

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

Long-term Value Focus
Annual Report 2017

2017 was a record year for Pine Cliff in both revenue and funds flow from operations. The following are our highlights for the past quarter and the 2017 year:

- generated \$3.8 million of funds flow from operations (\$0.01 per basic share) for the three months ended December 31, 2017;
- generated a record annual \$28.7 million (\$0.09 per basic share) of funds flow from operations during the year ended December 31, 2017, compared to \$19.7 million of funds flow from operations (\$0.06 per basic share) during the year ended December 31, 2016, an increase of \$9.0 million and 46%;
- generated a record annual total revenue of \$115.1 million for the year ended December 31, 2017, an increase of 4% compared to \$111.1 million during the year ended December 31, 2016;
- achieved average production of 21,489 Boe/d (95% natural gas) in the fourth quarter of 2017, slightly lower than the 21,525 Boe/d in the fourth quarter of 2016, despite incurring only \$6.4 million of drilling and recompletion capital spending in 2017, representing only 22% of annual funds flow from operations, highlighting the importance of having one of the lowest decline rates in the industry;
- reduced bank debt by \$12.9 million or 42% during the year ended December 31, 2017, ending the year with bank debt of \$18.0 million, our lowest bank debt level at year end in four years. The decrease in bank debt resulted in interest and bank charges, net of dividend income, of \$0.40 per Boe this past quarter, 53% lower than the \$0.75 per Boe in the fourth quarter of 2016;
- ended 2017 with \$53.7 million in net debt, our lowest net debt level at year end in four years, which is \$10.5 million or 16% less than the 2016 net debt level of \$64.2 million;
- reduced net-debt-to-funds flow from operations by 42% from 3.3 as at December 31, 2016 to 1.9 as at December 31, 2017; and
- entered into a long-term firm transportation agreement for approximately 11,000 Mcf per day of production to the Dawn natural gas market that commenced November 1, 2017.

Commodity Risk Management

Pine Cliff's operations and marketing teams have spent a considerable amount of time in the past few months expanding our sales delivery points to access higher natural gas prices outside of Alberta. The Dawn market commitment was one of those initiatives. In addition, we focused attention on utilizing our own infrastructure to move more gas to Empress and into Saskatchewan to access delivery points at TransGas. We expect Q1 2018 sales volume deliveries will be approximately 56% AECO, 16% TransGas, 9% Dawn, 7% Empress, 7% Montana and 5% oil and liquids. Due to the recent completion of pipeline and compression optimization projects though, we expect sales volume deliveries will average 46% AECO, 22% TransGas, 10% Empress, 9% Dawn, 7% Montana and 6% oil and liquids from Q2 2018 through the remainder of the year.

Other than the Dawn market agreement, we are not committed to long term deliveries into these other markets and can return the production to the AECO market if prices justify it. We think this flexibility will prove valuable as different market hubs face different pricing pressures in the future. The fact that Pine Cliff owns three NEB pipelines taking gas out of Alberta has proven to be quite strategic during these volatile times.

Outlook

Despite the AECO daily natural gas price averaging \$0.74/Mcf in October, the lowest monthly AECO price in over 10 years, and \$1.68/Mcf for the fourth quarter, AECO prices have been better than we expected for the first 10 weeks of 2018 due to colder weather across North America. The forward strip pricing for the remainder of 2018 however is still relatively weak with an average strip price of \$1.41 Mcf. We continue to focus our activities on reducing costs to improve margins and getting better prices for our products. Our efforts in the past few months to mitigate exposure to AECO pricing is another example of that.

The current low forecast in gas prices in Western Canada is primarily due to an oversupply of natural gas combined with restricted pipeline access to Eastern and Southern markets. We believe that the latter issue will be resolved over the next few years as pipeline companies move ahead with various expansion plans. We also do not believe the oversupply issue is a long term concern as we are already seeing natural gas rig deployment drop in Western Canada as producers react to the lower natural gas prices. We predict that the impact of those budget decisions will start to show up later this year as natural production declines are not met with the same level of new production that we saw in 2017.

For those of you who have been shareholders with us for a while, you know we have always lived within our cash flow, rather than pursue unprofitable production growth. Due to the restrictions on capital our industry is currently facing, we are now witnessing more companies sharing the same strategy of “living within cash flow” that we have employed since 2012. I personally believe that this return to prudent behaviour will serve our industry well and will attract investors back to the energy sector as companies show better returns on capital employed.

Global natural gas demand continues to grow in almost every jurisdiction it is used, especially in developing nations where energy demand growth is the greatest. LNG export terminals continue to get built in North America, and this will continue to narrow the price differentials that currently exist between North America and the rest of the world. I remain bullish on owning shares in a natural gas company based in Western Canada like Pine Cliff and am confident we will see increasing natural gas prices in the near future.

It has been frustrating to see our share price drop along with the rest of our industry peers, but we have conviction that if we continue to run the business with a focus on positive cash generation, our efforts will eventually be acknowledged by the markets with a higher share price. The fourth quarter of 2017 was the 23rd quarter out of the last 24 quarters where we have delivered positive funds flow, and we have managed through a tremendous amount of price volatility in those six years. We will continue to focus on controlling the variables we can control and that are critical to our sustainable business model.

We thank you for your continued patience and support as our team continues to work towards our goal of delivering long term value to our shareholders.

Yours truly,



Phil Hodge
President and Chief Executive Officer
March 13, 2018

RESERVES INFORMATION

McDaniel & Associates Consultants Limited (“**McDaniel**”) was engaged to prepare evaluations of the reserves of Pine Cliff Energy Ltd. (the “**Company**”) at December 31, 2017. 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, 2017. 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 2017 year include:

- Positive technical revisions of 6.7 MMBOE on a total proved plus probable basis;
- Prior to adjusting for 2017 production, total positive net changes to proved reserves were 5.1 MMBOE (9%), largely a result of improved well performance and a successful well recompletion program;
- Remaining proved reserves of 51.1 MMBOE (95% natural gas) at December 31, 2017, decreased by 2.7 MMBOE (5%) from 53.8 MMBOE (94% natural gas) at December 31, 2016;
- Prior to adjusting for 2017 production, total positive net changes to proved plus probable reserves were 4.1 MMBOE, largely a result of improved well performance;
- Remaining proved plus probable reserves of 67.2 MMBOE (94% natural gas) at December 31, 2017 decreased by 3.7 MMBOE (5%) from 70.9 MMBOE (94% natural gas) at December 31, 2016;
- Approximately 76% of total reserves are classified as proved reserves and 24% are classified as probable reserves;
- Approximately 98% of proved reserves are classified as proved developed producing;
- Net present value for proved plus probable reserves of \$240.1 million, discounted at 10%, a decrease of \$106.8 million, or 31%, from December 31, 2016, mainly as a result of decreases in the future natural gas price deck; and
- In line with Pine Cliff’s historical acquisition focus rather than drilling existing reserves, the McDaniel reserve report reflects a conservative future development capital program of \$69.3 million over the next five years.

Summary of Remaining Working Interest Reserves, as of December 31, 2017

Reserve Category	Light, Medium and Heavy Oil	Natural Gas and CBM	Natural Gas Liquids	BOE
	MBbl	MMcf	MBbl	MBOE
Proved				
Developed Producing	432.5	282,598.1	2,418.5	49,950.7
Developed Non-Producing	-	456.1	19.5	95.5
Undeveloped	31.6	5,054.3	152.7	1,026.7
Total Proved	464.1	288,108.5	2,590.7	51,072.9
Probable	207.2	89,323.0	1,050.9	16,145.3
Total Proved plus Probable	671.3	377,431.5	3,641.6	67,218.2

Summary of Net Present Values of Future Net Revenue, Before Income Taxes, as of December 31, 2017¹

(\$millions)	Discounted at (% per year)			
	0%	5%	10%	15%
Reserve Category				
Proved				
Developed Producing	170.2	181.4	171.6	157.1
Developed Non-Producing	0.7	0.7	0.6	0.6
Undeveloped	10.8	7.0	4.7	3.2
Total Proved	181.7	189.1	176.9	160.9
Probable	149.9	96.7	63.2	42.2
Total Proved plus Probable	331.6	285.8	240.1	203.1

¹Includes abandonment and reclamation costs.

Reconciliation of Gross Reserves by Principal Product Type, as of December 31, 2017

	Light, Medium, and Heavy Oil and Natural Gas Liquids		Natural Gas and Coal Bed Methane		BOE	
	Proved	Proved plus Probable	Proved	Proved plus Probable	Proved	Proved plus Probable
	(MBbl)	(MBbl)	(MMcf)	(MMcf)	(MBOE)	(MBOE)
December 31, 2016	3,377.6	4,496.2	302,540.7	398,635.5	53,801.1	70,935.6
Extension	272.1	382.7	3,889.1	5,391.7	920.3	1,281.3
Technical Revisions	(143.5)	(104.1)	45,432.3	40,806.4	7,434.1	6,697.0
Acquisitions	30.7	31.2	1,692.9	2,067.0	307.4	375.7
Change in Working Interest	33.3	29.0	2,664.8	2,651.1	477.4	470.9
Economic Factors	(104.5)	(111.2)	(23,683.9)	(27,692.8)	(4,051.8)	(4,726.7)
Total Changes	88.1	227.5	29,995.2	23,223.5	5,087.4	4,098.3
Production	(410.9)	(410.9)	(44,427.4)	(44,427.4)	(7,815.6)	(7,815.6)
December 31, 2017	3,054.8	4,312.9	288,108.5	377,431.5	51,072.9	67,218.2

Finding, Development and Acquisition ("FD&A") Costs ¹

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

	2017 ⁽¹⁾	2016 ⁽²⁾	2015 ⁽¹⁾	3 year average ⁽¹⁾
\$/Boe				
Proved Reserves	4.58	0.01	5.36	3.60
Proved plus probable reserves	6.29	0.33	4.58	3.50
\$/Mcf				
Proved Reserves	0.76	0.00	0.89	0.60
Proved plus probable reserves	1.05	0.05	0.76	0.58

¹ FD&A costs, including changes in future development capital, are calculated as the aggregate of development capital plus acquisition capital, net of dispositions, plus the change in future development capital for the period divided by the change in total reserves for the period, excluding production.

² FD&A costs, including changes in future development capital, are calculated as the aggregate of development capital plus acquisition capital and excluding disposition capital plus the change in future development capital divided by the change in total reserves for the period, excluding dispositions and production.

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

	2017 ⁽³⁾	2016 ⁽⁴⁾	2015 ⁽³⁾	3 year average ⁽³⁾
\$/Boe				
Proved Reserves	2.55	1.86	5.26	3.46
Proved plus probable reserves	3.17	2.94	4.14	3.00
\$/Mcf				
Proved Reserves	0.43	0.31	0.88	0.58
Proved plus probable reserves	0.53	0.49	0.69	0.50

³ FD&A costs, excluding changes in future development capital, are calculated as the aggregate of development capital plus acquisition capital, net of dispositions for the period divided by the change in total reserves for the period, excluding production.

⁴ FD&A costs, excluding changes in future development capital, are calculated as the aggregate of development capital plus acquisition capital and excluding disposition capital dividend by the change in total reserves for the period, excluding dispositions and production.

Commodity Prices

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

Year	WTI Oil (US\$/Bbl) ¹	\$C to US\$ Foreign exchange rate ¹	Edmonton Light Crude Oil (Cdn\$/Bbl) ¹	AECO Gas (Cdn\$/MMBtu) ¹
2018	58.50	1.27	70.10	2.25
2019	58.70	1.27	71.30	2.65
2020	62.40	1.25	74.90	3.05
2021	69.00	1.21	80.50	3.40
2022	73.10	1.18	82.80	3.60
2023-2032	81.60	1.18	92.43	4.02
Thereafter	+2%/yr	1.18	+2%/yr	+2%/yr

¹Source: McDaniel Price forecasts, effective January 1, 2018

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, 2017, which can be found on www.sedar.com and is subject to the same cautionary statements as set out therein.

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position of Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") for the year ended December 31, 2017. This MD&A is dated and based on information available as at March 13, 2018 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2017 and 2016 ("Financial Statements"). The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") consistent with the International Accounting Standards Board using Generally Accepted Accounting Principles ("GAAP"). Additional information relating to the Company, including the Company's Annual Information Form, may be found on www.sedar.com and by visiting Pine Cliff's website at www.pinecliffenergy.com.

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

READER ADVISORIES

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

Other Measurements

All amounts herein are presented in Canadian dollars unless otherwise specified. All references to \$CAD or \$ are to Canadian dollars and monetary references to \$US are to United States dollars.

Natural gas liquids and oil volumes are recorded in barrels of oil ("Bbl") and are converted to a thousand cubic feet equivalent ("Mcf") using a ratio of one (1) Bbl to six (6) thousand cubic feet. Natural gas volumes recorded in thousand cubic feet ("Mcf") are converted to barrels of oil equivalent ("Boe") using the ratio of six (6) thousand cubic feet to one (1) Bbl. This conversion ratio is based on energy equivalence primarily at the burner tip and does not represent a value equivalency at the wellhead. The terms Boe or Mcfe may be misleading, particularly if used in isolation.

2017 AND FOURTH QUARTER 2017 HIGHLIGHTS

Highlights from 2017 and the fourth quarter of 2017 are as follows:

- generated \$3.8 million of funds flow from operations (\$0.01 per basic share) for the three months ended December 31, 2017;
- generated a record annual \$28.7 million (\$0.09 per basic share) of funds flow from operations during the year ended December 31, 2017, compared to \$19.7 million of funds flow from operations (\$0.06 per basic share) during the year ended December 31, 2016, an increase of \$9.0 million and 46%;
- generated a record annual total revenue of \$115.1 million for the year ended December 31, 2017, an increase of 4% compared to \$111.1 million during the year ended December 31, 2016;
- achieved average production of 21,489 Boe/d (95% natural gas) in the fourth quarter of 2017, slightly lower than the 21,525 Boe/d in the fourth quarter of 2016, despite incurring only \$6.4 million of drilling and recompletion capital spending in 2017, representing only 22% of annual funds flow from operations;
- reduced bank debt by \$12.9 million or 42% during the year ended December 31, 2017, ending the year with bank debt of \$18.0 million, the lowest bank debt level at year end in four years. The decrease in bank debt resulted in interest and bank charges, net of dividend income, of \$0.40 per Boe this past quarter, 53% lower than the \$0.75 per Boe in the fourth quarter of 2016;
- ended 2017 with \$53.7 million in net debt, the Company's lowest net debt level at year end in four years, which is \$10.5 million or 16% less than the 2016 net debt level of \$64.2 million; and
- reduced net-debt-to-funds flow from operations by 42% from 3.3 as at December 31, 2016 to 1.9 as at December 31, 2017.

