



## THIRD QUARTER 2013 REPORT

### MESSAGE TO SHAREHOLDERS

Pine Cliff Energy Ltd. is pleased to report its results for the third quarter of 2013. Highlights during the quarter are as follows:

- Closed two significant acquisitions. The first acquisition was an additional interest in the Monogram unit on July 24, 2013 which added approximately 1,600 boe/d of production. The second included the purchase of additional interests in, and more importantly the assumption of operatorship of, our Southern Alberta and Southern Saskatchewan assets on August 30, 2013. This acquisition added approximately 850 boe/d of production;
- Achieved record oil and gas sales volumes of 5,784 boe/d, a 546% increase over the same period in 2012, mainly as a result of our acquisitions; and
- Generated quarterly funds flow from operations of \$3.0 million, an increase of 582% when compared to the third quarter of 2012, despite having extremely low natural gas prices.

### Business Strategy and Environment

Natural gas prices have shown limited recovery in 2013 and demonstrated increased volatility in the third quarter as AECO prices averaged \$2.43 per mcf as compared to \$3.52 per mcf in the second quarter of 2013. Prices have increased to an average price of \$3.25 per mcf in October but remain volatile. This depressed pricing environment continues to favour our strategy of making counter-cyclical, gas weighted acquisitions as we continue to believe that there are greater returns available in purchasing existing production than drilling at this time.

Subsequent to quarter end, we completed a common share issuance for gross proceeds of \$20.0 million which eliminated Pine Cliff's bank debt and increased our financial flexibility for further acquisitions. It remains a "buyer's market" for natural gas assets and with our increased size, strong balance sheet and access to capital we have a competitive advantage over many of the other prospective bidders. We remain active in assessing available private and public sales processes and as always, we will maintain our discipline in seeking opportunities which will create value with strong per share growth.

Although in the short-term we believe that natural gas prices will continue to fluctuate, we remain convinced that over time we will see an increasing recovery in pricing. Key indicators supporting this outlook include: strong forecasted natural gas demand growth in U.S. power generation and industrial sectors; increasing exports of U.S. gas to Mexico; increased usage by Alberta oil sands producers; conversion to natural gas from coal; and overseas natural gas markets that are contending with both insufficient LNG supply and increasing demand growth. As a result, we anticipate natural gas prices will eventually increase as demand is placed on U.S. and Canadian producers to bring more supply to market while maintaining appropriate storage levels.

### Building a Strong Asset Base Leveraged to Natural Gas Price Recovery

Over the past two years, we have pursued a counter-cyclical strategy of acquiring properties that are characterized by low decline rates (our current corporate decline rate is approximately 15%) and low cost production while maintaining a low corporate overhead to provide Pine Cliff with strong funds flow leverage to any natural gas price recovery. Using our third quarter 2013 volumes annualized for twelve months, a Cdn \$0.10 increase per mcf in AECO pricing would improve annual funds flow from operations by \$1.1 million. With this type of leverage, even a limited natural gas price recovery can significantly improve financial results and shareholder value.

Pine Cliff is currently producing approximately 6,200 boe/d (week ended November 2, 2013) with approximately 500 boe/d of production being deferred as a result of dew point issues and maintains its 2013 average daily production guidance at 4,350 to 4,850 boe/d. Capital expenditures during the first nine months of 2013 were \$7.1 million. We remain focused on maintaining our strong financial position and plan to fully fund the 2013 capital expenditure budget of \$10.8 million from funds flow from operations. Our drilling program in 2013 has been limited to a few strategic targets resulting in increased production and an improved understanding of our asset base. The majority of our drilling locations will be inventoried until natural gas prices recover at which time we intend to initiate a more substantive drill program, providing additional upside for shareholders.

### Outlook

The foundation of Pine Cliff's business strategy continues to be value creation through strong per share cash flow and reserves growth, conservative fiscal management and capital discipline. Management and insiders hold approximately 20% of shares outstanding on a fully diluted basis and therefore continue to be highly aligned with shareholder interests. We remain dedicated to executing our company strategy and look forward to capitalizing on additional opportunities to add further value on behalf of investors. Thank you for your continued support.



