Pine Cliff Energy Ltd.

Long term Value Focus

Q1-2019 Report

PRESIDENT'S MESSAGE TO SHAREHOLDERS

In the first quarter of 2019, Pine Cliff generated its highest adjusted funds flow and revenue since the second quarter of 2017. It feels really good to write that. Additionally, we brought our first oil well on production and subsequent to the quarter, we announced a strategic acquisition and financing that will significantly increase our growth opportunities in the Pekisko oil pool where our first well was drilled. Highlights from the first quarter of 2019 include:

- generated $32.1 million of oil and gas sales for the three months ended March 31, 2019, 8% higher than the $29.7 million generated for the three months ended March 31, 2018;
- generated $6.8 million of adjusted funds flow ($0.02 per basic share) for the three months ended March 31, 2019, 33% higher than the $5.1 million ($0.02 per basic share) generated for the three months ended March 31, 2018;
- successfully brought Pine Cliff's first 100% operated oil drill on production in January, 2019. This well generated production of approximately 375 Boe/d (weighted approximately 60% liquids) from January 14, 2019 to March 31, 2019;
- net debt was decreased by 9% or $5.0 million from $56.8 million as at December 31, 2018 to $51.8 million as at March 31, 2019. This is Pine Cliff's lowest net debt position since Q3-2015; and
- realized $2.84 per Mcf gas price for the three months ended March 31, 2019, 9% higher than the AECO 5A benchmark of $2.61 per Mcf**.**

2019 Strategic Acquisition

On April 17, 2019, Pine Cliff announced entering into an agreement to acquire oil and natural gas assets in our core Ghost Pine area of Central Alberta for net cash consideration of approximately $8.6 million. This package of assets has been on Pine Cliff's radar for several years and although the transaction has not closed yet, we are pleased that we were able to negotiate and finance this transaction in a capital constrained environment. Our initial assessment is that this acquisition will, at current forward strip pricing, increase our economic Pekisko oil location inventory from six to 27 net locations and add approximately 1,575 Boe/d of production weighted 75% natural gas, 16% NGLs and 9% oil, essentially eliminating our annual production decline for 2019, which is less than 10%. The Twining Pekisko oil pool is estimated to be the 14th largest conventional oil pool in the Western Canadian Sedimentary Basin and has one of the lowest recovery factors (4%) to date. We intend to drill our second Pekisko oil well in the second half of 2019.

Concurrent with the acquisition, Pine Cliff announced a $4.0 million flow-through common share financing and a private placement of common shares up to $3.0 million. One of our current shareholders, the Alberta Investment Management Corporation, has indicated that it intends to increase its shareholdings in Pine Cliff by approximately 15,000,000 common shares on behalf of certain of its clients through these financings. For additional details on the acquisition and financings, please refer to the April 17, 2019 news release on our website and the Management's discussion and analysis.

We have been asked if the drilling of our oil well or the recent acquisition changes the focus or strategy of Pine Cliff. When talking to investors over the past seven years, I have always expressed a desire to add more liquid weighted drilling inventory to Pine Cliff that we could operate and control. We feel the success of our first oil well and the announced acquisition goes a long way to achieving that aspiration. We continue to be optimistic on being a natural gas producer in Western Canada and we remain the public company with the most direct exposure to a recovery in Western Canada natural gas prices, but now we also have added more flexibility in how to deploy our cash flow. Our production remains over 90% natural gas and we do not see that changing materially any time soon.

Outlook

The second and third quarters of 2019 look like they may bring similar lower natural gas prices as we experienced in 2018, however we are more prepared this year as we have protected our pricing to a greater extent. In addition to higher than anticipated cash flow, another advantage to the colder first quarter was further reductions in Western Canadian gas storage levels. Canadian natural gas storage levels at the end of March 2019 were 13% lower than the same time as 2018. This is another indicator that natural gas prices could be higher this winter than last year.

The LNG export growth in Canada and the United States has deservedly attracted most of the headlines around the natural gas space this past year, but that focus has overshadowed the fact that we are getting closer to seeing some natural gas pipeline relief in Canada. Much of the summer AECO pricing volatility in the past two years has been related to curtailments on the Nova gas system due to expansion pipeline and compressor work being conducted on the system. TCPL advises us that we should start to see some of the benefits of that work later this year as 14 projects will be completed in late 2019 allowing another 0.2 Bcf/d of gas to flow within and outside Alberta. TCPL is spending approximately $9 Billion to increase the Alberta system capability by 3.3 Bcf/d over the next four years, and that does not include the incremental natural gas demand of close to two Bcf/d from the LNG Canada project that reached a positive final investment decision late last year. We think that these developments should have a positive impact on natural gas prices as only higher gas prices will motivate producers to increase production in Western Canada by over five Bcf/d or 31% to meet this growing demand from the current production level of approximately 16 Bcf/d.

We have just completed a successful quarter at Pine Cliff. Although we are in no way declaring that we are in "clear sailing" mode, we do think that our ability to manage our balance sheet while still adding assets and drilling inventory at accretive prices has helped prove the resiliency and sustainability of our business model, our assets and our Team. We thank you for investing with us and you can be assured that we will continue to look at ways to strengthen our business to ensure long term shareholder value.

Yours truly,

Phil Hodge
President and Chief Executive Officer
May 8, 2019

Please refer to the attached Management's Discussion and Analysis for Reader Advisories regarding forward looking information, non-GAAP measures, oil and gas measurements, definitions and is subject to the same cautionary statements as set out therein.

INTRODUCTION

This Management's Discussion and Analysis ("**MD&A**") is a review of the operations and current financial position of Pine Cliff Energy Ltd. ("**Pine Cliff**" or the "**Company**") for the period ended March 31, 2019. This MD&A is dated and based on information available as at May 8, 2019 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2019 ("**Financial Statements**"), the audited annual consolidated financial statements for the year ended December 31, 2018 ("**Annual Financial Statements**") and the annual management's discussion and analysis for the year ended December 31, 2018 ("**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 ("**Common Shares**") are listed for trading on the Toronto Stock Exchange ("**TSX**") under the symbol "**PNE**".

READER ADVISORIES

This MD&A contains financial measures that are not defined under IFRS and forward-looking statements. Please refer to the sections titled "**NON-GAAP MEASURES**" and "**FORWARD LOOKING INFORMATION**".

Other Measurements

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

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

2019 HIGHLIGHTS

Highlights from the first quarter of 2019 are as follows:

- generated $32.1 million of oil and gas sales for the three months ended March 31, 2019, 8% higher than the $29.7 million generated for the three months ended March 31, 2018;
- generated $6.8 million of adjusted funds flow ($0.02 per basic share) for the three months ended March 31, 2019, 33% higher than the $5.1 million ($0.02 per basic share) generated for the three months ended March 31, 2018;
- successfully brought Pine Cliff's first 100% operated oil drill on production in January, 2019. This well generated production of approximately 375 Boe/d (weighted approximately 60% liquids) from January 14, 2019 to March 31, 2019;
- net debt was decreased by 9% or $5.0 million from $56.8 million as at December 31, 2018 to $51.8 million as at March 31, 2019. This is Pine Cliff's lowest net debt position since Q3-2015; and
- realized $2.84 per Mcf gas price for the three months ended March 31, 2019, 9% higher than the AECO 5A benchmark of $2.61 per Mcf.

	Three months ended March 31, **2019**	2018
($000s, unless otherwise indicated)		
FINANCIAL		
Oil and gas sales (before royalty expense)	**32,063**	29,711
Cash flow from operating activities	**7,925**	6,979
Adjusted funds flow[1]	**6,823**	5,137
Per share – Basic and Diluted ($/share)[1]	**0.02**	0.02
Loss	**(6,525)**	(15,580)
Per share – Basic and Diluted ($/share)	**(0.02)**	(0.05)
Capital expenditures	**995**	3,177
Net debt[1]	**51,820**	52,414
Weighted-average common shares outstanding (000s)		
Basic and diluted	**307,076**	307,076
OPERATIONS		
Production		
Natural gas (Mcf/d)	**104,186**	112,871
Natural gas liquids (Bbl/d)	**981**	977
Crude oil (Bbl/d)	**396**	219
Total (Boe/d)	**18,741**	20,008
Realized commodity sales prices		
Natural gas ($/Mcf)	**2.84**	2.35
Natural gas liquids ($/Boe)	**37.64**	51.45
Crude oil ($/Bbl)	**58.89**	63.21
Combined ($/Boe)	**19.01**	16.50
Netback ($/Boe)		
Oil and gas sales	**19.01**	16.50
Royalty expense	**(1.02)**	(1.47)
Transportation expenses	**(1.84)**	(1.60)
Operating expenses	**(10.47)**	(9.39)
Operating netback ($/Boe)[1]	**5.68**	4.04
General and administrative expenses	**(0.95)**	(0.76)
Interest and bank charges, net of dividend income	**(0.69)**	(0.42)
Corporate netback ($/Boe)[1]	**4.04**	2.86
Operating netback ($ per Mcfe)[1]	**0.95**	0.67
Corporate netback ($ per Mcfe)[1]	**0.67**	0.48

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

SENSITIVITIES

Pine Cliff's results are sensitive to changes in the business environment in which it operates. The following chart shows the Company's sensitivity to key commodity price variables 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]
Realized crude oil price[2]	$1.00	477	0.00
Realized natural gas price[2]	$0.10	3,613	0.01
Interest rate on variable rate debt[4]	1.0%	51	0.00

[1] This analysis does not adjust for changes in working capital and uses corporate royalty rates from the three months ended March 31, 2019.
[2] Pine Cliff has prepared this analysis using its Q1 2019 production volumes annualized for twelve months.
[3] Based on the Q1 2019 basic weighted average shares outstanding.
[4] Based on March 31, 2019 bank debt of $nil, 2020 $6 Million Notes and 2020 Related Party Notes, as defined herein, of $6.0 million, less cash of $6.9 million.