SELECTED ANNUAL FINANCIAL INFORMATION

	Year ended December 31,		
	2017	2016	2015
(\$000s, unless otherwise indicated)			
FINANCIAL¹			
Oil and gas sales (before royalties)	120,981	118,642	78,593
Total revenue (net of royalties)	115,076	111,052	74,167
Cash flows from operating activities	25,009	22,489	20,768
Funds flow from operations²	28,705	19,741	25,818
Per share – Basic and Diluted (\$/share)	0.09	0.06	0.11
Loss for the year	(67,864)	(50,387)	(24,257)
Per share – Basic and Diluted (\$/share)	(0.22)	(0.16)	(0.10)
Total assets	405,228	491,897	640,775
Total non-current financial liabilities	29,307	40,086	155,938
Total liabilities	276,135	296,139	406,368
Capital expenditures	13,477	9,159	7,259
Acquisitions	(62)	(807)	193,065
Dispositions	(429)	(63,112)	-
Net Debt²	53,638	64,224	141,770
Weighted average common shares outstanding (000s) - Basic and Diluted	307,076	306,329	240,149
OPERATIONS			
Production			
Natural gas (Mcf/d)	121,718	124,906	72,984
Natural gas liquids (Bbl/d)	924	924	530
Crude oil (Bbl/d)	198	753	160
Total (Boe/d)	21,408	22,495	12,854
Total (Mcf/d)	128,448	134,970	77,124
Realized commodity sales prices			
Natural gas (\$/Mcf)	2.30	2.13	2.66
Natural gas liquids (\$/Boe)	43.81	32.53	25.00
Crude oil (\$/Bbl)	57.17	37.41	48.26
Total (\$/Boe)	15.48	14.41	16.75
Netback (\$/Boe)			
Operating netback ²	4.88	4.08	7.08
Corporate netback ²	3.68	2.39	5.51
Netback (\$/Mcf)			
Operating netback ²	0.81	0.68	1.18
Corporate netback ²	0.61	0.40	0.92

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.

SENSITIVITIES

Pine Cliff's results are sensitive to changes in the business environment in which it operates. The following chart shows the Company's sensitivity to key commodity price variables and interest rates on variable rate debt. The sensitivity calculations are performed independently showing the effect of the change of one variable; all other variables are held constant.

Business environment sensitivities	Impact on annual funds flow from operations ¹		
	Change	\$000s	\$ per share ³
Crude oil price - Edmonton Light (\$/Bbl) ²	\$1.00	299	0.00
Natural gas price - AECO (\$/Mcf) ²	\$0.10	4,217	0.01
Interest rate on variable rate debt ⁴	1.0%	279	0.00

¹ This analysis does not adjust for changes in working capital and uses royalty rates from Q4 2017.

² Pine Cliff has prepared this analysis using its Q4 2017 production volumes annualized for twelve months.

³ Based on the Q4 2017 basic weighted average shares outstanding.

⁴ Based on December 31, 2017 bank debt of \$18.0 million, 2018 Notes, as defined herein, of \$6.0 million, and 2018 Related Party Notes, as defined herein, of \$5.0 million, less cash of \$1.1 million.

QUARTERLY BENCHMARK PRICES

Pine Cliff's financial results are influenced by fluctuations in commodity prices, including price differentials. The following table shows select market benchmark average prices and foreign exchange rates in the last eight quarters to assist in understanding the volatility in prices and foreign exchange rates that have impacted Pine Cliff's business.

	Q4-2017	Q3-2017	Q2-2017	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016
Natural gas								
NYMEX (US\$/Mmbtu) ¹	2.91	2.98	3.13	3.25	2.95	2.78	1.95	2.05
AECO Daily 5A (C\$/Mcf) ²	1.68	1.45	2.77	2.68	3.08	2.31	1.39	1.82
Pine Cliff realized natural gas price (\$/Mcf)	1.98	1.63	2.80	2.83	2.93	2.33	1.32	1.94
Crude oil								
WTI (US\$/Bbl)	55.40	48.20	48.28	51.91	49.29	44.94	45.59	33.45
Edmonton Light (C\$/Bbl)	68.98	56.65	61.87	63.91	61.61	54.71	54.71	40.69
Foreign exchange								
US\$/C\$	1.270	1.250	1.340	1.320	1.334	1.305	1.289	1.375

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 ended December 31, 2017, the AECO daily benchmark was 45% lower compared to the same period of 2016, primarily due to increased natural gas supply and limited takeaway capacity. The price realized by the Company for natural gas production from Western Canada is determined primarily by the Alberta price hub AECO. Most of Pine Cliff's natural gas production is in Alberta with the remainder produced in Saskatchewan.

The average WTI benchmarks and Edmonton Light crude both increased by 12% in the three months ended December 31, 2017, as compared to the same period in 2016, due to improved global demand and the reduction in global crude and product inventories. Canadian crude prices are based upon refiner postings at Edmonton, Alberta and are linked to WTI through transportation tariffs to common markets and the foreign exchange rate. Pine Cliff's oil is sold at a discount to the Edmonton Light crude oil price as a result of quality differences.

The supply and demand dynamics for certain NGL components such as ethane, propane, butane, and condensate in the recent past has impacted the relationship between the price of NGLs and the price of oil. In the three months and year ended December 31, 2017, the realized price of Pine Cliff's NGL's was \$47.73 and \$43.81, respectively, which was 69% and 70% of Edmonton Light.

QUARTERLY TRENDS AND SELECTED FINANCIAL INFORMATION

(\$000s, unless otherwise indicated)	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
FINANCIAL¹								
Total revenue	25,444	23,892	34,005	31,735	35,189	30,067	19,905	25,891
Cash flow from operating activities	(4,350)	5,517	10,007	13,835	12,632	4,606	(4,371)	9,622
Funds flow from operations ²	3,759	2,879	10,834	11,233	15,026	6,972	(3,655)	1,398
Funds flow from operations per share – basic and diluted (\$/share) ²	0.01	0.01	0.04	0.04	0.05	0.02	(0.01)	0.00
Impairments	-	17,800	-	-	4,648	-	-	-
Earnings (loss)	(32,996)	(30,214)	(2,118)	(2,536)	3,210	(11,558)	(25,862)	(16,177)
Earnings (loss) per share – basic and diluted (\$/share)	(0.11)	(0.10)	(0.01)	(0.01)	0.01	(0.04)	(0.08)	(0.05)
Capital expenditures	3,091	3,318	3,267	3,801	3,356	1,437	749	3,617
Acquisitions	44	(9)	(97)	-	(1,029)	(603)	240	585
Dispositions	(148)	(65)	(216)	-	(33,032)	(5,378)	(24,702)	-
Net debt ²	53,638	53,377	52,562	58,930	64,224	110,312	122,032	143,587
Weighted average common shares outstanding:								
Basic	307,076	307,076	307,076	307,076	306,977	306,878	305,928	305,512
Diluted	307,076	307,076	307,076	307,076	307,095	306,878	305,928	305,512
PRODUCTION VOLUMES								
Natural gas (Mcf/d)	122,304	124,450	119,410	120,677	120,540	125,082	124,966	129,085
Natural gas liquids (Bbl/d)	880	998	912	903	833	871	933	1,060
Crude oil (Bbl/d)	225	123	263	198	602	803	886	723
Average sales volumes (Boe/d)	21,489	21,863	21,077	21,214	21,525	22,521	22,647	23,297
Average sales volumes (Mcf/d)	128,934	131,178	126,462	127,284	129,150	135,126	135,882	139,782
PRICES AND NETBACKS								
Total oil and gas sales (\$/Boe)	13.85	11.47	18.45	18.41	19.35	15.64	10.04	12.84
Operating netback (\$/Boe) ²	2.85	2.30	7.41	7.14	8.81	5.08	(0.02)	2.68
Corporate netback (\$/Boe) ²	1.90	1.44	5.65	5.88	7.59	3.36	(1.76)	0.66
Total oil and gas sales (\$/Mcf)	2.31	1.91	3.08	3.07	3.23	2.61	1.67	2.14
Operating netback (\$/Mcf) ²	0.48	0.38	1.24	1.19	1.47	0.85	-	0.45
Corporate netback (\$/Mcf) ²	0.32	0.24	0.94	0.98	1.27	0.56	(0.29)	0.11

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.

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

- Sales volumes decreased from the first quarter of 2016 until the second quarter of 2017 mainly related to natural production declines and dispositions in the third and fourth quarters of 2016. Average sales volumes increased in the third quarter of 2017 due to a successful recompletion program in the Central Area. Average sales volumes decreased in the fourth quarter related to natural production declines.
- Total revenue of \$35.2 million in the fourth quarter of 2016 was the highest in the eight quarters presented due to higher natural gas prices and higher production volumes related to the 2015 acquisitions, partially offset by decreased royalty revenue related to the royalty disposition in June 2016, production decreases related to a December 2016 disposition, and lower realized crude oil and natural gas prices. Revenues decreased in the second quarter of 2016 and from the fourth quarter

of 2016 to the first quarter of 2017 as a result of lower commodity prices and lower sales volumes, but increased from the first quarter of 2017 to the second quarter of 2017 related to increased commodity prices and lower royalty rates. Total revenue increased from the third quarter of 2017 to the fourth quarter of 2017 mainly as a result of higher commodity prices.

- Funds flow from operations of \$15.0 million in the fourth quarter of 2016 was the highest in the eight quarters presented as a result of the highest natural gas prices. Funds flow from operations decreased in the first and second quarters of 2017 from the fourth quarter of 2016, as a result of lower natural gas prices and lower production volumes. Funds flow from operations continued to decrease in the third quarter of 2017 compared to the second quarter of 2017 as a result of lower natural gas prices, slightly offset by higher sales volumes. Funds flow from operations increased in the fourth quarter of 2017 compared to the third quarter of 2017 as a result of higher natural gas prices, slightly offset by lower sales volumes.
- Earnings of \$3.2 million in the fourth quarter of 2016 was the highest in the eight quarters presented as a result of that quarter having the highest natural gas price. Earnings (loss) decreased in the first and second quarters of 2017 compared to the fourth quarter of 2016, primarily as a result of lower commodity and lower production volumes. Earnings (loss) continued to decrease in the third quarter of 2017 compared to the second quarter of 2017, primarily as a result of impairment and lower commodity prices, slightly offset by higher production volumes. Earnings (loss) decreased in the fourth quarter of 2017 compared to the third quarter of 2017, primarily as a result of a deferred income tax expense and a reduction of the deferred tax asset.

	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
(\$000s, unless otherwise indicated)				
FINANCIAL¹				
Oil and gas sales (before royalty expense)	27,377	38,316	120,981	118,642
Cash flow from operating activities	(4,350)	12,632	25,009	22,489
Funds flow from operations²	3,759	15,026	28,705	19,741
Per share – Basic and Diluted (\$/share) ²	0.01	0.05	0.09	0.06
Earnings (loss)	(32,996)	3,210	(67,864)	(50,387)
Per share – Basic and Diluted (\$/share)	(0.11)	0.01	(0.22)	(0.16)
Capital expenditures	3,091	3,356	13,477	9,159
Acquisitions	44	(1,029)	(62)	(807)
Dispositions	(148)	(33,032)	(429)	(63,112)
Net debt²	53,638	64,224	53,638	64,224
Weighted-average common shares outstanding (000s)				
Basic	307,076	306,977	307,076	306,329
Diluted	307,076	307,095	307,076	306,329
OPERATIONS				
Production				
Natural gas (Mcf/d)	122,304	120,540	121,718	124,906
Natural gas liquids (Bbl/d)	880	833	924	924
Crude oil (Bbl/d)	225	602	198	753
Total (Boe/d)	21,489	21,525	21,408	22,495
Realized commodity sales prices (before hedging)				
Natural gas (\$/Mcf)	1.98	2.95	2.30	2.13
Natural gas liquids (\$/Boe)	47.73	37.08	43.81	32.53
Crude oil (\$/Bbl)	62.41	49.12	57.17	37.41
Combined (\$/Boe)	13.85	19.35	15.48	14.41
Netback (\$/Boe)				
Oil and gas sales	13.85	19.35	15.48	14.41
Realized hedging gain	0.65	-	0.52	-
Royalty income	-	-	-	0.13
Royalty expense	(1.06)	(1.59)	(1.30)	(1.07)
Transportation expenses	(1.34)	(0.77)	(1.12)	(0.98)
Operating expenses	(9.25)	(8.18)	(8.70)	(8.41)
Operating netback (\$/Boe) ²	2.85	8.81	4.88	4.08
General and administrative expenses	(0.55)	(0.47)	(0.76)	(0.85)
Interest and bank charges, net of dividend income	(0.40)	(0.75)	(0.44)	(0.84)
Corporate netback (\$/Boe) ²	1.90	7.59	3.68	2.39
Operating netback (\$ per Mcfe) ²	0.48	1.47	0.81	0.68
Corporate netback (\$ per Mcfe) ²	0.32	1.27	0.61	0.40

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.

SALES VOLUMES

Total sales volumes by product	Three months ended December 31,			Year ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Natural gas (Mcf)	11,251,434	11,089,678	1	44,428,062	45,715,776	(3)
NGLs (Bbl)	80,985	76,611	6	337,130	338,025	-
Crude oil (Bbl)	20,762	55,418	(63)	73,784	275,691	(73)
Total Boe	1,976,986	1,980,309	-	7,815,591	8,233,012	(5)
Total Mcfe	11,861,916	11,881,852	-	46,893,546	49,398,072	(5)
Natural gas weighting	95%	93%	2	95%	93%	2

Average daily sales volumes by product	Three months ended December 31,			Year ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Natural gas (Mcf/d)	122,304	120,540	1	121,718	124,906	(3)
NGLs (Bbl/d)	880	833	6	924	924	-
Crude oil (Bbl/d)	225	602	(63)	198	753	(73)
Total (Boe/d)	21,489	21,525	-	21,408	22,495	(5)
Total (Mcf/d)	128,934	129,150	-	128,448	134,970	(5)

Average daily sales volumes by area	Three months ended December 31,			Year ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Central (Boe/d)	10,382	10,099	3	10,039	10,662	(6)
Southern (Boe/d)	8,958	9,264	(3)	9,141	9,487	(4)
Edson (Boe/d)	2,149	2,162	(1)	2,228	2,346	(5)
Total (Boe/d)	21,489	21,525	-	21,408	22,495	(5)
Total (Mcf/d)	128,934	129,150	-	128,448	134,970	(5)

Pine Cliff's sales volumes were flat at 21,489 Boe/d (128,934 Mcfe/d) from 21,525 Boe/d (129,150 Mcfe/d) for the three months ended December 31, 2017, as compared to the same period in 2016. The production volumes stayed flat from natural declines, offset by increased volumes from the 2017 recompletion projects in the Central area.

