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Long-term
Value Focus

Q1-2017 Report

MESSAGE TO SHAREHOLDERS

We have had many noteworthy events in Pine Cliff's previous five quarters. We purchased \$185 million of assets in the fourth quarter of 2015, we went through a debt restructuring in the summer of 2016, we sold various non-core assets throughout 2016 and we reported record cash flow in the fourth quarter of 2016. Each time that I have written this letter to you during those periods, there have been major events that deserved attention and explanation. In the first quarter of 2017, it really was just one simple focus: operating a business that generates positive cash flow. Significant highlights from the first quarter of 2017 were that Pine Cliff:

- generated \$35.1 million of sales, 29% higher than the \$27.2 million generated in the first quarter of 2016;
- generated \$11.2 million (\$0.04 per basic share) of funds flow from operations, compared to \$1.4 million (\$0.00 per basic share) in the first quarter of 2016;
- achieved production of 21,214 Boe/d (95% natural gas), only 9% lower than the 23,297 Boe/d in the first quarter of 2016, despite having sold over 600 Boe/d of production in 2016, spending only \$8.4 million on capital expenditures in 2016 and short-term production curtailments of approximately 250 Boe/d in the first quarter of 2017;
- reduced bank debt by \$11.3 million, ending the quarter with \$19.5 million in bank debt, which is \$125.2 million less than the first quarter of 2016 level of \$144.7 million; and
- reduced net debt by \$5.3 million, ending the quarter with \$58.9 million in net debt, which is 1.3 times annualized first quarter 2017 cash flow and \$84.7 million less than the first quarter of 2016 level of \$143.6 million.

Our team continues to strive to reduce operating costs while selectively choosing drilling and optimization well locations to maintain our production. At the same time, we continue to evaluate the many acquisition opportunities that have arisen due to the volatility of the energy markets. Most importantly to us as shareholders, we continue to generate positive cash flow. This quarter, we generated \$11.2 million in funds flow from operations while only spending \$3.8 million in capital, with realized natural gas prices of \$2.83 per Mcf. These are the kind of results that can be achieved when you generate positive funds flow from operations at gas prices above \$1.70 per Mcf.

Outlook

For those of you that have been reading my letters to shareholders in our quarterly reports over the past five years, you know the various reasons we believe there are fundamental natural gas demand shifts occurring in North America that are now accelerating and should result in higher natural gas prices. If this thesis is correct, Pine Cliff will generate even more free cash flow as one of the most levered names to natural gas in the public markets. Although that upside potential is compelling, I think one of the most convincing reasons to become, or remain, a Pine Cliff shareholder is the low risk sustainable free cash business we have built.

Our focus from the inception of Pine Cliff was to seek low operating cost assets that would generate sustainable free cash flow and provide a good rate of return for our shareholders. This motivation led us to a contrarian consolidation strategy of natural gas assets that most of the companies in our industry deemed to be non-core and therefore were no longer attracting internal capital. We continue to believe that those exact kinds of assets, with the appropriate amount of attention and capital, can form the basis of a strong sustainable business that will generate cash flow for years to come, during all phases of our cyclical industry. Our business model was "stress tested" and validated in 2016 as we navigated our company through the lowest natural gas prices seen in Western Canada in 18 years, while keeping our production relatively flat and without issuing stock. Through all of that, we still brought in more cash flow than we spent on capital last year. This is the business that we think investors will continue to seek out to have in their portfolio. I know that our management team shares that view as we continue to have one of the largest insider ownership positions in our industry.

We know our business model is unique, and Pine Cliff is proud of its ability to attract value investors who historically have avoided resource stocks because many have not been guided by fundamental business principals. Growth without consideration for the economic returns of that growth is not a sustainable business model. We make our capital allocation decisions based on what our team believes will best serve us as shareholders over the long-term, and we will continue to consider market conditions when deciding where our money is best spent. Those options include paying down debt, acquisitions, organic growth, paying a dividend and share repurchases. No employee bonuses are paid based on production growth or the size of our company. Our bonus pool is entirely based on the cash flow our business generates as we think that measure has the closest alignment to the creation of long-term value for our investors, which is Pine Cliff's guiding goal.

Even though we are now seeing the benefits of our model, we are still building this business. Of course we would prefer a higher stock price, but we know that almost all oil and gas companies have seen their share prices come under pressure in 2017, regardless of the strength of their particular business model. Eventually we think our free cash flow will gain more market recognition, but in the meantime, we expect that the current market volatility will also present additional opportunities to add to our portfolio of long life, low decline assets. We thank you for your patience and support in the path we have chosen to deliver you long-term value.

Yours truly,



Phil Hodge
President and Chief Executive Officer
May 10, 2017

Please refer to the attached Management's Discussion and Analysis for Reader Advisories regarding forward-looking information, non-IFRS measures and oil and gas measurements and definitions. This President's Message should be read in conjunction with the unaudited condensed consolidated financial statements of Pine Cliff Energy Ltd. together with Management's Discussion and Analysis for the period ended March 31, 2017, which can be found on www.sedar.com and is subject to the same cautionary statements as set out therein.

