

## INTRODUCTION

This Management's Discussion and Analysis ("**MD&A**") is a review of the operations and current financial position of Pine Cliff Energy Ltd. ("**Pine Cliff**" or the "**Company**") for the period ended September 30, 2018. This MD&A is dated and based on information available as at November 6, 2018 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the nine months ended September 30, 2018 ("**Financial Statements**"), the audited annual consolidated financial statements for the year ended December 31, 2017 ("**Annual Financial Statements**") and the annual management's discussion and analysis for the year ended December 31, 2017 ("**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 using Generally Accepted Accounting Principles ("**GAAP**"). Additional information relating to the Company, including the Company's Annual Information Form, may be found on [www.sedar.com](http://www.sedar.com) and by visiting Pine Cliff's website at [www.pinecliffenergy.com](http://www.pinecliffenergy.com).

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

## READER ADVISORIES

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

### *Other Measurements*

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

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

## THIRD QUARTER HIGHLIGHTS

Highlights from the 2018 third quarter are as follows:

- realized adjusted funds flow of \$1.9 million during the quarter with realized gas prices of \$1.88 per Mcf, despite AECO daily 5A natural gas pricing only being \$1.19 per Mcf;
- achieved average production for the nine months ended September 30, 2018 of 19,721 Boe/d (118,326 Mcfe/d), down from 21,387 Boe/d (128,322 Mcfe/d) for the nine months ended September 30, 2017, despite only incurring \$3.2 million of drilling and recompletion capital in the nine months ended September 30, 2018;
- entered into an amended and restated credit agreement with its banking syndicate for an \$11.0 million revolving credit facility; and
- completed a private placement for gross proceeds of \$19.0 million from Alberta Investment Management Corporation to pay down bank indebtedness and provide additional working capital.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
(\$000s, unless otherwise indicated)				
<b>FINANCIAL</b>				
<b>Oil and gas sales (before royalty expense)</b>	<b>25,625</b>	25,646	<b>77,275</b>	96,355
<b>Cash flow from operating activities</b>	<b>(309)</b>	5,517	<b>7,201</b>	29,359
<b>Adjusted funds flow<sup>1</sup></b>	<b>1,920</b>	2,879	<b>6,080</b>	24,946
Per share – Basic and Diluted (\$/share) <sup>1</sup>	<b>0.01</b>	0.01	<b>0.02</b>	0.08
<b>Loss</b>	<b>(10,710)</b>	(30,214)	<b>(44,199)</b>	(34,868)
Per share – Basic and Diluted (\$/share)	<b>(0.03)</b>	(0.10)	<b>(0.14)</b>	(0.11)
<b>Capital expenditures</b>	<b>1,910</b>	3,318	<b>6,363</b>	10,386
<b>Net debt<sup>1</sup></b>	<b>56,325</b>	53,377	<b>56,325</b>	53,377
Weighted-average common shares outstanding (000s)				
Basic and diluted	<b>307,076</b>	307,076	<b>307,076</b>	307,076
<b>OPERATIONS</b>				
<b>Production</b>				
Natural gas (Mcf/d)	<b>111,067</b>	124,450	<b>111,385</b>	121,527
Natural gas liquids (Bbl/d)	<b>861</b>	998	<b>935</b>	938
Crude oil (Bbl/d)	<b>231</b>	123	<b>222</b>	194
Total (Boe/d)	<b>19,603</b>	21,863	<b>19,721</b>	21,387
<b>Realized commodity sales prices</b>				
Natural gas (\$/Mcf)	<b>1.88</b>	1.86	<b>1.93</b>	2.49
Natural gas liquids (\$/Boe)	<b>61.05</b>	41.98	<b>56.25</b>	42.58
Crude oil (\$/Bbl)	<b>74.15</b>	47.72	<b>69.64</b>	53.75
Combined (\$/Boe)	<b>14.21</b>	12.75	<b>14.35</b>	16.50
<b>Netback (\$/Boe)</b>				
Oil and gas sales	<b>14.21</b>	12.75	<b>14.35</b>	16.50
Royalty expense	<b>(0.82)</b>	(0.89)	<b>(1.05)</b>	(1.38)
Transportation expenses	<b>(1.88)</b>	(1.02)	<b>(1.72)</b>	(1.04)
Operating expenses	<b>(9.17)</b>	(8.54)	<b>(9.21)</b>	(8.52)
Operating netback (\$/Boe) <sup>1</sup>	<b>2.34</b>	2.30	<b>2.37</b>	5.56
General and administrative expenses	<b>(0.66)</b>	(0.49)	<b>(0.76)</b>	(0.83)
Interest and bank charges, net of dividend income	<b>(0.62)</b>	(0.37)	<b>(0.48)</b>	(0.46)
Corporate netback (\$/Boe) <sup>1</sup>	<b>1.06</b>	1.44	<b>1.13</b>	4.27
Operating netback (\$ per Mcfe) <sup>1</sup>	<b>0.39</b>	0.38	<b>0.40</b>	0.93
Corporate netback (\$ per Mcfe) <sup>1</sup>	<b>0.18</b>	0.24	<b>0.19</b>	0.71

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

## SENSITIVITIES

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

Business environment sensitivities	Impact on annual adjusted funds flow <sup>1</sup>		
	Change	\$000s	\$ per share <sup>3</sup>
Crude oil price (\$/Bbl) <sup>2</sup>	\$1.00	371	0.00
Natural gas price (\$/Mcf) <sup>2</sup>	\$0.10	3,770	0.01
Interest rate on variable rate debt <sup>4</sup>	1.0%	74	0.00

<sup>1</sup> This analysis does not adjust for changes in working capital and uses corporate royalty rates from the nine months ended September 30, 2018.

<sup>2</sup> Pine Cliff has prepared this analysis using its Q3 2018 production volumes annualized for twelve months.

