



TSX: PNE
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Long-term
Value Focus

Q1-2018 Report

MESSAGE TO SHAREHOLDERS

Pine Cliff continues to do everything in its control to mitigate the impact of the natural gas price volatility on our business. Our main operational focus in the first quarter of 2018 was optimizing Pine Cliff's infrastructure to increase the flexibility to move production volumes to different delivery points. The result of that work is that approximately 42% of the Company's forecasted 2018 natural gas production is now anticipated to be sold to non-AECO markets. We accomplished that goal while still generating positive cash flow, the 24th of the past 25 quarters we have done that. Significant highlights from the first quarter were:

- generated \$29.7 million of oil and gas sales, 8% higher than the \$27.4 million generated for the three months ended December 31, 2017;
- generated \$5.1 million of adjusted funds flow (\$0.02 per basic share) for the three months ended March 31, 2018, compared to \$3.8 million of adjusted funds flow (\$0.01 per basic share) for the three months ended December 31, 2017;
- reduced bank debt by \$4.8 million or 27%, from \$18.0 million to \$13.2 million, during the three months ended March 31, 2018, our lowest bank debt level since 2014. The reduction in bank debt resulted in interest and bank charges, net of dividend income, of \$0.42 per Boe this past quarter, 19% lower than the \$0.52 per Boe in the first quarter of 2017;
- ended the quarter with \$52.4 million in net debt, our lowest net debt level since 2014, which is \$1.2 million lower than the fourth quarter of 2017 net debt level of \$53.6 million. On a trailing 12 month basis, this resulted in our debt to cash flow ratio being 2.3 to 1;
- successfully completed a compression project on March 27, 2018, giving Pine Cliff the flexibility to deliver an additional 14 million Mcf per day of Alberta natural gas to the TransGas market in Saskatchewan, or revert production back to the AECO market in Alberta, depending on the pricing differential between the two markets. This increases Pine Cliff's capacity to the Transgas market up to 26 million Mcf per day; and
- completed arrangements to give us the capability to physically divert up to 12 million Mcf per day of Southern Alberta gas from the AECO market to the Empress market.

Impact of Our Diversification Strategy

Despite the AECO daily natural gas price only averaging \$2.07/Mcf this past quarter, Pine Cliff was able to realize \$2.35/Mcf, an increase of 14%, primarily due to our commodity price management initiatives. Pine Cliff continues to focus on reducing costs and sourcing premium prices for our products to improve margins. An important component of Pine Cliff's diversification strategy is that we utilized most of our own infrastructure in expanding the sales points. We believe this flexibility will allow us to react quickly if future market pricing dynamics change.

LNG Prospects in Canada

Other than AECO gas price forecasts and pipeline constraints, the next topic I have been asked about the most this year are Canada's prospects to build a new major LNG export facility. We have met with several of the teams working on LNG export projects on both the West and East coasts of Canada. Over the years my level of skepticism on these projects has decreased and I would say has now reached a level of optimism, despite all of the issues we read about with regard to approving new oil infrastructure in our country. Due to the different environmental characteristics of natural gas compared to oil, the natural gas projects do not attract the same level of public resistance seen on similar liquid initiatives. It is looking increasingly likely that 2018 may see positive final investment decisions (FIDs) on perhaps several LNG export facilities in Canada. Although we would not see any of these projects operational until early in the next decade, the positive announcements alone of any of these projects moving forward would improve the sentiment around investing in Western Canada natural gas. These project approvals would also be a strong indication to the international investment community that Canada is still capable of getting much needed infrastructure projects approved and built. The impact of that message on our energy sector, one of the biggest users of capital and contributors to employment in our country, cannot be overstated.

Outlook

The movement and pricing of natural gas in Canada has become increasingly complex since I joined Pine Cliff in 2012. The pipeline maintenance periods that started last summer and continue this summer has resulted in some production not being able to exit Alberta or being able to flow into storage. Compounding this issue was the significant increase in Western Canada natural gas supply in the past 12 months. Pipeline maintenance programs scheduled for May and June of this year have resulted in weak summer forecast pricing for natural gas, specifically at AECO. The positive outcome of this situation is that many industry producers have already announced reductions in their 2018 capital expenditure programs across Western Canada, natural gas rig counts have dropped and now some degree of uneconomic production is being shut-in. We believe that these producer reactions, combined with the fact that gas storage levels are below five year averages in both Canada and the US, should be positive for future natural gas pricing.

We believe these physical constraint issues will be resolved as pipeline companies move ahead with various expansion plans. Investors in both the US and Canada seem to be focusing their capital on companies that can deliver sustainable profitable production, not just growth for the sake of growth or spending beyond cash flow. This investor trend should lead to healthier capital investment decisions being made by our industry and also help to alleviate the current over supply issue. Meanwhile, demand for natural gas continues to grow both in North America and globally, as seen in the depleted Canada and US storage levels despite the supply growth. Regardless of the outcome of LNG export projects in Canada, US LNG exports are expected to increase from the current 3.5 Bcf per day to over 9 Bcf per day in the next 20 months. All of these developments should be positive for our business.

With all of the changing dynamics in our industry, Pine Cliff will continue to focus on maintaining and building a profitable, sustainable business that will generate positive cash flow for many years to come. The industry turbulence has required us to adapt and be creative, but we feel our responses to those challenges has made our business even stronger, more flexible and more resilient than ever before. As part of our response to the challenging gas price environment, we have commenced an internal review of oil and liquid drilling opportunities on our two million acres of land.

Thank you for your continued patience and support as shareholders and to our Pine Cliff team for their unwavering commitment.

Yours truly,



Phil Hodge
President and Chief Executive Officer
May 8, 2018

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position of Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") for the period ended March 31, 2018. This MD&A is dated and based on information available as at May 8, 2018 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2018 ("Financial Statements"), the audited annual consolidated financial statements for the year ended December 31, 2017 ("Annual Financial Statements") and the annual management's discussion and analysis for the year ended December 31, 2017 ("Annual MD&A"). The Financial Statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" using accounting principles consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board using Generally Accepted Accounting Principles ("GAAP"). Additional information relating to the Company, including the Company's Annual Information Form, may be found on www.sedar.com 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-GAAP MEASURES" and "FORWARD LOOKING INFORMATION".

Other Measurements

All amounts herein are presented in Canadian dollars unless otherwise specified. All references to \$CAD or \$ are to Canadian dollars and monetary references to \$US are to United States dollars.

Natural gas liquids and oil volumes are recorded in barrels of oil ("Bbl") and are converted to a thousand cubic feet equivalent ("Mcf") using a ratio of one (1) Bbl to six (6) thousand cubic feet. Natural gas volumes recorded in thousand cubic feet ("Mcf") are converted to barrels of oil equivalent ("Boe") using the ratio of six (6) thousand cubic feet to one (1) Bbl. This conversion ratio is based on energy equivalence primarily at the burner tip and does not represent a value equivalency at the wellhead. The terms Boe or Mcfe may be misleading, particularly if used in isolation.

FIRST QUARTER 2018 HIGHLIGHTS

Highlights from the first quarter of 2018 are as follows:

- generated \$29.7 million of oil and gas sales, 8% higher than the \$27.4 million generated for the three months ended December 31, 2017;
- generated \$5.1 million of adjusted funds flow (\$0.02 per basic share) for the three months ended March 31, 2018, compared to \$3.8 million of adjusted funds flow (\$0.01 per basic share) for the three months ended December 31, 2017;
- production averaged 20,008 Boe/d (94% natural gas) in the first quarter of 2018. The Company experienced short-term production outages of approximately 1,000 Boe/d for the first quarter of 2018, primarily due to cold weather related downtime;
- reduced bank debt by \$4.8 million or 27% during the three months ended March 31, 2018, from \$18.0 million to \$13.2 million, the lowest Company bank debt level since 2014. The reduction in bank debt resulted in interest expense and bank charges, net of dividend income, of \$0.42 per Boe this past quarter, 19% lower than the \$0.52 per Boe in the first quarter of 2017; and
- ended the quarter with \$52.4 million in net debt, Pine Cliff's lowest net debt level since 2014 and \$1.2 million lower than the fourth quarter of 2017 net debt level of \$53.6 million. On a trailing 12 month basis, this resulted in the Company's debt to cash flow ratio being 2.3.

SENSITIVITIES

Pine Cliff's results are sensitive to changes in the business environment in which it operates. The following chart shows the Company's sensitivity to key commodity price variables and interest rates on variable rate debt. The sensitivity calculations are performed independently showing the effect of the change of one variable; all other variables are held constant.