BENCHMARK PRICES

	Three months ended March 31,		
	2019	2018	% Change
Natural gas			
NYMEX (US$/Mmbtu)[1]	**3.12**	2.99	4
AECO Daily 5A (C$/Mcf)[2]	**2.61**	2.07	26
Crude oil			
WTI (US$/Bbl)	**54.88**	62.87	(13)
Edmonton Light (C$/Bbl)	**66.44**	72.21	(8)
Foreign exchange			
US$/C$	**1.329**	1.270	5

[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.

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.

	Q1-2019	Q4-2018	Q3-2018	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017
Natural gas								
NYMEX (US$/Mmbtu)[1]	**3.12**	3.73	2.85	2.78	2.99	2.91	2.98	3.13
AECO Daily 5A (C$/Mcf)[2]	**2.61**	1.74	1.19	1.18	2.07	1.68	1.45	2.77
Pine Cliff realized natural gas price (C$/Mcf)	**2.84**	2.51	1.88	1.55	2.35	2.09	1.86	2.82
Crude oil								
WTI (US$/Bbl)	**54.88**	52.41	69.50	67.88	62.87	55.40	48.20	48.28
Edmonton Light (C$/Bbl)	**66.44**	38.94	81.95	80.66	72.21	68.98	56.65	61.87
Pine Cliff realized NGL price (C$/Bbl)	**37.64**	44.85	61.05	56.74	51.45	47.73	41.98	43.44
Pine Cliff realized oil price (C$/Bbl)	**58.89**	32.14	74.15	71.19	63.21	62.41	47.72	55.04
Foreign exchange								
US$/C$	**1.329**	1.331	1.310	1.290	1.270	1.270	1.250	1.340

[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.

During the three months ended March 31, 2019, the AECO daily benchmark increased by 26% compared to the same period of 2018. The changes for the quarter are mainly due to supply and demand factors including pipeline and storage constraints, weather, economic conditions in producing and consuming regions throughout North America and political factors. While the price realized by the Company for natural gas production from Western Canada is still influenced by the Alberta price hub AECO, diversification projects to delivery points such as Dawn, Empress and TransGas into Saskatchewan have decreased that influence significantly. See "OIL AND GAS SALES" section for additional information on the diversification project premiums compared to AECO 5A.

The average benchmarks for WTI and Edmonton Light crude decreased by 13% and 8%, for the three months ended March 31, 2019, as compared to the same period in 2018, due to increased levels of North American oil production combined with uncertainties of future demand. Canadian crude prices are based upon refinery postings at Edmonton, Alberta and are linked to WTI through transportation tariffs to common markets and the foreign exchange rate.

The supply and demand dynamics for certain NGL components such as ethane, propane, butane, and condensate in the recent past has impacted the relationship between the price of NGLs and the price of oil. The fluctuations in NGL price correlate with changes in the Edmonton Light oil price.

SALES VOLUMES

	Three months ended March 31,		
Total sales volumes by product	**2019**	2018	% Change
Natural gas (Mcf)	**9,376,746**	10,158,390	(8)
NGLs (Bbl)	**88,266**	87,973	-
Crude oil (Bbl)	**35,617**	19,715	81
Total Boe	**1,686,674**	1,800,753	(6)
Total Mcfe	**10,120,044**	10,804,518	(6)
Natural gas weighting	**93%**	94%	(1)

	Three months ended March 31,		
Average daily sales volumes by product	**2019**	2018	% Change
Natural gas (Mcf/d)	**104,186**	112,871	(8)
NGLs (Bbl/d)	**981**	977	-
Crude oil (Bbl/d)	**396**	219	81
Total (Boe/d)	**18,741**	20,008	(6)
Total (Mcfe/d)	**112,446**	120,048	(6)

	Three months ended March 31,		
Average daily sales volumes by area	**2019**	2018	% Change
Central (Boe/d)	**8,980**	9,545	(6)
Southern (Boe/d)	**7,872**	8,357	(6)
Edson (Boe/d)	**1,889**	2,106	(10)
Total (Boe/d)	**18,741**	20,008	(6)

Pine Cliff's sales volumes decreased by 6% to 18,741 Boe/d (112,446 Mcfe/d) from 20,008 Boe/d (120,048 Mcfe/d) for the three months ended March 31, 2019, as compared to the same period in 2018. The decrease relates to natural gas production declines and production downtime due to cold weather during the first quarter, somewhat offset by production from the Company's Pekisko Oil Well.

Pine Cliff is projecting 2019 production volumes of 18,500 – 19,000 Boe/d (111,000 – 114,000 Mcfe/d), weighted approximately 93% towards natural gas. Pine Cliff is on track to meet its current production guidance for 2019 and anticipates adjusting its guidance if the Acquisition, as defined herein, closes as anticipated. See "SUBSEQUENT EVENTS" section for additional information.

OIL AND GAS SALES

	Three months ended March 31,		
($000s)	**2019**	2018	% Change
Natural gas	**26,644**	23,939	11
NGL	**3,322**	4,526	(27)
Crude oil	**2,097**	1,246	68
Total oil and gas sales	**32,063**	29,711	8
% of revenue from natural gas sales	**83%**	81%	2

Realized prices

	Three months ended March 31,		
$ per unit	**2019**	2018	% Change
Natural gas ($/Mcf)	**2.84**	2.35	21
NGL ($/Bbl)	**37.64**	51.45	(27)
Crude oil ($/Bbl)	**58.89**	63.21	(7)
Total ($/Boe)	**19.01**	16.50	15
Total ($/Mcfe)	**3.17**	2.75	15

Oil and gas sales in the three months ended March 31, 2019 of $32.1 million increased by $2.4 million from $29.7 million in the same period of 2018, with a $4.3 million increase from higher realized commodity pricing being offset by a $1.9 million decrease from lower production.

Pine Cliff's realized natural gas price was $2.84 per Mcf in the three months ended March 31, 2019, 21% higher than the $2.35 per Mcf realized in the corresponding period of the prior year, correlating with the AECO 5A reference price increase of 26% between those two periods. For the three months ended March 31, 2019, Pine Cliff's realized natural gas price was 9% higher than the AECO 5A benchmark compared to 14% in the corresponding period of the prior year, both a result of Pine Cliff's marketing diversification to non-AECO markets and fixed price physical natural gas sales contracts.

For the three months ended March 31, 2019, Pine Cliff's realized NGL price was $37.64 per Bbl, compared to $51.45 per Bbl in the corresponding period of the prior year. For the three months ended March 31, 2019, Pine Cliff's realized oil price was $58.89 per Bbl, compared to $63.21 per Bbl in the corresponding period of the prior year. Pine Cliff's realized oil and NGL prices in the three months ended March 31, 2019 were 89% and 57% of Edmonton Light compared to 88% and 71% in the corresponding period of the prior year. The decrease of NGL price compared to Edmonton Light in the three months ended March 31, 2019 compared to the first quarter of 2018 is mainly due to a decrease in butane pricing.

ROYALTY EXPENSE

	Three months ended March 31,		
($000s)	**2019**	2018	% Change
Total royalty expense	**1,719**	2,646	(35)
$ per Boe	**1.02**	1.47	(31)
$ per Mcfe	**0.17**	0.24	(31)
Royalty expense as a % of oil and gas sales	**5%**	9%	(44)

For the three months ended March 31, 2019, total royalty expense decreased by 35% to $1.7 million, from $2.6 million in the corresponding period of the prior year. Royalty expense as a percentage of oil and gas decreased to 5% in the three months ended March 31, 2019, from 9% in the corresponding period of the prior year. The decrease in royalty expenses as a percentage of oil and gas sales for the three months ended March 31, 2019, primarily due to gas crown royalties being charged on a reference price that is lower than Pine Cliff's realized gas price and higher gas cost allowance adjustments as realized natural gas prices increased compared to 2018.

Pine Cliff anticipates royalty expenses to average 7% of oil and gas sales in 2019.

TRANSPORTATION COSTS

	Three months ended March 31,		
($000s)	**2019**	2018	% Change
Total transportation costs	**3,096**	2,889	7
$ per Boe	**1.84**	1.60	15
$ per Mcfe	**0.31**	0.27	15

Transportation costs increased by 7% to $3.1 million for the three months ended March 31, 2019, as compared to $2.9 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.

Pine Cliff anticipates transportation expenses to average $1.80 per Boe ($0.30 per Mcfe) in 2019.

