

A full-page background image featuring the silhouette of a person running on a path. The sun is low on the horizon, creating a bright glow and casting long shadows. The sky is a mix of deep blue and orange tones with scattered clouds.

Long-term Value Focus  
Annual Report 2019

Despite all the negative news these days regarding OPEC oil supply, pipeline protests, politics and the coronavirus, I am pleased to advise you that I am more positive on the Canadian natural gas business than I have been for some time. Notwithstanding that we experienced one of the lowest AECO natural gas pricing environments in 20 years during the summer of 2019, Pine Cliff made significant strides in meeting its long-term goal of enhancing shareholder value. During this past turbulent year, Pine Cliff generated positive adjusted funds flow, added to its inventory of Pekisko oil drilling locations, extended the maturity on its debt and raised equity to fund the development of its Pekisko oil play.

Highlights from Pine Cliff's fourth quarter and year ended 2019 were:

- generated \$5.0 million of adjusted funds flow (\$0.02 per basic share) for the three months ended December 31, 2019 and \$5.9 million of adjusted funds flow (\$0.02 per basic share) for the year ended December 31, 2019;
- realized a \$2.15 per Mcf gas price for the year ended December 31, 2019, 23% higher than the AECO 5A benchmark of \$1.75 per Mcf;
- closed an acquisition of oil and natural gas assets in the Ghost Pine area of Central Alberta for cash consideration of \$8.8 million (after closing adjustments) on May 31, 2019, which added over 1,600 Boe/d (79% natural gas, 12% natural gas liquids and 9% oil) as of the closing date and increased the Company's undeveloped Pekisko oil locations as at December 31, 2019 by eight gross (8.0 net) booked locations;
- exchanged its \$49.0 million subordinated promissory notes for term debt, and extended \$42.0 million of debt originally expiring in 2020 to December 31, 2024; and
- drilled and completed two 100% working interest Pekisko oil wells that came on production in December 2019 and January 2020, respectively.

### **Strengthening of the Balance Sheet and Adding Oil Drilling Inventory**

When I reflect on the accomplishments that our team achieved in 2019, the two that stand out the most for me were first, the refinancing of our debt and second, completing a financing and acquisition which added significant economic oil drilling inventory. Both of these events were achieved as a result of our unique shareholders.

It cannot be underestimated how important it was for Pine Cliff to refinance and extend its debt. I have never seen access to capital as constrained as it is right now in our industry, and having debt mature during a low part of the commodity cycle is extremely problematic when capital is constrained. What is quite unique about Pine Cliff is that all of our debt is held by major shareholders (AIMCo, the Chairman of our Board and a third party shareholder who owns more than 10% of our stock), all of whom believe that investing in a natural gas business will provide a good rate of return for years to come. The investment industry likes to use simple ratios to rank and judge companies, but having stakeholders who are willing to extend debt during one of the lowest natural gas price cycles we have ever experienced, does not show up in any ratio or analytic. In addition, to have those same stakeholders, in a year like we just experienced, step up and acquire more Pine Cliff stock alongside management to complete a key strategic acquisition, is a strong testament to the belief they have in our business model. I want to personally thank those partners on behalf of all of our shareholders. Their conviction in our business has made us stronger during a difficult period when others in our industry have been less fortunate.

### **Oil Drilling**

I have been asked by shareholders whether we are changing our "story" with the oil drilling in late 2018 and in 2019. My short answer is no. We have always run Pine Cliff as owners, and therefore we look to use any excess cash flow where we think the most value can be created. In the early years at Pine Cliff, we felt that building our low decline natural gas production assets was the best use of our resources, so we completed eight transactions from 2012 to 2015 to grow from 100 Boe/d to ~24,000 Boe/d. In 2016 and 2017 we encountered weak natural gas prices, so we pivoted to focus on debt reduction as we lowered our net debt position from \$141.8 million at the end of 2015 to \$56.8 million at the end of 2018. In late 2018, we drilled our first Pekisko oil well and based on its success, we capitalized on an acquisition opportunity in early 2019 to add significant oil drilling inventory at an attractive price. Our production is still 91% natural gas, and we still believe that producing natural gas will deliver significant value to our shareholders in the coming years, but in the interim, our oil and liquids production in 2019 contributed to 21% of our revenue. By increasing our oil and liquids production and inventory in the past two years, we have improved the sustainability of our business and added more flexibility to where we can maximize value for future capital allocation. We have tentatively planned to drill another oil well in late 2020, but we will only do so if that is the best use of those funds at that time.

## Outlook

There are several major items that are the basis for my cautious optimism. First, 2019 was the first time in six years that Western Canada natural gas production declined. Second, despite a warm winter to date, Western Canada natural gas storage levels are still hitting new five year lows, which is another positive piece of news for Western Canada natural gas producers. Thirdly, the implementation of TC Energy's Temporary Service Protocol (TSP) in October 2019 was invoked to reduce price volatility, and to date, it appears to be having the desired impact as summer forward prices are currently more than 50% higher than the summer 2019 prices we experienced. And fourthly, a weakening global oil price will reduce US drilling, which in turn will reduce natural gas supply. The single biggest source of natural gas production growth in the US last year was associated gas from oil drilling. These four events are all important steps to bringing our supply/demand dynamic back to a level where prices should show less volatility and have the ability to strengthen.

2020 also brings us another year closer to the projected startup of the LNG Canada project in 2024. Although I am sure there will be more hurdles to jump before Canada is able to join the growing number of global LNG suppliers, I am optimistic that our Canadian natural gas will play a vital role in reducing global emissions.

2020 will not be an easy year for Pine Cliff. We continue to challenge our team to lower operating costs while at the same time maintaining or even raising our level of safety and protection of our environment. Our goal is not just to survive through these difficult times, but improve and come out stronger than ever. Thank you for your patience as our shareholders and we hope that it is of some comfort to you that we are continuing to work every day to strengthen our business and ultimately improve our long term shareholder returns.

Yours truly,



Phil Hodge  
President and Chief Executive Officer  
March 11, 2020

*Please refer to the attached Management's Discussion and Analysis for Reader Advisories regarding forward-looking information, non-GAAP measures and oil and gas measurements and definitions. This President's Message should be read in conjunction with the audited consolidated financial statements of Pine Cliff Energy Ltd. together with Management's Discussion and Analysis for the period ended December 31, 2019, which can be found on [www.sedar.com](http://www.sedar.com) and is subject to the same cautionary statements as set out therein.*

## Reserves Information

McDaniel & Associates Consultants Limited (“**McDaniel**”) was engaged to prepare evaluations of the reserves of Pine Cliff Energy Ltd. (“**Pine Cliff**” or the “**Company**”) at December 31, 2019. The evaluations of petroleum and natural gas reserves were conducted in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities (“**NI 51-101**”) with the effective date of December 31, 2019. The gross reserves in the following tables represent Pine Cliff’s ownership interest before royalties and before consideration of the Company’s royalty interest reserves. As defined in NI 51-101, proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. Tables may not add due to rounding.

Where amounts are expressed on a Boe basis, natural gas volumes have been converted to oil equivalence at six Mcf per one Bbl. Where amounts are expressed in Mcfe, natural gas liquids and oil volumes are converted to one Mcfe using the same ratio. The terms Boe and Mcfe may be misleading, particularly if used in isolation. This conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Highlights of Pine Cliff’s reserves for the 2019 year include:

- despite a decrease of 8.3 MMBoe from economic factors on a proved plus probable basis (“**P+P**”), Pine Cliff increased its 2019 P+P reserves by 3.2 MMBoe prior to adjusting for 2019 production, largely as a result of 4.4 MMBoe of positive technical revisions and 7.0 MMBoe from the Acquisition;
- remaining P+P reserves of 57.8 MMBoe (88% natural gas) at December 31, 2019 decreased by 3.8 MMBoe (6%) from 61.6 MMBOE (92% natural gas) at December 31, 2018, mainly as a result of economic factors;
- approximately 80% of total reserve volumes are classified as total proved (“**1P**”) reserves and approximately 20% are classified as probable reserves; and
- net present value for P+P reserves of \$127.1 million, discounted at 10%, a decrease of \$23.7 million, or 16%, from December 31, 2018, mainly as a result of decreases in forecast commodity prices.

## New and Revised Reserves Evaluation Practices

For Pine Cliff’s 2019 year-end reserves report, Pine Cliff has included all abandonment, decommissioning and reclamation costs (“**ADR**”) for inactive wells and has also included inactive well operating costs (“**IWC**”) in order to provide greater transparency and accuracy of current values and future cash flows. This change was made based on new guidelines added to the Canadian Oil and Gas Handbook (“**COGEH**”) in 2019, which recommends including ADR and IWC as best practices. McDaniel’s evaluation of Pine Cliff’s net present value of future net revenue discounted at 10% before tax (“**NPV10**”) at December 31, 2019 for ADR related to 1P and P+P reserves was \$69.4 million and \$69.5 million respectively, an increase of \$12.1 million and \$17.0 million compared to equivalent ADR measures at year-end 2018.

## Pine Cliff’s Reserves

McDaniel has used the average of three independent consultant average price forecasts (McDaniel, GLJ Petroleum Consultants Ltd. and Sproule Associates Limited) effective January 1, 2020, resulting in a price forecast of \$2.04 and \$2.32 per Mcf for AECO natural gas and US\$61.00 and US\$63.75 per Bbl for WTI oil in 2020 and 2021 respectively.

## Summary of Remaining Working Interest Reserves, as of December 31, 2019

| Reserve Category                  | Light, Medium<br>and Heavy Oil | Natural Gas<br>Liquids | Natural Gas and<br>Coal Bed Methane | Oil Equivalent  |
|-----------------------------------|--------------------------------|------------------------|-------------------------------------|-----------------|
|                                   | MBbl                           | MBbl                   | MMcf                                | MBoe            |
| <b>Proved</b>                     |                                |                        |                                     |                 |
| Developed Producing               | 1,003.6                        | 3,106.8                | 237,602.1                           | 43,710.8        |
| Developed Non-Producing           | 13.4                           | 36.6                   | 2,221.5                             | 420.3           |
| Undeveloped                       | 606.2                          | 229.4                  | 7,053.6                             | 2,011.2         |
| <b>Total Proved</b>               | <b>1,623.2</b>                 | <b>3,372.8</b>         | <b>246,877.2</b>                    | <b>46,142.2</b> |
| Probable                          | 884.9                          | 1,295.5                | 56,631.7                            | 11,619.0        |
| <b>Total Proved plus Probable</b> | <b>2,508.1</b>                 | <b>4,668.3</b>         | <b>303,508.9</b>                    | <b>57,761.2</b> |

## Summary of Net Present Values of Future Net Revenue, Before Income Taxes, as of December 31, 2019

| (\$millions)                      | Discounted at (% per year) |              |              |              |
|-----------------------------------|----------------------------|--------------|--------------|--------------|
|                                   | 0%                         | 5%           | 10%          | 15%          |
| <b>Proved</b>                     |                            |              |              |              |
| Developed Producing               | (136.0)                    | 21.0         | 62.0         | 70.9         |
| Developed Non-Producing           | 3.6                        | 2.9          | 2.3          | 1.9          |
| Undeveloped                       | 31.6                       | 18.4         | 11.0         | 6.5          |
| <b>Total Proved</b>               | <b>(100.8)</b>             | <b>42.3</b>  | <b>75.3</b>  | <b>79.3</b>  |
| Probable                          | 125.8                      | 77.3         | 51.9         | 37.1         |
| <b>Total Proved plus Probable</b> | <b>25.0</b>                | <b>119.6</b> | <b>127.1</b> | <b>116.4</b> |

## Reconciliation of Gross Reserves by Principal Product Type, as of December 31, 2019

|                          | Light, Medium, and<br>Heavy Oil |                            | Natural Gas Liquids |                            | Natural Gas and Coal<br>Bed Methane |                            | Oil Equivalent  |                            |
|--------------------------|---------------------------------|----------------------------|---------------------|----------------------------|-------------------------------------|----------------------------|-----------------|----------------------------|
|                          | Proved                          | Proved<br>plus<br>Probable | Proved              | Proved<br>plus<br>Probable | Proved                              | Proved<br>plus<br>Probable | Proved          | Proved<br>plus<br>Probable |
|                          | (MBbl)                          | (MBbl)                     | (MBbl)              | (MBbl)                     | (MMcf)                              | (MMcf)                     | (MBoe)          | (MBoe)                     |
| <b>December 31, 2018</b> | <b>764.4</b>                    | <b>1,084.7</b>             | <b>3,056.4</b>      | <b>4,074.7</b>             | <b>266,732.1</b>                    | <b>338,519.2</b>           | <b>48,276.1</b> | <b>61,579.2</b>            |
| Extension                | 3.8                             | 10.2                       | 12.2                | 32.2                       | 177.1                               | 467.0                      | 45.6            | 120.2                      |
| Technical Revisions      | 453.8                           | 481.5                      | (44.8)              | 36.9                       | 26,679.8                            | 23,470.1                   | 4,855.9         | 4,430.2                    |
| Acquisitions             | 821.0                           | 1,353.1                    | 626.7               | 828.4                      | 22,274.5                            | 28,701.0                   | 5,160.0         | 6,965.0                    |
| Economic Factors         | (13.0)                          | (14.6)                     | (129.1)             | (155.3)                    | (30,398.8)                          | (49,060.9)                 | (5,208.6)       | (8,346.7)                  |
| Total Changes            | 1,265.6                         | 1,830.2                    | 465.0               | 742.2                      | 18,732.6                            | 3,577.2                    | 4,852.9         | 3,168.7                    |
| Production               | (406.8)                         | (406.8)                    | (148.6)             | (148.6)                    | (38,587.5)                          | (38,587.5)                 | (6,986.7)       | (6,986.7)                  |
| <b>December 31, 2019</b> | <b>1,623.2</b>                  | <b>2,508.1</b>             | <b>3,372.8</b>      | <b>4,668.3</b>             | <b>246,877.2</b>                    | <b>303,508.9</b>           | <b>46,142.2</b> | <b>57,761.2</b>            |

**Commodity Prices**

The Commodity prices used in the above calculations of reserves are as follows:

| Year       | WTI Oil (US\$/Bbl) <sup>1</sup> | \$C to US\$ Foreign<br>exchange rate <sup>1</sup> | Edmonton Light Crude Oil<br>(Cdn\$/Bbl) <sup>1</sup> | AECO Gas<br>(Cdn\$/MMBtu) <sup>1</sup> |
|------------|---------------------------------|---|--|--|
| 2020       | 61.00                           | 1.32  | 72.64  | 2.04                                   |
| 2021       | 63.75                           | 1.30  | 76.06  | 2.32                                   |
| 2022       | 66.18                           | 1.27  | 78.35  | 2.62                                   |
| 2023       | 67.91                           | 1.27  | 80.71  | 2.71                                   |
| 2024       | 69.48                           | 1.27  | 82.64  | 2.81                                   |
| 2025-2034  | 78.10                           | 1.27  | 93.14  | 3.19                                   |
| Thereafter | +2.0%/yr                        | 1.27  | +2.0%/yr   | +2.0%/yr                               |

<sup>1</sup> Source: Average of three consultant price forecasts, effective January 1, 2020 (McDaniel, GLJ Petroleum Consultants Ltd. and Sproule Associates Limited).

Please refer to the attached Management's Discussion and Analysis for Reader Advisories regarding forward-looking information, non-GAAP measures and oil and gas measurements and definitions. This Reserves Information should be read in conjunction with the audited consolidated financial statements of Pine Cliff Energy Ltd. together with Management's Discussion and Analysis and Annual Information Form for the year ended December 31, 2019, which can be found on [www.sedar.com](http://www.sedar.com) and is subject to the same cautionary statements as set out therein.

## INTRODUCTION

This Management's Discussion and Analysis ("**MD&A**") is a review of the operations and financial position of Pine Cliff Energy Ltd. ("**Pine Cliff**" or the "**Company**") for the period ended December 31, 2019. This MD&A is dated and based on information available as at March 11, 2020 and should be read in conjunction with audited consolidated financial statements for the year ended December 31, 2019 and 2018 ("**Financial Statements**"). The Financial Statements have been prepared in accordance 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 AND FOURTH QUARTER 2019 HIGHLIGHTS

Highlights from 2019 and the fourth quarter of 2019 are as follows:

- generated \$5.0 million of adjusted funds flow (\$0.02 per basic share) for the three months ended December 31, 2019 and \$5.9 million of adjusted funds flow (\$0.02 per basic share) for the year ended December 31, 2019;
- realized a \$2.15 per Mcf gas price for the year ended December 31, 2019, 23% higher than the AECO 5A benchmark of \$1.75 per Mcf;
- closed an acquisition of oil and natural gas assets in the Ghost Pine area of Central Alberta for cash consideration of \$8.8 million (after closing adjustments) on May 31, 2019 (the "**May 2019 Acquisition**"), which added over 1,600 Boe/d (79% natural gas, 12% natural gas liquids and 9% oil) as of the closing date and increased the Company's undeveloped Pekisko oil locations as at December 31, 2019 by eight gross (8.0 net) booked locations;
- exchanged its \$49.0 million subordinated promissory notes for term debt, and extended \$42.0 million of debt originally expiring in 2020 to December 31, 2024; and
- drilled and completed two 100% working interest Pekisko oil wells that came on production in December 2019 and January 2020, respectively.

