

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Canadian dollars, 000s)  
(unaudited)

	Note	As at September 30, 2020	As at December 31, 2019
<b>ASSETS</b>			
Current assets			
Cash		6,880	8,661
Trade and other receivables	4	12,134	13,597
Prepaid expenses and deposits		2,424	2,218
<b>Total current assets</b>		<b>21,438</b>	24,476
Exploration and evaluation	6	8,731	8,694
Property, plant and equipment	7	265,160	290,565
<b>Total assets</b>		<b>295,329</b>	323,735
<b>LIABILITIES</b>			
Current liabilities			
Trade and other payables	4	29,750	27,514
Lease liabilities	8	1,137	1,043
Decommissioning provision	12	2,000	2,000
<b>Total current liabilities</b>		<b>32,887</b>	30,557
Lease liabilities	8	2,298	2,666
Due to related party	9	6,000	6,000
Subordinated promissory notes	10	6,000	6,000
Term Debt	11	48,720	48,642
Decommissioning provision	12	233,087	219,360
<b>Total liabilities</b>		<b>328,992</b>	313,225
<b>SHAREHOLDERS' EQUITY (DEFICIT)</b>			
Share capital	13	274,964	273,421
Warrants	13	288	460
Contributed surplus		14,372	13,631
Deficit		(323,287)	(277,002)
<b>Total shareholders' equity (deficit)</b>		<b>(33,663)</b>	10,510
<b>Total liabilities and shareholders' equity</b>		<b>295,329</b>	323,735

Commitments (Note 16)

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

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

		Three months ended September 30,		Nine months ended September 30,	
	Note	2020	2019	2020	2019
<b>REVENUE</b>					
Oil and gas sales	14	24,744	20,107	71,878	73,667
Royalty expense		<b>(1,162)</b>	(639)	<b>(3,919)</b>	(2,749)
Oil and gas sales, net of royalties		<b>23,582</b>	19,468	<b>67,959</b>	70,918
Processing and gathering	14	<b>1,119</b>	839	<b>2,856</b>	2,324
Total revenue		<b>24,701</b>	20,307	<b>70,815</b>	73,242
<b>EXPENSES</b>					
Operating		<b>19,225</b>	19,118	<b>55,649</b>	56,062
Transportation		<b>2,209</b>	2,884	<b>6,951</b>	8,968
Depletion and depreciation	7	<b>11,379</b>	11,901	<b>34,379</b>	35,220
Impairment	7	-	-	<b>7,900</b>	8,200
Share-based payments	13	<b>174</b>	275	<b>569</b>	936
Finance	15	<b>2,653</b>	2,873	<b>8,000</b>	8,419
General and administration		<b>1,171</b>	995	<b>3,652</b>	3,880
Total expenses		<b>36,811</b>	38,046	<b>117,101</b>	121,685
<b>LOSS AND TOTAL COMPREHENSIVE</b>					
<b>LOSS FOR THE PERIOD</b>		<b>(12,110)</b>	(17,739)	<b>(46,285)</b>	(48,443)
<b>Loss per share (\$)</b>					
Basic and diluted	13	<b>(0.04)</b>	(0.05)	<b>(0.14)</b>	(0.15)

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Canadian dollars, 000s)