Pine Cliff's sales volumes decreased 5% to 21,408 Boe/d (128,448 Mcfe/d) from 22,495 Boe/d (134,970 Mcfe/d) for the year ended December 31, 2017, as compared to the same period in 2016. The decrease is primarily the result of the December 2016 disposition and natural declines, slightly offset by production increases from minor capital programs during 2017.

Pine Cliff is projecting 2018 production volumes of 20,000 – 20,500 Boe/d (120,000 – 123,000 Mcfe/d), weighted approximately 95% towards natural gas.

Benchmark Prices

	Three months ended December 31,			Year ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Natural gas						
NYMEX (US\$/Mmbtu) ¹	2.91	2.95	(1)	3.07	2.43	26
AECO Daily 5A (C\$/Mcf) ²	1.68	3.08	(45)	2.14	2.15	-
Crude oil						
WTI (US\$/Bbl)	55.40	49.29	12	50.95	43.32	18
Edmonton Light (C\$/Bbl)	68.98	61.61	12	62.85	52.93	19
Foreign exchange						
US\$/C\$	1.270	1.334	(5)	1.295	1.326	(2)

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.

OIL AND GAS SALES

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Natural gas	22,221	32,753	(32)	102,067	97,331	5
NGL	3,864	2,841	36	14,772	10,997	34
Crude oil	1,292	2,722	(53)	4,142	10,314	(60)
Total oil and gas sales	27,377	38,316	(29)	120,981	118,642	2
% of revenue from natural gas sales	81%	85%	(4)	84%	82%	2

Realized prices (before hedging)

\$ per unit	Three months ended December 31,			Year ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Natural gas (\$/Mcf)	1.98	2.95	(33)	2.30	2.13	8
NGL (\$/Bbl)	47.73	37.08	29	43.81	32.53	35
Crude oil (\$/Bbl)	62.41	49.12	27	57.17	37.41	53
Total (\$/Boe)	13.85	19.35	(28)	15.48	14.41	7
Total (\$/Mcf)	2.31	3.23	(28)	2.58	2.40	7

Oil and gas sales in the three months ended December 31, 2017, decreased \$10.9 million to \$27.4 million from \$38.3 million in the three months ended December 31, 2016, with \$10.8 million of the decrease attributable to lower realized prices and \$0.1 million from lower sales volumes. Oil and gas sales for the year ended December 31, 2017, increased \$2.3 million to \$121.1 million from \$118.6 million during the year ended December 31, 2016, with \$8.3 million of the increase being attributable to higher realized prices, partially offset by \$6.0 million from lower sales volumes.

Pine Cliff's realized natural gas price was \$1.98 per Mcf and \$2.30 per Mcf for the three months and year ended December 31, 2017, 33% lower and 8% higher than the \$2.95 per Mcf and \$2.13 per Mcf in the corresponding periods of the prior year, primarily as a result of changes in the AECO natural gas price. For the three months and year ended December 31, 2017, Pine Cliff's realized NGL prices were \$47.73 per Bbl and \$43.81 per Bbl, compared to \$37.08 per Bbl and \$32.53 per Bbl in the corresponding periods of the prior year. For the three months and year ended December 31, 2017, Pine Cliff's realized oil prices were \$62.41 per Bbl and \$57.17 per Bbl, compared to \$49.12 per Bbl and \$37.41 per Bbl in the corresponding periods of the prior year. The increases in NGL and oil prices were a result of a corresponding increase in the Edmonton Light oil price. Pine Cliff's realized NGL price in the three months and year ended December 31, 2017 were 69% and 70% of Edmonton Light compared to 60% and 61% in the corresponding periods of the prior year. Pine Cliff's realized oil price in the three months and year ended December 31, 2017 were 90% and 91% of Edmonton Light compared to 80% and 71% in the corresponding periods of the prior year.

REALIZED HEDGING GAIN

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Total realized hedging gain	1,286	-	-	4,037	-	-
\$ per Boe	0.65	-	-	0.52	-	-
\$ per Mcfe	0.11	-	-	0.09	-	-

For the three months and year ended December 31, 2017, the Company realized a hedging gain of \$1.3 million and \$4.0 million, respectively. The realized hedging gain is from the Company entering into physical fixed price natural gas sales contracts in 2017. Please refer to the "Commodity Price Risk" section for additional information.

ROYALTY REVENUE

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Total royalty revenue	-	-	-	-	1,111	(100)

On June 29, 2016, the Company sold its fee title lands and other minor overriding royalty interests for cash consideration of \$24.7 million. As a result, there is no royalty income in the current year.

ROYALTY EXPENSE

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Total royalty expense	2,095	3,145	(33)	10,152	8,821	15
\$ per Boe	1.06	1.59	(33)	1.30	1.07	21
\$ per Mcfe	0.18	0.26	(33)	0.22	0.18	21
Royalty expense as a % of oil and gas sales	8%	8%	-	8%	7%	14

For the three months and year ended December 31, 2017, total royalty expense decreased by 33% and increased by 15% to \$2.1 million and \$10.2 million, from \$3.1 million and \$8.8 million in the corresponding periods of the prior year. Royalty expense as a percentage of oil and gas sales stayed flat at 8% in the three months and year ended December 31, 2017, compared to 8% and 7% in the corresponding periods of the prior year. The increase in royalty expense for the year is primarily a result of higher oil and gas revenue and higher royalty rates due to the sale of fee title lands in 2016. Pine Cliff expects royalties to average 7% of sales in 2018.

TRANSPORTATION COSTS

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Total transportation costs	2,648	1,520	74	8,733	8,068	8
\$ per Boe	1.34	0.77	74	1.12	0.98	14
\$ per Mcfe	0.22	0.13	74	0.19	0.16	14

For the three months and year ended December 31, 2017, transportation costs increased by 74% and 8% to \$2.6 million and \$8.7 million from \$1.5 million and \$8.1 million in the corresponding periods of the prior year. The higher transportation expenses are related to the Company increasing its delivery of natural gas to non-AECO markets, including the delivery of approximately 11,000 Mcf/d to Dawn, effective November 1, 2017.

Pine Cliff is targeting transportation expenses of approximately \$1.80 per Boe (\$0.30 per Mcfe) in 2018, which is higher than our 2017 transportation expenses of \$1.12 per Boe (\$0.19 per Mcfe) due to higher transportation expenses associated with the Company mitigating its exposure to AECO benchmark pricing. Higher transportation expenses are expected to be more than offset by higher expected commodity price premiums from more diverse markets.

OPERATING EXPENSES

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Total operating expenses	18,288	16,196	13	68,029	69,250	(2)
\$ per Boe	9.25	8.18	13	8.70	8.41	3
\$ per Mcfe	1.54	1.36	13	1.45	1.40	3

Operating expenses increased by 13% and decreased by 2% to \$18.3 Million and \$68.0 million for the three months and year ended December 31, 2017, as compared to \$16.2 million and \$69.3 million in the corresponding periods of the prior year. The increase in the fourth quarter of 2017 compared to the fourth quarter of 2016 is related to the timing of expenditures, most notably an increase in swabbing costs to mitigate production declines, offset by a reduction in capital spending. The decrease in operating expenses for the year ended December 31, 2017 compared to 2016 was mainly related to a December 2016 disposition. On a per Boe basis, operating costs increased by 13% and 3% for the three months and year ended December 31, 2017 compared to the same periods in 2016, primarily as a result of lower production.

Pine Cliff is targeting operating expenses of approximately \$8.95 per Boe (\$1.49 per Mcfe) in 2018, which is slightly higher than the 2017 operating expenses of \$8.70 per Boe (\$1.45 per Mcfe). Pine Cliff is committed to seeking increased efficiencies and lower field operating expenses, although quarterly variances may result from timing of expenditures.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Gross G&A	1,705	1,662	3	8,162	8,465	(4)
Less: overhead recoveries	(622)	(726)	(14)	(2,247)	(1,506)	49
Total G&A expenses	1,083	936	16	5,915	6,959	(15)
\$ per Boe	0.55	0.47	17	0.76	0.85	(11)
\$ per Mcfe	0.09	0.08	17	0.13	0.14	(11)

G&A increased 16% to \$1.1 million for the three months ended December 31, 2017, as compared to \$0.9 million in the corresponding period of the prior year. The increase is primarily a result of timing differences of overhead recoveries. G&A decreased 15% to \$5.9 million for the year ended December 31, 2017 as compared \$7.0 million in the corresponding period of the prior year. The decrease in G&A is primarily a result of higher overhead recoveries and a reduction of consulting costs in 2017 following the addition of staff in 2016.

On a per Boe basis, G&A increased by 17% to \$0.55 per Boe (\$0.09 per Mcfe) for the three months ended December 31, 2017 as compared to \$0.47 per Boe (\$0.08 per Mcfe) in the corresponding period of the prior year, primarily a result of timing differences of overhead recoveries. On a per Boe basis, G&A decreased 11% to \$0.76 per Boe (\$0.13 per Mcfe) for the year ended December 31, 2017 as compared to \$0.85 per Boe (\$0.14 per Mcfe) in the prior year, primarily a result of higher overhead recoveries and a reduction of consulting costs during 2017, following the addition of staff in 2016.

Pine Cliff anticipates G&A expenses to average approximately \$0.85 per Boe (\$0.14 per Mcfe) in 2018.

SHARE-BASED PAYMENTS

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Total share-based payments	868	791	10	3,578	3,196	12
\$ per Boe	0.44	0.40	10	0.46	0.39	18
\$ per Mcfe	0.07	0.07	10	0.08	0.06	18

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

During the year ended December 31, 2017, Pine Cliff granted 5,710,150 stock options to purchase Common Shares at a weighted average exercise price of \$0.78. As at December 31, 2017, the Company had 21,316,406 stock options outstanding representing 6.9% of Common Shares outstanding (December 31, 2016 – 22,773,431 representing 7.4% of Common Shares outstanding).

DEPLETION, DEPRECIATION, AND IMPAIRMENT

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Total depletion and depreciation	11,992	12,877	(7)	49,150	64,387	(24)
\$ per Boe	6.07	6.50	(7)	6.29	7.82	(20)
\$ per Mcfe	1.01	1.08	(6)	1.05	1.30	(19)
Impairment	-	4,648	(100)	17,800	4,648	283
Total depletion, depreciation, and impairment	11,992	17,525	(32)	66,950	69,035	(3)
\$ per Boe	6.07	8.85	(31)	8.57	8.39	2
\$ per Mcfe	1.01	1.47	(31)	1.43	1.40	2

Depletion and depreciation expense, excluding impairment for the three months and year ended December 31, 2017, totaled \$12.0 million and \$49.2 million compared to \$12.9 million and \$64.4 million in the corresponding periods of the prior year, as a result of positive reserves revisions and a lower depletable base. Depletion and depreciation per Boe will fluctuate from one period to the next depending on the amount and type of capital spending and the changes in reserves. Depletion is calculated using total proved and probable reserves, which reserves estimates are subject to revision.

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

During the year ended December 31, 2017, the Company had four Cash Generating Units ("CGU"), the Southern CGU, the Central Gas CGU, the Edson CGU, and the Coal Bed Methane CGU. The Company reviewed each CGU's property and equipment at each reporting period during the year ended December 31, 2017 for indicators of impairment and determined that an indicator related to the decrease in future commodity prices was present at September 30, 2017 and December 31, 2017. The Company prepared estimates of both the value in use and fair value less cost to sell of each of the Company's CGUs. When it is determined that any CGU carrying value exceeds its recoverable amount, that CGU is considered impaired and an impairment expense is reported that equals this excess.

The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at December 31, 2017:

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
2018	58.50	1.27	70.10	2.25
2019	58.70	1.27	71.30	2.65
2020	62.40	1.25	74.90	3.05
2021	69.00	1.21	80.50	3.40
2022	73.10	1.18	82.80	3.60
2023-2032	81.60	1.18	92.43	4.02
Thereafter	+2%/yr	1.18	+2%/yr	+2%/yr

¹Source: McDaniel & Associates Consultants Ltd. price forecasts, effective January 1, 2018.

The recoverable amounts of each of the Company's CGU's at September 30, 2017 and December 31, 2017 were estimated at their fair value less cost to sell, based on the net present value of discounted future cash flows from operating activities from oil and gas reserves as estimated by the Company's independent reserves evaluator at December 31, 2017. The fair value less costs to sell used to determine the recoverable amounts are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data, but rather, the Company's management best estimates.

The Company used a pre-tax 15% discount rate for the September 30, 2017 and December 31, 2017 impairment tests which took into account risks specific to the CGU's and inherent in the oil and gas business. The impairment testing concluded that the fair value less costs to sell for the Company's CGU's at December 31, 2017 are greater than the carrying amounts, however, testing concluded that the fair value less cost to sell was less than the carrying amount for the Edson CGU and Coal Bed Methane CGU at September 30, 2017 and impairment was recorded.

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

CGUs	2017	2016
Edson	14,000	-
Coal Bed Methane	3,800	-
Total Impairment	17,800	-

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

In accordance with IFRS, an impairment test is performed if the Company identified an indication of impairment. At December 31, 2017, the Company determined that no indicators of impairment existed on its E&E assets and therefore an impairment test was not performed.

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

FINANCE EXPENSES

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Interest expense and bank charges	842	1,511	(44)	3,694	7,034	(47)
Non cash:						
Accretion on decommissioning provision	1,305	1,469	(11)	4,984	5,189	(4)
Accretion on subordinated promissory notes	57	53	8	221	82	170
Total finance expenses	2,204	3,033	(27)	8,899	12,305	(28)
\$ per Boe	1.11	1.53	(27)	1.14	1.49	(23)
\$ per Mcfe	0.19	0.26	(27)	0.19	0.25	(23)

In the three months and year ended December 31, 2017, Pine Cliff incurred finance expenses of \$2.2 million and \$8.9 million, 27% and 28% lower than the \$3.0 million and \$12.3 million in the corresponding periods of the prior year. The decrease is largely due to decreased interest and bank charges from lower debt levels. Please refer to the "DEBT, LIQUIDITY AND CAPITAL RESOURCES" section for additional information.

DIVIDEND INCOME

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Total dividend income	52	18	189	210	120	75
\$ per Boe	0.03	0.01	200	0.03	0.01	200

In the three months and year ended December 31, 2017, Pine Cliff received \$0.05 million and \$0.2 million in dividends from its investment in one dividend paying company.

DEFERRED INCOME TAX

For the year ended December 31, 2017, deferred income tax expenses amounted to \$20.8 million from \$11.1 million of deferred income tax recoveries in the same period of 2016.

