

## 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, 2019. This MD&A is dated and based on information available as at November 5, 2019 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2019 ("**Financial Statements**"), the audited annual consolidated financial statements for the year ended December 31, 2018 ("**Annual Financial Statements**") and the annual management's discussion and analysis for the year ended December 31, 2018 ("**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.

## 2019 HIGHLIGHTS

Highlights from the three and nine months ended September 30, 2019 are as follows:

- realized a gas price of \$1.55 per Mcf for the three months ended September 30, 2019, 172% of the AECO 5A benchmark of \$0.90 per Mcf;
- realized a gas price of \$2.02 per Mcf for the nine months ended September 30, 2019, 133% of the AECO 5A benchmark of \$1.52 per Mcf;
- closed an acquisition of certain oil and natural gas assets in the Ghost Pine area of Central Alberta for cash consideration of \$8.6 million (after estimated closing adjustments) on May 31, 2019 (the "**May 2019 Acquisition**"), which has added approximately 1,600 Boe/d as of the closing date and increased the Company's total Pekisko oil locations to 30 gross (29.0 net);
- exited with \$3.9 million of cash in the bank; and
- subsequent to the third quarter, Pine Cliff entered into a credit agreement with AIMCo which extended the maturity dates of its \$30 million in promissory notes from September 30, 2020 to December 31, 2024 and extended the term of its debt to insiders amounting to \$12 million from September 30, 2020 to December 31, 2024.

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
(\$000s, unless otherwise indicated)				
<b>FINANCIAL<sup>1</sup></b>				
<b>Oil and gas sales (before royalty expense)</b>	<b>20,107</b>	25,625	<b>73,667</b>	77,275
<b>Cash flow from operating activities</b>	<b>(2,931)</b>	(309)	<b>11,497</b>	7,201
<b>Adjusted funds flow<sup>2</sup></b>	<b>(3,922)</b>	1,920	<b>854</b>	6,080
Per share – Basic and Diluted (\$/share) <sup>2</sup>	<b>(0.01)</b>	0.01	-	0.02
<b>Loss</b>	<b>(17,739)</b>	(10,710)	<b>(48,443)</b>	(44,199)
Per share – Basic and Diluted (\$/share)	<b>(0.05)</b>	(0.03)	<b>(0.15)</b>	(0.14)
<b>Capital expenditures</b>	<b>1,123</b>	1,910	<b>2,933</b>	6,363
<b>Acquisitions</b>	<b>(7)</b>	659	<b>8,599</b>	368
<b>Net debt<sup>2</sup></b>	<b>63,745</b>	56,325	<b>63,745</b>	56,325
Weighted-average common shares outstanding (000s)				
Basic and diluted	<b>327,784</b>	307,076	<b>316,406</b>	307,076
<b>OPERATIONS</b>				
<b>Production</b>				
Natural gas (Mcf/d)	<b>104,488</b>	111,067	<b>104,887</b>	111,385
Natural gas liquids (Bbl/d)	<b>1,195</b>	861	<b>1,080</b>	935
Crude oil (Bbl/d)	<b>423</b>	231	<b>406</b>	222
Total (Boe/d)	<b>19,033</b>	19,603	<b>18,967</b>	19,721
<b>Realized commodity sales prices</b>				
Natural gas (\$/Mcf)	<b>1.55</b>	1.88	<b>2.02</b>	1.93
Natural gas liquids (\$/Boe)	<b>25.75</b>	61.05	<b>30.62</b>	56.25
Crude oil (\$/Bbl)	<b>61.33</b>	74.15	<b>61.80</b>	69.64
Combined (\$/Boe)	<b>11.48</b>	14.21	<b>14.23</b>	14.35
<b>Netback (\$/Boe)</b>				
Oil and gas sales	<b>11.48</b>	14.21	<b>14.23</b>	14.35
Royalty expense	<b>(0.36)</b>	(0.82)	<b>(0.53)</b>	(1.05)
Transportation expenses	<b>(1.65)</b>	(1.88)	<b>(1.73)</b>	(1.72)
Operating expenses	<b>(10.44)</b>	(9.17)	<b>(10.38)</b>	(9.21)
Operating netback (\$/Boe) <sup>2</sup>	<b>(0.97)</b>	2.34	<b>1.59</b>	2.37
General and administrative expenses	<b>(0.57)</b>	(0.66)	<b>(0.75)</b>	(0.76)
Interest and bank charges, net of dividend income	<b>(0.70)</b>	(0.62)	<b>(0.67)</b>	(0.48)
Corporate netback (\$/Boe) <sup>2</sup>	<b>(2.24)</b>	1.06	<b>0.17</b>	1.13
Operating netback (\$ per Mcfe) <sup>2</sup>	<b>(0.16)</b>	0.39	<b>0.27</b>	0.40
Corporate netback (\$ per Mcfe) <sup>2</sup>	<b>(0.37)</b>	0.18	<b>0.03</b>	0.19

<sup>1</sup> Includes results for acquisitions from the closing dates.

<sup>2</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>
Realized crude oil price <sup>2</sup>	\$1.00	567	0.00
Realized natural gas price <sup>2</sup>	\$0.10	3,661	0.01

<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, 2019.

<sup>2</sup> Pine Cliff has prepared this analysis using its Q3 2019 production volumes annualized for twelve months.

<sup>3</sup> Based on the Q3 2019 basic weighted average shares outstanding.

## BENCHMARK PRICES

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	2019	2018	% Change
<b>Natural gas</b>						
NYMEX (US\$/Mmbtu) <sup>1</sup>	2.23	2.85	(22)	2.66	2.87	(7)
AECO Daily 5A (C\$/Mcf) <sup>2</sup>	0.90	1.19	(24)	1.52	1.48	3
<b>Crude oil</b>						
WTI (US\$/Bbl)	56.45	69.50	(19)	57.05	66.75	(15)
Edmonton Light (C\$/Bbl)	68.41	81.95	(17)	69.57	78.27	(11)
<b>Foreign exchange</b>						
US\$/C\$	1.321	1.310	1	1.329	1.290	3

<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.