Three months ended March 31,

2017 2016

(\$000s, unless otherwise indicated)

FINANCIAL¹

Oil and gas sales (before royalty expense)	35,148	27,230
Cash flow from operating activities	13,835	9,622
Funds flow from operations²	11,233	1,398
Per share – Basic and Diluted (\$/share) ²	0.04	0.00
Earnings (Loss)	(2,536)	(16,177)
Per share – Basic and Diluted (\$/share)	(0.01)	(0.05)
Capital expenditures	3,801	3,617
Acquisitions, after adjustments	-	585
Net Debt²	58,930	143,587
Weighted-average common shares outstanding (000s)		
Basic and diluted	307,076	305,512

OPERATIONS**Production**

Natural gas (Mcf/d)	120,677	129,085
Natural gas liquids (Bbls/d)	903	1,060
Crude oil (Bbls/d)	198	723
Total (Boe/d)	21,214	23,297

Realized commodity sales prices

Natural gas (\$/Mcf)	2.83	1.94
Natural gas liquids (\$/Boe)	42.40	25.72
Crude oil (\$/Bbl)	55.85	29.91
Combined (\$/Boe)	18.41	12.84

Netback (\$/Boe)

Oil and gas sales	18.41	12.84
Royalty income	-	0.29
Royalty expense	(1.82)	(0.95)
Operating expenses	(9.45)	(9.50)
Operating netback (\$/Boe) ²	7.14	2.68
General and administrative expenses	(0.74)	(1.27)
Interest and bank charges, net of dividend income	(0.52)	(0.75)
Corporate netback (\$/Boe) ²	5.88	0.66
Operating netback (\$ per Mcfe) ²	1.19	0.45
Corporate netback (\$ per Mcfe) ²	0.98	0.11

¹ Includes results for acquisitions and excludes results for dispositions from the closing dates.² This is a non-IFRS measure, see NON-IFRS MEASURES for additional information.

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 three month period ended March 31, 2017. This MD&A is dated and based on information available as at May 10, 2017 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2017 ("Financial Statements") and the audited annual consolidated financial statements for the year ended December 31, 2016 ("Annual Financial Statements") and the annual management's discussion and analysis for the year ended December 31, 2016 ("Annual MD&A"). The Financial Statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" using accounting principles consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. 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-IFRS MEASURES" and "FORWARD LOOKING INFORMATION".

Other Measurements

All amounts herein are presented in Canadian dollars unless otherwise specified. All references to C\$ or \$ are to Canadian dollars and 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.

SENSITIVITIES

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

Business environment sensitivities	Impact on annual funds flow from operations ¹		
	Change	\$000s	\$ per share ³
Crude oil price - Edmonton par (\$/Bbl) ²	\$1.00	296	0.00
Natural gas price -AECO (\$/Mcf) ²	\$0.10	4,075	0.01
Interest rate on variable rate debt ⁴	1.0%	304	0.00

¹ This analysis does not adjust for changes in working capital and uses royalty rates from Q1 2017.

² Pine Cliff has prepared this analysis using its Q1 2017 production volumes annualized for twelve months.

³ Based on the Q1 2017 basic weighted average shares outstanding.

⁴ Based on March 31, 2017 bank debt of \$19.5 million, 2018 Notes, as defined herein, of \$6.0 million, and 2018 Related Party Notes, as defined herein, of \$5.0 million.

First quarter 2017 highlights

Significant highlights from the first quarter of 2017 are as follows:

- generated \$35.1 million of sales, 29% higher than the \$27.2 million generated in the first quarter of 2016;
- generated \$11.2 million (\$0.04 per basic share) of funds flow from operations, compared to \$1.4 million (\$0.00 per basic share) in the first quarter of 2016;
- achieved production of 21,214 Boe/d (95% natural gas), only 9% lower than the 23,297 Boe/d in the first quarter of 2016, despite having sold over 600 Boe/d of production in 2016, spending only \$8.4 million on capital expenditures in 2016 and short-term production curtailments of approximately 250 Boe/d in the first quarter of 2017;
- reduced bank debt by \$11.3 million, ending the quarter with \$19.5 million in bank debt, which is \$125.2 million less than the first quarter of 2016 level of \$144.7 million; and
- reduced net debt by \$5.3 million, ending the quarter with \$58.9 million in net debt, which is 1.3 times annualized first quarter 2017 cash flow and \$84.7 million less than the first quarter of 2016 level of \$143.6 million.

PINE CLIFF'S STRATEGIC OBJECTIVES AND ACQUISITIONS

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

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

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

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

PINE CLIFF'S OPERATIONS

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

- **Central Area** – Pine Cliff owns low decline and long reserve life assets in the Ghost Pine and Viking areas of Central Alberta with average mineral working interests of 76% and 79% respectively. Each area is characterized with multiple stacked productive horizons and extensive ownership and operatorship of infrastructure which provides Pine Cliff with direct control for the majority of our production. The Ghost Pine area has wide-spread low decline, liquid rich gas production from the deeper Manville Sands and Mississippian carbonate. Near term development opportunities are focused on the Horse Shoe Canyon coals and the stacked Belly River sands. Pine Cliff has identified 892 gross (525 net) potential vertical drilling locations in the Ghost Pine Horseshoe Canyon coal bed methane fairway. The majority of the production in the Viking area comes from the Viking shore face sands but there is material upside in the Colorado Shale which is a deep water silt stone. Pine Cliff has identified 138 gross (138 net) potential horizontal drilling locations in the Viking area Colorado Shale. In addition to the drilling inventory, Pine Cliff has generated a sizeable inventory of recompletion opportunities in Central Area wellbores that are anticipated to provide attractive low risk returns. Approximately 46% of Pine Cliff's corporate production comes from the Central Area assets.
- **Southern Area** – Pine Cliff holds approximately an 82% working interest in a number of very low decline, producing shallow gas assets in Southeast Alberta and Southwest Saskatchewan. The majority of production in the Southern Area comes from the upper Cretaceous Milk River, Medicine Hat and Second White Specks sands which together provide Pine Cliff with a meaningful interest in some of the largest gas fields in Western Canada. These fields are characterized by their shallow depth and long production life. Pine Cliff's natural gas production in this area often receives premium to AECO pricing through sales into Saskatchewan and Montana. Approximately 44% of Pine Cliff's corporate production comes from the Southern Area assets.