Business environment sensitivities	Impact on annual adjusted funds flow ¹		
	Change	\$000s	\$ per share ³
Crude oil price - Edmonton Light (\$/Bbl) ²	\$1.00	341	0.00
Natural gas price - AECO (\$/Mcf) ²	\$0.10	3,882	0.01
Interest rate on variable rate debt ⁴	1.0%	240	0.00

¹ This analysis does not adjust for changes in working capital and uses royalty rates from Q1 2018.

² Pine Cliff has prepared this analysis using its Q1 2018 production volumes annualized for twelve months.

³ Based on the Q1 2018 basic weighted average shares outstanding.

⁴ Based on March 31, 2018 bank debt of \$13.2 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.

QUARTERLY BENCHMARK PRICES

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

	Q1-2018	Q4-2017	Q3-2017	Q2-2017	Q1-2017	Q4-2016	Q3-2016	Q2-2016
Natural gas								
NYMEX (US\$/Mmbtu) ¹	2.99	2.91	2.98	3.13	3.25	2.95	2.78	1.95
AECO Daily 5A (C\$/Mcf) ²	2.07	1.68	1.45	2.77	2.68	3.08	2.31	1.39
Pine Cliff realized natural gas price (\$/Mcf)	2.35	1.98	1.63	2.80	2.83	2.93	2.33	1.32
Crude oil								
WTI (US\$/Bbl)	62.87	55.40	48.20	48.28	51.91	49.29	44.94	45.59
Edmonton Light (C\$/Bbl)	72.21	68.98	56.65	61.87	63.91	61.61	54.71	54.71
Foreign exchange								
US\$/C\$	1.270	1.270	1.250	1.340	1.320	1.334	1.305	1.289

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 March 31, 2018, the AECO daily benchmark was 23% lower compared to the same period of 2017, primarily due to increased natural gas supply and demand fundamentals. While the price realized by the Company for natural gas production from Western Canada is still influenced by the Alberta price hub AECO, recent diversification projects to delivery points such as Dawn and Empress materially increased pricing in the first quarter of 2018. Most of Pine Cliff's natural gas production is in Alberta with the balance produced in Saskatchewan.

The average benchmarks for WTI and Edmonton Light crude increased by 21% and 13%, respectively in the three months ended March 31, 2018, as compared to the same period in 2017, due to increasing global demand and the management of global crude oil production volumes by OPEC. 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 months ended March 31, 2018, the realized price of Pine Cliff's NGL's was \$51.45 and \$63.21, respectively, which was 71% and 88% of Edmonton Light.

QUARTERLY TRENDS AND SELECTED FINANCIAL INFORMATION

(\$000s, unless otherwise indicated)	2018		2017		2016			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
FINANCIAL								
Total revenue	27,100	25,444	23,892	34,005	31,735	35,189	30,067	19,905
Cash flow from operating activities	6,979	(4,350)	5,517	10,007	13,835	12,632	4,606	(4,371)
Adjusted funds flow ¹	5,137	3,759	2,879	10,834	11,233	15,026	6,972	(3,655)
Adjusted funds flow per share – basic and diluted (\$/share) ¹	0.02	0.01	0.01	0.04	0.04	0.05	0.02	(0.01)
Impairments	-	-	17,800	-	-	4,648	-	-
Earnings (loss)	(15,580)	(32,996)	(30,214)	(2,118)	(2,536)	3,210	(11,558)	(25,862)
Earnings (loss) per share – basic and diluted (\$/share)	(0.05)	(0.11)	(0.10)	(0.01)	(0.01)	0.01	(0.04)	(0.08)
Capital expenditures	3,177	3,091	3,318	3,267	3,801	3,356	1,437	749
Acquisitions	(288)	44	(9)	(97)	-	(1,029)	(603)	240
Dispositions	(83)	(148)	(65)	(216)	-	(33,032)	(5,378)	(24,702)
Net debt ¹	52,414	53,638	53,377	52,562	58,930	64,224	110,312	122,032
Weighted average common shares outstanding:								
Basic	307,076	307,076	307,076	307,076	307,076	306,977	306,878	305,928
Diluted	307,076	307,076	307,076	307,076	307,076	307,095	306,878	305,928
PRODUCTION VOLUMES								
Natural gas (Mcf/d)	112,871	122,304	124,450	119,410	120,677	120,540	125,082	124,966
Natural gas liquids (Bbl/d)	977	880	998	912	903	833	871	933
Crude oil (Bbl/d)	219	225	123	263	198	602	803	886
Average sales volumes (Boe/d)	20,008	21,489	21,863	21,077	21,214	21,525	22,521	22,647
Average sales volumes (Mcf/d)	120,048	128,934	131,178	126,462	127,284	129,150	135,126	135,882
PRICES AND NETBACKS								
Total oil and gas sales (\$/Boe)	16.50	13.85	11.47	18.45	18.41	19.35	15.64	10.04
Operating netback (\$/Boe) ¹	4.04	2.85	2.30	7.41	7.14	8.81	5.08	(0.02)
Corporate netback (\$/Boe) ¹	2.86	1.90	1.44	5.65	5.88	7.59	3.36	(1.76)
Total oil and gas sales (\$/Mcf)	2.75	2.31	1.91	3.08	3.07	3.23	2.61	1.67
Operating netback (\$/Mcf) ¹	0.67	0.48	0.38	1.24	1.19	1.47	0.85	-
Corporate netback (\$/Mcf) ¹	0.48	0.32	0.24	0.94	0.98	1.27	0.56	(0.29)

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

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

- 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 increased in the third quarter of 2017 due to a successful recompletion program in the Central Area. Average sales volumes decreased in the fourth quarter of 2017 through the first quarter of 2018 related to natural production declines and short-term production outages, primarily due to cold weather related downtime.
- 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 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 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 increased from the first quarter of 2017 to the second quarter of 2017 related to increased commodity prices and lower royalty rates. Total revenues increased from

the third quarter of 2017 to the first quarter of 2018 mainly as a result of higher commodity prices, slightly offset by lower sales volumes.

- Adjusted funds flow of \$15.0 million in the fourth quarter of 2016 was the highest in the eight quarters presented as a result of the highest natural gas prices in the eight quarters. Adjusted funds flow 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. Adjusted funds flow 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. Adjusted funds flow increased from the third quarter of 2017 through the first quarter of 2018 as a result of higher natural gas prices, slightly offset by lower sales volumes.
- Earnings of \$3.2 million in the fourth quarter of 2016 was the highest in the eight quarters presented as a result of that quarter having the highest natural gas price in the eight quarters. Earnings (loss) 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 (loss) continued to decrease in the third quarter of 2017 compared to the second quarter of 2017, primarily as a result of impairment and lower commodity prices, slightly offset by higher production volumes. Earnings (loss) decreased in the fourth quarter of 2017 compared to the third quarter of 2017, primarily as a result of a deferred income tax expense and a reduction of the deferred tax asset. Earnings (loss) increased in the first quarter of 2018 compared to the fourth quarter of 2017 mainly as a result of higher oil and gas revenues and a lower deferred income tax expense.

Three months ended March 31,
2018 2017

(\$000s, unless otherwise indicated)		
FINANCIAL		
Oil and gas sales (before royalty expense)	29,711	35,148
Cash flow from operating activities	6,979	13,835
Adjusted funds flow¹	5,137	11,233
Per share – Basic and Diluted (\$/share) ¹	0.02	0.04
Loss	(15,580)	(2,536)
Per share – Basic and Diluted (\$/share)	(0.05)	(0.01)
Capital expenditures	3,177	3,801
Net debt¹	52,414	58,930
Weighted-average common shares outstanding (000s)		
Basic and diluted	307,076	307,076
OPERATIONS		
Production		
Natural gas (Mcf/d)	112,871	120,677
Natural gas liquids (Bbl/d)	977	903
Crude oil (Bbl/d)	219	198
Total (Boe/d)	20,008	21,214
Realized commodity sales prices		
Natural gas (\$/Mcf)	2.35	2.83
Natural gas liquids (\$/Boe)	51.45	42.40
Crude oil (\$/Bbl)	63.21	55.85
Combined (\$/Boe)	16.50	18.41
Netback (\$/Boe)		
Oil and gas sales	16.50	18.41
Royalty expense	(1.47)	(1.82)
Operating expenses	(9.39)	(8.34)
Transportation expenses	(1.60)	(1.11)
Operating netback (\$/Boe)¹	4.04	7.14
General and administrative expenses	(0.76)	(0.74)
Interest and bank charges, net of dividend income	(0.42)	(0.52)
Corporate netback (\$/Boe)¹	2.86	5.88
Operating netback (\$ per Mcfe)¹	0.67	1.19
Corporate netback (\$ per Mcfe)¹	0.48	0.98