## Quarterly Benchmark Prices

Pine Cliff's financial results are influenced by fluctuations in sales volumes, 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.

	Q3-2019	Q2-2019	Q1-2019	Q4-2018	Q3-2018	Q2-2018	Q1-2018	Q4-2017
<b>Natural gas</b>								
NYMEX (US\$/Mmbtu) <sup>1</sup>	2.23	2.64	3.12	3.73	2.85	2.78	2.99	2.91
AECO Daily 5A (C\$/Mcf) <sup>2</sup>	0.90	1.03	2.61	1.74	1.19	1.18	2.07	1.68
Pine Cliff realized natural gas price (C\$/Mcf)	1.55	1.69	2.84	2.51	1.88	1.55	2.35	2.09
<b>Crude oil</b>								
WTI (US\$/Bbl)	56.45	59.81	54.88	52.41	69.50	67.88	62.87	55.40
Edmonton Light (C\$/Bbl)	68.41	73.85	66.44	38.94	81.95	80.66	72.21	68.98
Pine Cliff realized NGL price (C\$/Bbl)	25.75	29.74	37.64	44.85	61.05	56.74	51.45	47.73
Pine Cliff realized oil price (C\$/Bbl)	61.33	65.16	58.89	32.14	74.15	71.19	63.21	62.41
<b>Foreign exchange</b>								
US\$/C\$	1.321	1.338	1.329	1.331	1.310	1.290	1.270	1.270

<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, 2019, the AECO daily benchmark decreased by 24% and increased by 3%, compared to the same periods of 2018. The price fluctuations for this quarter and year to date are mainly due to supply and demand factors including pipeline and storage constraints, weather, economic conditions in producing and consuming regions throughout North America and political factors. While the price realized by the Company for natural gas production from Western Canada is still strongly influenced by the Alberta price hub AECO, diversification projects to delivery points such as Dawn, Ontario, Empress, Alberta and TransGas, Saskatchewan have decreased that influence significantly. See "OIL AND GAS SALES" section for additional information on the diversification project premiums compared to AECO 5A.

The average benchmarks for WTI decreased by 19% and 15%, for the three and nine months ended September 30, 2019, as compared to the same periods in 2018, due to increased levels of North American oil production combined with uncertainties of future demand. Canadian crude prices are based upon refinery postings at Edmonton, Alberta and are linked to WTI through transportation tariffs to common markets and the foreign exchange rate.

The supply and demand dynamics for certain 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. The decrease in NGL prices compared to WTI in the three and nine months ended September 30, 2019 compared to the corresponding periods of the prior year is mainly due to lower propane and butane pricing. The fluctuations in the NGL price correlate with changes in the WTI price.

### SALES VOLUMES

<b>Total sales volumes by product</b>	Three months ended September 30,			Nine months ended September 30		
	<b>2019</b>	2018	% Change	<b>2019</b>	2018	% Change
Natural gas (Mcf)	<b>9,612,864</b>	10,218,126	(6)	<b>28,632,396</b>	30,407,988	(6)
NGLs (Bbl)	<b>109,966</b>	79,177	39	<b>294,925</b>	255,122	16
Crude oil (Bbl)	<b>38,937</b>	21,252	83	<b>110,904</b>	60,663	83
Total Boe	<b>1,751,047</b>	1,803,448	(3)	<b>5,177,895</b>	5,383,783	(4)
Total Mcfe	<b>10,506,282</b>	10,820,700	(3)	<b>31,067,370</b>	32,302,698	(4)
Natural gas weighting	<b>91%</b>	94%	(3)	<b>92%</b>	94%	(2)

<b>Average daily sales volumes by product</b>	Three months ended September 30,			Nine months ended September 30,		
	<b>2019</b>	2018	% Change	<b>2019</b>	2018	% Change
Natural gas (Mcf/d)	<b>104,488</b>	111,067	(6)	<b>104,887</b>	111,385	(6)
NGLs (Bbl/d)	<b>1,195</b>	861	39	<b>1,080</b>	935	16
Crude oil (Bbl/d)	<b>423</b>	231	83	<b>406</b>	222	83
Total (Boe/d)	<b>19,033</b>	19,603	(3)	<b>18,967</b>	19,721	(4)
Total (Mcf/d)	<b>114,198</b>	117,618	(3)	<b>113,802</b>	118,326	(4)

<b>Average daily sales volumes by area</b>	Three months ended September 30,			Nine months ended September 30,		
	<b>2019</b>	2018	% Change	<b>2019</b>	2018	% Change
Central (Boe/d)	<b>9,745</b>	9,230	6	<b>9,343</b>	9,275	1
Southern (Boe/d)	<b>7,589</b>	8,531	(11)	<b>7,843</b>	8,444	(7)
Edson (Boe/d)	<b>1,699</b>	1,842	(8)	<b>1,781</b>	2,002	(11)
Total (Boe/d)	<b>19,033</b>	19,603	(3)	<b>18,967</b>	19,721	(4)
Total (Mcf/d)	<b>114,198</b>	117,618	(3)	<b>113,802</b>	118,326	(4)

Pine Cliff's sales volumes decreased by 3% to 19,033 Boe/d (114,198 Mcfe/d) and 4% to 18,967 Boe/d (113,802 Mcfe/d) for the three and nine months ended September 30, 2019, as compared to the same period in 2018. The decrease relates to natural production declines, short-term voluntary shut-ins and production downtime due to cold weather during the first quarter, somewhat offset by production from the Company's oil well brought on production in January 2019 and production from the May 2019 Acquisition.

Pine Cliff is projecting 2019 production volumes of 19,000 – 19,250 Boe/d (114,000 – 115,500 Mcfe/d), weighted approximately 92% towards natural gas. The decrease from 19,250 – 19,750 Boe/d (115,500 – 118,500 Mcfe/d) is a result of voluntary shut-ins during the second and third quarters due to uneconomic production from low AECO pricing, somewhat offset by increased sales volumes from the May 2019 Acquisition.

