

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian dollars, 000s)
(unaudited)

	Note	As at September 30, 2018	As at December 31, 2017
ASSETS			
Current assets			
Cash		4,593	1,075
Trade and other receivables	5	10,829	15,148
Prepaid expenses and deposits		6,206	3,882
Investments	7	-	2,545
Total current assets		21,628	22,650
Exploration and evaluation	8	29,291	29,387
Property, plant and equipment	9	285,821	323,958
Deferred income taxes	10	19,498	29,233
Total assets		356,238	405,228
LIABILITIES			
Current liabilities			
Trade and other payables	5	16,953	17,288
Bank debt	11	-	18,000
Due to related party		-	5,000
Subordinated promissory notes		-	6,000
Decommissioning provision	14	2,000	1,309
Total current liabilities		18,953	47,597
Due to related party	12	6,000	-
Subordinated promissory notes	13	54,203	29,307
Decommissioning provision	14	188,093	199,231
Total liabilities		267,249	276,135
SHAREHOLDERS' EQUITY			
Share capital	15	268,743	268,743
Warrants		288	958
Contributed surplus		12,010	9,326
Accumulated other comprehensive loss		-	(2,081)
Deficit		(192,052)	(147,853)
Total shareholders' equity		88,989	129,093
Total liabilities and shareholders' equity		356,238	405,228

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Canadian dollars, 000s except per share data)
(unaudited)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2018	2017	2018	2017
REVENUE					
Oil and gas sales	16	25,625	25,646	77,275	96,355
Royalty expense		(1,477)	(1,793)	(5,643)	(8,057)
Oil and gas sales, net of royalties		24,148	23,853	71,632	88,298
Unrealized gain (loss) on commodity contracts		-	(14)	-	1,176
Dividend income		-	53	35	158
Total revenue		24,148	23,892	71,667	89,632
EXPENSES					
Operating		16,535	17,169	49,587	49,741
Transportation		3,387	2,058	9,281	6,085
Depletion and depreciation	9	10,738	12,864	32,340	37,158
Impairment	9	-	17,800	-	17,800
Share-based payments	15	471	1,096	1,726	2,710
Finance	17	2,535	2,130	6,763	6,695
General and administrative		1,192	989	4,082	4,832
Realized loss on investments	7	-	-	2,687	-
Total expenses		34,858	54,106	106,466	125,021
Loss before income taxes		(10,710)	(30,214)	(34,799)	(35,389)
Deferred income tax recovery (expense)		-	-	(9,400)	521
LOSS FOR THE PERIOD		(10,710)	(30,214)	(44,199)	(34,868)
OTHER COMPREHENSIVE LOSS					
Unrealized loss on investments		-	(50)	(2,081)	(2,935)
Deferred income taxes on unrealized loss on investments		-	7	-	396
Amounts reclassified from comprehensive loss		-	-	2,081	-
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		-	(43)	-	(2,539)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(10,710)	(30,257)	(44,199)	(37,407)
Loss per share (\$)					
Basic and diluted	15	(0.03)	(0.10)	(0.14)	(0.11)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Canadian dollars, 000s)
(unaudited)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2018	2017	2018	2017
CASH PROVIDED BY (USED IN):					
OPERATING ACTIVITIES					
Loss for the period		(10,710)	(30,214)	(44,199)	(34,868)
Items not affecting cash:					
Depletion and depreciation	9	10,738	12,864	32,340	37,158
Impairment	9	-	17,800	-	17,800
Share-based payments	15	471	1,096	1,726	2,710
Finance expenses	17	2,535	2,130	6,763	6,695
Loss on sale of investments	7	-	-	2,687	-
Deferred income tax expense (recovery)	10	-	-	9,400	(521)
Unrealized loss (gain) on commodity contracts		-	14	-	(1,176)
Interest and bank charges	17	(1,114)	(811)	(2,637)	(2,852)
Decommissioning obligations settled	14	(949)	(400)	(1,993)	(1,165)
Changes in non-cash working capital accounts	17	(1,280)	3,038	3,114	5,578
Cash provided by (used in) operating activities		(309)	5,517	7,201	29,359
INVESTING ACTIVITIES					
Property, plant and equipment	9	(1,838)	(3,283)	(6,179)	(10,319)
Exploration and evaluation	8	(72)	(35)	(184)	(67)
Acquisitions		(659)	9	(368)	106
Dispositions		16	65	234	281
Sale of investments		-	-	2,274	-
Changes in non-cash working capital accounts	17	33	(2,148)	(1,454)	911
Cash used in investing activities		(2,520)	(5,392)	(5,677)	(9,088)
FINANCING ACTIVITIES					
Bank debt	11	(12,683)	(64)	(18,000)	(20,240)
Issuance of subordinated promissory notes, net of share issue costs	13	18,994	-	18,994	-
Issuance of related party debt	12	1,000	-	1,000	-
Cash provided by (used in) financing activities		7,311	(64)	1,994	(20,240)
Increase in cash		4,482	61	3,518	31
Cash - beginning of period		111	118	1,075	148
CASH - END OF PERIOD		4,593	179	4,593	179