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

SALES VOLUMES

Total sales volumes by product	Three months ended March 31,		
	2018	2017	% Change
Natural gas (Mcf)	10,158,390	10,860,947	(6)
NGLs (Bbl)	87,973	81,273	8
Crude oil (Bbl)	19,715	17,776	11
Total Boe	1,800,753	1,909,207	(6)
Total Mcfe	10,804,518	11,455,239	(6)
Natural gas weighting	94%	95%	(1)

Average daily sales volumes by product	Three months ended March 31,		
	2018	2017	% Change
Natural gas (Mcf/d)	112,871	120,677	(6)
NGLs (Bbl/d)	977	903	8
Crude oil (Bbl/d)	219	198	11
Total (Boe/d)	20,008	21,214	(6)
Total (Mcfe/d)	120,048	127,284	(6)

Average daily sales volumes by area	Three months ended March 31,		
	2018	2017	% Change
Central (Boe/d)	9,545	9,696	(2)
Southern (Boe/d)	8,357	9,272	(10)
Edson (Boe/d)	2,106	2,246	(6)
Total (Boe/d)	20,008	21,214	(6)
Total (Mcfe/d)	120,048	127,284	(6)

Pine Cliff's sales volumes decreased by 6% at 20,008 Boe/d (120,048 Mcfe/d) from 21,214 Boe/d (127,284 Mcfe/d) for the three months ended March 31, 2018, as compared to the same period in 2017. The production volumes decrease relates mainly to natural declines and short-term production outages of approximately 1,000 Boe/d.

Pine Cliff is projecting 2018 production volumes of 20,000 – 20,500 Boe/d (120,000 – 123,000 Mcfe/d), weighted approximately 95% towards natural gas.

Benchmark Prices

	Three months ended March 31,		
	2018	2017	% Change
Natural gas			
NYMEX (US\$/Mmbtu) ¹	2.99	3.25	(8)
AECO Daily 5A (C\$/Mcf) ²	2.07	2.68	(23)
Crude oil			
WTI (US\$/Bbl)	62.87	51.91	21
Edmonton Light (C\$/Bbl)	72.21	63.91	13
Foreign exchange			
US\$/C\$	1.270	1.320	(4)

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.

OIL AND GAS SALES

(\$000s)	Three months ended March 31,		
	2018	2017	% Change
Natural gas	23,939	30,709	(22)
NGL	4,526	3,446	31
Crude oil	1,246	993	25
Total oil and gas sales	29,711	35,148	(15)
% of revenue from natural gas sales	81%	87%	(6)

Realized prices

\$ per unit	Three months ended March 31,		
	2018	2017	% Change
Natural gas (\$/Mcf)	2.35	2.83	(17)
NGL (\$/Bbl)	51.45	42.40	21
Crude oil (\$/Bbl)	63.21	55.85	13
Total (\$/Boe)	16.50	18.41	(10)
Total (\$/Mcf)	2.75	3.07	(10)

Oil and gas sales in the three months ended March 31, 2018, decreased \$5.4 million to \$29.7 million from \$35.1 million in the three months ended March 31, 2017, with \$3.4 million of the decrease attributable to lower realized prices and \$2.0 million from lower sales volumes.

Pine Cliff's realized natural gas price was \$2.35 per Mcf for the three months ended March 31, 2018, 17% lower than the \$2.83 per Mcf in the corresponding period of the prior year, primarily as a result of changes in the AECO natural gas reference price.

For the three months ended March 31, 2018, Pine Cliff's realized NGL prices were \$51.45 per Bbl, compared to \$42.40 per Bbl in the corresponding period of the prior year. For the three months ended March 31, 2018, Pine Cliff's realized oil prices were \$63.21 per Bbl, compared to \$55.85 per Bbl in the corresponding period 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 oil and NGL prices in the three months ended March 31, 2018, were 88% and 71% of Edmonton Light compared to 87% and 66% in the three months ended March 31, 2017.

ROYALTY EXPENSE

(\$000s)	Three months ended March 31,		
	2018	2017	% Change
Total royalty expense	2,646	3,466	(24)
\$ per Boe	1.47	1.82	(19)
\$ per Mcfe	0.24	0.30	(19)
Royalty expense as a % of oil and gas sales	9%	10%	(10)

For the three months ended March 31, 2018, total royalty expense decreased by 24% to \$2.6 million, from \$3.5 million in the corresponding period of the prior year. Royalty expense as a percentage of oil and gas sales decreased to 9% in the three months ended March 31, 2017, from 10% in the corresponding period of the prior year. Pine Cliff expects royalties to average between 7% and 8% of oil and gas sales during 2018.

OPERATING EXPENSES

(\$000s)	Three months ended March 31,		
	2018	2017	% Change
Total operating expenses	16,912	15,910	6
\$ per Boe	9.39	8.34	13
\$ per Mcfe	1.57	1.39	13

Operating expenses increased by 6% to \$16.9 million for the three months ended March 31, 2018, as compared to \$15.9 million in the corresponding period of the prior year. The increase is related to an increase in power costs and general inflationary costs in the sector.

TRANSPORTATION COSTS

(\$000s)	Three months ended March 31,		
	2018	2017	% Change
Total transportation costs	2,889	2,124	36
\$ per Boe	1.60	1.11	44
\$ per Mcfe	0.27	0.19	44

For the three months ended March 31, 2018, transportation costs increased by 36% to \$2.9 million from \$2.1 million in the corresponding period of the prior year. The higher transportation expenses are related to the Company diversifying its delivery of a higher proportion of its natural gas to non-AECO markets, including the delivery of approximately 11,000 Mcf/d to Dawn during the quarter. Pine Cliff is targeting transportation expenses of approximately \$1.80 per Boe (\$0.30 per Mcfe) in 2018.

GENERAL AND ADMINISTRATIVE EXPENSES (“G&A”)

(\$000s)	Three months ended March 31,		
	2018	2017	% Change
Gross G&A	1,974	2,392	(17)
Less: overhead recoveries	(610)	(977)	(38)
Total G&A expenses	1,364	1,415	(4)
\$ per Boe	0.76	0.74	3
\$ per Mcfe	0.13	0.12	3

G&A decreased 4% to \$1.4 million for the three months ended March 31, 2018, as compared to \$1.4 million in the corresponding period of the prior year.

On a per Boe basis, G&A increased by 3% to \$0.76 per Boe (\$0.13 per Mcfe) for the three months ended March 31, 2018 as compared to \$0.74 per Boe (\$0.12 per Mcfe) in the corresponding period of the prior year, a result of lower production volumes.

SHARE-BASED PAYMENTS

(\$000s)	Three months ended March 31,		
	2018	2017	% Change
Total share-based payments	624	779	(20)
\$ per Boe	0.35	0.41	(15)
\$ per Mcfe	0.06	0.07	(15)

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 three months ended March 31, 2018, there were no stock options granted to purchase Common Shares. As at March 31, 2018, the Company had 20,852,507 stock options outstanding representing 6.8% of Common Shares outstanding (March 31, 2017 – 21,564,431 representing 7.0% of Common Shares outstanding).

DEPLETION AND DEPRECIATION

(\$000s)	Three months ended March 31,		
	2018	2017	% Change
Total depletion and depreciation	10,876	12,145	(10)
\$ per Boe	6.04	6.36	(5)
\$ per Mcfe	1.01	1.06	(5)

Depletion and depreciation expense for the three months ended March 31, 2018 totaled \$10.9 million compared to \$12.1 million in the corresponding period of the prior year, as a result of positive reserves revisions and a lower depletable base. 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.

Property, Plant and Equipment (“PP&E”) Impairment Assessment

During the three months ended March 31, 2018, the Company had four Cash Generating Units (“CGU”), the Southern CGU, the Central Gas CGU, the Edson CGU, and the Coal Bed Methane CGU. The Company reviewed each CGU’s property and equipment at March 31, 2018 for indicators of impairment and determined that indicators related to the decrease in the Company’s share price was present at March 31, 2018. 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 March 31, 2018:

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
2018 (9 months)	63.00	1.28	76.80	2.00
2019	62.00	1.28	76.50	2.40
2020	62.50	1.25	75.10	2.95
2021	69.00	1.21	80.50	3.30
2022	73.10	1.18	82.80	3.45
2023-2032	81.60	1.18	92.43	3.82
Thereafter	+2%/yr	1.18	+2%/yr	+2%/yr

¹Source: McDaniel & Associates Consultants Ltd. price forecasts, effective April 1, 2018.