**OIL AND GAS SALES**

(\$000s)	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	2019	2018	% Change
Natural gas	14,887	19,215	(23)	57,783	58,700	(2)
NGL	2,832	4,834	(41)	9,030	14,351	(37)
Crude oil	2,388	1,576	52	6,854	4,224	62
Total oil and gas sales	20,107	25,625	(22)	73,667	77,275	(5)
% of revenue from natural gas sales	74%	75%	(1)	78%	76%	2

**Realized prices**

\$ per unit	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	2019	2018	% Change
Natural gas (\$/Mcf)	1.55	1.88	(18)	2.02	1.93	5
NGL (\$/Bbl)	25.75	61.05	(58)	30.62	56.25	(46)
Crude oil (\$/Bbl)	61.33	74.15	(17)	61.80	69.64	(11)
Total (\$/Boe)	11.48	14.21	(19)	14.23	14.35	(1)
Total (\$/Mcf)	1.91	2.37	(19)	2.37	2.39	(1)

Oil and gas sales in the three months ended September 30, 2019 of \$20.1 million decreased by \$5.5 million from \$25.6 million in the same period of 2018, with a \$4.8 million decrease from lower realized commodity prices and \$0.7 million decrease from lower sales volumes. Oil and gas sales in the nine months ended September 30, 2019, decreased \$3.6 million to \$73.7 million from \$77.3 million in the nine months ended September 30, 2018, with \$3.0 million of the decrease attributable to lower sales volumes and \$0.6 million decrease from lower realized commodity prices.

Pine Cliff's realized natural gas price was \$1.55 per Mcf in the three months ended September 30, 2019, 18% lower than the \$1.88 per Mcf in the corresponding period of the prior year, despite a 24% decrease in AECO 5A benchmark pricing as a result of the Company's marketing diversification to non-AECO markets. Pine Cliff's realized natural gas price was \$2.02 per Mcf in the nine months ended September 30, 2019, 5% higher than the \$1.93 per Mcf realized in the corresponding periods of the prior year. Pine Cliff's realized natural gas price was 172% and 133% of the AECO 5A benchmark in the three and nine months ended September 30, 2019, both a result of Pine Cliff's marketing diversification to non-AECO markets and fixed price physical natural gas sales contracts.

For the three and nine months ended September 30, 2019, Pine Cliff's realized NGL price was \$25.75 per Bbl and \$30.62 per Bbl, compared to \$61.05 per Bbl and \$56.25 per Bbl in the corresponding periods of the prior year. For the three and nine months ended September 30, 2019, Pine Cliff's realized oil price was \$61.33 per Bbl and \$61.80 per Bbl, compared to \$74.15 per Bbl and \$69.64 per Bbl in the corresponding periods of the prior year. Pine Cliff's realized oil prices in the three and nine months ended September 30, 2019 were 90% and 89% of Edmonton Light in line with 90% and 89% in the corresponding periods of the prior year. Pine Cliff's realized NGL prices in the three and nine months ended September 30, 2019 were 35% and 67% of WTI compared to 40% and 65% in the corresponding periods of the prior year. The decrease in NGL prices compared to WTI in the three and nine months ended September 30, 2019 compared to the corresponding periods of the prior year is mainly due to lower butane pricing.

**ROYALTY EXPENSE**

(\$000s)	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	2019	2018	% Change
Total royalty expense	639	1,477	(57)	2,749	5,643	(51)
\$ per Boe	0.36	0.82	(56)	0.53	1.05	(50)
\$ per Mcfe	0.06	0.14	(56)	0.09	0.17	(50)
Royalty expense as a % of oil and gas sales	3%	6%	(50)	4%	7%	(43)

For the three and nine months ended September 30, 2019, total royalty expense decreased by 57% and 51% to \$0.6 million and \$2.7 million from \$1.5 million and \$5.6 million in the corresponding periods of the prior year. Royalty expense as a percentage of oil and gas sales decreased to 3% and 4% in the three and nine months ended September 30, 2019, compared to 6% and 7% in the corresponding periods of the prior year. The decrease in royalty expenses as a percentage of oil and gas sales for the three and nine

months ended September 30, 2019, is due to lower commodity prices, 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.

Pine Cliff anticipates royalty expenses to average 4-5% of oil and gas sales in 2019.

### TRANSPORTATION COSTS

(\$000s)	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	2019	2018	% Change
Total transportation costs	<b>2,884</b>	3,387	(15)	<b>8,968</b>	9,281	(3)
\$ per Boe	<b>1.65</b>	1.88	(12)	<b>1.73</b>	1.72	1
\$ per Mcfe	<b>0.28</b>	0.31	(12)	<b>0.29</b>	0.29	1

For the three and nine months ended September 30, 2019, total transportation costs decreased by 15% and 3% to \$2.9 million and \$9.0 million from \$3.4 million and \$9.3 million in the corresponding period of the prior year. The decrease in transportation costs in the three and nine months ended September 30, 2019 as compared to the corresponding periods of the prior year are primarily a result of lower natural gas sales volumes and lower transportation rates on the May 2019 Acquisition sales volumes.

Pine Cliff anticipates transportation expenses to average \$1.80 per Boe (\$0.30 per Mcfe) in 2019.

### OPERATING EXPENSES

(\$000s)	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	2019	2018	% Change
Total operating expenses	<b>18,279</b>	16,535	11	<b>53,738</b>	49,587	8
\$ per Boe	<b>10.44</b>	9.17	14	<b>10.38</b>	9.21	13
\$ per Mcfe	<b>1.74</b>	1.53	14	<b>1.73</b>	1.54	13

For the three and nine months ended September 30, 2019, operating expenses increased by 11% and 8% to \$18.3 million and \$53.7 million from \$16.5 million and \$49.6 million in the corresponding periods of the prior year. The increase in operating expenses in the three and nine months ended September 30, 2019 as compared to the corresponding periods of the prior year are primarily a result of higher power and fuel costs and additional expenses and higher per unit operating expenses from the May 2019 Acquisition sales volumes. On a per Boe basis, operating costs increased for the three and nine months ended September 30, 2019 by 11% and 8% respectively, compared to the same periods in 2018 primarily a result of lower sales volumes with a high proportion of fixed costs, higher power and fuel costs and higher operating expenses per Boe for the May 2019 Acquisition sales volumes.

