

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian dollars, 000s)
(unaudited)

	Note	As at September 30, 2019	As at December 31, 2018
ASSETS			
Current assets			
Cash		3,934	3,563
Trade and other receivables	4	10,679	13,536
Restricted cash	6	1,500	-
Prepaid expenses and deposits		6,846	3,854
Total current assets		22,959	20,953
Exploration and evaluation	7	23,017	22,620
Property, plant and equipment	8	334,738	310,642
Total assets		380,714	354,215
LIABILITIES			
Current liabilities			
Trade and other payables	4	25,704	16,772
Lease liabilities	9	1,026	-
Due to related party ¹	11	6,000	-
Promissory notes ¹	12	35,733	-
Decommissioning provision	13	2,466	2,466
Flow-through share liability	17	667	-
Total current liabilities		71,596	19,238
Lease liabilities	9	2,889	-
Due to related party	11	-	6,000
Promissory notes	12	18,786	54,280
Decommissioning provision	13	269,298	213,723
Total liabilities		362,569	293,241
SHAREHOLDERS' EQUITY			
Share capital	14	273,421	268,743
Warrants		288	288
Contributed surplus		13,451	12,515
Deficit		(269,015)	(220,572)
Total shareholders' equity		18,145	60,974
Total liabilities and shareholders' equity		380,714	354,215

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

¹ Refer to Subsequent Events Note 18.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

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

		Three months ended September 30,		Nine months ended September 30,	
	Note	2019	2018	2019	2018
REVENUE					
Oil and gas sales	15	20,107	25,625	73,667	77,275
Royalty expense		(639)	(1,477)	(2,749)	(5,643)
Oil and gas sales, net of royalties		19,468	24,148	70,918	71,632
Dividend income		-	-	-	35
Total revenue		19,468	24,148	70,918	71,667
EXPENSES					
Operating		18,279	16,535	53,738	49,587
Transportation		2,884	3,387	8,968	9,281
Depletion and depreciation	8	11,901	10,738	35,220	32,340
Share-based payments	14	275	471	936	1,726
Finance	16	2,873	2,535	8,419	6,763
General and administrative		995	1,192	3,880	4,082
Impairment	8	-	-	8,200	-
Realized loss on investments		-	-	-	2,687
Total expenses		37,207	34,858	119,361	106,466
Loss before income taxes		(17,739)	(10,710)	(48,443)	(34,799)
Deferred income tax expense		-	-	-	(9,400)
LOSS FOR THE PERIOD		(17,739)	(10,710)	(48,443)	(44,199)
OTHER COMPREHENSIVE LOSS					
Unrealized loss on investments		-	-	-	(2,081)
Amounts reclassified from comprehensive loss		-	-	-	2,081
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		-	-	-	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(17,739)	(10,710)	(48,443)	(44,199)
Loss per share (\$)					
Basic and diluted	14	(0.05)	(0.03)	(0.15)	(0.14)

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

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

		Three months ended September 30,		Nine months ended September 30,	
	Note	2019	2018	2019	2018
CASH PROVIDED BY (USED IN):					
OPERATING ACTIVITIES					
Loss for the period		(17,739)	(10,710)	(48,443)	(44,199)
Items not affecting cash:					
Depletion and depreciation	8	11,901	10,738	35,220	32,340
Share-based payments	14	275	471	936	1,726
Finance expenses	16	2,873	2,535	8,419	6,763
Impairment	8	-	-	8,200	-
Loss on sale of investments		-	-	-	2,687
Deferred income tax expense		-	-	-	9,400
Interest and bank charges	16	(1,232)	(1,114)	(3,478)	(2,637)
Decommissioning obligations settled	13	(333)	(949)	(1,070)	(1,993)
Changes in non-cash working capital accounts	16	1,324	(1,280)	11,713	3,114
Cash provided by (used in) operating activities		(2,931)	(309)	11,497	7,201
INVESTING ACTIVITIES					
Property, plant and equipment	8	(742)	(1,838)	(2,536)	(6,179)
Exploration and evaluation	7	(381)	(72)	(397)	(184)
Acquisitions	8	7	(659)	(8,599)	(368)
Dispositions	8	14	16	99	234
Sale of investments		-	-	-	2,274
Changes in non-cash working capital accounts	16	285	33	(2,916)	(1,454)
Cash used in investing activities		(817)	(2,520)	(14,349)	(5,677)
FINANCING ACTIVITIES					
Issuance of common shares, net of share issue costs	14	-	-	5,345	-
Issuance of promissory notes, net of share issue costs	12	-	18,994	-	18,994
Issuance of related party debt	11	-	1,000	-	1,000
Common share proceeds restricted	6	-	-	(1,500)	-
Bank debt	10	-	(12,683)	-	(18,000)
Payments on lease obligations	9	(226)	-	(622)	-
Cash provided by (used in) financing activities		(226)	7,311	3,223	1,994
Increase (decrease) in cash		(3,974)	4,482	371	3,518
Cash - beginning of period		7,908	111	3,563	1,075
CASH - END OF PERIOD		3,934	4,593	3,934	4,593

