Pine Cliff Energy Ltd.

Long-term Value Focus

Q3-2017 Report

MESSAGE TO SHAREHOLDERS

I think it is safe to say that the third quarter of 2017 was the most challenging quarter in Pine Cliff's history, from a field operations standpoint. We dealt with unprecedented volatility in AECO pricing and I would like to commend our entire operational and field staff for mitigating the impact caused by the unpredictable pricing swings with rapid adjustments to our production strategy. Despite the headwinds in the past quarter, we were still able to achieve the following highlights:

- generated $2.9 million of funds flow from operations ($0.01 per basic share) for the three months ended September 30, 2017, emphasizing the importance of maintaining one of the lowest cash flow break even gas prices in the industry at $1.71 per Mcf;
- generated $24.9 million ($0.08 per basic share) of funds flow from operations in the nine months ended September 30, 2017, compared to $4.7 million of funds flow from operations ($0.02 per basic share) in the nine months ended September 30, 2016;
- generated total revenue of $89.6 million for the nine months ended September 30, 2017, an increase of 18% compared to $75.9 million in the nine months ended September 30, 2016;
- achieved average production of 21,863 Boe/d (95% natural gas) in the third quarter, only 3% lower than the 22,521 Boe/d in the third quarter of 2016, despite selling over 600 Boe/d of production in late 2016 and experiencing short-term production curtailments of approximately 400 Boe/d in the third quarter of 2017;
- replaced our production decline during the nine months ended September 30, 2017, from a production level of 21,582 Boe/d at December 31, 2016, with drilling and recompletion capital spending of $6.0 million, representing only 24% of funds flow from operations, highlighting the importance of having one of the lowest decline rates in the industry at 10%;
- repaid $20.2 million of bank debt during the nine months ended September 30, 2017, ending the quarter with bank debt of $10.6 million, which is $60.8 million less than the third quarter of 2016 amount of $71.4 million. The decrease in bank debt resulted in lower interest and bank charges, net of dividend income, of $0.37 per Boe this past quarter, 62% lower than the $0.98 per Boe in the third quarter of 2016; and
- ended the quarter with $52.2 million in net debt, $58.1 million less than the third quarter of 2016 net debt level of $110.3 million.

Q3 AECO Volatility

AECO prices were the most frequent topic I was asked about this past quarter, not just by shareholders and employees, but by other industry participants. For those that have not followed this issue closely, the primary cause of the volatility appears to have been the inability of gas producers to access storage during pipeline maintenance due to a change in operational philosophy by the primary gathering system operator. The impact of this change, combined with a depressed summer gas market after a warm winter, resulted in the AECO daily pricing averaging $1.45 per Mcf for the quarter. I am optimistic that our industry leaders will work together to find a better solution for next summer's pipeline maintenance, as the natural gas prices we experienced this past quarter are not good for any of the stakeholders in the system, including the producers, the storage companies and the Governments receiving royalties. I am proud of how our team worked together to navigate through a turbulent quarter, while still being able to generate $2.9 million of funds flow from operations.

Recompletion Program

In the middle of the AECO pricing chaos this past quarter, Pine Cliff recompleted 16 net wells in Central Alberta which contributed an initial 60 day producing average of 1,100 Boe/d while spending only $700,000 on the program for a capital efficiency of $636/Boe/d ($106/Mcf/d). It is important to note that 11 of these wells were previously standing wells which were successfully returned to production as part of the program. By any industry standard, those are impressive numbers.

Outlook

October AECO prices still suffered from the issues discussed above, but as I write this, AECO gas prices have rebounded to the $2.70 Mcf level. The rest of fourth quarter pricing will primarily be driven by North American weather. If we see winter temperatures (especially in the Eastern US) revert to a more normalized historical pattern, this should be bullish for gas prices and our cash flow. If we see another record warm winter like we have seen the past two winters, then pricing will most likely languish as the system deals with increased natural gas production. In either event, we will continue to make the necessary decisions to maximize long term value for our shareholders.

Regardless of the short term weather, our balance sheet is strong and we continue to pay down our debt to further strengthen our business. The short-term reduction in natural gas prices has created acquisition opportunities that we continue to explore. Pine Cliff has been built on taking a counter-cyclical view of the natural gas markets and we will continue to look for accretive acquisitions that fit into our growth plan. We treat our business as a marathon, not a sprint.

We thank you for your continued patience and support as our team continues to work towards our goal of delivering long-term value to our shareholders.

Yours truly,

Phil Hodge
President and Chief Executive Officer
November 8, 2017

Please refer to the attached Management's Discussion and Analysis for Reader Advisories regarding forward-looking information, non-IFRS measures and oil and gas measurements and definitions. This President's Message should be read in conjunction with the unaudited condensed consolidated financial statements of Pine Cliff Energy Ltd. together with Management's Discussion and Analysis for the period ended September 30, 2017, which can be found on www.sedar.com and is subject to the same cautionary statements as set out therein.

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
($000s, unless otherwise indicated)				
FINANCIAL[1]				
Oil and gas sales (before royalty expense)	**23,078**	32,401	**93,604**	80,326
Cash flow from operating activities	**5,517**	4,606	**29,359**	9,857
Funds flow from operations[2]	**2,879**	6,972	**24,946**	4,715
Per share – Basic and Diluted ($/share)[2]	**0.01**	0.02	**0.08**	0.02
Loss	**(30,214)**	(11,558)	**(34,868)**	(53,597)
Per share – Basic and Diluted ($/share)	**(0.10)**	(0.04)	**(0.11)**	(0.18)
Capital expenditures	**3,318**	1,437	**10,386**	5,803
Acquisitions	**(9)**	(603)	**(106)**	222
Dispositions	**(65)**	(5,378)	**(281)**	(30,080)
Net debt[2]	**52,201**	110,312	**52,201**	110,312
Weighted-average common shares outstanding (000s)				
Basic and diluted	**307,076**	306,878	**307,076**	306,109
OPERATIONS				
Production				
Natural gas (Mcf/d)	**124,450**	125,082	**121,527**	126,373
Natural gas liquids (Bbls/d)	**998**	871	**938**	954
Crude oil (Bbls/d)	**123**	803	**194**	804
Total (Boe/d)	**21,863**	22,521	**21,387**	22,820
Realized commodity sales prices (before hedging)				
Natural gas ($/Mcf)	**1.63**	2.33	**2.41**	1.87
Natural gas liquids ($/Boe)	**41.98**	31.67	**42.58**	31.65
Crude oil ($/Bbl)	**47.72**	41.81	**53.75**	33.93
Combined ($/Boe)	**11.47**	15.64	**16.03**	12.85
Netback ($/Boe)				
Oil and gas sales	**11.47**	15.64	**16.03**	12.85
Realized hedging gain	**1.28**	-	**0.47**	-
Royalty income	**-**	-	**-**	0.18
Royalty expense	**(0.89)**	(1.13)	**(1.38)**	(0.91)
Operating expenses	**(9.56)**	(9.43)	**(9.56)**	(9.53)
Operating netback ($/Boe)[2]	**2.30**	5.08	**5.56**	2.59
General and administrative expenses	**(0.49)**	(0.74)	**(0.83)**	(0.96)
Interest and bank charges, net of dividend income	**(0.37)**	(0.98)	**(0.46)**	(0.86)
Corporate netback ($/Boe)[2]	**1.44**	3.36	**4.27**	0.77
Operating netback ($ per Mcfe)[2]	**0.38**	0.85	**0.93**	0.43
Corporate netback ($ per Mcfe)[2]	**0.24**	0.56	**0.71**	0.13

[1] Includes results for acquisitions and excludes results for dispositions from the closing dates.
[2] This is a non-IFRS measure, see NON-IFRS MEASURES for additional information.

INTRODUCTION

This Management's Discussion and Analysis ("**MD&A**") is a review of the operations and current financial position of Pine Cliff Energy Ltd. ("**Pine Cliff**" or the "**Company**") for the three and nine month periods ended September 30, 2017. This MD&A is dated and based on information available as at November 8, 2017 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2017 ("**Financial Statements**") and the audited annual consolidated financial statements for the year ended December 31, 2016 ("**Annual Financial Statements**") and the annual management's discussion and analysis for the year ended December 31, 2016 ("**Annual MD&A**"). The Financial Statements have been prepared in accordance with International Accounting Standard 34 ("**Interim Financial Reporting**") using accounting principles consistent with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board. Additional information relating to the Company, including the Company's Annual Information Form, may be found on www.sedar.com and by visiting Pine Cliff's website at www.pinecliffenergy.com.

Pine Cliff's head office is based in Calgary, Alberta, Canada. Common shares of the Company 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-IFRS 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 ("**Mcfe**") 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.

SENSITIVITIES

Pine Cliff's results are sensitive to changes in the business environment in which it operates. The following chart shows the Company's sensitivity to key commodity price variables and interest rates. 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 funds flow from operations[1]		
	Change	$000s	$ per share[3]
Crude oil price - Edmonton Light ($/Bbl)[2]	$1.00	308	0.00
Natural gas price -AECO ($/Mcf)[2]	$0.10	4,182	0.01
Interest rate on variable rate debt[4]	1.0%	214	0.00

[1] This analysis does not adjust for changes in working capital and uses royalty rates from Q3 2017.
[2] Pine Cliff has prepared this analysis using its Q3 2017 production volumes annualized for twelve months.
[3] Based on the Q3 2017 basic weighted average shares outstanding.
[4] Based on September 30, 2017 bank debt of $10.6 million, 2018 Notes, as defined herein, of $6.0 million, and 2018 Related Party Notes, as defined herein, of $5.0 million, less cash of $0.2 million.

Third quarter 2017 highlights

Significant highlights from the third quarter of 2017 are as follows:

- generated $2.9 million of funds flow from operations ($0.01 per basic share) for the three months ended September 30, 2017, emphasizing the importance of maintaining one of the lowest cash flow break even gas prices in the industry at $1.71 per Mcf;
- generated $24.9 million ($0.08 per basic share) of funds flow from operations in the nine months ended September 30, 2017, compared to $4.7 million of funds flow from operations ($0.02 per basic share) in the nine months ended September 30, 2016;
- generated total revenue of $89.6 million for the nine months ended September 30, 2017, an increase of 18% compared to $75.9 million in the nine months ended September 30, 2016;
- achieved average production of 21,863 Boe/d (95% natural gas) in the third quarter, only 3% lower than the 22,521 Boe/d in the third quarter of 2016, despite selling over 600 Boe/d of production in late 2016 and experiencing short-term production curtailments of approximately 400 Boe/d in the third quarter of 2017;
- replaced our production decline during the nine months ended September 30, 2017, from a production level of 21,582 Boe/d at December 31, 2016, with drilling and recompletion capital spending of $6.0 million, representing only 24% of funds flow from operations, highlighting the importance of having one of the lowest decline rates in the industry at 10%;
- repaid $20.2 million of bank debt during the nine months ended September 30, 2017, ending the quarter with bank debt of $10.6 million, which is $60.8 million less than the third quarter of 2016 amount of $71.4 million. The decrease in bank debt resulted in lower interest and bank charges, net of dividend income, of $0.37 per Boe this past quarter, 62% lower than the $0.98 per Boe in the third quarter of 2016; and
- ended the quarter with $52.2 million in net debt, $58.1 million less than the third quarter of 2016 net debt level of $110.3 million.

PINE CLIFF'S STRATEGIC OBJECTIVES AND ACQUISITIONS

Pine Cliff is a natural gas focused, exploration and production company operating in the Western Canadian Sedimentary Basin. The Company's strategy is to deliver long-term value to shareholders by developing its existing portfolio of long-life, low decline natural gas assets, while also actively seeking growth opportunities to acquire oil and natural gas assets.