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Canadian dollars, 000s)

(unaudited)

	Note	Share capital	Contributed surplus ¹	Accumulated other comprehensive gain (loss) ²	Warrants	Deficit	Total Equity
BALANCE AT JANUARY 1, 2017		268,743	5,748	298	958	(79,989)	195,758
Loss for the period		-	-	-	-	(34,868)	(34,868)
Unrealized loss on investments, net of tax		-	-	(2,539)	-	-	(2,539)
Share-based payments		-	2,710	-	-	-	2,710
BALANCE AT SEPTEMBER 30, 2017		268,743	8,458	(2,241)	958	(114,857)	161,061
Loss for the period		-	-	-	-	(32,996)	(32,996)
Unrealized gain on investments, net of tax		-	-	160	-	-	160
Share-based payments		-	868	-	-	-	868
BALANCE AT DECEMBER 31, 2017		268,743	9,326	(2,081)	958	(147,853)	129,093
Loss for the period		-	-	-	-	(44,199)	(44,199)
Realized loss on sale of investments		-	-	2,081	-	-	2,081
Issuance of warrants		-	-	-	288	-	288
Expiry of warrants		-	958	-	(958)	-	-
Share-based payments	15	-	1,726	-	-	-	1,726
BALANCE AT SEPTEMBER 30, 2018		268,743	12,010	-	288	(192,052)	88,989

¹Contributed surplus is comprised of share-based payments.

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

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2018 and December 31, 2017 and for the three and nine month periods ended September 30, 2018 and 2017.

(All tabular amounts in Canadian dollars 000s, unless otherwise indicated)

1. NATURE OF BUSINESS

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

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

2. BASIS OF PREPARATION

The Financial Statements have been prepared in accordance with IAS 34 – Interim Financial Reporting using International Financial Reporting Standards ("**IFRS**").

The Financial Statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2017 ("**Annual Financial Statements**").

The accounting policies, basis of measurement, critical accounting judgments and significant estimates to prepare the Annual Financial Statements as at and for the year ended December 31, 2017 have been applied in the preparation of these Financial Statements, except as described in note 3.

The Financial Statements were authorized for issue by the Company's board of directors on November 6, 2018.

3. 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**") or fair value through other comprehensive income, 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 its investment 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 note 16.

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 25th 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.

4. 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.

5. FINANCIAL INSTRUMENTS

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.

Assets and liabilities that are measured at fair value are classified into levels, reflecting the method used to make the measurements. Level 1 fair value measurements are based on quoted prices that are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Pine Cliff has no level 2 or level 3 financial instruments. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The following table sets out the Company's carrying value and fair value of financial assets and liabilities as at September 30, 2018 and December 31, 2017:

Description	September 30, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Cash	4,593	4,593	1,075	1,075
Trade and other receivables	10,829	10,829	15,148	15,148
Trade and other payables	(16,953)	(16,953)	(17,288)	(17,288)
Due to related party	(6,000)	(6,000)	(5,000)	(5,000)
Subordinated promissory notes	(54,203)	(54,203)	(35,307)	(35,307)
Bank debt	-	-	(18,000)	(18,000)
Investments	-	-	(2,545)	(2,545)

6. RISK MANAGEMENT

The Company is exposed to both financial and non-financial risks inherent in the oil and gas business. Financial risks include: commodity prices, interest rates, equity price, foreign exchange, credit availability and liquidity. Financial risks can be managed, at least to a degree, through the utilization of financial instruments. Certain non-financial risks can be mitigated through the use of insurance and/or other risk transfer mechanisms, good business practices and process controls, while others must simply be borne. All risks can have an impact upon the financial performance of the Company. 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) ¹
October 1, 2018 to October 31, 2018	DAWN ²	4,000	\$3.13	\$3.29
October 1, 2018 to October 31, 2018	DAWN ²	4,000	\$2.97	\$3.12
October 1, 2018 to October 31, 2018	TransGas ³	3,000	\$2.40	\$2.52
October 1, 2018 to October 31, 2018	TransGas ³	2,500	\$2.21	\$2.32
October 1, 2018 to October 31, 2018	SUFFIELD #2 ⁴	5,000		

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

² Dawn Hub into Dawn Township, Ontario.

³ Subsidiary of SaskEnergy, Saskatchewan.

⁴ 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) ¹
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

¹ 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.

7. INVESTMENT

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 during the first quarter of 2018.