OPERATING EXPENSES

	Three months ended March 31,		
($000s)	**2019**	2018	% Change
Total operating expenses	**17,654**	16,912	4
$ per Boe	**10.47**	9.39	12
$ per Mcfe	**1.74**	1.57	12

Operating expenses increased by 4% to $17.7 million for the three months ended March 31, 2019, as compared to $16.9 million in the corresponding period of the prior year, primarily a result of higher power and fuel costs and lower third party fee revenue. On a per Boe basis, operating costs increased to $10.47 per Boe for the three months ended March 31, 2019 compared $9.39 per Boe in the corresponding period of 2018, primarily as a result of higher power and fuel costs and lower third party fee revenue. Additionally, Pine Cliff's relatively high proportion of fixed costs and lower sales volumes contributed to the increase on per Boe costs.

Pine Cliff anticipates operating expenses to average $9.80 per Boe ($1.63 per Mcfe) in 2019.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

	Three months ended March 31,		
($000s)	**2019**	2018	% Change
Gross G&A	**2,221**	1,974	13
Less: overhead recoveries	**(620)**	(610)	2
Total G&A expenses	**1,601**	1,364	17
$ per Boe	**0.95**	0.76	25
$ per Mcfe	**0.16**	0.13	25

G&A expenses increased to $1.6 million for the three months ended March 31, 2019, as compared to $1.4 million in the corresponding period of the prior year. The increase in G&A during the three months ended March 31, 2019 is primarily a result of timing of expenditures.

G&A per Boe increased 25% to $0.95 per Boe for the three months ended March 31, 2019 compared to $0.76 per Boe in the corresponding period of 2018, primarily as a result of lower sales volumes and timing of expenditures.

Pine Cliff anticipates G&A expenses to average $0.75 per Boe ($0.13 per Mcfe) in 2019.

SHARE-BASED PAYMENTS

	Three months ended March 31,		
($000s)	**2019**	2018	% Change
Total share-based payments	**345**	624	(45)
$ per Boe	**0.20**	0.35	(43)
$ per Mcfe	**0.03**	0.06	(43)

The decrease in share-based payments of 45% for the three months ended March 31, 2019 compared to the prior period of 2018 is primarily a result of a decrease in the fair value of the stock options granted in 2019. The Company has an equity settled stock-based compensation plan. Stock options are granted to certain officers, directors, employees and consultants, with the number, term and vesting period of the options granted being determined at the discretion of the Company's board of directors to a maximum of 10% of outstanding Pine Cliff Common Shares.

During the three months ended March 31, 2019, Pine Cliff granted 18,000 stock options to purchase Common Shares at a weighted average exercise price of $0.25. As at March 31, 2019, the Company had 20,545,804 stock options outstanding representing 6.7% of Common Shares outstanding (March 31, 2018 – 20,852,507 representing 6.8% of Common Shares outstanding).

DEPLETION AND DEPRECIATION

	Three months ended March 31,		
($000s)	**2019**	2018	% Change
Total depletion and depreciation	**11,389**	10,876	5
$ per Boe	**6.75**	6.04	12
$ per Mcfe	**1.13**	1.01	12

Depletion and depreciation expense for the three months ended March 31, 2019, totaled $11.4 million compared to $10.9 million in the corresponding periods of the prior year. The increase is a result of a higher depletable base. Depletion and depreciation per Boe will fluctuate from one period to the next depending on changes in reserves that result from commodity prices and the amount and success of capital expenditures. Depletion is calculated using total proved and probable reserves and reserves estimates are subject to revision.

FINANCE EXPENSES

	Three months ended March 31,		
($000s)	**2019**	2018	% Change
Interest expense and bank charges	**1,170**	798	47
$ per Boe	**0.69**	0.44	57
$ per Mcfe	**0.12**	0.07	57
Non cash:			
Accretion on decommissioning provision	**1,536**	1,273	21
Accretion on subordinated promissory notes	**78**	57	37
Total finance expenses	**2,784**	2,128	31
$ per Boe	**1.65**	1.18	40
$ per Mcfe	**0.28**	0.20	40

Finance expenses increased by 31% to $2.8 million for the three months ended March 31, 2019, as compared to $2.1 million in the corresponding period of the prior year, primarily a result of higher interest costs due to additional subordinated promissory notes as well as an increase in accretion expenses related to a higher risk free rate used to unwind the discount on the decommissioning provision. Please refer to the "DEBT, LIQUIDITY AND CAPITAL RESOURCES" section for additional information.

DEFERRED INCOME TAX

For the three months ended March 31, 2019, deferred income tax expenses amounted to $nil from $5.2 million in the same period of 2018.

As at March 31, 2019, a deferred income tax asset has not been recognized on $75.2 million (December 31, 2018 - $73.4 million) of deductible temporary differences as it is not probable that future taxable net income will be available against which the Company can utilize benefits.

Pine Cliff has approximately $384.6 million in tax pools as at March 31, 2019 (December 31, 2018 - $389.6 million), available for future use as deductions to reduce taxable income. Included in the Company's tax pools are estimated non-capital loss carry-forwards of $111.3 million (December 31, 2018 - $109.9 million) that expire between the years 2030 and 2039.

LOSS

Year to year variance analysis: ($000s)	
Loss for three months ended March 31, 2018	**(15,580)**
Price variance	4,234
Volume variance	(1,882)
Royalty expense	927
Transportation costs	(207)
Operating expenses	(742)
General and administrative	(237)
Depletion and depreciation	(513)
Share-based payments	279
Finance expenses	(656)
Realized loss in investments	2,687
Dividend income	(35)
Deferred income expense	5,200
Loss for the three months ended March 31, 2019	**(6,525)**

CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS

($000s)	**Three months ended March 31, 2019**	Year ended December 31, 2018
Exploration and evaluation	**5**	239
Property, plant and equipment	**990**	10,426
Capital expenditures	**995**	10,665
Acquisitions	**2**	307
Dispositions	**-**	(285)
Total	**997**	10,687

Capital expenditures on PP&E of $1.0 million during the three months ended March 31, 2019 were directed towards facility and maintenance capital of $0.4 million, $0.4 million to equip and tie-in the Pekisko Oil Well and $0.2 million of other miscellaneous capital additions.

DECOMMISSIONING PROVISION

The total current and long-term decommissioning provision of $232.9 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, 2019, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was $264.1 million (December 31, 2018 - $264.4 million). The discounted and inflated amount required to settle the decommissioning liabilities of $232.9 million has been calculated assuming a 1.91% inflation rate (December 31, 2018 – 1.88%) and discounted using an average risk-free interest rate of 2.57% (December 31, 2018 – 2.88%). These obligations are currently expected to be settled based on the useful lives of the underlying assets, some of which extend beyond 35 years into the future.

DEBT, LIQUIDITY AND CAPITAL RESOURCES

Bank Credit Facilities

As at March 31, 2019, the Company had an $11.0 million syndicated credit facility (the "**Credit Facility**") with three Canadian Financial Institutions (the "**Syndicate**") (December 31, 2018 - $11.0 million Credit Facility). The Credit Facility of $11.0 million consists of a $6.0 million revolving syndicated credit facility and a $5.0 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, 2019, were $nil (December 31, 2018 - $nil). Borrowings under the Credit Facility bear interest at the Canadian prime rate plus 1.5% to 4.0% or the bankers' acceptance rates plus 2.5% to 5.0%, depending, in each case, on the rolling 12 month ratio of consolidated debt to EBITDA, plus applicable standby fees. EBITDA is calculated as earnings (loss) excluding depreciation, depletion, impairment and accretion, share based payments, interest, taxes and other non-cash items. The Credit Facility matures July 28, 2019, and if it is not renewed it will convert to a one day term loan due on July 29, 2019. The Credit Facility is reviewed semi-annually on November 30th and May 31st. As at March 31, 2019, the Company had $1.8 million in letters of credit issued against its Credit Facility (December 31, 2018 - $2.9 million).

Letter of Credit Facility

As at March 31, 2019, the Company had a $2.6 million letter of credit facility ("**LC Facility**") with a Canadian bank which is supported by a performance guarantee from Export Development Canada. The LC Facility is for issuing letters of credit to counterparties and is available on a demand basis. Letters of credit issued under the LC Facility incur an issuance fee of 4% per annum. The Credit Facility and LC 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, 2019, Pine Cliff was in compliance with all covenants. As at March 31, 2019, the Company had $1.1 million in letters of credit issued against its LC Facility (December 31, 2018 - $nil).

Due to Related Party Note

As at March 31, 2019, Pine Cliff had a $6.0 million promissory note outstanding to the Company's Chairman of the Board maturing on September 30, 2020 ("**2020 Related Party Note**") that bears interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility and is payable monthly. The 2020 Related Party Note is secured by a $6.0 million floating charge debenture over all of the Company's assets and is subordinated to any and all claims in favor of the Credit Facility and the holder of the $30 Million 2020 Notes and $19 Million 2022 Notes, as defined herein. Interest paid on the 2020 Related Party Note for the three months ended March 31, 2019 was $0.1 million (March 31, 2018 - $0.04 million).