The Company had the following tax pools, including non-capital loss carry-forwards, at December 31, 2017:

Category of tax pool	Rate of Utilization (%)	2017
Undepreciated capital costs	7 - 100	41,791
Canadian oil and gas property expenditures	10	240,793
Canadian development expenditures	30	11,761
Canadian exploration expenditures	100	74
Share issue costs	20	3,201
Non-capital losses carried forward ¹	100	82,576
Capital losses carried forward ²		2,776
		382,972

¹ Non-capital losses expire between the years 2030 and 2037.

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

As at December 31, 2017, the unused non-capital losses expire between 2030 and 2037, and the unused capital losses have no expiry date. The deductible temporary differences do not expire under tax legislation. Pine Cliff has approximately \$383.0 million in tax pools at December 31, 2017 available for future use as deductions from taxable income.

As at December 31, 2017, a deferred income tax asset has not been recognized on \$33.3 million (December 31, 2016 - \$4.0 million) of deductible temporary differences as it is not probable that future taxable net income will be available against which the Company can utilize the benefits.

EARNINGS (LOSS)

Year to year variance analysis:

(\$000s)	
Loss for the year ended December 31, 2016	(50,387)
Price variance	8,354
Volume variance	(6,015)
Gain on commodity contracts	4,037
Royalty revenue	(1,111)
Royalty expense	(1,331)
Transportation costs	(665)
Operating expenses	1,221
General and administrative	1,044
Depletion and depreciation	15,237
Share-based payments	(382)
Finance expenses	3,406
Realized loss in investments	4,270
Gain on disposition	(518)
Dividend income	90
Deferred income expense	(31,962)
Impairment	(13,152)
Loss for the year ended December 31, 2017	(67,864)

During the year ended December 31, 2017, Pine Cliff's net loss increased by \$17.5 million to \$67.9 million as compared to a net loss of \$50.4 million during the year ended December 31, 2016. The increase in net loss is mainly a result of higher deferred tax expenses, lower production volumes, lower royalty revenue, higher royalty and transportation expenses, and higher impairment expenses, partially offset by higher commodity prices, gain on commodity contracts, lower depletion, depreciation, operating expenses, finance expenses, G&A expenses and realized loss in investments.

OTHER COMPREHENSIVE EARNINGS (LOSS)

Activity in other comprehensive income (loss) (“OCI”) for the year ended December 31, 2017 relates to the revaluation of investments held at December 31, 2017 of \$2.8 million in one public company. Activity in OCI for the year ended December 31, 2016 relates to the revaluation of investments held at December 31, 2016 of \$0.3 million and the realization of losses previously recorded in OCI for an investment sold during 2016 of \$6.3 million.

CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS

(\$000s)	Year ended December 31,	
	2017	2016
Exploration and evaluation	79	127
Property, plant and equipment	13,398	9,032
Capital expenditures	13,477	9,159
Acquisitions	(62)	(807)
Dispositions	(429)	(63,112)
Total	12,986	(54,760)

Capital expenditures of \$13.5 million during the year ended December 31, 2017, were directed towards drilling eleven gross (1.8 net) wells in the Edson and Central areas for \$4.9 million, facility and maintenance capital of \$5.9 million, recompletions of \$1.5 million, and \$1.2 million of other miscellaneous capital additions.

Pine Cliff’s Board of Directors has approved a 2018 capital budget of \$9.1 million, excluding abandonments that will be funded from cash flow from operating activities. Pine Cliff intends to spend \$4.0 million drilling six gross (1.2 net) wells in the liquids rich Edson area and \$0.2 million drilling two gross (0.3 net) oil wells in the Central area. Additionally, Pine Cliff anticipates spending approximately \$2.8 million on major maintenance capital, and \$2.1 million on facility upgrades and other capital. Pine Cliff will monitor its capital spending throughout the year and may modify it depending on commodity prices.

DECOMMISSIONING PROVISION

The total future decommissioning provision of \$200.5 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, 2017, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$244.3 million (December 31, 2016 - \$240.2 million). The provision has been calculated assuming a 1.72% inflation rate (December 31, 2016 - 1.76%). These obligations are currently expected to be settled based on the useful lives of the underlying assets, some of which extend beyond 35 years into the future. This amount has been discounted using an average risk-free interest rate of 2.57% (December 31, 2016 - 2.39%).

DEBT, LIQUIDITY AND CAPITAL RESOURCES**Bank Credit Facilities**

As at December 31, 2017, the Company had a \$45.0 million syndicated credit facility (the “Credit Facility”) with four Canadian Financial Institutions (the “Syndicate”) (December 31, 2016 - \$60.0 million Credit Facility). The Credit Facility of \$45.0 million consists of a \$30.0 million revolving syndicated credit facility and a \$15.0 million revolving operating facility. Security consists of floating demand debentures totaling \$150.0 million and a general security agreement with first ranking over all current and acquired properties. Amounts drawn under the Credit Facility at December 31, 2017, were \$18.0 million (December 31, 2016 - \$30.9 million). Borrowings under the Credit Facility bear interest at the Canadian prime rate plus 1.0% to 3.5% or the bankers’ acceptance rates plus 2.0% to 4.5%, depending, in each case, on the ratio of consolidated debt to EBITDA, plus applicable standby fees. EBITDA is calculated as earnings (loss) excluding depreciation, depletion, impairment and accretion, unrealized hedging gain, share based payments, interest, taxes and other non-cash items. The Credit Facility matures July 27, 2018, and if it is not renewed it will convert to a one day term loan due on July 28, 2018. The Credit Facility is reviewed semi-annually on May 31st and November 30th with the next renewal scheduled for May 31, 2018. The Credit Facility has no fixed terms of repayment.

As at December 31, 2017, the Company had \$2.0 million in letters of credit issued against its Credit Facility (December 31, 2016 - \$1.7 million). The Credit Facility does not contain any financial covenants but Pine Cliff is subject to non-financial covenants under its Credit

Facility. Compliance with these covenants is monitored on a regular basis and as at December 31, 2017, Pine Cliff was in compliance with all covenants.

Subordinated Promissory Notes due July 29, 2018

As at December 31, 2017, the Company had \$6.0 million outstanding in promissory notes maturing on July 29, 2018 (the "**2018 Notes**") that bear interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility and is payable monthly. The 2018 Notes were issued to a shareholder and a relative of that shareholder of the Company, owning directly or by discretion and control, greater than 10% of the outstanding Common Shares. The 2018 Notes can be repaid at any time without penalty and are secured by \$6.0 million of floating charge debentures over all of the Company's assets and are subordinated to any and all claims in favor of the Credit Facility and the 2020 Note holder.

Due to Related Party - Promissory Note due July 29, 2018

Pine Cliff has a \$5.0 million promissory note outstanding to the Company's Chairman of the Board maturing on July 29, 2018 ("**2018 Related Party Note**") that bears interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility and is payable monthly. The 2018 Related Party Note can be repaid at any time without penalty and is secured by a \$5.0 million floating charge debenture over all of the Company's assets and is subordinated to any and all claims in favor of the Credit Facility and the holder of the Subordinated Promissory Notes due September 30, 2020. Interest paid on the 2018 Related Party Note for the year ended December 31, 2017 was \$0.2 million (December 31, 2016 - \$0.1 million).

Subordinated Promissory Notes due September 30, 2020

As at December 31, 2017, the Company has 30,000 units ("**Units**" or "**Unit**") outstanding at a price of \$1,000 per Unit for a principal debt balance of \$30.0 million. Each Unit is comprised of: (i) one promissory note with a par value of \$1,000 per note and bearing interest at 6.75% per annum (the "**2020 Notes**"), which is payable semi-annually; and (ii) 150 Common Share purchase warrants (the "**Warrants**"). The 2020 Notes mature on September 30, 2020 and all or a portion of the principal amount outstanding can be repaid without penalty. The 2020 Notes are secured by a \$30.0 million floating charge debenture over all of the Company's assets and is subordinated to any and all claims in favor of the Credit Facility. A total of 4.5 million Warrants are outstanding, each entitling the holder to purchase one Common Share for \$1.38 until August 10, 2018.

Share Capital

Share capital	March 13, 2018	December 31, 2017	December 31, 2016
Common Shares	307,075,787	307,075,787	307,075,787
Stock options	20,919,507	21,316,406	22,773,431
Warrants	4,500,000	4,500,000	4,500,000

Capital Resources

Pine Cliff's capital budget for 2018 is \$10.4 million, including \$1.3 million for abandonments and reclamation, before acquisitions and dispositions. Pine Cliff anticipates funding its capital budget through funds flow from operations. Budgeted future capital expenditures related to drilling are largely discretionary in nature and Pine Cliff is able to adjust the nature, amount and timing of most planned capital expenditures to changes in the business and commodity price environment.

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

Liquidity

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

During the year ended December 31, 2017, the Company financed its capital expenditures with cash flows from operating activities while also reducing bank debt.

COMMITMENTS AND CONTINGENCIES

As at December 31, 2017, the Company has the following commitments and other contractual obligations:

	2018	2019	2020	2021	2022	Thereafter
(\$000s)						
Subordinated promissory notes ¹	6,000	-	30,000	-	-	-
Trade and other payables	17,288	-	-	-	-	-
Due to related party	5,000	-	-	-	-	-
Bank debt	18,000	-	-	-	-	-
Future interest	2,760	2,025	1,519	-	-	-
Operating leases	1,061	1,354	706	524	461	461
Transportation	8,804	7,710	7,152	6,070	5,153	15,313
Total commitments and contingencies	58,913	11,089	39,377	6,594	5,614	15,774

OFF BALANCE SHEET TRANSACTIONS

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

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to 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. The Company has several practices and policies in place to help mitigate these risks.

Market Risk

Market risk is the risk that the fair value or future cash flows from operating activities of the Company's financial instruments will fluctuate because of changes in market prices. Components of market risk to which Pine Cliff is exposed are discussed below.

Commodity Price Risk

The Company is exposed to commodity price risk since its revenues are dependent on the prices of crude oil and natural gas. Commodity prices have fluctuated widely during recent years due to global and regional factors including, but not limited to, supply and demand, inventory levels, weather, economic changes and geopolitical factors and instability. Changes in oil and natural gas prices may have a significant effect, positively or negatively, on the ability of the Company to meet its obligations, capital spending targets and expected operational results. A material decline or extended period of low oil or natural gas prices could result in a reduction of net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas and a reduction in the volumes of Pine Cliff's reserves. Management may also elect not to produce from certain wells at lower prices.

In 2017, the Company entered into physical fixed price natural gas sales contracts to mitigate its exposure to fluctuations in natural gas prices. Pine Cliff's loss has been reduced by a realized gain on commodity contracts during the year ended December 31, 2017 of \$4.0 million (December 31, 2016 - \$Nil).

Interest Rate Risk

The Company is principally exposed to interest rate risk to the extent it draws on its variable rate debt. Changes in market interest rates could affect the cash flows from operating activities associated with variable rate debt. If interest rates applicable to Pine Cliff's variable rate debt increased or decreased by one percent, it is estimated that Pine Cliff's loss for the year ended December 31, 2017, would have increased or decreased, respectively, by \$0.3 million (December 31, 2016 - \$0.4 million).

Equity Price Risk

Equity price risk refers to the risk that the fair value of investments will fluctuate due to changes in equity markets. Equity price risk arises from the realizable value of investments that the Company holds which are subject to variable equity prices which on disposition gives rise to cash flows from operating activities equity price risk.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk because the oil and natural gas prices it receives are indirectly determined in reference to United States dollar denominated commodity prices. The Company manages this risk by monitoring the foreign exchange rate and evaluating its effect on cash flows from operating activities. Pine Cliff has not entered into any derivative financial instruments to manage this risk.

Credit Risk

Credit risk is the risk that a third party will not complete its contractual obligations under a financial instrument and cause the Company to incur a financial loss. Pine Cliff's maximum exposure to credit risk is the sum of the carrying values of its trade and other receivables, commodity contracts and cash, which are a reflection of management's assessment of the associated maximum exposure to such credit risk.

To mitigate the credit risk on its cash, the Company maintains its cash balances with major Canadian chartered banks. To mitigate the credit risk on trade and other receivables and commodity contracts, Pine Cliff assesses the financial strength of its counterparties and enters into relationships with larger purchasers with established credit histories.

The Company's trade and other receivables balance at December 31, 2017 of \$15.1 million (December 31, 2016 - \$20.0 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, 2017, there was \$0.5 million (December 31, 2016 - \$1.8 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, 2017, the Company recorded \$0.2 million (December 31, 2016 - \$0.5 million) of bad debt expense against trade and other accounts receivables.

Liquidity Risk

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

The Company currently has a \$45.0 million Credit Facility, of which \$18.0 million was drawn at December 31, 2017. The unused portion of the Credit Facility and cash provided by operating activities are expected to allow Pine Cliff to meet its financial liabilities, as well as future capital requirements. There is a risk that the borrowing base of the Credit Facility could be reduced, which may create liquidity risk. Additionally, Pine Cliff has a \$5.0 million 2018 Related Party Note and a \$6.0 million 2018 Note that are both due on July 29, 2018 and if this facility along with the promissory notes are not renewed it may create liquidity risk. If required, Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities.

The Credit Facility matures July 27, 2018. The lenders review the Credit Facility semi-annually on May 31st and November 30th, with the next review scheduled for May 31, 2018. In the event the Credit Facility is not extended, indebtedness under the Credit Facility will become due and repayable on July 28, 2018. There is also a risk that the Credit Facilities will not be renewed for the same amount or on the same terms or that the lenders reduce the borrowing base as a result of their regularly scheduled borrowing base review. Any of these events could affect Pine Cliff's ability to fund ongoing operations.

RISK FACTORS

Certain activities of the Company are affected by factors that are beyond its control or influence. Additional risks and uncertainties that management may be unaware of, or that they determine to be immaterial may also become important factors which affect the Company. Along with the risks discussed in this MD&A, other business risks faced by the Company may be found under "Risk Factors"

in the Company's most recent Annual Information Form which is available under the Company's profile at www.sedar.com or by contacting the Company.

Operational

This category encompasses a number of risks. Wells may produce at lower initial production rates than planned, or face steeper decline rates. Operating costs can increase due to such considerations as unanticipated workovers or higher than expected costs associated with corrosion. Pine Cliff follows prudent industry practices with respect to insurance where practicable and as guided by external experts, but cannot fully insure against all risks. With respect to non-insurable operating risks, the Company has attempted to design business process controls and accountability to identify problems at the earliest possible occasion and implement solutions. However, investors must appreciate that operational risk is very much a characteristic of the business, and can never be entirely eliminated.