Pine Cliff anticipates operating expenses to average \$10.35 per Boe (\$1.73 per Mcfe) in 2019.

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

(\$000s)	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	2019	2018	% Change
Gross G&A	<b>1,838</b>	1,796	2	<b>5,871</b>	5,813	1
Add: non-recurring transaction costs	-	-	-	<b>15</b>	-	100
Less: overhead recoveries	<b>(843)</b>	(604)	40	<b>(2,006)</b>	(1,731)	16
Total G&A expenses	<b>995</b>	1,192	(17)	<b>3,880</b>	4,082	(5)
\$ per Boe	<b>0.57</b>	0.66	(14)	<b>0.75</b>	0.76	(1)
\$ per Mcfe	<b>0.10</b>	0.11	(14)	<b>0.12</b>	0.13	(1)

For the three and nine months ended September 30, 2019, G&A decreased by 17% and 5% to \$1.0 million and \$3.9 million from \$1.2 million and \$4.1 million in the corresponding periods of the prior year. The decrease in G&A for the three and nine months ended September 30, 2019 as compared to the corresponding periods of the prior year are primarily a result of higher overhead recoveries from working interest partners.

On a per Boe basis, G&A for the three and nine months ended September 30, 2019, decreased by 14% and 1% to \$0.57 per Boe and \$0.75 per Boe from \$0.66 per Boe and \$0.76 in the corresponding periods of the prior year, primarily a result of higher overhead recoveries from working interest partners, slightly offset by non-recurring transaction costs from the May 2019 Acquisition and a decrease in sales volumes.

Pine Cliff anticipates G&A expenses to average \$0.75 per Boe (\$0.13 per Mcfe) in 2019.

### SHARE-BASED PAYMENTS

(\$000s)	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	2019	2018	% Change
Total share-based payments	275	471	(42)	936	1,726	(46)
\$ per Boe	0.16	0.26	(38)	0.18	0.32	(44)
\$ per Mcfe	0.03	0.04	(38)	0.03	0.05	(44)

Share based payments decreased by 42% and 46% for the three and nine months ended September 30, 2019 compared to the corresponding periods of 2018 primarily as a result of the decrease in the fair value of the stock options granted in 2019. 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 the outstanding Common Shares.

During the nine months ended September 30, 2019, Pine Cliff granted 7,134,141 stock options to purchase Common Shares at a weighted average exercise price of \$0.21 (September 30, 2018 - 7,496,800 at an average exercise price of \$0.33). As at September 30, 2019, the Company had 25,176,161 stock options outstanding representing 7.7% of Common Shares outstanding (September 30, 2018 - 25,989,544 representing 8.4% of Common Shares outstanding).

### DEPLETION, DEPRECIATION AND IMPAIRMENT

(\$000s)	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	2019	2018	% Change
Total depletion and depreciation	11,901	10,738	11	35,220	32,340	9
\$ per Boe	6.80	5.95	14	6.80	6.01	13
\$ per Mcfe	1.13	0.99	14	1.13	1.00	13
Impairment	-	-	-	8,200	-	100
Total depletion, depreciation and impairment	11,901	10,738	11	43,420	32,340	34
\$ per Boe	6.80	5.95	14	8.39	6.01	40
\$ per Mcfe	1.13	0.99	14	1.40	1.00	40

Depletion and depreciation expense for the three and nine months ended September 30, 2019, totaled \$11.9 million and \$35.2 million compared to \$10.7 million and \$32.3 million in the corresponding periods of the prior year. The increase is a result of a higher depletable base. Depletion and depreciation per Boe will fluctuate from one period to the next depending on changes in reserves that result from commodity prices and the amount and success of capital expenditures. Depletion is calculated using total proved and probable reserves and reserves estimates are subject to revision.

### PP&E Impairment Assessment

As at September 30, 2019, the Company reviewed indicators of impairment and determined that there were no impairment indicators present. An impairment of \$8.2 million was recorded for the period ending June 30, 2019.

The following cash generating unit (the "CGU") was impaired for as at June 30, 2019:

CGU	2019	2018
Southern	8,200	-
Total Impairment	8,200	-

**FINANCE EXPENSES**

(\$000s)	Three months ended September 30,			Nine months ended September 30,,		
	2019	2018	%Change	2019	2018	% Change
Interest expense and bank charges	1,232	1,114	11	3,478	2,637	32
\$ per Boe	0.70	0.62	13	0.67	0.48	40
\$ per Mcfe	0.12	0.10	13	0.11	0.08	40
Non cash:						
Accretion on decommissioning provision	1,560	1,346	16	4,702	3,936	19
Accretion on promissory notes	81	75	8	239	190	26
Total finance expenses	2,873	2,535	13	8,419	6,763	24
\$ per Boe	1.64	1.41	16	1.63	1.26	29
\$ per Mcfe	0.27	0.23	16	0.27	0.21	29

Finance expenses increased by 13% and 24% to \$2.9 million and \$8.4 million for the three and nine months ended September 30, 2019, as compared to \$2.5 million and \$6.8 million in the corresponding period of the prior year, primarily a result of higher interest costs due to additional promissory notes as well as an increase in accretion expenses used to unwind the discount on the decommissioning provision mainly related to the May 2019 Acquisition. Please refer to the "DEBT, LIQUIDITY AND CAPITAL RESOURCES" section for additional information.

**DEFERRED INCOME TAX**

For the nine months ended September 30, 2019, deferred income tax expenses were \$nil compared to \$9.4 million in the same period of 2018.

As at September 30, 2019, a deferred income tax asset has not been recognized on \$75.1 million (December 31, 2018 - \$73.4 million) of deductible temporary differences as it is not probable that future taxable net income will be available against which the Company can utilize benefits.