## SELECTED ANNUAL FINANCIAL INFORMATION

|  | Year ended December 31, |          |          |
|--|-------------------------|----------|----------|
|  | 2019                    | 2018     | 2017     |
| (\$000s, unless otherwise indicated)                                     |                         |          |          |
| <b>FINANCIAL<sup>1</sup></b>   |                         |          |          |
| <b>Commodity sales (before royalties)</b>                                | <b>105,006</b>          | 107,385  | 125,018  |
| <b>Total revenue (net of royalties)</b>                                  | <b>99,431</b>           | 100,063  | 115,076  |
| <b>Cash flow from operating activities</b>                               | <b>15,536</b>           | 8,616    | 25,009   |
| <b>Adjusted funds flow<sup>2</sup></b>                                   | <b>5,879</b>            | 10,513   | 28,705   |
| Per share – Basic and Diluted (\$/share)                                 | <b>0.02</b>             | 0.03     | 0.09     |
| <b>Loss for the year</b>   | <b>(56,430)</b>         | (72,719) | (67,864) |
| Per share – Basic and Diluted (\$/share)                                 | <b>(0.18)</b>           | (0.24)   | (0.22)   |
| <b>Total assets</b>  | <b>323,735</b>          | 354,215  | 405,228  |
| <b>Total non-current financial liabilities<sup>3</sup></b>               | <b>63,308</b>           | 60,280   | 29,307   |
| <b>Total liabilities</b>   | <b>313,225</b>          | 293,241  | 276,135  |
| <b>Capital expenditures</b>  | <b>8,379</b>            | 10,665   | 13,477   |
| <b>Acquisitions</b>  | <b>8,801</b>            | 307      | (62)     |
| <b>Dispositions</b>  | <b>(1,542)</b>          | (285)    | (429)    |
| <b>Net Debt<sup>2</sup></b>  | <b>64,038</b>           | 56,819   | 53,638   |
| Weighted average common shares outstanding (000s) -<br>Basic and Diluted | <b>319,274</b>          | 307,076  | 307,076  |
| <b>OPERATIONS</b>  |                         |          |          |
| <b>Production</b>  |                         |          |          |
| Natural gas (Mcf/d)  | <b>105,725</b>          | 111,110  | 121,718  |
| Natural gas liquids (Bbl/d)  | <b>1,114</b>            | 940      | 924      |
| Crude oil (Bbl/d)  | <b>407</b>              | 226      | 198      |
| <b>Total (Boe/d)</b>   | <b>19,142</b>           | 19,684   | 21,408   |
| <b>Total (Mcf/d)</b>   | <b>114,852</b>          | 118,104  | 128,448  |
| <b>Realized commodity sales prices</b>                                   |                         |          |          |
| Natural gas (\$/Mcf)   | <b>2.15</b>             | 2.07     | 2.39     |
| Natural gas liquids (\$/Boe)   | <b>31.92</b>            | 53.33    | 43.81    |
| Crude oil (\$/Bbl)   | <b>61.32</b>            | 59.74    | 57.17    |
| <b>Total (\$/Boe)</b>  | <b>15.03</b>            | 14.95    | 16.00    |
| <b>Netback (\$/Boe)</b>  |                         |          |          |
| Operating netback <sup>2</sup>   | <b>2.25</b>             | 2.68     | 4.88     |
| Corporate netback <sup>2</sup>   | <b>0.84</b>             | 1.47     | 3.68     |
| <b>Netback (\$/Mcf)</b>  |                         |          |          |
| Operating netback <sup>2</sup>   | <b>0.38</b>             | 0.45     | 0.81     |
| Corporate netback <sup>2</sup>   | <b>0.14</b>             | 0.25     | 0.61     |

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

<sup>2</sup> This is a non-GAAP measure, see NON-GAAP MEASURES for additional information.

<sup>3</sup> Includes lease liabilities, due to related party, term debt and subordinated promissory notes.

|   | Three months ended December 31, |          | Year ended December 31, |          |
|---|---------------------------------|----------|-------------------------|----------|
|   | 2019                            | 2018     | 2019                    | 2018     |
| (\$000s, unless otherwise indicated)                  |                                 |          |                         |          |
| <b>FINANCIAL</b>                                      |                                 |          |                         |          |
| <b>Commodity sales (before royalty expense)</b>       | <b>31,339</b>                   | 30,110   | <b>105,006</b>          | 107,385  |
| <b>Cash flow from operating activities</b>            | <b>4,039</b>                    | 1,415    | <b>15,536</b>           | 8,616    |
| <b>Adjusted funds flow<sup>1</sup></b>                | <b>5,025</b>                    | 4,433    | <b>5,879</b>            | 10,513   |
| Per share – Basic and Diluted (\$/share) <sup>1</sup> | <b>0.02</b>                     | 0.01     | <b>0.02</b>             | 0.03     |
| <b>Loss</b>   | <b>(7,987)</b>                  | (28,520) | <b>(56,430)</b>         | (72,719) |
| Per share – Basic and Diluted (\$/share)              | <b>(0.02)</b>                   | (0.09)   | <b>(0.18)</b>           | (0.24)   |
| <b>Capital expenditures</b>                           | <b>5,446</b>                    | 1,910    | <b>8,379</b>            | 10,665   |
| <b>Acquisitions</b>                                   | <b>202</b>                      | 659      | <b>8,801</b>            | 307      |
| <b>Dispositions</b>                                   | <b>(1,443)</b>                  | (16)     | <b>(1,542)</b>          | (285)    |
| <b>Net debt<sup>1</sup></b>                           | <b>64,038</b>                   | 56,819   | <b>64,038</b>           | 56,819   |
| Weighted-average common shares outstanding (000s)     |                                 |          |                         |          |
| Basic   | <b>327,784</b>                  | 307,076  | <b>319,274</b>          | 307,076  |
| Diluted   | <b>327,784</b>                  | 307,076  | <b>319,274</b>          | 307,076  |
| <b>OPERATIONS</b>                                     |                                 |          |                         |          |
| <b>Production</b>                                     |                                 |          |                         |          |
| Natural gas (Mcf/d)                                   | <b>108,208</b>                  | 110,295  | <b>105,725</b>          | 111,110  |
| Natural gas liquids (Bbl/d)                           | <b>1,216</b>                    | 957      | <b>1,114</b>            | 940      |
| Crude oil (Bbl/d)                                     | <b>410</b>                      | 236      | <b>407</b>              | 226      |
| Total (Boe/d)   | <b>19,661</b>                   | 19,576   | <b>19,142</b>           | 19,684   |
| <b>Realized commodity sales prices</b>                |                                 |          |                         |          |
| Natural gas (\$/Mcf)                                  | <b>2.52</b>                     | 2.51     | <b>2.15</b>             | 2.07     |
| Natural gas liquids (\$/Boe)                          | <b>35.36</b>                    | 44.85    | <b>31.92</b>            | 53.33    |
| Crude oil (\$/Bbl)                                    | <b>59.91</b>                    | 32.14    | <b>61.32</b>            | 59.74    |
| Combined (\$/Boe)                                     | <b>17.33</b>                    | 16.72    | <b>15.03</b>            | 14.95    |
| <b>Netback (\$/Boe)</b>                               |                                 |          |                         |          |
| Commodity sales                                       | <b>17.33</b>                    | 16.72    | <b>15.03</b>            | 14.95    |
| Royalty expense                                       | <b>(1.56)</b>                   | (0.95)   | <b>(0.80)</b>           | (1.02)   |
| Transportation expenses                               | <b>(1.53)</b>                   | (1.80)   | <b>(1.68)</b>           | (1.74)   |
| Operating expenses                                    | <b>(10.08)</b>                  | (10.41)  | <b>(10.30)</b>          | (9.51)   |
| Operating netback (\$/Boe) <sup>1</sup>               | <b>4.16</b>                     | 3.56     | <b>2.25</b>             | 2.68     |
| General and administrative expenses                   | <b>(0.66)</b>                   | (0.42)   | <b>(0.73)</b>           | (0.67)   |
| Interest and bank charges, net of dividend income     | <b>(0.71)</b>                   | (0.68)   | <b>(0.68)</b>           | (0.54)   |
| Corporate netback (\$/Boe) <sup>1</sup>               | <b>2.79</b>                     | 2.46     | <b>0.84</b>             | 1.47     |
| Operating netback (\$ per Mcfe) <sup>1</sup>          | <b>0.69</b>                     | 0.59     | <b>0.38</b>             | 0.45     |
| Corporate netback (\$ per Mcfe) <sup>1</sup>          | <b>0.47</b>                     | 0.41     | <b>0.14</b>             | 0.25     |

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

## SENSITIVITIES

Pine Cliff's results are sensitive to changes in the business environment in which it operates. The following chart shows the Company's sensitivity to key commodity price variables. 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  | 564    | 0.00                      |
| Realized natural gas price <sup>2</sup> | \$0.10  | 3,752  | 0.01                      |

<sup>1</sup> This analysis does not adjust for changes in working capital and uses corporate royalty rates from the year ended December 31, 2019.

<sup>2</sup> Pine Cliff has prepared this analysis using its Q4 2019 production volumes annualized for twelve months.

<sup>3</sup> Based on the Q4 2019 basic weighted average shares outstanding.

## BENCHMARK PRICES

|                                      | Three months ended December 31, |       |          | Year ended December 31, |       |          |
|--------------------------------------|---------------------------------|-------|----------|-------------------------|-------|----------|
|                                      | 2019                            | 2018  | % Change | 2019                    | 2018  | % Change |
| <b>Natural gas</b>                   |                                 |       |          |                         |       |          |
| NYMEX (US\$/Mmbtu) <sup>1</sup>      | 2.50                            | 3.73  | (33)     | 2.62                    | 3.09  | (15)     |
| AECO Daily 5A (C\$/Mcf) <sup>2</sup> | 2.46                            | 1.74  | 41       | 1.75                    | 1.54  | 14       |
| <b>Crude oil</b>                     |                                 |       |          |                         |       |          |
| WTI (US\$/Bbl)                       | 56.96                           | 52.41 | 9        | 57.03                   | 63.17 | (10)     |
| Edmonton Light (C\$/Bbl)             | 66.57                           | 38.94 | 71       | 68.82                   | 68.44 | 1        |
| <b>Foreign exchange</b>              |                                 |       |          |                         |       |          |
| US\$/C\$                             | 1.320                           | 1.331 | (1)      | 1.327                   | 1.300 | 2        |

<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 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.

|   | Q4-2019 | Q3-2019 | Q2-2019 | Q1-2019 | Q4-2018 | Q3-2018 | Q2-2018 | Q1-2018 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Natural gas</b>                              |         |         |         |         |         |         |         |         |
| NYMEX (US\$/Mmbtu) <sup>1</sup>                 | 2.50    | 2.23    | 2.64    | 3.12    | 3.73    | 2.85    | 2.78    | 2.99    |
| AECO Daily 5A (C\$/Mcf) <sup>2</sup>            | 2.46    | 0.90    | 1.03    | 2.61    | 1.74    | 1.19    | 1.18    | 2.07    |
| Pine Cliff realized natural gas price (C\$/Mcf) | 2.52    | 1.55    | 1.69    | 2.84    | 2.51    | 1.88    | 1.55    | 2.35    |
| <b>Crude oil</b>                                |         |         |         |         |         |         |         |         |
| WTI (US\$/Bbl)                                  | 56.96   | 56.45   | 59.81   | 54.88   | 52.41   | 69.50   | 67.88   | 62.87   |
| Edmonton Light (C\$/Bbl)                        | 66.57   | 68.41   | 73.85   | 66.44   | 38.94   | 81.95   | 80.66   | 72.21   |
| Pine Cliff realized oil price (C\$/Bbl)         | 59.91   | 61.33   | 65.16   | 58.89   | 32.14   | 74.15   | 71.19   | 63.21   |
| Pine Cliff realized NGL price (C\$/Bbl)         | 35.36   | 25.75   | 29.74   | 37.64   | 44.85   | 61.05   | 56.74   | 51.45   |
| <b>Foreign exchange</b>                         |         |         |         |         |         |         |         |         |
| US\$/C\$  | 1.320   | 1.321   | 1.338   | 1.329   | 1.331   | 1.310   | 1.290   | 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 months and year ended December 31, 2019, the AECO daily benchmark increased by 41% and 14%, 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 curtailments 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, Empress and TransGas have

decreased that influence materially. See “COMMODITY SALES” section for additional information on the diversification project premiums compared to AECO 5A.

The average benchmarks for WTI increased by 9% for the three months ended December 31, 2019 but decreased 10% for the year ended December 31, 2019, as compared to the same periods in 2018, due to increased levels of North American oil production combined with uncertainty around 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 months and year ended December 31, 2019 compared to the corresponding periods of the prior year is mainly due to lower propane and butane pricing due to market conditions. The fluctuations in the NGL price correlate with changes in the WTI price.

## SALES VOLUMES

| Total sales volumes by product | Three months ended December 31, |            |          | Year ended December 31, |            |          |
|--------------------------------|---------------------------------|------------|----------|-------------------------|------------|----------|
|                                | 2019                            | 2018       | % Change | 2019                    | 2018       | % Change |
| Natural gas (Mcf)              | 9,955,128                       | 10,147,122 | (2)      | 38,587,518              | 40,555,104 | (5)      |
| NGLs (Bbl)                     | 111,863                         | 88,039     | 27       | 406,788                 | 343,162    | 19       |
| Crude oil (Bbl)                | 37,713                          | 21,757     | 73       | 148,617                 | 82,420     | 80       |
| Total Boe                      | 1,808,764                       | 1,800,983  | -        | 6,986,658               | 7,184,766  | (3)      |
| Total Mcfe                     | 10,852,584                      | 10,805,898 | -        | 41,919,948              | 43,108,596 | (3)      |
| Natural gas weighting          | 92%                             | 94%        | (2)      | 92%                     | 94%        | (2)      |

| Average daily sales volumes by product | Three months ended December 31, |         |          | Year ended December 31, |         |          |
|--|---------------------------------|---------|----------|-------------------------|---------|----------|
|  | 2019                            | 2018    | % Change | 2019                    | 2018    | % Change |
| Natural gas (Mcf/d)                    | 108,208                         | 110,295 | (2)      | 105,725                 | 111,110 | (5)      |
| NGLs (Bbl/d)                           | 1,216                           | 957     | 27       | 1,114                   | 940     | 19       |
| Crude oil (Bbl/d)                      | 410                             | 236     | 73       | 407                     | 226     | 80       |
| Total (Boe/d)                          | 19,661                          | 19,576  | -        | 19,142                  | 19,684  | (3)      |
| Total (Mcf/d)                          | 117,966                         | 117,456 | -        | 114,852                 | 118,104 | (3)      |

| Average daily sales volumes by area | Three months ended December 31, |        |          | Year ended December 31, |        |          |
|-------------------------------------|---------------------------------|--------|----------|-------------------------|--------|----------|
|                                     | 2019                            | 2018   | % Change | 2019                    | 2018   | % Change |
| Central (Boe/d)                     | 10,021                          | 9,097  | 10       | 9,513                   | 9,231  | 3        |
| Southern (Boe/d)                    | 7,898                           | 8,517  | (7)      | 7,857                   | 8,462  | (7)      |
| Edson (Boe/d)                       | 1,742                           | 1,962  | (11)     | 1,772                   | 1,991  | (11)     |
| Total (Boe/d)                       | 19,661                          | 19,576 | -        | 19,142                  | 19,684 | (3)      |

Pine Cliff's sales volumes increased slightly to 19,661 Boe/d (117,966 Mcfe/d) from 19,576 Boe/d (117,456 Mcfe/d) for the three months ended December 31, 2019 as compared to the same period in 2018. During the quarter natural production declines were offset by production from the May 2019 Acquisition.

Pine Cliff's sales volumes decreased by 3% to 19,142 Boe/d (114,852 Mcfe/d) for the year ended December 31, 2019 as compared to 2018. The decrease relates to natural production declines, short-term voluntary shut-ins during the summer months, and production downtime due to cold weather during the first quarter of 2019, somewhat offset by production from the May 2019 Acquisition.