<sup>3</sup> Based on the Q3 2018 basic weighted average shares outstanding.

<sup>4</sup> Based on September 30, 2018 bank debt of \$nil, 2020 \$6 Million Notes and 2020 Related Party Notes, as defined herein, of \$6.0 million, less cash of \$4.6 million.

## QUARTERLY BENCHMARK PRICES

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

	Q3-2018	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017	Q1-2017	Q4-2016
<b>Natural gas</b>								
NYMEX (US\$/Mmbtu) <sup>1</sup>	2.85	2.78	2.99	2.91	2.98	3.13	3.25	2.95
AECO Daily 5A (C\$/Mcf) <sup>2</sup>	1.19	1.18	2.07	1.68	1.45	2.77	2.68	3.08
Pine Cliff realized natural gas price (\$/Mcf)	1.88	1.55	2.35	1.98	1.86	2.82	2.83	2.93
<b>Crude oil</b>								
WTI (US\$/Bbl)	69.50	67.88	62.87	55.40	48.20	48.28	51.91	49.29
Edmonton Light (C\$/Bbl)	81.95	80.66	72.21	68.98	56.65	61.87	63.91	61.61
<b>Foreign exchange</b>								
US\$/C\$	1.310	1.290	1.270	1.270	1.250	1.340	1.320	1.334

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

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

In the three and nine months ended September 30, 2018, the AECO daily benchmark was 18% and 36% lower, compared to the same period of 2017, primarily due to increased natural gas supply and pipeline constraints on the ability of producers to flow production. While the price realized by the Company for natural gas production from Western Canada is still influenced by the Alberta price hub AECO, recent diversification projects to delivery points such as Dawn, Empress and TransGas into Saskatchewan materially increased realized natural gas pricing for Pine Cliff in fiscal 2018.

The average benchmarks for WTI and Edmonton Light crude increased by 44% and 45%, in the three months ended September 30, 2018, as compared to the same period in 2017, due to increasing global demand and the management of global crude oil production volumes by OPEC. 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.

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 and nine months ended September 30, 2018, the realized price of Pine Cliff's NGL's was \$61.05 and \$56.25, respectively, which was 74% and 72% of Edmonton Light oil prices.

**QUARTERLY TRENDS AND SELECTED FINANCIAL INFORMATION**

(\$000s, unless otherwise indicated)	2018				2017		2016	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>FINANCIAL</b>								
Total revenue	<b>24,148</b>	20,419	27,100	25,444	23,892	34,005	31,735	35,189
Cash flow from operating activities	<b>(309)</b>	531	6,979	(4,350)	5,517	10,007	13,835	12,632
Adjusted funds flow <sup>1</sup>	<b>1,920</b>	(977)	5,137	3,759	2,879	10,834	11,233	15,026
Adjusted funds flow per share – basic and diluted (\$/share) <sup>1</sup>	<b>0.01</b>	0.00	0.02	0.01	0.01	0.04	0.04	0.05
Impairments	-	-	-	-	17,800	-	-	4,648
Earnings (loss)	<b>(10,710)</b>	(17,909)	(15,580)	(32,996)	(30,214)	(2,118)	(2,536)	3,210
Earnings (loss) per share – basic and diluted (\$/share)	<b>(0.03)</b>	(0.06)	(0.05)	(0.11)	(0.10)	(0.01)	(0.01)	0.01
Capital expenditures	<b>1,910</b>	1,276	3,177	3,091	3,318	3,267	3,801	3,356
Acquisitions	<b>659</b>	(3)	(288)	44	(9)	(97)	-	(1,029)
Dispositions	<b>(16)</b>	(135)	(83)	(148)	(65)	(216)	-	(33,032)
Net debt <sup>1</sup>	<b>56,325</b>	54,737	52,414	53,638	53,377	52,562	58,930	64,224
Weighted average common shares outstanding:								
Basic	<b>307,076</b>	307,076	307,076	307,076	307,076	307,076	307,076	306,977
Diluted	<b>307,076</b>	307,076	307,076	307,076	307,076	307,076	307,076	307,095
<b>PRODUCTION VOLUMES</b>								
Natural gas (Mcf/d)	<b>111,067</b>	110,242	112,871	122,304	124,450	119,410	120,677	120,540
Natural gas liquids (Bbl/d)	<b>861</b>	967	977	880	998	912	903	833
Crude oil (Bbl/d)	<b>231</b>	216	219	225	123	263	198	602
Average sales volumes (Boe/d)	<b>19,603</b>	19,557	20,008	21,489	21,863	21,077	21,214	21,525
Average sales volumes (Mcf/d)	<b>117,618</b>	117,342	120,048	128,934	131,178	126,462	127,284	129,150
<b>PRICES AND NETBACKS</b>								
Total oil and gas sales (\$/Boe)	<b>14.21</b>	12.33	16.50	13.85	12.75	18.55	18.41	19.35
Operating netback (\$/Boe) <sup>1</sup>	<b>2.34</b>	0.72	4.04	2.85	2.30	7.41	7.14	8.81
Corporate netback (\$/Boe) <sup>1</sup>	<b>1.06</b>	(0.55)	2.86	1.90	1.44	5.65	5.88	7.59
Total oil and gas sales (\$/Mcf)	<b>2.37</b>	2.06	2.75	2.31	2.13	3.09	3.07	3.23
Operating netback (\$/Mcf) <sup>1</sup>	<b>0.39</b>	0.12	0.67	0.48	0.38	1.24	1.19	1.47
Corporate netback (\$/Mcf) <sup>1</sup>	<b>0.18</b>	(0.09)	0.48	0.32	0.24	0.94	0.98	1.27