Reserves

The Company retains independent reserve evaluators and had 100% of the reserves reviewed. The methodologies used assess the certainty of recovery on reserve categories under National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). As per NI 51-101, there is a 90% probability of attaining proven reserves and a 50% probability of attaining the proven plus probable reserves assigned. The Company plans to fund additional drilling and infrastructure expenditures from internal funds flows from operations, as well as its credit facility, in order to achieve the reserve assignments. There remains a probability that for technical or economic reasons, the reserves assigned may not be attained. In our case, Pine Cliff believes the risk is moderate to low as we are operating in well-established environments. As with operational risk, however, Pine Cliff again cautions investors that reserve risk is endemic and cannot be eliminated.

Safety, Environmental and Regulatory Risks

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

In November 2015, the Province of Alberta released its Climate Leadership Plan which will impact businesses that contribute to carbon emissions in Alberta. The plan's four key areas include imposing carbon pricing that is applied across all sectors, starting at \$20 per tonne on January 1, 2017 and moving to \$30 per tonne on January 1, 2018, and a 45 percent reduction in methane emissions by the oil and gas sector by 2025. The Company is currently monitoring developments in this plan and will evaluate the expected impact of the plan on its results of operations.

In October 2016, the Government of Canada announced a pan-Canadian approach to the pricing of carbon emissions. The plan includes imposing carbon pricing beginning at a minimum of \$10 per tonne in 2018 and rising by \$10 per tonne each year to \$50 per tonne in 2022. Provinces and territories have a year to introduce their own carbon pricing or adopt a cap-and-trade system that meets or exceeds the federal benchmark. If provinces and territories fail to implement a price or cap-and-trade plan by 2018, the Government of Canada has indicated that they will implement a price in that jurisdiction.

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

Both the oil and gas and mining industries activities entail numerous environmental impacts which can be detrimental. Even normal operations can generate carbon emissions. Wells can blow out, or pipelines can fail with consequent contamination of soil, air, and water. A small number of Pine Cliff's wells produce natural gas with a high content of hydrogen sulphide, which is poisonous and can be fatal, thus requiring the highest standards of operational responsibility and emergency response practices and procedures.

The industries are subject to extensive environmental legislation and regulations at Federal, Provincial, and Municipal levels. Thus, the Company is at risk not only to the cost of the incidents themselves, but to various sanctions which can be imposed by governments or government instrumentalities. The Company expects that environmental legislation and regulations will continue to be assessed, may become stricter over time, and that the costs of compliance may grow. The international and domestic debate upon controls of greenhouse gas emissions will continue, with unpredictable but potentially material consequences for the oil and gas industry and its participants.

To mitigate environmental risk the Company conducts its operations to target compliance with government regulations and guidelines. Monitoring and reporting programs for environmental health and safety performance in day-to-day operations, as well as inspections and assessments, are designed to provide assurance that to the best of the Company's ability, environmental and regulatory standards are met.

Staffing

Pine Cliff functions in a very competitive environment for professional staff, and this staff is key to the Company's ultimate success. Recognizing this, Pine Cliff's board of directors approved a competitive compensation program including bonuses based on the annual performance of the Company, benefits and a stock option program to provide for long-term incentives and to retain staff.

To date, Pine Cliff has found that it has been able to attract qualified individuals to complement its existing team and to build strength in areas where required.

Fiscal Environment

The oil and gas and minerals industries are subject to payments to various levels of government, predominantly corporate income taxes to the federal and provincial governments and royalties to provincial governments. In recent years, while the corporate income tax regime has been stable, the royalty regime has not been. A series of changes have had at times both positive and negative effects, but have certainly served to emphasize the materiality of this risk. There is potential for additional future changes to the taxation and royalty regime in Alberta and Saskatchewan and corresponding changes in other jurisdictions where Pine Cliff may operate has created uncertainty surrounding the ability to accurately estimate future taxation and royalties, resulting in additional volatility and uncertainty in the oil and gas market. As a single company, we have no ability to mitigate this risk other than through geographic diversification.

CRITICAL ACCOUNTING ESTIMATES

The preparation of Financial Statements in conformity with IFRS requires management to make judgments, assumptions and estimates that affect the reported amounts of assets, 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 estimates.

Cash Generating Units

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

Impairment indicators

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

Reserves

Petroleum and natural gas reserves are used in the calculation of depletion, impairment and impairment reversals and are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with NI 51-101 which incorporate the estimated future cost of developing and extracting those reserves. Reserve estimates and their resulting cash flows are based on engineering data, probability assessments of reserve recoveries, future prices and costs, future production rates, discount rates and the timing and extent of future capital expenditures, all of which are subject to many uncertainties and interpretation. Management expects that over time Pine Cliff's reserve estimates will be revised, either upward or downward, based on updated information such as the results of future drilling, production costs, testing and production levels and changes to forward petroleum and natural gas prices.

Exploration and evaluation assets

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

Decommissioning provision

Decommissioning, abandonment and site reclamation expenditures will be incurred by the Company at the end of the operating life of the Company's facilities and properties. Decommissioning expenditures are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, and changes to the credit-adjusted risk-free discount rate and expected inflation rate. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Deferred income taxes

The Company recognizes the net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operating activities and the application of existing tax laws in each jurisdiction. To the extent that future cash flows from operating activities and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

Share-based payments

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

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

ACCOUNTING POLICY AND STANDARD CHANGES

The accounting policies and method of computation followed in the preparation of the Financial Statements are the same as those followed in the preparation of the Annual Financial Statements.

Future accounting changes

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

In July 2014, the IASB completed the final elements of IFRS 9. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* ("**IAS 39**"). IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in other comprehensive income rather than the statements of comprehensive loss. The Company has determined that adoption of IFRS 9 will not result in any changes to the classification of the Company's financial assets or financial liabilities. The Company has also determined there will not be any material changes in the measurement and carrying values of the Company's financial instruments as a result of the adoption of IFRS 9.

In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. Pine Cliff has determined that the new impairment model will not result in material changes to the valuation of its financial assets on adoption of IFRS 9. IFRS 9 also contains a new model to be applied for hedge accounting. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend to apply hedge

accounting to any of its existing risk management contracts on adoption of IFRS 9. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9, as well as consequential amendments to IFRS 7 Financial Instruments: Disclosures ("IFRS 7"), will be applied on a retrospective basis by Pine Cliff on January 1, 2018.

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

In April 2016, the IASB issued its final amendments to IFRS 15, which replaces IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Pine Cliff will retrospectively adopt IFRS 15 on January 1, 2018.

The Company has completed reviewing its various revenue streams and underlying contracts with customers. It has been concluded that the adoption of IFRS 15 will not have a material impact on Pine Cliff's net income or financial position. However, Pine Cliff will expand the disclosures in the notes to its Financial Statements as prescribed by IFRS 15, including disclosing the Company's disaggregated revenue streams by product type and any impairment losses recognized on receivables arising from contracts with customers.

IFRS 16 Leases ("IFRS 16")

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

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

IFRS 16 will be applied by Pine Cliff on January 1, 2019. The Company is currently engaging and educating stakeholders and is implementing corporate processes to ensure contract completeness to identify leases. Identifying, gathering and analyzing contracts impacted by the adoption of the new standard will extend into 2018. The Company is currently assessing the impact of the standard will have on its Financial Statements.

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, 2017.

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.

- Are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Financial Statements.

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

The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal controls over financial reporting at the financial period end of the Company and concluded that such internal controls over financial reporting are effective. It should be noted that while Pine Cliff's CEO and CFO believe that the Company's internal controls and procedures provide a reasonable level of assurance and are effective, however they do not expect that these controls will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that its objectives are met.

NON-GAAP MEASURES

This MD&A uses the terms "funds flow from operations", "operating netbacks", "corporate netbacks" and "net debt" which are not recognized measures under IFRS and may not be comparable to similar measures presented by other companies. The Company uses these measures to evaluate its performance, leverage and liquidity. These measures should not be considered as an alternative to, or more meaningful than, IFRS measures including net income (loss), cash flows from operating activities, or total liabilities.

Funds Flow from Operations

The Company considers funds flow from operations a key performance measure as it demonstrates the Company's ability to generate the funds necessary to repay debt and fund future growth through capital investment. Funds flow from operations and funds flow from operations per share and per Boe or Mcfe should not be considered as an alternative to, or more meaningful than, cash flow from operating activities presented on the statement of cash flows which is considered the most directly comparable measure under IFRS. Funds flow from operations is calculated as cash flow from operating activities before changes in non-cash working capital and decommissioning obligations settled. Funds flow from operations per share is calculated using the same weighted average number of shares outstanding as in the case of the earnings per share calculation for a reporting period. Funds flow from operations per Boe or Mcfe is calculated using the sales volumes reported for a reporting period. Our method of calculating this measure may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Cash flow from operating activities	(4,350)	12,632	(134)	25,009	22,489	11
Adjusted by:						
Change in non-cash working capital	6,891	2,290	201	1,313	(3,027)	(143)
Decommissioning obligation settled	1,218	104	1,071	2,383	279	754
Funds flow from operations	3,759	15,026	(75)	28,705	19,741	45
Funds flow from operations (\$/Boe)	1.90	7.59	(75)	3.68	2.39	54
Funds flow from operations (\$/Mcfe)	0.32	1.27	(75)	0.61	0.40	54
Funds flow from operations – basic and diluted (\$/share)	0.01	0.05	(80)	0.09	0.06	50

Operating and Corporate Netback

The Company considers operating netback to be a key indicator of profitability relative to current commodity prices. Operating netback and operating netback per Boe and per Mcfe are calculated as the sum of oil and gas sales and realized hedging gain, 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 profitability. Corporate netback on an absolute dollar and corporate netback per Boe and per Mcfe are calculated as operating netback, less G&A and interest expense plus dividend income.

Pine Cliff uses these measures to assist in understanding the Company's ability to generate positive cash flows from operating activities at current commodity prices and it provides an analytical tool to benchmark changes in operational performance against prior periods.

Readers are cautioned, however, that these measures should not be construed as an alternative to other terms such as net income 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,		
	2017	2016	\$ Change	2017	2016	\$ Change
(\$ per Boe, unless otherwise indicated)						
Oil and gas sales	13.85	19.35	(5.50)	15.48	14.41	1.07
Realized hedging gain	0.65	-	0.65	0.52	-	0.52
Royalty income	-	-	-	-	0.13	(0.13)
Royalty expense	(1.06)	(1.59)	0.53	(1.30)	(1.07)	(0.23)
Transportation costs	(1.34)	(0.77)	(0.57)	(1.12)	(0.98)	(0.14)
Operating expenses	(9.25)	(8.18)	(1.07)	(8.70)	(8.41)	(0.29)
Operating netback	2.85	8.81	(5.96)	4.88	4.08	0.80
General and administrative	(0.55)	(0.47)	(0.08)	(0.76)	(0.85)	0.09
Interest and bank charges, net of dividend income	(0.40)	(0.75)	0.35	(0.44)	(0.84)	0.40
Corporate netback	1.90	7.59	(5.69)	3.68	2.39	1.29
Operating netback (\$ per Mcfe)	0.48	1.47	(0.99)	0.81	0.68	0.13
Corporate netback (\$ per Mcfe)	0.32	1.27	(0.95)	0.61	0.40	0.21

Net Debt

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

(\$000s)	Year ended December 31,		
	2017	2016	\$ Change
Bank debt	18,000	30,851	(12,851)
Due to related party – due July 29, 2018	5,000	5,000	-
Subordinated promissory notes – due July 29, 2018	6,000	6,000	-
Subordinated promissory notes – due September 30, 2020 ¹	30,000	30,000	-
Trade and other payables	17,288	21,319	(4,031)
Less:			
Trade and other receivables	(15,148)	(20,012)	4,864
Cash	(1,075)	(148)	(927)
Prepaid expenses and deposits	(3,882)	(3,491)	(391)
Investments	(2,545)	(5,295)	2,750
Net debt	53,638	64,224	(10,586)

¹The subordinated promissory notes for net debt are presented at the principal amount.

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 this MD&A includes, but is not limited to: expected production levels, expected operating costs, expected transportation costs, royalty and G&A levels; future capital expenditures, including the amount and nature thereof; future acquisition opportunities including Pine Cliff’s ability to execute on those opportunities; future drilling opportunities and Pine Cliff’s ability to generate reserves and production from the undrilled locations; ability to implement a dividend or buy back shares; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and guidance; expansion and growth of our business and operations; amounts drawn on Pine Cliff’s credit facility and repayment thereof; amounts due to related party and due pursuant to subordinated promissory notes and repayment thereof; maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; risks; Pine Cliff’s ability to generate cash flows from operating activities and free cash flows from operating activities; 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 flows from operating activities to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control. The foregoing factors are not exhaustive.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do, what benefits will be derived there from. Except as required by law, Pine Cliff disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

Undrilled locations consist of drilling and recompletion locations booked in the independent reserve report dated February 12, 2018 prepared by McDaniel & Associates Consultants Limited and unbooked drilling and recompletion locations. Unbooked drilling and recompletion locations are internal estimates based on evaluation of geologic, reserves and spacing based on industry practice. There is no guarantee that Pine Cliff will drill these locations and there is no certainty that the drilling or completing of these locations will result in additional reserves and production or achieve expected internal rates of return. Pine Cliff activity depends on availability of capital, regulatory approvals, commodity prices, drilling costs and other factors.

Natural gas liquids and oil volumes are recorded in barrels of oil (“Bbl”) and are converted to a thousand cubic feet equivalent (“Mcf”) using a ratio of one (1) Bbl to six (6) thousand cubic feet. Natural gas volumes recorded in thousand cubic feet (“Mcf”) are converted to barrels of oil equivalent (“Boe”) using the ratio of six (6) thousand cubic feet to one (1) Bbl. This conversion ratio is based on energy equivalence primarily at the burner tip and does not represent a value equivalency at the wellhead. The terms Boe or Mcfe may be misleading, particularly if used in isolation.

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

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

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

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

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

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

"Signed Philip B. Hodge"

"Signed Alan MacDonald"

Philip B. Hodge, President and Chief Executive Officer

Alan MacDonald, Interim Chief Financial Officer and
Corporate Secretary

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pine Cliff Energy Ltd.