Pine Cliff is projecting 2020 production volumes of 18,500 – 19,000 Boe/d (111,000 – 114,000 Mcfe/d), weighted approximately 92% towards natural gas.

**COMMODITY SALES**

| (\$000s)                            | Three months ended December 31, |        |          | Year ended December 31, |         |          |
|-------------------------------------|---------------------------------|--------|----------|-------------------------|---------|----------|
|                                     | 2019                            | 2018   | % Change | 2019                    | 2018    | % Change |
| Natural gas                         | 25,125                          | 25,462 | (1)      | 82,908                  | 84,161  | (1)      |
| NGL                                 | 3,955                           | 3,949  | -        | 12,985                  | 18,300  | (29)     |
| Crude oil                           | 2,259                           | 699    | 223      | 9,113                   | 4,924   | 85       |
| Total commodity sales               | 31,339                          | 30,110 | 4        | 105,006                 | 107,385 | (2)      |
| % of revenue from natural gas sales | 80%                             | 85%    | (5)      | 79%                     | 78%     | 1        |

**Realized prices**

| \$ per unit          | Three months ended December 31, |       |          | Year ended December 31, |       |          |
|----------------------|---------------------------------|-------|----------|-------------------------|-------|----------|
|                      | 2019                            | 2018  | % Change | 2019                    | 2018  | % Change |
| Natural gas (\$/Mcf) | 2.52                            | 2.51  | -        | 2.15                    | 2.07  | 4        |
| NGL (\$/Bbl)         | 35.36                           | 44.85 | (21)     | 31.92                   | 53.33 | (40)     |
| Crude oil (\$/Bbl)   | 59.91                           | 32.14 | 86       | 61.32                   | 59.74 | 3        |
| Total (\$/Boe)       | 17.33                           | 16.72 | 4        | 15.03                   | 14.95 | 1        |
| Total (\$/Mcf)       | 2.89                            | 2.79  | 4        | 2.51                    | 2.49  | 1        |

Commodity sales in the three months ended December 31, 2019 of \$31.3 million increased by \$1.2 million from \$30.1 million in the same period of 2018, with a \$1.1 million increase from higher realized commodity prices and \$0.1 million increase from higher sales volumes. Commodity sales in the year ended December 31, 2019, decreased \$2.4 million to \$105.0 million from \$107.4 million in the same period of 2018, with \$3.0 million of the decrease attributable to lower sales volumes, slightly offset by a \$0.6 million increase from higher realized commodity prices.

Pine Cliff's realized natural gas price was \$2.52 per Mcf in the three months ended December 31, 2019, effectively unchanged from the \$2.51 per Mcf in the corresponding period of the prior year. Pine Cliff's realized natural gas price was \$2.15 per Mcf during the year ended December 31, 2019, 4% higher than the \$2.07 per Mcf realized in the corresponding period of the prior year. Pine Cliff's realized natural gas price was 102% and 123% of the AECO 5A benchmark in the three months and year ended December 31, 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 months and year ended December 31, 2019, Pine Cliff's realized NGL price was \$35.36 per Bbl and \$31.92 per Bbl, compared to \$44.85 per Bbl and \$53.33 per Bbl in the corresponding periods of the prior year. For the three months and year ended December 31, 2019, Pine Cliff's realized oil price was \$59.91 per Bbl and \$61.32 per Bbl, compared to \$32.14 per Bbl and \$59.74 per Bbl in the corresponding periods of the prior year. Pine Cliff's realized oil prices in the three months and year ended December 31, 2019, were 90% and 89% of Edmonton Light, in-line with the 90% and 89% in the corresponding periods of the prior year. Pine Cliff's realized NGL prices in the three months and year ended December 31, 2019 were 47% and 42% of WTI compared to 64% and 65% in the corresponding periods of the prior year. The decrease in NGL prices in the three months and year ended December 31, 2019 compared to the corresponding periods of the prior year is mainly due to lower butane and propane pricing as a result of market conditions.

**ROYALTY EXPENSE**

| (\$000s)                                  | Three months ended December 31, |       |          | Year ended December 31, |       |          |
|---|---------------------------------|-------|----------|-------------------------|-------|----------|
|   | 2019                            | 2018  | % Change | 2019                    | 2018  | % Change |
| Total royalty expense                     | 2,826                           | 1,714 | 65       | 5,575                   | 7,357 | (24)     |
| \$ per Boe                                | 1.56                            | 0.95  | 64       | 0.80                    | 1.02  | (22)     |
| \$ per Mcfe                               | 0.26                            | 0.16  | 64       | 0.13                    | 0.17  | (22)     |
| Royalty expense as a % of commodity sales | 9%                              | 6%    | 50       | 5%                      | 7%    | (29)     |

For the three months ended December 31, 2019, total royalty expense increased by 65% to \$2.8 million from \$1.7 million in the corresponding period of the prior year. Royalty expense as a percentage of commodity sales increased to 9% in the three months ended December 31, 2019, compared to 6% in the corresponding periods of the prior year. The increase in royalty expense as a percentage of commodity sales for the three months ended December 31, 2019 reflects the 41% increase in AECO Daily 5A reference price from the same period in 2018, along with adjustments to gas cost allowance.

For the year ended December 31, 2019, total royalty expense decreased by 24% to \$5.6 million from \$7.4 million in the corresponding period of the prior year. Royalty expense as a percentage of commodity sales decreased to 5% during the year ended December 31, 2019, compared to 7% in the corresponding period of the prior year. The decrease in royalty expenses as a percentage of commodity sales for the year ended December 31, 2019 is mainly due to gas crown royalties being charged on a reference price that is lower than Pine Cliff's realized gas price and gas cost allowance adjustments.

Pine Cliff anticipates royalty expenses to average 7% of commodity sales in 2020.

#### TRANSPORTATION COSTS

| (\$000s)                   | Three months ended December 31, |       |          | Year ended December 31, |        |          |
|----------------------------|---------------------------------|-------|----------|-------------------------|--------|----------|
|                            | 2019                            | 2018  | % Change | 2019                    | 2018   | % Change |
| Total transportation costs | <b>2,775</b>                    | 3,244 | (14)     | <b>11,743</b>           | 12,525 | (6)      |
| \$ per Boe                 | <b>1.53</b>                     | 1.80  | (15)     | <b>1.68</b>             | 1.74   | (3)      |
| \$ per Mcfe                | <b>0.26</b>                     | 0.30  | (15)     | <b>0.28</b>             | 0.29   | (3)      |

For the three months and year ended December 31, 2019, total transportation costs decreased by 14% and 6% to \$2.8 million and \$11.7 million from \$3.2 million and \$12.5 million in the corresponding periods of the prior year. The decrease in transportation costs in the three months and year ended December 31, 2019 as compared to the corresponding periods of the prior year are primarily a result of less natural gas sales volumes being diverted to non AECO markets as a result of a stronger realized AECO price.

Pine Cliff anticipates transportation expenses to average \$1.45 per Boe (\$0.24 per Mcfe) in 2020.

#### OPERATING EXPENSES

| (\$000s)                 | Three months ended December 31, |        |          | Year ended December 31, |        |          |
|--------------------------|---------------------------------|--------|----------|-------------------------|--------|----------|
|                          | 2019                            | 2018   | % Change | 2019                    | 2018   | % Change |
| Total operating expenses | <b>18,235</b>                   | 18,745 | (3)      | <b>71,973</b>           | 68,332 | 5        |
| \$ per Boe               | <b>10.08</b>                    | 10.41  | (3)      | <b>10.30</b>            | 9.51   | 8        |
| \$ per Mcfe              | <b>1.68</b>                     | 1.74   | (3)      | <b>1.72</b>             | 1.59   | 8        |

Operating expenses decreased by 3% to \$18.2 million for the three months ended December 31, 2019, as compared to \$18.7 million in the corresponding period of the prior year, primarily a result of field optimization initiatives undertaken during the first three quarters of the year. On a per Boe basis, operating costs decreased to \$10.08 per Boe for the three months ended December 31, 2019 compared \$10.41 per Boe in the corresponding period of 2018.

Operating expenses increased by 5% to \$72.0 million for the year ended December 31, 2019, as compared to \$68.3 million in the corresponding period of the prior year, primarily a result of incurring the cost of implementing field optimization initiatives and higher operating expenses from the May 2019 Acquisition. On a per Boe basis, operating costs increased to \$10.30 per Boe for the year ended December 31, 2019 compared \$9.51 per Boe in the corresponding period of 2018.

Pine Cliff anticipates operating expenses to average \$10.55 per Boe (\$1.76 per Mcfe) in 2020.

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

| (\$000s)                             | Three months ended December 31, |       |          | Year ended December 31, |         |          |
|--------------------------------------|---------------------------------|-------|----------|-------------------------|---------|----------|
|                                      | 2019                            | 2018  | % Change | 2019                    | 2018    | % Change |
| Gross G&A                            | <b>2,275</b>                    | 1,703 | 34       | <b>7,871</b>            | 7,516   | 5        |
| Add: non-recurring transaction costs | -                               | -     | -        | <b>15</b>               | -       | 100      |
| Less: overhead recoveries            | <b>(1,076)</b>                  | (947) | 14       | <b>(2,807)</b>          | (2,678) | 5        |
| Total G&A expenses                   | <b>1,199</b>                    | 756   | 59       | <b>5,079</b>            | 4,838   | 5        |
| \$ per Boe                           | <b>0.66</b>                     | 0.42  | 57       | <b>0.73</b>             | 0.67    | 9        |
| \$ per Mcfe                          | <b>0.11</b>                     | 0.07  | 57       | <b>0.12</b>             | 0.11    | 9        |

For the three months and year ended December 31, 2019, G&A increased by 59% and 5% to \$1.2 million and \$5.1 million from \$0.8 million and \$4.8 million in the corresponding periods of the prior year. The increase in G&A for the three months ended and year ended December 31, 2019 as compared to the corresponding periods of the prior year is primarily a result of recognizing higher bad debt expense from defaulting working interest partners.

On a per Boe basis, G&A for the three months and year ended December 31, 2019, increased by 57% and 9% to \$0.66 per Boe and \$0.73 per Boe from \$0.42 per Boe and \$0.67 per Boe in the corresponding periods of the prior year.

Pine Cliff anticipates G&A expenses to average \$0.74 per Boe (\$0.12 per Mcfe) in 2020.

#### SHARE-BASED PAYMENTS

| (\$000s)                   | Three months ended December 31, |      |          | Year ended December 31, |       |          |
|----------------------------|---------------------------------|------|----------|-------------------------|-------|----------|
|                            | 2019                            | 2018 | % Change | 2019                    | 2018  | % Change |
| Total share-based payments | <b>180</b>                      | 505  | (64)     | <b>1,116</b>            | 2,231 | (50)     |
| \$ per Boe                 | <b>0.10</b>                     | 0.28 | (64)     | <b>0.16</b>             | 0.31  | (48)     |
| \$ per Mcfe                | <b>0.02</b>                     | 0.05 | (64)     | <b>0.03</b>             | 0.05  | (48)     |

Share based payments decreased by 64% and 50% for the three months and year ended December 31, 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 year ended December 31, 2019, Pine Cliff granted 13,137,907 stock options to purchase Common Shares at a weighted average exercise price of \$0.18 (December 31, 2018 – 7,697,800 at an average exercise price of \$0.33). As at December 31, 2019, the Company had 25,828,738 stock options outstanding, representing 7.9% of Common Shares outstanding (December 31, 2018 – 21,028,804 representing 6.8% of Common Shares outstanding).

#### DEPLETION, DEPRECIATION, AND IMPAIRMENT

| (\$000s)                                      | Three months ended December 31, |        |          | Year ended December 31, |        |          |
|---|---------------------------------|--------|----------|-------------------------|--------|----------|
|   | 2019                            | 2018   | % Change | 2019                    | 2018   | % Change |
| Total depletion and depreciation              | <b>11,644</b>                   | 11,420 | 2        | <b>46,864</b>           | 43,760 | 7        |
| \$ per Boe                                    | <b>6.44</b>                     | 6.34   | 2        | <b>6.71</b>             | 6.09   | 10       |
| \$ per Mcfe                                   | <b>1.07</b>                     | 1.06   | 2        | <b>1.12</b>             | 1.02   | 10       |
| Impairment                                    | -                               | -      | -        | <b>8,200</b>            | -      | 100      |
| Total depletion, depreciation, and impairment | <b>11,644</b>                   | 11,420 | 2        | <b>55,064</b>           | 43,760 | 26       |
| \$ per Boe                                    | <b>6.44</b>                     | 6.34   | 2        | <b>7.88</b>             | 6.09   | 29       |
| \$ per Mcfe                                   | <b>1.07</b>                     | 1.06   | 2        | <b>1.31</b>             | 1.02   | 29       |

Depletion and depreciation expense for the three months and year ended December 31, 2019, totaled \$11.6 million and \$46.9 million compared to \$11.4 million and \$43.8 million in the corresponding periods of the prior year. The increase for the year 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 and the amount and success of capital expenditures. Depletion is calculated using total proved and probable reserves and reserves estimates are subject to revision.

#### Property, Plant and Equipment ("PP&E") Impairment Assessment

As at December 31, 2019, the Company had four cash generating units ("CGUs"), being the Southern CGU, Central Gas CGU, Edson CGU, and Coal Bed Methane CGU. The Company reviewed each CGU's property and equipment at December 31, 2019 for indicators of impairment and determined that an indicator related to the decrease in future commodity prices was present. The company prepared estimates of both the value in use and fair value less cost to sell of each of the Company's CGUs. When it is determined that any CGU carrying value exceeds its recoverable amount, that CGU is considered impaired and an impairment expense is reported that equals this excess.

The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at December 31, 2019:

| Year       | WTI Oil (US\$/Bbl) <sup>1</sup> | \$C to US\$ Foreign exchange rate <sup>1</sup> | Edmonton Light Crude Oil (Cdn\$/Bbl) <sup>1</sup> | AECO Gas (Cdn\$/MMBtu) <sup>1</sup> |
|------------|---------------------------------|--|---|-------------------------------------|
| 2020       | 61.00                           | 1.32   | 72.64   | 2.04                                |
| 2021       | 63.75                           | 1.30   | 76.06   | 2.32                                |
| 2022       | 66.18                           | 1.27   | 78.35   | 2.62                                |
| 2023       | 67.91                           | 1.27   | 80.71   | 2.71                                |
| 2024       | 69.48                           | 1.27   | 82.64   | 2.81                                |
| 2025-2034  | 78.10                           | 1.27   | 93.14   | 3.19                                |
| Thereafter | +2.0%/yr                        | 1.27   | +2.0%/yr  | +2.0%/yr                            |

<sup>1</sup> Source: Average of three independent consultant price forecasts, effective January 1, 2020 (McDaniel & Associates Consultants Ltd., GLJ Petroleum Consultants Ltd. and Sproule Associates Limited).

The recoverable amounts of each of the Company's CGU's at December 31, 2019 were estimated at their fair value less cost to sell, based on the net present value of discounted future cash flow from operating activities from oil and gas reserves as estimated by the Company's independent reserves evaluator at December 31, 2019. The fair value less costs to sell used to determine the recoverable amounts are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data, but rather, the Company's management best estimates.

The Company used a pre-tax 15% discount rate for the December 31, 2019 impairment test which took into account risks specific to the CGU's and inherent in the oil and gas business. The impairment testing concluded that the fair value less costs to sell for the Company's CGU's at December 31, 2019 is greater than the carrying amounts and therefore no impairment was recorded in the fourth quarter of 2019. An impairment of \$8.2 million was recorded for the period ending June 30, 2019.

The following CGU's were impaired as at June 30, 2019:

| CGUs             | 2019  | 2018 |
|------------------|-------|------|
| Southern         | 8,200 | -    |
| Total impairment | 8,200 | -    |

### Exploration and Evaluation Assets ("E&E") Impairment Assessment

In accordance with IFRS, an impairment test is performed if the Company identified an indication of impairment. An E&E asset shall be assessed for impairment before reclassification to PP&E if the Company determines technical feasibility and commercial viability of extraction. At December 31, 2019 and 2018, the Company determined that no indicators of impairment existed on its E&E assets and therefore an impairment test was only performed for E&E assets transferred to PP&E.