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

Over the past eight quarters, Pine Cliff's revenues, cash flow from operating activities, adjusted funds flow, and earnings (losses) have fluctuated primarily due to changes in commodity prices and sales volumes impacted partially from 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 fourth quarter of 2016 until the second quarter of 2017 mainly related to natural production declines and dispositions in the fourth quarter of 2016. Average sales volumes increased in the third quarter of 2017 due to a successful recompletion program in the Company's "Central Area". Average sales volumes decreased in the fourth quarter of 2017 through the second quarter of 2018 related to natural production declines and short term production outages, primarily due to voluntary shut ins in response to low natural gas commodity prices. Average sales volumes increased in the third quarter of 2018 compared to the second quarter of 2018 due to realizing a full quarter of production from wells drilled in the first half of 2018.
- Adjusted funds flow 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 in the eight quarters. Adjusted funds flow decreased from the first quarter of 2017 through the third quarter of 2017 compared to the fourth quarter of 2016, largely a result of fluctuations in natural gas prices and sales volumes. Adjusted funds flow increased from in the fourth quarter of 2017 and the first quarter of 2018 as a result of

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

- 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 in the eight quarters. Earnings decreased in the first and second quarters of 2017 compared to the fourth quarter of 2016, primarily as a result of lower commodity prices and lower sales volumes. Losses continued to increase in the third quarter of 2017 compared to the second quarter of 2017, primarily as a result of impairment and lower commodity prices, slightly offset by higher sales volumes. Losses increased in the fourth quarter of 2017 compared to the third quarter of 2017, primarily as a result of a deferred income tax expense. Losses decreased in the first quarter of 2018 compared to the fourth quarter of 2017 mainly as a result of higher oil and gas revenues and a lower deferred income tax expense. Losses increased in the second quarter of 2018 compared to the first quarter of 2018 mainly as a result of lower oil and gas revenues. Losses decreased in the third quarter of 2018 compared to the second quarter of 2018 mainly as a result of higher oil and gas revenues.
- Total revenue of \$35.2 million in the fourth quarter of 2016 was the highest in the eight quarters presented due to high natural gas prices, partially offset by production decreases related to a December 2016 disposition, and lower realized crude oil prices. Total revenues have fluctuated from the first quarter of 2017 to the second quarter of 2018 mainly as a result of changes in commodity prices and sales volumes. Total revenues increased in the third quarter of 2018 compared to the second quarter of 2018 mainly as a result of higher commodity prices and sales volumes.

### SALES VOLUMES

Total sales volumes by product	Three months ended September 30,			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Natural gas (Mcf)	10,218,126	11,449,411	(11)	30,407,988	33,176,626	(8)
NGLs (Bbl)	79,177	91,837	(14)	255,122	256,145	-
Crude oil (Bbl)	21,252	11,334	88	60,663	53,022	14
Total Boe	1,803,448	2,011,406	(10)	5,383,783	5,838,605	(8)
Total Mcfe	10,820,700	12,068,436	(10)	32,302,698	35,031,628	(8)
Natural gas weighting	94%	95%	(1)	94%	95%	(1)

Average daily sales volumes by product	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Natural gas (Mcf/d)	111,067	124,450	(11)	111,385	121,527	(8)
NGLs (Bbl/d)	861	998	(14)	935	938	-
Crude oil (Bbl/d)	231	123	88	222	194	14
Total (Boe/d)	19,603	21,863	(10)	19,721	21,387	(8)
Total (Mcfe/d)	117,618	131,178	(10)	118,326	128,322	(8)

Average daily sales volumes by area	Three months ended September 30,			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Central (Boe/d)	9,230	10,418	(11)	9,275	9,927	(7)
Southern (Boe/d)	8,531	9,247	(8)	8,444	9,206	(8)
Edson (Boe/d)	1,842	2,198	(16)	2,002	2,254	(11)
Total (Boe/d)	19,603	21,863	(10)	19,721	21,387	(8)
Total (Mcfe/d)	117,618	131,178	(10)	118,326	128,322	(8)

Pine Cliff's sales volumes decreased by 10% to 19,603 Boe/d (117,618 Mcfe/d) and 8% to 19,721 Boe/d (118,326 Mcfe/d) for the three and nine months ended September 30, 2018, as compared to the same periods in 2017. The decreases relate mainly to natural production declines and short term voluntary shut-ins due to low natural gas commodity pricing, offset slightly by production gains from the Company's recompletion and drilling programs.

Pine Cliff is adjusting its 2018 sales volumes guidance from 20,000 – 20,500 Boe/d (120,000 – 123,000 Mcfe/d) to 19,500 – 20,000 Boe/d (117,000 – 120,000 Mcfe/d), weighted approximately 94% towards natural gas. The projected sales volumes have decreased due to short term voluntary shut-ins as a result of lower natural gas prices and delaying capital expenditures to the fourth quarter of 2018.

**Benchmark Prices**

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	2018	2017	% Change
<b>Natural gas</b>						
NYMEX (US\$/Mmbtu) <sup>1</sup>	2.85	2.98	(4)	2.87	3.12	(8)
AECO Daily 5A (C\$/Mcf) <sup>2</sup>	1.19	1.45	(18)	1.48	2.30	(36)
<b>Crude oil</b>						
WTI (US\$/Bbl)	69.50	48.20	44	66.75	49.46	35
Edmonton Light (C\$/Bbl)	81.95	56.65	45	78.27	60.81	29
<b>Foreign exchange</b>						
US\$/C\$	1.310	1.250	5	1.290	1.303	(1)

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

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

**OIL AND GAS SALES**

(\$000s)	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Natural gas	19,215	21,250	(10)	58,700	82,598	(29)
NGL	4,834	3,855	25	14,351	10,907	32
Crude oil	1,576	541	191	4,224	2,850	48
Total oil and gas sales	25,625	25,646	-	77,275	96,355	(20)
% of revenue from natural gas sales	75%	83%	(8)	76%	86%	(10)

**Realized prices**

\$ per unit	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Natural gas (\$/Mcf)	1.88	1.86	1	1.93	2.49	(22)
NGL (\$/Bbl)	61.05	41.98	45	56.25	42.58	32
Crude oil (\$/Bbl)	74.15	47.72	55	69.64	53.75	30
Total (\$/Boe)	14.21	12.75	11	14.35	16.50	(13)
Total (\$/Mcfe)	2.37	2.13	11	2.39	2.75	(13)

Oil and gas sales in the three months ended September 30, 2018 of \$25.6 million are similar to the \$25.6 million in the three months ended September 30, 2017, with a \$2.6 million increase from higher realized commodity pricing being offset by a decrease from lower production. Oil and gas sales in the nine months ended September 30, 2018, decreased by \$19.1 million to \$77.3 million from \$96.4 million in the nine months ended September 30, 2017, with \$11.6 million of the decrease attributable to lower realized prices and \$7.5 million from lower sales volumes.