The recoverable amounts of each of the Company’s CGU’s at March 31, 2018 were estimated at their fair value less cost to sell, based on the net present value of discounted future cash flow from operating activities from oil and gas reserves as estimated by the Company’s independent reserves evaluator at December 31, 2017, adjusted for production during the first quarter. The fair value less costs to sell used to determine the recoverable amounts are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data, but rather, the Company’s management best estimates.

The Company used a pre-tax 15% discount rate for the March 31, 2018 impairment test which took into account risks specific to the CGU’s and inherent in the oil and gas business. The impairment testing concluded that the fair value less costs to sell for the Company’s CGU’s at March 31, 2018 is greater than the carrying amounts and therefore no impairment was recorded.

E&E Impairment Assessment

In accordance with IFRS, an impairment test is performed if the Company identified an indication of impairment. At March 31, 2018, the Company determined that no indicators of impairment existed on its E&E assets and therefore an impairment test was not performed.

FINANCE EXPENSES

(\$000s)	Three months ended March 31,		
	2018	2017	% Change
Interest expense and bank charges	798	1,053	(24)
Non cash:			
Accretion on decommissioning provision	1,273	1,199	6
Accretion on subordinated promissory notes	57	54	6
Total finance expenses	2,128	2,306	(8)
\$ per Boe	1.18	1.21	(2)
\$ per Mcfe	0.20	0.20	(2)

In the three months ended March 31, 2018, Pine Cliff incurred finance expenses of \$2.1 million, 8% lower than the \$2.3 million in the corresponding period of the prior year. The decrease is largely due to decreased interest and bank charges from lower debt levels. Please refer to the "DEBT, LIQUIDITY AND CAPITAL RESOURCES" section for additional information.

DIVIDEND INCOME

(\$000s)	Three months ended March 31,		
	2018	2017	% Change
Total dividend income	35	53	(34)
\$ per Boe	0.02	0.03	(33)

In the three months ended March 31, 2018, Pine Cliff received \$0.04 million in dividends from its investment in one dividend paying company. This investment was sold as of March 31, 2018.

DEFERRED INCOME TAX

For the three months ended March 31, 2018, deferred income tax expenses amounted to \$5.2 million, compared to \$0.4 million of deferred income tax recoveries during the same period of 2017.

As at March 31, 2018, a deferred income tax asset has not been recognized on \$42.0 million (December 31, 2017 - \$33.3 million) of deductible temporary differences as it is not probable that future taxable net income will be available against which the Company can utilize the benefits.

Pine Cliff has approximately \$386.2 million in tax pools as at March 31, 2018 (December 31, 2017 - \$383.0 million), available for future use as deductions from taxable income. Included in the Company's tax pools are estimated non-capital loss carry-forwards of \$91.3 million (December 31, 2017 - \$82.6 million) that expire between the years 2030 and 2038.

EARNINGS (LOSS)

Quarter to quarter variance analysis:

(\$000s)	
Loss for the three months ended March 31, 2017	(2,536)
Price variance	(3,440)
Volume variance	(1,997)
Royalty expense	820
Transportation	(765)
Operating	(1,002)
General and administrative	51
Depletion and depreciation	1,269
Share-based payments	155
Finance	178
Realized loss on sale of investments	(2,687)
Dividend income	(18)
Deferred income tax	(5,608)
Loss for the three months ended March 31, 2018	(15,580)

During the three months ended March 31, 2018, Pine Cliff's net loss increased by \$13.1 million to \$15.6 million as compared to a net loss of \$2.5 million during the three months ended March 31, 2017. The increase in net loss is mainly a result of lower commodity prices, lower production volumes, higher transportation, operating expenses and deferred income tax expense, and a realized loss on sale of investments, partially offset by lower royalty expenses, depletion, depreciation and finance expenses.

REALIZED LOSS IN INVESTMENTS

As of March 31, 2018, Pine Cliff sold its investment in one public dividend paying company for proceeds of \$2.3 million and realized a loss on sale of investments of \$2.7 million.

CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS

(\$000s)	Three months ended March 31, 2018	Year ended December 31, 2017
Exploration and evaluation	6	79
Property, plant and equipment	3,171	13,398
Capital expenditures	3,177	13,477
Acquisitions	(288)	(62)
Dispositions	(83)	(429)
Total	2,806	12,986

Capital expenditures of \$3.2 million during the three months ended March 31, 2018, were directed towards drilling five gross (0.7 net) wells in the Edson and Central areas for \$1.8 million, facility and maintenance capital of \$1.0 million, recompletions of \$0.1 million and \$0.3 million of other miscellaneous capital additions.

DECOMMISSIONING PROVISION

The total future decommissioning provision of \$197.1 million was estimated by management based on the Company's working interest and estimated costs to remediate, reclaim and abandon its wells, pipelines, and facilities and estimated timing of the costs to be incurred in future periods.

At March 31, 2018, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$244.3 million (December 31, 2017 - \$244.3 million). The provision has been calculated assuming a 1.75% inflation rate (December 31, 2017 - 1.72%). These obligations are currently expected to be settled based on the useful lives of the underlying assets, some of

which extend beyond 35 years into the future. This amount has been discounted using an average risk-free interest rate of 2.71% (December 31, 2017 – 2.57%).

DEBT, LIQUIDITY AND CAPITAL RESOURCES

Bank Credit Facilities

As at March 31, 2018, the Company had a \$45.0 million syndicated credit facility (the “**Credit Facility**”) with four Canadian Financial Institutions (the “**Syndicate**”) (December 31, 2017 - \$45.0 million Credit Facility). The Credit Facility of \$45.0 million consists of a \$30.0 million revolving syndicated credit facility and a \$15.0 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 March 31, 2018, were \$13.2 million (December 31, 2017 - \$18.0 million). Borrowings 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, plus applicable standby fees. EBITDA is calculated as earnings (loss) excluding depreciation, depletion, impairment and accretion, share based payments, interest, taxes and other non-cash items. 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 is reviewed semi-annually on May 31st and November 30th with the next renewal scheduled for May 31, 2018. The Credit Facility has no fixed terms of repayment. There is also a risk that the Credit Facility will not be renewed for the same amount or on the same terms or that the lenders reduce the borrowing base as a result of their regularly scheduled borrowing base review. Any of these events could affect Pine Cliff’s ability to fund ongoing operations.

As at March 31, 2018, the Company had \$2.0 million in letters of credit issued against its Credit Facility (December 31, 2017 - \$2.0 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 March 31, 2018, Pine Cliff was in compliance with all covenants.

Subordinated Promissory Notes due July 29, 2018

As at March 31, 2018, 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 for the three months ended March 31, 2018 was \$0.04 million (March 31, 2017 - \$0.06 million).

Subordinated Promissory Notes due September 30, 2020

As at March 31, 2018, 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. 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	May 8, 2018	March 31, 2018	December 31, 2017
Common Shares	307,075,787	307,075,787	307,075,787
Stock options	20,651,174	20,852,507	21,316,406
Warrants	4,500,000	4,500,000	4,500,000

Capital Resources

Pine Cliff's capital budget for 2018 is \$10.4 million including abandonments and reclamation, but before acquisitions and dispositions. Pine Cliff anticipates funding its capital budget through adjusted funds flow. Budgeted future capital expenditures related to drilling are largely discretionary in nature and Pine Cliff is able to adjust the nature, amount and timing of most planned capital expenditures to changes in the business and commodity price environment.

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

Liquidity

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

During the three months ended March 31, 2018, the Company financed its capital expenditures with cash flow from operating activities while also reducing bank debt.

COMMITMENTS AND CONTINGENCIES

As at March 31, 2018, the Company has the following commitments and other contractual obligations:

	2018	2019	2020	2021	2022	Thereafter
(\$000s)						
Subordinated promissory notes ¹	6,000	-	30,000	-	-	-
Trade and other payables	18,614	-	-	-	-	-
Due to related party	5,000	-	-	-	-	-
Bank debt	13,171	-	-	-	-	-
Future interest	1,867	2,025	1,519	-	-	-
Operating leases	690	912	830	718	535	461
Transportation ²	7,343	7,738	6,676	5,696	4,902	15,313
Total commitments and contingencies	52,685	10,675	39,025	6,414	5,437	15,774

¹ Principal amount.

² Firm transportation agreements.