Pine Cliff has approximately \$403.0 million in tax pools as at September 30, 2019 (December 31, 2018 - \$389.6 million), available for future use as deductions to reduce taxable income. Included in the Company's tax pools are estimated non-capital loss carry-forwards of \$134.0 million (December 31, 2018 - \$109.9 million) that expire between the years 2030 and 2039.

**LOSS**

Year to year variance analysis:

(\$000s)	
<b>Loss for nine months ended September 30, 2018</b>	<b>(44,199)</b>
Price variance	(653)
Volume variance	(2,955)
Royalty expense	2,894
Transportation costs	313
Operating expenses	(4,151)
General and administrative	202
Depletion and depreciation	(2,880)
Share-based payments	790
Finance expenses	(1,656)
Realized loss in investments	2,687
Impairment	(8,200)
Dividend income	(35)
Deferred income expense	9,400
<b>Loss for the nine months ended September 30, 2019</b>	<b>(48,443)</b>

**CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS**

(\$000s)	Nine months ended September 30, 2019	Year ended December 31, 2018
Exploration and evaluation	397	239
Property, plant and equipment	2,536	10,426
Capital expenditures	2,933	10,665
Acquisitions	8,599	307
Dispositions	(99)	(285)
<b>Total</b>	<b>11,433</b>	<b>10,687</b>

**Capital expenditures**

Capital expenditures of \$2.9 million during the nine months ended September 30, 2019 consisted of \$1.6 million in facility and maintenance capital, \$0.4 million in equip and tie-in the Pekisko oil well, \$0.5 million of other miscellaneous capital additions and \$0.4 million of seismic expenditures.

**Acquisition**

On May 31, 2019, Pine Cliff completed the acquisition of certain oil and natural gas assets in the Ghost Pine area of Central Alberta (the “**May 2019 Acquisition**”) for cash consideration of \$8.6 million, after estimated closing adjustments. The Acquisition has been accounted for as an asset acquisition as it does not meet the definition of a business combination under IFRS 3.

**DECOMMISSIONING PROVISION**

The total current and long-term decommissioning provision of \$271.8 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, 2019, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$282.8 million (December 31, 2018 - \$264.6 million). The discounted and inflated amount required to settle the decommissioning liabilities of \$271.8 million has been calculated assuming a 1.95% inflation rate (December 31, 2018 - 1.88%) and discounted using an average risk-free interest rate of 2.22% (December 31, 2018 - 2.88%). 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. During the nine months ended September 30, 2019, Pine Cliff spent \$1.1 million on decommissioning expenditures.

**DEBT, LIQUIDITY AND CAPITAL RESOURCES**

**Bank Credit Facilities**

On July 28, 2019, the Company’s syndicated credit facility (the “**Credit Facility**”) with three Canadian Financial Institutions expired and was not renewed (December 31, 2018 - \$11.0 million Credit Facility). Borrowings under the Credit Facility had 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 rolling 12 month 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. As at September 30, 2019, the Company had \$nil in letters of credit issued against its Credit Facility (December 31, 2018 - \$2.9 million).

*Letter of Credit Facility*

As at September 30, 2019, the Company had a \$2.6 million letter of credit facility (“**LC Facility**”) with a Canadian bank which is supported by a performance guarantee from Export Development Canada. The LC Facility is for issuing letters of credit to counterparties and is available on a demand basis. Letters of credit issued under the LC Facility incur an issuance fee of 4% per annum. The LC Facility does not contain any financial covenants. As at September 30, 2019, the Company had \$2.6 million in letters of credit issued against its LC Facility (December 31, 2018 - \$nil).

**\$30 Million 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. 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. On October 1, 2019, the \$30 Million 2020 Notes were exchanged for a non-revolving term credit facility and mature on December 31, 2024, as described in the "SUBSEQUENT EVENTS" section.

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 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. On October 1, 2019, the \$19 Million 2022 Notes were exchanged for a non-revolving term credit facility, as described in the "SUBSEQUENT EVENTS" section.

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.

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

On July 29, 2016, the Company issued \$6.0 million in promissory notes maturing on July 29, 2018. In July 2018, these notes were amended to mature on September 30, 2020 ("**\$6 Million 2020 Notes**"). The \$6 Million 2020 Notes bear interest at 0.25% less than the last 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 Common Shares. The \$6 Million 2020 Notes are secured by a \$6.0 million of floating charge debenture over all of the Company's assets and are subordinated to any and all claims in favor of the \$30 Million 2020 Note and \$19 Million 2022 Note holders. On October 1, 2019, the \$6 Million 2020 Notes were amended and now expire on December 31, 2024, as described in the "SUBSEQUENT EVENTS" section.

#### **Due to Related Party Note**

As at September 30, 2019, 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 last 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 holder of the \$30 Million 2020 Notes and \$19 Million 2022 Notes. Interest paid on the 2020 Related Party Note for the three and nine months ended September 30, 2019 was \$0.1 million and \$0.3 million (September 30, 2018 - \$0.1 million and \$0.2 million). On October 1, 2019, the 2020 Related Party Note was amended and now expires in December 31, 2024, as described in the "SUBSEQUENT EVENTS" section.

#### **Share Capital**

On May 31, 2019, Pine Cliff issued by way of a non-brokered private placement, 14,492,754 flow-through Common Shares (within the meaning of the Income Tax Act (Canada)) (the "**Flow-Through Shares**"), at a price of \$0.276 per Flow-Through Share, resulting in gross proceeds of \$4.0 million. The net proceeds of the flow-through private placement will be used to incur eligible Canadian development expenses ("**CDE**"). Pine Cliff is committed to, pursuant to the provisions of the Income Tax Act (Canada), incur all eligible CDE prior to March 31, 2020.

On May 31, 2019, Pine Cliff also issued by way of a non-brokered private placement, 6,215,652 Common Shares, at a price of \$0.23 per Common Share, resulting in gross proceeds of \$1.4 million. Insiders, including directors and officers, subscribed for a total of 2,608,695 Common Shares.

Share capital	November 5, 2019	September 30, 2019	December 31, 2018
Common Shares	327,784,193	327,784,193	307,075,787
Stock options	24,907,962	25,176,161	21,028,804
Warrants	10,350,000 <sup>1</sup>	2,850,000	2,850,000

<sup>1</sup> Refer to "SUBSEQUENT EVENTS" section for additional information.