(unaudited)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
<b>CASH PROVIDED BY (USED IN):</b>					
<b>OPERATING ACTIVITIES</b>					
Loss for the period		<b>(12,110)</b>	(17,739)	<b>(46,285)</b>	(48,443)
Items not affecting cash:					
Depletion and depreciation	7	<b>11,379</b>	11,901	<b>34,379</b>	35,220
Impairment	7	-	-	<b>7,900</b>	8,200
Share-based payments	13	<b>174</b>	275	<b>569</b>	936
Finance expenses	15	<b>2,653</b>	2,873	<b>8,000</b>	8,419
Interest and bank charges	15	<b>(1,287)</b>	(1,232)	<b>(3,830)</b>	(3,478)
Decommissioning obligations settled	12	<b>(70)</b>	(333)	<b>(743)</b>	(1,070)
Changes in non-cash working capital accounts	15	<b>3,206</b>	1,324	<b>6,131</b>	11,713
Cash provided by (used in) operating activities		<b>3,945</b>	(2,931)	<b>6,121</b>	11,497
<b>INVESTING ACTIVITIES</b>					
Property, plant and equipment	7	<b>(2,186)</b>	(742)	<b>(6,173)</b>	(2,536)
Exploration and evaluation	6	<b>(27)</b>	(381)	<b>(37)</b>	(397)
Acquisitions	7	<b>(10)</b>	7	<b>(5)</b>	(8,599)
Dispositions	7	<b>181</b>	14	<b>216</b>	99
Changes in non-cash working capital accounts	15	<b>(81)</b>	285	<b>(2,638)</b>	(2,916)
Cash used in investing activities		<b>(2,123)</b>	(817)	<b>(8,637)</b>	(14,349)
<b>FINANCING ACTIVITIES</b>					
Issuance of common shares, net of share issue costs	13	<b>1,543</b>	-	<b>1,543</b>	5,345
Common share proceeds restricted		-	-	-	(1,500)
Payments on lease obligations	8	<b>(279)</b>	(226)	<b>(808)</b>	(622)
Cash provided by (used in) financing activities		<b>1,264</b>	(226)	<b>735</b>	3,223
Increase (decrease) in cash		<b>3,086</b>	(3,974)	<b>(1,781)</b>	371
Cash - beginning of period		<b>3,794</b>	7,908	<b>8,661</b>	3,563
<b>CASH - END OF PERIOD</b>		<b>6,880</b>	3,934	<b>6,880</b>	3,934

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 <sup>1</sup>	Warrants	Deficit	Total Equity
<b>BALANCE AT JANUARY 1, 2019</b>		<b>268,743</b>	<b>12,515</b>	<b>288</b>	<b>(220,572)</b>	<b>60,974</b>
Loss for the period		-	-	-	(30,704)	(30,704)
Share-based payments	13	-	661	-	-	661
Issuance of common shares, net of share issue costs		4,768	-	-	-	4,768
Share issue costs, net of tax		(90)	-	-	-	(90)
<b>BALANCE AT SEPTEMBER 30, 2019</b>		<b>273,421</b>	<b>13,176</b>	<b>288</b>	<b>(251,276)</b>	<b>35,609</b>
Loss for the period		-	-	-	(25,726)	(25,726)
Share-based payments	13	-	455	-	-	455
Issuance of warrants		-	-	172	-	172
<b>BALANCE AT DECEMBER 31, 2019</b>		<b>273,421</b>	<b>13,631</b>	<b>460</b>	<b>(277,002)</b>	<b>10,510</b>
Loss for the period		-	-	-	(46,286)	(46,286)
Exercise of warrants	13	-	172	(172)	-	-
Share-based payments	13	-	569	-	-	569
Issuance of common shares on exercise of warrants		1,543	-	-	-	1,543
<b>BALANCE AT SEPTEMBER 30, 2020</b>		<b>274,964</b>	<b>14,372</b>	<b>288</b>	<b>(323,287)</b>	<b>(33,663)</b>

<sup>1</sup>Contributed surplus is comprised of share-based payments.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at September 30, 2020 and December 31, 2019 and for the three and nine month periods ended September 30, 2020 and 2019 (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 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, 2019 ("**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, 2019 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 3, 2020.

**3. SIGNIFICANT ACCOUNTING POLICIES****Revenue recognition**

Revenues from the sale of petroleum and natural gas are recorded when the significant risks and rewards of ownership have been transferred to the customer. Revenue is measured at the fair value of the consideration received or receivable. Petroleum and natural gas revenues are recognized when all of the following conditions have been satisfied:

- Pine Cliff has transferred the significant risks and rewards of ownership of the production to the buyer which usually occurs at the time petroleum or natural gas passes through a terminal point;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be reliably measured.

Revenues from fees charged to third parties for product processing and gathering services provided at facilities are recorded as these services are provided.

### Financial statement reclassification

The Company has elected to disclose its processing and gathering revenue gross of operating expenses, as the company believes the revenue stream to be separate from the commodity extraction process. The reclassification had no changes to operating cash flows, or net loss for the period.