OFF BALANCE SHEET TRANSACTIONS

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

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments of the Company consist of cash, 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.

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

Physical sales contracts

Pine Cliff enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value through profit or loss. At March 31, 2018, the Company had the following physical sales contracts in place:

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
April 1, 2018 to October 31, 2018	DAWN ²	4,000	\$3.13	\$3.29
April 1, 2018 to October 31, 2018	DAWN ²	4,000	\$2.97	\$3.12
April 1, 2018 to October 31, 2018	TransGas ³	3,000	\$2.40	\$2.52
April 1, 2018 to October 31, 2018	TransGas ³	2,500	\$2.21	\$2.32

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

² Dawn Hub into Dawn Township, Ontario.

³ Subsidiary of SaskEnergy, Saskatchewan.

Additional physical sales contracts were put in place subsequent to quarter end. Please refer to the "SUBSEQUENT EVENTS" section for additional information.

Financial derivative contracts

Pine Cliff had no financial derivative contracts in place during the first quarter or at March 31, 2018 in order to manage commodity price risk. There were no financial derivative contracts entered into subsequent to March 31, 2018.

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, 2017.

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.

ADOPTED ACCOUNTING PRONOUNCEMENTS

As of January 1, 2018, the Company adopted the following new accounting pronouncements, in accordance with the transitional provision of the standard. A brief description of each new accounting policy and its impact on the Company's financial statements are as follows:

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

Effective January 1, 2018 the Company adopted IFRS 9. IFRS 9 replaces the sections of IAS 39 Financial Instruments: Recognition and Measurements.

IFRS 9 replaces the multiple classification and measurements models for financial assets with a new model that only has two measurements categories; amortized cost and fair value through profit or loss or other comprehensive income (loss). This determination is made at initial recognition. As a result of adopting IFRS 9, the Company's accounts receivables were reclassified from loans and receivables at amortized cost to financial assets at amortized cost. For financial liabilities, the new standard retains most of the IAS 39 requirements. The main change arises in cases where the Company chooses to designate a financial liability as fair value through net earnings. In these situations, the portion of the fair value change related to the Company's own credit risk is recognized in other comprehensive income (loss) rather than net earnings. The Company has no financial liabilities that are measured at fair value through net earnings.

The classification of the Company's investments changed from available-for-sale to financial assets measured at fair value. On the day an investment is acquired the Company can make an irrevocable election (on an instrument by instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income ("FVTOCI"), provided those investments are not classified as held for trading. The Company's investments will be measured at FVTOCI, with gains or losses arising from changes in fair value recognized in other comprehensive income and accumulated in the fair value instrument. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments. The Company has designated all of its investments as FVTOCI on its initial adoption of IFRS 9.

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

Effective January 1, 2018 the Company adopted IFRS 15 using a modified retrospective approach. IFRS 15 replaces IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. Additional disclosures required by IFRS 15 are detailed in the Financial Statements.

Revenue Recognition Policy

Revenue associated with the sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when or as Pine Cliff satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas, natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession. The Company principally satisfies its performance obligations at a point in time and the amounts of revenue recognized relating to performance obligations satisfied over time are not significant. Collection of Revenue associated with the sale of crude oil, natural gas and natural gas liquids occurs on or about the 25th of the month following production.

FUTURE ACCOUNTING CHANGES

IFRS 16 Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which replaces IAS 17 Leases. IFRS 16 requires the recognition of lease assets and liabilities on the balance sheet for most leases, where the entity is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the balance sheet recognition requirements, and may continue to be treated as operating leases. Lessors will continue with the dual classification model for leases and the accounting for lessors remains virtually unchanged.

The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15. IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

IFRS 16 will be applied by Pine Cliff on January 1, 2019. The Company is currently engaging and educating stakeholders and is reviewing corporate processes to ensure contract completeness when identifying leases. Identifying, gathering and analyzing contracts impacted by the adoption of the new standard will occur in 2018. The Company is currently assessing the impact the standard will have on its 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 the Company to disclose in the MD&A any changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting. Management confirms that no such changes were made to the internal controls over financial reporting during the three months ended March 31, 2018. 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.

SUBSEQUENT EVENTS

Commodity Price Risk Management Contracts

Subsequent to March 31, 2018, the Company entered into additional physical fixed price natural gas sales contracts to mitigate the exposure to future fluctuations in natural gas prices. The table below summarizes fixed price natural gas sales contracts entered into as at May 8, 2018.

Physical Natural Gas Sales Contracts:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)
May 1, 2018 to October 31, 2018	SUFFIELD #2 ¹	5,000

¹ Suffield, Alberta

The contract terms of the physical fixed price natural gas sales contracts to Suffield#2 delivery point are AECO 5A plus \$1.00/GJ.

NON-GAAP MEASURES

This MD&A uses the terms “adjusted funds flow”, “operating netbacks”, “corporate netbacks” and “net debt” which are not recognized measures under IFRS and may not be comparable to similar measures presented by other companies. The Company uses these measures to evaluate its performance, leverage and liquidity. These measures should not be considered as an alternative to, or more meaningful than, IFRS measures including net income (loss), cash flow from operating activities, or total liabilities.

Adjusted Funds Flow

The Company considers adjusted funds flow a key performance measure as it demonstrates the Company’s ability to generate the funds necessary to repay debt and fund future growth through capital investment. Adjusted funds flow and adjusted funds flow per share and per Boe or Mcfe should not be considered as an alternative to, or more meaningful than, cash flow from operating activities presented on the statement of cash flow which is considered the most directly comparable measure under IFRS. Adjusted funds flow is calculated as cash flow from operating activities before changes in non-cash working capital and decommissioning obligations settled. Adjusted funds flow per share is calculated using the same weighted average number of shares outstanding as in the case of the earnings per share calculation for a reporting period. Adjusted funds flow per Boe or Mcfe is calculated using the sales volumes reported for a reporting period. Pine Cliff’s method of calculating this measure may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

(\$000s)	Three months ended March 31,		
	2018	2017	% Change
Cash flow from operating activities	6,979	13,835	(50)
Adjusted by:			
Change in non-cash working capital	(2,678)	(3,094)	(13)
Decommissioning obligation settled	836	492	70
Adjusted funds flow	5,137	11,233	(54)
Adjusted funds flow (\$/Boe)	2.86	5.88	(51)
Adjusted funds flow (\$/Mcfe)	0.48	0.98	(51)
Adjusted funds flow – basic and diluted (\$/share)	0.02	0.04	(50)

Operating and Corporate Netback

The Company considers operating netback to be a key indicator of profitability relative to current commodity prices. Operating netback and operating netback per Boe and per Mcfe are calculated as the sum of oil and gas sales, less royalties, transportation and operating expenses on an absolute and a per Boe or per Mcfe basis, respectively. Company management uses operating netback on a per Boe basis in operational and capital allocation decisions.

The Company considers corporate netback to be a key indicator of overall results. Corporate netback on an absolute dollar and corporate netback per Boe and per Mcfe are calculated as operating netback, less G&A and interest expense plus dividend income.

Pine Cliff uses these measures to assist in understanding the Company's ability to generate positive cash flow from operating activities at current commodity prices and it provides an analytical tool to benchmark changes in operational performance against prior periods. Readers are cautioned, however, that these measures should not be construed as an alternative to other terms such as 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.

	Three months ended March 31,		
	2018	2017	\$ Change
Oil and gas sales	16.50	18.41	(1.91)
Royalty expense	(1.47)	(1.82)	0.35
Transportation expense	(1.60)	(1.11)	(0.49)
Operating expense	(9.39)	(8.34)	(1.05)
Operating netback	4.04	7.14	(3.10)
General and administrative	(0.76)	(0.74)	(0.02)
Interest and bank charges, net of dividend income	(0.42)	(0.52)	0.10
Corporate netback	2.86	5.88	(3.02)
Operating netback (\$ per Mcfe)	0.67	1.19	(0.52)
Corporate netback (\$ per Mcfe)	0.48	0.98	(0.50)

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, and investments as shown in the table below:

(\$000s)	March 31, 2018	December 31, 2017	\$ Change
Bank debt	13,171	18,000	(4,829)
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	18,614	17,288	1,326
Less:			
Trade and other receivables	(15,720)	(15,148)	(572)
Cash	(190)	(1,075)	885
Prepaid expenses and deposits	(4,461)	(3,882)	(579)
Investments	-	(2,545)	2,545
Net debt	52,414	53,638	(1,224)

¹The 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 costs, expected transportation costs, 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; amounts due to related party and due pursuant to subordinated promissory notes and repayment thereof; maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; risks; Pine Cliff’s ability to generate cash flow from operating activities and free cash flow from operating activities; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties and assumptions are difficult to predict and may affect operations, and may include, without limitation: foreign exchange fluctuations; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operating activities to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control. The foregoing factors are not exhaustive.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do, what benefits will be derived there from. Except as required by law, Pine Cliff disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

Undrilled locations consist of drilling and recompletion locations booked in the independent reserve report dated February 12, 2018 prepared by McDaniel & Associates Consultants Limited and unbooked drilling and recompletion locations. Unbooked drilling and recompletion locations are internal estimates based on evaluation of geologic, reserves and spacing based on industry practice. There is no guarantee that Pine Cliff will drill these locations and there is no certainty that the drilling or completing of these locations will result in additional reserves and production or achieve expected internal rates of return. Pine Cliff activity depends on availability of capital, regulatory approvals, commodity prices, drilling costs and other factors.