Phil Hodge  
President and Chief Executive Officer  
November 12, 2013

FINANCIAL AND OPERATIONS HIGHLIGHTS | Q3-2013

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
(\$000s, unless otherwise indicated)				
<b>FINANCIAL</b>				
<b>Oil and gas sales</b>	<b>9,719</b>	2,197	<b>24,261</b>	5,228
<b>Cash flow from operating activities</b>	<b>2,579</b>	246	<b>9,431</b>	1,113
<b>Funds flow from operations</b> <sup>1</sup>	<b>3,014</b>	442	<b>9,136</b>	927
Basic per share (\$/share)	<b>0.02</b>	0.01	<b>0.06</b>	0.02
Diluted per share (\$/share)	<b>0.02</b>	0.01	<b>0.05</b>	0.02
<b>Earnings (loss)</b>	<b>(709)</b>	(472)	<b>7,379</b>	(209)
Basic per share (\$/share)	<b>(0.00)</b>	(0.01)	<b>0.04</b>	(0.00)
Diluted per share (\$/share)	<b>(0.00)</b>	(0.01)	<b>0.04</b>	(0.00)
<b>Capital expenditures, excluding acquisitions</b>	<b>3,076</b>	14	<b>7,131</b>	630
<b>Acquisitions</b>	<b>45,463</b>	-	<b>43,987</b>	22,608
<b>Net debt</b> <sup>2</sup>	<b>21,423</b>	19,161	<b>21,423</b>	19,161
Weighted-average common shares outstanding (000s)				
Basic	<b>181,927</b>	63,564	<b>164,231</b>	61,466
Diluted	<b>181,927</b>	63,564	<b>170,858</b>	61,466
<b>OPERATIONS</b>				
<b>Production</b> <sup>3</sup>				
Natural gas (mcf/d)	<b>33,157</b>	4,217	<b>23,850</b>	3,556
Crude oil (bbls/d)	<b>67</b>	29	<b>64</b>	23
Natural gas liquids (bbls/d)	<b>191</b>	163	<b>190</b>	141
<b>Total (boe/d)</b>	<b>5,784</b>	895	<b>4,229</b>	757
<b>Commodity sales prices</b>				
Natural gas (\$/mcf)	<b>2.45</b>	2.76	<b>2.91</b>	2.32
Crude oil (\$/bbl)	<b>104.53</b>	80.57	<b>98.66</b>	79.24
Natural gas liquids (\$/bbl)	<b>86.76</b>	60.84	<b>68.58</b>	64.12
<b>Combined (\$/boe)</b>	<b>18.26</b>	26.69	<b>21.01</b>	25.22
<b>Netback (\$/boe)</b>				
Operating netback (\$/boe) <sup>4</sup>	<b>7.32</b>	13.36	<b>9.04</b>	12.64

<sup>1</sup> Funds flow from operations is a non-IFRS measure that represents the total of funds provided by operating activities, before adjusting for changes in non-cash working capital and changes in interest payable.

<sup>2</sup> Net debt is a non-IFRS measure calculated as bank debt, related party note payable and trade and other payables less trade and other receivables, and cash.

<sup>3</sup> The results for the nine months ended September 30, 2013 include the results of the Skope Acquisition for the 223 day period of February 19, 2013 to September 30, 2013, the results of the Monogram Asset Acquisition for the 68 day period of July 24 to September 30, 2013, and the August 30, 2013 Additional Interests Acquisition for the 31 day period of August 30 to September 30, 2013, averaged over 273 days. The results for the nine months ended September 30, 2012 include the results of the Carrot Creek Assets for the period of March 1, 2012 to September 30, 2012, averaged over 274 days.

<sup>4</sup> Operating netback is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties and operating expenses, averaged over the boe production of the Company.

November 11, 2013

## INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position for the three and nine months ended September 30, 2013 for Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") and should be read in conjunction with the unaudited condensed consolidated interim financial statements as at and for the three and nine month periods ended September 30, 2013 and 2012, together with the notes related thereto, and the audited consolidated financial statements as at and for the year ended December 31, 2012, together with the notes related thereto ("2012 Annual Financial Statements"). Additional information relating to the Company, including the Company's Annual Information Form, may be found on [www.sedar.com](http://www.sedar.com) and by visiting Pine Cliff's website at [www.pinecliffenergy.com](http://www.pinecliffenergy.com).