### Capital Resources

Pine Cliff's capital budget for 2019 has been approved by its board of directors at approximately \$9.5 million, including \$1.3 million for abandonments and reclamation and before acquisitions and dispositions. Pine Cliff anticipates funding its capital budget through cash flows from operating activities and working capital which includes proceeds from the Flow-Through Shares. Budgeted future capital expenditures related to drilling, not including commitments related to the Flow-Through Shares, are largely discretionary in nature and Pine Cliff is able to adjust the nature, amount and timing of most planned capital expenditures to changes in the business and commodity price environment.

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

### Liquidity

It is anticipated that cash flows from operating activities will allow Pine Cliff to meet its financial liabilities, as well as fund future capital requirements. The Company believes it will obtain 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, 2019, the Company financed its capital expenditures with adjusted funds flows and working capital.

### COMMITMENTS AND CONTINGENCIES

As at September 30, 2019, the Company has the following commitments and other contractual obligations:

	2019	2020	2021	2022	2023	Thereafter
(\$000s)						
Promissory notes <sup>1,2</sup>	-	36,000	-	19,000	-	-
Trade and other payables	25,704	-	-	-	-	-
Due to related party <sup>2</sup>	-	6,000	-	-	-	-
Future interest	2,114	3,506	1,340	1,005	-	-
Lease obligations	299	1,188	1,096	904	728	-
Transportation <sup>3</sup>	2,172	7,340	6,327	5,462	3,168	12,145
<b>Total commitments and contingencies</b>	<b>30,289</b>	<b>54,034</b>	<b>8,763</b>	<b>26,371</b>	<b>3,896</b>	<b>12,145</b>

<sup>1</sup> Principal amount.

<sup>2</sup> Refer to "SUBSEQUENT EVENTS" section for updated maturity dates as at October 1, 2019.

<sup>3</sup> Firm transportation agreements.

### Flow-Through Shares

In conjunction with the Flow-Through Shares, the Corporation has an obligation to incur \$4.0 million of eligible CDE expenditures prior to March 31, 2020. As at September 30, 2019, the Corporation had incurred \$nil of eligible expenditures and recorded a flow-through share liability of \$0.7 million.

**QUARTERLY TRENDS AND SELECTED FINANCIAL INFORMATION<sup>1</sup>**

(\$000s, unless otherwise indicated)	2019				2018		2017	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>FINANCIAL</b>								
Total revenue	<b>19,468</b>	21,106	30,344	28,396	24,148	20,419	27,065	25,444
Cash flow from operating activities	<b>(2,931)</b>	6,503	7,925	1,415	(309)	531	6,979	(4,350)
Adjusted funds flow <sup>2</sup>	<b>(3,922)</b>	(2,047)	6,823	4,433	1,920	(977)	5,137	3,759
Adjusted funds flow per share – basic and diluted (\$/share) <sup>2</sup>	<b>(0.01)</b>	(0.01)	0.02	0.01	0.01	0.00	0.02	0.01
Impairments	-	8,200	-	-	-	-	-	-
Loss	<b>(17,739)</b>	(24,179)	(6,525)	(28,520)	(10,710)	(17,909)	(15,580)	(32,996)
Loss per share – basic and diluted (\$/share)	<b>(0.05)</b>	(0.08)	(0.02)	(0.09)	(0.03)	(0.06)	(0.05)	(0.11)
Capital expenditures	<b>1,123</b>	815	995	4,302	1,910	1,276	3,177	3,091
Acquisitions	<b>(7)</b>	8,604	2	(61)	659	(3)	(288)	44
Dispositions	<b>(14)</b>	(85)	-	(51)	(16)	(135)	(83)	(148)
Net debt <sup>2</sup>	<b>63,745</b>	58,162	51,820	56,819	56,325	54,737	52,414	53,638
Weighted average common shares outstanding:								
Basic and diluted	<b>327,784</b>	314,130	307,076	307,076	307,076	307,076	307,076	307,076
<b>PRODUCTION VOLUMES</b>								
Natural gas (Mcf/d)	<b>104,488</b>	105,965	104,186	110,295	111,067	110,242	112,871	122,304
Natural gas liquids (Bbl/d)	<b>1,195</b>	1,063	981	957	861	967	977	880
Crude oil (Bbl/d)	<b>423</b>	399	396	236	231	216	219	225
Average sales volumes (Boe/d)	<b>19,033</b>	19,123	18,741	19,576	19,603	19,557	20,008	21,489
Average sales volumes (Mcf/d)	<b>114,198</b>	114,738	112,446	117,456	117,618	117,342	120,048	128,934
<b>PRICES AND NETBACKS</b>								
Total oil and gas sales (\$/Boe)	<b>11.48</b>	12.35	19.01	16.72	14.21	12.33	16.50	14.50
Operating netback (\$/Boe) <sup>2</sup>	<b>(0.97)</b>	0.18	5.68	3.56	2.34	0.72	4.04	2.85
Corporate netback (\$/Boe) <sup>2</sup>	<b>(2.24)</b>	(1.18)	4.04	2.46	1.06	(0.55)	2.86	1.90
Total oil and gas sales (\$/Mcf)	<b>1.91</b>	2.06	3.17	2.79	2.37	2.06	2.75	2.49
Operating netback (\$/Mcf) <sup>2</sup>	<b>(0.16)</b>	0.03	0.95	0.59	0.39	0.12	0.67	0.48
Corporate netback (\$/Mcf) <sup>2</sup>	<b>(0.37)</b>	(0.20)	0.67	0.41	0.18	(0.09)	0.48	0.32

<sup>1</sup>Includes results for acquisitions from the closing dates.