### FINANCE EXPENSES

| (\$000s)                                   | Three months ended December 31, |       |          | Year ended December 31, |       |          |
|--|---------------------------------|-------|----------|-------------------------|-------|----------|
|  | 2019                            | 2018  | % Change | 2019                    | 2018  | % Change |
| Interest expense and bank charges          | 1,279                           | 1,218 | 5        | 4,757                   | 3,855 | 23       |
| \$ per Boe                                 | 0.71                            | 0.68  | 4        | 0.68                    | 0.54  | 26       |
| \$ per Mcfe                                | 0.12                            | 0.11  | 4        | 0.11                    | 0.09  | 26       |
| Non cash:                                  |                                 |       |          |                         |       |          |
| Accretion on decommissioning provision     | 1,560                           | 1,453 | 7        | 6,262                   | 5,389 | 16       |
| Accretion on subordinated promissory notes | 295                             | 77    | 283      | 534                     | 267   | 100      |
| Total finance expenses                     | 3,134                           | 2,748 | 14       | 11,553                  | 9,511 | 21       |
| \$ per Boe                                 | 1.73                            | 1.53  | 13       | 1.65                    | 1.32  | 25       |
| \$ per Mcfe                                | 0.29                            | 0.25  | 13       | 0.28                    | 0.22  | 25       |

Finance expenses increased by 14% and 21% to \$3.1 million and \$11.6 million for the three months and year ended December 31, 2019, as compared to \$2.7 million and \$9.5 million in the corresponding periods of the prior year, primarily a result of higher interest expense due to higher interest rates paid on the term debt compared to bank debt as well as an increase in accretion expenses related to a higher inflation rate used to unwind the discount. Please refer to the "DEBT, LIQUIDITY AND CAPITAL RESOURCES" section for additional information.

**DIVIDEND INCOME**

| (\$000s)              | Three months ended December 31, |      |          | Year ended December 31, |      |          |
|-----------------------|---------------------------------|------|----------|-------------------------|------|----------|
|                       | 2019                            | 2018 | % Change | 2019                    | 2018 | % Change |
| Total dividend income | -                               | -    | -        | -                       | 35   | (100)    |
| \$ per Boe            | -                               | -    | -        | -                       | -    | (100)    |

During the year ended December 31, 2018, Pine Cliff received \$0.035 million in dividends from its investment in one dividend paying company.

**DEFERRED INCOME TAX**

For the year ended December 31, 2019, deferred income tax expenses amounted to \$nil from \$28.9 million in the same period of 2018.

As at December 31, 2019, the Company did not record a future income tax asset (December 31, 2018 - \$nil) as it is not currently probable that Pine Cliff can utilize its tax pools against taxable profit. As at December 31, 2019, a deferred income tax asset has not been recognized on \$76.3 million (December 31, 2018 - \$73.4 million) of deductible temporary differences as it is not probable that future taxable earnings will be available against which the Company can utilize the benefits.

The Company had the following tax pools, including non-capital loss carry-forwards, at December 31, 2019:

| Category of tax pool                            | Rate of Utilization (%) | 2019           |
|---|-------------------------|----------------|
| Undepreciated capital costs                     | 4 - 100                 | 30,847         |
| Canadian oil and gas property expenditures      | 10                      | 214,339        |
| Canadian development expenditures               | 30                      | 10,099         |
| Canadian exploration expenditures               | 100                     | 167            |
| Share issue costs                               | 20                      | 668            |
| Non-capital losses carried forward <sup>1</sup> | 100                     | 138,673        |
| Capital losses carried forward <sup>2</sup>     |                         | 5,462          |
|   |                         | <b>400,255</b> |

<sup>1</sup> Non-capital losses expire between the years 2030 and 2039.

<sup>2</sup> The capital losses carried forward can only be claimed against taxable capital gains.

As at December 31, 2019, the unused non-capital losses expire between 2030 and 2039, and the unused capital losses have no expiry date. The deductible temporary differences do not expire under tax legislation. Pine Cliff has approximately \$400.3 million in tax pools as at December 31, 2019 (December 31, 2018 - \$389.6 million), available for future use as deductions from taxable income.

**CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS**

| (\$000s)                      | Year ended December 31, |        |
|-------------------------------|-------------------------|--------|
|                               | 2019                    | 2018   |
| Exploration and evaluation    | 398                     | 239    |
| Property, plant and equipment | 7,981                   | 10,426 |
| Capital expenditures          | 8,379                   | 10,665 |
| Acquisitions                  | 8,801                   | 307    |
| Dispositions                  | (1,542)                 | (285)  |
| Total                         | 15,638                  | 10,687 |

Capital expenditures on PP&E of \$8.0 million during the year ended December 31, 2019 were directed towards drilling two gross (2.0 net) wells in the Central area for \$5.5 million, facility and maintenance capital of \$2.0 million, and \$0.5 million of other miscellaneous capital additions.

## DECOMMISSIONING PROVISION

The total current and long-term decommissioning provision of \$221.4 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 December 31, 2019, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$239.7 million (December 31, 2018 - \$264.6 million). The discounted and inflated amount required to settle the decommissioning liabilities of \$221.4 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 2.57% (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.

## DEBT, LIQUIDITY AND CAPITAL RESOURCES

### Bank Credit Facility

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 December 31, 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 December 31, 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 December 31, 2019, the Company had \$2.6 million in letters of credit issued against its LC Facility (December 31, 2018 - \$nil).

### 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 year ended December 31, 2019 was \$0.4 million (December 31, 2018 - \$0.3 million).

### 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.

### Term Debt

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 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.

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.

### Liquidity and Capital Resources

Pine Cliff's approved capital budget for 2020 is \$10.2 million, including \$2.0 million for abandonments and reclamation and before acquisitions and dispositions. Pine Cliff anticipates funding its capital budget from adjusted funds flow. Budgeted future capital expenditures related to drilling are largely discretionary in nature and Pine Cliff is able to adjust the nature, amount and timing of most planned capital expenditures to changes in the business and commodity price environment.

The Company's capital comprises shareholders' equity, Term Debt, subordinated promissory notes, due to related party and working capital. Pine Cliff manages the capital structure and makes adjustments considering economic conditions and the risks of the underlying assets. The Company carries a working capital deficiency as cash balances are used to fund ongoing operations. However Pine Cliff has and will continue to manage its working capital needs through its physical diversification program, adjusting timing of capital expenditures, executing asset dispositions and issuing equity when practical. The Pekisko oil development in Central Alberta and the operating results therefrom achieved in 2019 and into 2020, are expected to have a positive impact on adjusted funds flow and the working capital deficiency.

The Company defines and computes its net debt as follows:

| (\$000s)                                   | Year ended December 31, |          |           |
|--|-------------------------|----------|-----------|
|  | 2019                    | 2018     | \$ Change |
| Due to related party <sup>1</sup>          | 6,000                   | 6,000    | -         |
| Subordinated promissory notes <sup>1</sup> | 6,000                   | 55,000   | (49,000)  |
| Term debt <sup>2</sup>                     | 49,000                  | -        | 49,000    |
| Trade and other payables                   | 27,514                  | 16,772   | 10,742    |
| Less:                                      |                         |          |           |
| Trade and other receivables                | (13,597)                | (13,536) | (61)      |
| Cash                                       | (8,661)                 | (3,563)  | (5,098)   |
| Prepaid expenses and deposits              | (2,218)                 | (3,854)  | 1,636     |
| Net debt <sup>3</sup>                      | 64,038                  | 56,819   | 7,219     |

<sup>1</sup> The due to related party and subordinated promissory notes are due on December 31, 2024.

<sup>2</sup> The term debt for net debt are presented at the principal amount with \$19.0 million due on July 31, 2022 and \$30.0 million due on December 31, 2024.

<sup>3</sup> This is a non-GAAP measure, see NON-GAAP MEASURES for additional information.

|   | As at December 31, |        |
|---|--------------------|--------|
|   | 2019               | 2018   |
| Net debt-to-adjusted funds flow calculation:    |                    |        |
| Cash provided by operating activities           | 15,536             | 8,616  |
| Increase (decrease) in non-cash working capital | (11,586)           | (833)  |
| Decommissioning obligations settled             | 1,929              | 2,730  |
| Adjusted funds flow <sup>1</sup>                | 5,879              | 10,513 |
| Net debt <sup>1</sup>                           | 64,038             | 56,819 |
| Net debt-to-adjusted funds flow                 | 11.0               | 5.4    |

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

At December 31, 2019, the Company's net debt to adjusted funds flow of 11.0 is higher than the Company's historical ratio and its long-term internal target. While this ratio is high in comparison to industry peers, approximately 95 percent of the Company's net debt is long-term and only 5 percent of the net debt is due with the next twelve months. The prolonged period of low commodity prices, in particular natural gas pricing in 2018 and 2019, has reduced the Company's adjusted funds flow and limited the availability of new capital to repay debt or expand development activity. During this time period, the Company has limited its capital spending, raised capital from a flow-through Common Share offering, a Common Share offering and terminated its Credit Facility in favor of Term Debt, with the first maturity date not until July 31, 2022.

The Company remains focused on developing its Central Alberta Pekisko oil property while identifying and pursuing alternative financing arrangements, property dispositions, corporate mergers or other recapitalization opportunities to further reduce the net

debt to adjusted funds flow ratio. The Company continuously monitors changes in forecasted adjusted funds flow as a result of changes to forward commodity prices and will make adjustments to planned capital expenditures as appropriate.

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

### Share Capital

| Share capital | March 11, 2020 | December 31, 2019 | December 31, 2018 |
|---------------|----------------|-------------------|-------------------|
| Common Shares | 327,784,193    | 327,784,193       | 307,075,787       |
| Stock options | 25,631,488     | 25,828,738        | 21,028,804        |
| Warrants      | 10,350,000     | 10,350,000        | 2,850,000         |

### COMMITMENTS AND CONTINGENCIES

As at December 31, 2019, the Company has the following commitments and other contractual obligations:

|  | 2020          | 2021          | 2022          | 2023         | 2024          | Thereafter   |
|--|---------------|---------------|---------------|--------------|---------------|--------------|
| (\$000s)                                   |               |               |               |              |               |              |
| Trade and other payables                   | 27,514        | -             | -             | -            | -             | -            |
| Term debt <sup>1</sup>                     | -             | -             | 19,000        | -            | 30,000        | -            |
| Due to related party                       | -             | -             | -             | -            | 6,000         | -            |
| Subordinated promissory notes              | -             | -             | -             | -            | 6,000         | -            |
| Future interest                            | 4,820         | 5,120         | 4,861         | 4,380        | 4,605         | -            |
| Lease obligations                          | 1,198         | 1,107         | 915           | 739          | 96            | -            |
| Transportation <sup>2</sup>                | 8,530         | 6,883         | 6,041         | 3,168        | 3,168         | 8,977        |
| <b>Total commitments and contingencies</b> | <b>42,062</b> | <b>13,110</b> | <b>30,817</b> | <b>8,287</b> | <b>49,869</b> | <b>8,977</b> |

<sup>1</sup> Principal amount.

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

## QUARTERLY TRENDS AND SELECTED FINANCIAL INFORMATION

| (\$000s, unless otherwise indicated)                                      | 2019    |          |          |         | 2018     |          |          |          |
|---|---------|----------|----------|---------|----------|----------|----------|----------|
|   | Q4      | Q3       | Q2       | Q1      | Q4       | Q3       | Q2       | Q1       |
| <b>FINANCIAL</b>  |         |          |          |         |          |          |          |          |
| Total revenue   | 28,513  | 19,468   | 21,106   | 30,344  | 28,396   | 24,148   | 20,419   | 27,065   |
| Cash flow from operating activities                                       | 4,039   | (2,931)  | 6,503    | 7,925   | 1,415    | (309)    | 531      | 6,979    |
| Adjusted funds flow <sup>2</sup>  | 5,025   | (3,922)  | (2,047)  | 6,823   | 4,433    | 1,920    | (977)    | 5,137    |
| Adjusted funds flow per share – basic and diluted (\$/share) <sup>2</sup> | 0.02    | (0.01)   | (0.01)   | 0.02    | 0.01     | 0.01     | 0.00     | 0.02     |
| Loss  | (7,987) | (17,739) | (24,179) | (6,525) | (28,520) | (10,710) | (17,909) | (15,580) |
| Loss per share – basic and diluted (\$/share)                             | (0.02)  | (0.05)   | (0.08)   | (0.02)  | (0.09)   | (0.03)   | (0.06)   | (0.05)   |
| Capital expenditures  | 5,446   | 1,123    | 815      | 995     | 4,302    | 1,910    | 1,276    | 3,177    |
| Acquisitions  | 202     | (7)      | 8,604    | 2       | (61)     | 659      | (3)      | (288)    |
| Dispositions  | (1,443) | (14)     | (85)     | -       | (51)     | (16)     | (135)    | (83)     |
| Net debt <sup>2</sup>   | 64,038  | 63,745   | 58,162   | 51,820  | 56,819   | 56,325   | 54,737   | 52,414   |
| Weighted average common shares outstanding:                               |         |          |          |         |          |          |          |          |
| Basic and diluted   | 327,784 | 327,784  | 314,130  | 307,076 | 307,076  | 307,076  | 307,076  | 307,076  |
| <b>PRODUCTION VOLUMES</b>   |         |          |          |         |          |          |          |          |
| Natural gas (Mcf/d)   | 108,208 | 104,488  | 105,965  | 104,186 | 110,295  | 111,067  | 110,242  | 112,871  |
| Natural gas liquids (Bbl/d)   | 1,216   | 1,195    | 1,063    | 981     | 957      | 861      | 967      | 977      |
| Crude oil (Bbl/d)   | 410     | 423      | 399      | 396     | 236      | 231      | 216      | 219      |
| Average sales volumes (Boe/d)   | 19,661  | 19,033   | 19,123   | 18,741  | 19,576   | 19,603   | 19,557   | 20,008   |
| Average sales volumes (Mcf/d)   | 117,966 | 114,198  | 114,738  | 112,446 | 117,456  | 117,618  | 117,342  | 120,048  |
| <b>PRICES AND NETBACKS</b>  |         |          |          |         |          |          |          |          |
| Total commodity sales (\$/Boe)  | 17.33   | 11.48    | 12.35    | 19.01   | 16.72    | 14.21    | 12.33    | 16.50    |
| Operating netback (\$/Boe) <sup>2</sup>                                   | 4.16    | (0.97)   | 0.18     | 5.68    | 3.56     | 2.34     | 0.72     | 4.04     |
| Corporate netback (\$/Boe) <sup>2</sup>                                   | 2.79    | (2.24)   | (1.18)   | 4.04    | 2.46     | 1.06     | (0.55)   | 2.86     |
| Total commodity sales (\$/Mcf)  | 2.89    | 1.91     | 2.06     | 3.17    | 2.79     | 2.37     | 2.06     | 2.75     |
| Operating netback (\$/Mcf) <sup>2</sup>                                   | 0.69    | (0.16)   | 0.03     | 0.95    | 0.59     | 0.39     | 0.12     | 0.67     |
| Corporate netback (\$/Mcf) <sup>2</sup>                                   | 0.47    | (0.37)   | (0.20)   | 0.67    | 0.41     | 0.18     | (0.09)   | 0.48     |

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

Over the past eight quarters, Pine Cliff's revenues, cash flow from operating activities, adjusted funds flow, and earnings (losses) have fluctuated primarily due to changes in commodity prices and sales volumes. Earnings (losses) also fluctuate with non-cash expenditures, including depletion, depreciation, impairments and deferred income taxes. Selected highlights for the past eight quarters are presented below:

- Average sales volumes decreased in the first quarter of 2018 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 third quarter of 2019 compared to the second quarter of 2019 mainly due to shut-ins due to low natural gas prices. Average sales volumes increased in the fourth quarter of 2019 compared to the third quarter of 2019 mainly due to no shut-ins and one gross (1.0 net) well that was drilled and placed on production during the fourth quarter of 2019.

- 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. Adjusted funds flow increased from the third quarter of 2019 to the fourth quarter of 2019, mainly as a result of higher commodity prices and increases in sales volumes.
- 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 through the fourth quarter of 2019 mainly as a result of no impairment charges in the third or fourth quarters of 2019 and fluctuations in sales volumes and commodity prices.
- Total revenues have decreased from the first quarter of 2018 to the second quarter of 2018, mainly as a result of decreases in commodity prices and sales volumes. Total revenues increased from the second quarter of 2018 to the first quarter of 2019, mainly as a result of increases in commodity prices. 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. Total revenues increased from the third quarter of 2019 to the fourth quarter of 2019, mainly as a result of higher commodity prices and increases in 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**

##### **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, 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, 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.

#### **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.

##### **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. 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.

### Physical Sales Contracts

At December 31, 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> |
|-------------------------------------|-----------------------|-------------------------------------|--|---|
| January 1, 2020 to March 31, 2020   | AECO                  | 5,000                               | \$2.36                                   | \$2.48                                      |
| January 1, 2020 to October 31, 2020 | TransGas <sup>3</sup> | 9,000                               | \$2.40                                   | \$2.52                                      |
| April 1, 2020 to October 31, 2020   | AECO                  | 22,500                              | \$1.54                                   | \$1.62                                      |

<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.