The Company has been active in the acquisition and divestiture market since January 2012, with the most recent transactions including the:

- acquisition of certain shallow natural gas assets in the Southern core area and Edson core area in May 2015 (the "**May 2015 Acquisition**");
- acquisition of certain oil and natural gas assets in the Viking and Ghost Pine areas of Central Alberta in December 2015 (the "**December 2015 Acquisition**");
- disposition of certain fee lands and royalty interests in June 2016 (the "**Royalty Disposition**"); and
- disposition of non-core oil assets in December 2016 (the "**December 2016 Disposition**").

Management believes the assets that have been assembled to date, and the cash flow from these assets, provide Pine Cliff with a strong foundation from which to generate long-term growth in shareholder value.

PINE CLIFF'S OPERATIONS

Pine Cliff's main core areas of production are as follows:

- Central Area – Pine Cliff owns low decline and long reserve life assets in the Ghost Pine and Viking areas of Central Alberta with average mineral working interests of 76% and 79% respectively. Each area is characterized with multiple stacked productive horizons and extensive ownership and operatorship of infrastructure which provides Pine Cliff with direct control for the majority of its production. The Ghost Pine area has wide-spread low decline, liquid rich gas production from the deeper Manville Sands and Mississippian carbonate. Near term development opportunities are focused on the Horseshoe Canyon coals and the stacked Belly River sands. Pine Cliff has identified 892 gross (525 net) potential vertical drilling locations in the Ghost Pine Horseshoe Canyon coal bed methane fairway as at December 31, 2016. The majority of the production in the Viking area comes from the Viking shore face sands but there is material upside in the Colorado Shale which is a deep water silt stone. Pine Cliff has identified 138 gross (138 net) potential horizontal drilling locations in the Viking area Colorado Shale as at December 31, 2016. In addition to the drilling inventory, Pine Cliff has generated a material inventory of recompletion opportunities in Central Area wellbores that are anticipated to continue to provide attractive low risk returns. Approximately 46% of Pine Cliff's corporate production comes from the Central Area assets.

- Southern Area – Pine Cliff holds approximately an 82% working interest in a number of low decline, producing shallow gas assets in Southeast Alberta and Southwest Saskatchewan. The majority of production in the Southern Area comes from the Upper Cretaceous Milk River, Medicine Hat and Second White Specks sands which together provide Pine Cliff with a meaningful interest in some of the largest gas fields in Western Canada. These fields are characterized by their shallow depth and long production life. Pine Cliff's natural gas production in this area often receives premium to AECO pricing elsewhere in the Province through sales into Saskatchewan and Montana. Approximately 43% of Pine Cliff's corporate production comes from the Southern Area assets.

- Edson Area – Pine Cliff holds an average 42% working interest in a collection of liquid rich natural gas assets located in the Edson area of Alberta. The Edson Area assets are typical "deep basin" tight gas assets with multi-zone potential that are suited for horizontal drilling development in all commodity cycles. Pine Cliff's recent developmental efforts have been focused on the emerging Ellerslie sandstone play which is an extensive shallow marine valley system. Pine Cliff has 44 gross (12.2 net) sections of undeveloped land with over 91 gross (32 net) potential drilling locations as at December 31, 2016. Approximately 11% of Pine Cliff's corporate production comes from the Edson Area assets.

GUIDANCE FOR 2017

Pine Cliff's 2017 guidance provides information as to management's expectation for results of operations for 2017. Readers are cautioned that the 2017 guidance may not be appropriate for other purposes. The Company's expected results are sensitive to fluctuations in the business environment and may vary accordingly. See "**FORWARD-LOOKING INFORMATION**".

Production

	Full Year 2017 Guidance	Nine months ended September 30, 2017
Barrels of oil equivalent per day (Boe/d)	**21,250 – 21,750**	21,387
Million of cubic feet equivalent per day (Mcfe/d)	**127,500 – 130,500**	128,322

Pine Cliff's production additions in the third quarter will assist the Company to be within our guidance of 21,250 Boe/d to 21,750 Boe/d for the year even with extended third party pipeline outages, shut-ins due to low commodity prices, and weather related downtime through the first nine months of 2017.

Capital Expenditures

($000s)	**Full Year 2017 Guidance**	Nine months ended September 30, 2017
Total, excluding acquisitions	**15,000**	10,386

Pine Cliff is lowering its capital guidance for 2017 from $17.0 million to $15.0 million, before acquisitions, primarily as a result of lower than anticipated drilling and recompletion costs. Pine Cliff anticipates directing $7.9 million of the capital budget to drilling in the Edson and Central areas of Alberta and conducting recompletions in various areas. Additionally, Pine Cliff anticipates spending approximately $4.0 million on major maintenance capital and $3.1 million on facility and other capital. Pine Cliff will monitor its capital spending throughout the fourth quarter, and it may be modified depending on commodity prices, drilling results and non-operated drilling activity.

Operating and General & Administrative Expenditures

Pine Cliff is targeting operating expenses of approximately $9.50 per Boe ($1.58 per Mcfe) in 2017, which is slightly higher than our 2016 operating expense of $9.39 per Boe ($1.57 per Mcfe), and a 3% increase from our original 2017 guidance of $9.20 per Boe ($1.53 per Mcfe). The increase in guidance is primarily related to production volumes being at the low range of our original guidance range rather than the average of the 2017 guidance due to production downtime.

Pine Cliff anticipates general & administrative expenses to average approximately $0.95 per Boe ($0.16 per Mcfe) in 2017, which is slightly higher than our 2016 general & administrative expenses of $0.85 per Boe ($0.14 per Mcfe), but a 10% decrease from our original 2017 guidance of $1.05 per Boe ($0.18 per Mcfe).

BENCHMARK PRICES

Pine Cliff's financial results are significantly influenced by fluctuations in commodity prices, including price differentials. The following table shows select market benchmark average prices and foreign exchange rates in the last eight quarters to assist in understanding the volatility in prices and foreign exchange rates that have impacted Pine Cliff's business.

	Q3-2017	Q2-2017	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015
Natural gas								
NYMEX (US$/Mmbtu)[1]	**2.98**	3.13	3.25	2.95	2.78	1.95	2.05	2.28
AECO Daily 5A (C$/Mcf)[2]	**1.45**	2.77	2.68	3.08	2.31	1.39	1.82	2.45
Pine Cliff' realized natural gas price ($/Mcf)	**1.63**	2.80	2.83	2.93	2.33	1.32	1.94	2.47
Crude oil								
WTI (US$/Bbl)	**48.20**	48.28	51.91	49.29	44.94	45.59	33.45	42.18
Edmonton Light (C$/Bbl)	**56.65**	61.87	63.91	61.61	54.71	54.71	40.69	52.87
Foreign exchange								
US$/C$	**1.250**	1.340	1.320	1.334	1.305	1.289	1.375	1.335

[1] Mmbtu is the abbreviation for millions of British thermal units. One Mcf of natural gas is approximately 1.02 Mmbtu.
[2] AECO prices are quoted in $/Gigajoule. Price has been converted from $/GJ to $/Mcf by multiplying by 1.05.

In the three months ended September 30, 2017, the AECO daily benchmark was 37% lower compared to the same period of 2016, primarily as a result of higher storage levels in Western Canada and third party service curtailments on two main pipelines that export production out of Alberta. The price realized by the Company for natural gas production from Western Canada is determined primarily by the Alberta price hub AECO/NIT. Most of Pine Cliff's natural gas production is in Alberta with a small amount produced in Saskatchewan.

The average WTI benchmarks and Edmonton Light crude increased by 7% and 4% in the three months ended September 30, 2017, as compared to the same period of 2016, due to reduced crude oil output in 2017. Canadian crude prices are based upon refiner postings at Edmonton, Alberta and are linked to WTI through transportation tariffs to common markets and the foreign exchange rate. Pine Cliff's oil is sold at a discount to the Edmonton Light crude oil price as a result of quality differences.

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. In the three and nine months ended September 30, 2017, the realized price of Pine Cliff's NGL's was $41.98 and $42.58, which was 74% and 70% of Edmonton Light.

During the third quarter of 2017, the Company's physical fixed price natural gas sales contracts helped mitigate its exposure to fluctuations in natural gas prices during the summer months of 2017. While commodity contracts may have opportunity costs when commodity benchmarks differ from the contracted prices, such transactions are not meant to be speculative.

QUARTERLY TRENDS AND SELECTED FINANCIAL AND OPERATIONS INFORMATION[1]

($000s, unless otherwise indicated)	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4
FINANCIAL								
Total revenue	**23,892**	34,005	31,735	35,189	30,067	19,905	25,891	20,258
Cash flow from operating activities	**5,517**	10,007	13,835	12,632	4,606	(4,371)	9,622	973
Funds flow from operations[2]	**2,879**	10,834	11,233	15,026	6,972	(3,655)	1,398	6,550
Funds flow from operations per share – basic and diluted ($/share)[2]	**0.01**	0.04	0.04	0.05	0.02	(0.01)	0.00	0.03
Impairments	**17,800**	-	-	4,648	-	-	-	-
Earnings (loss)	**(30,214)**	(2,118)	(2,536)	3,210	(11,558)	(25,862)	(16,177)	(3,300)
Earnings (loss) per share – basic and diluted ($/share)	**(0.10)**	(0.01)	(0.01)	0.01	(0.04)	(0.08)	(0.05)	(0.01)
Capital expenditures	**3,318**	3,267	3,801	3,356	1,437	749	3,617	1,875
Acquisitions	**(9)**	(97)	-	(1,029)	(603)	240	585	179,540
Dispositions	**(65)**	(216)	-	(33,032)	(5,378)	(24,702)	-	-
Net debt[2]	**52,201**	51,372	58,930	64,224	110,312	122,032	143,587	141,770
Weighted average common shares outstanding:								
Basic	**307,076**	307,076	307,076	306,977	306,878	305,928	305,512	240,983
Diluted	**307,076**	307,076	307,076	307,095	306,878	305,928	305,512	240,983
PRODUCTION VOLUMES								
Natural gas (Mcf/d)	**124,450**	119,410	120,677	120,540	125,082	124,966	129,085	85,233
Natural gas liquids (Bbls/d)	**998**	912	903	833	871	933	1,060	581
Crude oil (Bbls/d)	**123**	263	198	602	803	886	723	264
Average sales volumes (Boe/d)	**21,863**	21,077	21,214	21,525	22,521	22,647	23,297	15,051
Average sales volumes (Mcfe/d)	**131,178**	126,462	127,284	129,150	135,126	135,882	139,782	90,303
PRICES AND NETBACKS								
Total oil and gas sales ($/Boe)	**11.47**	18.45	18.41	19.35	15.64	10.04	12.84	15.56
Operating netback ($/Boe)[2]	**2.30**	7.41	7.14	8.81	5.08	(0.02)	2.68	6.16
Corporate netback ($/Boe)[2]	**1.44**	5.65	5.88	7.59	3.36	(1.76)	0.66	4.74
Total oil and gas sales ($/Mcfe)	**1.91**	3.08	3.07	3.23	2.61	1.67	2.14	2.59
Operating netback ($/Mcfe)[2]	**0.38**	1.24	1.19	1.47	0.85	-	0.45	1.03
Corporate netback ($/Mcfe)[2]	**0.24**	0.94	0.98	1.27	0.56	(0.29)	0.11	0.79

[1] Includes results for acquisitions and excludes results for dispositions from the closing dates.
[2] This is a non-IFRS measure, see NON-IFRS MEASURES for additional information.

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

- Average sales volumes increased from the fourth quarter in 2015 to the first quarter of 2016 as a result of the December 2015 Acquisition. Sales volumes decreased from the second quarter of 2016 until the second quarter of 2017 mainly related to natural production declines and dispositions in the third and fourth quarters of 2016. Average sales volumes have increased in the third quarter of 2017 due to a successful recompletion program in the Central Area, slightly offset by third party pipeline outages, and shut-ins due to low commodity pricing.
- Total revenue of $35.2 million in the fourth quarter of 2016 was the highest in the eight quarters presented due to higher natural gas prices and higher production volumes related to the May and December 2015 acquisitions, partially offset by decreased royalty revenue related to the Royalty Disposition in June 2016, production decreases related to the December 2016 Disposition, and lower realized crude oil and natural gas prices. Revenues decreased in the second quarter of 2016 and

from the fourth quarter of 2016 to the first quarter of 2017 as a result of lower commodity prices and lower sales volumes, but have increased from the first quarter of 2017 to the second quarter of 2017 related to increased commodity prices and lower royalty rates. Revenue decreased in the third quarter of 2017 as a result of lower commodity prices, slightly offset by higher sales volumes.