Pine Cliff's head office is based in Calgary, Alberta, Canada. Common shares of the Company are listed and posted for trading on the Toronto Stock Exchange Venture under the symbol "PNE".

## READER ADVISORIES

This MD&A contains financial measures that are not defined under International Financial Reporting Standards ("IFRS") and forward-looking statements. Readers are cautioned that the MD&A should be read in conjunction with the Company's disclosure under "Non-IFRS Measures" and "Forward-Looking Information" included at the end of the MD&A.

### Other Measurements

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

Where amounts are expressed in a barrel of oil equivalent ("boe" or daily equivalent of "boe/d"), natural gas volumes have been converted to barrels of oil equivalent on the basis that nine thousand cubic feet of natural gas ("mcf" or daily equivalent of "mcf/d") is equal to one barrel of oil ("bbl" or daily equivalent of "bbl/d"). This conversion ratio is based on energy equivalence primarily at the burner tip and does not represent a value equivalency at the wellhead. The term boe may be misleading, particularly if used in isolation.

## SENSITIVITIES

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

Business environment sensitivities	Change	Impact on annual funds flow from operations <sup>1</sup>	
		\$000s	\$ per share <sup>3</sup>
Crude oil price - Edmonton par (\$/bbl) <sup>2</sup>	\$1.00	90	0.00
Natural gas price - AECO (\$/mcf) <sup>2</sup>	\$0.10	1,040	0.01
Interest rate on variable rate debt	\$0.01	200	0.00

<sup>1</sup> This analysis does not adjust for changes in working capital and uses current royalty rates.

<sup>2</sup> Pine Cliff has prepared this analysis using its third quarter 2013 daily sales volumes annualized for twelve months.

<sup>3</sup> Based on the third quarter of 2013 basic weighted average shares outstanding of 181,927,000.

## PINE CLIFF'S STRATEGIC OBJECTIVES AND ACQUISITIONS

Pine Cliff is a growth oriented oil and gas exploration and production company seeking to acquire material asset positions in the Western Canadian Sedimentary Basin ("WCSB") to enlarge its current core areas and create new core areas of production with significant reserves and drilling inventories. The Company's vision is to deliver long-term value to shareholders by building a portfolio of high-return assets for future growth focusing on counter cyclical natural gas opportunities while also accelerating current oil and liquids drilling and optimization opportunities.

The Company has executed five key transactions in the past 19 months:

- On March 1, 2012, Pine Cliff acquired certain oil and natural gas assets in the Carrot Creek area of Alberta (the "Carrot Creek Assets") for cash consideration of \$22,684,000. The acquisition had an effective date of January 1, 2012 and

provided Pine Cliff with its first core area in the WCSB. The results of the Carrot Creek Assets have been included in the financial results of the Company effective March 1, 2012;