- Edson Area – Pine Cliff holds an average of 42% working interest in a collection of liquid rich natural gas assets located in the Edson area of Alberta. The Edson Area assets are typical “deep basin” tight gas assets with multi-zone potential that are suited for horizontal drilling development in all commodity cycles. Pine Cliff’s recent developmental efforts have been focused on the emerging Ellerslie sandstone play which is an extensive shallow marine valley system. Pine Cliff has 44 gross (12.2 net) sections of undeveloped land with over 91 gross (32 net) potential drilling locations as at December 31, 2016. Approximately 10% of Pine Cliff’s corporate production comes from the Edson Area assets.

GUIDANCE FOR 2017

Pine Cliff’s 2017 guidance provides information as to management’s expectation for results of operations for 2017. Readers are cautioned that the 2017 guidance may not be appropriate for other purposes. The Company’s expected results are sensitive to fluctuations in the business environment and may vary accordingly. See “**FORWARD-LOOKING INFORMATION**”.

Production

	Full Year 2017 Guidance	Three months ended March 31, 2017
Barrels of oil equivalent per day (Boe/d)	21,250 – 21,750	21,214
Million of cubic feet equivalent per day (Mcf/d)	127,500 – 130,500	127,284

Production for the first quarter of 2017 is slightly below the full year target guidance range due to the anticipated timing of new production from Pine Cliff’s 2017 capital expenditure program, most of which is expected to come on stream later in 2017, weather related downtime, and interruptible pipeline service curtailments experienced during the three months ended March 31, 2017. The majority of these pipeline service curtailments have been lifted subsequent to quarter end.

Capital Expenditures

(\$000s)	Full Year 2017 Guidance	Three months ended March 31, 2017
Total, excluding acquisitions	18,500	3,801

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

Operating and General & Administrative Expenditures

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

BENCHMARKS PRICES

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

	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015	Q2-2015
Natural gas								
NYMEX (US\$/Mmbtu) ¹	3.25	2.95	2.78	1.95	2.05	2.28	2.77	2.67
AECO Daily 5A (C\$/Mcf) ²	2.68	3.08	2.31	1.39	1.82	2.45	2.89	2.64
Crude oil								
WTI (US\$/Bbl)	51.91	49.29	44.94	45.59	33.45	42.18	46.43	57.94
Edmonton light (C\$/Bbl)	63.91	61.61	54.71	54.71	40.69	52.87	56.17	67.63
Foreign exchange								
US\$/C\$	1.320	1.334	1.305	1.289	1.375	1.335	1.309	1.229

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.

North American natural gas benchmarks increased in the three months ended March 31, 2017 with the AECO benchmark 47% higher as compared to the same period of 2016, resulting from decreased natural gas supply and increased natural gas demand from coal to natural gas shifting, LNG exports leaving North America and increasing exports to Mexico from the US. The price realized by the Company for natural gas production from Western Canada is determined primarily by the Alberta price hub AECO/NIT. Most of Pine Cliff's natural gas production is in Alberta and a small amount is produced in Saskatchewan.

The average WTI benchmarks and Edmonton light crude increased by 55% and 57% in the three months ended March 31, 2017 as compared to the same period of 2016. Oil prices continued to slowly increase throughout the second half of 2016 and into the first quarter of 2017 as North American crude oil and product inventories leveled off and the market tried to weigh the impact of OPEC cuts vs increasing US shale production. Canadian crude prices are based upon refiner postings at Edmonton, Alberta and are linked to WTI through transportation tariffs to common markets and the foreign exchange rate. Pine Cliff's oil is sold at a discount to the Edmonton Light crude oil price as a result of quality differences.

The supply and demand dynamics for certain NGL components such as ethane, propane, butane, and condensate in the recent past has impacted the relationship between the price of NGLs and the price of oil. In the three months ended March 31, 2017, the realized price of Pine Cliff's NGL's was \$42.40, which was 66% of Edmonton light.

To help mitigate commodity price risk, the Company may enter into financial derivative contracts or fixed price physical sales contracts to assist in better managing future funds flow from operations. While risk management contracts may have opportunity costs when commodity benchmarks differ from the contracted prices, such transactions are not meant to be speculative.