Natural gas liquids and oil volumes are recorded in barrels of oil (“Bbl”) and are converted to a thousand cubic feet equivalent (“Mcf”) using a ratio of one (1) Bbl to six (6) thousand cubic feet. Natural gas volumes recorded in thousand cubic feet (“Mcf”) are converted to barrels of oil equivalent (“Boe”) using the ratio of six (6) thousand cubic feet to one (1) Bbl. This conversion ratio is based on energy equivalence primarily at the burner tip and does not represent a value equivalency at the wellhead. The terms Boe or Mcfe may be misleading, particularly if used in isolation.

Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of oil, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian dollars, 000s)

(unaudited)

	Note	As at March 31, 2018	As at December 31, 2017
ASSETS			
Current assets			
Cash		190	1,075
Trade and other receivables	6, 17	15,720	15,148
Prepaid expenses and deposits		4,461	3,882
Investments	7	-	2,545
Total current assets		20,371	22,650
Exploration and evaluation	8	29,393	29,387
Property, plant and equipment	9	311,966	323,958
Deferred income taxes	10	23,698	29,233
Total assets		385,428	405,228
LIABILITIES			
Current liabilities			
Trade and other payables	17	18,614	17,288
Bank debt	11	13,171	18,000
Due to related party	12	5,000	5,000
Subordinated promissory notes	13	6,000	6,000
Decommissioning provision	14	1,170	1,309
Total current liabilities		43,955	47,597
Subordinated promissory notes	13	29,364	29,307
Decommissioning provision	14	195,891	199,231
Total liabilities		269,210	276,135
SHAREHOLDERS' EQUITY			
Share capital	15	268,743	268,743
Warrants		958	958
Contributed surplus		9,950	9,326
Accumulated other comprehensive loss		-	(2,081)
Deficit		(163,433)	(147,853)
Total shareholders' equity		116,218	129,093
Total liabilities and shareholders' equity		385,428	405,228

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

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

	Note	Three months ended March 31,	
		2018	2017
REVENUE			
Oil and gas sales	16	29,711	35,148
Royalty expense		(2,646)	(3,466)
Oil and gas sales, net of royalties		27,065	31,682
Dividend income		35	53
Total revenue		27,100	31,735
EXPENSES			
Operating		16,912	15,910
Transportation		2,889	2,124
Depletion and depreciation	9	10,876	12,145
Share-based payments	15	624	779
Finance	17	2,128	2,306
General and administrative		1,364	1,415
Realized loss on sale of investments	7	2,687	-
Total expenses		37,480	34,679
Loss before income taxes		(10,380)	(2,944)
Deferred income tax recovery (expense)	10	(5,200)	408
LOSS FOR THE PERIOD		(15,580)	(2,536)
OTHER COMPREHENSIVE LOSS			
Unrealized loss on investments		(2,081)	(1,646)
Deferred income taxes on unrealized loss on investments		-	223
Amounts reclassified from comprehensive loss		2,081	-
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		-	(1,423)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(15,580)	(3,959)
Loss per share (\$)			
Basic and diluted	15	(0.05)	(0.01)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian dollars, 000s)

(unaudited)

	Note	Three months ended March 31,	
		2018	2017
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Loss for the period		(15,580)	(2,536)
Items not affecting cash:			
Depletion and depreciation	9	10,876	12,145
Share-based payments	15	624	779
Finance expenses	17	2,128	2,306
Loss on sale of investments	7	2,687	-
Deferred income tax expense (recovery)	10	5,200	(408)
Interest and bank charges	17	(798)	(1,053)
Decommissioning obligations settled	14	(836)	(492)
Changes in non-cash working capital accounts	17	2,678	3,094
Cash provided by operating activities		6,979	13,835
INVESTING ACTIVITIES			
Property, plant and equipment	9	(3,171)	(3,801)
Exploration and evaluation	8	(6)	-
Acquisitions	9	288	-
Dispositions	9	83	-
Sale of investments	7	2,274	-
Changes in non-cash working capital accounts	17	(2,503)	1,300
Cash used in investing activities		(3,035)	(2,501)
FINANCING ACTIVITIES			
Bank debt	11	(4,829)	(11,330)
Cash used in financing activities		(4,829)	(11,330)
Increase (decrease) in cash		(885)	4
Cash - beginning of period		1,075	148
CASH - END OF PERIOD		190	152

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Canadian dollars, 000s)
(unaudited)

	Note	Share capital	Contributed surplus ¹	Accumulated other comprehensive gain (loss) ²	Warrants	Deficit	Total Equity
BALANCE AT JANUARY 1, 2017		268,743	5,748	298	958	(79,989)	195,758
Loss for the period		-	-	-	-	(2,536)	(2,536)
Unrealized loss on investments, net of tax		-	-	(1,423)	-	-	(1,423)
Share-based payments		-	779	-	-	-	779
BALANCE AT MARCH 31, 2017		268,743	6,527	(1,125)	958	(82,525)	192,578
Loss for the period		-	-	-	-	(65,328)	(65,328)
Unrealized loss on investments, net of tax		-	-	(956)	-	-	(956)
Share-based payments		-	2,799	-	-	-	2,799
BALANCE AT DECEMBER 31, 2017		268,743	9,326	(2,081)	958	(147,853)	129,093
Loss for the period		-	-	-	-	(15,580)	(15,580)
Realized loss on sale of investments		-	-	2,081	-	-	2,081
Share-based payments	15	-	624	-	-	-	624
BALANCE AT MARCH 31, 2018		268,743	9,950	-	958	(163,433)	116,218

¹Contributed surplus is comprised of share-based payments.

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

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2018 and December 31, 2017 and for the three months ended March 31, 2018 and 2017.

(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

The Financial Statements have been prepared in accordance with IAS 34 – Interim Financial Reporting using International Financial Reporting Standards ("**IFRS**").

The Financial Statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2017 ("**Annual Financial Statements**").

The accounting policies, basis of measurement, critical accounting judgments and significant estimates to prepare the Annual Financial Statements as at and for the year ended December 31, 2017 have been applied in the preparation of these Financial Statements, except as described in Note 3.

The Financial Statements were authorized for issue by the Company's board of directors on May 8, 2018.

3. ADOPTED ACCOUNTING PRONOUNCEMENTS**Adopted accounting pronouncements**

As of January 1, 2018, the Company adopted the following new accounting pronouncements, in accordance with the transitional provision of the standard. A brief description of each new accounting policy and its impact on the Company's financial statements are as follows:

IFRS 9 Financial Instruments ("IFRS 9")

Effective January 1, 2018 the Company adopted IFRS 9. IFRS 9 replaces the sections of IAS 39 Financial Instruments: Recognition and Measurements.

IFRS 9 includes a new classification and measurement approach for financial assets and a forward-looking 'expected credit loss' model. IFRS 9 replaces the multiple classification and measurements models for financial assets with a new model that only has two measurements categories; amortized cost and fair value through profit or loss or other comprehensive income (loss). This determination is made at initial recognition. As a result of adopting IFRS 9, the Company's accounts receivables were reclassified from loans and receivables at amortized cost to financial assets at amortized cost. For financial liabilities, the new standard retains most of the IAS 39 requirements. The main change arises in cases where the Company chooses to designate a financial liability as fair value through net earnings. In these situations, the portion of the fair value change related to the Company's own credit risk is recognized in other comprehensive income (loss) rather than net earnings. The Company has no financial liabilities that are measured at fair value through net earnings.