Pine Cliff's realized natural gas price was \$1.88 per Mcf in the three months ended September 30, 2018, 1% higher than the \$1.86 per Mcf realized in the corresponding period of the prior year, despite the AECO 5A reference prices being 18% lower, as a result of Pine Cliff's recent marketing diversification to non-AECO markets and fixed price physical natural gas sales contracts. Pine Cliff's realized natural gas price was \$1.93 per Mcf in the nine months ended September 30, 2018, 22% lower than the \$2.49 per Mcf in the corresponding period of the prior year as a result of lower natural gas market prices, somewhat offset by marketing diversification premiums and fixed price physical natural gas sales contracts. For the three and nine months ended September 30, 2018, Pine Cliff's realized natural gas pricing was 58% and 30% higher than the AECO 5A benchmark compared to 28% and 8% in the corresponding periods of the prior year.

For the three and nine months ended September 30, 2018, Pine Cliff's realized NGL prices were \$61.05 per Bbl and \$56.25 per Bbl, compared to \$41.98 per Bbl and \$42.58 per Bbl in the corresponding periods of the prior year. For the three and nine months ended September 30, 2018, Pine Cliff's realized oil prices were \$74.15 per Bbl and \$69.64 per Bbl, compared to \$47.72 per Bbl and \$53.75 per Bbl in the corresponding periods of the prior year. The increases in NGL and oil prices were a result of an increase in the Edmonton Light oil price. Pine Cliff's realized NGL prices in the three and nine months ended September 30, 2018 were 74% and 72% of

Edmonton Light compared to 74% and 70% in the corresponding periods of the prior year. Pine Cliff's realized oil prices in the three and nine months ended September 30, 2018 were 90% and 89% of Edmonton Light compared to 84% and 88% in the corresponding periods of the prior year.

**ROYALTY EXPENSE**

(\$000s)	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Total royalty expense	<b>1,477</b>	1,793	(18)	<b>5,643</b>	8,057	(30)
\$ per Boe	<b>0.82</b>	0.89	(8)	<b>1.05</b>	1.38	(24)
\$ per Mcfe	<b>0.14</b>	0.15	(8)	<b>0.17</b>	0.23	(24)
Royalty expense as a % of oil and gas sales	<b>6%</b>	7%	(14)	<b>7%</b>	8%	(13)

For the three and nine months ended September 30, 2018, total royalty expense decreased by 18% and 30% to \$1.5 million and \$5.6 million from \$1.8 million and \$8.1 million in the corresponding periods of the prior year. Royalty expense as a percentage of oil and gas sales decreased to 6% and 7% in the three and nine months ended September 30, 2018, compared to 7% and 8% in the corresponding periods of the prior year. The decrease in royalty expenses as a percentage of oil in gas sales for the three and nine months ended September 30, 2018 is primarily due to gas crown royalties being charged on a reference price that is lower than Pine Cliff's realized gas price and higher gas cost allowance adjustments.

**TRANSPORTATION COSTS**

(\$000s)	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Total transportation costs	<b>3,387</b>	2,058	65	<b>9,281</b>	6,085	53
\$ per Boe	<b>1.88</b>	1.02	84	<b>1.72</b>	1.04	65
\$ per Mcfe	<b>0.31</b>	0.17	84	<b>0.29</b>	0.17	65

Transportation costs increased by 65% and 53% to \$3.4 million and \$9.3 million for the three and nine months ended September 30, 2018, as compared to \$2.1 million and \$6.1 million in the corresponding periods of the prior year, primarily a result of higher transportation expenses related to the Company diversifying its natural gas sales delivery to non-AECO markets, including the delivery of approximately 11,000 Mcf/d to Dawn during the three and nine months ended September 30, 2018. The increase in transportation costs was more than offset by a higher realized natural gas price during the three and nine months ended September 30, 2018.

**OPERATING EXPENSES**

(\$000s)	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Total operating expenses	<b>16,535</b>	17,169	(4)	<b>49,587</b>	49,741	-
\$ per Boe	<b>9.17</b>	8.54	7	<b>9.21</b>	8.52	8
\$ per Mcfe	<b>1.53</b>	1.42	7	<b>1.54</b>	1.42	8

Operating expenses decreased to \$16.5 million and \$49.6 million for the three and nine months ended September 30, 2018, as compared to \$17.2 million and \$49.7 million in the corresponding periods of the prior year. The decreases are primarily a result of lower sales volumes and a decrease in discretionary spending due to low natural gas prices, slightly offset by higher power costs and lower third party fee revenue.

On a per Boe basis, operating costs increased to \$9.17 per Boe and \$9.21 per Boe for the three and nine months ended September 30, 2018 compared to \$8.54 per Boe and \$8.52 per Boe in the corresponding periods of 2017 primarily as a result of lower sales volumes, higher power costs and lower third party fee revenue.

