt)-to-adjusted funds flow is computed as follows:

	As at December 31,	
Positive net cash (net debt)-to-adjusted funds flow calculation:	**2022**	2021
Cash provided by operating activities	**150,452**	49,483
Changes in non-cash working capital	**6,997**	7,990
Decommissioning obligations settled in cash	**5,757**	1,633
Adjusted funds flow	**163,206**	59,106
Positive net cash (net debt)	**55,913**	(49,652)

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.

23. SUBSEQUENT EVENTS

Dividends

On January 31, 2023 and February 28, 2023, the Company paid a monthly dividend of $0.01083 per Common Share.

On March 2, 2023, the Company declared a monthly dividend of $0.01083 per Common Share. The dividend is payable March 31, 2023, to all shareholders of record on March 15, 2023.

BOARD OF DIRECTORS

George F. Fink - Chairman
Philip B. Hodge
Robert B. Fryk
Calvin B. Jacober
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

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REGISTRAR AND TRANSFER AGENT

Odyssey Trust Company of Canada

AUDITORS

Deloitte LLP

STOCK EXCHANGE LISTING

TSX Exchange
Trading Symbol: PNE

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