Subsequent to March 31, 2017, Pine Cliff has 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 May 10, 2017:

Physical Natural Gas Sales Contracts:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price (\$CAD/GJ)	Fixed Sale Price (\$CAD/Mcf)
May 1, 2017 to October 31, 2017	NIT	5,000	\$2.720	\$2.856
May 1, 2017 to October 31, 2017	NIT	5,000	\$2.750	\$2.888
May 1, 2017 to October 31, 2017	NIT	5,000	\$2.775	\$2.914
June 1, 2017 to October 31, 2017	NIT	5,000	\$2.865	\$3.008

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

QUARTERLY TRENDS AND SELECTED FINANCIAL AND OPERATIONS INFORMATION¹

(\$000s, unless otherwise indicated)	2017		2016		2015			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
FINANCIAL								
Total revenue	31,735	35,189	30,067	19,905	25,891	20,258	19,517	16,784
Cash flow from operating activities	13,835	12,632	4,606	(4,371)	9,622	973	6,617	4,182
Funds flow from operations ²	11,233	15,026	6,972	(3,655)	1,398	6,550	7,507	5,555
Funds flow from operations per share – basic and diluted (\$/share) ²	0.04	0.05	0.02	(0.01)	0.00	0.03	0.03	0.02
Impairments	-	4,648	-	-	-	-	7,586	-
Earnings (loss)	(2,536)	3,210	(11,558)	(25,862)	(16,177)	(3,300)	(10,697)	(4,757)
Earnings (loss) per share – basic and diluted (\$/share)	(0.01)	0.01	(0.04)	(0.08)	(0.05)	(0.01)	(0.05)	(0.02)
Capital expenditures	3,801	3,356	1,437	749	3,617	1,875	2,051	447
Acquisitions, after adjustments	-	(1,029)	(603)	240	585	179,540	(166)	13,304
Capital dispositions	-	(33,032)	(5,378)	(24,702)	-	-	-	-
Net debt ²	58,930	64,224	110,312	122,032	143,587	141,770	35,208	38,405
Weighted average common shares outstanding:								
Basic	307,076	306,977	306,878	305,928	305,512	240,983	236,920	236,022
Diluted	307,076	307,095	306,878	305,928	305,512	240,983	236,920	236,022
PRODUCTION VOLUMES								
Natural gas (Mcf/d)	120,677	120,540	125,082	124,966	129,085	85,233	70,843	67,502
Natural gas liquids (Bbls/d)	903	833	871	933	1,060	581	569	445
Crude oil (Bbls/d)	198	602	803	886	723	264	128	119
Average sales volumes (Boe/d)	21,214	21,525	22,521	22,647	23,297	15,051	12,504	11,814
Average sales volumes (Mcf/d)	127,284	129,150	135,126	135,880	139,782	90,303	75,025	70,886
PRICES AND NETBACKS								
Total oil and gas sales (\$/Boe)	18.41	19.35	15.64	10.04	12.84	15.56	18.19	16.12
Operating netback (\$/Boe) ²	7.14	8.81	5.08	(0.02)	2.68	6.16	7.92	7.08
Corporate netback (\$/Boe) ²	5.88	7.59	3.36	(1.76)	0.66	4.74	6.52	5.19
Total oil and gas sales (\$/Mcf)	3.07	3.23	2.61	1.67	2.14	2.59	3.03	2.69
Operating netback (\$/Mcf) ²	1.19	1.47	0.85	-	0.45	1.03	1.32	1.18
Corporate netback (\$/Mcf) ²	0.98	1.27	0.56	(0.29)	0.11	0.79	1.09	0.87

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

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

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

- Average sales volumes increased from the third quarter in 2015 to the first quarter of 2016 as a result of the May 2015 Acquisition and the December 2015 Acquisition. Sales volumes decreased in the second quarter of 2016 to the first quarter of 2017 related to natural production declines as well as dispositions in the third and fourth quarters of 2016, partially offset by production additions from modest capital spending in 2016.
- Total revenue of \$35.2 million in the fourth quarter of 2016 was the highest in the eight quarters presented due to higher natural gas prices and higher production from the May 2015 and the December 2015 Acquisitions, partially offset by decreased royalty revenue related to the Royalty Disposition in June 2016, production decreases related to the December 2016 Disposition, and lower realized crude oil and natural gas prices. Revenues decreased in the first and second quarters 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.

- Funds flow from operating activities of \$15.0 million and earnings of \$3.2 million in the fourth quarter of 2016 were the highest in the eight quarters presented as a result of the highest natural gas prices. Funds flow from operations decreased in the first quarter of 2017 from the fourth quarter of 2016 as a result of lower production volumes and lower commodity prices.
- Earnings of \$3.2 million in the fourth quarter of 2016 were 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 quarter of 2017 compared to the fourth quarter of 2016 largely as a result of lower production volumes and a lower natural gas price.

SALES VOLUMES

Total sales volumes by product	Three months ended March 31		
	2017	2016	% Change
Natural gas (Mcf)	10,860,947	11,746,693	(8)
NGLs (Bbls)	81,273	96,448	(16)
Crude oil (Bbls)	17,776	65,753	(73)
Total Boe	1,909,207	2,119,983	(10)
Total Mcfe	11,455,239	12,719,899	(10)
Natural gas weighting	95%	92%	3

Average daily sales volumes by product	Three months ended March 31		
	2017	2016	% Change
Natural gas (Mcf/d)	120,677	129,085	(7)
NGLs (Bbls/d)	903	1,060	(15)
Crude oil (Bbls/d)	198	723	(73)
Total (Boe/d)	21,214	23,297	(9)
Total (Mcf/d)	127,284	139,782	(9)

Average daily sales volumes by area	Three months ended March 31		
	2017	2016	% Change
Central Assets (Boe/d)	9,696	11,047	(12)
Southern Assets (Boe/d)	9,272	9,935	(7)
Edson (Boe/d)	2,246	2,315	(3)
Total (Boe/d)	21,214	23,297	(9)
Total (Mcf/d)	127,284	139,782	(9)

Pine Cliff's sales volumes decreased 9% to 21,214 Boe/d (127,284 Mcfe/d) for the three months ended March 31, 2017, as compared to the same period of 2016. The decrease is primarily the result of the December 2016 Disposition and natural declines, slightly offset by production increases from minor capital programs in the first quarter of 2017. Production for the three months ended March 31, 2017 was also negatively impacted by weather related downtime and third party pipeline service curtailments of approximately 250 Boe/d. Base production continues to perform well in all areas with an estimated annual corporate decline rate of approximately 10%.