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

(\$000s)	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Gross G&A	1,796	1,913	(6)	5,813	6,457	(10)
Less: overhead recoveries	(604)	(924)	(35)	(1,731)	(1,625)	7
Total G&A expenses	1,192	989	21	4,082	4,832	(16)
\$ per Boe	0.66	0.49	35	0.76	0.83	(8)
\$ per Mcfe	0.11	0.08	35	0.13	0.14	(8)

G&A increased by 21% to \$1.2 million in the three months ended September 30, 2018, as compared to \$1.0 million in the three months ended September 30, 2017. The increase in G&A during the three months ended September 30, 2018 is a result of lower overhead recoveries from working interest partners, slightly offset by lower discretionary staffing costs. On a per Boe basis, G&A for the three months ended September 30, 2018, increased by 35% to \$0.66 per Boe from \$0.49 per Boe resulting from the above as well as lower sales volumes.

G&A decreased by 16% to \$4.1 million in the nine months ended September 30, 2018, as compared to \$4.8 million in the corresponding periods of the prior year. On a per Boe basis, G&A for the nine months ended September 30, 2018, decreased by 8% to \$0.76 per Boe from \$0.83 per Boe. The decrease in G&A during the nine months ended September 30, 2018 is a result of lower discretionary staffing costs and slightly higher overhead recoveries from working interest partners.

**SHARE-BASED PAYMENTS**

(\$000s)	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Total share-based payments	471	1,096	(57)	1,726	2,710	(36)
\$ per Boe	0.26	0.54	(52)	0.32	0.46	(30)
\$ per Mcfe	0.04	0.09	(52)	0.05	0.08	(30)

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 Common Shares.

During the nine months ended September 30, 2018, the Company granted 7,496,800 stock options to purchase Common Shares (nine months ended September 30, 2017 - 5,575,150). As at September 30, 2018, the Company had 25,989,544 stock options outstanding representing 8.4% of Common Shares outstanding (September 30, 2017 - 23,806,612 representing 7.8% of Common Shares outstanding).

**DEPLETION AND DEPRECIATION**

(\$000s)	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Total depletion and depreciation	10,738	12,864	(17)	32,340	37,158	(13)
\$ per Boe	5.95	6.40	(7)	6.01	6.36	(6)
\$ per Mcfe	0.99	1.07	(7)	1.00	1.06	(6)
Impairment	-	17,800	(100)	-	17,800	(100)
Total depletion, depreciation and impairment	10,738	30,664	(65)	32,340	54,958	(41)
\$ per Boe	5.95	15.25	(61)	6.01	9.41	(36)
\$ per Mcfe	0.99	2.54	(61)	1.00	1.57	(36)

Depletion and depreciation expense, excluding impairment for the three and nine months ended September 30, 2018, totaled \$10.7 million and \$32.3 million compared to \$12.9 million and \$37.2 million in the corresponding periods of the prior year, as a result of lower sales volumes and a lower depletable base. Depletion and depreciation per Boe will fluctuate from one period to the next depending on the amount and type of capital spending and changes in reserves. Depletion is calculated using total proved and probable reserves and reserves estimates are subject to revision.

**Property, Plant and Equipment (“PP&E”) Impairment Assessment**

As at September 30, 2018, the Company had four Cash Generating Units (“CGU”) being the Southern CGU, Central Gas CGU, Edson CGU, and Coal Bed Methane CGU. The Company reviewed each CGU’s property and equipment at September 30, 2018 for indicators of impairment and determined that an indicator related to the decrease in future commodity prices was present. The company prepared estimates of both the value in use and fair value less cost to sell of each of the Company’s CGUs. When it is determined that any CGU carrying value exceeds its recoverable amount, that CGU is considered impaired and an impairment expense is reported that equals this excess.

The following table outlines forecast benchmark prices and exchange rates used in the Company’s impairment test as at September 30, 2018:

Year	WTI Oil (US\$/Bbl) <sup>1</sup>	\$C to US\$ Foreign exchange rate <sup>1</sup>	Edmonton Light Crude Oil (Cdn\$/Bbl) <sup>1</sup>	AECO Gas (Cdn\$/MMBtu) <sup>1</sup>
2018 (3 months)	70.00	1.30	75.90	2.00
2019	70.00	1.29	82.80	2.15
2020	70.00	1.25	83.50	2.45
2021	70.20	1.23	82.70	2.90
2022	71.60	1.21	82.80	3.10
2023-2032	80.00	1.21	92.97	3.57
Thereafter	+2.0%/yr	1.21	+2.0%/yr	+2.0%/yr

<sup>1</sup> Source: McDaniel & Associates Consultants Ltd. price forecasts, effective October 1, 2018.

The recoverable amounts of each of the Company’s CGU’s at September 30, 2018 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, adjusted for production and future pricing changes during the nine months ended September 30, 2018. The fair value less costs to sell used to determine the recoverable amounts are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data, but rather, the Company’s management best estimates.

The Company used a pre-tax 15% discount rate for the September 30, 2018 impairment test which took into account risks specific to the CGU’s and inherent in the oil and gas business. The impairment testing concluded that the fair value less costs to sell for the Company’s CGU’s at September 30, 2018 is greater than the carrying amounts and therefore no impairment was recorded.

**FINANCE EXPENSES**

(\$000s)	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Interest expense and bank charges	<b>1,114</b>	811	37	<b>2,637</b>	2,852	(8)
Non cash:						
Accretion on decommissioning provision	<b>1,346</b>	1,263	7	<b>3,936</b>	3,679	7
Accretion on subordinated promissory notes	<b>75</b>	56	34	<b>190</b>	164	16
Total finance expenses	<b>2,535</b>	2,130	19	<b>6,763</b>	6,695	1
\$ per Boe	<b>1.41</b>	1.06	33	<b>1.26</b>	1.15	10
\$ per Mcfe	<b>0.23</b>	0.18	33	<b>0.21</b>	0.19	10

Finance expenses increased by 19% to \$2.5 million for the three months ended September 30, 2018, as compared to \$2.1 million in the corresponding periods of the prior year, primarily a result of higher interest costs due to higher interest rates paid on the additional subordinated promissory notes as well as an increase in accretion expenses.