- On October 19, 2012, Pine Cliff combined its operations with those of Geomark Exploration Ltd. ("Geomark"), a related party, in an all share transaction which resulted in the issuance of 81,767,641 common shares of Pine Cliff valued at \$60,508,000 (the "Geomark Transaction"). Geomark became a wholly-owned subsidiary and its strong working capital position, no debt and highly liquid investments in a related party added significant strength to the combined Company;
- On November 9, 2012, Pine Cliff completed the purchase from a Canadian financial institution of all of the outstanding indebtedness and liabilities owing by Skope Energy Inc. ("Skope") and all of the security documents granted by Skope to the financial institution (the "Skope Debt Purchase"), for cash consideration of \$28,000,000. On November 27, 2012, Skope obtained an initial order granting relief under the *Companies' Creditors Arrangement Act* ("CCAA") and on February 19, 2013, the restructuring of Skope pursuant to the CCAA was completed and Pine Cliff became the sole shareholder of Skope (the "Skope Acquisition"). Skope holds an 80% working interest in a package of high quality, low decline shallow gas assets (the Southern Assets, as defined below) that have provided Pine Cliff with increased cash flow and shareholders with considerable upside with any increase in natural gas prices. The Skope Acquisition added approximately 3,500 boe/d of production to Pine Cliff's production base;
- On July 24, 2013, Pine Cliff completed the acquisition of an additional approximate 52% working interest in the Monogram unit (the "Monogram Unit") that is a portion of the Southern Assets, as defined herein, and related infrastructure (the "Monogram Asset Acquisition"). The Monogram Unit is located near the City of Medicine Hat, Alberta and produces dry natural gas mainly from the Milk River, Medicine Hat and Second White Specks zones. The Monogram Asset Acquisition added approximately 1,600 boe per day of production to Pine Cliff's production base; and
- On August 30, 2013, Pine Cliff completed the acquisition of additional interests in the Southern Assets, as defined herein (the "Additional Interests Acquisition"). As part of the Additional Interests Acquisition, the asset management agreement that previously governed Pine Cliff's interests in the Southern Assets was terminated and Pine Cliff became the operator of the Southern Assets. The Additional Interests Acquisition included a further approximate 7% working interest in the Monogram Unit, a further approximate 20% working interest in the Pendor, Black Butte and Eagle Butte areas in the Province of Alberta and a further approximate 18% working interest in the Vidora, Cadillac and Wymark areas in the Province of Saskatchewan. Subsequent to this acquisition, Pine Cliff owns approximately 91% of the Monogram Unit. The Additional Interests Acquisition added approximately 850 boe per day of production to Pine Cliff's production base.

Management is pleased with its progress and believes that the assets that have been assembled to date provide Pine Cliff with significant opportunities for returns correlated with the recovery of natural gas prices. In the near-term, Pine Cliff will continue to maintain a strong balance sheet and drill selected strategic wells. Pine Cliff fully intends to continue to aggressively pursue, evaluate, and when warranted, execute accretive business opportunities in 2013 and beyond.

## PINE CLIFF'S OPERATIONS

Pine Cliff's reportable segments are determined based on the Company's operations as follows:

**Oil and Gas Division** – includes the exploration, development and production of natural gas, crude oil and natural gas liquids ("liquids" or "NGLs"). Pine Cliff's main areas of production are as follows:

- Carrot Creek – Pine Cliff holds a working interest in the Carrot Creek Assets which are located southeast of the town of Edson, Alberta and produces liquids rich natural gas as well as a small amount of oil. In addition to the producing assets, Pine Cliff has, in aggregate, 17.5 gross (6.89 net) sections of undeveloped land in this area. Pine Cliff increased its land position in the Carrot Creek area in the third quarter of 2013 through a farm-in deal that has earned Pine Cliff 5.75 gross (3.375 net) sections of land. The Carrot Creek area has multi-zone potential which can be further exploited using horizontal drilling technology. Pine Cliff is the operator of approximately 90% of the Company's production in the area;
- Southern Assets – At September 30, 2013, Pine Cliff holds an approximate 94% working interest in a package of high-quality, low decline, producing shallow gas assets in southeast Alberta and southwest Saskatchewan (collectively, the "Southern Assets"). The majority of the producing zones in these properties are from the upper Cretaceous Milk River, Medicine Hat and Second White Specks sands, which together constitute a small interest for Pine Cliff in one of the largest Canadian gas fields in Western Canada. These fields are characterized by their shallow depths, low-permeability and clay-rich sands; and

- Other – the balance of Pine Cliff's 2013 production comes from non-operated properties in the Sundance area in northwest Alberta (the "Sundance Assets") and from non-operated properties in the Harmatten, Garrington and Carstairs areas in central Alberta (the "Central Alberta Assets") however the Company does not currently have large enough land positions or working interests in these areas to consider them significant core areas.

**Minerals Division** – includes the exploration for precious metals in Utah, Ontario, Nunavut and the Northwest Territories. The Company recently completed the second phase of its drilling program on its Utah gold property and is currently evaluating the results.

Unless otherwise noted, the discussion in this MD&A will focus on the oil and gas division, as the minerals division does not have any revenue in 2013 and incurred expenditures of \$795,000 on capital and \$293,000 on general and administrative expenses in the first nine months of 2013.

### GUIDANCE FOR 2013

The 2013 guidance provides information as to management's expectation for results of operations for 2013. Readers are cautioned that the 2013 guidance may not be appropriate for other purposes. The Company's expected results are sensitive to fluctuations in the business environment and may vary accordingly. This guidance contains forward-looking information and should be read in conjunction with the Company's disclosure under "Forward-Looking Information" included on the final page of the MD&A.