OIL AND GAS SALES

Oil and Gas Sales

(\$000s)	Three months ended March 31		
	2017	2016	% Change
Natural gas	30,709	22,782	35
NGL	3,446	2,481	39
Crude oil	993	1,967	(50)
Total oil and gas sales	35,148	27,230	29
% of revenue from natural gas sales	87%	84%	3

Benchmark Pricing

	Three months ended March 31		
	2017	2016	% Change
Natural gas			
NYMEX (US\$/Mmbtu) ¹	3.25	2.05	59
AECO Daily 5A (C\$/Mcf) ²	2.68	1.82	47
Crude oil			
WTI (US\$/Bbl)	51.91	33.45	55
Edmonton light (C\$/Bbl)	63.91	40.68	57
Foreign exchange			
US\$/C\$	1.320	1.375	(4)

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

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

Realized prices

\$ per unit	Three months ended March 31		
	2017	2016	% Change
Natural gas (\$/Mcf)	2.83	1.94	46
NGL (\$/Bbl)	42.40	25.72	65
Crude oil (\$/Bbl)	55.85	29.91	87
Total (\$/Boe)	18.41	12.84	43
Total (\$/Mcfe)	3.07	2.14	43

Oil and gas sales in the three months ended March 31, 2017, increased \$7.9 million to \$35.1 million from \$27.2 million in the three months ended March 31, 2016, with \$10.6 million of this increase attributable to higher realized prices, slightly offset by \$2.7 million due to lower sales volumes.

Pine Cliff's realized natural gas price was \$2.83 per Mcf for the three months ended March 31, 2017, 46% higher than the \$1.94 per Mcf in the corresponding period of the prior year primarily as a result of an increase in the AECO natural gas price. For the three months ended March 31, 2017, Pine Cliff's realized oil and NGL prices were \$55.85 and \$42.40 per Bbl, compared to \$29.91 and \$25.72 per Bbl in the three months ended March 31, 2016. The increases in oil and NGL prices were a result of a corresponding increase in the Edmonton Light oil price. Pine Cliffs realized oil and NGL prices in the three months ended March 31, 2017, were 87% and 66% of Edmonton Light compared to 74% and 63% in the three months ended March 31, 2016.

ROYALTY REVENUE

(\$000s)	Three months ended March 31		
	2017	2016	% Change
Total royalty revenue	-	606	(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 period.

ROYALTY EXPENSE

(\$000s)	Three months ended March 31		
	2017	2016	% Change
Total royalty expense	3,466	2,006	73
\$ per Boe	1.82	0.95	92
\$ per Mcfe	0.30	0.16	88
Royalty expense as a % of oil and gas sales	10%	7%	43

For the three months ended March 31, 2017, total royalty expense increased by 73% to \$3.5 million from \$2.0 million in the three months ended March 31, 2016. Royalty expense as a percentage of oil and gas sales increased to 10% in the three months ended March 31, 2017, compared to 7% in the three months ended March 31, 2016. The increase in royalty expense is a result of higher oil

and gas sales, higher royalty rates due to the sale of fee title lands in 2016, and higher commodity prices. Another meaningful factor in the higher royalty rate for the three months ended March 31, 2017 was a difference in the government reference price used to calculate natural gas royalties being higher than Pine Cliff's realized natural gas price, whereas in the past year it had been lower. Pine Cliff expects royalties to average 9% of sales in 2017.

OPERATING EXPENSES

(\$000s)	Three months ended March 31		
	2017	2016	% Change
Total operating expenses	18,034	20,147	(10)
\$ per Boe	9.45	9.50	(1)
\$ per Mcfe	1.57	1.58	(1)

Operating expenses decreased by 10% to \$18.0 million for the three months ended March 31, 2017, as compared to \$20.1 million for the three months ended March 31, 2016, primarily as a result of lower production in the current year period. On a per Boe basis, operating costs were \$9.45 for the three months ended March 31, 2017, 1% lower than the \$9.50 per Boe in the three months ended March 31, 2016.

Pine Cliff anticipates operating expenses to average approximately \$9.20 per Boe (\$1.53 per Mcfe) in 2017. Pine Cliff is committed to continuously seeking to increase efficiencies and decrease field operating expenses, although quarterly variances may result from timing of expenditures and seasonality.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

(\$000s)	Three months ended March 31		
	2017	2016	% Change
Gross G&A	2,392	2,822	(15)
Less: overhead recoveries	(977)	(125)	682
Total G&A expenses	1,415	2,697	(48)
\$ per Boe	0.74	1.27	(42)
\$ per Mcfe	0.12	0.21	(43)

Despite production decreasing by only 9% in the three months ended March 31, 2017, as compared to the same period in 2016, G&A decreased 48%. The decrease reflects cost efficiencies for professional fees, salaries and wages, higher overhead recoveries charged to partners, and reducing or eliminating discretionary expenses. Also contributing to the decrease were non-recurring integration costs from the December 2015 Acquisition and one time TSX listing fees in the first quarter of 2016.