At March 11, 2020, the Company had the following additional 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> |
|-----------------------------------|----------------|-------------------------------------|-----------------------------|---|
| April 1, 2020 to October 31, 2020 | AECO           | 5,000                               | \$1.67                      | \$1.75                                      |

<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.

### Interest Rate Risk

The Company is principally exposed to interest rate risk to the extent it draws on its variable rate debt less cash. Changes in market interest rates could affect the cash flow from operating activities associated with variable rate debt. If interest rates applicable to Pine Cliff’s variable rate debt less cash increased or decreased by one percent, it is estimated that Pine Cliff’s loss for the year ended December 31, 2019, would have increased or decreased, respectively, by \$nil (December 31, 2018 - \$0.1 million).

### Equity Price Risk

Equity price risk refers to the risk that the fair value of investments will fluctuate due to changes in equity markets for each company. Equity price risk is also influenced from the estimated realizable value of investments that the Company holds.

### Foreign Exchange Risk

The Company and its share price are exposed to risk on foreign exchange rates because the commodity prices it receives are indirectly determined in reference to United States dollar denominated commodity prices. The Company manages this risk by monitoring the foreign exchange rate and evaluating its effect on cash flow from operating activities. Pine Cliff has not entered into any derivative financial instruments to manage this risk at this time.

### 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. 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 December 31, 2019 of \$13.6 million (December 31, 2018 – \$13.5 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 December 31, 2019, there was \$1.0 million (December 31, 2018 - \$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 year ended December 31, 2019, the Company recorded \$0.9 million (December 31, 2018 - \$0.3 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. 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 currently will be adequate to settle Pine Cliff's financial liabilities. If required, Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities. Any of these events could affect Pine Cliff's ability to fund ongoing operations.

### **RISK FACTORS**

Certain activities of the Company are affected by factors that are beyond its control or influence. Additional risks and uncertainties that management may be unaware of, or that they determine to be immaterial may also become important factors which affect the Company. Along with the risks discussed in this MD&A, other business risks faced by the Company may be found under "Risk Factors" in the Company's most recent Annual Information Form which is available under the Company's profile at [www.sedar.com](http://www.sedar.com) or by contacting the Company.

#### *Environmental*

All production phases of oil, NGLs and natural gas are subject to environmental regulation pursuant to a variety of Canadian federal, provincial and municipal laws and regulations (collectively, the "**Environmental Regulations**"). Environmental Regulations provide that wells, facility sites and other properties and practices associated with our operations be constructed, operated, maintained, abandoned, reclaimed and undertaken in accordance with the requirements set out therein. In addition, certain types of operations, including exploration and development projects and changes to certain existing projects, may require the submission and approval of environmental impact assessments or permit applications. Environmental Regulations impose, among other things, costs, restrictions, liabilities and obligations in connection with the generation, handling, use, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances in the environment. They also impose restrictions, liabilities and obligations in connection with the management of water sources that are being used, or whose use is contemplated, in connection with oil and gas operations. The complexities of changes in Environmental Regulations make it difficult to predict the potential future impact to Pine Cliff.

Compliance with Environmental Regulations requires expenditures. Our future capital expenditures and operating expenses could increase as a result of, among other things, developments in our business, operations, plans and objectives and changes to existing, or implementation of new, Environmental Regulations. Failure to comply with Environmental Regulations may result in, among other things, the imposition of fines, penalties, environmental protection orders, suspension of operations, and could adversely affect our reputation. The costs of complying with Environmental Regulations may have a material adverse effect on our business, financial condition, results of operations and cash flows from operating activities. The implementation of new Environmental Regulations or the modification of existing Environmental Regulations affecting the oil and natural gas industry generally could reduce demand for crude oil and natural gas as well as shift hydrocarbon demand toward relatively lower carbon sources, increase compliance costs, lengthen project implementation times, and have an adverse effect on our business, financial condition, results of operations and cash flows.

#### *Fiscal Environment*

Resource industries are subject to payments to various levels of government, predominantly corporate income taxes to the federal and provincial governments and royalties to provincial governments. In recent years, while the corporate income tax regime has been stable, the royalty regime has not been. A series of changes have had at times both positive and negative effects, but have certainly served to emphasize the materiality of this risk. There is potential for additional future changes to the taxation and royalty regime in Alberta and Saskatchewan and corresponding changes in other jurisdictions where Pine Cliff may operate has created uncertainty surrounding the ability to accurately estimate future taxation and royalties, resulting in additional volatility and uncertainty in the oil and gas market. As a single company, we have no ability to mitigate this risk other than through geographic diversification.

### *Operational*

This category encompasses a number of risks. Wells may produce at lower initial production rates than planned, or face steeper decline rates. Operating costs can increase due to such considerations as unanticipated workovers or higher than expected costs associated with corrosion. Pine Cliff follows prudent industry practices with respect to insurance where practicable and as guided by external experts, but cannot fully insure against all risks. With respect to non-insurable operating risks, the Company has attempted to design business process controls and accountability to identify problems at the earliest possible occasion and implement solutions. However, investors must appreciate that operational risk is very much a characteristic of the business, and can never be entirely eliminated.

### *Regulatory Risks*

Regulatory risk is the risk of loss or lost opportunity resulting from the introduction of, or changes in, regulatory requirements or the failure to secure regulatory approval for upstream or downstream development projects. The implementation of new regulations or the modification of existing regulations could impact our existing and planned projects as well as result in increased compliance costs, adversely impacting our financial condition, results of operations and cash flows.

The oil and gas industry in general and our operations in particular are subject to regulation and intervention under federal, provincial, territorial, state and municipal legislation in Canada in matters such as, but not limited to: land tenure; permitting of production projects; royalties; taxes (including income taxes); government fees; production rates; environmental protection controls; protection of certain species or lands; provincial and federal land use designations; the reduction of greenhouse gases and other emissions; the export of crude oil, natural gas and other products; the transportation of crude-by-rail or marine transport; the awarding or acquisition of exploration and production, oil sands or other interests; the imposition of specific drilling obligations; control over the development, abandonment and reclamation of fields (including restrictions on production) and/or facilities; and possibly expropriation or cancellation of contract rights. Changes to government regulation could impact our existing and planned projects or increase capital investment or operating expenses, adversely impacting our financial condition, results of operations and cash flows from operating activities.

### *Reserves*

Petroleum and natural gas reserves are used in the calculation of depletion, impairment and impairment reversals and are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* which incorporate the estimated future cost of developing and extracting those reserves. Reserve estimates and their resulting cash flows are based on engineering data, probability assessments of reserve recoveries, future prices and costs, future production rates, discount rates and the timing and extent of future capital expenditures, all of which are subject to many uncertainties and interpretation. Management expects that over time its reserve estimates will be revised, either upward or downward, based on updated information such as the results of future drilling, production costs, testing and production levels and changes to forward oil, NGL and natural gas prices.

### *Safety*

The operation of our properties is subject to hazards of finding, recovering, transporting and processing hydrocarbons including, but not limited to: blowouts; fires; explosions; gaseous leaks; migration of harmful substances; oil spills; corrosion; acts of vandalism; and other accidents or hazards that may occur at or during transport to or from commercial or industrial sites. Any of these hazards can interrupt operations, impact our reputation, cause loss of life or personal injury, result in loss of or damage to equipment, property, information technology systems, related data and control systems, cause environmental damage that may include polluting water, land or air, and may result in fines, civil suits, or criminal charges against Pine Cliff, any of which may have a material adverse effect on our business, financial condition, results of operations, cash flows, and our reputation.

### *Staffing*

Pine Cliff functions in a very competitive environment for professional staff, and this staff is key to the Company's ultimate success. Recognizing this, Pine Cliff's board of directors approved a competitive compensation program including bonuses based on the annual adjusted funds flow performance of the Company, benefits and a stock option program to provide for long-term incentives and to retain staff.

To date, Pine Cliff has found that it has been able to attract qualified individuals to complement its existing team and to build strength in areas where required.

## CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The timely preparation of the Financial Statements in conformity with IFRS requires Pine Cliff 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.

### Judgments

#### *Cash Generating Units*

CGUs are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, share infrastructures and the way in which management monitors Pine Cliff's operations.

#### *Impairment indicators*

Judgments are required to assess when impairment indicators exist and impairment testing is required. When assessing the recoverability of petroleum and natural gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on reserve estimates, market value of undeveloped lands and other relevant assumptions.

### Estimates

#### *Reserves*

Petroleum and natural gas reserves are used in the calculation of depletion, impairment and impairment reversals and are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* which incorporate the estimated future cost of developing and extracting those reserves. Reserve estimates and their resulting cash flows are based on engineering data, probability assessments of reserve recoveries, future prices and costs, future production rates, discount rates and the timing and extent of future capital expenditures, all of which are subject to many uncertainties and interpretation. Management expects that over time its reserve estimates will be revised, either upward or downward, based on updated information such as the results of future drilling, production costs, testing and production levels and changes to forward petroleum and natural gas prices.

#### *Exploration and evaluation assets*

The application of the Company's accounting policy for E&E expenditures requires judgment in determining whether it is likely that future economic benefit exists when activities have not reached a stage where technical feasibility and commercial viability can be reasonably determined. Factors such as drilling results, future capital programs, future operating expenses, as well as estimated reserves are considered. In addition, management uses judgment to determine when E&E assets are reclassified to PP&E.

#### *Decommissioning provision*

Decommissioning, abandonment and site reclamation expenditures will be incurred by the Company at the end of the operating life of the Company's facilities and properties. Decommissioning expenditures are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, and changes to the credit-adjusted risk-free discount rate and expected inflation rate. The expected timing and amount of expenditures can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

#### *Share-based payments*

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

### *Contingencies*

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

## **ACCOUNTING POLICY AND STANDARD CHANGES**

### **Adopted Accounting Pronouncements**

As of January 1, 2019, the Company adopted the following new accounting pronouncements, in accordance with the transitional provision of the standard. A brief description of each new accounting policy and its impact on the Company's financial statements are as follows:

#### **IFRS 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 \$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 and dispositions 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.

## **CONTROL ENVIRONMENT**

### **Disclosure controls and procedures**

Disclosure controls and procedures ("**DC&P**"), as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, are designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the Chief Executive Officer ("**CEO**") and the Chief Financial Officer ("**CFO**"), as appropriate, to allow timely decisions regarding required disclosure. The CEO and the CFO of Pine Cliff evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the CEO and CFO concluded that Pine Cliff's DC&P were effective as at December 31, 2019.

### Internal control over financial reporting

Internal control over financial reporting (“**ICFR**”), as defined in National Instrument 52-109, includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of Pine Cliff;
- are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of Financial Statements in accordance with generally accepted accounting principles and that receipts and expenditures of Pine Cliff are being made in accordance with authorizations of management of Pine Cliff; and
- are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the Financial Statements.

The CEO and CFO have designed, or caused to be designed under their supervision, ICFR as defined in National Instrument 52-109 of the Canadian Securities Administrators, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with IFRS. The control framework the Company used to design its ICFR was in accordance with the Committee of Sponsoring Organizations of the Treadway Commission “COSO 2013”.

The Company’s CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company’s internal controls over financial reporting at the financial period end of the Company and concluded that such internal controls over financial reporting are effective. It should be noted that while Pine Cliff’s CEO and CFO believe that the Company’s internal controls and procedures provide a reasonable level of assurance and are effective, however they do not expect that these controls will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that its objectives are met.

### 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 Common 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 Common Share is calculated using the same weighted average number of Common Shares outstanding as in the case of the earnings per Common 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 December 31, |       |          | Year ended December 31, |        |          |
|---|---------------------------------|-------|----------|-------------------------|--------|----------|
|   | 2019                            | 2018  | % Change | 2019                    | 2018   | % Change |
| Cash flow from operating activities                       | 4,039                           | 1,415 | 185      | 15,536                  | 8,616  | 80       |
| Adjusted by:  |                                 |       |          |                         |        |          |
| Change in non-cash working capital                        | 127                             | 2,281 | (94)     | (11,586)                | (833)  | 1,291    |
| Decommissioning obligation settled                        | 859                             | 737   | 17       | 1,929                   | 2,730  | (29)     |
| Adjusted funds flow                                       | 5,025                           | 4,433 | 13       | 5,879                   | 10,513 | (44)     |
| Adjusted funds flow (\$/Boe)                              | 2.79                            | 2.46  | 13       | 0.84                    | 1.47   | (43)     |
| Adjusted funds flow (\$/Mcfe)                             | 0.47                            | 0.41  | 13       | 0.14                    | 0.25   | (43)     |
| Adjusted funds flow – basic and diluted (\$/Common Share) | 0.02                            | 0.01  | 100      | 0.02                    | 0.03   | (33)     |

### 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 commodity 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.

|   | Three months ended December 31, |         |           | Year ended December 31, |        |           |
|---|---------------------------------|---------|-----------|-------------------------|--------|-----------|
|   | 2019                            | 2018    | \$ Change | 2019                    | 2018   | \$ Change |
| (\$ per Boe, unless otherwise indicated)          |                                 |         |           |                         |        |           |
| Commodity sales                                   | <b>17.33</b>                    | 16.72   | 0.61      | <b>15.03</b>            | 14.95  | 0.08      |
| Royalty expense                                   | <b>(1.56)</b>                   | (0.95)  | (0.61)    | <b>(0.80)</b>           | (1.02) | 0.22      |
| Transportation costs                              | <b>(1.53)</b>                   | (1.80)  | 0.27      | <b>(1.68)</b>           | (1.74) | 0.06      |
| Operating expenses                                | <b>(10.08)</b>                  | (10.41) | 0.33      | <b>(10.30)</b>          | (9.51) | (0.79)    |
| Operating netback                                 | <b>4.16</b>                     | 3.56    | 0.60      | <b>2.25</b>             | 2.68   | (0.43)    |
| General and administrative                        | <b>(0.66)</b>                   | (0.42)  | (0.24)    | <b>(0.73)</b>           | (0.67) | (0.06)    |
| Interest and bank charges, net of dividend income | <b>(0.71)</b>                   | (0.68)  | (0.03)    | <b>(0.68)</b>           | (0.54) | (0.14)    |
| Corporate netback                                 | <b>2.79</b>                     | 2.46    | 0.33      | <b>0.84</b>             | 1.47   | (0.63)    |
| Operating netback (\$ per Mcfe)                   | <b>0.69</b>                     | 0.59    | 0.10      | <b>0.38</b>             | 0.45   | (0.07)    |
| Corporate netback (\$ per Mcfe)                   | <b>0.47</b>                     | 0.41    | 0.06      | <b>0.14</b>             | 0.25   | (0.11)    |

### Net Debt

The Company considers net debt to be a key indicator of leverage. Net debt is calculated as the sum of due to related party, subordinated promissory notes, term debt and trade and other payables less trade and other receivables, cash, prepaid expenses and deposits. See "DEBT, LIQUIDITY AND CAPITAL RESOURCES" section for table.

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, subordinated promissory notes and due pursuant to term debt 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, 2020 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.

The management of Pine Cliff Energy Inc. (the "**Company**") is responsible for the financial information and operating data presented in this financial report. The consolidated financial statements (the "**Financial Statements**") have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and utilize the best estimates and careful judgments of management where appropriate. Operational and other financial information contained throughout the annual report is consistent with that provided in the Financial Statements.

Management has developed and maintains a system of internal controls designed to provide reasonable assurance that all transactions are accurate and reliably recorded, that the Financial Statements accurately report the Company's operating and financial results within acceptable limits of materiality, that all other operational and financial information presented is accurate and that the Company's assets are properly safeguarded.

The Audit Committee, comprised of non-management directors, acts on behalf of the Board of Directors to ensure that management fulfills its financial reporting and internal control responsibilities. The Audit Committee meets regularly with management and the external auditors to discuss financial reporting and internal control matters and ensures each party is properly discharging its responsibilities. The Audit Committee reviewed the Financial Statements with management and the external auditors and recommended approval to the Board of Directors, who approved these Financial Statements.

The Financial Statements have been audited by Deloitte LLP, Chartered Professional Accountants, in accordance with generally accepted auditing standards on behalf of the shareholders and have unlimited and unrestricted access to the Audit Committee.

"Signed Philip B. Hodge"

"Signed Alan MacDonald"

Philip B. Hodge, President and Chief Executive Officer

Alan MacDonald, Chief Financial Officer and Corporate Secretary

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of Pine Cliff Energy Ltd.

**Opinion**

We have audited the consolidated financial statements of Pine Cliff Energy Ltd. (the "**Company**"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "**Financial Statements**").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("**IFRS**").

**Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards ("**Canadian GAAS**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Information**

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Langlois.