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 loss ²	Warrants	Deficit	Total Equity
BALANCE AT JANUARY 1, 2018		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	14	-	1,726	-	-	-	1,726
BALANCE AT SEPTEMBER 30, 2018		268,743	12,010	-	288	(192,052)	88,989
Loss for the period		-	-	-	-	(28,520)	(28,520)
Share-based payments	14	-	505	-	-	-	505
BALANCE AT DECEMBER 31, 2018		268,743	12,515	-	288	(220,572)	60,974
Loss for the period		-	-	-	-	(48,443)	(48,443)
Share-based payments	14	-	936	-	-	-	936
Issuance of shares	14	4,701	-	-	-	-	4,701
Share issue costs, net of tax	14	(23)	-	-	-	-	(23)
BALANCE AT SEPTEMBER 30, 2019		273,421	13,451	-	288	(269,015)	18,145

¹Contributed surplus is comprised of share-based payments.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2019 and December 31, 2018 and for the three and nine month periods ended September 30, 2019 and 2018. (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. Common shares of the Company ("**Common Shares**") are listed for trading on the Toronto Stock Exchange ("**TSX**") under the symbol "**PNE**".

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 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, 2018 ("**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, 2018 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 5, 2019.

3. 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.
- Pine Cliff elected to use hindsight in determining lease term.

As at December 31, 2018, Pine Cliff disclosed future lease obligations \$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.

4. FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement

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.

The following table sets out the Company's classification, carrying value and fair value of financial assets and liabilities as at September 30, 2019 and December 31, 2018:

Description	September 30, 2019		December 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
Cash	3,934	3,934	3,563	3,563
Restricted cash	1,500	1,500	-	-
Trade and other receivables	10,679	10,679	13,536	13,536
Trade and other payables	(25,704)	(25,704)	(16,772)	(16,772)
Due to related party	(6,000)	(6,000)	(6,000)	(6,000)
Promissory notes	(54,519)	(54,519)	(54,280)	(54,280)

5. RISK MANAGEMENT

The Company is exposed to both financial and non-financial risks inherent in the oil and gas business. Financial risks include: commodity prices, interest rates, equity price, foreign exchange, credit availability and liquidity. Financial risks can be managed, at least to a degree, through the utilization of financial instruments. Certain non-financial risks can be mitigated through the use of insurance and/or other risk transfer mechanisms, good business practices and process controls, while others must simply be borne. All risks can have an impact upon the financial performance of the Company. The Company's exposure to market risk, liquidity risk and credit risk are consistent unless otherwise noted with those disclosed in the Annual Financial Statements.

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

¹ Prices reported are the weighted average prices of the periods.

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

³ Dawn Hub into Dawn Township, Ontario.

⁴ 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) ^{1,2}
November 1, 2019 to March 31, 2020	AECO	5,000	\$2.36	\$2.48
November 1, 2019 to October 31, 2020	TransGas ³	1,000	\$2.58	\$2.71
April 1, 2020 to October 31, 2020	AECO	5,000	\$1.61	\$1.69

¹ Prices reported are the weighted average prices of the periods.

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

³ Subsidiary of SaskEnergy, Saskatchewan.

Financial Derivative Contracts

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

Liquidity Risk

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

6. RESTRICTED CASH

As at September 30, 2019, Pine Cliff has \$1.5 million in restricted cash from the proceeds of Flow-Through Shares, as defined herein, which will be released to the Company once certain conditions are met.