We have audited the accompanying consolidated financial statements of Pine Cliff Energy Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pine Cliff Energy Ltd. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"Signed Deloitte LLP"

Chartered Professional Accountants
March 13, 2018
Calgary, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian dollars, 000s)

	Note	2017	As at December 31, 2016
ASSETS			
Current assets			
Cash		1,075	148
Trade and other receivables	5, 16	15,148	20,012
Prepaid expenses and deposits		3,882	3,491
Investments	7	2,545	5,295
Total current assets		22,650	28,946
Exploration and evaluation	8	29,387	33,610
Property, plant and equipment	9	323,958	379,643
Deferred income taxes	10	29,233	49,698
Total assets		405,228	491,897
LIABILITIES			
Current liabilities			
Trade and other payables	4	17,288	21,319
Bank debt	11	18,000	30,851
Due to related party	12	5,000	-
Subordinated promissory notes	13	6,000	-
Decommissioning provision	14	1,309	-
Total current liabilities		47,597	52,170
Due to related party		-	5,000
Subordinated promissory notes	13	29,307	35,086
Decommissioning provision	14	199,231	203,883
Total liabilities		276,135	296,139
SHAREHOLDERS' EQUITY			
Share capital	15	268,743	268,743
Warrants		958	958
Contributed surplus		9,326	5,748
Accumulated other comprehensive gain (loss)		(2,081)	298
Deficit		(147,853)	(79,989)
Total shareholders' equity		129,093	195,758
Total liabilities and shareholders' equity		405,228	491,897

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

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

“Signed George F. Fink”

George F. Fink, Director

“Signed Randy M. Jarock”

Randy M. Jarock, Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Canadian dollars, 000s except per share data)

		Years ended December 31,	
	Note	2017	2016
REVENUE			
Oil and gas sales		120,981	118,642
Royalty expense		(10,152)	(8,821)
Royalty income		-	1,111
Oil and gas sales, net of royalties		110,829	110,932
Gain on commodity contracts	5	4,037	-
Dividend income		210	120
Total revenue		115,076	111,052
EXPENSES			
Operating		68,029	69,250
Transportation		8,733	8,068
Depletion and depreciation	9	49,150	64,387
Impairment	8, 9	17,800	4,648
Share-based payments	15	3,578	3,196
Finance	16	8,899	12,305
General and administrative	17	5,915	6,959
Gain on disposition		-	(518)
Realized loss on investments		-	4,270
Total expenses		162,104	172,565
Loss before income taxes		(47,028)	(61,513)
Deferred income tax recovery (expense)	10	(20,836)	11,126
LOSS FOR THE YEAR		(67,864)	(50,387)
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized gain (loss) on investments	7	(2,750)	345
Deferred income taxes on unrealized loss on investments		371	(47)
Amounts reclassified from comprehensive loss		-	6,253
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX		(2,379)	6,551
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(70,243)	(43,836)
Loss per share (\$)			
Basic and diluted	15	(0.22)	(0.16)

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,	
		2017	2016
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Loss for the year		(67,864)	(50,387)
Items not affecting cash:			
Depletion and depreciation	9	49,150	64,387
Impairment	8, 9	17,800	4,648
Share-based payments	15	3,578	3,196
Finance expenses	16	8,899	12,305
Gain on disposition		-	(518)
Loss on sale of investments		-	4,270
Deferred income tax expense (recovery)	10	20,836	(11,126)
Interest and bank charges	16	(3,694)	(7,034)
Decommissioning obligations settled	14	(2,383)	(279)
Changes in non-cash working capital accounts	16	(1,313)	3,027
Cash provided by operating activities		25,009	22,489
INVESTING ACTIVITIES			
Property, plant and equipment	9	(13,398)	(9,032)
Exploration and evaluation	8	(79)	(127)
Acquisitions		62	807
Dispositions	9	429	58,162
Sale of investments		-	5,573
Changes in non-cash working capital accounts	16	1,755	4,304
Cash provided by (used in) investing activities		(11,231)	59,687
FINANCING ACTIVITIES			
Bank debt	11	(12,851)	(125,087)
Issuance of Units, net of issue costs		-	35,963
Issuance of related party debt		-	5,000
Exercise of stock options		-	1,033
Changes in non-cash working capital accounts	16	-	230
Cash used in financing activities		(12,851)	(82,861)
Increase (decrease) in cash		927	(685)
Cash - beginning of year		148	833
CASH - END OF YEAR		1,075	148

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Canadian dollars, 000s)

	Note	Share capital	Contributed surplus ¹	Accumulated other comprehensive income (loss) ²	Warrants	Deficit	Total Equity
BALANCE AT JANUARY 1, 2016		266,809	3,453	(6,253)	-	(29,602)	234,407
Issuance of warrants		-	-	-	995	-	995
Share issue costs, net of tax		-	-	-	(37)	-	(37)
Loss for the year		-	-	-	-	(50,387)	(50,387)
Transfer of realized loss on sale of investments		-	-	6,253	-	-	6,253
Unrealized loss on investments, net of tax		-	-	298	-	-	298
Share-based payments		-	3,196	-	-	-	3,196
Exercise of options		1,934	(901)	-	-	-	1,033
BALANCE AT DECEMBER 31, 2016		268,743	5,748	298	958	(79,989)	195,758
Loss for the year		-	-	-	-	(67,864)	(67,864)
Unrealized loss on investments, net of tax		-	-	(2,379)	-	-	(2,379)
Share-based payments	15	-	3,578	-	-	-	3,578
BALANCE AT DECEMBER 31, 2017		268,743	9,326	(2,081)	958	(147,853)	129,093

¹Contributed surplus is comprised of share-based payments.

²Accumulated other comprehensive income (loss) is comprised of unrealized gains and losses on available-for-sale investments.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2017 and 2016 and for the years then ended
(all tabular amounts in Canadian dollars 000s, unless otherwise indicated)

1. NATURE OF BUSINESS

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

Pine Cliff is engaged in the acquisition, exploration, development and production of oil and natural gas in the Western Canadian Sedimentary Basin and conducts many of its activities jointly with others; these consolidated financial statements (the "**Financial Statements**") reflect only the Company's proportionate interest in such activities.

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

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

The Financial Statements were authorized for issue by the Company's board of directors on March 13, 2018.

b) Basis of measurement

The Financial Statements have been prepared on a historical cost basis, except for certain financial instruments and share-based payment transactions which are measured at fair value.

c) Use of judgments and estimates

The timely preparation of Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities as at the date of the statement of financial position. Actual results could differ materially from estimated amounts and affect the results reported in the Financial Statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty in applying accounting principles that have the most significant effect on the amounts recognized in the Financial Statements are included in the notes.

Judgments

In the process of applying Pine Cliff's accounting policies, judgments, apart from those involving estimates, have been made, of which the following may have the most significant effect on the amounts recognized in the Financial Statements:

- Note 4 – Financial instruments
- Note 8 – Exploration and evaluation assets ("**E&E**")
- Note 9 – Property, plant and equipment ("**PP&E**")
- Note 14 – Decommissioning provision
- Note 15 – Share capital

Cash Generating Units

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

Impairment indicators

Judgments are required to assess when impairment indicators exist and impairment testing is required. When assessing the recoverability of petroleum and natural gas properties, each CGU's carrying value is compared to its recoverable amount, defined as

the greater of its fair value less cost to sell and value in use. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on reserve estimates, market value of undeveloped lands and other relevant assumptions.

Estimates

Reserves

Petroleum and natural gas reserves are used in the calculation of depletion, impairment and impairment reversals and are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* which incorporate the estimated future cost of developing and extracting those reserves. Reserve estimates and their resulting cash flows are based on engineering data, probability assessments of reserve recoveries, future prices and costs, future production rates, discount rates and the timing and extent of future capital expenditures, all of which are subject to many uncertainties and interpretation. Management expects that over time Pine Cliff's reserve estimates will be revised, either upward or downward, based on updated information such as the results of future drilling, production costs, testing and production levels and changes to forward petroleum and natural gas prices.

Exploration and evaluation assets

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

Decommissioning provision

Decommissioning, abandonment and site reclamation expenditures will be incurred by the Company at the end of the operating life of the Company's facilities and properties. Decommissioning expenditures are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, and changes to the credit-adjusted risk-free discount rate and expected inflation rate. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Deferred income taxes

The Company recognizes the net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operating activities and the application of existing tax laws in each jurisdiction. To the extent that future cash flows from operating activities and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

Share-based payments

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

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

d) Presentation currency

The Company's functional and presentation currency is the Canadian dollar. Monetary assets and liabilities are translated into Canadian dollars at the rates prevailing on the reporting date. Non-monetary assets and liabilities are translated into Canadian dollars at the rates prevailing on the transaction dates. Exchange gains and losses are recorded as income or expense in the period in which they occur.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of consolidation

The Financial Statements include the accounts of Pine Cliff and its subsidiary companies, Geomark Exploration Ltd. ("**Geomark**"), Geomark Minerals USA Inc., WMC International Limited and Pine Cliff Border Pipelines Limited. All subsidiary companies are wholly owned. All intercompany balances, transactions and earnings or losses are eliminated upon consolidation.

b) Revenue recognition

Revenues from the sale of petroleum and natural gas are recorded when the significant risks and rewards of ownership have been transferred to the customer. Revenue is measured at the fair value of the consideration received or receivable. Petroleum and natural gas revenues are recognized when all of the following conditions have been satisfied:

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

Dividend income is recorded when earned.

c) Foreign currency transactions

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

d) Joint arrangements

Pine Cliff conducts significant portions of its oil and gas operations through jointly controlled operations and the Financial Statements reflect only the Company's proportionate interest in such activities. Contractual arrangements for the Company's jointly controlled operations, whereby it does not have a 100% working interest, govern that the partners have rights to the assets and obligations for the liability. It is possible that at some future date allocation adjustments to revenues and expenditures could result from revised billings, audit or litigation with these other participants. Pine Cliff does not have any joint arrangements that are individually material to the Company or that are structured through joint venture arrangements.

e) Cash

Cash is comprised of cash on hand and short-term highly liquid investments that mature within three months of the date of their purchase.

f) Investments

Investments consist of equity securities classified on initial recognition as available-for-sale and are carried at fair value. Fair value is determined by multiplying the period end trading price of the investments by the number of equity securities held as at period end. Unrealized holding gains and losses are recognized in other comprehensive income or loss. Net gains and losses arising on disposal are recognized in net earnings.

g) Exploration and evaluation assets

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

E&E includes undeveloped land license acquisitions, un-booked locations in acquisitions, exploration drilling and testing and directly attributable general and administrative costs. Expenditures incurred prior to obtaining the legal right to explore are expensed as incurred. E&E assets continue to be capitalized as long as sufficient progress is being made to assess the reserves and economic viability of the well and/or related project. Once technical feasibility and commercial viability has been established, E&E assets are

transferred to PP&E. E&E assets are assessed for impairment either annually, upon transfer to PP&E or where indicators arise to ensure they are not carried above their recoverable amounts.

h) Property, plant and equipment

PP&E assets include developed assets acquired, transferred-in E&E costs, development drilling and other surface expenditures. PP&E assets are carried at cost less accumulated depletion and depreciation and impairment losses. The initial cost of an asset is comprised of its purchase price or construction cost, including expenditures such as drilling costs, the present value of the initial and changes in the estimate of any decommissioning obligation associated with the asset, expenses on qualifying assets and costs that are directly attributable to bringing the asset to the location and condition necessary to operate as intended by management and which result in an identifiable future benefit. Improvements that increase capacity or extend the useful lives of the assets are capitalized.

Expenditures on major maintenance of producing assets include the cost of replacement assets or parts of assets, inspection costs, turnaround costs, or overhaul costs. Where an asset, or part of an asset that was separately depreciated, is replaced and it is probable that there are future economic benefits associated with the item, the expenditure is capitalized and the carrying amount of the replaced item is derecognized. Inspection costs associated with major maintenance programs and necessary for continued operation of the asset are capitalized and amortized over the period to the next inspection. All other maintenance costs are expensed as incurred.

i) Depletion and depreciation

When commercial production has commenced in an area, PP&E assets, including estimated future development costs, are depleted using the unit-of-production method over their proved plus probable reserve life. Furniture, fixtures and other equipment are depreciated over their estimated useful lives on a straight line basis. Overhauls and turnarounds are depreciated over their expected life on unit of production. Depletion and depreciation is recognized in the consolidated statement of comprehensive loss.

Depletion and depreciation methods, useful lives and residual values are reviewed annually, with any amendments considered to be changes in estimates and accounted for prospectively.

j) Impairment of E&E and PP&E

The carrying amounts of the Company's E&E and PP&E assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If such indication exists, then the assets' carrying amounts are assessed for impairment. For the purpose of impairment testing, assets that are not evaluated individually are grouped together into CGUs.

The recoverable amount of an asset or a CGU is the greater of its value-in-use and its fair value. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. In assessing the carrying value of its unproved properties, the Company takes into account future plans for those properties, the remaining terms of the leases and other factors that may be indicators of potential impairment. Impairment losses are recognized in the consolidated statement of loss. Impairment losses recognized in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets of the CGU on a pro-rata basis.

For assets excluding goodwill, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. If the amount of the impairment loss decreases in a subsequent period and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

k) Impairment of financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows from operating activities of that asset. Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

All impairment losses are recognized in the consolidated statement of comprehensive loss. An impairment loss is reversed if there is an indicator that the impairment reversal can be related objectively to an event occurring after the impairment loss was recognized. Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available-for-sale is reversed through other comprehensive loss instead of the statement of loss. For financial assets measured at amortized cost, the reversal is recognized in the consolidated statement of comprehensive loss.

l) Decommissioning 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, management reviews these estimates, and changes, if any, are prospectively applied. The decommissioning provision is recorded as a liability, with a corresponding increase to the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the associated proved plus probable reserves. Periodic revisions to the liability specific discount rates, estimated timing of cash flows and/or to the original estimated undiscounted costs can also result in change to the decommissioning provision. The decommissioning provision is increased each reporting period with the passage of time as reported in the finance expenses as an accretion of decommissioning liabilities expense and changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the provision are recorded against the provision to the extent of the liability recorded and the remaining balance of the actual costs is recorded in the consolidated statement of comprehensive loss.

m) Income taxes

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

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

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

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

n) Share-based payments

Under the Company's stock option plan described in note 15, options to purchase common shares are granted to directors, officers, employees, and consultants. The fair value of common share purchase options is calculated at the date of grant using the Black-Scholes option pricing model and that value is recorded as compensation expense over the vesting period of the option with an offsetting credit to contributed surplus. At the end of each reporting period, the Company assesses for subsequent periods its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the consolidated statement of comprehensive loss. Upon exercise of share purchase options, the proceeds received net of any transaction costs and the fair value of the exercised share purchase options are credited to share capital.

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

o) Financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument and are classified into one of the following five categories: fair-value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial liabilities at amortized cost.

Cash is classified as fair-value through profit or loss. Trade and other receivables, which are non-derivative financial assets that have fixed or determinable payment terms and are not quoted in an active market, are classified as financial assets at amortized cost and reported at amortized cost. A provision for impairment of trade and other receivables is established when there is evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Investments are classified as available-for-sale which are measured at fair value. Trade and other payables, due to related party, subordinated promissory notes and bank debt are classified as financial liabilities at amortized cost.