On a per Boe basis, G&A for the three months ended March 31, 2017, decreased by 42% to \$0.74, from \$1.27 for the same period of 2016, primarily a result of one time TSX listing fees and higher non-recurring costs in 2016 due to integrating the December 2015 Acquisition.

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

SHARE-BASED PAYMENTS

(\$000s)	Three months ended March 31		
	2017	2016	% Change
Total share-based payments	779	768	1
\$ per Boe	0.41	0.36	14
\$ per Mcfe	0.07	0.06	17

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 three months ended March 31, 2017, Pine Cliff granted 201,000 stock options to purchase Common Shares at a weighted average exercise price of \$0.78. As at March 31, 2017, the Company had 21,564,431 stock options outstanding (March 31, 2016 – 16,784,200), representing 7.0% of Common Shares outstanding.

DEPLETION AND DEPRECIATION

(\$000s)	Three months ended March 31		
	2017	2016	% Change
Total depletion and depreciation	12,145	16,898	(28)
\$ per Boe	6.36	7.97	(20)
\$ per Mcfe	1.06	1.33	(20)

Depletion and depreciation expense for the three months ended March 31, 2017, totaled \$12.1 million compared to \$16.9 million in the three months ended March 31, 2016, as a result of lower production and lower depletion rates. Depletion and depreciation per Boe will fluctuate from one period to the next depending on the amount and type of capital spending and the reserves added. Depletion is calculated using total proved and probable reserves and reserves estimates are subject to revision.

FINANCE EXPENSES

(\$000s)	Three months ended March 31		
	2017	2016	% Change
Accretion on decommissioning liabilities	1,199	1,031	16
Interest and bank charges	1,053	1,649	(36)
Accretion on subordinated promissory notes	54	-	-
Total finance expenses	2,306	2,680	(14)
\$ per Boe	1.21	1.26	(4)
\$ per Mcfe	0.20	0.21	(5)

In the three months ended March 31, 2017, Pine Cliff incurred finance expenses of \$2.3 million, as compared to \$2.6 million in the same period of 2016 largely due to decreased interest and bank charges from lower debt levels and somewhat offset by higher accretion on decommissioning liabilities. Please refer to the "CAPITAL RESOURCES" section for additional information.

DIVIDEND INCOME

(\$000s)	Three months ended March 31		
	2017	2016	% Change
Total dividend income	53	61	(13)
\$ per Boe	0.03	0.03	-

In the three months ended March 31, 2017 and 2016, Pine Cliff received \$0.1 million in dividends from its investments in dividend paying companies.

OPERATING AND CORPORATE NETBACKS

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

	Three months ended March 31		
	2017	2016	\$ Change
(\$ per Boe)			
Oil and gas sales	18.41	12.84	5.57
Royalty income	-	0.29	(0.29)
Royalty expense	(1.82)	(0.95)	(0.87)
Operating expenses	(9.45)	(9.50)	0.05
Operating netback ¹	7.14	2.68	4.46
General and administrative expense	(0.74)	(1.27)	0.53
Interest and bank charges, net of dividend income	(0.52)	(0.75)	0.23
Corporate netback ¹	5.88	0.66	5.22
Operating netback (\$ per Mcfe) ¹	1.19	0.45	0.74
Corporate netback (\$ per Mcfe) ¹	0.98	0.11	0.87

¹This is a non-IFRS Measure, see NON-IFRS MEASURES for additional information.

Pine Cliff's corporate netback increased to \$5.88 per Boe for the three months ended March 31, 2017, from \$0.66 per Boe in the three months ended March 31, 2016. This increase is primarily due to higher commodity prices and lower G&A, and interest and bank charges, somewhat offset by higher royalty expenses and lower royalty income compared to the same period of 2016.

DEFERRED TAX RECOVERY

For the three months ended March 31, 2017, deferred tax recoveries decreased to \$0.4 million from \$1.1 million in the three months ended March 31, 2016. This decrease is primarily a result of the lower loss before income taxes of \$2.9 million in the three months ended March 31, 2017 as compared to \$17.3 million in the three months ended March 31, 2016.

As at March 31, 2017, Pine Cliff has approximately \$401.0 million in tax pools available for future use as deductions from taxable income. Included in these pools are estimated non-capital loss carry forwards of \$83.9 million that expire between the years 2030 and 2037.

EARNINGS (LOSS)

Quarter to quarter variance analysis:

(\$000s)	
Loss for the three months ended March 31, 2016	(16,177)
Price variance	10,625
Volume variance	(2,707)
Royalty revenue	(606)
Royalty expense	(1,460)
Operating expenses	2,113
General and administrative	1,282
Share-based payments	(11)
Depletion and depreciation	4,753
Finance expenses	374
Dividend income	(8)
Deferred tax recovery	(714)
Loss for the three months ended March 31, 2017	(2,536)

During the three months ended March 31, 2017, Pine Cliff's net loss decreased by \$13.7 million to \$2.5 million as compared to a net loss of \$16.2 million during the three months ended March 31, 2016. The decrease in net loss is mainly a result of higher commodity prices, lower depletion and depreciation, operating expenses, G&A, and finance expenses, partially offset by higher royalty expenses, lower royalty income, and lower sales volumes.