<sup>2</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 losses have fluctuated primarily due to changes in commodity prices and sales volumes. 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:

- 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, mainly due to realizing a full quarter of production from wells drilled in the first half of 2018. Average sales volumes decreased in the fourth quarter of 2018 through the first quarter of 2019 compared to the third quarter of 2018 due to natural production declines and production downtime due to cold weather, partially offset by production from the current drilling and recompletion projects. Average sales volumes increased in the second quarter of 2019 compared to the first quarter of 2019 mainly due to less downtime due to cold weather and sales volumes from the May 2019 Acquisition. Average sales volumes decreased in the second quarter of 2019 compared to the second quarter of 2019 mainly due to natural decline, slightly offset by a full quarter of sales volumes from the May 2019 Acquisition.
- Adjusted funds flow increased from the fourth quarter of 2017 to 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 from the

third quarter of 2018 to the first quarter of 2019, mainly as a result of higher commodity prices, slightly offset by decreased sales volumes. Adjusted funds flow decreased from the first quarter of 2019 to the third quarter of 2019, mainly as a result of lower commodity prices and changes to sales volumes.

- 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 from the second quarter of 2018 to the third quarter of 2018, mainly as a result of higher commodity prices and higher sales volumes. Losses increased from the third quarter of 2018 to the fourth quarter of 2018 as a result of a deferred income tax expense, slightly offset by higher commodity prices. Losses decreased from the fourth quarter of 2018 to the first quarter of 2019 mainly as a result of less deferred income tax expense and higher commodity prices, slightly offset by higher operating expenses. Losses increased from the first quarter of 2019 to the second quarter of 2019 mainly as a result of lower commodity prices and an impairment charge, slightly offset by lower royalty expenses. Losses decreased from the second quarter of 2019 to the third quarter of 2019 mainly as a result of no impairment charge in the third quarter of 2019, slightly offset by lower commodity prices.
- Total revenues have fluctuated from the second quarter of 2017 to the first quarter of 2019, mainly as a result of changes in commodity prices and sales volumes. Total revenues decreased from the first quarter of 2019 to the third quarter of 2019, mainly as a result of lower commodity prices and changes to sales volumes.

### OFF BALANCE SHEET TRANSACTIONS

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

### FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments of the Company consist of cash, restricted cash, trade and other receivables, trade and other payables, due to related party and promissory notes. The carrying values of cash, restricted cash, trade and other receivables and trade and other payables approximate their respective fair values due to the short time before maturing. The carrying values of due to related party and promissory notes 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.

### Physical Sales Contracts

At September 30, 2019, 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) <sup>1</sup>	Fixed Sale Price (\$CAD/Mcf) <sup>1,2</sup>
October 1, 2019 to October 31, 2019	AECO	15,000	\$1.24	\$1.30
October 1, 2019 to October 31, 2019	DAWN <sup>3</sup>	8,000	\$3.42	\$3.59
November 1, 2019 to October 31, 2020	TransGas <sup>4</sup>	8,000	\$2.37	\$2.49
April 1, 2020 to October 31, 2020	AECO	15,000	\$1.51	\$1.59

<sup>1</sup> Prices reported are the weighted average prices of the periods.

<sup>2</sup> Price has been converted from \$/GJ to \$/Mcf by multiplying by 1.05.

<sup>3</sup> Dawn Hub into Dawn Township, Ontario.

<sup>4</sup> Subsidiary of SaskEnergy, Saskatchewan.

Additionally, at November 5, 2019, 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>1,2</sup>
November 1, 2019 to March 31, 2020	AECO	5,000	\$2.36	\$2.48
November 1, 2019 to October 31, 2020	TransGas <sup>3</sup>	1,000	\$2.58	\$2.71
April 1, 2020 to October 31, 2020	AECO	5,000	\$1.61	\$1.69

<sup>1</sup> Prices reported are the weighted average prices of the periods.

<sup>2</sup> Price has been converted from \$/GJ to \$/Mcf by multiplying by 1.05.

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

## CRITICAL ACCOUNTING JUDGMENTS AND 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 judgments or 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, 2018.

### Financial Derivative Contracts

Pine Cliff had no financial derivative contracts in place during the nine months ended September 30, 2019 or subsequent to.

## ACCOUNTING POLICY AND STANDARD CHANGES

### Adopted Accounting Pronouncements

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

Effective January 1, 2019 the Company adopted IFRS 16. IFRS 16 introduces a lease accounting model for lessees that requires a right-of-use asset and lease liability to be recognized on the balance sheet for contracts that are, or contain, a lease.

Pine Cliff adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as a \$3.6 million increase to right-of-use assets (included in property, plant and equipment) with a corresponding increase to lease obligations. The initial right-of-use assets recognized were measured at amounts equal to the lease obligations. The weighted average incremental borrowing rate that will be used to determine the lease obligation at adoption is 4.7%. The right of use assets and lease obligations are mainly from the Company's head office lease in Calgary and vehicles for the field operations staff.

The adoption of IFRS 16 included the following elections:

- Pine Cliff elected to not apply lease accounting to leases for which the term ends within 12 months of the date of initial application;
- Pine Cliff elected to retain the classification of previous leases under IAS 17; and
- Pine Cliff elected to use hindsight in determining lease term.

As at December 31, 2018, Pine Cliff disclosed future lease obligations of \$4.0 million, which would have resulted in a lease obligation of \$3.6 million when discounted at the weighted average incremental borrowing rate at adoption of IFRS 16 of 4.7%.

#### IFRS 3 *Business Combinations* ("IFRS 3")

Effective January 1, 2019 the Company early adopted IFRS 3. IFRS 3 will be applied prospectively to acquisitions that occur on or after January 1, 2019. The amendments introduce an optional concentration test, narrow the definitions of a business and outputs, and clarify that an acquired set of activities and assets must include an input and a substantive process that together significantly contribute to the ability to create outputs. These amendments do not result in changes to the Company's accounting policies for applying the acquisition method.