The classification of the Company's investments changed from available-for-sale to financial assets measured at fair value. On the day an investment is acquired the Company can make an irrevocable election (on an instrument by instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income ("**FVTOCI**"), provided those investments are not classified as held for trading. The Company's investments will be measured at FVTOCI, with gains or losses arising from changes in fair value recognized in other comprehensive income and accumulated in the fair value instrument. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments. The Company has designated all of its investments as FVTOCI on its initial adoption of IFRS 9. The adoption of IFRS 9 did not have a material impact on the Company's consolidated financial statements.

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

Effective January 1, 2018 the Company adopted IFRS 15 using a modified retrospective approach. IFRS 15 replaces IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. Additional disclosures required by IFRS 15 are detailed in note 16.

Revenue Recognition Policy

Revenue associated with the sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when or as Pine Cliff satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas, natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession. The Company principally satisfies its performance obligations at a point in time and the amounts of revenue recognized relating to performance obligations satisfied over time are not significant. Collection of Revenue associated with the sale of crude oil, natural gas and natural gas liquids occurs on or about the 25th of the month following production.

4. FUTURE ACCOUNTING CHANGES**IFRS 16 Leases ("IFRS 16")**

In January 2016, the IASB issued IFRS 16, which replaces IAS 17 Leases. IFRS 16 requires the recognition of lease assets and liabilities on the balance sheet for most leases, where the entity is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the balance sheet recognition requirements, and may continue to be treated as operating leases. Lessors will continue with the dual classification model for leases and the accounting for lessors remains virtually unchanged.

The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15. IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

IFRS 16 will be applied by Pine Cliff on January 1, 2019. The Company is currently engaging and educating stakeholders and is reviewing corporate processes to ensure contract completeness when identifying leases. Identifying, gathering and analyzing contracts impacted by the adoption of the new standard will occur in 2018. The Company is currently assessing the impact the standard will have on its Financial Statements.

5. FINANCIAL INSTRUMENTS

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 March 31, 2018 and December 31, 2017:

Description	March 31, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Cash	190	190	1,075	1,075
Trade and other receivables	15,720	15,720	15,148	15,148
Trade and other payables	(18,614)	(18,614)	(17,288)	(17,288)
Due to related party	(5,000)	(5,000)	(5,000)	(5,000)
Subordinated promissory notes	(35,364)	(35,364)	(35,307)	(35,307)
Bank debt	(13,171)	(13,171)	(18,000)	(18,000)

6. RISK MANAGEMENT

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

Physical sales contracts

Pine Cliff enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value through profit or loss. At March 31, 2018, the Company had the following physical sales contracts in place:

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
April 1, 2018 to October 31, 2018	DAWN ²	4,000	\$3.13	\$3.29
April 1, 2018 to October 31, 2018	DAWN ²	4,000	\$2.97	\$3.12
April 1, 2018 to October 31, 2018	TransGas ³	3,000	\$2.40	\$2.52
April 1, 2018 to October 31, 2018	TransGas ³	2,500	\$2.21	\$2.32

¹ Price has been converted from \$/GJ to \$/Mcf by multiplying by of 1.05.

² Dawn Hub into Dawn Township, Ontario.

³ Subsidiary of SaskEnergy, Saskatchewan.

Additional physical sales contracts were put in place subsequent to quarter end. Please refer to "SUBSEQUENT EVENTS" in for additional information.

Financial derivative contracts

Pine Cliff had no financial derivative contracts in place during the first quarter or at March 31, 2018 in order to manage commodity price risk. There were no financial derivative contracts entered into subsequent to March 31, 2018.

7. INVESTMENT

As of March 31, 2018, Pine Cliff sold its investment in one public dividend paying company for proceeds of \$2.3 million and realized a loss on sale of investments of \$2.7 million.

8. EXPLORATION AND EVALUATION

Exploration and evaluation assets:	Oil and gas properties	Mineral properties	Total
Balance at December 31, 2016	30,579	3,031	33,610
Additions	36	43	79
Transfer to property, plant, and equipment	(4,302)	-	(4,302)
Balance at December 31, 2017	26,313	3,074	29,387
Additions	6	-	6
Balance at March 31, 2018	26,319	3,074	29,393

E&E Impairment Assessment

In accordance with IFRS, an impairment test is performed if the Company identified an indication of impairment. At March 31, 2018, the Company determined that no indicators of impairment existed on its E&E assets and therefore an impairment test was not performed.

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

Cost:	(\$000s)
Balance at December 31, 2016	547,284
Additions	13,398
Transfer from exploration and evaluation	4,302
Acquisitions	(62)
Dispositions	(496)
Decommissioning provision	(5,944)
Balance at December 31, 2017	558,482
Additions	3,171
Acquisitions	(288)
Dispositions	(83)
Decommissioning provision	(3,916)
Balance at March 31, 2018	557,366
Accumulated depletion and depreciation:	(\$000s)
Balance at December 31, 2016	(167,641)
Depletion and depreciation	(49,150)
Impairment	(17,800)
Dispositions	67
Balance at December 31, 2017	(234,524)
Depletion and depreciation	(10,876)
Balance at March 31, 2018	(245,400)
Carrying value at:	(\$000s)
December 31, 2017	323,958
March 31, 2018	311,966

PP&E Impairment Assessment

During the three months ended March 31, 2018, the Company had four Cash Generating Units ("CGU"), the Southern CGU, the Central Gas CGU, the Edson CGU, and the Coal Bed Methane CGU. The Company reviewed each CGU's property and equipment at March 31, 2018 for indicators of impairment and determined that indicators related to the decrease in the Company's share price was present at March 31, 2018. 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 March 31, 2018:

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
2018 (9 months)	63.00	1.28	76.80	2.00
2019	62.00	1.28	76.50	2.40
2020	62.50	1.25	75.10	2.95
2021	69.00	1.21	80.50	3.30
2022	73.10	1.18	82.80	3.45
2023-2032	81.60	1.18	92.43	3.82
Thereafter	+2%/yr	1.18	+2%/yr	+2%/yr

¹ Source: McDaniel & Associates Consultants Ltd. price forecasts, effective April 1, 2018.

The recoverable amounts of each of the Company's CGU's at March 31, 2018 were estimated at their fair value less cost to sell, based on the net present value of discounted future cash flows from operating activities from oil and gas reserves as estimated by the Company's independent reserves evaluator at December 31, 2017, adjusted for production during the first quarter. The fair value

less costs to sell used to determine the recoverable amounts are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data, but rather, the Company's management best estimates.

The Company used a pre-tax 15% discount rate for the March 31, 2018 impairment test which took into account risks specific to the CGU's and inherent in the oil and gas business. The impairment testing concluded that the fair value less costs to sell for the Company's CGU's at March 31, 2018 is greater than the carrying amounts and therefore no impairment was recorded.

10. DEFERRED INCOME TAXES

At March 31, 2018, a deferred income tax asset of \$23.7 million (December 31, 2017 - \$29.2 million) has been recognized as the Company believes, based on estimated cash flows, its realization is probable within the allowable timeframes.

Deferred income tax assets (liabilities):	As at March 31, 2018	As at December 31, 2017
Share issue costs	747	863
Investment	-	324
Decommissioning provision	53,197	54,044
Property and equipment	(13,265)	(15,124)
Capital losses carried forward	310	155
Non-capital losses carried forward	24,666	22,271
Asset before unrecognized deferred income tax	65,655	62,533
Less: unrecognized deferred income tax	(41,957)	(33,300)
Net deferred income tax asset	23,698	29,233

As at March 31, 2018, a deferred income tax asset has not been recognized on \$42.0 million (December 31, 2017 - \$33.3 million) of deductible temporary differences as it is not probable that future taxable net income will be available against which the Company can utilize the benefits.

Pine Cliff has approximately \$386.2 million in tax pools as at March 31, 2018 (December 31, 2017 - \$383.0 million), available for future use as deductions from taxable income. Included in the Company's tax pools are estimated non-capital loss carry-forwards of \$91.3 million (December 31, 2017 - \$82.6 million) that expire between the years 2030 and 2038.

11. BANK DEBT

As at March 31, 2018, the Company had a \$45.0 million syndicated credit facility (the "Credit Facility") with four Canadian Financial Institutions (the "Syndicate") (December 31, 2017 - \$45.0 million Credit Facility). The Credit Facility of \$45.0 million consists of a \$30.0 million revolving syndicated credit facility and a \$15.0 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 March 31, 2018, were \$13.2 million (December 31, 2017 - \$18.0 million). Borrowings 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, plus applicable standby fees. EBITDA is calculated as earnings (loss) excluding depreciation, depletion, impairment and accretion, share based payments, interest, taxes and other non-cash items. 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 is reviewed semi-annually on May 31st and November 30th with the next renewal scheduled for May 31, 2018. The Credit Facility has no fixed terms of repayment. There is also a risk that the Credit Facility will not be renewed for the same amount or on the same terms or that the lenders reduce the borrowing base as a result of their regularly scheduled borrowing base review. Any of these events could affect Pine Cliff's ability to fund ongoing operations.