- Funds flow from operations of $15.0 million in the fourth quarter of 2016 were the highest in the eight quarters presented as a result of the highest natural gas prices. Funds flow from operations decreased in the first and second quarters of 2017 from the fourth quarter of 2016, as a result of lower natural gas prices and lower production volumes. Funds flow from operations continued to decrease in the third quarter of 2017 compared to the second quarter of 2017 as a result of lower natural gas prices, slightly offset by higher sales volumes.
- Earnings of $3.2 million in the fourth quarter of 2016 were the highest in the eight quarters presented as a result of that quarter having the highest natural gas price. Earnings (losses) decreased in the first and second quarters of 2017 compared to the fourth quarter of 2016, primarily as a result of lower commodity and lower production volumes. Earnings (losses) continued to decrease in the third quarter of 2017 compared to the fourth quarter of 2016, primarily as a result of impairment and lower commodity prices, slightly offset by higher production volumes.

SALES VOLUMES

	Three months ended September 30,			Nine months ended September 30,		
Total sales volumes by product	**2017**	2016	% Change	**2017**	2016	% Change
Natural gas (Mcf)	**11,449,411**	11,507,513	(1)	**33,176,626**	34,626,098	(4)
NGLs (Bbls)	**91,837**	80,095	15	**256,145**	261,414	(2)
Crude oil (Bbls)	**11,334**	73,887	(85)	**53,022**	220,273	(76)
Total Boe	**2,011,406**	2,071,901	(3)	**5,838,605**	6,252,703	(7)
Total Mcfe	**12,068,436**	12,431,405	(3)	**35,031,628**	37,516,220	(7)
Natural gas weighting	**95%**	93%	2	**95%**	92%	3

	Three months ended September 30,			Nine months ended September 30,		
Average daily sales volumes by product	**2017**	2016	% Change	**2017**	2016	% Change
Natural gas (Mcf/d)	**124,450**	125,082	(1)	**121,527**	126,373	(4)
NGLs (Bbls/d)	**998**	871	15	**938**	954	(2)
Crude oil (Bbls/d)	**123**	803	(85)	**194**	804	(76)
Total (Boe/d)	**21,863**	22,521	(3)	**21,387**	22,820	(6)
Total (Mcfe/d)	**131,178**	135,126	(3)	**128,322**	136,920	(6)

	Three months ended September 30,			Nine months ended September 30,		
Average daily sales volumes by area	**2017**	2016	% Change	**2017**	2016	% Change
Central Assets (Boe/d)	**10,418**	10,733	(3)	**9,927**	10,851	(9)
Southern Assets (Boe/d)	**9,247**	9,350	(1)	**9,206**	9,562	(4)
Edson (Boe/d)	**2,198**	2,438	(10)	**2,254**	2,407	(6)
Total (Boe/d)	**21,863**	22,521	(3)	**21,387**	22,820	(6)
Total (Mcfe/d)	**131,178**	135,126	(3)	**128,322**	136,920	(6)

Pine Cliff's sales volumes decreased 3% to 21,863 Boe/d (131,178 Mcfe/d) and 6% to 21,387 Boe/d (128,322 Mcfe/d) for the three and nine months ended September 30, 2017, as compared to the same periods of 2016. The decrease is primarily the result of the December 2016 Disposition and natural declines, slightly offset by production increases from a minor capital program in the nine months of 2017. Production was also negatively impacted by approximately 375 Boe/d for the nine months ended September 30, 2017 from weather related downtime, third party pipeline curtailments and shut-ins due to a low commodity pricing environment primarily during the third quarter. Base production continues to perform well in all areas with an estimated annual corporate decline rate of approximately 10%.

OIL AND GAS SALES

Oil and Gas Sales

	Three months ended September 30,			Nine months ended September 30,		
($000s)	**2017**	2016	% Change	**2017**	2016	% Change
Natural gas	**18,682**	26,775	(30)	**79,847**	64,578	24
NGL	**3,855**	2,537	52	**10,907**	8,275	32
Crude oil	**541**	3,089	(82)	**2,850**	7,473	(62)
Total oil and gas sales	**23,078**	32,401	(29)	**93,604**	80,326	17
% of revenue from natural gas sales	**81%**	83%	(2)	**85%**	80%	5

Benchmark Pricing

	Three months ended September 30,			Nine months ended September 30,		
	2017	2016	% Change	**2017**	2016	% Change
Natural gas						
NYMEX (US$/Mmbtu)[1]	**2.98**	2.78	7	**3.12**	2.26	38
AECO Daily 5A (C$/Mcf)[2]	**1.45**	2.31	(37)	**2.30**	1.84	25
Crude oil						
WTI (US$/Bbl)	**48.20**	44.94	7	**49.46**	41.33	20
Edmonton Light (C$/Bbl)	**56.65**	54.71	4	**60.81**	50.03	22
Foreign exchange						
US$/C$	**1.250**	1.305	(4)	**1.303**	1.323	(2)

[1] Mmbtu is the abbreviation for millions of British thermal units. One Mcf of natural gas is approximately 1.02 Mmbtu.
[2] AECO prices are quoted in $/Gigajoule. Price has been converted from $/GJ to $/Mcf by multiplying by 1.05.

Realized prices (before hedging)

	Three months ended September 30,			Nine months ended September 30,		
$ per unit	**2017**	2016	% Change	**2017**	2016	% Change
Natural gas ($/Mcf)	**1.63**	2.33	(30)	**2.41**	1.87	29
NGL ($/Bbl)	**41.98**	31.67	33	**42.58**	31.65	35
Crude oil ($/Bbl)	**47.72**	41.81	14	**53.75**	33.93	58
Total ($/Boe)	**11.47**	15.64	(27)	**16.03**	12.85	25
Total ($/Mcfe)	**1.91**	2.61	(27)	**2.67**	2.14	25

Oil and gas sales in the three months ended September 30, 2017, decreased $9.3 million to $23.1 million from $32.4 million in the three months ended September 30, 2016, with $8.4 million of the decrease being attributable to lower realized prices and $0.9 million from lower sales volumes. Oil and gas sales in the nine months ended September 30, 2017, increased $13.3 million to $93.6 million from $80.3 million in the nine months ended September 30, 2016, with $18.6 million of the increase being attributable to higher realized prices, slightly offset by $5.3 million from lower sales volumes.

Pine Cliff's realized natural gas price was $1.63 per Mcf and $2.41 per Mcf for the three and nine months ended September 30, 2017, 30% lower and 29% higher than the $2.33 per Mcf and $1.87 per Mcf in the corresponding periods of the prior year, primarily as a result of changes in the AECO natural gas price. For the three and nine months ended September 30, 2017, Pine Cliff's realized NGL prices were $41.98 per Bbl and $42.58 per Bbl, compared to $31.67 per Bbl and $31.65 per Bbl in the corresponding periods of the prior year. For the three and nine months ended September 30, 2017, Pine Cliff's realized oil prices were $47.72 per Bbl and $53.75 per Bbl, compared to $41.81 per Bbl and $33.93 per Bbl in the corresponding periods of the prior year. The increases in NGL and oil prices were a result of a corresponding increase in the Edmonton Light oil price. Pine Cliff's realized NGL price in the three and nine months ended September 30, 2017 were 74% and 70% of Edmonton Light compared to 58% and 63% in the corresponding periods of the prior year. Pine Cliff's realized oil price in the three and nine months ended September 30, 2017 were 84% and 88% of Edmonton Light compared to 76% and 68% in the corresponding periods of the prior year.

REALIZED HEDGING GAIN

	Three months ended September 30,			Nine months ended September 30,		
($000s)	**2017**	2016	% Change	**2017**	2016	% Change
Total realized hedging gain	**2,568**	-	-	**2,751**	-	-
$ per Boe	**1.28**	-	-	**0.47**	-	-
$ per Mcfe	**0.21**	-	-	**0.08**	-	-

For the three and nine months ended September 30, 2017, the Company realized a hedging gain of $2.6 million and $2.8 million. The realized hedging gain is from the Company entering into physical fixed price natural gas sales contracts during the second quarter of 2017. Please refer to the "*Commodity Price Risk*" section for additional information.

ROYALTY REVENUE

	Three months ended September 30,			Nine months ended September 30,		
($000s)	**2017**	2016	% Change	**2017**	2016	% Change
Total royalty revenue	**-**	-	-	**-**	1,111	(100)

On June 29, 2016, the Company sold its fee title lands and other minor overriding royalty interests for cash consideration of $24.7 million. As a result, there is no royalty income in the current year periods.

ROYALTY EXPENSE

	Three months ended September 30,			Nine months ended September 30,		
($000s)	**2017**	2016	% Change	**2017**	2016	% Change
Total royalty expense	**1,793**	2,334	(23)	**8,057**	5,676	42
$ per Boe	**0.89**	1.13	(21)	**1.38**	0.91	52
$ per Mcfe	**0.15**	0.19	(21)	**0.23**	0.15	53
Royalty expense as a % of oil and gas sales	**8%**	7%	14	**9%**	7%	29

For the three and nine months ended September 30, 2017, total royalty expense decreased by 23% and increased by 42% to $1.8 million and $8.1 million from $2.3 million and $5.7 million in the corresponding periods of the prior year. Royalty expense as a percentage of oil and gas sales increased to 8% and 9% in the three and nine months ended September 30, 2017, compared to 7% in the corresponding periods of the prior year. The increase in royalty expense for the year is primarily a result of higher oil and gas revenue and higher royalty rates due to the sale of fee title lands in 2016. Pine Cliff expects royalties to average 9% of sales in 2017.

OPERATING EXPENSES

	Three months ended September 30,			Nine months ended September 30,		
($000s)	**2017**	2016	% Change	**2017**	2016	% Change
Total operating expenses	**19,227**	19,548	(2)	**55,826**	59,602	(6)
$ per Boe	**9.56**	9.43	1	**9.56**	9.53	-
$ per Mcfe	**1.59**	1.57	1	**1.59**	1.59	-

Operating expenses decreased by 2% and 6% to $19.2 Million and $55.8 million for the three and nine months ended September 30, 2017, as compared to $19.5 million and $59.6 million in the corresponding periods of the prior year, primarily as a result of lower production for the three and nine months ended September 30, 2017. On a per Boe basis, operating costs were similar for the three and nine months ended September 30, 2017 compared to the same periods in 2016.

Pine Cliff anticipates operating expenses to average approximately $9.50 per Boe ($1.58 per Mcfe) in 2017, please refer to the "**GUIDANCE FOR 2017**" section for additional information. Pine Cliff is committed to seeking increased efficiencies and lower field operating expenses, although quarterly variances may result from timing of expenditures and seasonality.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

	Three months ended September 30,			Nine months ended September 30,		
($000s)	**2017**	2016	% Change	**2017**	2016	% Change
Gross G&A	**1,913**	2,048	(7)	**6,457**	6,802	(5)
Less: overhead recoveries	**(924)**	(519)	78	**(1,625)**	(779)	109
Total G&A expenses	**989**	1,529	(35)	**4,832**	6,023	(20)
$ per Boe	**0.49**	0.74	(34)	**0.83**	0.96	(14)
$ per Mcfe	**0.08**	0.12	(33)	**0.14**	0.16	(13)

G&A decreased by 35% and 20% to $1.0 million and $4.8 million for the three and nine months ended September 30, 2017 as compared to $1.5 million and $6.0 million in the corresponding periods of the prior year. The decrease in G&A is primarily a result of higher overhead recoveries and non-recurring costs in 2017 following the addition of staff in 2016 to integrate the December 2015 Acquisition.