### Production

	2013 Outlook	Nine months ended September 30, 2013
Barrels of oil equivalent per day	4,350 - 4,850	4,229

Pine Cliff maintains its 2013 production guidance of 4,350 – 4,850 boe per day. Pine Cliff's year to date production is only slightly lower than its budgeted production range as the these results, and the annual budget, do not reflect the Southern Assets for the full year. Pine Cliff's net estimated sales volumes for the week ending November 2, 2013 were approximately 6,200 boe/d. Approximately 500 boe/d of the Southern Assets production is currently being deferred while the Company rectifies a dew point issue.

### Capital Expenditures

	2013 Outlook	Nine months ended September 30, 2013
(\$000's)		
Total	10,800	7,131

Capital expenditures, excluding acquisitions, during the first nine months of 2013 were \$7,131,000, inclusive of both the oil and gas division and the minerals division. Pine Cliff is committed to maintaining its strong financial position and plans to fund its 2013 capital expenditures from funds flow from operations, and funds raised through equity.

In total, Pine Cliff maintains its capital guidance and plans to spend approximately \$10 million of it in its oil and gas division in 2013. Pine Cliff's capital expenditure program is sensitive to commodity pricing and Pine Cliff's budget is designed to be flexible to balance capital expenditures against available funds flow. Before participating in any drill or recompletion program, Pine Cliff rigorously scrutinizes the potential return on investment and the timing of the project.

Capital spending on the mineral drilling at King's Canyon, Utah in 2013 was approximately \$0.8 million. Future capital spending at King's Canyon, including whether it will make the December 6, 2013 option payment of US\$1 million to acquire 100% of a claim block, is currently being evaluated.

**SELECTED QUARTERLY FINANCIAL INFORMATION**

(\$000s, unless otherwise indicated)	2013			2012			2011	
	Q3 <sup>1</sup>	Q2	Q1 <sup>2</sup>	Q4 <sup>3</sup>	Q3	Q2	Q1 <sup>4</sup>	Q4
Average sales volumes (boe/d)	<b>5,784</b>	4,335	2,536	832	895	972	401	88
Operating netback (\$/boe) <sup>5</sup>	<b>7.32</b>	10.75	10.26	11.94	13.36	11.78	13.14	12.20
Oil and gas sales	<b>9,719</b>	9,084	5,458	2,319	2,197	2,130	901	164
Oil and gas sales, net of royalties	<b>8,595</b>	8,546	4,584	1,894	1,824	1,735	750	159
Total revenue	<b>8,783</b>	8,727	5,346	2,752	1,824	1,735	750	159
Cash flow (deficiency) from operating activities	<b>2,579</b>	3,751	3,101	660	246	1,198	(331)	(4)
Funds flow (deficiency) from operations	<b>3,014</b>	3,721	2,401	775	442	520	(35)	55
Per share - basic (\$/share)	<b>0.02</b>	0.02	0.02	0.01	0.01	0.01	(0.00)	0.00
Per share - diluted (\$/share)	<b>0.02</b>	0.02	0.02	0.01	0.01	0.01	(0.00)	0.00
Earnings (loss)	<b>(709)</b>	(183)	8,271	(862)	(472)	(450)	713	(47)
Per share - basic (\$/share)	-	0.00	0.05	(0.01)	(0.01)	(0.01)	0.01	(0.00)
Per share - diluted (\$/share)	-	0.00	0.05	(0.01)	(0.01)	(0.01)	0.01	(0.00)

<sup>1</sup> The results for Q3-2013 include the results of the Monogram Asset Acquisition for the 68 day period of July 24 to September 30, 2013, and Additional Interests Acquisition for the 31 day period of August 30 to September 30, 2013.

<sup>2</sup> The results for Q1-2013 include the results of the Southern Assets Acquisition for the 40 day period of February 19 to March 31, 2013.

<sup>3</sup> The sales volumes for Q4-2012 include the results of the Central Alberta Assets for the 73 day period of October 19 to December 31, 2012.