8. EXPLORATION AND EVALUATION

Exploration and evaluation assets:	Oil and gas properties	Mineral properties	Total
Balance at December 31, 2016	30,579	3,031	33,610
Additions	36	43	79
Transfer to property, plant, and equipment	(4,302)	-	(4,302)
Balance at December 31, 2017	26,313	3,074	29,387
Additions	138	46	184
Transfer to property, plant and equipment	(280)	-	(280)
Balance at September 30, 2018	26,171	3,120	29,291

9. PROPERTY, PLANT AND EQUIPMENT ("PP&E")

Cost:	(\$000s)
Balance at December 31, 2016	547,284
Additions	13,398
Transfer from exploration and evaluation	4,302
Acquisitions	(62)
Dispositions	(496)
Decommissioning provision	(5,944)
Balance at December 31, 2017	558,482
Additions	6,179
Transfer from exploration and evaluation	280
Acquisitions	368
Dispositions	(319)
Decommissioning provision	(12,390)
Balance at September 30, 2018	552,600
Accumulated depletion and depreciation:	(\$000s)
Balance at December 31, 2016	(167,641)
Depletion and depreciation	(49,150)
Impairment	(17,800)
Dispositions	67
Balance at December 31, 2017	(234,524)
Depletion and depreciation	(32,340)
Disposition	85
Balance at September 30, 2018	(266,779)
Carrying value at:	(\$000s)
December 31, 2017	323,958
September 30, 2018	285,821

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) ¹	\$C to US\$ Foreign exchange rate ¹	Edmonton Light Crude Oil (Cdn\$/Bbl) ¹	AECO Gas (Cdn\$/MMBtu) ¹
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

¹ 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.

10. DEFERRED INCOME TAXES

At September 30, 2018, a deferred income tax asset of \$19.5 million (December 31, 2017 - \$29.2 million) has been recognized as the Company believes, based on estimated cash flows, its realization is probable within the allowable timeframes.

Deferred income tax assets (liabilities):	As at September 30, 2018	As at December 31, 2017
Share issue costs	507	863
Investment	-	324
Decommissioning provision	51,316	54,044
Property and equipment	(9,688)	(15,124)
Capital losses carried forward	310	155
Non-capital losses carried forward	28,802	22,271
Asset before unrecognized deferred income tax	71,247	62,533
Less: unrecognized deferred income tax	(51,749)	(33,300)
Net deferred income tax asset	19,498	29,233

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.

11. BANK DEBT

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 30th and May 31st.

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.

12. 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).

13. SUBORDINATED PROMISSORY NOTES

Subordinated promissory notes due September 30, 2020:	
Issued – July 29, 2016	6,000
Subordinated promissory notes due September 30, 2020, as at September 30, 2018 and December 31, 2017	6,000
Subordinated promissory notes due September 30, 2020:	
Subordinated promissory notes due September 30, 2020, as at December 31, 2016	29,086
Accretion expense	221
Subordinated promissory notes due September 30, 2020, as at December 31, 2017	29,307
Accretion expense	176
Subordinated promissory notes due September 30, 2020, as at September 30, 2018	29,483
Subordinated promissory notes due July 31, 2022, as at December 31, 2017	-
Subordinated promissory notes due July 31, 2022, issued July 13, 2018	18,706
Accretion expense	14
Subordinated promissory notes due September 30, 2022, as at September 30, 2018	18,720
Total subordinated promissory notes, as at December 31, 2017	35,307
Total subordinated promissory notes, as at September 30, 2018	54,203

\$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.

14. 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%).

	(\$000s)
Decommissioning provision, January 1, 2017	203,883
Increase relating to development activities	99
Provisions related to acquisitions	261
Decommissioning expenditures	(2,383)
Revisions (changes in estimates, inflation rate, and discount rates)	(6,304)
Accretion	4,984
Decommissioning provision, December 31, 2017	200,540
Increase relating to development activities	41
Decommissioning expenditures	(1,993)
Revisions (changes in estimates, inflation rate, and discount rates)	(12,431)
Accretion	3,936
Decommissioning provision, September 30, 2018	190,093
Less current portion of decommissioning provision	(2,000)
Non-current portion of decommissioning provision	188,093

15. SHARE CAPITAL

Authorized

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

Issued

	Common Shares (000s)	Share capital (\$000s)
Issued and outstanding share capital continuity:		
Balance, January 1, 2017	307,076	268,743
Balance, December 31, 2017 and September 30, 2018	307,076	268,743

Stock Options

The Company provides an equity settled stock option plan (the “**Option Plan**”) for its directors, employees and consultants. Under the Option Plan, the Company may grant stock options up to 10% of outstanding Common Shares on the grant date. The term and vesting

period of the options granted are determined at the discretion of the Company's board of directors. The exercise price of each option granted equals the market price of the Company's stock immediately preceding the date of grant and the option's maximum term is five years.