On a per Boe basis, G&A decreased by 34% and 14% to $0.49 per Boe ($0.08 per Mcfe) and $0.83 per Boe ($0.14 per Mcfe) as compared to $0.74 per Boe ($0.16 per Mcfe) and $0.96 per Boe ($0.12 per Mcfe) in the corresponding periods of the prior year. The decrease in G&A on a per Boe basis is primarily a result of higher overhead recoveries and non-recurring costs in the first nine months of 2017, following staff increases in 2016 to integrate the December 2015 Acquisition.

Pine Cliff anticipates G&A expenses to average approximately $0.95 per Boe ($0.16 per Mcfe) in 2017, please refer to the "**GUIDANCE FOR 2017**" section for additional information.

SHARE-BASED PAYMENTS

	Three months ended September 30,			Nine months ended September 30,		
($000s)	**2017**	2016	% Change	**2017**	2016	% Change
Total share-based payments	**1,096**	808	36	**2,710**	2,405	13
$ per Boe	**0.54**	0.39	38	**0.46**	0.38	21
$ per Mcfe	**0.09**	0.06	50	**0.08**	0.06	33

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 outstanding Pine Cliff common shares ("**Common Shares**").

During the nine months ended September 30, 2017, Pine Cliff granted 5,575,150 stock options to purchase Common Shares at a weighted average exercise price of $0.78. As at September 30, 2017, the Company had 23,806,612 stock options outstanding representing 7.8% of Common Shares outstanding (September 30, 2016 – 13,157,431 representing 4.3% of Common Shares outstanding).

DEPLETION, DEPRECIATION, AND IMPAIRMENT

	Three months ended September 30,			Nine months ended September 30,		
($000s)	**2017**	2016	% Change	**2017**	2016	% Change
Total depletion and depreciation	**12,864**	17,015	(24)	**37,158**	51,510	(28)
$ per Boe	**6.40**	8.21	(22)	**6.36**	8.24	(23)
$ per Mcfe	**1.07**	1.37	(22)	**1.06**	1.37	(23)
Impairment	**17,800**	-	-	**17,800**	-	-
Total depletion, depreciation, and impairment	**30,664**	17,015	80	**54,958**	51,510	7
$ per Boe	**15.25**	8.21	86	**9.41**	8.24	14
$ per Mcfe	**2.54**	1.37	85	**1.57**	1.37	15

Depletion and depreciation expense, excluding impairment for the three and nine months ended September 30, 2017, totaled $12.9 million and $37.2 million compared to $17.0 million and $51.5 million in the corresponding periods of the prior year, as a result of lower production, 2016 dispositions, and lower depletion rates. Depletion and depreciation per Boe will fluctuate from one period to the next depending on the amount and type of capital spending and the changes in reserves. Depletion is calculated using total proved and probable reserves and reserves estimates are subject to revision.

Impairment

As at September 30, 2017, the Company had four Cash Generating Units ("**CGU**") being the Southern CGU, Central Gas CGU, Edson CGU, and Coal Bed Methane CGU. The Company reviewed each CGU's property and equipment at September 30, 2017 for indicators of impairment and determined that an indicator related to the decrease in future commodity prices was present. The company prepared estimates of both the value in use and fair value less cost to sell of each of the Company's CGUs. When it is determined that any CGU carrying value exceeds its recoverable amount, that CGU is considered impaired and an impairment expense is reported that equals this excess.

The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at September 30, 2017:

Year	WTI Oil (US$/Bbl)[1]	$C to US$ Foreign exchange rate[1]	Edmonton Light Crude Oil (Cdn$/Bbl)[1]	AECO Gas (Cdn$/MMBtu)[1]
2017 (3 months)	52.50	1.25	61.60	2.40
2018	55.00	1.25	64.80	2.70
2019	58.70	1.21	67.10	2.90
2020	62.40	1.21	71.50	3.15
2021	69.00	1.18	76.90	3.50
2022-2031	80.00	1.18	89.37	4.11
Thereafter	+2.0%/yr	1.18	+2.0%/yr	+2.0%/yr

[1] Source: McDaniel & Associates Consultants Ltd. price forecasts, effective October 1, 2017.

The recoverable amounts of each of the Company's CGU's at September 30, 2017 were estimated at their fair value less cost to sell, based on the net present value of discounted future cash flows from oil and gas reserves as estimated by the Company's independent reserves evaluator at December 31, 2016, updated for current price forecasts. 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, management's best estimates.

The Company used a pre-tax 15% discount rate for the September 30, 2017 impairment tests which took into account risks specific to the CGU's, inherent in the oil and gas business.

The following CGU's were impaired:

CGUs	**2017**	2016
Edson	**14,000**	-
Coal Bed Methane	**3,800**	-
Total Impairment	**17,800**	-

For the quarter ended September 30, 2017, a 1% increase in the discount rate applied to the Company's future estimated cash flows would result in an additional impairment of approximately $2.0 million (2016 - $Nil), whereas a ten percent decrease in forward commodity prices would result in additional impairment of $3.5 million (2016 - $Nil) recognized in comprehensive loss for the nine months ended September 30, 2017.

FINANCE EXPENSES

	Three months ended September 30,			Nine months ended September 30,		
($000s)	**2017**	2016	% Change	**2017**	2016	% Change
Accretion on decommissioning provision	**1,263**	1,480	(15)	**3,679**	3,720	(1)
Interest and bank charges	**811**	2,030	(60)	**2,852**	5,523	(48)
Accretion on subordinated promissory notes	**56**	29	93	**164**	29	466
Total finance expenses	**2,130**	3,539	(40)	**6,695**	9,272	(28)
$ per Boe	**1.06**	1.70	(38)	**1.15**	1.47	(22)
$ per Mcfe	**0.18**	0.28	(36)	**0.19**	0.25	(24)

In the three and nine months ended September 30, 2017, Pine Cliff incurred finance expenses of $2.1 million and $6.7 million, 40% and 28% lower than the $3.5 million and $9.3 million in the corresponding periods of the prior year. The decrease is largely due to decreased interest and bank charges from lower debt levels. Please refer to the "**CAPITAL RESOURCES**" section for additional information.

DIVIDEND INCOME

($000s)	Three months ended September 30, 2017	2016	% Change	Nine months ended September 30, 2017	2016	% Change
Total dividend income	**53**	-	-	**158**	102	55
$ per Boe	**0.03**	-	-	**0.03**	0.02	50

In the three and nine months ended September 30, 2017, Pine Cliff received $0.05 million and $0.2 million in dividends from its investment in a dividend paying company.

OPERATING AND CORPORATE NETBACKS

	Three months ended September 30, 2017	2016	$ Change	Nine months ended September 30, 2017	2016	$ Change
($ per Boe, unless otherwise indicated)						
Oil and gas sales	**11.47**	15.64	(4.17)	**16.03**	12.85	3.18
Realized hedging gain	**1.28**	-	1.28	**0.47**	-	0.47
Royalty income	**-**	-	-	**-**	0.18	(0.18)
Royalty expense	**(0.89)**	(1.13)	0.24	**(1.38)**	(0.91)	(0.47)
Operating	**(9.56)**	(9.43)	(0.13)	**(9.56)**	(9.53)	(0.03)
Operating netback[1]	**2.30**	5.08	(2.78)	**5.56**	2.59	2.97
General and administrative	**(0.49)**	(0.74)	0.25	**(0.83)**	(0.96)	0.13
Interest and bank charges, net of dividend income	**(0.37)**	(0.98)	0.61	**(0.46)**	(0.86)	0.40
Corporate netback[1]	**1.44**	3.36	(1.92)	**4.27**	0.77	3.50
Operating netback ($ per Mcfe)[1]	**0.38**	0.85	(0.47)	**0.93**	0.43	0.50
Corporate netback ($ per Mcfe)[1]	**0.24**	0.56	(0.32)	**0.71**	0.13	0.58

[1] This is a non-IFRS Measure, see NON-IFRS MEASURES for additional information.

Pine Cliff's corporate netback decreased to $1.44 per Boe for the three months September 30, 2017, from $3.36 per Boe in the corresponding period of the prior year. This decrease is primarily due to lower commodity prices, somewhat offset by hedging gain, lower interest and bank charges, and lower royalty and G&A expenses compared to the same period of 2016.

Pine Cliff's corporate netback increased to $4.27 per Boe for the nine months September 30, 2017, from $0.77 per Boe during the corresponding period of the prior year. This increase is primarily due to higher commodity prices and hedging gain, lower interest and bank charges and G&A expenses, somewhat offset by higher royalty expenses and lower royalty income compared to the same period of 2016.

DEFERRED INCOME TAX

For the nine months ended September 30, 2017, deferred income tax recovery decreased to $0.5 million from $3.1 million in the same period of 2016.

Pine Cliff has approximately $395.0 million in tax pools at September 30, 2017, available for future use as deductions from taxable income. Included in these pools are estimated non-capital loss carry forwards of $84.8 million that expire between the years 2030 and 2037.

EARNINGS (LOSS)

Quarter to quarter variance analysis:	
($000s)	
Loss for the nine months ended September 30, 2016	**(53,597)**
Price variance	18,598
Volume variance	(5,320)
Gain on commodity contracts	3,927
Royalty revenue	(1,111)
Royalty expense	(2,381)
Operating expenses	3,776
General and administrative	1,191
Depletion and depreciation	14,352
Share-based payments	(305)
Finance expenses	2,577
Realized loss in investments	4,270
Gain on disposition	(518)
Dividend income	56
Deferred income tax recovery	(2,583)
Impairment	(17,800)
Loss for the nine months ended September 30, 2017	**(34,868)**

During the nine months ended September 30, 2017, Pine Cliff's net loss decreased by $18.7 million to $34.9 million as compared to a net loss of $53.6 million during the nine months ended September 30, 2016. The decrease in net loss is mainly a result of higher commodity prices, gain on commodity contracts, lower depletion and depreciation, operating expenses, finance expenses, and G&A expenses, partially offset by higher royalty expenses, lower royalty revenue, lower production volumes, lower deferred income tax recovery and higher impairment.

FUNDS FLOW FROM OPERATIONS

	Three months ended September 30,			Nine months ended September 30,		
($000s)	**2017**	2016	% Change	**2017**	2016	% Change
Cash flow from operating activities	**5,517**	4,606	20	**29,359**	9,857	198
Adjusted by:						
Decrease (increase) in non-cash working capital	**(3,038)**	2,325	(231)	**(5,578)**	(5,317)	5
Decommissioning obligation settled	**400**	41	876	**1,165**	175	566
Funds flow from operations[1]	**2,879**	6,972	(59)	**24,946**	4,715	429
Funds flow from operations ($/Boe)[1]	**1.44**	3.36	(57)	**4.27**	0.77	455
Funds flow from operations ($/Mcfe)[1]	**0.24**	0.56	(57)	**0.71**	0.13	446
Funds flow from operations – basic and diluted ($/share)[1]	**0.01**	0.02	(50)	**0.08**	0.02	300

[1] This is a non-IFRS measure, see NON-IFRS MEASURES for additional information.

Pine Cliff's funds flow from operations decreased to $2.9 million for the three months ended September 30, 2017, from $7.0 million in the same period of 2016. This decrease is primarily due to lower commodity prices and royalty income, somewhat offset by hedging gain, lower interest and bank charges, and lower royalty and G&A expenses compared to the same period of 2016.

Pine Cliff's funds flow from operations increased to $24.9 million for the nine months ended September 30, 2017, from $4.7 million in the same period of 2016. This increase is primarily due to higher commodity prices, lower interest and bank expenses, lower operating and G&A expenses, somewhat offset by higher royalty expense, and lower royalty revenue and production volumes compared to the same period of 2016.

OTHER COMPREHENSIVE EARNINGS (LOSS)

Activity in other comprehensive earnings (loss) ("**OCI**") for the nine months ended September 30, 2017 relates to the revaluation of investments held at September 30, 2017 of $2.4 million in one public company. OCI for the nine months ended September 30, 2016 is a result of reclassifying the OCI recorded in prior quarters from unrealized losses on investments to the consolidated statement of loss as a result of selling investments in public companies for net proceeds of $5.6 million and realizing losses of $4.3 million.

CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS

($000s)	**Nine months ended September 30, 2017**	Year ended December 31, 2016
Exploration and evaluation	**67**	127
Property, plant and equipment	**10,319**	9,032
Capital expenditures	**10,386**	9,159
Acquisitions	**(106)**	(807)
Dispositions	**(281)**	(63,112)
Total	**9,999**	(54,760)

Capital expenditures of $10.4 million in the nine months ended September 30, 2017, were directed towards drilling seven gross (1.4 net) wells in the Edson and Central areas for $4.8 million, minor facility and maintenance capital of $3.4 million, recompletions of $1.2 million, and $1.0 million of other miscellaneous capital additions.

DECOMMISSIONING PROVISION

The total future decommissioning provision of $194.6 million was estimated by management based on the Company's working interest in its wells, pipelines, and facilities, estimated costs to remediate, reclaim and abandon such wells, pipelines, and facilities and estimated timing of the costs to be incurred in future periods.

At September 30, 2017, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was $246.0 million (December 31, 2016 - $240.2 million). The provision has been calculated assuming a 1.69% inflation rate (December 31, 2016 – 1.76%). These obligations are currently expected to be settled based on the useful lives of the underlying assets, some of which extend beyond 40 years into the future. This amount has been discounted using an average risk-free interest rate of 2.66% (December 31, 2016 – 2.39%).

DEBT, LIQUIDITY AND CAPITAL RESOURCES

Bank Credit Facilities

As at September 30, 2017, the Company had a $45.0 million syndicated credit facility (the "**Credit Facility**") with four Canadian Financial Institutions (the "**Syndicate**") (December 31, 2016 - $60.0 million Credit Facility). The Credit Facility of $45.0 million consists of a $35.0 million revolving syndicated credit facility and a $10.0 million revolving operating facility. Security consists of floating demand debentures totaling $150.0 million and a general security agreement with first ranking over all current and acquired properties. Amounts drawn under the Credit Facility at September 30, 2017, were $10.6 million (December 31, 2016 - $30.9 million). Amounts borrowed under the Credit Facility bear interest at the Canadian prime rate plus 1.0% to 3.5% or the bankers' acceptance rates plus 2.0% to 4.5%, depending, in each case, on the ratio of consolidated debt to EBITDA and the Company's borrowing base. EBITDA is calculated as earnings (loss) excluding depreciation, depletion, impairment and accretion, unrealized hedging gain, share based payments, interest, taxes and other non-cash items. The Credit Facility matures July 27, 2018, and if it is not renewed it will convert to a one day term loan due on July 28, 2018. The Credit Facility will be reviewed semi-annually on November 30th and May 31st, with the next renewal scheduled for November 30, 2017. The Credit Facility has no fixed terms of repayment.

As at September 30, 2017, the Company had $2.0 million in letters of credit issued against its Credit Facility (December 31, 2016 - $1.7 million). The Credit Facility does not contain any financial covenants but Pine Cliff is subject to non-financial covenants under its Credit Facility. Compliance with these covenants is monitored on a regular basis and as at September 30, 2017, Pine Cliff was in compliance with all covenants.

Subordinated Promissory Notes due July 29, 2018

As at September 30, 2017, the Company had $6.0 million outstanding in promissory notes maturing on July 29, 2018 (the "**2018 Notes**") that bear interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility and is payable monthly. The 2018 Notes were issued to a shareholder and a relative of that shareholder of the Company, owning directly or by discretion and control, greater than 10% of the outstanding Common Shares. The 2018 Notes can be repaid at any time without penalty and are secured by $6.0 million of floating charge debentures over all of the Company's assets and are subordinated to any and all claims in favor of the Credit Facility and the 2020 Note holder.

Due to Related Party – Promissory Note due July 29, 2018

Pine Cliff has a $5.0 million promissory note outstanding to the Company's Chairman of the Board maturing on July 29, 2018 ("**2018 Related Party Note**") that bears interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility and is payable monthly. The 2018 Related Party Note can be repaid at any time without penalty and is secured by a $5.0 million floating charge debenture over all of the Company's assets and is subordinated to any and all claims in favor of the Credit Facility and the holder of the Subordinated Promissory Notes due September 30, 2020. Interest paid on the 2018 Related Party Note in the three and nine months ended September 30, 2017, was $0.05 million and $0.2 million (three and nine months ended September 30, 2016 - $0.04 million and $0.04 million).

Subordinated Promissory Notes due September 30, 2020

As at September 30, 2017, the Company has 30,000 units ("**Units**" or "**Unit**") outstanding at a price of $1,000 per Unit for a principal debt balance of $30.0 million. Each Unit is comprised of: (i) one promissory note with a par value of $1,000 per note and bearing interest at 6.75% per annum (the "**2020 Notes**"), which is payable semi-annually; and (ii) 150 Common Share purchase warrants (the "**Warrants**"). The 2020 Notes mature on September 30, 2020 and all or a portion of the principal amount outstanding can be repaid without penalty after August 10, 2017. The 2020 Notes are secured by a $30.0 million floating charge debenture over all of the Company's assets and is subordinated to any and all claims in favor of the Credit Facility. A total of 4.5 million Warrants are outstanding, each entitling the holder to purchase one Common Share for $1.38 until August 10, 2018.

Share Capital

Share capital	**November 8, 2017**	September 30, 2017	December 31, 2016
Common Shares	**307,075,787**	307,075,787	307,075,787
Stock options	**23,582,879**	23,806,612	22,773,431
Warrants	**4,500,000**	4,500,000	4,500,000

Capital Requirements

Pine Cliff's capital budget for 2017 is $15.0 million, before acquisitions. Pine Cliff anticipates funding its capital budget through cash flow from operations. 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.

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

Liquidity

Liquidity describes a company's ability to access cash. Growth companies, such as Pine Cliff, operating in the upstream oil and gas business, require sufficient cash to fund exploration and development projects, to increase production and reserves, to potentially acquire strategic oil and gas assets and to repay debt.

It is anticipated that funds flow from operations and the unused portion of the credit facility will allow Pine Cliff to meet its financial liabilities, as well as future capital requirements, at a reasonable cost. The Company believes it has sufficient funding and access to capital to meet its obligations as they come due and, if required, would consider selling non-core assets, additional debt financing or issuing equity in order to meet its future liabilities.

During the nine months ended September 30, 2017, the Company financed its capital expenditures with cash provided by operating activities while also reducing bank debt.

COMMITMENTS AND CONTINGENCIES

As at September 30, 2017, the Company has the following commitments and other contractual obligations:

($000s)	2017	2018	2019	2020	2021	Thereafter
Subordinated promissory notes[1]	-	6,000	-	30,000	-	-
Trade and other payables	25,531	-	-	-	-	-
Due to related party	-	5,000	-	-	-	-
Bank debt	-	10,611	-	-	-	-
Future interest	739	2,569	2,025	1,519	-	-
Transportation commitments[2]	1,789	7,981	6,616	6,106	5,494	20,160
Vehicle leases	123	473	426	310	223	-
Office and equipment leases	123	438	436	464	464	922
Total commitments and contingencies	28,305	33,072	9,503	38,399	6,181	21,082

[1] The subordinated promissory notes for commitments are presented at the principal amount.
[2] Transportation commitments – transportation contracts for the movement of commodities from Pine Cliff's production areas to consuming markets.

OFF BALANCE SHEET TRANSACTIONS

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

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Market Risk

Market risk is the risk that the fair value or future cash flow 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 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 decisions and instability. Changes in oil 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. During the second quarter of 2017, the Company entered into physical fixed price natural gas sales contracts to mitigate its exposure to future fluctuations in natural gas prices. Based on September 30, 2017 natural gas prices, a ten cent per Mcf price change would have increased or decreased the unrealized gain related to physical natural gas sales contracts respectively, by $0.1 million (December 31, 2016 - $Nil).

At September, 2017, the following physical fixed price natural gas sales contracts were outstanding with an unrealized fair market value of $1.2 million (December 31, 2016 - $Nil):

Physical Natural Gas Sales Contracts:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price ($CAD/GJ)	Fixed Sale Price ($CAD/Mcf)[1]	Fair Market Value ($000s)
October 1, 2017 to October 31, 2017	NIT	5,000	2.720	2.856	285
October 1, 2017 to October 31, 2017	NIT	5,000	2.750	2.888	290
October 1, 2017 to October 31, 2017	NIT	5,000	2.775	2.914	294
October 1, 2017 to October 31, 2017	NIT	5,000	2.865	3.008	307
Total unrealized commodity contracts gain					**1,176**

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

Pine Cliff's net income (loss) includes the following realized and unrealized gain (loss) on commodity contracts in place during the three and nine months ended September 30, 2017 and 2016:

	Three months ended September 30,		Nine months ended September 30,	
Commodity contracts:	**2017**	2016	**2017**	2016
Realized commodity contracts gain	**2,568**	-	**2,751**	-
Unrealized commodity contracts gain	**(14)**	-	**1,176**	-
Total gain on commodity contracts	**2,554**	-	**3,927**	-

Interest Rate Risk

The Company is principally exposed to interest rate risk to the extent it draws on its variable rate debt. Changes in market interest rates could affect the cash flow associated with variable rate debt. If interest rates applicable to Pine Cliff's variable rate debt increased or decreased by one percent, it is estimated that Pine Cliff's loss for the quarter ended September 30, 2017, would have increased or decreased, respectively, by $0.05 million (December 31, 2016 - $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. Equity price risk arises from the realizable value of investments that the Company holds which are subject to variable equity prices which on disposition gives rise to a cash flow equity price risk.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk because the oil and natural gas prices it receives are indirectly determined in reference to United Stated dollar denominated commodity prices. The Company manages this risk by monitoring the foreign exchange rate and evaluating its effect on cash flows. Pine Cliff has not entered into any derivative financial instruments to manage this risk.

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, commodity contracts 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 major Canadian chartered banks. To mitigate the credit risk on trade and other receivables and commodity contracts, Pine Cliff assesses the financial strength of its counterparties and enters into relationships with larger purchasers with established credit histories.

The Company's trade and other receivables balance at September 30, 2017 of $13.5 million (December 31, 2016 – $20.0 million), is primarily with oil and gas marketers, joint venture partners and crown royalty credits with the Province of Alberta. Amounts due from these parties have generally been received within 30 to 60 days. When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. The Company generally considers amounts greater than 90 days to be past due. As at September 30, 2017, there was $1.0 million (December 31, 2016 - $1.8 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 quarter ended September 30, 2017, the Company recorded $0.05 million (December 31, 2016 - $0.5 million) of bad debt expense against trade and other accounts receivables.

The Company's commodity contracts balance at September 30, 2017 of $1.2 million (December 31, 2016 – $Nil) is with oil and gas marketers. Amounts due from these parties have generally been received within 30 days. There are no commodity contracts that Pine Cliff considers past due.

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 actively manages its liquidity through cash, debt and equity management strategies. Such strategies include continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under the Credit Facility and opportunities to issue additional equity, including Common Shares. 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.

The Company currently has a $45.0 million Credit Facility, of which $10.6 million was drawn at September 30, 2017. The unused portion of the Credit Facility and cash provided by operating activities are expected to allow Pine Cliff to meet its financial liabilities, as well as future capital requirements. If required, Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make judgments, assumptions and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. Management believes that the most critical accounting policies that may have an impact on the Company's financial results are those that specifically relate to the accounting for its oil and gas interests, including amounts recorded for depletion and the impairment test which are both based on estimates of proved and probable reserves, production rates, oil prices, future costs and other relevant assumptions. Actual results could differ materially from such estimates.

A comprehensive discussion of the significant accounting policies, judgements, assumptions and estimates made by management is provided in the Company's Annual Financial Statements and MD&A for the year ended December 31, 2016.