(\$000s)	Three months ended September 30, 2019	Nine months ended September 30, 2019
Operating expenses – as originally reported	18,279	53,738
Processing and gathering income - reclassification	839	2,324
<b>Operating expenses – as restated</b>	<b>19,118</b>	<b>56,062</b>

(\$000s)	Three months ended September 30, 2019	Nine months ended September 30, 2019
Processing and gathering income – as originally reported	-	-
Processing and gathering income - reclassification	839	2,324
<b>Processing and gathering income – as restated</b>	<b>839</b>	<b>2,324</b>

## 4. FINANCIAL INSTRUMENTS

### Financial instruments and fair value measurement

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

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

The following table sets out the Company's classification, carrying value and fair value of financial assets and liabilities as at September 30, 2020 and December 31, 2019:

Description	September 30, 2020		December 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
Cash	6,880	6,880	8,661	8,661
Trade and other receivables	12,134	12,134	13,597	13,597
Trade and other payables	(29,750)	(29,750)	(27,514)	(27,514)
Due to related party	(6,000)	(6,000)	(6,000)	(6,000)
Subordinated promissory notes	(6,000)	(6,000)	(6,000)	(6,000)
Term Debt	(48,720)	(48,720)	(48,642)	(48,642)

## 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.

**Market Risk**

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

*Commodity Price Risk*

The Company is exposed to commodity price risk since its revenues are dependent on the prices of crude oil, natural gas liquids ("NGLs") and natural gas. Commodity prices have fluctuated widely during recent years due to global and regional factors including, but not limited to, supply and demand, inventory levels, weather, economic changes and geopolitical factors and instability. As a result of the spread of the novel coronavirus ("COVID-19") global pandemic, crude oil and NGL demand dropped sharply. Changes in oil, NGL's and natural gas prices may have a significant effect, positively or negatively, on the ability of the Company to meet its obligations, capital spending targets and expected operational results. A material decline or extended period of low oil, NGL or natural gas prices could result in a reduction of net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil, NGL's or natural gas and a reduction in the volumes of Pine Cliff's reserves. Management may also elect not to produce from certain wells at lower prices. The Company does not hedge its crude oil or NGL commodity price risk. During the nine months ended September 30, 2020, Pine Cliff's average sales volumes were 91% natural gas.

**Physical Sales Contracts**

At September 30, 2020, 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>2</sup>
October 1, 2020 to October 31, 2020	AECO	37,500	\$1.68	\$1.76
October 1, 2020 to October 31, 2020	TransGas <sup>3</sup>	9,000	\$2.40	\$2.52
November 1, 2020 to December 31, 2020	AECO	10,000	\$3.08	\$3.23
November 1, 2020 to March 31, 2021	AECO	2,500	\$2.63	\$2.76
November 1, 2020 to October 31, 2021	TransGas <sup>3</sup>	6,000	\$3.11	\$3.27
April 1, 2021 to October 31, 2021	AECO	5,000	\$1.98	\$2.05

<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.

**Financial Derivative Contracts**

Pine Cliff had no financial derivative contracts in place during the nine months ended September 30, 2020 or subsequent thereto.

**Credit Risk**

Credit risk is the risk that a third party will not complete its contractual obligations under a financial instrument and cause the Company to incur a financial loss. Collection of accounts receivable from third-parties is a priority of the Company. Pine Cliff's maximum exposure to credit risk is the sum of the carrying values of its trade and other receivables and cash, which are a reflection of management's assessment of the associated maximum exposure to such credit risk.

To mitigate the credit risk on its cash, the Company maintains its cash balances with a major Canadian chartered bank. To mitigate the credit risk on trade and other receivables, Pine Cliff assesses the financial strength of its counterparties and endeavors to enter into relationships with larger purchasers with established credit histories.

The Company's trade and other receivables balance at September 30, 2020 of \$12.1 million (December 31, 2019 of \$13.6 million), is primarily with oil and gas marketers, joint venture partners and crown royalty credits with the Province of Alberta. Amounts due from these parties have generally been received within 30 to 60 days. When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. The Company generally considers amounts greater than 90 days to be past due. As at September 30, 2020, there was \$1.3 million (December 31, 2019 - \$1.0 million) of trade and other receivables over 90 days. Pine Cliff assesses its trade and other receivables quarterly to determine if there has been any impairment. During the nine months ended September 30, 2020, the Company recorded \$0.4 million (September 30, 2019 - \$0.6 million) of bad debt expense against trade and other accounts receivables.