$6 Million Subordinated Promissory Notes due September 30, 2020

On July 29, 2016, the Company issued $6.0 million in promissory notes maturing on July 29, 2018. In July 2018, these notes were amended to mature on September 30, 2020 ("**$6 Million 2020 Notes**"). The $6 Million 2020 Notes bear interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility, payable monthly. The $6 Million 2020 Notes were issued to a shareholder and a relative of that shareholder, owning directly or by discretion and control, greater than 10% of the Common Shares. The $6 Million 2020 Notes are secured by a $6.0 million of floating charge debenture over all of the Company's assets and are subordinated to any and all claims in favor of the Credit Facility and the $30 Million 2020 Note and $19 Million 2022 Note holders.

$30 Million Subordinated Promissory Notes due September 30, 2020

On August 10, 2016, the Company issued 30,000 units ("**2020 Units**" or "**2020 Unit**") at a price of $1,000 per 2020 Unit for aggregate proceeds of $30.0 million. Each 2020 Unit is comprised of: (i) one promissory note with a par value of $1,000 per note and bearing interest at 6.75% per annum ("**$30 Million 2020 Note"** or "**$30 Million 2020 Notes**"), which are payable semi-annually; and (ii) 150 Common Share purchase warrants ("**2018 Warrants**"). The $30 Million 2020 Notes mature on September 30, 2020 and all or a portion of the principal amount outstanding can be repaid earlier without penalty. The $30 Million 2020 Notes are secured by a $30.0 million floating charge debenture over all of the Company's assets and is subordinated to any and all claims in favor of the Credit Facility. A total of 4.5 million 2018 Warrants were issued, entitling the holder to purchase one Common Share for each 2018 Warrant at a price of $1.38. The 2018 Warrants all expired on August 10, 2018.

The $30 Million 2020 Notes were determined to be a hybrid instrument with an embedded derivative. The fair value of the debt component of the $30 Million 2020 Notes were determined on issuance to be 7.8%, using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to Warrants. The value of the debt will accrete up to the principal balance at maturity.

$19 Million Subordinated Promissory Notes due July 31, 2022

On July 13, 2018, the Company issued 19,000 units ("**2022 Units**" or "**2022 Unit**") at a price of $1,000 per 2022 Unit for aggregate proceeds of $19.0 million. Each 2022 Unit is comprised of: (i) one promissory note with a par value of $1,000 per note and bearing interest at 7.05% per annum ("**$19 Million 2022 Note** " or "**$19 Million 2022 Notes"**), which are payable semi-annually; and (ii) 150 Common Share purchase warrants ("**2021 Warrants**"). The $19 Million 2022 Notes mature on July 31, 2022 and all or a portion of the principal amount outstanding can be repaid without penalty after three years. A total of 2.85 million 2021 Warrants were issued, entitling the holder to purchase one Common Share of Pine Cliff for each 2021 Warrant at a price of $0.51, until July 13, 2021.

The $19 Million 2022 Notes were determined to be a hybrid instrument with an embedded derivative. The fair value of the debt component of the $19 Million 2022 Notes were determined on issuance to be 7.6%, using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to Warrants. The value of the debt will accrete up to the principal balance at maturity.

Share Capital

Share capital	**May 8, 2019**	March 31, 2019	December 31, 2018
Common Shares	**307,075,787**	307,075,787	307,075,787
Stock options	**20,445,804**	20,545,804	21,028,804
Warrants	**2,850,000**	2,850,000	2,850,000

Capital Resources

Pine Cliff's capital budget for 2019 has been approved by its board of directors at approximately $11.1 million, including $2.5 million for abandonments and reclamation and before acquisitions and dispositions. Pine Cliff anticipates funding its capital budget through adjusted funds flow and debt. 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 flows 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, 2019, the Company financed its capital expenditures with cash flow from operating activities.

COMMITMENTS AND CONTINGENCIES

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

($000s)	2019	2020	2021	2022	2023	Thereafter
Subordinated promissory notes[1]	-	36,000	-	19,000	-	-
Trade and other payables	17,117	-	-	-	-	-
Due to related party	-	6,000	-	-	-	-
Future interest	3,171	3,506	1,340	1,005	-	-
Lease Obligations	698	1,011	927	731	564	-
Transportation[2]	7,049	7,436	6,390	5,519	3,168	12,145
Total commitments and contingencies	**28,035**	**53,953**	**8,657**	**26,255**	**3,732**	**12,145**

[1] Principal amount.
[2] Firm transportation agreements.

QUARTERLY TRENDS AND SELECTED FINANCIAL INFORMATION

	2019	2018				2017		
($000s, unless otherwise indicated)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
FINANCIAL								
Total revenue	**30,344**	28,396	24,148	20,419	27,100	25,444	23,892	34,005
Cash flow from operating activities	**7,925**	1,415	(309)	531	6,979	(4,350)	5,517	10,007
Adjusted funds flow[1]	**6,823**	4,433	1,920	(977)	5,137	3,759	2,879	10,834
Adjusted funds flow per share – basic and diluted ($/share)[1]	**0.02**	0.01	0.01	0.00	0.02	0.01	0.01	0.04
Impairments	**-**	-	-	-	-	-	17,800	-
Loss	**(6,525)**	(28,520)	(10,710)	(17,909)	(15,580)	(32,996)	(30,214)	(2,118)
Loss per share – basic and diluted ($/share)	**(0.02)**	(0.09)	(0.03)	(0.06)	(0.05)	(0.11)	(0.10)	(0.01)
Capital expenditures	**995**	4,302	1,910	1,276	3,177	3,091	3,318	3,267
Acquisitions	**2**	(61)	659	(3)	(288)	44	(9)	(97)
Dispositions	**-**	(51)	(16)	(135)	(83)	(148)	(65)	(216)
Net debt[1]	**51,820**	56,819	56,325	54,737	52,414	53,638	53,377	52,562
Weighted average common shares outstanding:								
Basic	**307,076**	307,076	307,076	307,076	307,076	307,076	307,076	307,076
Diluted	**307,076**	307,076	307,076	307,076	307,076	307,076	307,076	307,076
PRODUCTION VOLUMES								
Natural gas (Mcf/d)	**104,186**	110,295	111,067	110,242	112,871	122,304	124,450	119,410
Natural gas liquids (Bbl/d)	**981**	957	861	967	977	880	998	912
Crude oil (Bbl/d)	**396**	236	231	216	219	225	123	263
Average sales volumes (Boe/d)	**18,741**	19,576	19,603	19,557	20,008	21,489	21,863	21,077
Average sales volumes (Mcfe/d)	**112,446**	117,456	117,618	117,342	120,048	128,934	131,178	126,462
PRICES AND NETBACKS								
Total oil and gas sales ($/Boe)	**19.01**	16.72	14.21	12.33	16.50	14.50	12.75	18.55
Operating netback ($/Boe)[1]	**5.68**	3.56	2.34	0.72	4.04	2.85	2.30	7.41
Corporate netback ($/Boe)[1]	**4.04**	2.46	1.06	(0.55)	2.86	1.90	1.44	5.65
Total oil and gas sales ($/Mcfe)	**3.17**	2.79	2.37	2.06	2.75	2.49	2.13	3.09
Operating netback ($/Mcfe)[1]	**0.95**	0.59	0.39	0.12	0.67	0.48	0.38	1.24
Corporate netback ($/Mcfe)[1]	**0.67**	0.41	0.18	(0.09)	0.48	0.32	0.24	0.94

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

Over the past eight quarters, Pine Cliff's revenues, cash flow from operating activities, adjusted funds flow, and losses have fluctuated primarily due to changes in commodity prices and sales volumes. 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 increased from the second quarter of 2017 to the third quarter of 2017 due to a successful recompletion program in the Company's Central Area. Average sales volumes decreased in the fourth quarter of 2017 through the second quarter of 2018 related to natural production declines and short term production outages, primarily due to voluntary shut-ins in response to low natural gas commodity prices. Average sales volumes increased in the third quarter of 2018 compared to the second quarter of 2018, mainly due to realizing a full quarter of production from wells drilled in the first half of 2018. Average sales volumes decreased in the fourth quarter of 2018 through the first quarter of 2019 compared to the third quarter of 2018 due to natural production declines and production downtime due to cold weather, partially offset by production from the current drilling and recompletion projects.

- Adjusted funds flow of $10.8 million in the second quarter of 2017 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 from the second quarter of 2017 to the third quarter of 2017, largely a result of fluctuations in natural gas prices and sales volumes. Adjusted funds flow increased in the fourth quarter of 2017 and the first quarter of 2018 as a result of higher natural gas prices, slightly offset by lower sales volumes. Adjusted funds flow decreased from the first quarter of 2018 to the second quarter of 2018, mainly as a result of lower commodity prices and sales volumes. Adjusted funds flow increased from the third quarter of 2018 to the first quarter of 2019 compared to the second quarter of 2018, mainly as a result of higher commodity prices, slightly offset by decreased sales volumes.