ACCOUNTING POLICY AND STANDARD CHANGES

The accounting policies and method of computation followed in the preparation of the Financial Statements are the same as those followed in the preparation of the Annual Financial Statements.

Future accounting pronouncements

IFRS 16 *Leases* (“**IFRS 16**”)

In January 2016, the IASB issued IFRS 16 – Leases, which replaces IAS 17 – Leases and related interpretations. IFRS 16 eliminates the classification of leases as finance or operating and introduces a single lessee accounting model for recognition and measurement, which will require the recognition of assets and liabilities for most leases. IFRS 16 is effective for years beginning on or after January 1, 2019. The Company is currently assessing the impact the adoption of this standard will have on its Financial Statements.

IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”)

In May 2014, the IASB published the new revenue standard, IFRS 15, which specifies how and when revenue should be recognized and requires more informative and relevant disclosures. The standard is required to be applied on first interim periods beginning on or after January 1, 2018, with early application permitted. The implementation of IFRS 15 consists of four phases including project awareness and engagement, scoping, detailed analysis and solution development, and implementation. The Company is currently in the scoping phase of implementation. The impact of the standard has been evaluated and is expected to have no material impact on the Company's financial statements. However, Pine Cliff will expand the disclosures in the notes to its financial statements as prescribed by IFRS 15, including disclosing the Company's disaggregated revenue streams by product type and any impairment losses recognized on receivables arising from contracts with customers.

IFRS 9 *Financial Instruments* (“**IFRS 9**”)

In July 2014, the IASB amended IFRS 9 which amends its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The impact of the standard has been evaluated and is expected to have no material impact on the Company's financial statements.

INTERNAL CONTROLS

Pine Cliff is required to comply with National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. The certification of interim filings requires us to disclose in the MD&A any changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting. We confirm that no such changes were made to the internal controls over financial reporting during the nine months ended September 30, 2017. The Chief Executive Officer and Chief Financial Officer have signed form 52-109F2, Certification of Interim Filings, which can be found on SEDAR at www.sedar.com.

NON-IFRS MEASURES

This MD&A uses the terms "funds flow from operations", "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 net income (loss), cash provided by operating activities, or total liabilities.

Funds Flow from Operations

The Company considers funds flow from operations 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. Funds flow from operations and funds flow from operations per share and per Boe or Mcfe should not be considered as an alternative to, or more meaningful than, cash flow from operating activities presented on the statement of cash flows which is considered the most directly comparable measure under IFRS. Funds flow from operations is calculated as cash flow from operating activities before changes in non-cash working capital and decommissioning obligations settled. Funds flow from operations per share is calculated using the same weighted average number of shares outstanding as in the case of the earnings per share calculation for a reporting period. Funds flow from operations per Boe or Mcfe is calculated using the sales volumes reported for a reporting period. Our method of calculating this measure may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

Operating and Corporate Netback

The Company considers operating netback to be a key indicator of profitability relative to current commodity prices. Operating netback and operating netback per Boe and per Mcfe are calculated as the sum of oil and gas sales and realized hedging gain, less royalties and operating expenses on an absolute and a per Boe or per Mcfe basis, respectively. 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 profitability. Corporate netback and corporate netback per Boe and per Mcfe are calculated as operating netback, less G&A and interest expense plus dividend income on an absolute and a per Mcfe basis, respectively.

Pine Cliff uses these measures to assist in understanding the Company's ability to generate positive cash flow 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 net income 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.

Net Debt

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

($000s)	**September 30, 2017**	December 31, 2016	$ Change
Bank debt	**10,611**	30,851	(20,240)
Due to related party – due July 29, 2018	**5,000**	5,000	-
Subordinated promissory notes – due July 29, 2018	**6,000**	6,000	-
Subordinated promissory notes – due September 30, 2020[1]	**30,000**	30,000	-
Trade and other payables	**25,531**	21,319	4,212
Less:			
Trade and other receivables	**(13,529)**	(20,012)	6,483
Cash	**(179)**	(148)	(31)
Prepaid expenses and deposits	**(7,697)**	(3,491)	(4,206)
Investments	**(2,360)**	(5,295)	2,935
Commodity contracts	**(1,176)**	-	(1,176)
Net debt	**52,201**	64,224	(12,023)

[1] The subordinated promissory notes for net debt are presented at the principal amount.

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 this MD&A includes, but is not limited to: expected production levels, expected operating cost, royalty and G&A levels; future capital expenditures, including the amount and nature thereof; future acquisition opportunities including Pine Cliff's ability to execute on those opportunities; future drilling opportunities and Pine Cliff's ability to generate reserves and production from the undrilled locations; ability to implement a dividend or buy back shares; 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 drawn on Pine Cliff's credit facility and repayment thereof; maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; risks; Pine Cliff's ability to generate cash flow and free cash 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 operations 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 13, 2017 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 ("**Mcfe**") 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 information provided in this report, including the unaudited interim condensed consolidated financial statements, is the responsibility of Pine Cliff's management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

The audit committee has reviewed these unaudited interim condensed consolidated financial statements with management and has reported to the board of directors. The board of directors have approved the unaudited interim condensed consolidated financial statements as presented in this interim report.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Canadian dollars, 000s)
(unaudited)

	Note	As at September 30, 2017	As at December 31, 2016
ASSETS			
Current assets			
Cash		**179**	148
Trade and other receivables	13, 14	**13,529**	20,012
Prepaid expenses and deposits		**7,697**	3,491
Investments	3	**2,360**	5,295
Commodity contracts	14	**1,176**	-
Total current assets		**24,941**	28,946
Exploration and evaluation	4	**31,105**	33,610
Property, plant and equipment	5	**325,380**	379,643
Deferred income taxes	6	**50,615**	49,698
Total assets		**432,041**	491,897
LIABILITIES			
Current liabilities			
Trade and other payables	13	**25,531**	21,319
Bank debt	7	**10,611**	30,851
Due to related party	8	**5,000**	-
Subordinated promissory notes	9	**6,000**	-
Total current liabilities		**47,142**	52,170
Due to related party		**-**	5,000
Subordinated promissory notes	9	**29,250**	35,086
Decommissioning provision	10	**194,588**	203,883
Total liabilities		**270,980**	296,139
SHAREHOLDERS' EQUITY			
Share capital	11	**268,743**	268,743
Warrants		**958**	958
Contributed surplus		**8,458**	5,748
Accumulated other comprehensive gain (loss)		**(2,241)**	298
Deficit		**(114,857)**	(79,989)
Total shareholders' equity		**161,061**	195,758
Total liabilities and shareholders' equity		**432,041**	491,897

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

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

		Three months ended September 30,		**Nine months ended September 30,**	
	Note	**2017**	2016	**2017**	2016
REVENUE					
Oil and gas sales		**23,078**	32,401	**93,604**	80,326
Royalty expense		**(1,793)**	(2,334)	**(8,057)**	(5,676)
Royalty income		**-**	-	**-**	1,111
Oil and gas sales, net of royalties		**21,285**	30,067	**85,547**	75,761
Gain on commodity contracts	14	**2,554**	-	**3,927**	-
Dividend income		**53**	-	**158**	102
Total revenue		**23,892**	30,067	**89,632**	75,863
EXPENSES					
Operating		**19,227**	19,548	**55,826**	59,602
Depletion and depreciation	5	**12,864**	17,015	**37,158**	51,510
Impairment	5	**17,800**	-	**17,800**	-
Share-based payments	11	**1,096**	808	**2,710**	2,405
Finance	12	**2,130**	3,539	**6,695**	9,272
General and administrative		**989**	1,529	**4,832**	6,023
Gain on disposition		**-**	-	**-**	(518)
Realized loss on investments		**-**	-	**-**	4,270
Total expenses		**54,106**	42,439	**125,021**	132,564
Loss before income taxes		**(30,214)**	(12,372)	**(35,389)**	(56,701)
Deferred income tax recovery		**-**	814	**521**	3,104
LOSS FOR THE PERIOD		**(30,214)**	(11,558)	**(34,868)**	(53,597)
OTHER COMPREHENSIVE INCOME (LOSS)					
Unrealized gain (loss) on investments	3	**(50)**	-	**(2,935)**	-
Deferred income taxes on unrealized loss on investments	6	**7**	-	**396**	-
Amounts reclassified from comprehensive loss		**-**	-	**-**	6,253
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX		**(43)**	-	**(2,539)**	6,253
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(30,257)**	(11,558)	**(37,407)**	(47,344)
Loss per share ($)					
Basic and diluted	11	**(0.10)**	(0.04)	**(0.11)**	(0.18)

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

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

	Note	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
CASH PROVIDED BY (USED IN):					
OPERATING ACTIVITIES					
Loss for the period		**(30,214)**	(11,558)	**(34,868)**	(53,597)
Items not affecting cash:					
Depletion and depreciation	5	**12,864**	17,015	**37,158**	51,510
Impairment	5	**17,800**	-	**17,800**	-
Share-based payments	11	**1,096**	808	**2,710**	2,405
Finance expenses	12	**2,130**	3,539	**6,695**	9,272
Gain on disposition		**-**	-	**-**	(518)
Loss on sale of investments		**-**	-	**-**	4,270
Deferred income tax recovery	6	**-**	(802)	**(521)**	(3,104)
Unrealized gain on commodity contracts	14	**14**	-	**(1,176)**	-
Interest and bank charges	12	**(811)**	(2,030)	**(2,852)**	(5,523)
Decommissioning obligations settled	10	**(400)**	(41)	**(1,165)**	(175)
Changes in non-cash working capital accounts	12	**3,038**	(2,325)	**5,578**	5,317
Cash provided by operating activities		**5,517**	4,606	**29,359**	9,857
INVESTING ACTIVITIES					
Property, plant and equipment	5	**(3,283)**	(1,407)	**(10,319)**	(5,766)
Exploration and evaluation	4	**(35)**	(30)	**(67)**	(37)
Acquisitions	5	**9**	603	**106**	(222)
Dispositions	5	**65**	5,378	**281**	30,080
Sale of investments		**-**	-	**-**	5,573
Changes in non-cash working capital accounts	12	**(2,148)**	(661)	**911**	2,700
Cash provided by (used in) investing activities		**(5,392)**	3,883	**(9,088)**	32,328
FINANCING ACTIVITIES					
Bank debt	7	**(64)**	(49,692)	**(20,240)**	(84,563)
Issuance of Units, net of issue costs		**-**	35,963	**-**	35,963
Issuance of related party debt		**-**	5,000	**-**	5,000
Exercise of stock options		**-**	282	**-**	917
Changes in non-cash working capital accounts		**-**	(53)	**-**	(225)
Cash used in financing activities		**(64)**	(8,500)	**(20,240)**	(42,908)
Increase (decrease) in cash		**61**	(11)	**31**	(723)
Cash - beginning of period		**118**	121	**148**	833
CASH - END OF PERIOD		**179**	110	**179**	110

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Canadian dollars, 000s)
(unaudited)

	Note	Share capital	Contributed surplus[1]	Accumulated other comprehensive income (loss) [2]	Warrants	Deficit	Total Equity
BALANCE AT JANUARY 1, 2016		**266,809**	**3,453**	**(6,253)**	**-**	**(29,602)**	**234,407**
Issuance of warrants		-	-	-	995	-	995
Share issue costs, net of tax		(362)	-	-	(37)	-	(399)
Loss for the period		-	-	-	-	(53,597)	(53,597)
Transfer of realized loss on sale of investments		-	-	6,253	-	-	6,253
Share-based payments		-	2,405	-	-	-	2,405
Exercise of options		1,744	(827)	-	-	-	917
BALANCE AT SEPTEMBER 30, 2016		**268,191**	**5,031**	**-**	**958**	**(83,199)**	**190,981**
Loss for the period		-	-	-	-	3,210	3,210
Unrealized gain on investments, net of tax		-	-	298	-	-	298
Share-based payments		-	791	-	-	-	791
Exercise of options		552	(74)	-	-	-	478
BALANCE AT DECEMBER 31, 2016		**268,743**	**5,748**	**298**	**958**	**(79,989)**	**195,758**
Loss for the period		-	-	-	-	(34,868)	(34,868)
Unrealized loss on investments, net of tax	3	-	-	(2,539)	-	-	(2,539)
Share-based payments	11	-	2,710	-	-	-	2,710
BALANCE AT SEPTEMBER 30, 2017		**268,743**	**8,458**	**(2,241)**	**958**	**(114,857)**	**161,061**

[1]Contributed surplus is comprised of share-based payments.
[2]Accumulated other comprehensive income (loss) is comprised of unrealized gains and losses on available-for-sale investments.