Finance expenses increased by 1% to \$6.8 million for the nine months ended September 30, 2018, as compared to \$6.7 million in the corresponding period of the prior year, primarily a result of an increase in accretion expenses, offset by a decrease in interest expense from lower bank debt levels. Please refer to the “DEBT, LIQUIDITY AND CAPITAL RESOURCES” section for additional information.

**DIVIDEND INCOME**

(\$000s)	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Total dividend income	-	53	(100)	35	158	(78)
\$ per Boe	-	0.03	(100)	0.01	0.03	(67)

In the nine months ended September 30, 2018, Pine Cliff received \$0.04 million (2017 - \$0.2 million) in dividends from its investment in a dividend paying company. This investment was sold as of March 31, 2018.

**DEFERRED INCOME TAX**

For the nine months ended September 30, 2018, deferred income tax expenses amounted to \$9.4 million, compared to \$0.5 million of deferred income tax recoveries during the same period of 2017.

As at September 30, 2018, a deferred income tax asset has not been recognized on \$51.7 million (December 31, 2017 - \$33.3 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 \$387.6 million in tax pools as at September 30, 2018 (December 31, 2017 - \$383.0 million), available for future use as deductions from taxable income. Included in the Company's tax pools are estimated non-capital loss carry-forwards of \$106.6 million (December 31, 2017 - \$82.6 million) that expire between the years 2030 and 2038.

**LOSS**

Variance analysis:

(\$000s)	
<b>Loss for the nine months ended September 30, 2017</b>	<b>(34,868)</b>
Price variance	(11,574)
Volume variance	(7,506)
Royalty expense	2,414
Transportation	(3,196)
Operating	154
General and administrative	750
Unrealized gain on commodity contracts	(1,176)
Depletion and depreciation	4,818
Share-based payments	984
Finance	(68)
Realized loss on sale of investments	(2,687)
Dividend income	(123)
Deferred income tax	(9,921)
Impairment	17,800
<b>Loss for the nine months ended September 30, 2018</b>	<b>(44,199)</b>

During the nine months ended September 30, 2018, Pine Cliff's loss increased by \$9.3 million to \$44.2 million as compared to a loss of \$34.9 million during the nine months ended September 30, 2017. The increase in loss is mainly a result of lower natural gas prices, lower sales volumes, higher transportation costs, higher deferred income tax expense and a realized loss on sale of investments, partially offset by lower royalty and operating expenses, G&A expenses, share-based payments, depletion and depreciation and impairment.

**REALIZED LOSS IN INVESTMENTS**

As of March 31, 2018, Pine Cliff sold its investment in one public dividend paying company for proceeds of \$2.3 million and realized a loss on sale of investments of \$2.7 million.

**CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS**

(\$000s)	Nine months ended September 30, 2018	Year ended December 31, 2017
Exploration and evaluation	184	79
Property, plant and equipment	6,179	13,398
Capital expenditures	6,363	13,477
Acquisitions	368	(62)
Dispositions	(234)	(429)
<b>Total</b>	<b>6,497</b>	<b>12,986</b>

Capital expenditures of \$6.4 million during the nine months ended September 30, 2018, were directed towards drilling eight gross (1.0 net) wells in the Edson and Central areas for \$3.1 million, facility and maintenance capital of \$2.3 million, recompletions of \$0.1 million and \$0.9 million of other miscellaneous capital additions.

**Acquisitions and Dispositions of Oil and Natural Gas Properties**

Pine Cliff did not enter into any business combinations in the nine months ended September 30, 2018, and only completed minor property acquisitions and dispositions during the period.

**DECOMMISSIONING PROVISION**

The total future decommissioning provision of \$190.1 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 September 30, 2018, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$244.0 million (December 31, 2017 - \$244.3 million). The provision has been calculated assuming a 1.84% inflation rate (December 31, 2017 - 1.72%). 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 3.03% (December 31, 2017 - 2.57%).

**DEBT, LIQUIDITY AND CAPITAL RESOURCES**

**Bank Credit Facilities**

As at September 30, 2018, the Company had an \$11.0 million syndicated credit facility (the "Credit Facility") with three Canadian Financial Institutions (the "Syndicate") (December 31, 2017 - \$45.0 million Credit Facility). The Credit Facility of \$11.0 million consists of a \$6.0 million revolving syndicated credit facility and a \$5.0 million revolving operating facility. Security consists of floating demand debentures totaling \$150.0 million and a general security agreement with first ranking over all current and acquired properties. Amounts drawn under the Credit Facility at September 30, 2018, were \$nil (December 31, 2017 - \$18.0 million). Borrowings under the Credit Facility bear interest at the Canadian prime rate plus 1.5% to 4.0% or the bankers' acceptance rates plus 2.5% to 5.0%, depending, in each case, on the ratio of consolidated debt to EBITDA, plus applicable standby fees. EBITDA is calculated as earnings (loss) excluding depreciation, depletion, impairment and accretion, share based payments, interest, taxes and other non-cash items. The Credit Facility matures July 28, 2019, and if it is not renewed it will convert to a one day term loan due on July 29, 2019. The Credit Facility is reviewed semi-annually on November 30<sup>th</sup> and May 31<sup>st</sup>.

As at September 30, 2018, the Company had \$2.0 million in letters of credit issued against its Credit Facility (December 31, 2017 - \$2.0 million). The Credit Facility does not contain any financial covenants but Pine Cliff is subject to non-financial covenants under its Credit Facility. Compliance with these covenants is monitored on a regular basis and as at September 30, 2018, Pine Cliff was in compliance with all covenants.