- Loss of $2.1 million in the second quarter of 2017 was the lowest in the eight quarters presented as a result of that quarter having the highest natural gas price in the eight quarters. Losses increased 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 sales volumes. Losses increased in the fourth quarter of 2017 compared to the third quarter of 2017, primarily as a result of a deferred income tax expense. Losses decreased 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. Losses increased in the second quarter of 2018 compared to the first quarter of 2018, mainly as a result of lower oil and gas revenues. Losses decreased from the second quarter of 2018 to the third quarter of 2018, mainly as a result of higher commodity prices and higher sales volumes. Losses increased from the third quarter of 2018 to the fourth quarter of 2018 as a result of a deferred income tax expense, slightly offset by higher commodity prices. Losses decreased from the fourth quarter of 2018 to the first quarter of 2019 mainly as a result of less deferred income tax expense and higher commodity prices, slightly offset by higher operating expenses.

- Total revenue of $34.0 million in the second quarter of 2017 was the highest in the eight quarters presented due to high natural gas prices. Total revenues have fluctuated from the first quarter of 2017 to the third quarter of 2018, mainly as a result of changes in commodity prices and sales volumes. Total revenues increased from the third quarter of 2018 through the first quarter of 2019, mainly as a result of higher commodity prices, slightly offset by lower sales volumes.

OFF BALANCE SHEET TRANSACTIONS

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

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments of the Company consist of cash, trade and other receivables, trade and other payables, due to related party, subordinated promissory notes, and bank debt. The carrying values of cash, trade and other receivables and trade and other payables approximate their respective fair values due to the short time before maturing. The carrying values of due to related party, subordinated promissory notes, and 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. Pine Cliff has no level 2 or level 3 financial instruments. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

Physical Sales Contracts

At March 31, 2019, the Company had the following physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price ($CAD/GJ)	Fixed Sale Price ($CAD/Mcf)[1]
April 1, 2019 to October 31, 2019	AECO	5,000	$1.20	$1.26
April 1, 2019 to October 31, 2019	AECO	5,000	$1.29	$1.35
April 1, 2019 to October 31, 2019	DAWN[2]	4,000	$3.40	$3.57
April 1, 2019 to October 31, 2019	DAWN[2]	4,000	$3.44	$3.62
April 1, 2019 to October 31, 2019	AECO	2,500	$1.33	$1.40

[1] Price has been converted from $/GJ to $/Mcf by multiplying by 1.05.
[2] Dawn Hub into Dawn Township, Ontario.

CRITICAL ACCOUNTING JUDGMENTS AND 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 judgments or 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 Annual MD&A for the year ended December 31, 2018.

Financial Derivative Contracts

Pine Cliff had no financial derivative contracts in place during the three months ended March 31, 2019 or subsequent to.

ACCOUNTING POLICY AND STANDARD CHANGES

Adopted Accounting Pronouncements

IFRS 16 *Leases* (“**IFRS 16**”)

Effective January 1, 2019 the Company adopted IFRS 16. IFRS 16 introduces a lease accounting model for lessees that requires a right-of-use asset and lease liability to be recognized on the balance sheet for contracts that are, or contain, a lease.

Pine Cliff adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as a $3.6 million increase to right-of-use assets (included in property, plant and equipment) with a corresponding increase to lease obligations. The initial right-of-use assets recognized were measured at amounts equal to the lease obligations. The weighted average incremental borrowing rate that will be used to determine the lease obligation at adoption is 4.7%. The right of use assets and lease obligations are mainly from the Company's head office lease in Calgary and vehicles for the field operations staff.

The adoption of IFRS 16 included the following elections:

- Pine Cliff elected to not apply lease accounting to leases for which the term ends within 12 months of the date of initial application;
- Pine Cliff elected to retain the classification of previous leases under IAS 17; and
- Pine Cliff elected to use hindsight in determining lease term.

As at December 31, 2018, Pine Cliff disclosed future lease obligations of $4.0 million, which would have resulted in a lease obligation of $3.6 million when discounted at the weighted average incremental borrowing rate at adoption of IFRS 16 of 4.7%.

IFRS 3 *Business Combinations* (“IFRS 3”)

Effective January 1, 2019 the Company early adopted IFRS 3. IFRS 3 will be applied prospectively to acquisitions that occur on or after January 1, 2019. The amendments introduce an optional concentration test, narrow the definitions of a business and outputs, and clarify that an acquired set of activities and assets must include an input and a substantive process that together significantly contribute to the ability to create outputs. These amendments do not result in changes to the Company's accounting policies for applying the acquisition method.

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, 2019. 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

Agreement to acquire certain Central Alberta oil and natural gas assets

On April 17, 2019, Pine Cliff announced that it entered into a purchase and sale agreement (the "**Agreement**") to acquire certain natural gas and oil assets in Central Alberta for net cash consideration of $8.6 million, after estimated closing adjustments (the "**Acquisition**"). Pine Cliff paid a deposit of $1.0 million on April 17, 2019.

The Acquisition will have an effective date of October 1, 2018 and is presently expected to close on or around May 31, 2019. Although the Agreement is binding between the parties, completion of the Acquisition is subject to numerous standard conditions, including rights of first refusals and regulatory approvals. No assurances can be given that the Acquisition will be completed as proposed or at all. After taking into account the Acquisition as of the closing date, Pine Cliff is budgeting its 2019 annual production volumes to increase to a range of 19,250 to 19,750 Boe per day, weighted 92% to natural gas.

Flow-Through Financing

On April 17, 2019, Pine Cliff announced that it intends to issue, by way of non-brokered private placement, up to 13,333,333 flow-through shares (the "**Flow-Through Shares**") on a flow-through basis in respect of Canadian development expenses ("**CDE**") at a price of $0.30 per Flow-Through Share, resulting in gross proceeds of up to $4.0 million (the "**Flow-Through Private Placement**"). Pine Cliff shall, pursuant to the provisions of the Income Tax Act (Canada), incur eligible CDE after the closing date of the Flow-Through Private Placement and prior to March 31, 2020 in the aggregate amount of not less than the gross proceeds of the Flow-Through Private Placement. The net proceeds of the Flow-Through Private Placement are expected to be used to incur eligible CDE. The completion of the Flow-Through Private Placement is subject to certain conditions including the closing of the Acquisition and customary regulatory approvals, including the approval of the Toronto Stock Exchange.

Common Share Financing

On April 17, 2019, Pine Cliff announced that it intends to issue, by way of a non-brokered private placement up to 12,000,000 Common Shares (the "**Common Share Private Placement**"), at a price of $0.25 per Common Share, for gross proceeds of up to $3.0 million. It is anticipated that certain insiders, including officers and directors of Pine Cliff, will participate in the Common Share Private Placement. The net proceeds of the Common Share Private Placement are expected to be used to partially finance the Acquisition. The completion of the Common Share Private Placement is subject to certain conditions including the closing of the Acquisition and customary regulatory approvals, including the approval of the Toronto Stock Exchange.

NON-GAAP MEASURES

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

Adjusted Funds Flow

The Company considers adjusted funds flow a key performance measure as it demonstrates the Company's ability to generate the funds necessary to repay debt and fund future growth through capital investment. Adjusted funds flow and adjusted funds flow per 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.

	Three months ended March 31,		
($000s)	**2019**	2018	% Change
Cash flow from operating activities	**7,925**	6,979	14
Adjusted by:			
Change in non-cash working capital	**(1,735)**	(2,678)	(35)
Decommissioning obligation settled	**633**	836	(24)
Adjusted funds flow	**6,823**	5,137	33
Adjusted funds flow ($/Boe)	**4.04**	2.86	41
Adjusted funds flow ($/Mcfe)	**0.67**	0.48	41
Adjusted funds flow – basic and diluted ($/share)	**0.02**	0.02	-

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 earnings (loss) determined in accordance with IFRS as a measure of performance. Pine Cliff's method of calculating these measures may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

	Three months ended March 31,		
	2019	2018	$ Change
Oil and gas sales	**19.01**	16.50	2.51
Royalty expense	**(1.02)**	(1.47)	0.45
Transportation expense	**(1.84)**	(1.60)	(0.24)
Operating expense	**(10.47)**	(9.39)	(1.08)
Operating netback	**5.68**	4.04	1.64
General and administrative	**(0.95)**	(0.76)	(0.19)
Interest and bank charges, net of dividend income	**(0.69)**	(0.42)	(0.27)
Corporate netback	**4.04**	2.86	1.18
Operating netback ($ per Mcfe)	**0.95**	0.67	0.28
Corporate netback ($ per Mcfe)	**0.67**	0.48	0.19

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 and prepaid expenses and deposits, as shown in the table below:

($000s)	**March 31, 2019**	December 31, 2018	$ Change
Due to related party – due September 30, 2020	**6,000**	6,000	-
Subordinated promissory notes[1]	**55,000**	55,000	-
Trade and other payables	**17,117**	16,772	345
Less:			
Trade and other receivables	**(14,966)**	(13,536)	(1,430)
Cash	**(6,930)**	(3,563)	(3,367)
Prepaid expenses and deposits	**(4,401)**	(3,854)	(547)
Net debt	**51,820**	56,819	(4,999)

[1] The subordinated promissory notes for net debt are presented at the principal amount with $36.0 million due on September 30, 2020 and $19.0 million due on July 31, 2022.