7. EXPLORATION AND EVALUATION

Exploration and evaluation assets:	Oil and gas properties	Mineral properties	Total
Balance at December 31, 2017	26,313	3,074	29,387
Additions	193	46	239
Transfer to property, plant, and equipment	(7,006)	-	(7,006)
Balance at December 31, 2018	19,500	3,120	22,620
Additions	348	49	397
Balance at September 30, 2019	19,848	3,169	23,017

8. PROPERTY, PLANT AND EQUIPMENT

Cost:	(\$000s)
Balance at December 31, 2017	558,482
Additions	10,426
Transfer from exploration and evaluation	7,006
Acquisitions	307
Dispositions	(369)
Decommissioning provision	12,990
Balance at December 31, 2018	588,842
Additions	2,536
Lease obligations	4,537
Acquisitions	8,599
Dispositions	(99)
Decommissioning provision	51,943
Balance at September 30, 2019	656,358
Accumulated depletion and depreciation:	(\$000s)
Balance at December 31, 2017	(234,524)
Depletion and depreciation	(43,760)
Disposition	84
Balance at December 31, 2018	(278,200)
Depletion and depreciation	(35,220)
Impairment	(8,200)
Balance at September 30, 2019	(321,620)
Carrying value at:	(\$000s)
December 31, 2018	310,642
September 30, 2019	334,738

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	-

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.

9. LEASE LIABILITIES

Pine Cliff had the following future commitments associated with its lease liabilities:

	(\$000s)
2019	299
2020	1,188
2021	1,096
2022	904
2023	728
Thereafter	86
Total lease payments as at September 30, 2019	4,301
Amounts representing interest	(386)
Present value of lease payments	3,915
Current portion of lease obligations	(1,026)
Non-current portion of lease obligations	2,889

For the nine months ended September 30, 2019, interest expense of \$0.1 million and a total cash outflow of \$0.6 million was recognized relating to lease obligations.

10. BANK DEBT

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).

11. DUE TO RELATED PARTY

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, as defined herein. 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 Subsequent Events note 18.

12. PROMISSORY NOTES AS AT SEPTEMBER 30, 2019¹

Promissory notes due September 30, 2020:	
Issued – July 29, 2016	6,000
Promissory notes due September 30, 2020, as at September 30, 2019 and December 31, 2018	6,000
Promissory notes due September 30, 2020:	
Promissory notes due September 30, 2020, as at December 31, 2017	29,307
Accretion expense	237
Promissory notes due September 30, 2020, as at December 31, 2018	29,544
Accretion expense	189
Promissory notes due September 30, 2020, as at September 30, 2019	29,733
Promissory notes due July 31, 2022 as at December 31, 2017	-
Promissory notes due July 31, 2022, issued July 13, 2018	18,706
Accretion expense	30
Promissory notes due July 31, 2022, as at December 31, 2018	18,736
Accretion expense	50
Promissory notes due July 31, 2022, as at September 30, 2019	18,786
Total promissory notes, as at December 31, 2018	54,280
Total promissory notes, as at September 30, 2019	54,519

¹ Refer to Subsequent Events note 18 for updated terms

\$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 Subsequent Events note 18.

\$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-term credit facility and mature on December 31, 2024, as described in Subsequent Events note 18.

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-term credit facility, as described in Subsequent Events note 18. 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.

13. 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.

	(\$000s)
Decommissioning provision, January 1, 2018	200,540
Increase relating to development activities	82
Decommissioning expenditures	(2,730)
Revisions (changes in estimates, inflation rate, and discount rates)	12,908
Accretion	5,389
Decommissioning provision, December 31, 2018	216,189
Provisions related to acquisitions	18,527
Decommissioning expenditures	(1,070)
Revisions (changes in estimates, inflation rate, and discount rates)	33,416
Accretion	4,702
Decommissioning provision, September 30, 2019	271,764
Less current portion of decommissioning provision	(2,466)
Non-current portion of decommissioning provision	269,298

14. 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, 2018	307,076	268,743
Shares issued pursuant to private and public share offerings ^{1,2}	20,708	4,701
Share issue costs, net of tax	-	(23)
Balance, September 30, 2019	327,784	273,421

¹ 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 will, pursuant to the provisions of the Income Tax Act (Canada), incur all eligible CDE prior to March 31, 2020.