FUNDS FLOW FROM OPERATIONS

(\$000s)	Three months ended March 31		
	2017	2016	% Change
Cash flow from operating activities	13,835	9,622	44
Adjusted by:			
Increase in non-cash working capital	(3,094)	(8,284)	(63)
Decommissioning liabilities settled	492	60	720
Funds flow from operations ¹	11,233	1,398	704
Funds flow from operations (\$/Boe) ¹	5.88	0.66	791
Funds flow from operations (\$/Mcf) ¹	0.98	0.11	791
Funds flow from operations – basic and diluted (\$/share) ¹	0.04	-	-

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

Pine Cliff's funds flow from operations increased to \$11.2 million for the three months ended March 31, 2017, from \$1.4 million in the three months ended March 31, 2016. This increase is primarily due to higher commodity prices and lower G&A, operating and interest expenses, somewhat offset by higher royalty expenses and lower production volumes compared to the same period of 2016.

OTHER COMPREHENSIVE EARNINGS (LOSS)

Activity in other comprehensive earnings (loss) relates to the changes in the value of the investment held at March 31, 2017 by \$1.4 million.

CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS

(\$000s)	Three months ended	Year ended
	March 31, 2017	December 31, 2016
Exploration and evaluation assets	-	127
Oil and gas assets	3,795	8,842
Vehicles and administrative assets	6	190
Capital expenditures	3,801	9,159
Acquisitions, after adjustments	-	(807)
Dispositions	-	(63,112)
Total	3,801	(54,760)

Capital expenditures of \$3.8 million in the three months ended March 31, 2017, were directed towards drilling five gross (0.9 net) wells in the Edson area for \$2.5 million, minor facility and maintenance capital of \$0.8 million, recompletions of \$0.2 million, and \$0.3 million of other miscellaneous capital additions.

DEBT, LIQUIDITY AND CAPITAL RESOURCES

Bank Credit Facilities

As at March 31, 2017, the Company had a \$60.0 million syndicated credit facility (the "Credit Facility") with five Canadian Financial Institutions (the "Syndicate") (December 31, 2016 - \$60.0 million Credit Facility). The Credit Facility consisted of a \$50.0 million revolving syndicated credit facility and a \$10.0 million revolving operating facility for a total facility of \$60.0 million. Security 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 March 31, 2017, were \$19.5 million (December 31, 2016 - \$30.9 million). Amounts borrowed under the Credit Facility bore interest at the Canadian prime rate plus 1.0% to 3.5% or the bankers' acceptance rates plus 2.0% to 4.5%, depending, in each case, on the ratio of consolidated debt to EBITDA and the Company's

borrowing base. EBITDA is calculated as earnings (loss) excluding depreciation, depletion and accretion, share based payments, interest, taxes and other non-cash items.

Subsequent to quarter end, on April 12, 2017, the Company entered into a Restated Credit Agreement for a \$45 million syndicated credit facility (the "**Renewed Credit Facility**") and reduced the Syndicate from five to four Canadian financial institutions. The Renewed Credit Facility consists of a \$35 million revolving credit facility and a \$10 million revolving operating facility. The Renewed Credit Facility has a 364 day revolving period maturing July 27, 2018, and if it is not renewed it will convert to a one day term loan due on July 28, 2018. The Renewed Credit Facility will be reviewed semi-annually on November 30th and May 31st, with the next renewal scheduled for November 30, 2017. The Renewed Credit Facility bears interest at the Canadian prime rate plus 1.0% to 3.5% or the bankers' acceptance rate 2.0% to 4.5%, depending, in each case, on the ratio of consolidated debt to EBITDA. The Credit Facility has no fixed terms of repayment. All other terms of the Credit Facility remain the same under the Renewed Credit Facility.

As at March 31, 2017, the Company had \$1.7 million of 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 various nonfinancial covenants under its Credit Facility and Renewed Credit Facility. Compliance with these covenants is monitored on a regular basis and as at March 31, 2017, Pine Cliff was in compliance with all covenants.

Subordinated Promissory Notes due July 29, 2018

As at March 31, 2017, the Company had \$6.0 million outstanding in promissory notes maturing on July 29, 2018 (the "**2018 Notes**") that bears 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. 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, the Renewed 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 (the "**2018 Related Party Note**") that bears interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility, 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, the Renewed Credit Facility, and the 2020 Notes, as defined herein. Interest paid on the 2018 Related Party Note was \$0.1 million for the three months ended March 31, 2017 (March 31, 2016 - \$Nil).

Subordinated Promissory Notes due September 30, 2020

As at March 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 after August 10, 2017. The 2020 Notes are secured by a \$30.0 million floating charge debenture over all of the Company's assets and is subordinated to any and all claims in favor of the Credit Facility and the Renewed 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	May 10, 2017	March 31, 2017	December 31, 2016
Common shares	307,075,787	307,075,787	307,075,787
Stock options	21,263,431	21,564,431	22,773,431
Warrants	4,500,000	4,500,000	4,500,000

Capital Requirements

Pine Cliff's board of directors has approved a capital budget of \$18.5 million for 2017. Pine Cliff anticipates funding its capital budget primarily through cash flow from operations. Budgeted future capital expenditures 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

Liquidity describes a company's ability to access cash. Growth companies, such as Pine Cliff, operating in the upstream oil and gas business, require sufficient cash to fund exploration and development projects, to increase production and reserves, to acquire strategic oil and gas assets, to buy back shares, and to repay debt.

It is anticipated that funds flow from operations and the unused portion of the credit facility will allow Pine Cliff to meet its short-term financial liabilities, as well as future capital requirements, at a reasonable cost. The Company believes it has sufficient funding and access to capital to meet its obligations as they come due and, if required, will consider selling non-core assets, additional debt financing or issuing equity in order to meet its future liabilities.