**Due to Related Party**

As at September 30, 2018, Pine Cliff had a \$6.0 million promissory note outstanding to the Company's Chairman of the Board maturing on September 30, 2020 ("2020 Related Party Note") that bears interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility and is payable monthly. The 2020 Related Party Note is secured by a \$6.0 million floating charge debenture over all of the Company's assets and is subordinated to any and all claims in favor of the Credit Facility and the holder of the \$30 Million 2020 Notes and \$19 Million 2022 Notes, as defined herein. Interest paid on the 2020 Related Party Note for the three and nine months

ended September 30, 2018 was \$0.1 million and \$0.2 million (three and nine months ended September 30, 2017 - \$0.05 million and \$0.2 million).

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

On July 29, 2016, the Company issued \$6.0 million in promissory notes maturing on July 29, 2018. On July 13, 2018 these notes were amended to mature on September 30, 2020 ("**\$6 Million 2020 Notes**") and bearing interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility, payable monthly. The \$6 Million 2020 Notes were issued to a shareholder and a relative of that shareholder, owning directly or by discretion and control, greater than 10% of the Company's outstanding common shares in the capital of the Company ("**Common Shares**") and can be repaid at any time without penalty. The \$6 Million 2020 Notes were 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 \$30 Million 2020 Note and \$19 Million 2022 Note holders.

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

On August 10, 2016, the Company issued 30,000 units ("**2020 Units**" or "**2020 Unit**") at a price of \$1,000 per 2020 Unit for aggregate proceeds of \$30.0 million. Each 2020 Unit is comprised of: (i) one promissory note with a par value of \$1,000 per note and bearing interest at 6.75% per annum ("**\$30 Million 2020 Note**" or "**\$30 Million 2020 Notes**"), which are payable semi-annually; and (ii) 150 Common Share purchase warrants ("**2018 Warrants**"). The \$30 Million 2020 Notes mature on September 30, 2020 and all or a portion of the principal amount outstanding can be repaid earlier without penalty. The \$30 Million 2020 Notes are secured by a \$30.0 million floating charge debenture over all of the Company's assets and is subordinated to any and all claims in favor of the Credit Facility. A total of 4.5 million 2018 Warrants were issued, entitling the holder to purchase one Common Share for each 2018 Warrant at a price of \$1.38. The 2018 Warrants all expired on August 10, 2018.

The \$30 Million 2020 Notes were determined to be a hybrid instrument with an embedded derivative. The fair value of the debt component of the \$30 Million 2020 Notes were determined on issuance to be 7.8%, using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to Warrants. The value of the debt will accrete up to the principal balance at maturity.

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

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

The \$19 Million 2022 Notes were determined to be a hybrid instrument with an embedded derivative. The fair value of the debt component of the \$19 Million 2022 Notes were determined on issuance to be 7.6%, using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to Warrants. The value of the debt will accrete up to the principal balance at maturity.

#### **Share Capital**

Share capital	November 6, 2018	September 30, 2018	December 31, 2017
Common Shares	307,075,787	307,075,787	307,075,787
Stock options	25,604,044	25,989,544	21,316,406
Warrants	2,850,000	2,850,000	4,500,000

#### **Capital Resources**

Pine Cliff's board of directors has approved an increase in its 2018 capital budget from \$10.4 million to \$13.4 million, including abandonments and reclamation and excluding acquisitions and dispositions. The increase in the capital budget will be used to drill an oil well in the fourth quarter of 2018. Pine Cliff anticipates funding its capital budget through adjusted funds flow, working capital and the unused portion of the Credit Facility. 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 flow 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 nine months ended September 30, 2018, the Company financed its capital expenditures with cash flow from operating activities and working capital.

**COMMITMENTS AND CONTINGENCIES**

As at September 30, 2018, the Company has the following commitments and other contractual obligations:

	2018	2019	2020	2021	2022	Thereafter
(\$000s)						
Subordinated promissory notes <sup>1</sup>	-	-	36,000	-	19,000	-
Trade and other payables	16,953	-	-	-	-	-
Due to related party	-	-	6,000	-	-	-
Bank debt	-	-	-	-	-	-
Future interest	999	3,997	3,333	1,340	1,005	-
Operating leases	230	862	819	716	541	479
Transportation <sup>2</sup>	2,994	7,803	6,746	5,749	4,947	15,313
<b>Total commitments and contingencies</b>	<b>21,176</b>	<b>12,662</b>	<b>52,898</b>	<b>7,805</b>	<b>25,493</b>	<b>15,792</b>

<sup>1</sup>Principal amount.

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

**OFF BALANCE SHEET TRANSACTIONS**

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

**FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

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's exposure to market risk, credit risk and liquidity risk are consistent with those disclosed in the Annual Financial Statements.

### Physical Sales Contracts

At September 30, 2018, the Company had the following physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price (\$CAD/GJ)	Fixed Sale Price (\$CAD/Mcf) <sup>1</sup>
October 1, 2018 to October 31, 2018	DAWN <sup>2</sup>	4,000	\$3.13	\$3.29
October 1, 2018 to October 31, 2018	DAWN <sup>2</sup>	4,000	\$2.97	\$3.12
October 1, 2018 to October 31, 2018	TransGas <sup>3</sup>	3,000	\$2.40	\$2.52
October 1, 2018 to October 31, 2018	TransGas <sup>3</sup>	2,500	\$2.21	\$2.32
October 1, 2018 to October 31, 2018	SUFFIELD #2 <sup>4</sup>	5,000		

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

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

<sup>3</sup> Subsidiary of SaskEnergy, Saskatchewan.

<sup>4</sup> The contract terms of the physical fixed price natural gas sales contract to Suffield#2 delivery point (Suffield, Alberta) are AECO 5A plus \$1.00/GJ.