As at March 31, 2018, the Company had \$2.0 million in letters of credit issued against its Credit Facility (December 31, 2017 - \$2.0 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 March 31, 2018, Pine Cliff was in compliance with all covenants.

12. 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 for the three months ended March 31, 2018 was \$0.04 million (March 31, 2017 - \$0.06 million).

13. 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 March 31, 2018 and December 31, 2017	6,000
Subordinated promissory notes due September 30, 2020:	
Subordinated promissory notes due September 30, 2020, as at December 31, 2016	29,086
Accretion expense	221
Subordinated promissory notes due September 30, 2020, as at December 31, 2017	29,307
Accretion expense	57
Subordinated promissory notes due September 30, 2020, as at March 31, 2018	29,364
Total subordinated promissory notes, as at December 31, 2017	35,307
Total subordinated promissory notes, as at March 31, 2018	35,364

Subordinated promissory notes due July 29, 2018

On July 29, 2016, the Company issued \$6.0 million in promissory notes maturing on July 29, 2018 (“**2018 Notes**”) and bearing interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility, 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 Company’s outstanding Common Shares, as defined herein, and can be repaid at any time without penalty. The 2018 Notes 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, as defined herein.

Subordinated promissory notes due September 30, 2020

On August 10, 2016, the Company issued 30,000 units (“**Units**” or “**Unit**”) at a price of \$1,000 per Unit for aggregate proceeds 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 (“**2020 Note**”), which is payable semi-annually; and (ii) 150 Common Share purchase warrants (“**Warrants**”). The 2020 Notes mature on September 30, 2020 and all or a portion of the principal amount outstanding can be repaid without penalty. 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 were issued, entitling the holder to purchase one Common Share in the capital of Pine Cliff (“**Common Shares**”) for \$1.38 until August 10, 2018.

The 2020 Notes were determined to be a hybrid instrument with an embedded derivative. The fair value of the debt component of the 2020 Notes was determined on issuance to be 7.8%, using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to Warrants. The value of the debt will accrete up to the principal balance at maturity.

14. DECOMMISSIONING PROVISION

The total future decommissioning provision of \$197.1 million was estimated by management based on the Company’s working interest and estimated costs to remediate, reclaim and abandon its wells, pipelines, and facilities and estimated timing of the costs to be incurred in future periods.

At March 31, 2018, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$244.3 million (December 31, 2017 - \$244.3 million). The provision has been calculated assuming a 1.75% inflation rate (December 31, 2017 - 1.72%). These obligations are currently expected to be settled based on the useful lives of the underlying assets, some of which extend beyond 35 years into the future. This amount has been discounted using an average risk-free interest rate of 2.71% (December 31, 2017 - 2.57%).

	(\$000s)
Decommissioning provision, January 1, 2017	203,883
Increase relating to development activities	99
Provisions related to acquisitions	261
Decommissioning expenditures	(2,383)
Revisions (changes in estimates, inflation rate, and discount rates)	(6,304)
Accretion	4,984
Decommissioning provision, December 31, 2017	200,540
Increase relating to development activities	31
Decommissioning expenditures	(836)
Revisions (changes in estimates, inflation rate, and discount rates)	(3,947)
Accretion	1,273
Decommissioning provision, March 31, 2018	197,061
Less current portion of decommissioning provision	(1,170)
Non-current portion of decommissioning provision	195,891

15. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of Common Shares without nominal or par value. The Company is also authorized to issue, in one or more series, an unlimited number of Class B Preferred Shares without nominal or par value.

Issued

	Common Shares (000s)	Share capital (\$000s)
Issued and outstanding share capital continuity:		
Balance, January 1, 2017	307,076	268,743
Balance, December 31, 2017 and March 31, 2018	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 Company’s board of directors. The exercise price of each option granted equals the market price of the Company’s stock immediately preceding the date of grant and the option’s maximum term is five years.

	Options (000s)	Weighted-average exercise price (\$ per share)
Stock options issued and outstanding:		
Outstanding, January 1, 2017	22,773	1.20
Granted	5,710	0.78
Expired	(4,839)	1.19
Forfeited	(2,328)	1.32
Outstanding, December 31, 2017	21,316	1.06
Expired	(378)	1.24
Forfeited	(85)	1.15
Outstanding, March 31, 2018	20,853	1.06
Exercisable, March 31, 2018	6,524	1.20

	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
Exercise price:				
\$0.51 - \$0.92	6,575	2.0	527	0.7
\$0.93 - \$1.33	12,858	1.5	4,731	0.7
\$1.34 - \$1.75	1,420	0.2	1,266	0.1
	20,853	1.6	6,524	0.6

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. There were no stock options granted during the three months ended March 31, 2018.

Per Share Calculations

The average market value of the Common Shares for the purposes of calculating the dilutive effect of stock options and Warrants was based on quoted market prices for the period that the options were outstanding. In calculating the weighted average number of diluted shares outstanding for the three months ended March 31, 2018 and 2017, all stock options and warrants were excluded as they were not dilutive.

Earnings per share calculation:	Three months ended March 31,	
Numerator	2018	2017
Loss for the period	(15,580)	(2,536)
Denominator (000s)		
Weighted-average Common Shares outstanding – basic and diluted	307,076	307,076
Loss per share – basic and diluted (\$)	(0.05)	(0.01)

16. OIL AND GAS SALES

The Company’s oil and gas sales revenue is determined pursuant to the terms of the marketing agreements. The revenue for natural gas, NGL and crude oil is based on the commodity price in the month of production, adjusted for quality, location, allowable deductions, if any, or other factors. Oil and gas sales revenues are based on marketed indices that are determined on a monthly or daily basis. Oil and gas sales payments for natural gas, NGL and crude oil are generally received on the 25th day of the month following the production.

(\$000s)	Three months ended March 31,	
	2018	2017
Natural gas	23,939	30,709
NGL	4,526	3,446
Crude oil	1,246	993
Total oil and gas sales	29,711	35,148

17. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31,	
	2018	2017
Changes in non-cash working capital:		
Trade and other receivables	(572)	2,374
Prepaid expenses and deposits	(579)	(398)
Trade and other payables and accrued liabilities	1,326	2,418
	175	4,394
Change related to:		
Operating activities	2,678	3,094
Investing activities	(2,503)	1,300
	175	4,394

	Three months ended March 31,	
Finance expenses:	2018	2017
Interest expense and bank charges	798	1,053
Non cash:		
Accretion on decommissioning provision	1,273	1,199
Accretion on subordinated promissory notes	57	54
Total finance expenses	2,128	2,306

Cash interest paid in the three months ended March 31, 2018, was \$1.5 million (March 31, 2017 - \$1.7 million).

18. COMMITMENTS

As at March 31, 2018, the Company has the following commitments and other contractual obligations:

	2018	2019	2020	2021	2022	Thereafter
(\$000s)						
Subordinated promissory notes ¹	6,000	-	30,000	-	-	-
Trade and other payables	18,614	-	-	-	-	-
Due to related party	5,000	-	-	-	-	-
Bank debt	13,171	-	-	-	-	-
Future interest	1,867	2,025	1,519	-	-	-
Operating leases	690	912	830	718	535	461
Transportation ²	7,343	7,738	6,676	5,696	4,902	15,313
Total commitments and contingencies	52,685	10,675	39,025	6,414	5,437	15,774

¹ Principal amount.

² Firm transportation agreements.

19. SUBSEQUENT EVENTS

Commodity Price Risk Management Contracts

Subsequent to March 31, 2018, the Company entered into additional physical fixed price natural gas sales contracts to mitigate the exposure to future fluctuations in natural gas prices. The table below summarizes fixed price natural gas sales contracts entered into as at May 8, 2018.

Physical Natural Gas Sales Contracts:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)
May 1, 2018 to October 31, 2018	SUFFIELD #2 ¹	5,000

¹ Suffield, Alberta

The contract terms of the physical fixed price natural gas sales contracts to Suffield#2 delivery point are AECO 5A plus \$1.00/GJ.

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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AUDITORS

Deloitte LLP

BANKERS

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

STOCK EXCHANGE LISTING

TSX Exchange
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