/s/ Deloitte LLP

Chartered Professional Accountants  
Calgary, Alberta  
March 11, 2020

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Canadian dollars, 000s)

|  | Note   | 2019      | As at December 31,<br>2018 |
|--|--------|-----------|----------------------------|
| <b>ASSETS</b>                              |        |           |                            |
| Current assets                             |        |           |                            |
| Cash                                       |        | 8,661     | 3,563                      |
| Trade and other receivables                | 6, 18  | 13,597    | 13,536                     |
| Prepaid expenses and deposits              |        | 2,218     | 3,854                      |
| Total current assets                       |        | 24,476    | 20,953                     |
| Exploration and evaluation                 | 7      | 8,694     | 22,620                     |
| Property, plant and equipment              | 8      | 290,565   | 310,642                    |
| Total assets                               |        | 323,735   | 354,215                    |
| <b>LIABILITIES</b>                         |        |           |                            |
| Current liabilities                        |        |           |                            |
| Trade and other payables                   | 5      | 27,514    | 16,772                     |
| Lease liabilities                          | 9      | 1,043     | -                          |
| Decommissioning provision                  | 15     | 2,000     | 2,466                      |
| Total current liabilities                  |        | 30,557    | 19,238                     |
| Lease liabilities                          | 9      | 2,666     | -                          |
| Due to related party                       | 12     | 6,000     | 6,000                      |
| Subordinated promissory notes              | 13, 14 | 6,000     | 54,280                     |
| Term debt                                  | 14     | 48,642    | -                          |
| Decommissioning provision                  | 15     | 219,360   | 213,723                    |
| Total liabilities                          |        | 313,225   | 293,241                    |
| <b>SHAREHOLDERS' EQUITY</b>                |        |           |                            |
| Share capital                              | 16     | 273,421   | 268,743                    |
| Warrants                                   |        | 460       | 288                        |
| Contributed surplus                        |        | 13,631    | 12,515                     |
| Deficit                                    |        | (277,002) | (220,572)                  |
| Total shareholders' equity                 |        | 10,510    | 60,974                     |
| Total liabilities and shareholders' equity |        | 323,735   | 354,215                    |

Commitments (Note 21)

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

The consolidated financial statements were approved by the Board of Directors and signed on its behalf by:

“Signed George F. Fink”

George F. Fink, Chair of the Board of Directors  
and Director

“Signed Randy M. Jarock”

Randy M. Jarock, Chair of the Audit Committee  
and Director

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(Canadian dollars, 000s except per share data)

|  | Note | Years ended December 31, |                 |
|--|------|--------------------------|-----------------|
|  |      | 2019                     | 2018            |
| <b>REVENUE</b>   |      |                          |                 |
| Commodity sales  | 17   | 105,006                  | 107,385         |
| Royalty expense  |      | (5,575)                  | (7,357)         |
|  |      | 99,431                   | 100,028         |
| Dividend income  |      | -                        | 35              |
| Total revenue  |      | 99,431                   | 100,063         |
| <b>EXPENSES</b>  |      |                          |                 |
| Operating  |      | 71,973                   | 68,332          |
| Transportation   |      | 11,743                   | 12,525          |
| Depletion and depreciation                               | 8    | 46,864                   | 43,760          |
| Impairment   | 8    | 8,200                    | -               |
| Share-based payments                                     | 16   | 1,116                    | 2,231           |
| Finance  | 18   | 11,553                   | 9,511           |
| General and administrative                               | 19   | 5,079                    | 4,838           |
| Realized loss on investments                             |      | -                        | 2,687           |
| Premium on flow-through shares                           | 16   | (667)                    | -               |
| Total expenses   |      | 155,861                  | 143,884         |
| Loss before income taxes                                 |      | (56,430)                 | (43,821)        |
| Deferred income tax expense                              | 10   | -                        | (28,898)        |
| <b>LOSS FOR THE YEAR</b>                                 |      | <b>(56,430)</b>          | <b>(72,719)</b> |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                 |      |                          |                 |
| Unrealized loss on investments                           |      | -                        | (2,081)         |
| Amounts reclassified from comprehensive loss             |      | -                        | 2,081           |
| <b>OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX</b> |      | <b>-</b>                 | <b>-</b>        |
| <b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>             |      | <b>(56,430)</b>          | <b>(72,719)</b> |
| <b>Loss per share (\$)</b>                               |      |                          |                 |
| Basic and diluted  | 16   | (0.18)                   | (0.24)          |

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Canadian dollars, 000s)

|   | Note | Years ended December 31, |              |
|---|------|--------------------------|--------------|
|   |      | 2019                     | 2018         |
| <b>CASH PROVIDED BY (USED IN):</b>                                  |      |                          |              |
| <b>OPERATING ACTIVITIES</b>   |      |                          |              |
| Loss for the year   |      | (56,430)                 | (72,719)     |
| Items not affecting cash:   |      |                          |              |
| Depletion and depreciation  | 8    | 46,864                   | 43,760       |
| Impairment  | 8    | 8,200                    | -            |
| Share-based payments  | 16   | 1,116                    | 2,231        |
| Finance expenses  | 18   | 11,553                   | 9,511        |
| Premium on flow-through shares                                      | 16   | (667)                    | -            |
| Loss on sale of investments   |      | -                        | 2,687        |
| Deferred income tax expense   | 10   | -                        | 28,898       |
| Interest and bank charges   | 18   | (4,757)                  | (3,855)      |
| Decommissioning obligations settled                                 | 15   | (1,929)                  | (2,730)      |
| Changes in non-cash working capital accounts                        | 18   | 11,586                   | 833          |
| Cash provided by operating activities                               |      | 15,536                   | 8,616        |
| <b>INVESTING ACTIVITIES</b>   |      |                          |              |
| Property, plant and equipment                                       | 8    | (7,981)                  | (10,426)     |
| Exploration and evaluation  | 7    | (398)                    | (239)        |
| Acquisitions  | 8    | (8,801)                  | (307)        |
| Dispositions  | 8    | 1,542                    | 285          |
| Sale of investments   |      | -                        | 2,274        |
| Changes in non-cash working capital accounts                        | 18   | 731                      | 291          |
| Cash used in investing activities                                   |      | (14,907)                 | (8,122)      |
| <b>FINANCING ACTIVITIES</b>   |      |                          |              |
| Issuance of common shares, net of share issue costs                 | 16   | 5,345                    | -            |
| Bank debt   | 11   | -                        | (18,000)     |
| Issuance of subordinated promissory notes, net of share issue costs |      | -                        | 18,994       |
| Repayment of subordinated promissory notes                          | 14   | (49,000)                 | -            |
| Issuance of term debt   | 14   | 49,000                   | -            |
| Issuance of related party debt                                      | 12   | -                        | 1,000        |
| Payments on lease obligations                                       | 9    | (876)                    | -            |
| Cash provided by financing activities                               |      | 4,469                    | 1,994        |
| Increase in cash  |      | 5,098                    | 2,488        |
| Cash - beginning of year  |      | 3,563                    | 1,075        |
| <b>CASH - END OF YEAR</b>   |      | <b>8,661</b>             | <b>3,563</b> |

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Canadian dollars, 000s)

|   | Note | Share capital  | Contributed surplus <sup>1</sup> | Accumulated other comprehensive gain (loss) <sup>2</sup> | Warrants   | Deficit          | Total Equity   |
|---|------|----------------|----------------------------------|--|------------|------------------|----------------|
| <b>BALANCE AT JANUARY 1, 2018</b>                   |      | <b>268,743</b> | <b>9,326</b>                     | <b>(2,081)</b>   | <b>958</b> | <b>(147,853)</b> | <b>129,093</b> |
| Loss for the year                                   |      | -              | -                                | -  | -          | (72,719)         | (72,719)       |
| Realized loss on sale of investments                |      | -              | -                                | 2,081  | -          | -                | 2,081          |
| Issuance of warrants                                |      | -              | -                                | -  | 288        | -                | 288            |
| Expiry of warrants                                  |      | -              | 958                              | -  | (958)      | -                | -              |
| Share-based payments                                | 16   | -              | 2,231                            | -  | -          | -                | 2,231          |
| <b>BALANCE AT DECEMBER 31, 2018</b>                 |      | <b>268,743</b> | <b>12,515</b>                    | <b>-</b>   | <b>288</b> | <b>(220,572)</b> | <b>60,974</b>  |
| Loss for the year                                   |      | -              | -                                | -  | -          | (56,430)         | (56,430)       |
| Share-based payments                                |      | -              | 1,116                            | -  | -          | -                | 1,116          |
| Issuance of warrants                                | 14   | -              | -                                | -  | 172        | -                | 172            |
| Issuance of common shares, net of share issue costs | 16   | 4,768          | -                                | -  | -          | -                | 4,768          |
| Share issue costs, net of tax                       | 16   | (90)           | -                                | -  | -          | -                | (90)           |
| <b>BALANCE AT DECEMBER 31, 2019</b>                 |      | <b>273,421</b> | <b>13,631</b>                    | <b>-</b>   | <b>460</b> | <b>(277,002)</b> | <b>10,510</b>  |

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at December 31, 2019 and 2018 and for the years then ended  
(all tabular amounts in Canadian dollars 000s, unless otherwise indicated)

**1. NATURE OF BUSINESS**

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

Pine Cliff is engaged in the acquisition, exploration, development and production of oil and natural gas in the Western Canadian Sedimentary Basin and conducts many of its activities jointly with others; these consolidated financial statements (the “**Financial Statements**”) reflect only the Company’s proportionate interest in such activities.

**2. BASIS OF PREPARATION****a) Statement of Compliance**

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”).

The Financial Statements were authorized for issue by the Company’s board of directors on March 11, 2020.

**b) Basis of measurement**

The Financial Statements have been prepared on a historical cost basis, except for certain financial instruments and share-based payment transactions which are measured at fair value.

**c) Use of judgments and estimates**

The timely preparation of the Financial Statements in conformity with IFRS requires Pine Cliff management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities as at the date of the statement of financial position. Actual results could differ materially from estimated amounts and affect the results reported in the Financial Statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty in applying accounting principles that have the most significant effect on the amounts recognized in the Financial Statements are included in the notes.

**Judgments**

In the process of applying Pine Cliff’s accounting policies, judgments, apart from those involving estimates, have been made, of which the following may have the most significant effect on the amounts recognized in the Financial Statements:

Note 5 – Financial instruments  
Note 7 – Exploration and evaluation assets (“**E&E**”)  
Note 8 – Property, plant and equipment (“**PP&E**”)  
Note 15 – Decommissioning provision  
Note 16 – Share capital

*Cash Generating Units*

Cash generating units (“**CGUs**”) are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, share infrastructures and the way in which management monitors Pine Cliff’s operations.

*Impairment indicators*

Judgments are required to assess when impairment indicators exist and impairment testing is required. When assessing the recoverability of petroleum and natural gas properties, each CGU’s carrying value is compared to its recoverable amount, defined as

the greater of its fair value less cost to sell and value in use. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on reserve estimates, market value of undeveloped lands and other relevant assumptions.

## Estimates

### *Reserves*

Petroleum and natural gas reserves are used in the calculation of depletion, impairment and impairment reversals and are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* which incorporate the estimated future cost of developing and extracting those reserves. Reserve estimates and their resulting cash flows are based on engineering data, probability assessments of reserve recoveries, future prices and costs, future production rates, discount rates and the timing and extent of future capital expenditures, all of which are subject to many uncertainties and interpretation. Management expects that over time its reserve estimates will be revised, either upward or downward, based on updated information such as the results of future drilling, production costs, testing and production levels and changes to forward petroleum and natural gas prices.

### *Exploration and evaluation assets*

The application of the Company's accounting policy for E&E expenditures requires judgment in determining whether it is likely that future economic benefit exists when activities have not reached a stage where technical feasibility and commercial viability can be reasonably determined. Factors such as drilling results, future capital programs, future operating expenses, as well as estimated reserves are considered. In addition, management uses judgment to determine when E&E assets are reclassified to PP&E.

### *Decommissioning provision*

Decommissioning, abandonment and site reclamation expenditures will be incurred by the Company at the end of the operating life of the Company's facilities and properties. Decommissioning expenditures are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, and changes to the credit-adjusted risk-free discount rate and expected inflation rate. The expected timing and amount of expenditures can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

### *Share-based payments*

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

### *Contingencies*

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

## **d) Presentation currency**

The Company's functional and presentation currency is the Canadian dollar. Monetary assets and liabilities are translated into Canadian dollars at the rates prevailing on the reporting date. Non-monetary assets and liabilities are translated into Canadian dollars at the rates prevailing on the transaction dates. Exchange gains and losses are recorded as income or expense in the period in which they occur.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in the Financial Statements. Certain comparative amounts have been reclassified to conform to the current year's presentation.

### **a) Basis of consolidation**

The Financial Statements include the accounts of Pine Cliff and its subsidiary companies, Geomark Exploration Ltd., Geomark Minerals USA Inc., WMC International Limited and Pine Cliff Border Pipelines Limited. All subsidiary companies are wholly owned. All intercompany balances, transactions and earnings or losses are eliminated upon consolidation.

**b) 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.

Dividend income is recorded when earned.

**c) Foreign currency transactions**

Items included in the Financial Statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "**Functional Currency**"). Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the Functional Currency of an entity are recognized in the consolidated statement of comprehensive loss.

**d) Joint arrangements**

Pine Cliff conducts significant portions of its oil and gas operations through jointly controlled operations and the Financial Statements reflect only the Company's proportionate interest in such activities. Contractual arrangements for the Company's jointly controlled operations, where it does not have a 100% working interest, govern that the partners have rights to the assets and obligations for the liability. It is possible that at some future date allocation adjustments to revenues and expenditures could result from revised billings, audit or litigation with these other participants. Pine Cliff does not have any joint arrangements that are individually material to the Company or that are structured through joint venture arrangements.

**e) Cash**

Cash is comprised of cash on hand and short-term highly liquid investments that mature within three months of the date of their purchase.

**f) Exploration and evaluation assets**

E&E costs are initially capitalized with the intent to establish commercially viable reserves.

E&E includes undeveloped land license acquisitions, unbooked locations in acquisitions, exploration drilling and testing and directly attributable general and administrative costs. Expenditures incurred prior to obtaining the legal right to explore are expensed as incurred. E&E assets continue to be capitalized as long as sufficient progress is being made to assess the reserves and economic viability of the well and/or related project. Once technical feasibility and commercial viability has been established, E&E assets are transferred to PP&E. E&E assets are assessed for impairment either annually, upon transfer to PP&E or where indicators arise to ensure they are not carried above their recoverable amounts.

**g) Property, plant and equipment**

PP&E assets include developed assets acquired, transferred-in E&E costs, development drilling, right-of-use asset and other surface expenditures. PP&E assets are carried at cost less accumulated depletion and depreciation and impairment. The initial cost of an asset is comprised of its purchase price, construction cost or estimated lease payments over the term of a lease, including expenditures such as drilling costs, the present value of the initial and changes in the estimate of any decommissioning obligation associated with the asset, expenses on qualifying assets and costs that are directly attributable to bringing the asset to the location and condition necessary to operate as intended by management and which result in an identifiable future benefit. Improvements that increase capacity or extend the useful lives of the assets are capitalized.

Expenditures on major maintenance of producing assets include the cost of replacement assets or parts of assets, inspection costs, turnaround costs, or overhaul costs. Where an asset, or part of an asset that was separately depreciated, is replaced and it is probable that there are future economic benefits associated with the item, the expenditure is capitalized and the carrying amount of the replaced item is derecognized. Inspection costs associated with major maintenance programs and necessary for continued operation of the asset are capitalized and amortized over the period to the next inspection. All other maintenance costs are expensed as incurred.

## **h) Lease obligations**

Lease obligations are initially measured at the present value of the minimum lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate for that asset. Generally, the Company uses the implicit interest rate of the lease. The lease obligation is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate or a change in estimate of the amount expected to be payable.

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- leases of low value assets; and
- leases with a duration of 12 months or less.

IFRS 16, as defined herein, was adopted January 1, 2019 without restatement of comparative figures. The following policies apply subsequent to the date of initial application of January 1, 2019. See note 4 for additional details.

## **i) Depletion and depreciation**

When commercial production has commenced in an area, PP&E assets, including estimated future development costs, are depleted using the unit-of-production method over their proved plus probable reserve life. Other equipment are depreciated over their estimated useful lives on a straight line basis. Overhauls and turnarounds are depreciated over their expected life. Depletion and depreciation is recognized in the consolidated statement of comprehensive loss.

Depletion and depreciation methods, useful lives and residual values are reviewed annually, with any amendments considered to be changes in estimates and accounted for prospectively.