During the three months ended March 31, 2017, the Company financed its capital expenditures with cash provided by operating activities while also reducing bank debt.

COMMITMENTS AND CONTINGENCIES

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

	2017	2018	2019	2020	2021	Thereafter
(\$000s)						
Subordinated promissory notes ¹	-	6,000	-	30,000	-	-
Trade and other payables	23,737	-	-	-	-	-
Due to related party	-	5,000	-	-	-	-
Bank loan – principal	19,521	-	-	-	-	-
Future interest	2,153	2,294	2,025	1,519	-	-
Transportation commitments ²	4,122	6,938	5,757	5,457	5,024	19,851
Vehicle leases	386	483	365	294	131	-
Office and equipment leases	371	438	436	464	464	922
Total commitments and contingencies	50,290	21,153	8,583	37,734	5,619	20,773

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

² Transportation commitments – transportation contracts for the movement of commodities from Pine Cliff's production areas to consuming markets.

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.

See Pine Cliff's Annual MD&A for a more comprehensive discussion of Pine Cliff's financial instruments and risk management policies.

Market risk

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

Commodity Price Risk

The Company is exposed to commodity price risk since its revenues are dependent on the prices of crude oil and natural gas. Commodity prices have fluctuated widely during recent years due to global and regional factors including, but not limited to, supply and demand, inventory levels, weather, economic and geopolitical factors. Changes in oil and natural gas prices may have a significant effect, positively or negatively, on the ability of the Company to meet its obligations, capital spending targets and expected operational results. During the three month period ended March 31, 2017, the Company did not have any risk management contracts to sell its oil and gas commodities. Commodities were sold at market prices at the date of sale.

Subsequent to March 31, 2017, Pine Cliff has entered into physical fixed price natural gas sales contracts to mitigate the exposure to future fluctuations in natural gas prices. Refer to the BENCHMARK PRICES section for further details.

Interest Rate Risk

The Company is principally exposed to interest rate risk to the extent it draws on its Credit Facility, 2018 Related Party Note, and 2018 Notes. Changes in market interest rates could affect the cash flow associated with the credit facility. If interest rates applicable to Pine Cliff's credit facility increased or decreased by one percent it is estimated that Pine Cliff's loss for the quarter ended March 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 the investments will fluctuate due to changes in equity markets. Equity price risk arises from the realizable value of the investments that the Company holds which are subject to variable equity prices which on disposition gives rise to a cash flow equity price risk.

Foreign Exchange Risk

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

Credit Risk

Credit risk is the risk that a third party will not complete its contractual obligations under a financial instrument and cause the Company to incur a financial loss. Pine Cliff's maximum exposure to credit risk is the sum of the carrying values of its trade and other receivables and cash, 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, 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 March 31, 2017, of \$17.6 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. There are no material financial assets that Pine Cliff considers past due. The Company generally considers amounts greater than 90 days to be past due. As at March 31, 2017, there was \$2.1 million (December 31, 2016 - \$1.8 million) of trade and other receivables over 90 days. As at March 31, 2017, the Company does not consider any trade and other receivables to be impaired.

Pine Cliff assesses its financial assets quarterly to determine if there has been any impairment. During the quarter ended March 31, 2017, the Company recorded \$Nil (December 31, 2016 - \$0.5 million) 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 actively manages its liquidity through cash, debt and equity management strategies. Such strategies include continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under the existing Credit Facility arrangements and opportunities to issue additional equity, including common shares. 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 future funds generated from these sources will be adequate to settle Pine Cliff's financial liabilities.

The Company currently has a \$45.0 million Credit Facility, of which \$19.5 million was drawn at March 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. If required, Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities.

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.

A comprehensive discussion of the significant accounting policies, judgements, assumptions and estimates made by management is provided in the Company's Annual Financial Statements and MD&A for the year ended December 31, 2016.

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.

INTERNAL CONTROLS

Pine Cliff is required to comply with National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. The certification of interim filings requires us to disclose in the MD&A any changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting. We confirm that no such changes were made to the internal controls over financial reporting during the three months ended March 31, 2017. The Chief Executive Officer and Chief Financial Officer have signed form 52-109F2, Certification of Interim Filings, which can be found on SEDAR at www.sedar.com.

NON-IFRS 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 provided by 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.

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 oil and gas sales, less royalties and operating expenses on an absolute and a per Boe or per Mcfe basis, respectively. Management uses operating netback on a per Boe basis in operational and capital allocation decisions.

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

Pine Cliff uses these measures to assist in understanding the Company's ability to generate positive cash flow 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.

Net Debt

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

(\$000s)	March 31, 2017	December 31, 2016	\$ Change
Bank debt	19,521	30,851	(11,330)
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 and accrued liabilities	23,737	21,319	2,418
Less:			
Trade and other receivables	(17,638)	(20,012)	2,374
Cash	(152)	(148)	(4)
Prepaid expenses and deposits	(3,889)	(3,491)	(398)
Investments	(3,649)	(5,295)	1,646
Net Debt	58,930	64,224	(5,294)

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 cost, 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; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and guidance; expansion and growth of our business and operations; amounts drawn on Pine Cliff’s credit facility and repayment thereof; maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; risks; Pine Cliff’s ability to generate funds flow from operations at natural gas prices above \$1.70 per Mcf; Pine Cliff’s ability to generate cash flow and free cash flow; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties and assumptions are difficult to predict and may affect operations, and may include, without limitation: foreign exchange fluctuations; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control. The foregoing factors are not exhaustive.

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

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

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