Net debt is not a recognized measure under IFRS and Pine Cliff's method of calculating this measure may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A include statements which contain words such as “anticipate”, “could”, “should”, “expect”, “seek”, “may”, “intend”, “likely”, “will”, “believe” and similar expressions, statements relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about developments, results and events which will or may occur in the future, constitute “forward-looking information” within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in the MD&A and Annual MD&A includes, but is not limited to: expected production levels, expected operating costs, expected transportation costs, expected interest costs, royalty and G&A levels; future capital expenditures, including the amount and nature thereof; the Acquisition including Pine Cliff’s ability to finance; the operational, economic and financial impacts of the Acquisition on Pine Cliff; potential growth opportunities with the Acquisition; expected production levels of the Acquisition; future capital expenditures and maintenance capital of the Acquisition; success of the drilling opportunities for the Acquisition and the timing and nature thereof; the closing date of the Acquisition and information regarding Pine Cliff on a pro forma basis assuming completion of the Acquisition; other anticipated benefits to Pine Cliff of the Acquisition; Pine Cliff’s ability to satisfy the conditions of the Flow-Through Private Placement and Common Share Private Placement; the manner in which the purchase price of the Acquisition will be financed by Pine Cliff; the expected increase in the shareholding position of the Alberta Investment Management Corporation; the anticipated use of the net proceeds of the Flow-Through Private Placement and Common Share Private Placement; 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 adjusted funds flow; and other such matters.

There is no assurance that all of the conditions to the Acquisition will be met and therefore there is a risk that the Acquisition will not be completed in the form described above or at all. In the event the Acquisition does not close as presently anticipated, Pine Cliff will not realize the anticipated benefits of the Acquisition. As such, many factors could cause the performance or achievement of Pine Cliff to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Because of the risks, uncertainties and assumptions contained herein, readers should not place undue reliance on these forward-looking statements. The completion of the Flow-Through Private Placement and Common Share Private Placement are subject to certain conditions including the closing of the Acquisition and customary regulatory approvals, including the approval of the Toronto Stock Exchange.

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, 2019 prepared by McDaniel & Associates Consultants Limited and unbooked drilling and recompletion locations. Unbooked drilling and recompletion locations are internal estimates based on evaluation of geologic, reserves and spacing based on industry practice. There is no guarantee that Pine Cliff will drill these locations and there is no certainty that the drilling or completing of these locations will result in additional reserves and production or achieve expected internal rates of return. Pine Cliff activity depends on availability of capital, regulatory approvals, commodity prices, drilling costs and other factors.

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

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

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

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

	Note	**As at March 31, 2019**	As at December 31, 2018
ASSETS			
Current assets			
Cash		**6,930**	3,563
Trade and other receivables	4	**14,966**	13,536
Prepaid expenses and deposits		**4,401**	3,854
Total current assets		**26,297**	20,953
Exploration and evaluation	6	**22,625**	22,620
Property, plant and equipment	7	**319,799**	310,642
Total assets		**368,721**	354,215
LIABILITIES			
Current liabilities			
Trade and other payables	4	**17,117**	16,772
Lease liabilities	8	**840**	-
Decommissioning provision	12	**2,466**	2,466
Total current liabilities		**20,423**	19,238
Lease liabilities	8	**2,675**	-
Due to related party	10	**6,000**	6,000
Subordinated promissory notes	11	**54,358**	54,280
Decommissioning provision	12	**230,471**	213,723
Total liabilities		**313,927**	293,241
SHAREHOLDERS' EQUITY			
Share capital	13	**268,743**	268,743
Warrants		**288**	288
Contributed surplus		**12,860**	12,515
Deficit		**(227,097)**	(220,572)
Total shareholders' equity		**54,794**	60,974
Total liabilities and shareholders' equity		**368,721**	354,215

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, 2019	2018
REVENUE			
Oil and gas sales	14	**32,063**	29,711
Royalty expense		**(1,719)**	(2,646)
Oil and gas sales, net of royalties		**30,344**	27,065
Dividend income		**-**	35
Total revenue		**30,344**	27,100
EXPENSES			
Operating		**17,654**	16,912
Transportation		**3,096**	2,889
Depletion and depreciation	7	**11,389**	10,876
Share-based payments	13	**345**	624
Finance	15	**2,784**	2,128
General and administrative		**1,601**	1,364
Realized loss on sale of investments		**-**	2,687
Total expenses		**36,869**	37,480
Loss before income taxes		**(6,525)**	(10,380)
Deferred income tax expense		**-**	(5,200)
LOSS FOR THE PERIOD		**(6,525)**	(15,580)
OTHER COMPREHENSIVE LOSS			
Unrealized loss on investments		**-**	(2,081)
Amounts reclassified from comprehensive loss		**-**	2,081
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		**-**	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(6,525)**	(15,580)
Loss per share ($)			
Basic and diluted	13	**(0.02)**	(0.05)

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, 2019	2018
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Loss for the period		**(6,525)**	(15,580)
Items not affecting cash:			
Depletion and depreciation	7	**11,389**	10,876
Share-based payments	13	**345**	624
Finance expenses	15	**2,784**	2,128
Loss on sale of investments		**-**	2,687
Deferred income tax expense		**-**	5,200
Interest and bank charges	15	**(1,170)**	(798)
Decommissioning obligations settled	12	**(633)**	(836)
Changes in non-cash working capital accounts	15	**1,735**	2,678
Cash provided by operating activities		**7,925**	6,979
INVESTING ACTIVITIES			
Property, plant and equipment	7	**(990)**	(3,171)
Exploration and evaluation	6	**(5)**	(6)
Acquisitions	7	**(2)**	288
Dispositions		**-**	83
Sale of investments		**-**	2,274
Changes in non-cash working capital accounts	15	**(3,367)**	(2,503)
Cash used in investing activities		**(4,364)**	(3,035)
FINANCING ACTIVITIES			
Bank debt	9	**-**	(4,829)
Payments on lease obligations		**(194)**	-
Cash used in financing activities		**(194)**	(4,829)
Increase (decrease) in cash		**3,367**	(885)
Cash - beginning of period		**3,563**	1,075
CASH - END OF PERIOD		**6,930**	190

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Canadian dollars, 000s)
(unaudited)

	Note	Share capital	Contributed surplus[1]	Accumulated other comprehensive loss[2]	Warrants	Deficit	Total Equity
BALANCE AT JANUARY 1, 2018		**268,743**	**9,326**	**(2,081)**	**958**	**(147,853)**	**129,093**
Loss for the period		-	-	-	-	(15,580)	(15,580)
Realized loss on sale of investments		-		2,081	-	-	2,081
Share-based payments	13	-	624	-	-	-	624
BALANCE AT MARCH 31, 2018		**268,743**	**9,950**	**-**	**958**	**(163,433)**	**116,218**
Loss for the period		-	-	-	-	(57,139)	(57,139)
Issuance of warrants		-	-	-	288	-	288
Expiry of warrants		-	958	-	(958)	-	-
Share-based payments	13	-	1,607	-	-	-	1,607
BALANCE AT DECEMBER 31, 2018		**268,743**	**12,515**	**-**	**288**	**(220,572)**	**60,974**
Loss for the period		-	-	-	-	(6,525)	(6,525)
Share-based payments	13	-	345	-	-	-	345
BALANCE AT MARCH 31, 2019		**268,743**	**12,860**	**-**	**288**	**(227,097)**	**54,794**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at March 31, 2019 and December 31, 2018 and for the three months ended March 31, 2019 and 2018.
(all tabular amounts in Canadian dollars 000s, unless otherwise indicated)

1. NATURE OF BUSINESS

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

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

2. BASIS OF PREPARATION

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

The Financial Statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2018 ("**Annual Financial Statements**").

The accounting policies, basis of measurement, critical accounting judgments and significant estimates to prepare the Annual Financial Statements as at and for the year ended December 31, 2018 have been applied in the preparation of these Financial Statements, except as described in Note 3.

The Financial Statements were authorized for issue by the Company's board of directors on May 8, 2019.

3. ADOPTED ACCOUNTING PRONOUNCEMENTS

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

Effective January 1, 2019 the Company adopted IFRS 16. IFRS 16 introduces a lease accounting model for lessees that requires a right-of-use asset and lease liability to be recognized on the balance sheet for contracts that are, or contain, a lease.

Pine Cliff adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as a $3.6 million increase to right-of-use assets (included in property, plant and equipment) with a corresponding increase to lease obligations. The initial right-of-use assets recognized were measured at amounts equal to the lease obligations. The weighted average incremental borrowing rate that will be used to determine the lease obligation at adoption is 4.7%. The right of use assets and lease obligations are mainly from the Company's head office lease in Calgary and vehicles for the field operations staff.

The adoption of IFRS 16 included the following elections:

- Pine Cliff elected to not apply lease accounting to leases for which the term ends within 12 months of the date of initial application.
- Pine Cliff elected to retain the classification of previous leases under IAS 17.
- Pine Cliff elected to use hindsight in determining lease term.

As at December 31, 2018, Pine Cliff disclosed future lease obligations $4.0 million, which would have resulted in a lease obligation of $3.6 million when discounted at the weighted average incremental borrowing rate at adoption of IFRS 16 of 4.7%.