## **j) Impairment of E&E and PP&E**

The carrying amounts of the Company's E&E and PP&E assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If such indication exists, then the assets' carrying amounts are assessed for impairment. For the purpose of impairment testing, assets that are not evaluated individually are grouped together into CGUs.

The recoverable amount of an asset or a CGU is the greater of its value-in-use and its fair value. An impairment is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. In assessing the carrying value of its unproved properties, the Company takes into account future plans for those properties, the remaining terms of the leases and other factors that may be indicators of potential impairment. Impairment is recognized in the consolidated statement of loss. Impairment recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets of the CGU on a pro-rata basis.

Impairment recognized in prior periods are assessed at each reporting date for any indications that the impairment has decreased or no longer exists. If the amount of the impairment decreases in a subsequent period and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment had been recognized.

## **k) Impairment of financial assets**

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow from operating activities of that asset. Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. An impairment in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Impairment is recognized in the consolidated statement of comprehensive loss. Impairment is reversed if there is an indicator that the impairment reversal can be related objectively to an event occurring after the impairment was recognized. For financial assets measured at amortized cost, the reversal is recognized in the consolidated statement of comprehensive loss.

## **l) Decommissioning provision**

The Company recognizes a decommissioning provision in the period in which it has a present legal or constructive liability and a reasonable estimate of the amount can be made. On a periodic basis, Pine Cliff management reviews these estimates, and changes, if any, are prospectively applied. The decommissioning provision is recorded as a liability, with a corresponding increase to the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the associated proved

plus probable reserves. Periodic revisions to the liability specific discount rates, estimated timing of cash flows and/or to the original estimated undiscounted costs can also result in changes to the decommissioning provision. The decommissioning provision is increased each reporting period with the passage of time as an accretion of decommissioning provision expense as reported in finance expenses and changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the provision are recorded against the provision to the extent of the liability recorded and the remaining balance of the actual costs is recorded in the consolidated statement of comprehensive loss.

#### **m) Income taxes**

Income tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive loss or directly in equity.

Current income tax is the expected tax on taxable income less adjustments to prior periods using tax rates enacted, or substantively enacted as at the reporting date in jurisdictions where the Company operates.

Deferred income tax is recognized based on temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the Financial Statements. Deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill and are not accounted for if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred income tax is calculated on the basis of the tax laws enacted or substantively enacted as at the reporting date and apply to when the related deferred income tax asset is realized or the deferred income tax liability is settled. Current and deferred income tax assets and liabilities are offset when there is a legally enforceable right to settle on a net basis and when such assets and liabilities relate to income taxes imposed by the same taxation authority.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### **n) Share-based payments**

Under the Company's stock option plan described in note 16, options to purchase common shares of Pine Cliff ("Common Shares") are granted to directors, officers, employees, and consultants. The fair value of Common Share purchase options is calculated at the date of grant using the Black-Scholes option pricing model and that value is recorded as compensation expense over the vesting period of the option with an offsetting credit to contributed surplus. At the end of each reporting period, the Company assesses for subsequent periods its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the consolidated statement of comprehensive loss. Upon exercise of share purchase options, the proceeds received net of any transaction costs and the fair value of the exercised share purchase options are credited to share capital.

The Company estimates future forfeitures for stock options and expenses stock options based on the Company's estimate of stock options expected to reach vesting. Any difference between the number of stock options expected to vest and the number of stock options which actually vest is accounted for as a change in estimate when those stock options become vested or are forfeited before vesting.

#### **o) Financial instruments**

Financial instruments are measured at fair value on initial recognition of the instrument and are classified into one of the following three categories: amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

Cash, trade and other receivables, are classified as financial assets at amortized cost and reported at amortized cost. A provision for impairment of trade and other receivables is established when there is evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Trade and other payables, due to related party, term debt and subordinated promissory notes are classified as financial liabilities at amortized cost.

Subsequent measurement of financial instruments is based on their initial classification. FVTPL financial instruments are measured at fair value and changes in fair value are recognized in the statement of consolidated comprehensive loss. All other financial instruments are measured at fair value with changes in fair value recorded at FVTPL depending on their initial classification and measurement. The remaining categories of financial instruments are recognized at amortized cost using the effective interest method.

**p) Risk management contracts**

The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign currency exchange rates and interest rates in the normal course of its business. The Company may use a variety of instruments to manage these exposures. Fair values of financial instruments are based on third party quotes or valuations provided by independent third parties. Any realized gains or losses on risk management contracts are recognized in earnings (loss) in the period they occur. The Company has not designated any of its risk management contracts as effective accounting hedges.

**q) Earnings (loss) per share**

Basic per share amounts are calculated by dividing the earnings or loss attributable to holders of Common Shares by the weighted average number of Common Shares outstanding during the reporting period.

Diluted per share amounts are calculated similar to basic per share amounts except that the weighted average Common Shares outstanding are increased to include additional Common Shares from the assumed exercise of dilutive share options. The number of additional outstanding Common Shares is calculated by assuming that the outstanding in-the-money share options and warrants were exercised and that the proceeds from such exercises were used to acquire Common Shares at the average market price during the reporting period.

**r) Finance expenses**

Finance expenses are comprised of interest expenses and bank charges on borrowings and the accretion of decommissioning provision and term debt. Interest expenses and bank charges are considered operating expenses on the statement of cash flows. Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. Qualifying assets are those assets that necessarily take a substantial period of time to get ready for their intended use. All other borrowing costs are recognized in income or loss. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

#### **4. ADOPTED ACCOUNTING PRONOUNCEMENTS**

As of January 1, 2019, the Company adopted the following new accounting pronouncements, in accordance with the transitional provision of the standard. A brief description of each new accounting policy and its impact on the Company's financial statements are as follows:

**IFRS 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 \$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 and dispositions 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.

## 5. 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 December 31, 2019 and December 31, 2018:

| Description                   | December 31, 2019 |            | December 31, 2018 |            |
|-------------------------------|-------------------|------------|-------------------|------------|
|                               | Carrying value    | Fair value | Carrying value    | Fair value |
| Cash                          | 8,661             | 8,661      | 3,563             | 3,563      |
| Trade and other receivables   | 13,597            | 13,597     | 13,536            | 13,536     |
| Trade and other payables      | (27,514)          | (27,514)   | (16,772)          | (16,772)   |
| Due to related party          | (6,000)           | (6,000)    | (6,000)           | (6,000)    |
| Subordinated promissory notes | (6,000)           | (6,000)    | (54,280)          | (54,280)   |
| Term debt                     | (48,642)          | (48,642)   | -                 | -          |

## 6. RISK MANAGEMENT

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

### 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. 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.

*Physical Sales Contracts*

At December 31, 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> |
|-------------------------------------|-----------------------|-------------------------------------|--|---|
| January 1, 2020 to March 31, 2020   | AECO                  | 5,000                               | \$2.36                                   | \$2.48                                      |
| January 1, 2020 to October 31, 2020 | TransGas <sup>3</sup> | 9,000                               | \$2.40                                   | \$2.52                                      |
| April 1, 2020 to October 31, 2020   | AECO                  | 22,500                              | \$1.54                                   | \$1.62                                      |

<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.

At March 11, 2020, the Company had the following additional 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> |
|-----------------------------------|----------------|-------------------------------------|-----------------------------|---|
| April 1, 2020 to October 31, 2020 | AECO           | 5,000                               | \$1.67                      | \$1.75                                      |

<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.

*Interest Rate Risk*

The Company is principally exposed to interest rate risk to the extent it draws on its variable rate debt less cash. Changes in market interest rates could affect the cash flow from operating activities associated with variable rate debt. If interest rates applicable to Pine Cliff's variable rate debt less cash increased or decreased by one percent, it is estimated that Pine Cliff's loss for the year ended December 31, 2019, would have increased or decreased, respectively, by \$nil (December 31, 2018 - \$0.1 million).

*Equity Price Risk*

Equity price risk refers to the risk that the fair value of investments will fluctuate due to changes in equity markets for each company. Equity price risk is also influenced from the estimated realizable value of investments that the Company holds.

*Foreign Exchange Risk*

The Company and its share price are exposed to risk on foreign exchange rates because the commodity prices it receives are indirectly determined in reference to United States dollar denominated commodity prices. The Company manages this risk by monitoring the foreign exchange rate and evaluating its effect on cash flow from operating activities. Pine Cliff has not entered into any derivative financial instruments to manage this risk at this time.

**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. 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 December 31, 2019 of \$13.6 million (December 31, 2018 - \$13.5 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 December 31, 2019, there was \$1.0 million (December 31, 2018 - \$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 year ended December 31, 2019, the Company recorded \$0.9 million (December 31, 2018 - \$0.3 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. 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 currently will be adequate to settle Pine Cliff's financial liabilities. If required, Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities. Any of these events could affect Pine Cliff's ability to fund ongoing operations.

## 7. EXPLORATION AND EVALUATION

| Cost:                               | Oil and gas<br>properties | Mineral<br>properties | Total         |
|-------------------------------------|---------------------------|-----------------------|---------------|
| Balance at December 31, 2017        | 26,313                    | 3,074                 | 29,387        |
| Additions                           | 193                       | 46                    | 239           |
| Transfer to PP&E                    | (7,006)                   | -                     | (7,006)       |
| <b>Balance at December 31, 2018</b> | <b>19,500</b>             | <b>3,120</b>          | <b>22,620</b> |
| Additions                           | 345                       | 53                    | 398           |
| Transfer to PP&E                    | (14,324)                  | -                     | (14,324)      |
| <b>Balance at December 31, 2019</b> | <b>5,521</b>              | <b>3,173</b>          | <b>8,694</b>  |

## E&E Impairment Assessment

In accordance with IFRS, an impairment test is performed if the Company identified an indication of impairment. An E&E asset shall be assessed for impairment before reclassification to PP&E if the Company determines technical feasibility and commercial viability of extraction. At December 31, 2019 and 2018, the Company determined that no indicators of impairment existed on its E&E assets and therefore an impairment test was only performed for E&E assets transferred to PP&E.

## 8. PROPERTY, PLANT AND EQUIPMENT

|   |                  |
|---|------------------|
| Cost:                                   | (\$000s)         |
| <b>Balance at December 31, 2017</b>     | <b>558,482</b>   |
| Additions                               | 10,426           |
| Transfer from E&E                       | 7,006            |
| Acquisitions                            | 307              |
| Dispositions                            | (369)            |
| Decommissioning provision               | 12,990           |
| <b>Balance at December 31, 2018</b>     | <b>588,842</b>   |
| Additions                               | 7,981            |
| Lease obligations                       | 4,585            |
| Transfer from E&E                       | 14,324           |
| Acquisitions                            | 8,801            |
| Dispositions                            | (1,542)          |
| Decommissioning provision               | 838              |
| <b>Balance at December 31, 2019</b>     | <b>623,829</b>   |
| Accumulated depletion and depreciation: | (\$000s)         |
| <b>Balance at December 31, 2017</b>     | <b>(234,524)</b> |
| Depletion and depreciation              | (43,760)         |
| Disposition                             | 84               |
| <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> |
| Carrying value at:                      | (\$000s)         |
| December 31, 2018                       | 310,642          |
| <b>December 31, 2019</b>                | <b>290,565</b>   |

**PP&E Impairment Assessment**

As at December 31, 2019, the Company had four CGU's being the Southern CGU, Central Gas CGU, Edson CGU, and Coal Bed Methane CGU. The Company reviewed each CGU's property and equipment at December 31, 2019 for indicators of impairment and determined that an indicator related to the decrease in future commodity prices was present. The company prepared estimates of both the value in use and fair value less cost to sell of each of the Company's CGUs. When it is determined that any CGU carrying value exceeds its recoverable amount, that CGU is considered impaired and an impairment expense is reported that equals this excess.

The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at December 31, 2019:

| Year       | WTI Oil (US\$/Bbl) <sup>1</sup> | \$C to US\$ Foreign exchange rate <sup>1</sup> | Edmonton Light Crude Oil (Cdn\$/Bbl) <sup>1</sup> | AECO Gas (Cdn\$/MMBtu) <sup>1</sup> |
|------------|---------------------------------|--|---|-------------------------------------|
| 2020       | 61.00                           | 1.32   | 72.64   | 2.04                                |
| 2021       | 63.75                           | 1.30   | 76.06   | 2.32                                |
| 2022       | 66.18                           | 1.27   | 78.35   | 2.62                                |
| 2023       | 67.91                           | 1.27   | 80.71   | 2.71                                |
| 2024       | 69.48                           | 1.27   | 82.64   | 2.81                                |
| 2025-2034  | 78.10                           | 1.27   | 93.14   | 3.19                                |
| Thereafter | +2.0%/yr                        | 1.27   | +2.0%/yr  | +2.0%/yr                            |

<sup>1</sup> Source: Average of three independent consultant price forecasts, effective January 1, 2020 (McDaniel & Associates Consultants Ltd., GLJ Petroleum Consultants Ltd. and Sproule Associates Limited).

The recoverable amounts of each of the Company's CGU's at December 31, 2019 were estimated at their fair value less cost to sell, based on the net present value of discounted future cash flow from operating activities from oil and gas reserves as estimated by the Company's independent reserves evaluator at December 31, 2019. The fair value less costs to sell used to determine the recoverable amounts are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data, but rather, the Company's management best estimates.

The Company used a pre-tax 15% discount rate for the December 31, 2019 impairment test which took into account risks specific to the CGU's and inherent in the oil and gas business. The impairment testing concluded that the fair value less costs to sell for the Company's CGU's at December 31, 2019 is greater than the carrying amounts and therefore no impairment was recorded in the fourth quarter of 2019. An impairment of \$8.2 million was recorded for the period ending June 30, 2019.

The following CGU's were impaired as at June 30, 2019:

| CGUs             | 2019  | 2018 |
|------------------|-------|------|
| Southern         | 8,200 | -    |
| Total Impairment | 8,200 | -    |

**9. LEASE LIABILITIES**

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

|   | (\$000s)     |
|---|--------------|
| 2020  | 1,198        |
| 2021  | 1,107        |
| 2022  | 915          |
| 2023  | 739          |
| 2024  | 96           |
| Thereafter  | -            |
| <b>Total lease payments as at December 31, 2019</b> | <b>4,055</b> |
| Amounts representing interest                       | (346)        |
| <b>Present value of lease payments</b>              | <b>3,709</b> |
| Current portion of lease obligations                | (1,043)      |
| <b>Non-current portion of lease obligations</b>     | <b>2,666</b> |

For the year ended December 31, 2019, interest expense of \$0.2 million and a total cash outflow of \$0.9 million was recognized relating to lease obligations.

**10. DEFERRED INCOME TAXES**

At December 31, 2019, a deferred income tax asset of \$nil (December 31, 2018 - \$nil) has been recognized as the Company believes, based on estimated cash flows, its realization is not probable within the allowable timeframes.

|   | <b>As at December 31,</b> |             |
|---|---------------------------|-------------|
|   | <b>2019</b>               | <b>2018</b> |
| Deferred income tax assets:                   |                           |             |
| Share issue costs                             | 157                       | 454         |
| Decommissioning provision                     | 52,012                    | 58,362      |
| Property and equipment                        | (9,786)                   | (15,474)    |
| Lease liabilities                             | 872                       | -           |
| Capital losses carried forward                | 464                       | 336         |
| Non-capital losses carried forward            | 32,571                    | 29,676      |
| Asset before unrecognized deferred income tax | 76,290                    | 73,354      |
| Less: unrecognized deferred income tax        | (76,290)                  | (73,354)    |
| Net deferred income tax asset                 | -                         | -           |

As at December 31, 2019, a deferred income tax asset has not been recognized on \$76.3 million (December 31, 2018 - \$73.4 million) of deductible temporary differences as it is not probable that future taxable earnings will be available against which the Company can utilize the benefits.

Pine Cliff has approximately \$400.3 million in tax pools as at December 31, 2019 (December 31, 2018 - \$389.6 million), available for future use as deductions from taxable income. Included in the Company's tax pools are estimated non-capital loss carry-forwards of \$138.7 million (December 31, 2018 - \$109.9 million) that expire between the years 2030 and 2039.

Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial tax rates to income before income taxes as follows:

|  | <b>Years ended December 31,</b> |             |
|--|---------------------------------|-------------|
|  | <b>2019</b>                     | <b>2018</b> |
| Loss before income taxes                       | (56,430)                        | (43,821)    |
| Corporate income tax rate                      | 26.5%                           | 27%         |
| Computed income tax recovery                   | (14,981)                        | (11,832)    |
| Non-taxable dividends                          | -                               | (9)         |
| Non-deductible compensation expense            | 416                             | 675         |
| Changes in tax rate                            | 11,151                          | (106)       |
| Changes in the unrecorded benefit of tax pools | 2,536                           | 39,435      |
| Realized loss on sale of investments           | -                               | 725         |
| Premium on flow-through shares                 | (177)                           | -           |
| Qualifying expenditures on flow-through shares | 1,062                           | -           |
| Return to provision true-up                    | (7)                             | 10          |
| Deferred income tax expense                    | -                               | 28,898      |

**11. 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 December 31, 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 December 31, 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 December 31, 2019, the Company had \$2.6 million in letters of credit issued against its LC Facility (December 31, 2018 - \$nil).