**Liquidity Risk**

Liquidity risk is the risk that Pine Cliff will not be able to meet its financial obligations as they become due. Pine Cliff 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 opportunities to issue additional equity or debt. In light of the current volatility in commodity prices along with the uncertainty of COVID-19 on global crude oil demand, the preparation of financial forecasts and estimates are increasingly uncertain. Pine Cliff actively monitors its credit and working capital to ensure that it has sufficient available funds to meet its financial requirements at a reasonable cost. Management believes that funds generated from these sources will be adequate to settle Pine Cliff's financial liabilities as they become due. Any of these events present risks that could affect Pine Cliff's ability to fund ongoing operations. If required, Pine Cliff will also consider additional short-term financing or issuing equity or debt in order to meet its future liabilities.

**6. EXPLORATION AND EVALUATION**

Exploration and evaluation assets:	Oil and gas properties	Mineral properties	Total
Balance at December 31, 2018	19,500	3,120	22,620
Additions	345	53	398
Transfer to property, plant, and equipment	(14,324)	-	(14,324)
<b>Balance at December 31, 2019</b>	<b>5,521</b>	<b>3,173</b>	<b>8,694</b>
Additions	(14)	51	37
<b>Balance at September 30, 2020</b>	<b>5,507</b>	<b>3,224</b>	<b>8,731</b>

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

Cost:	(\$000s)
<b>Balance at December 31, 2018</b>	<b>588,842</b>
Additions	7,981
Lease Obligations	4,585
Transfer from exploration and evaluation	14,324
Acquisitions	8,801
Dispositions	(1,542)
Decommissioning provision	838
<b>Balance at December 31, 2019</b>	<b>623,829</b>
Additions	6,173
Lease obligations	534
Acquisitions	(5)
Dispositions	(216)
Decommissioning provision	10,315
<b>Balance at September 30, 2020</b>	<b>640,703</b>
Accumulated depletion and depreciation:	(\$000s)
<b>Balance at December 31, 2018</b>	<b>(278,200)</b>
Depletion and depreciation	(46,864)
Impairment	(8,200)
<b>Balance at December 31, 2019</b>	<b>(333,264)</b>
Depletion and depreciation	(34,379)
Impairment	(7,900)
<b>Balance at September 30, 2020</b>	<b>(375,543)</b>
Carrying value at:	(\$000s)
December 31, 2019	290,565
<b>September 30, 2020</b>	<b>265,160</b>

### PP&E Impairment Assessment

As at September 30, 2020, the Company reviewed indicators of impairment and determined there were no impairment indicators present. An impairment of \$7.9 million was recorded for the period ended March 31, 2020.

The following cash generating units (the “CGU”) were impaired as of September 30:

CGU	2020	2019
Edson	7,900	-
Southern	-	8,200
<b>Total Impairment</b>	<b>7,900</b>	<b>8,200</b>

### 8. LEASE LIABILITIES

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

	(\$000s)
2020	326
2021	1,227
2022	1,035
2023	860
2024	216
Thereafter	51
<b>Total lease payments as at September 30, 2020</b>	<b>3,715</b>
Amounts representing interest	(280)
<b>Present value of lease payments</b>	<b>3,435</b>
Current portion of lease obligations	(1,137)
<b>Non-current portion of lease obligations</b>	<b>2,298</b>

For the nine months ended September 30, 2020, interest expense of \$0.1 million (September 30, 2019 - \$0.1 million) and a total cash outflow of \$0.8 million (September 30, 2019 - \$0.6 million) was recognized relating to lease obligations.

### 9. DUE TO RELATED PARTY

On October 1, 2019, Pine Cliff amended and restated its \$6.0 million subordinated promissory note to the Company’s Chairman of the Board. This amended and restated promissory note matures on December 31, 2024 (“**Related Party Note**”), bears interest at 6.5% per annum and is payable monthly. The 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 Term Debt, as defined herein. Interest paid on the Related Party Note for the three and nine months ended September 30, 2020 was \$0.1 million and \$0.3 million (September 30, 2019 - \$0.1 million and \$0.3 million).