IFRS 3 *Business Combinations* ("IFRS 3")

Effective January 1, 2019 the Company early adopted IFRS 3. IFRS 3 will be applied prospectively to acquisitions that occur on or after January 1, 2019. The amendments introduce an optional concentration test, narrow the definitions of a business and outputs, and clarify that an acquired set of activities and assets must include an input and a substantive process that together significantly contribute to the ability to create outputs. These amendments do not result in changes to the Company's accounting policies for applying the acquisition method.

4. FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement

Financial instruments of the Company consist of cash, trade and other receivables, trade and other payables, due to related party, subordinated promissory notes, and bank debt. The carrying values of cash, trade and other receivables and trade and other payables approximate their respective fair values due to the short time before maturing. The carrying values of due to related party, subordinated promissory notes, and 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. Pine Cliff has no level 2 or level 3 financial instruments. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

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

	March 31, 2019		December 31, 2018	
Description	**Carrying value**	**Fair value**	Carrying value	Fair value
Cash	**6,930**	**6,930**	3,563	3,563
Trade and other receivables	**14,966**	**14,966**	13,536	13,536
Trade and other payables	**(17,117)**	**(17,117)**	(16,772)	(16,772)
Due to related party	**(6,000)**	**(6,000)**	(6,000)	(6,000)
Subordinated promissory notes	**(54,358)**	**(54,358)**	(54,280)	(54,280)

5. RISK MANAGEMENT

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

Physical Sales Contracts

At March 31, 2019, the Company had the following physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price ($CAD/GJ)	Fixed Sale Price ($CAD/Mcf)[1]
April 1, 2019 to October 31, 2019	AECO	5,000	$1.20	$1.26
April 1, 2019 to October 31, 2019	AECO	5,000	$1.29	$1.35
April 1, 2019 to October 31, 2019	DAWN[2]	4,000	$3.40	$3.57
April 1, 2019 to October 31, 2019	DAWN[2]	4,000	$3.44	$3.61
April 1, 2019 to October 31, 2019	AECO	2,500	$1.33	$1.40

[1] Price has been converted from $/GJ to $/Mcf by multiplying by 1.05.
[2] Dawn Hub into Dawn Township, Ontario.

Financial Derivative Contracts

Pine Cliff had no financial derivative contracts in place during the three months ended March 31, 2019 or subsequent to.

6. EXPLORATION AND EVALUATION

Exploration and evaluation assets:	Oil and gas properties	Mineral properties	Total
Balance at December 31, 2017	26,313	3,074	29,387
Additions	193	46	239
Transfer to property, plant, and equipment	(7,006)	-	(7,006)
Balance at December 31, 2018	**19,500**	**3,120**	**22,620**
Additions	5	-	5
Balance at March 31, 2019	**19,505**	**3,120**	**22,625**

7. PROPERTY, PLANT AND EQUIPMENT

Cost:	($000s)
Balance at December 31, 2017	**558,482**
Additions	10,426
Transfer from exploration and evaluation	7,006
Acquisitions	307
Dispositions	(369)
Decommissioning provision	12,990
Balance at December 31, 2018	**588,842**
Additions	990
Lease obligations	3,709
Acquisitions	2
Decommissioning provision	15,845
Balance at March 31, 2019	**609,388**

Accumulated depletion and depreciation:	($000s)
Balance at December 31, 2017	**(234,524)**
Depletion and depreciation	(43,760)
Disposition	84
Balance at December 31, 2018	**(278,200)**
Depletion and depreciation	(11,389)
Balance at March 31, 2019	**(289,589)**

Carrying value at:	($000s)
December 31, 2018	310,642
March 31, 2019	**319,799**

8. LEASE LIABILITIES

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

	($000s)
2019	698
2020	1,011
2021	927
2022	731
2023	564
Total lease payments as at March 31, 2019	**3,931**
Amounts representing interest	(416)
Present value of lease payments	**3,515**
Current portion of lease obligations	(840)
Non-current portion of lease obligations	**2,675**

For the three months ended March 31, 2019, interest expense of $0.04 million and a total cash outflow of $0.2 million was recognized relating to lease obligations.

9. BANK DEBT

As at March 31, 2019, the Company had an $11.0 million syndicated credit facility (the "**Credit Facility**") with three Canadian Financial Institutions (the "**Syndicate**") (December 31, 2018 - $11.0 million Credit Facility). The Credit Facility of $11.0 million consists of a $6.0 million revolving syndicated credit facility and a $5.0 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, 2019, were $nil (December 31, 2018 - $nil). Borrowings under the Credit Facility bear interest at the Canadian prime rate plus 1.5% to 4.0% or the bankers' acceptance rates plus 2.5% to 5.0%, depending, in each case, on the rolling 12 month ratio of consolidated debt to EBITDA, plus applicable standby fees. EBITDA is calculated as earnings (loss) excluding depreciation, depletion, impairment and accretion, share based payments, interest, taxes and other non-cash items. The Credit Facility matures July 28, 2019, and if it is not renewed it will convert to a one day term loan due on July 29, 2019. The Credit Facility is reviewed semi-annually on November 30th and May 31st. As at March 31, 2019, the Company had $1.8 million in letters of credit issued against its Credit Facility (December 31, 2018 - $2.9 million).

Letter of Credit Facility

As at March 31, 2019, the Company had a $2.6 million letter of credit facility ("**LC Facility**") with a Canadian bank which is supported by a performance guarantee from Export Development Canada. The LC Facility is for issuing letters of credit to counterparties and is available on a demand basis. Letters of credit issued under the LC Facility incur an issuance fee of 4% per annum. The Credit Facility and LC 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, 2019, Pine Cliff was in compliance with all covenants. As at March 31, 2019, the Company had $1.1 million in letters of credit issued against its LC Facility (December 31, 2018 - $nil).

10. DUE TO RELATED PARTY

As at March 31, 2019, Pine Cliff had a $6.0 million promissory note outstanding to the Company's Chairman of the Board maturing on September 30, 2020 ("**2020 Related Party Note**") that bears interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility and is payable monthly. The 2020 Related Party Note is secured by a $6.0 million floating charge debenture over all of the Company's assets and is subordinated to any and all claims in favor of the Credit Facility and the holder of the $30 Million 2020 Notes and $19 Million 2022 Notes, as defined herein. Interest paid on the 2020 Related Party Note for the three months ended March 31, 2019 was $0.1 million (March 31, 2018 - $0.04 million).

11. SUBORDINATED PROMISSORY NOTES

Subordinated promissory notes due September 30, 2020:	
Issued – July 29, 2016	6,000
Subordinated promissory notes due September 30, 2020, as at March 31, 2019 and December 31, 2018	**6,000**
Subordinated promissory notes due September 30, 2020:	
Subordinated promissory notes due September 30, 2020, as at December 31, 2017	29,307
Accretion expense	237
Subordinated promissory notes due September 30, 2020, as at December 31, 2018	29,544
Accretion expense	62
Subordinated promissory notes due September 30, 2020, as at March 31, 2019	**29,606**
Subordinated promissory notes due July 31, 2022 as at December 31, 2017	-
Subordinated promissory notes due July 31, 2022, issued July 13, 2018	18,706
Accretion expense	30
Subordinated promissory notes due July 31, 2022, as at December 31, 2018	18,736
Accretion expense	16
Subordinated promissory notes due September 30, 2020, as at March 31, 2019	**18,752**
Total subordinated promissory notes, as at December 31, 2018	54,280
Total subordinated promissory notes, as at March 31, 2019	**54,358**

$6 Million Subordinated Promissory Notes due September 30, 2020

On July 29, 2016, the Company issued $6.0 million in promissory notes maturing on July 29, 2018. In July 2018, these notes were amended to mature on September 30, 2020 ("**$6 Million 2020 Notes**"). The $6 Million 2020 Notes bear interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility, payable monthly. The $6 Million 2020 Notes were issued to a shareholder and a relative of that shareholder, owning directly or by discretion and control, greater than 10% of the Common Shares. The $6 Million 2020 Notes are secured by a $6.0 million of floating charge debenture over all of the Company's assets and are subordinated to any and all claims in favor of the Credit Facility and the $30 Million 2020 Note and $19 Million 2022 Note holders.

$30 Million Subordinated Promissory Notes due September 30, 2020

On August 10, 2016, the Company issued 30,000 units ("**2020 Units**" or "**2020 Unit**") at a price of $1,000 per 2020 Unit for aggregate proceeds of $30.0 million. Each 2020 Unit is comprised of: (i) one promissory note with a par value of $1,000 per note and bearing interest at 6.75% per annum ("**$30 Million 2020 Note"** or "**$30 Million 2020 Notes**"), which are payable semi-annually; and (ii) 150 Common Share purchase warrants ("**2018 Warrants**"). The $30 Million 2020 Notes mature on September 30, 2020 and all or a portion of the principal amount outstanding can be repaid earlier without penalty. The $30 Million 2020 Notes are secured by a $30.0 million floating charge debenture over all of the Company's assets and is subordinated to any and all claims in favor of the Credit Facility. A total of 4.5 million 2018 Warrants were issued, entitling the holder to purchase one Common Share for each 2018 Warrant at a price of $1.38. The 2018 Warrants all expired on August 10, 2018.