Subsequent measurement of financial instruments is based on their initial classification. Fair-value through profit or loss financial instruments are measured at fair value and changes in fair value are recognized in the statement of consolidated comprehensive loss. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired at which time the cumulative loss that had been recognized in other comprehensive income (loss) ("OCI") is reclassified to earnings or loss. The remaining categories of financial instruments are recognized at amortized cost using the effective interest method.

p) Risk management contracts

The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign currency exchange rates and interest rates in the normal course of its business. The Company may use a variety of instruments to manage these exposures. Risk management contracts are included in current assets and liabilities except for those with maturities great than 12 months after the end of the reporting period, which are classified as non-current assets and liabilities. The Company has not designated any of its risk management contracts as effective accounting hedges. Fair values of financial instruments are based on third party quotes or valuations provided by independent third parties. Any realized gains or losses on risk management contracts are recognized in net income (loss) in the period they occur.

q) Earnings (loss) per share

Basic per share amounts are calculated by dividing the earnings or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the reporting period.

Diluted per share amounts are calculated similar to basic per share amounts except that the weighted average common shares outstanding are increased to include additional common shares from the assumed exercise of dilutive share options. The number of additional outstanding common shares is calculated by assuming that the outstanding in-the-money share options were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

r) Finance expenses

Finance expenses are comprised of interest expenses and bank charges on borrowings and the accretion of decommissioning liabilities and subordinated promissory notes. Interest expenses and bank charges are considered operating expenses on the statement of cash flows. Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. Qualifying assets are those assets that necessarily take a substantial period of time to get ready for their intended use. All other borrowing costs are recognized in income or loss. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

4. FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement

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

Assets and liabilities that are measured at fair value are classified into levels, reflecting the method used to make the measurements. Level 1 fair value measurements are based on quoted prices that are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 commodity contracts pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. The fair value of Pine Cliff's commodity contracts are determined using pricing models that incorporate future price forecasts (supported by prices from observable market transactions) and credit risk adjustments. Pine Cliff has no level 3 financial instruments. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The following table sets out the Company's classification, carrying value and fair value of financial assets and liabilities as at December 31, 2017 and December 31, 2016:

Description	December 31, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Cash	1,075	1,075	148	148
Trade and other receivables	15,148	15,148	20,012	20,012
Investments	2,545	2,545	5,295	5,295
Trade and other payables	(17,288)	(17,288)	(21,319)	(21,319)
Due to related party	(5,000)	(5,000)	(5,000)	(5,000)
Subordinated promissory notes	(35,307)	(35,307)	(35,086)	(35,086)
Bank debt	(18,000)	(18,000)	(30,851)	(30,851)

5. RISK MANAGEMENT

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

Market Risk

Market risk is the risk that the fair value or future cash flows from operating activities of the Company's financial instruments will fluctuate because of changes in market prices. Components of market risk to which Pine Cliff is exposed are discussed below.

Commodity Price Risk

The Company is exposed to commodity price risk since its revenues are dependent on the prices of crude oil and natural gas. Commodity prices have fluctuated widely during recent years due to global and regional factors including, but not limited to, supply and demand, inventory levels, weather, economic changes and geopolitical factors and instability. Changes in oil and natural gas prices may have a significant effect, positively or negatively, on the ability of the Company to meet its obligations, capital spending targets and expected operational results. A material decline or extended period of low oil or natural gas prices could result in a reduction of net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas and a reduction in the volumes of Pine Cliff's reserves. Management may also elect not to produce from certain wells at lower prices.

In 2017, the Company entered into physical fixed price natural gas sales contracts to mitigate its exposure to fluctuations in natural gas prices. Pine Cliff's loss has been reduced by a realized gain on commodity contracts during the year ended December 31, 2017 of \$4.0 million (December 31, 2016 - \$Nil).

Interest Rate Risk

The Company is principally exposed to interest rate risk to the extent it draws on its variable rate debt. Changes in market interest rates could affect the cash flows from operating activities associated with variable rate debt. If interest rates applicable to Pine Cliff's variable rate debt increased or decreased by one percent, it is estimated that Pine Cliff's loss for the year ended December 31, 2017, would have increased or decreased, respectively, by \$0.3 million (December 31, 2016 - \$0.4 million).

Equity Price Risk

Equity price risk refers to the risk that the fair value of investments will fluctuate due to changes in equity markets. Equity price risk arises from the realizable value of investments that the Company holds which are subject to variable equity prices which on disposition gives rise to cash flows from operating activities equity price risk.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk because the oil and natural gas prices it receives are indirectly determined in reference to United States dollar denominated commodity prices. The Company manages this risk by monitoring the foreign exchange rate and evaluating its effect on cash flows from operating activities. Pine Cliff has not entered into any derivative financial instruments to manage this risk.

Credit Risk

Credit risk is the risk that a third party will not complete its contractual obligations under a financial instrument and cause the Company to incur a financial loss. Pine Cliff's maximum exposure to credit risk is the sum of the carrying values of its trade and other receivables, commodity contracts and cash, which are a reflection of management's assessment of the associated maximum exposure to such credit risk.

To mitigate the credit risk on its cash, the Company maintains its cash balances with major Canadian chartered banks. To mitigate the credit risk on trade and other receivables and commodity contracts, Pine Cliff assesses the financial strength of its counterparties and enters into relationships with larger purchasers with established credit histories.

The Company's trade and other receivables balance at December 31, 2017 of \$15.1 million (December 31, 2016 - \$20.0 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, 2017, there was \$0.5 million (December 31, 2016 - \$1.8 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, 2017, the Company recorded \$0.2 million (December 31, 2016 - \$0.5 million) of bad debt expense against trade and other accounts receivables.

Liquidity Risk

Liquidity risk is the risk that Pine Cliff will not be able to meet its financial obligations as they become due. Pine Cliff manages its liquidity risk through actively managing its capital, which it defines as cash, debt and equity. Capital management strategies include continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under the Credit Facility, as defined in note 11, and opportunities to issue additional equity. Pine Cliff actively monitors its credit and working capital to ensure that it has sufficient available funds to meet its financial requirements at a reasonable cost. Management believes that funds generated from these sources currently will be adequate to settle Pine Cliff's financial liabilities.

The Company currently has a \$45.0 million Credit Facility, of which \$18.0 million was drawn at December 31, 2017. The unused portion of the Credit Facility and cash provided by operating activities are expected to allow Pine Cliff to meet its financial liabilities, as well as future capital requirements. There is a risk that the borrowing base of the Credit Facility could be reduced, which may create liquidity risk, see Note 11. Additionally, Pine Cliff has a \$5.0 million promissory note and a \$6.0 million subordinated promissory note that are both due on July 29, 2018, see Note 12 and Note 13 and if this Credit Facility along with the promissory notes are not renewed it may create liquidity risk. If required, Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities.

The Credit Facility matures July 27, 2018. The lenders review the Credit Facility semi-annually on May 31st and November 30th, with the next review scheduled for May 31, 2018. In the event the Credit Facility is not extended, indebtedness under the Credit Facility will become due and repayable on July 28, 2018. There is also a risk that the Credit Facilities will not be renewed for the same amount or on the same terms or that the lenders reduce the borrowing base as a result of their regularly scheduled borrowing base review. Any of these events could affect Pine Cliff's ability to fund ongoing operations.

6. FUTURE ACCOUNTING CHANGES

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

In July 2014, the IASB completed the final elements of IFRS 9. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* ("**IAS 39**"). IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in other comprehensive income rather than the statements of comprehensive loss. The Company has determined that adoption of IFRS 9 will not result in any changes to the classification of the Company's financial assets or financial liabilities. The Company has also determined there will not be any material changes in the measurement and carrying values of the Company's financial instruments as a result of the adoption of IFRS 9.

In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. Pine Cliff has determined that the new impairment model will not result in material changes to the valuation of its financial assets on adoption of IFRS 9. IFRS 9 also contains a new model to be applied for hedge accounting. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend

to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9, as well as consequential amendments to IFRS 7 Financial Instruments: Disclosures, will be applied on a retrospective basis by Pine Cliff on January 1, 2018.

IFRS 15 Revenue from Contracts with Customers (“IFRS 15”)

In April 2016, the IASB issued its final amendments to IFRS 15, which replaces IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Pine Cliff will retrospectively adopt IFRS 15 on January 1, 2018. The Company has completed reviewing its various revenue streams and underlying contracts with customers. It has been concluded that the adoption of IFRS 15 will not have a material impact on Pine Cliff’s net income or financial position. However, Pine Cliff will expand the disclosures in the notes to its Financial Statements as prescribed by IFRS 15, including disclosing the Company’s disaggregated revenue streams by product type and any impairment losses recognized on receivables arising from contracts with customers.

IFRS 16 Leases (“IFRS 16”)

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

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

IFRS 16 will be applied by Pine Cliff on January 1, 2019. The Company is currently engaging and educating stakeholders and is implementing corporate processes to ensure contract completeness to identify leases. Identifying, gathering and analyzing contracts impacted by the adoption of the new standard will extend into 2018. The Company is currently assessing the impact of the standard will have on its Financial Statements.

7. INVESTMENTS

As at December 31, 2017, the Company had an investment of \$2.5 million in one public dividend paying company.

Investments, December 31, 2016	5,295
Unrealized loss on investments	(2,750)
Investments, December 31, 2017	2,545

8. EXPLORATION AND EVALUATION

Exploration and evaluation assets:	Oil and gas properties	Mineral properties	Total
Balance at December 31, 2015	42,958	2,992	45,950
Additions	88	39	127
Transfer to property, plant, and equipment	(1,176)	-	(1,176)
Impairment	(4,648)	-	(4,648)
Dispositions	(6,643)	-	(6,643)
Balance at December 31, 2016	30,579	3,031	33,610
Additions	36	43	79
Transfer to property, plant, and equipment	(4,302)	-	(4,302)
Balance at December 31, 2017	26,313	3,074	29,387

E&E Impairment Assessment

In accordance with IFRS, an impairment test is performed if the Company identified an indication of impairment. At December 31, 2017, the Company determined that no indicators of impairment existed on its E&E assets and therefore an impairment test was not performed.

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

9. PROPERTY, PLANT AND EQUIPMENT

Cost:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 2015	638,000	1,314	639,314
Additions	8,842	190	9,032
Transfer from exploration and evaluation	1,176	-	1,176
Acquisitions	(807)	-	(807)
Dispositions	(59,952)	-	(59,952)
Decommissioning provision	(41,479)	-	(41,479)
Balance at December 31, 2016	545,780	1,504	547,284
Additions	13,396	2	13,398
Transfer from exploration and evaluation	4,302	-	4,302
Acquisitions	(62)	-	(62)
Dispositions	(496)	-	(496)
Decommissioning provision	(5,944)	-	(5,944)
Balance at December 31, 2017	556,976	1,506	558,482

Accumulated depletion and depreciation:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 2015	(106,582)	(673)	(107,255)
Depletion and depreciation	(63,944)	(443)	(64,387)
Dispositions	4,001	-	4,001
Balance at December 31, 2016	(166,525)	(1,116)	(167,641)
Depletion and depreciation	(48,760)	(390)	(49,150)
Impairment	(17,800)	-	(17,800)
Dispositions	67	-	67
Balance at December 31, 2017	(233,018)	(1,506)	(234,524)

Carrying value at:	Oil and gas properties	Administrative assets	Total
December 31, 2016	379,255	388	379,643
December 31, 2017	323,958	-	323,958

Acquisitions and Dispositions of Oil and Natural Gas Properties

Year ended December 31, 2017

Pine Cliff did not enter into any business combinations for the year ended December 31, 2017, and only completed minor property acquisitions and dispositions during the year.

Year ended December 31, 2016

Disposition of royalty assets in June 2016

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

Net assets disposed:	
Property and equipment	24,164
Gain on disposition	518
	24,682
Consideration received:	
Cash	24,682

Disposition of non-core oil assets in September 2016

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

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

Disposition of non-core oil assets in December 2016

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

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

PP&E Impairment Assessment

During the year ended December 31, 2017, the Company had four Cash Generating Units (“CGU”), the Southern CGU, the Central Gas CGU, the Edson CGU, and the Coal Bed Methane CGU. The Company reviewed each CGU’s property and equipment at each reporting period during the year ended December 31, 2017 for indicators of impairment and determined that an indicator related to the decrease in future commodity prices was present at September 30, 2017 and December 31, 2017. The Company prepared estimates of both the value in use and fair value less cost to sell of each of the Company’s CGUs. When it is determined that any CGU carrying value exceeds its recoverable amount, that CGU is considered impaired and an impairment expense is reported that equals this excess.

The following table outlines forecast benchmark prices and exchange rates used in the Company’s impairment test as at December 31, 2017:

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
2018	58.50	1.27	70.10	2.25
2019	58.70	1.27	71.30	2.65
2020	62.40	1.25	74.90	3.05
2021	69.00	1.21	80.50	3.40
2022	73.10	1.18	82.80	3.60
2023-2032	81.60	1.18	92.43	4.02
Thereafter	+2%/yr	1.18	+2%/yr	+2%/yr

¹Source: McDaniel & Associates Consultants Ltd. price forecasts, effective January 1, 2018.

The recoverable amounts of each of the Company's CGU's at September 30, 2017 and December 31, 2017 were estimated at their fair value less cost to sell, based on the net present value of discounted future cash flows from operating activities from oil and gas reserves as estimated by the Company's independent reserves evaluator at December 31, 2017. The fair value less costs to sell used to determine the recoverable amounts are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data, but rather, the Company's management best estimates.

The Company used a pre-tax 15% discount rate for the September 30, 2017 and December 31, 2017 impairment tests which took into account risks specific to the CGU's and inherent in the oil and gas business. The impairment testing concluded that the fair value less costs to sell for the Company's CGU's at December 31, 2017 are greater than the carrying amounts, however, testing concluded that the fair value less cost to sell was less than the carrying amount for the Edson CGU and Coal Bed Methane CGU at September 30, 2017 and impairment was recorded.

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

CGUs	2017	2016
Edson	14,000	-
Coal Bed Methane	3,800	-
Total Impairment	17,800	-

10. DEFERRED INCOME TAXES

At December 31, 2017, a deferred income tax asset of \$29.2 million (December 31, 2016 - \$49.7 million) has been recognized as the Company believes, based on estimated cash flows, its realization is probable within the allowable timeframes.