Stock options issued and outstanding:	Options (000s)	Weighted-average exercise price (\$ per share)
Outstanding, January 1, 2017	22,773	1.20
Granted	5,710	0.78
Expired	(4,839)	1.19
Forfeited	(2,328)	1.32
Outstanding, December 31, 2017	21,316	1.06
Granted	7,497	0.33
Expired	(1,891)	1.43
Forfeited	(932)	0.87
Outstanding, September 30, 2018	25,990	0.83
Exercisable, September 30, 2018	6,871	1.02

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
\$0.31 - \$0.71	7,764	2.6	255	0.9
\$0.72 - \$1.12	9,183	1.2	3,683	0.4
\$1.13 - \$1.53	9,043	1.2	2,933	0.2
	25,990	1.6	6,871	0.3

The Company records share-based payment expense over the vesting period, based on the fair value of the options granted to employees, directors and consultants. One third of the stock options granted vest annually on the first, second, and third anniversaries of the grant date and expire one year after each respective vesting date. In the nine months ended September 30, 2018, the Company granted 7,496,800 stock options (nine months ended September 30, 2017 – 5,575,150) with a fair value of \$0.12 (nine months ended September 30, 2017 - \$0.26) per option using the Black-Scholes option pricing model using the following key assumptions:

Assumptions (weighted average):	Nine months ended September 30,	
	2018	2017
Exercise price (\$)	0.33	0.78
Estimated volatility of underlying Common Shares (%)	49.8	50.2
Expected life (years)	3.0	2.9
Risk-free rate (%)	2.1	0.8
Forfeiture rate (%)	3.9	3.9
Expected dividend yield (%)	0.0	0.0

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

Per Share Calculations

The average market value of the Common Shares for the purposes of calculating the dilutive effect of stock options and warrants was based on quoted market prices for the period that the options were outstanding. In calculating the weighted average number of diluted shares outstanding for the three and nine months ended September 30, 2018 and 2017, all stock options and warrants were excluded as they were not dilutive.

Loss per share calculation:	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Numerator				
Loss for the period	(10,710)	(30,214)	(44,199)	(34,868)
Denominator (000s)				
Weighted-average Common Shares outstanding – basic and diluted	307,076	307,076	307,076	307,076
Loss per share – basic and diluted (\$)	(0.03)	(0.10)	(0.14)	(0.11)

16. OIL AND GAS SALES

The Company's oil and gas sales revenue is determined pursuant to the terms of the marketing agreements. The revenue for natural gas, NGL and crude oil is based on the commodity price in the month of production, adjusted for quality, location, allowable deductions, if any, or other factors. Oil and gas sales revenues are based on marketed indices that are determined on a monthly or daily basis.

(\$000s)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Natural gas	19,215	21,250	58,700	82,598
NGL	4,834	3,855	14,351	10,907
Crude oil	1,576	541	4,224	2,850
Total oil and gas sales	25,625	25,646	77,275	96,355

17. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Changes in non-cash working capital:				
Trade and other receivables	(617)	2,699	4,319	6,483
Prepaid expenses and deposits	496	(3,478)	(2,324)	(4,206)
Trade and other payables and accrued liabilities	(1,126)	1,669	(335)	4,212
	(1,247)	890	1,660	6,489
Changes related to:				
Operating activities	(1,280)	3,038	3,114	5,578
Investing activities	33	(2,148)	(1,454)	911
	(1,247)	890	1,660	6,489

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Finance expenses:				
Interest expense and bank charges	1,114	811	2,637	2,852
Non cash:				
Accretion on decommissioning provision	1,346	1,263	3,936	3,679
Accretion on subordinated promissory notes	75	56	190	164
Total finance expenses	2,535	2,130	6,763	6,695

Cash interest paid in the three and nine months ended September 30, 2018, was \$1.4 million and \$3.8 million (three and nine months ended September 30, 2017 - \$1.4 million and \$4.3 million).

18. COMMITMENTS

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

(\$000s)	2018	2019	2020	2021	2022	Thereafter
Subordinated promissory notes ¹	-	-	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 ²	2,994	7,803	6,746	5,749	4,947	15,313
Total commitments and contingencies	21,176	12,662	52,898	7,805	25,493	15,792

¹ Principal amount.

² Firm transportation agreements.

BOARD OF DIRECTORS

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

OFFICERS

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

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REGISTRAR AND TRANSFER AGENT

Odyssey Trust Company of Canada

AUDITORS

Deloitte LLP

BANKERS

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

STOCK EXCHANGE LISTING

TSX Exchange
Trading Symbol: PNE

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