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As at September 30, 2017 and December 31, 2016 and for the three and nine month periods ended September 30, 2017 and 2016.
(all tabular amounts in Canadian dollars 000s, unless otherwise indicated)

1. NATURE OF BUSINESS

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

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

2. BASIS OF PREPARATION

a) Statement of Compliance

The Financial Statements have been prepared in accordance with IAS 34 – Interim Financial Reporting using International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

The Financial Statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2016 ("**2016 Annual Financial Statements**").

The Financial Statements were authorized for issue by the Company's board of directors on November 8, 2017.

b) Accounting Policies

The accounting policies and method of computation followed in the preparation of the Financial Statements are the same as those followed in the preparation of Pine Cliff's 2016 Annual Financial Statements.

c) Future accounting pronouncements

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

In January 2016, the IASB issued IFRS 16 – Leases, which replaces IAS 17 – Leases and related interpretations. IFRS 16 eliminates the classification of leases as finance or operating and introduces a single lessee accounting model for recognition and measurement, which will require the recognition of assets and liabilities for most leases. IFRS 16 is effective for years beginning on or after January 1, 2019. The Company is currently assessing the impact the adoption of this standard will have on its Financial Statements.

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")

In May 2014, the IASB published the new revenue standard, IFRS 15, which specifies how and when revenue should be recognized and requires more informative and relevant disclosures. The standard is required to be applied on first interim periods beginning on or after January 1, 2018, with early application permitted. The implementation of IFRS 15 consists of four phases including project awareness and engagement, scoping, detailed analysis and solution development, and implementation. The Company is currently in the scoping phase of implementation. The impact of the standard has been evaluated and is expected to have no material impact on the Company's financial statements. However, Pine Cliff will expand the disclosures in the notes to its financial statements as prescribed by IFRS 15, including disclosing the Company's disaggregated revenue streams by product type and any impairment losses recognized on receivables arising from contracts with customers.

IFRS 9 *Financial Instruments* ("**IFRS 9**")

In July 2014, the IASB amended IFRS 9 which amends its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The impact of the standard has been evaluated and is expected to have no material impact on the Company's financial statements.

3. INVESTMENTS

As at September 30, 2017, the Company had an investment of $2.4 million in one public dividend paying company.

Investments, December 31, 2016	**5,295**
Unrealized loss on investments	(2,935)
Investments, September 30, 2017	**2,360**

4. EXPLORATION AND EVALUATION

Exploration and evaluation assets:	Oil and gas properties	Mineral properties	Total
Balance at December 31, 2015	42,958	2,992	45,950
Additions	88	39	127
Transfer to property, plant, and equipment	(1,176)	-	(1,176)
Impairment	(4,648)	-	(4,648)
Dispositions	(6,643)	-	(6,643)
Balance at December 31, 2016	**30,579**	**3,031**	**33,610**
Additions	24	43	67
Transfer to property, plant, and equipment	(2,572)	-	(2,572)
Balance at September 30, 2017	**28,031**	**3,074**	**31,105**

5. PROPERTY, PLANT AND EQUIPMENT

Cost:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 2015	638,000	1,314	639,314
Additions	8,842	190	9,032
Transfer from exploration and evaluation	1,176	-	1,176
Acquisitions	(807)	-	(807)
Dispositions	(59,952)	-	(59,952)
Decommissioning provision	(41,479)	-	(41,479)
Balance at December 31, 2016	**545,780**	**1,504**	**547,284**
Additions	10,319	-	10,319
Transfer from exploration and evaluation	2,572	-	2,572
Acquisitions	(106)	-	(106)
Dispositions	(281)	-	(281)
Decommissioning provision	(11,809)	-	(11,809)
Balance at September 30, 2017	**546,475**	**1,504**	**547,979**

Accumulated depletion and depreciation:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 2015	(106,582)	(673)	(107,255)
Depletion and depreciation	(63,944)	(443)	(64,387)
Dispositions	4,001	-	4,001
Balance at December 31, 2016	**(166,525)**	**(1,116)**	**(167,641)**
Depletion and depreciation	(36,814)	(344)	(37,158)
Impairment	(17,800)	-	(17,800)
Balance at September 30, 2017	**(221,139)**	**(1,460)**	**(222,599)**

Carrying value at:	Oil and gas properties	Administrative assets	Total
December 31, 2016	379,255	388	379,643
September 30, 2017	**325,336**	**44**	**325,380**

Impairment

As at September 30, 2017, the Company had four Cash Generating Units ("**CGU**") being the Southern CGU, Central Gas CGU, Edson CGU, and Coal Bed Methane CGU. The Company reviewed each CGU's property and equipment at September 30, 2017 for indicators of impairment and determined that an indicator related to the decrease in future commodity prices was present. The company prepared estimates of both the value in use and fair value less cost to sell of each of the Company's CGUs. When it is determined that any CGU carrying value exceeds its recoverable amount, that CGU is considered impaired and an impairment expense is reported that equals this excess.

The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at September 30, 2017:

Year	WTI Oil (US$/Bbl)[1]	$C to US$ Foreign exchange rate[1]	Edmonton Light Crude Oil (Cdn$/Bbl)[1]	AECO Gas (Cdn$/MMBtu)[1]
2017 (3 months)	52.50	1.25	61.60	2.40
2018	55.00	1.25	64.80	2.70
2019	58.70	1.21	67.10	2.90
2020	62.40	1.21	71.50	3.15
2021	69.00	1.18	76.90	3.50
2022-2031	80.00	1.18	89.37	4.11
Thereafter	+2.0%/yr	1.18	+2.0%/yr	+2.0%/yr

[1] Source: McDaniel & Associates Consultants Ltd. price forecasts, effective October 1, 2017.

The recoverable amounts of each of the Company's CGU's at September 30, 2017 were estimated at their fair value less cost to sell, based on the net present value of discounted future cash flows from oil and gas reserves as estimated by the Company's independent reserves evaluator at December 31, 2016, updated for current price forecasts. 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, management's best estimates.

The Company used a pre-tax 15% discount rate for the September 30, 2017 impairment tests which took into account risks specific to the CGU's, inherent in the oil and gas business.

The following CGU's were impaired:

CGUs	**2017**	2016
Edson	**14,000**	-
Coal Bed Methane	**3,800**	-
Total Impairment	**17,800**	-

For the quarter ended September 30, 2017, a 1% increase in the discount rate applied to the Company's future estimated cash flows would result in an additional impairment of approximately $2.0 million (2016 - $Nil), whereas a ten percent decrease in forward commodity prices would result in additional impairment of $3.5 million (2016 - $Nil) recognized in the comprehensive loss for the nine months ended September 30, 2017.

6. DEFERRED INCOME TAXES

The Company has recorded a deferred income tax asset related to the benefit of tax pools, as it is probable that they will be recovered.

Deferred income tax assets (liabilities):	**As at September 30, 2017**	As at December 31, 2016
Share issue costs	**984**	1,341
Investment	**350**	(47)
Decommissioning provision	**52,529**	55,981
Property and equipment	**(13,841)**	(24,710)
Other	**(313)**	-
Capital losses carried forward	**155**	155
Non-capital losses carried forward	**23,312**	20,980
Asset before unrecognized deferred income tax	**63,176**	53,700
Less: unrecognized deferred income tax	**(12,561)**	(4,002)
Net deferred income tax asset	**50,615**	49,698

Pine Cliff has approximately $395.0 million in tax pools at September 30, 2017, available for future use as deductions from taxable income. Included in these pools are estimated non-capital loss carry forwards of $84.8 million that expire between the years 2030 and 2037.

7. BANK DEBT

As at September 30, 2017, the Company had a $45.0 million syndicated credit facility (the "**Credit Facility**") with four Canadian Financial Institutions (the "**Syndicate**") (December 31, 2016 - $60.0 million Credit Facility). The Credit Facility of $45.0 million consists of a $35.0 million revolving syndicated credit facility and a $10.0 million revolving operating facility. Security consists of floating demand debentures totaling $150.0 million and a general security agreement with first ranking over all current and acquired properties. Amounts drawn under the Credit Facility at September 30, 2017, were $10.6 million (December 31, 2016 - $30.9 million). Amounts borrowed under the Credit Facility bear interest at the Canadian prime rate plus 1.0% to 3.5% or the bankers' acceptance rates plus 2.0% to 4.5%, depending, in each case, on the ratio of consolidated debt to EBITDA and the Company's borrowing base. EBITDA is calculated as earnings (loss) excluding depreciation, depletion, impairment and accretion, unrealized hedging gain, share based payments, interest, taxes and other non-cash items. The Credit Facility matures July 27, 2018, and if it is not renewed it will convert to a one day term loan due on July 28, 2018. The Credit Facility will be reviewed semi-annually on November 30th and May 31st, with the next renewal scheduled for November 30, 2017. The Credit Facility has no fixed terms of repayment.

As at September 30, 2017, the Company had $2.0 million in letters of credit issued against its Credit Facility (December 31, 2016 - $1.7 million). The Credit Facility does not contain any financial covenants but Pine Cliff is subject to non-financial covenants under its Credit Facility. Compliance with these covenants is monitored on a regular basis and as at September 30, 2017, Pine Cliff was in compliance with all covenants.

8. DUE TO RELATED PARTY

Pine Cliff has a $5.0 million promissory note outstanding to the Company's Chairman of the Board maturing on July 29, 2018 ("**2018 Related Party Note**") that bears interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility and is payable monthly. The 2018 Related Party Note can be repaid at any time without penalty and is secured by a $5.0 million floating charge debenture over all of the Company's assets and is subordinated to any and all claims in favor of the Credit Facility and the holder of the Subordinated Promissory Notes due September 30, 2020. Interest paid on the 2018 Related Party Note in the three and nine months ended September 30, 2017, was $0.05 million and $0.2 million (three and nine months ended September 30, 2016 - $0.04 million and $0.04 million).

9. SUBORDINATED PROMISSORY NOTES

Subordinated promissory notes due July 29, 2018:	
Issued – July 29, 2016	6,000
Subordinated promissory notes due July 29, 2018, as at September 30, 2017 and December 31, 2016	**6,000**
Subordinated promissory notes due September 30, 2020:	
Issued – August 10, 2016	29,004
Accretion expense	82
Subordinated promissory notes due September 30, 2020, as at December 31, 2016	29,086
Accretion expense	164
Subordinated promissory notes due September 30, 2020, as at September 30, 2017	**29,250**
Total subordinated promissory notes, as at December 31, 2016	35,086
Total subordinated promissory notes, as at September 30, 2017	**35,250**

10. DECOMMISSIONING PROVISION

The total future decommissioning provision of $194.6 million was estimated by management based on the Company's working interest in its wells, pipelines, and facilities, estimated costs to remediate, reclaim and abandon such wells, pipelines, and facilities and estimated timing of the costs to be incurred in future periods.

At September 30, 2017, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was $246.0 million (December 31, 2016 - $240.2 million). The provision has been calculated assuming a 1.69% inflation rate (December 31, 2016 – 1.76%). These obligations are currently expected to be settled based on the useful lives of the underlying assets, some of which extend beyond 40 years into the future. This amount has been discounted using an average risk-free interest rate of 2.66% (December 31, 2016 – 2.39%).