	As at December 31,	
	2017	2016
Deferred income tax assets (liabilities):		
Share issue costs	863	1,341
Investment	324	(47)
Decommissioning provision	54,044	55,981
Property and equipment	(15,124)	(24,710)
Capital losses carried forward	155	155
Non-capital losses carried forward	22,271	20,980
Asset before unrecognized deferred income tax	62,533	53,700
Less: unrecognized deferred income tax	(33,300)	(4,002)
Net deferred income tax asset	29,233	49,698

As at December 31, 2017, a deferred income tax asset has not been recognized on \$33.3 million (December 31, 2016 - \$4.0 million) of deductible temporary differences as it is not probable that future taxable net income will be available against which the Company can utilize the benefits.

Pine Cliff has approximately \$383.0 million in tax pools as at December 31, 2017 (December 31, 2016 - \$407.9 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 \$82.6 million (December 31, 2016 - \$77.7 million) that expire between the years 2030 and 2037.

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,	
	2017	2016
Loss before income taxes	(47,028)	(61,513)
Corporate income tax rate	27%	27%
Computed income tax recovery	(12,676)	(16,609)
Non-taxable dividends	(57)	(28)
Non-deductible compensation expense	964	863
Changes in tax rate	(31)	-
Changes in the unrecorded benefit of tax pools	29,689	3,418
Realized loss on sale of investments	-	1,955
Return to provision true-up	2,910	-
Other	37	(725)
Deferred income tax expense (recovery)	20,836	(11,126)

11. BANK DEBT

As at December 31, 2017, the Company had a \$45.0 million syndicated credit facility (the “**Credit Facility**”) with four Canadian Financial Institutions (the “**Syndicate**”) (December 31, 2016 - \$60.0 million Credit Facility). The Credit Facility of \$45.0 million consists of a \$30.0 million revolving syndicated credit facility and a \$15.0 million revolving operating facility. Security consists of floating demand debentures totaling \$150.0 million and a general security agreement with first ranking over all current and acquired properties. Amounts drawn under the Credit Facility at December 31, 2017, were \$18.0 million (December 31, 2016 - \$30.9 million). Borrowings under the Credit Facility bear interest at the Canadian prime rate plus 1.0% to 3.5% or the bankers’ acceptance rates plus 2.0% to 4.5%, depending, in each case, on the ratio of consolidated debt to EBITDA, plus applicable standby fees. EBITDA is calculated as earnings (loss) excluding depreciation, depletion, impairment and accretion, unrealized hedging gain, share based payments, interest, taxes and other non-cash items. The Credit Facility matures July 27, 2018, and if it is not renewed it will convert to a one day term loan due on July 28, 2018. The Credit Facility is reviewed semi-annually on May 31st and November 30th with the next renewal scheduled for May 31, 2018. The Credit Facility has no fixed terms of repayment.

As at December 31, 2017, the Company had \$2.0 million in letters of credit issued against its Credit Facility (December 31, 2016 - \$1.7 million). The Credit Facility does not contain any financial covenants but Pine Cliff is subject to non-financial covenants under its Credit Facility. Compliance with these covenants is monitored on a regular basis and as at December 31, 2017, Pine Cliff was in compliance with all covenants.

12. DUE TO RELATED PARTY

Pine Cliff has a \$5.0 million promissory note outstanding to the Company’s Chairman of the Board maturing on July 29, 2018 (“**2018 Related Party Note**”) that bears interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility and is payable monthly. The 2018 Related Party Note can be repaid at any time without penalty and is secured by a \$5.0 million floating charge debenture over all of the Company’s assets and is subordinated to any and all claims in favor of the Credit Facility and the holder of the Subordinated Promissory Notes due September 30, 2020. Interest paid on the 2018 Related Party Note for the year ended December 31, 2017 was \$0.2 million (December 31, 2016 - \$0.1 million).

13. SUBORDINATED PROMISSORY NOTES

Subordinated promissory notes due July 29, 2018:	
Issued – July 29, 2016	6,000
Subordinated promissory notes due July 29, 2018, as at December 31, 2017 and December 31, 2016	6,000
Subordinated promissory notes due September 30, 2020:	
Issued – August 10, 2016	29,004
Accretion expense	82
Subordinated promissory notes due September 30, 2020, as at December 31, 2016	29,086
Accretion expense	221
Subordinated promissory notes due September 30, 2020, as at December 31, 2017	29,307
Total subordinated promissory notes, as at December 31, 2016	
	35,086
Total subordinated promissory notes, as at December 31, 2017	35,307

Subordinated promissory notes due July 29, 2018

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

Subordinated promissory notes due September 30, 2020

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

all claims in favor of the Credit Facility. A total of 4.5 million Warrants were issued, entitling the holder to purchase one Common Share for \$1.38 until August 10, 2018.

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

14. DECOMMISSIONING PROVISION

The total future decommissioning provision of \$200.5 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, 2017, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$244.3 million (December 31, 2016 - \$240.2 million). The provision has been calculated assuming a 1.72% inflation rate (December 31, 2016 - 1.76%). These obligations are currently expected to be settled based on the useful lives of the underlying assets, some of which extend beyond 35 years into the future. This amount has been discounted using an average risk-free interest rate of 2.57% (December 31, 2016 - 2.39%).

Changes to decommissioning provision were as follows:

	(\$000s)
Decommissioning provision, January 1, 2016	240,452
Provisions related to dispositions	(10,393)
Provisions related to acquisitions	505
Increase relating to development activities	301
Decommissioning expenditures	(279)
Revisions (change in estimate and discount rates)	(31,892)
Accretion	5,189
Decommissioning provision, December 31, 2016	203,883
Increase relating to development activities	99
Provisions related to acquisitions	261
Decommissioning expenditures	(2,383)
Revisions (changes in estimates, inflation rate, and discount rates)	(6,304)
Accretion	4,984
Decommissioning provision, December 31, 2017	200,540
Less current portion of decommissioning provision	(1,309)
Non-current portion of decommissioning provision	199,231

15. SHARE CAPITAL

Authorized

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

Issued

	Common Shares (000s)	Share capital (\$000s)
Issued and outstanding share capital continuity:		
Balance, January 1, 2016	305,192	266,809
Exercise of options	1,884	1,934
Balance, December 31, 2016 and December 31, 2017	307,076	268,743

Stock Options

The Company provides an equity settled stock option plan (the "Option Plan") for its directors, employees and consultants. Under the Option Plan, the Company may grant stock options up to 10% of outstanding Common Shares on the grant date. The term and vesting period of the options granted are determined at the discretion of the Company's board of directors. The exercise price of

each option granted equals the market price of the Company's stock immediately preceding the date of grant and the option's maximum term is five years.

Stock options issued and outstanding:	Options (000s)	Weighted-average exercise price (\$ per share)
Outstanding, January 1, 2016	17,238	1.23
Granted	12,030	1.12
Exercised	(1,884)	0.55
Expired	(3,471)	1.43
Forfeited	(1,140)	1.22
Outstanding, December 31, 2016	22,773	1.20
Granted	5,710	0.78
Expired	(4,839)	1.19
Forfeited	(2,328)	1.32
Outstanding, December 31, 2017	21,316	1.06
Exercisable, December 31, 2017	6,523	1.16

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
\$0.51 - \$0.99	7,550	2.1	689	0.4
\$1.00 - \$1.48	12,477	1.8	4,604	0.9
\$1.49 - \$1.97	1,289	0.4	1,230	0.3
	21,316	1.8	6,523	0.7

The Company records share-based payment expense over the vesting period, based on the fair value of the options granted to employees, directors and consultants. One third of the stock options granted vest annually on the first, second, and third anniversaries of the grant date and expire one year after the vesting date. In the year ended December 31, 2017, the Company granted 5,710,150 stock options (December 31, 2016 - 12,030,000) with a fair value of \$0.26 (December 31, 2016 - \$0.39) per option using the Black-Scholes option pricing model using the following key assumptions:

Assumptions (weighted average):	Years ended December 31,	
	2017	2016
Exercise price (\$)	0.78	0.86
Estimated volatility of underlying common shares (%)	50.2	57.6
Expected life (years)	3.0	3.0
Risk-free rate (%)	0.8	0.6
Forfeiture rate (%)	3.9	3.9
Expected dividend yield (%)	0.0	0.0

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

Per Share Calculations

The average market value of the Common Shares for the purposes of calculating the dilutive effect of stock options and warrants was based on quoted market prices for the period that the options were outstanding. In calculating the weighted average number of diluted shares outstanding for the year ended December 31, 2017 and 2016, all stock options and warrants were excluded as they were not dilutive.

Earnings per share calculation:	Years ended December 31,	
	2017	2016
Numerator		
Loss for the year	(67,864)	(50,387)
Denominator (000s)		
Weighted-average Common Shares outstanding – basic and diluted	307,076	306,329
Loss per share – basic and diluted (\$)	(0.22)	(0.16)

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Years ended December 31,	
	2017	2016
Changes in non-cash working capital:		
Trade and other receivables	4,864	(3,539)
Prepaid expenses and deposits	(391)	(241)
Trade and other payables and accrued liabilities	(4,031)	11,341
	442	7,561
Change related to:		
Operating activities	(1,313)	3,027
Investing activities	1,755	4,304
Financing activities	-	230
	442	7,561

	Years ended December 31,	
	2017	2016
Finance expenses:		
Interest expense and bank charges	3,694	7,034
Non cash:		
Accretion on decommissioning provision	4,984	5,189
Accretion on subordinated promissory notes	221	82
Total finance expenses	8,899	12,305

Cash interest paid in the year ended December 31, 2017, was \$2.6 million (December 31, 2016 - \$6.7 million). Dividends received during the year ended December 31, 2017, were \$0.2 million (December 31, 2016 - \$0.1 million).

17. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses by nature were as follows:

	Years ended December 31,	
	2017	2016
General and administration expenses:		
Staff expenses	4,988	3,946
Consultants	81	1,246
Public company expenses	129	265
Professional fees	836	970
Business development	37	39
Office and other costs	1,892	1,541
Bad debt expense	200	458
Overhead recoveries	(2,248)	(1,506)
Total general and administration expenses	5,915	6,959

18. KEY MANAGEMENT REMUNERATION

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

	Years ended December 31,	
	2017	2016
Key management remuneration:		
Short-term benefits ¹	1,809	1,182
Share-based payments ²	1,580	1,768
Total key management remuneration	3,389	2,950

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

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

19. COMMITMENTS

As at December 31, 2017, the Company has the following commitments and other contractual obligations:

	2018	2019	2020	2021	2022	Thereafter
(\$000s)						
Subordinated promissory notes ¹	6,000	-	30,000	-	-	-
Trade and other payables	17,288	-	-	-	-	-
Due to related party	5,000	-	-	-	-	-
Bank debt	18,000	-	-	-	-	-
Future interest	2,760	2,025	1,519	-	-	-
Operating leases	1,061	1,354	706	524	461	461
Transportation ²	8,804	7,710	7,152	6,070	5,153	15,313
Total commitments and contingencies	58,913	11,089	39,377	6,594	5,614	15,774

¹ Principal amount.

² Firm transportation agreements.

20. CAPITAL STRUCTURE

The Company's objectives when managing capital, which the Company defines to include shareholders' equity and net debt, is to ensure that it has the financial capacity, liquidity and flexibility to fund its capital program and acquisitions. As it is not unusual for capital expenditures and acquisitions to exceed cash flows from operating activities in a given period, the Company is required to maintain financial flexibility and liquidity to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue debt, new shares or a combination thereof and make adjustments to its capital investment programs.

The Company defines and computes its net debt as follows:

	As at December 31,	
	2017	2016
Bank debt	18,000	30,851
Due to related party	5,000	5,000
Subordinated promissory notes ¹	36,000	36,000
Trade and other payables and accrued liabilities	17,288	21,319
Less:		
Trade and other receivables	(15,148)	(20,012)
Cash	(1,075)	(148)
Prepaid expenses and deposits	(3,882)	(3,491)
Investments	(2,545)	(5,295)
Net debt	53,638	64,224
Equity	129,093	195,758

¹ The subordinated promissory notes for net debt are presented at the principal amount.

The Company monitors the leverage in its capital structure and the strength of its balance sheet by reviewing its net debt to equity ratio and its debt-to-funds flow from operations (cash flows from operating activities before changes in non-cash working capital) ratio. Debt-to-funds flow from operations and net debt do not have a specified meaning under IFRS and may not be comparable to measures used by other companies.

As Pine Cliff's oil and gas production increases, cash flows from operating activities are expected to increasingly provide the necessary capital for oil and gas exploration and development activities. However, due to the potential impact of adverse changes in commodity prices, production rates, capital efficiencies and material and service costs, Pine Cliff may not generate sufficient cash flows from operating activities to entirely fund its planned oil and gas capital programs or future acquisitions. Accordingly, the Company will continually evaluate the stage of development of its proved and producing reserves and the expected return on investment of acquisitions and consider issuing equity and/or debt to provide additional financing to maintain appropriate net debt and equity levels. The Company sets the amounts of capital in proportion to risk and manages to ensure the Company's net debt to equity ratio is less than one. Net debt to equity is computed as follows:

	As at December 31,	
	2017	2016
Net debt to equity ratio:		
Net debt	53,638	64,224
Equity	129,093	195,758
Net debt to equity	0.4	0.3

The Company considers funds flow from operations to be a key performance measure as it demonstrates the Company's ability to generate funds necessary to repay debt and to fund future growth through capital investment. Net debt-to-funds flow from operations is computed as follows:

	As at December 31,	
	2017	2016
Net debt-to-funds flow from operations calculation:		
Cash provided by operating activities	25,009	22,489
Increase (decrease) in non-cash working capital	1,313	(3,027)
Decommissioning obligations settled	2,383	279
Funds flow from operations	28,705	19,741
Net debt	53,638	64,224
Net debt-to-funds flow from operations	1.9	3.3

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

21. SUBSEQUENT EVENTS

Commodity Price Risk Management Contracts

Subsequent to December 31, 2017, the Company entered into physical fixed price natural gas sales contracts to mitigate the exposure to future fluctuations in natural gas prices. The table below summarizes outstanding fixed price natural gas sales contracts as at March 13, 2018.

Physical Natural Gas Sales Contracts:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price (\$CAD/GJ)	Fixed Sale Price (\$CAD/Mcf) ¹
April 1, 2018 to October 31, 2018	DAWN ²	4,000	\$3.13	\$3.29
April 1, 2018 to October 31, 2018	DAWN ²	4,000	\$2.97	\$3.12
April 1, 2018 to October 31, 2018	TransGas ³	3,000	\$2.40	\$2.52

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

² Dawn Hub into Dawn Township, Ontario.

³ Subsidiary of SaskEnergy, Saskatchewan.

BOARD OF DIRECTORS

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

OFFICERS

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

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Odyssey Trust Company of Canada

AUDITORS

Deloitte LLP

BANKERS

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

STOCK EXCHANGE LISTING

TSX Exchange
Trading Symbol: PNE

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