## 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, 2019. 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).

## SUBSEQUENT EVENTS

### Refinancing of \$30 Million 2020 Notes and \$19 Million 2022 Notes

On October 1, 2019, Pine Cliff entered into a credit agreement with Alberta Investment Management Corporation ("AIMCo"), acting on behalf of its clients, to exchange its existing \$30 million 2020 Notes and its existing \$19 million 2022 Notes for a non-revolving term credit facility. This credit facility consists of a first tranche with a principal amount of \$30 million that matures on December 31, 2024 (the "\$30 Million 2024 Tranche") and a second tranche with a principal amount of \$19 million that matures on July 31, 2022 (the "\$19 Million 2022 Tranche"), (collectively the "Refinancing"). Interest on the \$30 Million 2024 Tranche is payable at a rate of 8.75% per annum until September 30, 2020 and thereafter such interest rate will increase by 1% per annum up to 12.75% and interest is payable on the \$19 Million 2022 Tranche at a rate of 7.05% per annum. All or a portion of the principal amount outstanding can be repaid at any time, but without any penalty or premium after September 30, 2022 with respect to the \$30 Million 2024 Tranche and, July 13, 2021 with respect to the \$19 Million 2022 Tranche. A total of 7.5 million common share purchase warrants (the "2022 Warrants") were issued in connection with the Refinancing, with each 2022 Warrant entitling the holder to purchase one Common Share of Pine Cliff for \$0.21, until September 30, 2022. The Refinancing security consists of floating demand debentures totaling \$150.0 million and a general security agreement with first ranking over all current and acquired properties.

### Extension of \$6 Million 2020 Notes

On October 1, 2019, Pine Cliff extended its existing \$6.0 million 2020 Note for a new promissory note expiring on December 31, 2024 ("\$6 Million 2024 Notes") that bears interest at 6.5% per annum. The \$6 Million 2024 Notes were issued to a shareholder and a relative of that shareholder, owning directly or by discretion and control, greater than 10% of the Common Shares. The \$6 Million 2024 Notes are secured by a \$6.0 million of floating charge debenture over all of the Company's assets and is subordinated to any and all claims in favor of the holder of the \$30 Million 2024 Tranche and \$19 Million 2022 Tranche.

### Extension of \$6 Million 2020 Related Party Note

On October 1, 2019, Pine Cliff extended its existing \$6.0 million 2020 Related Party Note for a new promissory note outstanding to the Company's Chairman of the Board expiring on December 31, 2024 ("2024 Related Party Note") that bears interest at 6.5% per annum. The 2024 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 holder of the \$30 Million 2024 Tranche and \$19 Million 2022 Tranche.

### Disposition

Subsequent to September 30, 2019, the Company entered into a purchase and sale agreement to sell one non-producing well for proceeds of \$1.3 million, effective October 1, 2019.

## 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,		
	2019	2018	% Change	2019	2018	% Change
Cash flow from operating activities	<b>(2,931)</b>	(309)	849	<b>11,497</b>	7,201	60
Adjusted by:						
Change in non-cash working capital	<b>(1,324)</b>	1,280	(203)	<b>(11,713)</b>	(3,114)	276
Decommissioning obligation settled	<b>333</b>	949	(65)	<b>1,070</b>	1,993	(46)
Adjusted funds flow	<b>(3,922)</b>	1,920	(304)	<b>854</b>	6,080	(86)
Adjusted funds flow (\$/Boe)	<b>(2.24)</b>	1.06	(311)	<b>0.17</b>	1.13	(85)
Adjusted funds flow (\$/Mcf)	<b>(0.37)</b>	0.18	(311)	<b>0.03</b>	0.19	(85)
Adjusted funds flow – basic and diluted (\$/share)	<b>(0.01)</b>	0.01	(200)	-	0.02	(100)

### 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,		
	2019	2018	\$ Change	2019	2018	\$ Change
Oil and gas sales	<b>11.48</b>	14.21	(2.73)	<b>14.23</b>	14.35	(0.12)
Royalty expense	<b>(0.36)</b>	(0.82)	0.46	<b>(0.53)</b>	(1.05)	0.52
Transportation expense	<b>(1.65)</b>	(1.88)	0.23	<b>(1.73)</b>	(1.72)	(0.01)
Operating expense	<b>(10.44)</b>	(9.17)	(1.27)	<b>(10.38)</b>	(9.21)	(1.17)
Operating netback	<b>(0.97)</b>	2.34	(3.31)	<b>1.59</b>	2.37	(0.78)
General and administrative	<b>(0.57)</b>	(0.66)	0.09	<b>(0.75)</b>	(0.76)	0.01
Interest and bank charges, net of dividend income	<b>(0.70)</b>	(0.62)	(0.08)	<b>(0.67)</b>	(0.48)	(0.19)
Corporate netback	<b>(2.24)</b>	1.06	(3.30)	<b>0.17</b>	1.13	(0.96)
Operating netback (\$ per Mcfe)	<b>(0.16)</b>	0.39	(0.55)	<b>0.27</b>	0.40	(0.13)
Corporate netback (\$ per Mcfe)	<b>(0.37)</b>	0.18	(0.55)	<b>0.03</b>	0.19	(0.16)

**Net Debt**

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

(\$000s)	September 30, 2019	December 31, 2018	\$ Change
Due to related party – due September 30, 2020 <sup>1</sup>	6,000	6,000	-
Promissory notes <sup>1,2</sup>	55,000	55,000	-
Trade and other payables	25,704	16,772	8,932
Less:			
Trade and other receivables	(10,679)	(13,536)	2,857
Cash	(3,934)	(3,563)	(371)
Restricted cash	(1,500)	-	(1,500)
Prepaid expenses and deposits	(6,846)	(3,854)	(2,992)
<b>Net debt</b>	<b>63,745</b>	<b>56,819</b>	<b>6,926</b>

<sup>1</sup> Refer to "SUBSEQUENT EVENTS" section for updated maturity dates as at October 1, 2019.

<sup>2</sup> The promissory notes for net debt are presented at the principal amount with \$36.0 million due on December 31, 2024 and \$19.0 million due on July 31, 2022.

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, expected interest costs, royalty and G&A levels; future capital expenditures, including the amount and nature thereof; future drilling opportunities and Pine Cliff’s ability to generate reserves and production from the undrilled locations; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and guidance; expansion and growth of our business and operations; amounts due to related party and due pursuant to 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, 2019 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.