On August 5, 2020, the Company entered into an agreement to establish a \$4.0 million borrowing facility (the “**Facility**”) with the Company’s Chairman of the Board (the “**Lender**”), whereby the Lender will provide up to \$4.0 million of borrowings at an interest rate of 6.5% per annum, payable monthly. The term (the “**Term**”) of the Facility will expire on the later of: (i) March 31, 2021; or (ii) the date of full repayment of any outstanding borrowings. Amounts can be drawn, repaid and redrawn by the Company at any time during the Term and borrowings under the Facility are payable on demand to the Lender on 60 days written notice. The Facility can be cancelled at any time by the Lender on 60 days written notice, while the Term may also be extended by mutual consent of the Company and the Lender. At September 30, 2020, there was no amount drawn on the Facility. Interest paid on the Facility for the three months ended September 30, 2020 was \$0.007 million.

### 10. SUBORDINATED PROMISSORY NOTES

On October 1, 2019, Pine Cliff amended and restated its \$6.0 million subordinated promissory notes. These amended and restated subordinated promissory notes mature on December 31, 2024 (“**\$6 Million Notes**”), bear interest at 6.5% per annum and are payable monthly. The \$6 Million Notes are 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 Notes are secured by a \$6.0 million floating charge debenture over all of the Company’s assets and are subordinated to any and all claims in favor of the holder of the Term Debt.

## 11. TERM DEBT

(\$000s)	As at September 30, 2020	As at December 31, 2019
Term Debt – beginning of year	48,642	-
Term Debt principal drawdown	-	49,000
Value allocated to Warrants	-	(172)
Accretion expense	78	(186)
<b>Term Debt - end of year</b>	<b>48,720</b>	<b>48,642</b>

On October 1, 2019, Pine Cliff entered into a credit facility with Alberta Investment Management Corporation ("AIMCo"), acting on behalf of its clients, to repay its \$30 million promissory notes maturing September 30, 2020 ("2020 Notes") and its \$19 million promissory notes maturing July 31, 2022 ("2022 Notes") and replace them with a non-revolving term credit facility ("Term Debt"). The Term Debt consists of a first tranche with a principal amount of \$30 million that matures on December 31, 2024 (the "2024 Tranche") and a second tranche with a principal amount of \$19 million that matures on July 31, 2022 (the "2022 Tranche"), (collectively the "Refinancing"). Interest on the 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 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 2024 Tranche and, July 13, 2021 with respect to the 2022 Tranche. A total of 7.5 million Common Share purchase warrants (the "Warrants") were issued in connection with the Refinancing, with each Warrant entitling AIMCo to purchase one Common Share of Pine Cliff for \$0.20565, until September 30, 2022. On September 1, 2020, AIMCo exercised its right and purchased 7,500,000 Common Shares of Pine Cliff in return for a cash payment of \$1.5 million. 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.

The fair value of the Refinancing was determined on drawdown to be 10.1%, using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to the Warrants. The value of the Term Debt accretes up to the principal balance of each tranche at maturity.

### Non-Financial Covenants

The Term Debt contains various covenants on the part of the Company and its subsidiaries, including covenants that place limitations on certain types of activities, including restrictions or requirements with respect to additional debt, liens, assets sales, hedging activities, management of environmental liabilities, investments, distributions, and mergers and acquisitions. The Term Debt does not include any financial covenants.

### Letter of Credit Facility

As at September 30, 2020, 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 (December 31, 2019 - \$2.6 million). 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, 2020, the Company had \$2.5 million in letters of credit issued against its LC Facility (December 31, 2019 - \$2.6 million).

## 12. DECOMMISSIONING PROVISION

The total current and long-term decommissioning provision of \$235.1 million was estimated by management based on the Company's working interest and estimated costs to remediate, reclaim and abandon its wells, pipelines, and facilities and estimated timing of the costs to be incurred in future periods.

At September 30, 2020, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$250.0 million (December 31, 2019 - \$249.3 million). The discounted and inflated amount required to settle the decommissioning liabilities of \$235.1 million has been calculated assuming a 2.0% inflation rate (December 31, 2019 - 1.95%) and discounted using a risk-free nominal rate of 2.30% (December 31, 2019 - 2.57%). During the nine months ended September 30, 2020, due to forces influencing global capital markets, long-term risk-free nominal rates in Canada declined below target inflation rates, implying a negative real rate of return. The Company determined that applying these rates to current cost estimates would not provide an accurate measurement of the decommissioning provision as observable stand-alone risk-free real rates of return continue to be positive. To provide a more accurate measurement of the provision, the Company applied a risk-free real return rate of 0.3 percent to estimate the present value of the decommissioning provision at September 30, 2020, resulting in a change in estimate.