The $30 Million 2020 Notes were determined to be a hybrid instrument with an embedded derivative. The fair value of the debt component of the $30 Million 2020 Notes were determined on issuance to be 7.8%, using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to Warrants. The value of the debt will accrete up to the principal balance at maturity.

$19 Million Subordinated Promissory Notes due July 31, 2022

On July 13, 2018, the Company issued 19,000 units ("**2022 Units**" or "**2022 Unit**") at a price of $1,000 per 2022 Unit for aggregate proceeds of $19.0 million. Each 2022 Unit is comprised of: (i) one promissory note with a par value of $1,000 per note and bearing interest at 7.05% per annum ("**$19 Million 2022 Note** " or "**$19 Million 2022 Notes"**), which are payable semi-annually; and (ii) 150 Common Share purchase warrants ("**2021 Warrants**"). The $19 Million 2022 Notes mature on July 31, 2022 and all or a portion of the principal amount outstanding can be repaid without penalty after three years. A total of 2.85 million 2021 Warrants were issued, entitling the holder to purchase one Common Share of Pine Cliff for each 2021 Warrant at a price of $0.51, until July 13, 2021.

The $19 Million 2022 Notes were determined to be a hybrid instrument with an embedded derivative. The fair value of the debt component of the $19 Million 2022 Notes were determined on issuance to be 7.6%, using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to Warrants. The value of the debt will accrete up to the principal balance at maturity.

12. DECOMMISSIONING PROVISION

The total current and long-term decommissioning provision of $232.9 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, 2019, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was $264.1 million (December 31, 2018 - $264.4 million). The discounted and inflated amount required to settle the decommissioning liabilities of $232.9 million has been calculated assuming a 1.91% inflation rate (December 31, 2018 – 1.88%) and discounted using an average risk-free interest rate of 2.57% (December 31, 2018 – 2.88%). These obligations are currently expected to be settled based on the useful lives of the underlying assets, some of which extend beyond 35 years into the future.

	($000s)
Decommissioning provision, January 1, 2018	200,540
Increase relating to development activities	82
Decommissioning expenditures	(2,730)
Revisions (changes in estimates, inflation rate, and discount rates)	12,908
Accretion	5,389
Decommissioning provision, December 31, 2018	**216,189**
Provisions related to acquisitions	117
Decommissioning expenditures	(633)
Revisions (changes in estimates, inflation rate, and discount rates)	15,728
Accretion	1,536
Decommissioning provision, March 31, 2019	**232,937**
Less current portion of decommissioning provision	**(2,466)**
Non-current portion of decommissioning provision	**230,471**

13. SHARE CAPITAL

Authorized

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

Issued

Issued and outstanding share capital continuity:	Common Shares (000s)	Share capital ($000s)
Balance, January 1, 2017	307,076	268,743
Balance, December 31, 2018 and March 31, 2019	**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.

Stock options issued and outstanding:	Options (000s)	Weighted-average exercise price ($ per share)
Outstanding, January 1, 2018	**21,316**	**1.06**
Granted	7,698	0.33
Expired	(6,598)	1.23
Forfeited	(1,387)	0.82
Outstanding, December 31, 2018	**21,029**	**0.75**
Granted	18	0.25
Expired	(285)	0.90
Forfeited	(216)	0.46
Outstanding, March 31, 2019	**20,546**	**0.75**
Exercisable, March 31, 2019	**6,408**	**1.02**

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
$0.25 - $0.55	7,349	2.1	15	0.7
$0.56 - $0.86	5,373	1.1	1,748	0.1
$0.87 - $1.16	7,824	1.1	4,645	0.7
	20,546	**1.5**	**6,408**	**0.5**

The Company records share-based payment expense over the vesting period, based on the fair value of the options granted to employees, directors and consultants. One third of the stock options granted vest annually on the first, second, and third anniversaries of the grant date and expire one year after each respective vesting date. During the three months ended March 31, 2019, the Company granted 18,000 stock options (March 31, 2018 - nil) with a fair value of $0.09 (March 31, 2018 - $nil) per option using the Black-Scholes option pricing model using the following key assumptions:

Assumptions (weighted average):	Three months ended March 31, 2019	2018
Exercise price ($)	**0.25**	-
Estimated volatility of underlying common shares (%)	**50.9**	-
Expected life (years)	**3.0**	-
Risk-free rate (%)	**1.9**	-
Forfeiture rate (%)	**3.9**	-
Expected dividend yield (%)	**-**	-

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

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, 2019 and 2018, all stock options and warrants were excluded as they were not dilutive.

Loss per share calculation:	Three months ended March 31, 2019	2018
Numerator		
Loss for the period	**(6,525)**	(15,580)
Denominator (000s)		
Weighted-average Common Shares outstanding – basic and diluted	**307,076**	307,076
Loss per share – basic and diluted ($)	**(0.02)**	(0.05)

14. 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.

	Three months ended March 31,	
($000s)	**2019**	2018
Natural gas	**26,644**	23,939
NGL	**3,322**	4,526
Crude oil	**2,097**	1,246
Total oil and gas sales	**32,063**	29,711

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31, 2019	2018
Changes in non-cash working capital:		
Trade and other receivables	**(1,430)**	(572)
Prepaid expenses and deposits	**(547)**	(579)
Trade and other payables and accrued liabilities	**345**	1,326
	(1,632)	175
Change related to:		
Operating activities	**1,735**	2,678
Investing activities	**(3,367)**	(2,503)
	(1,632)	175

Finance expenses:	Three months ended March 31, 2019	2018
Interest expense and bank charges	**1,170**	798
Non cash:		
Accretion on decommissioning provision	**1,536**	1,273
Accretion on subordinated promissory notes	**78**	57
Total finance expenses	**2,784**	2,128

Cash interest paid in the three months ended March 31, 2019, was $2.0 million (March 31, 2018 - $1.3 million).

16. COMMITMENTS

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

($000s)	2019	2020	2021	2022	2023	Thereafter
Subordinated promissory notes[1]	-	36,000	-	19,000	-	-
Trade and other payables	17,117	-	-	-	-	-
Due to related party	-	6,000	-	-	-	-
Future interest	3,171	3,506	1,340	1,005	-	-
Transportation[2]	7,049	7,436	6,390	5,519	3,168	12,145
Total commitments and contingencies	**27,337**	**52,942**	**7,730**	**25,524**	**3,168**	**12,145**

[1] Principal amount.
[2] Firm transportation agreements.

17. SUBSEQUENT EVENTS

Agreement to acquire certain Central Alberta oil and natural gas assets

On April 17, 2019, Pine Cliff announced that it entered into a purchase and sale agreement (the "**Agreement**") to acquire certain natural gas and oil assets in Central Alberta for net cash consideration of $8.6 million, after estimated closing adjustments (the "**Acquisition**"). Pine Cliff paid a deposit of $1.0 million on April 17, 2019.

The Acquisition will have an effective date of October 1, 2018 and is presently expected to close on or around May 31, 2019. Although the Agreement is binding between the parties, completion of the Acquisition is subject to numerous standard conditions, including rights of first refusals and regulatory approvals. No assurances can be given that the Acquisition will be completed as proposed or at all.

Flow-Through Financing

On April 17, 2019, Pine Cliff announced that it intends to issue, by way of non-brokered private placement, up to 13,333,333 flow-through shares (the "**Flow-Through Shares**") on a flow-through basis in respect of Canadian development expenses ("**CDE**") at a price of $0.30 per Flow-Through Share, resulting in gross proceeds of up to $4.0 million (the "**Flow-Through Private Placement**"). Pine Cliff shall, pursuant to the provisions of the Income Tax Act (Canada), incur eligible CDE after the closing date of the Flow-Through Private Placement and prior to March 31, 2020 in the aggregate amount of not less than the gross proceeds of the Flow-Through Private Placement. The net proceeds of the Flow-Through Private Placement are expected to be used to incur eligible CDE. The completion of the Flow-Through Private Placement is subject to certain conditions including the closing of the Acquisition and customary regulatory approvals, including the approval of the Toronto Stock Exchange.

Common Share Financing

On April 17, 2019, Pine Cliff announced that it intends to issue, by way of a non-brokered private placement up to 12,000,000 Common Shares (the "**Common Share Private Placement**"), at a price of $0.25 per Common Share, for gross proceeds of up to $3.0 million. The net proceeds of the Common Share Private Placement are expected to be used to partially finance the Acquisition. The completion of the Common Share Private Placement is subject to certain conditions including the closing of the Acquisition and customary regulatory approvals, including the approval of the Toronto Stock Exchange.

BOARD OF DIRECTORS

Gary J. Drummond
George F. Fink - Chairman
Philip B. Hodge
Randy M. Jarock
William S. Rice

OFFICERS

Philip B. Hodge
President and Chief Executive Officer

Terry L. McNeill
Chief Operating Officer

Cheryne A. Lowe
Chief Financial Officer and Corporate Secretary

Heather A. Isidoro
Vice President, Business Development

Christopher S. Lee
Vice President, Geology

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AUDITORS

Deloitte LLP

BANKERS

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

STOCK EXCHANGE LISTING

TSX Exchange
Trading Symbol: PNE

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