² 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.

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.

	Options (000s)	Weighted-average exercise price (\$ per share)
Stock options issued and outstanding:		
Outstanding, January 1, 2018	21,316	1.06
Granted	7,698	0.33
Expired	(6,598)	1.23
Forfeited	(1,387)	0.82
Outstanding, December 31, 2018	21,029	0.75
Granted	7,134	0.21
Expired	(2,185)	0.80
Forfeited	(802)	0.56
Outstanding, September 30, 2019	25,176	0.60
Exercisable, September 30, 2019	8,653	0.84

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
\$0.21 - \$0.52	14,123	2.1	2,345	0.6
\$0.53 - \$0.84	3,459	1.1	1,731	0.6
\$0.85 - \$1.16	7,594	0.6	4,577	0.2
	25,176	1.5	8,653	0.4

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. During the nine months ended September 30, 2019, the Company granted 7,134,141 stock options (September 30, 2018 – 7,496,800) with a fair value of \$0.08 (September 30, 2018 - \$0.12) per option using the Black-Scholes option pricing model using the following key assumptions:

Assumptions (weighted average):	Nine months ended September 30,	
	2019	2018
Exercise price (\$)	0.21	0.33
Estimated volatility of underlying common shares (%)	51.8	49.8
Expected life (years)	3.0	3.0
Risk-free rate (%)	1.6	2.1
Forfeiture rate (%)	3.9	3.9
Expected dividend yield (%)	-	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, 2019 and 2018, 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,	
	2019	2018	2019	2018
Numerator				
Loss for the period	(17,739)	(10,710)	(48,443)	(44,199)
Denominator (000s)				
Weighted-average Common Shares outstanding – basic and diluted	327,784	307,076	316,406	307,076
Loss per share – basic and diluted (\$)	(0.05)	(0.03)	(0.15)	(0.14)

15. 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,	
	2019	2018	2019	2018
Natural gas	14,887	19,215	57,783	58,700
NGL	2,832	4,834	9,030	14,351
Crude oil	2,388	1,576	6,854	4,224
Total oil and gas sales	20,107	25,625	73,667	77,275

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Changes in non-cash working capital:				
Trade and other receivables	(842)	(617)	2,857	4,319
Prepaid expenses and deposits	(2,827)	496	(2,992)	(2,324)
Trade and other payables and accrued liabilities	5,278	(1,126)	8,932	(335)
	1,609	(1,247)	8,797	1,660
Changes related to:				
Operating activities	1,324	(1,280)	11,713	3,114
Investing activities	285	33	(2,916)	(1,454)
	1,609	(1,247)	8,797	1,660

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Finance expenses:				
Interest expense and bank charges	1,232	1,114	3,478	2,637
Non cash:				
Accretion on decommissioning provision	1,560	1,346	4,702	3,936
Accretion on promissory notes	81	75	239	190
Total finance expenses	2,873	2,535	8,419	6,763

Cash interest paid in the three and nine months ended September 30, 2019, was \$2.5 million and \$4.6 million (three and nine months ended September 30, 2018 - \$1.2 million and \$2.7 million).

17. COMMITMENTS

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

(\$000s)	2019	2020	2021	2022	2023	Thereafter
Promissory notes ^{1,2}	-	36,000	-	19,000	-	-
Trade and other payables	25,704	-	-	-	-	-
Due to related party ²	-	6,000	-	-	-	-
Future interest	2,114	3,506	1,340	1,005	-	-
Transportation ³	2,172	7,340	6,327	5,462	3,168	12,145
Total commitments and contingencies	29,990	52,846	7,667	25,467	3,168	12,145

¹ Principal amount.

² Refer to Subsequent Events note 18 for updated maturity dates as at October 1, 2019.

³ Firm transportation agreements.

Flow-through Shares

In May 2019, the Corporation issued an aggregate of 14,492,754 Flow-Through Shares for gross proceeds of \$4.0 million. The Corporation has an obligation to incur \$4.0 million of eligible 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.

18. 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 \$0.20565, 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.

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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AUDITORS

Deloitte LLP

STOCK EXCHANGE LISTING

TSX Exchange
Trading Symbol: PNE

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