Changes in the measurement of the decommissioning provision are added to, or deducted from, the cost of the related asset in property, plant and equipment. When a re-measurement of the decommissioning provision relates to a retired asset, the amount is recorded in

the statement of comprehensive loss. 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, 2019	216,189
Provisions related to acquisitions	18,527
Provisions related to dispositions	(43)
Decommissioning expenditures	(1,929)
Revisions (changes in estimates, inflation rate, and discount rates)	(17,646)
Accretion	6,262
<b>Decommissioning provision, December 31, 2019</b>	<b>221,360</b>
Development activities	125
Provisions related to acquisitions	863
Provisions related to dispositions	(189)
Decommissioning expenditures	(743)
Revisions (changes in estimates, inflation rate, and discount rates)	9,579
Accretion	4,092
<b>Decommissioning provision, September 30, 2020</b>	<b>235,087</b>
<b>Less current portion of decommissioning provision</b>	<b>(2,000)</b>
<b>Non-current portion of decommissioning provision</b>	<b>233,087</b>

### 13. 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, 2019	307,076	268,743
Shares issued pursuant to private and public share offerings	20,708	4,768
Share issue costs, net of deferred income tax	-	(90)
<b>Balance, December 31, 2019</b>	<b>327,784</b>	<b>273,421</b>
Shares issued pursuant to exercise of warrants	7,500	1,543
<b>Balance, September 30, 2020</b>	<b>335,284</b>	<b>274,964</b>

#### 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, 2019	21,029	0.75
Granted	13,138	0.18
Expired	(6,524)	1.02
Forfeited	(1,814)	0.62
<b>Outstanding, December 31, 2019</b>	<b>25,829</b>	<b>0.40</b>
Granted	8,657	0.14
Expired	(4,259)	0.55
Forfeited	(2,059)	0.35
<b>Outstanding, September 30, 2020</b>	<b>28,168</b>	<b>0.31</b>
<b>Exercisable, September 30, 2020</b>	<b>7,917</b>	<b>0.63</b>

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
\$0.095-\$0.45	24,367	2.0	4,131	0.9
\$0.46-\$0.81	1,357	0.6	1,342	0.8
\$0.82-\$1.16	2,444	0.2	2,444	0.4
	<b>28,168</b>	<b>1.8</b>	<b>7,917</b>	<b>0.7</b>

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, 2020, the Company granted 8,656,850 stock options (September 30, 2019 – 7,131,141) with a fair value of \$0.07 (September 30, 2019 - \$0.08) per option using the Black-Scholes option pricing model using the following key assumptions:

Assumptions (weighted average):	Nine months ended September 30,	
	2020	2019
Exercise price (\$)	<b>0.14</b>	0.21
Estimated volatility of underlying common shares (%)	<b>69.6</b>	51.8
Expected life (years)	<b>3.0</b>	3.0
Risk-free rate (%)	<b>0.3</b>	1.6
Forfeiture rate (%)	<b>3.9</b>	3.9
Expected dividend yield (%)	-	-

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.

#### Warrants

Warrants outstanding:	Warrants (000s)	Weighted-average exercise price (\$ per Common Share)
Outstanding, January 1, 2019	2,850	0.51
Granted	7,500	0.21
<b>Outstanding, December 31, 2019</b>	<b>10,350</b>	<b>0.29</b>
Exercised	7,500	0.21
<b>Outstanding, September 30, 2020</b>	<b>2,850</b>	<b>0.51</b>

The 2,850,000 Warrants expire on July 31, 2021.

#### 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, 2020 and 2019, 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,	
	2020	2019	2020	2019
<b>Numerator</b>				
Loss for the period	<b>(12,110)</b>	(17,739)	<b>(46,285)</b>	(48,443)
<b>Denominator (000s)</b>				
Weighted-average Common Shares outstanding – basic and diluted	<b>330,230</b>	327,784	<b>328,605</b>	<b>316,406</b>
Loss per share – basic and diluted (\$)	<b>(0.04)</b>	(0.05)	<b>(0.14)</b>	<b>(0.15)</b>

#### 14. REVENUES

The Company's commodity 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. Commodity sales revenues are based on marketed indices that are determined on a monthly or daily basis. Processing and gathering revenue is generally negotiated under multi-year contracts that vary by volume.