At November 6, 2018, the Company had the following physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price (\$CAD/GJ)	Fixed Sale Price (\$CAD/Mcf) <sup>1</sup>
November 1, 2018 to December 31, 2018	NIT	5,000	\$2.06	\$2.16
November 1, 2018 to December 31, 2018	NIT	5,000	\$2.32	\$2.44
December 1, 2018 to March 31, 2019	NIT	5,000	\$2.46	\$2.58

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

### Financial Derivative Contracts

Pine Cliff had no financial derivative contracts in place during nine months ended September 30, 2018 or subsequent to.

### 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 Annual MD&A for the year ended December 31, 2017.

### 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, except as described in "ADOPTED ACCOUNTING PRONOUNCEMENTS".

### ADOPTED ACCOUNTING PRONOUNCEMENTS

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

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

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

IFRS 9 includes a new classification and measurement approach for financial assets and a forward-looking 'expected credit loss' model. IFRS 9 replaces the multiple classification and measurements models for financial assets with a new model that only has two measurements categories; amortized cost and fair value through profit or loss or other comprehensive income (loss). This determination is made at initial recognition. As a result of adopting IFRS 9, the Company's accounts receivables were reclassified from loans and receivables at amortized cost to financial assets at amortized cost. For financial liabilities, the new standard retains most of

the IAS 39 requirements. The main change arises in cases where the Company chooses to designate a financial liability as fair value through net earnings. In these situations, the portion of the fair value change related to the Company's own credit risk is recognized in other comprehensive income (loss) rather than net earnings. The Company has no financial liabilities that are measured at fair value through net earnings.

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

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

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

#### **Revenue Recognition Policy**

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

### **FUTURE ACCOUNTING CHANGES**

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

In January 2016, the IASB issued IFRS 16, which replaces IAS 17 Leases. IFRS 16 requires the recognition of lease assets and liabilities on the balance sheet for most leases, where the entity is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. Certain short term leases (less than 12 months) and leases of low-value assets 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. 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 reviewing corporate processes to ensure contract completeness when identifying leases. Identifying, gathering and analyzing contracts impacted by the adoption of the new standard is in progress.

### **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 the Company to disclose in the MD&A any changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting. Management confirms that no such changes were made to the internal controls over financial reporting during the nine months ended September 30, 2018. 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](http://www.sedar.com).

**NON-GAAP MEASURES**

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

**Adjusted Funds Flow**

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

(\$000s)	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Cash flow from operating activities	<b>(309)</b>	5,517	(106)	<b>7,201</b>	29,359	(75)
Adjusted by:						
Change in non-cash working capital	<b>1,280</b>	(3,038)	(142)	<b>(3,114)</b>	(5,578)	(44)
Decommissioning obligation settled	<b>949</b>	400	137	<b>1,993</b>	1,165	71
<b>Adjusted funds flow</b>	<b>1,920</b>	2,879	(33)	<b>6,080</b>	24,946	(76)
Adjusted funds flow (\$/Boe)	<b>1.06</b>	1.44	(26)	<b>1.13</b>	4.27	(74)
Adjusted funds flow (\$/Mcfe)	<b>0.18</b>	0.24	(26)	<b>0.19</b>	0.71	(74)
Adjusted funds flow – basic and diluted (\$/share)	<b>0.01</b>	0.01	-	<b>0.02</b>	0.08	(75)

**Operating and Corporate Netback**

The Company considers operating netback to be a key indicator of profitability relative to current commodity prices. Operating netback and operating netback per Boe and per Mcfe are calculated as the sum of oil and gas sales, less royalties, transportation and operating expenses on an absolute and a per Boe or per Mcfe basis, respectively. Company management uses operating netback on a per Boe basis in operational and capital allocation decisions.

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

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

(\$ per Boe, unless otherwise indicated)	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	\$ Change	2018	2017	\$ Change
Oil and gas sales	14.21	12.75	1.46	14.35	16.50	(2.15)
Royalty expense	(0.82)	(0.89)	0.07	(1.05)	(1.38)	0.33
Transportation expense	(1.88)	(1.02)	(0.86)	(1.72)	(1.04)	(0.68)
Operating expense	(9.17)	(8.54)	(0.63)	(9.21)	(8.52)	(0.69)
Operating netback	2.34	2.30	0.04	2.37	5.56	(3.19)
General and administrative Interest and bank charges, net of dividend income	(0.66)	(0.49)	(0.17)	(0.76)	(0.83)	0.07
Corporate netback	1.06	1.44	(0.38)	1.13	4.27	(3.14)
Operating netback (\$ per Mcfe)	0.39	0.38	0.01	0.40	0.93	(0.53)
Corporate netback (\$ per Mcfe)	0.18	0.24	(0.06)	0.19	0.71	(0.52)

### 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)	September 30, 2018	December 31, 2017	\$ Change
Bank debt	-	18,000	(18,000)
Due to related party	6,000	5,000	1,000
Subordinated promissory notes <sup>1</sup>	55,000	36,000	19,000
Trade and other payables	16,953	17,288	(335)
Less:			
Trade and other receivables	(10,829)	(15,148)	4,319
Cash	(4,593)	(1,075)	(3,518)
Prepaid expenses and deposits	(6,206)	(3,882)	(2,324)
Investments	-	(2,545)	2,545
Net debt	56,325	53,638	2,687

<sup>1</sup>The 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 the MD&A and Annual MD&A includes, but is not limited to: expected production levels, expected operating costs, expected transportation costs, royalty and G&A levels; future capital expenditures, including the amount and nature thereof; future acquisition opportunities including Pine Cliff’s ability to execute on those opportunities; future drilling opportunities and Pine Cliff’s ability to generate reserves and production from the undrilled locations; ability to implement a dividend or buy back shares; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and guidance; expansion and growth of our business and operations; amounts drawn on Pine Cliff’s credit facility and repayment thereof; amounts due to related party and due pursuant to subordinated promissory notes and repayment thereof; maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; risks; Pine Cliff’s ability to generate cash flow from operating activities and adjusted funds flow; and other such matters.

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

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

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

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

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

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