**12. 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 year ended December 31, 2019 was \$0.4 million (December 31, 2018 - \$0.3 million).

**13. 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.

**14. SUBORDINATED PROMISSORY NOTES AND TERM DEBT**

**Subordinated Promissory Notes**

|                                   | <b>2019</b>     | <b>As at December 31,<br/>2018</b> |
|-----------------------------------|-----------------|------------------------------------|
| 2020 Notes - beginning of year    | 29,544          | 29,307                             |
| Accretion expense                 | 456             | 237                                |
| 2020 Notes repaid during the year | <b>(30,000)</b> | -                                  |
| <b>2020 Notes - end of year</b>   | <b>-</b>        | 29,544                             |

|                                   | <b>2019</b>     | <b>As at December 31,<br/>2018</b> |
|-----------------------------------|-----------------|------------------------------------|
| 2022 Notes - beginning of year    | 18,736          | -                                  |
| 2022 Notes issued                 | -               | 18,706                             |
| Accretion expense                 | 264             | 30                                 |
| 2022 Notes repaid during the year | <b>(19,000)</b> | -                                  |
| <b>2022 Notes - end of year</b>   | <b>-</b>        | 18,736                             |

The 2022 Notes were determined to be a hybrid instrument with an embedded derivative. The fair value of the debt component of the 2022 Notes was 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 accretes up to the principal balance at maturity or repayment.

**Term Debt**

|                                | <b>2019</b>   | <b>As at December 31,<br/>2018</b> |
|--------------------------------|---------------|------------------------------------|
| Term debt - beginning of year  | -             | -                                  |
| Term debt principal drawdown   | 49,000        | -                                  |
| Value allocated to Warrants    | <b>(172)</b>  | -                                  |
| Accretion expense              | <b>(186)</b>  | -                                  |
| <b>Term Debt - end of year</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 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.

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.

### 15. DECOMMISSIONING PROVISION

The total current and long-term decommissioning provision of \$221.4 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 December 31, 2019, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$239.7 million (December 31, 2018 - \$264.6 million). The discounted and inflated amount required to settle the decommissioning liabilities of \$221.4 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 2.57% (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          |
| <b>Decommissioning provision, December 31, 2018</b>                  | <b>216,189</b> |
| 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> |
| Less current portion of decommissioning provision                    | (2,000)        |
| <b>Non-current portion of decommissioning provision</b>              | <b>219,360</b> |

### 16. 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 and outstanding

|   | Common Shares<br>(000s) | Share capital<br>(\$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 <sup>1,2</sup> | 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>            |

<sup>1</sup> 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 was used to incur eligible Canadian development expenses ("CDE"). Pine Cliff incurred all eligible CDE prior to December 31, 2019.

<sup>2</sup> On May 31, 2019, Pine Cliff also issued by way of a non-brokered private placement ("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 of the Private Placement.

**Flow-through Common Shares**

Canadian tax legislation permits entities meeting specified criteria to issue securities to investors whereby the deductions for tax purposes related to eligible expenditures may be claimed by the investors rather than by the entity. The table below summarizes Flow-Through Shares issued during the year ended December 31, 2019. As of December 31, 2019 all eligible expenditures for the Flow-Through Shares issued in 2019 have been incurred.

As at December 31, 2019:

| Closing Date        | # of Flow Through Shares (000s) | Price (\$ per Flow Through Shares) | Gross Proceeds (\$000s) | Deferred Premium (000s) | Eligible Expenditures <sup>1</sup> |                           | Expenditure Period End |                          |
|---------------------|---------------------------------|------------------------------------|-------------------------|-------------------------|------------------------------------|---------------------------|------------------------|--------------------------|
|                     |                                 |                                    |                         |                         | Type                               | Incurred (000s) Remaining |                        |                          |
| <b>May 31, 2019</b> | <b>14,493</b>                   | <b>0.276</b>                       | <b>4,000</b>            | <b>667</b>              | <b>CDE</b>                         | <b>4,000</b>              | <b>-</b>               | <b>December 31, 2019</b> |

<sup>1</sup> Pursuant to the provisions of the Income Tax Act (Canada), the Company has incurred eligible CDE.

**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 Common Shares immediately preceding the date of grant and the option’s maximum term is five years.

|  | Options (000s) | Weighted-average exercise price (\$ per Common Share) |
|--|----------------|---|
| <b>Stock options issued and outstanding:</b> |                |   |
| Outstanding, January 1, 2018                 | 21,316         | 1.06  |
| Granted                                      | 7,698          | 0.33  |
| Expired                                      | (6,598)        | 1.23  |
| Forfeited                                    | (1,387)        | 0.82  |
| <b>Outstanding, December 31, 2018</b>        | <b>21,029</b>  | <b>0.75</b>   |
| 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>   |
| <b>Exercisable, December 31, 2019</b>        | <b>6,965</b>   | <b>0.78</b>   |

| Exercise price:  | Stock options outstanding (000s) | Weighted-average remaining term (years) | Stock options exercisable (000s) | Weighted-average remaining term (years) |
|------------------|----------------------------------|---|----------------------------------|---|
| \$0.125 - \$0.47 | 19,636                           | 2.2                                     | 2,280                            | 0.4                                     |
| \$0.48 - \$0.82  | 3,216                            | 0.9                                     | 1,708                            | 0.4                                     |
| \$0.83 - \$1.16  | 2,977                            | 0.8                                     | 2,977                            | 0.8                                     |
|                  | <b>25,829</b>                    | <b>1.9</b>                              | <b>6,965</b>                     | <b>0.6</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. Typically, 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 year ended December 31, 2019, the Company granted 13,137,907 stock options (December 31, 2018 – 7,697,800) with a fair value of \$0.07 (December 31, 2018 - \$0.12) per option using the Black-Scholes option pricing model using the following key assumptions:

| Assumptions (weighted average):                      | Years ended December 31, |      |
|--|--------------------------|------|
|  | 2019                     | 2018 |
| Exercise price (\$)                                  | <b>0.18</b>              | 0.33 |
| Estimated volatility of underlying Common Shares (%) | <b>53.3</b>              | 49.8 |
| Expected life (years)                                | <b>3.0</b>               | 3.0  |
| Risk-free rate (%)                                   | <b>1.6</b>               | 2.1  |
| Forfeiture rate (%)                                  | <b>3.9</b>               | 3.9  |

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<br>(000s) | Weighted-average<br>exercise price<br>(\$ per Common<br>Share) |
|---------------------------------------|--------------------|--|
| Outstanding, January 1, 2018          | 4,500              | 1.38   |
| Expired                               | (4,500)            | (1.38)   |
| Granted                               | 2,850              | 0.51   |
| <b>Outstanding, December 31, 2018</b> | <b>2,850</b>       | <b>0.51</b>  |
| Granted                               | 7,500              | 0.21   |
| <b>Outstanding, December 31, 2019</b> | <b>10,350</b>      | <b>0.29</b>  |

During the year ended December 31, 2019, the Company granted 7,500,000 Warrants (December 31, 2018 – 2,850,000) with a fair value of \$0.03 (December 31, 2018 - \$0.10) per Warrant using the Black-Scholes Warrant pricing model. A total of 2,850,000 Warrants expire on July 31, 2021 and 7,500,000 Warrants expire on September 30, 2022.

**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 and warrants were outstanding. In calculating the weighted average number of diluted, Common Shares outstanding for the year ended December 31, 2019 and 2018, all stock options and warrants were excluded as they were not dilutive.

| Loss per Common Share calculation:                                | Years ended December 31, |          |
|---|--------------------------|----------|
|   | 2019                     | 2018     |
| <b>Numerator</b>  |                          |          |
| Loss for the year   | (56,430)                 | (72,719) |
| <b>Denominator (000s)</b>   |                          |          |
| Weighted-average Common Shares outstanding –<br>basic and diluted | 319,274                  | 307,076  |
| Loss per Common Share – basic and diluted (\$)                    | (0.18)                   | (0.24)   |

**17. COMMODITY SALES**

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.

| (\$000s)              | Years ended December 31, |         |
|-----------------------|--------------------------|---------|
|                       | 2019                     | 2018    |
| Natural gas           | 82,908                   | 84,161  |
| NGL                   | 12,985                   | 18,300  |
| Crude oil             | 9,113                    | 4,924   |
| Total commodity sales | 105,006                  | 107,385 |

**18. SUPPLEMENTAL CASH FLOW INFORMATION**

|  | Years ended December 31, |              |
|--|--------------------------|--------------|
|  | 2019                     | 2018         |
| Changes in non-cash working capital:                     |                          |              |
| Trade and other receivables                              | (61)                     | 1,612        |
| Prepaid expenses and deposits                            | 1,636                    | 28           |
| Trade and other payables and accrued liabilities         | 10,742                   | (516)        |
|  | <b>12,317</b>            | <b>1,124</b> |
| Change related to:                                       |                          |              |
| Operating activities                                     | 11,586                   | 833          |
| Investing activities                                     | 731                      | 291          |
|  | <b>12,317</b>            | <b>1,124</b> |
|  |                          |              |
|  |                          |              |
|  |                          |              |
| Finance expenses:  |                          |              |
| Interest expense and bank charges                        | 4,757                    | 3,855        |
| Non cash:  |                          |              |
| Accretion on decommissioning provision                   | 6,262                    | 5,389        |
| Accretion on subordinated promissory notes and term debt | 534                      | 267          |
| Total finance expenses                                   | <b>11,553</b>            | <b>9,511</b> |

Cash interest paid in the year ended December 31, 2019, was \$4.8 million (December 31, 2018 - \$3.0 million). Dividends received during the year ended December 31, 2019, were \$nil (December 31, 2018 - \$0.035 million).

**19. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses by nature were as follows:

|   | Years ended December 31, |              |
|---|--------------------------|--------------|
|   | 2019                     | 2018         |
| General and administration expenses:      |                          |              |
| Staff expenses                            | 4,822                    | 4,876        |
| Public company expenses                   | 292                      | 299          |
| Professional fees                         | 705                      | 686          |
| Office and other costs                    | 1,622                    | 1,394        |
| Bad debt expense                          | 887                      | 261          |
| Lease liabilities                         | (442)                    | -            |
| Overhead recoveries                       | (2,807)                  | (2,678)      |
| Total general and administration expenses | <b>5,079</b>             | <b>4,838</b> |

**20. KEY MANAGEMENT REMUNERATION**

Key management personnel are those persons, including all directors and officers, having authority and responsibility for planning, directing and controlling the activities of the Company. In addition to their salaries, the Company also provides non-cash benefits to its directors and officers and directors and officers also participate in the Option Plan. Director and officer compensation was as follows:

|                                   | Years ended December 31, |              |
|-----------------------------------|--------------------------|--------------|
|                                   | 2019                     | 2018         |
| Key management remuneration:      |                          |              |
| Short-term benefits <sup>1</sup>  | 1,442                    | 1,498        |
| Share-based payments <sup>2</sup> | 577                      | 1,157        |
| Total key management remuneration | <b>2,019</b>             | <b>2,655</b> |

<sup>1</sup> Short-term benefits includes the salary, other non-cash short-term benefits and directors fees paid to Pine Cliff's officers and directors.

<sup>2</sup> Share-based payments computed for officers and directors are included in Note 16 and include the fair value of awards expensed in the year.

## 21. COMMITMENTS

As at December 31, 2019, the Company has the following commitments and other contractual obligations:

|  | 2020          | 2021          | 2022          | 2023         | 2024          | Thereafter   |
|--|---------------|---------------|---------------|--------------|---------------|--------------|
| (\$000s)                                   |               |               |               |              |               |              |
| Trade and other payables                   | 27,514        | -             | -             | -            | -             | -            |
| Term debt <sup>1</sup>                     | -             | -             | 19,000        | -            | 30,000        | -            |
| Due to related party                       | -             | -             | -             | -            | 6,000         | -            |
| Subordinated promissory notes              | -             | -             | -             | -            | 6,000         | -            |
| Future interest                            | 4,820         | 5,120         | 4,861         | 4,380        | 4,605         | -            |
| Transportation <sup>2</sup>                | 8,530         | 6,883         | 6,041         | 3,168        | 3,168         | 8,977        |
| <b>Total commitments and contingencies</b> | <b>40,864</b> | <b>12,003</b> | <b>29,902</b> | <b>7,548</b> | <b>49,773</b> | <b>8,977</b> |

<sup>1</sup> Principal amount.

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

## 22. CAPITAL STRUCTURE

The Company's objectives when managing capital, which the Company defines to include shareholders' equity 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 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.

The Company defines and computes its net debt as follows:

|  | As at December 31, |               |
|--|--------------------|---------------|
|  | 2019               | 2018          |
| Due to related party <sup>1</sup>                | 6,000              | 6,000         |
| Subordinated promissory notes <sup>1</sup>       | 6,000              | 55,000        |
| Term debt <sup>2</sup>                           | 49,000             | -             |
| Trade and other payables and accrued liabilities | 27,514             | 16,772        |
| Less:  |                    |               |
| Trade and other receivables                      | (13,597)           | (13,536)      |
| Cash   | (8,661)            | (3,563)       |
| Prepaid expenses and deposits                    | (2,218)            | (3,854)       |
| <b>Net debt</b>                                  | <b>64,038</b>      | <b>56,819</b> |
| <b>Equity</b>                                    | <b>10,733</b>      | <b>60,974</b> |

<sup>1</sup> The due to related party and promissory notes are due on December 31, 2024.

<sup>2</sup> The term debt for net debt are presented at the principal amount with \$19.0 million due on July 31, 2022 and \$30.0 million due on December 31, 2024.

The Company monitors the leverage in its capital structure and the strength of its balance sheet by reviewing its net debt to equity ratio and its debt-to-adjusted funds flow (cash flow from operating activities before changes in non-cash working capital and decommissioning liabilities) ratio. Net debt-to-adjusted funds flow and net debt do not have a specified meaning under IFRS and may not be comparable to measures used by other companies.

Pine Cliff's cash flow from operating activities is expected to provide the necessary capital for oil and gas exploration and development activities. However, due to the potential impact of adverse changes in commodity prices, production rates, capital efficiencies and service costs, Pine Cliff may not generate sufficient cash flow from operating activities to entirely fund its planned oil and gas capital programs or future acquisitions. Accordingly, the Company will continually evaluate the stage of development of its proved and producing reserves and the expected return on investment of acquisitions and consider issuing equity and/or debt to provide additional financing to maintain appropriate net debt and equity levels.

The Company sets the amounts of capital in proportion to risk and manages risk to ensure the Company's net debt to equity ratio is consistent with its capital management objectives.

Net debt to equity is computed as follows:

|                           | <b>As at December 31,</b> |        |
|---------------------------|---------------------------|--------|
|                           | <b>2019</b>               | 2018   |
| Net debt to equity ratio: |                           |        |
| Net debt                  | <b>64,038</b>             | 56,819 |
| Equity                    | <b>10,733</b>             | 60,974 |
| Net debt to equity        | <b>6.0</b>                | 0.9    |

The Company considers adjusted funds flow to be a key performance measure as it demonstrates the Company's ability to generate funds necessary to repay debt and to fund future growth through capital investment. Net debt-to-adjusted funds flow is computed as follows:

|   | <b>As at December 31,</b> |        |
|---|---------------------------|--------|
|   | <b>2019</b>               | 2018   |
| Net debt-to-adjusted funds flow calculation:    |                           |        |
| Cash provided by operating activities           | <b>15,536</b>             | 8,616  |
| Increase (decrease) in non-cash working capital | <b>(11,586)</b>           | (833)  |
| Decommissioning obligations settled             | <b>1,929</b>              | 2,730  |
| Adjusted funds flow                             | <b>5,879</b>              | 10,513 |
| Net debt  | <b>64,038</b>             | 56,819 |
| Net debt-to-adjusted funds flow                 | <b>11.0</b>               | 5.4    |

The Company's financial objectives and strategy as described above have remained substantially unchanged over the reporting periods. These objectives and strategy are reviewed on an annual basis. The Company believes its ratios are within reasonable limits, in light of the relative size of the Company, the long-term nature of its net debt, including its term debt, subordinated promissory notes and due to related party and its capital management objectives.

**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  
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

**BANK**

Toronto-Dominion Bank

**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)