Changes to decommissioning provision were as follows:

	($000s)
Decommissioning provision, January 1, 2016	240,452
Provisions related to dispositions	(10,393)
Provisions related to acquisitions	505
Increase relating to development activities	301
Decommissioning expenditures	(279)
Revisions (change in estimate and discount rates)	(31,892)
Accretion	5,189
Decommissioning provision, December 31, 2016	**203,883**
Increase relating to development activities	82
Provisions related to acquisitions	248
Decommissioning expenditures	(1,165)
Revisions (changes in estimates, inflation rate, and discount rates)	(12,139)
Accretion	3,679
Decommissioning provision, September 30, 2017	**194,588**

11. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of Common Shares ("**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

Issued and outstanding share capital continuity:	Common Shares (000s)	Share capital ($000s)
Balance at December 31, 2015	305,192	266,809
Exercise of options	1,884	1,934
Balance at December 31, 2016 and September 30, 2017	**307,076**	**268,743**

Stock Options

The Company provides an equity settled stock option plan (the "**Option Plan**") for its directors, employees and consultants. Under the Option Plan, the Company may grant stock options up to 10% of outstanding Common Shares on the grant date. The term and vesting period of the options granted are determined at the discretion of the board of directors. The exercise price of each option granted equals the market price of the Company's stock immediately preceding the date of grant and the option's maximum term is five years.

Stock options issued and outstanding:	Options (000s)	Weighted-average exercise price ($ per share)
Outstanding, December 31, 2015	17,238	1.23
Granted	12,030	1.12
Exercised	(1,884)	0.55
Expired	(3,471)	1.43
Forfeited	(1,140)	1.22
Outstanding, December 31, 2016	**22,773**	**1.20**
Granted	5,575	0.78
Expired	(2,419)	1.20
Forfeited	(2,122)	1.45
Outstanding, September 30, 2017	**23,807**	**1.08**
Exercisable, September 30, 2017	**3,060**	**1.16**

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
$0.66 - $1.15	12,273	1.8	2,263	0.2
$1.16 - $1.58	10,184	2.0	590	0.1
$1.59 - $1.97	1,350	0.5	207	0.2
	23,807	**1.8**	**3,060**	**0.2**

The Company records share-based payment expense over the vesting period, based on the fair value of the options granted to employees, directors and consultants. One third of the stock options granted vest annually on the first, second, and third anniversaries of the grant date and expire one year after the vesting date. In the nine months ended September 30, 2017, the Company granted 5,575,150 stock options (nine months ended September 30, 2016 – 1,746,000) with a fair value of $0.26 (nine months ended September 30, 2016 - $0.33) per option using the Black-Scholes option pricing model using the following key assumptions:

Assumptions (weighted average):	Nine months ended September 30, 2017	2016
Exercise price ($)	**0.78**	0.86
Estimated volatility of underlying common shares (%)	**50.2**	57.6
Expected life (years)	**2.9**	3.0
Risk-free rate (%)	**0.8**	0.6
Forfeiture rate (%)	**3.9**	3.9
Expected dividend yield (%)	**0.0**	0.0

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

Per Share Calculations

The average market value of the Company's shares for the purposes of calculating the dilutive effect of stock options and warrants was based on quoted market prices for the period that the options were outstanding. In calculating the weighted average number of diluted shares outstanding for the nine months ended September 30, 2017 and 2016, all stock options and warrants were excluded as they were not dilutive.

Earnings per share calculation:	Three months ended September 30, **2017**	2016	Nine months ended September 30, **2017**	2016
Numerator				
Loss for the period	**(30,214)**	(11,558)	**(34,868)**	(53,597)
Denominator (000s)				
Weighted-average common shares outstanding – basic and diluted	**307,076**	306,878	**307,076**	306,109
Loss per share – basic and diluted ($)	**(0.10)**	(0.04)	**(0.11)**	(0.18)

12. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30, **2017**	2016	Nine months ended September 30, **2017**	2016
Changes in non-cash working capital:				
Trade and other receivables	**2,699**	(2,388)	**6,483**	(622)
Prepaid expenses and deposits	**(3,478)**	(2,619)	**(4,206)**	(3,243)
Trade and other payables and accrued liabilities	**1,669**	1,968	**4,212**	11,657
	890	(3,039)	**6,489**	7,792
Change related to:				
Operating activities	**3,038**	(2,325)	**5,578**	5,317
Investing activities	**(2,148)**	(661)	**911**	2,700
Financing activities	**-**	(53)	**-**	(225)
	890	(3,039)	**6,489**	7,792

Finance expenses:	Three months ended September 30, **2017**	2016	Nine months ended September 30, **2017**	2016
Accretion on decommissioning provision	**1,263**	1,480	**3,679**	3,720
Interest expense and bank charges	**811**	2,030	**2,852**	5,523
Accretion on subordinated promissory notes	**56**	29	**164**	29
Total finance expenses	**2,130**	3,539	**6,695**	9,272

Cash interest paid in the three and nine months ended September 30, 2017, was $0.6 million and $1.5 million (three and nine months ended September 30, 2016 - $2.0 million and $5.9 million). Dividends received during the three and nine months ended September 30, 2017, were $0.05 million and $0.2 million (three and nine months ended September 30, 2016 – $Nil and $0.1 million).

13. FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement

Financial instruments of the Company consist of cash, trade and other receivables, investments, commodity contracts, trade and other payables, due to related party, subordinated promissory notes, and bank debt. The carrying values of cash, trade and other receivables, commodity contracts, and trade and other payables approximate their respective fair values due to their short-term to maturity. The carrying values of due to related party, subordinated promissory notes, and bank debt approximate their respective fair values due to their interest rates reflecting current market conditions.

Assets and liabilities that are measured at fair value are classified into levels, reflecting the method used to make the measurements. Level 1 fair value measurements are based on quoted prices that are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 commodity contracts pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. The fair value of Pine Cliff's commodity contracts are determined using pricing models that incorporate future price forecasts (supported by prices from observable market transactions) and credit risk adjustments. Pine Cliff has no level 3 financial instruments. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The following table sets out the Company's classification, carrying value and fair value of financial assets and liabilities as at September 30, 2017 and December 31, 2016:

		September 30, 2017		December 31, 2016	
Description	Level	**Carrying value**	**Fair value**	Carrying value	Fair value
Cash	1	**179**	**179**	148	148
Trade and other receivables		**13,529**	**13,529**	20,012	20,012
Investments	1	**2,360**	**2,360**	5,295	5,295
Commodity contracts	2	**1,176**	**1,176**	-	-
Trade and other payables		**(25,531)**	**(25,531)**	(21,319)	(21,319)
Due to related party		**(5,000)**	**(5,000)**	(5,000)	(5,000)
Subordinated promissory notes		**(35,250)**	**(35,250)**	(35,086)	(35,086)
Bank debt		**(10,611)**	**(10,611)**	(30,851)	(30,851)

14. RISK MANAGEMENT

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

Market Risk

Market risk is the risk that the fair value or future cash flow 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 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 decisions and instability. Changes in oil 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. During the second quarter of 2017, the Company entered into physical fixed price natural gas sales contracts to mitigate its exposure to future fluctuations in natural gas prices. Based on September 30, 2017 natural gas prices, a ten cent per Mcf price change would have increased or decreased the unrealized gain related to physical natural gas sales contracts respectively, by $0.1 million (December 31, 2016 - $Nil).

At September 30, 2017, the following physical fixed price natural gas sales contracts were outstanding with an unrealized fair market value of $1.2 million (December 31, 2016 - $Nil):

Physical Natural Gas Sales Contracts:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price ($CAD/GJ)	Fixed Sale Price ($CAD/Mcf)[1]	Fair Market Value ($000s)
October 1, 2017 to October 31, 2017	NIT	5,000	2.720	2.856	285
October 1, 2017 to October 31, 2017	NIT	5,000	2.750	2.888	290
October 1, 2017 to October 31, 2017	NIT	5,000	2.775	2.914	294
October 1, 2017 to October 31, 2017	NIT	5,000	2.865	3.008	307
Total unrealized commodity contracts gain					**1,176**

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

Pine Cliff's net income (loss) includes the following realized and unrealized gain (loss) on commodity contracts in place during the three and nine months ended September 30, 2017 and 2016:

	Three months ended September 30,		Nine months ended September 30,	
Commodity contracts:	**2017**	2016	**2017**	2016
Realized commodity contracts gain	**2,568**	-	**2,751**	-
Unrealized commodity contracts gain	**(14)**	-	**1,176**	-
Total gain on commodity contracts	**2,554**	-	**3,927**	-

Interest Rate Risk

The Company is principally exposed to interest rate risk to the extent it draws on its variable rate debt. Changes in market interest rates could affect the cash flow associated with variable rate debt. If interest rates applicable to Pine Cliff's variable rate debt increased or decreased by one percent, it is estimated that Pine Cliff's loss for the quarter ended September 30, 2017, would have increased or decreased, respectively, by $0.05 million (December 31, 2016 - $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. Equity price risk arises from the realizable value of investments that the Company holds which are subject to variable equity prices which on disposition gives rise to a cash flow equity price risk.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk because the oil and natural gas prices it receives are indirectly determined in reference to United Stated dollar denominated commodity prices. The Company manages this risk by monitoring the foreign exchange rate and evaluating its effect on cash flows. Pine Cliff has not entered into any derivative financial instruments to manage this risk.

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, commodity contracts 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 major Canadian chartered banks. To mitigate the credit risk on trade and other receivables and commodity contracts, Pine Cliff assesses the financial strength of its counterparties and enters into relationships with larger purchasers with established credit histories.

The Company's trade and other receivables balance at September 30, 2017 of $13.5 million (December 31, 2016 – $20.0 million), is primarily with oil and gas marketers, joint venture partners and crown royalty credits with the Province of Alberta. Amounts due from these parties have generally been received within 30 to 60 days. When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. The Company generally considers amounts greater than 90 days to be past due. As at September 30, 2017, there was $1.0 million (December 31, 2016 - $1.8 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 quarter ended September 30, 2017, the Company recorded $0.05 million (December 31, 2016 - $0.5 million) of bad debt expense against trade and other accounts receivables.

The Company's commodity contracts balance at September 30, 2017, of $1.2 million (December 31, 2016 – $Nil) is with oil and gas marketers. Amounts due from these parties have generally been received within 30 days. There are no commodity contracts that Pine Cliff considers past due.

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 actively manages its liquidity through cash, debt and equity management strategies. Such strategies include continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under the Credit Facility and opportunities to issue additional equity, including Common Shares. 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.

The Company currently has a $45.0 million Credit Facility, of which $10.6 million was drawn at September 30, 2017. The unused portion of the Credit Facility and cash provided by operating activities are expected to allow Pine Cliff to meet its financial liabilities, as well as future capital requirements. If required, Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities.

15. COMMITMENTS

As at September 30, 2017, the Company has the following commitments and other contractual obligations:

($000s)	2017	2018	2019	2020	2021	Thereafter
Subordinated promissory notes[1]	-	6,000	-	30,000	-	-
Trade and other payables	25,531	-	-	-	-	-
Due to related party	-	5,000	-	-	-	-
Bank debt	-	10,611	-	-	-	-
Future interest	739	2,569	2,025	1,519	-	-
Transportation commitments[2]	1,789	7,981	6,616	6,106	5,494	20,160
Vehicle leases	123	473	426	310	223	-
Office and equipment leases	123	438	436	464	464	922
Total commitments and contingencies	28,305	33,072	9,503	38,399	6,181	21,082

[1] The subordinated promissory notes for commitments are presented at the principal amount.
[2] Transportation commitments – transportation contracts for the movement of commodities from Pine Cliff's production areas to consuming markets.

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
Interim Chief Financial Officer and Corporate Secretary

Cheryne A. Lowe
Chief Financial Officer and Corporate Secretary

Heather A. Isidoro
Vice President, Business Development

Christopher S. Lee
Vice President, Geology

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Computershare Trust Company of Canada

AUDITORS

Deloitte LLP

BANKERS

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

STOCK EXCHANGE LISTING

TSX Exchange
Trading Symbol: PNE

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