(\$000s)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Natural gas	20,673	14,887	60,802	57,783
NGL	2,701	2,832	6,665	9,030
Crude oil	1,370	2,388	4,411	6,854
Total commodity sales	24,744	20,107	71,878	73,667
Processing and gathering	1,119	839	2,856	2,324
Total commodity sales and processing and gathering	25,863	20,946	74,734	75,991

#### 15. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Changes in non-cash working capital:				
Trade and other receivables	(1,166)	(842)	1,463	2,857
Prepaid expenses and deposits	(6)	(2,827)	(206)	(2,992)
Trade and other payables and accrued liabilities	4,297	5,278	2,236	8,932
	3,125	1,609	3,493	8,797
Changes related to:				
Operating activities	3,206	1,324	6,131	11,713
Investing activities	(81)	285	(2,638)	(2,916)
	3,125	1,609	3,493	8,797

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Finance expenses:				
Interest expense and bank charges	1,287	1,232	3,830	3,478
Non cash:				
Accretion on decommissioning provision	1,340	1,560	4,092	4,702
Accretion on subordinated promissory notes	26	81	78	239
Total finance expenses	2,653	2,873	8,000	8,419

Cash interest paid in the three and nine months ended September 30, 2020, was \$2.2 million and \$3.9 million (three and nine months ended September 30, 2019 - \$2.5 million and \$4.6 million).

## 16. COMMITMENTS

As at September 30, 2020, the Company has the following commitments and other contractual obligations:

	2020	2021	2022	2023	2024	Thereafter
(\$000s)						
Trade and other payables	29,750	-	-	-	-	-
Term Debt <sup>1</sup>	-	-	19,000	-	30,000	-
Due to related party	-	-	-	-	6,000	-
Subordinated promissory notes	-	-	-	-	6,000	-
Future interest	1,261	5,120	4,861	4,380	4,605	-
Lease obligations <sup>2</sup>	326	1,227	1,035	860	216	51
Transportation <sup>3</sup>	1,957	7,107	6,392	4,935	4,137	9,738
<b>Total commitments and contingencies</b>	<b>33,294</b>	<b>13,454</b>	<b>31,288</b>	<b>10,175</b>	<b>50,958</b>	<b>9,789</b>

<sup>1</sup> Principal amount.

<sup>2</sup> See Note 8

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

## 17. CAPITAL STRUCTURE

The Company's objectives when managing capital, which the Company defines to include shareholders' deficit and net debt, is to ensure that it has the financial capacity, liquidity and flexibility to fund its capital program and acquisitions. As it is not unusual for capital expenditures and acquisitions to exceed cash flow from operating activities in a given period, the Company is required to maintain financial flexibility and liquidity to maintain an optimal capital structure to reduce the cost of capital.

In light of the current uncertainty regarding the timing for recovery of global oil demand from the effect of COVID-19, the preparation of financial forecasts is challenging. As a result, there may be adverse changes in cash flows and working capital deficiency levels that are currently unforeseen. In order to maintain or adjust the capital structure, the Company may issue debt, Common Shares or a combination thereof and make adjustments to its capital investment programs.

**BOARD OF DIRECTORS**

George F. Fink - Chairman  
Philip B. Hodge  
Randy M. Jarock  
Jacqueline R. Ricci  
William S. Rice

**OFFICERS**

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

**HEAD OFFICE**

850, 1015 – 4<sup>th</sup> Street SW  
Calgary, Alberta T2R 1J4  
Phone: (403) 269-2289  
Fax: (403) 265-7488

**REGISTRAR AND TRANSFER AGENT**

Odyssey Trust Company of Canada

**AUDITORS**

Deloitte LLP

**STOCK EXCHANGE LISTING**

TSX Exchange  
Trading Symbol: PNE

**WEBSITE**

[www.pinecliffenergy.com](http://www.pinecliffenergy.com)

**INVESTOR CONTACT**

[info@pinecliffenergy.com](mailto:info@pinecliffenergy.com)