<sup>4</sup> The results for Q1-2012 include the results of the Carrot Creek Assets for the 31 day period of March 1 to March 31, 2012.

<sup>5</sup> Operating netback is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties and operating expenses, averaged over the boe production of the Company.

<sup>6</sup> Funds flow from operations is a non-IFRS measure that represents the total of funds provided by operating activities, before adjusting for changes in non-cash working capital and changes in interest payable.

**Third quarter 2013 highlights**

During the third quarter of 2013, Pine Cliff reports that it:

- Attained record average daily sales volumes of 5,784 boe/d as compared to 895 boe/d in the third quarter of 2012. The significant increase is mainly a result of the three acquisitions in 2013, being the Skope Acquisition on February 19, 2013, the Monogram Asset Acquisition on July 24, 2013 and the Additional Interests Acquisition on August 30, 2013;
- Achieved quarterly funds flow from operations of \$3,014,000 (third quarter of 2012 – \$442,000), due to increased revenues from the Southern Assets as well as finance and dividend income, offset by higher royalties, operating and general and administration expenses; and
- Realized a quarterly loss of \$709,000 (third quarter of 2012 – loss of \$472,000), mainly a result of non-cash depletion and depreciation, share based payment expense, and higher operating costs;

**SALES VOLUMES**

<b>Total sales volumes by product</b>	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Natural gas (mcf)	<b>3,050,451</b>	387,945	<b>6,511,049</b>	974,412
Crude oil (bbls)	<b>6,165</b>	2,680	<b>17,550</b>	6,314
NGLs (bbls)	<b>17,543</b>	14,961	<b>51,750</b>	38,537
Barrels of oil equivalent	<b>532,116</b>	82,299	<b>1,154,475</b>	207,253
Oil and liquids weighting	<b>4%</b>	21%	<b>6%</b>	22%

<b>Average daily sales volumes by product</b>	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Natural gas (mcf/d)	33,157	4,217	23,850	3,556
Crude oil (bbls/d)	67	29	64	23
NGLs (bbls/d)	191	163	190	141
<b>Total (boe/d)</b>	<b>5,784</b>	<b>895</b>	<b>4,229</b>	<b>757</b>

  

<b>Average daily sales volumes by property</b> (boe/d)	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Carrot Creek	912	821	833	680
Sundance	62	74	68	77
Central Alberta	97	-	117	-
Southern Assets	4,713	-	3,211	-
<b>Total</b>	<b>5,784</b>	<b>895</b>	<b>4,229</b>	<b>757</b>

Pine Cliff's sales volumes increased by 546% in the third quarter of 2013 to 5,784 boe/d as compared to 895 boe/d in the third quarter of 2012. The significant increase was a result of the acquisition of the Central Alberta Assets on October 19, 2012, the Skope Acquisition on February 19, 2013, the Monogram Asset Acquisition on July 24, 2013 and the Additional Interests Acquisition on August 30, 2013.

Pine Cliff began operating its Carrot Creek Assets in the fourth quarter of 2012 and the Company is evaluating long-term optimization opportunities for its wells in this area. Pine Cliff began operating its Southern Assets in the third quarter of 2013 and is evaluating opportunities to minimize the production declines.

#### OPERATING AND CORPORATE NETBACKS

The components of the operating and corporate netback are summarized as follows:

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
(\$ per boe)				
Oil and gas sales	18.26	26.69	21.01	25.22
Royalties	(2.11)	(4.53)	(2.20)	(4.43)
Operating expenses	(8.83)	(8.80)	(9.77)	(8.15)
Operating netback	7.32	13.36	9.04	12.64
General and administrative expense	(1.70)	(5.48)	(1.94)	(5.67)
Interest and bank charges	(0.32)	(2.45)	(0.18)	(2.47)
Finance and dividend income	0.35	-	0.98	-
<b>Corporate netback</b>	<b>5.65</b>	<b>5.43</b>	<b>7.90</b>	<b>4.50</b>

Pine Cliff generated an operating netback of \$7.32 and \$9.04 per boe for the three and nine months ended September 30, 2013, respectively, as compared to \$13.36 and \$12.64 per boe for the three and nine months respectively, ended September 30, 2012. This reduction is a result of lower natural gas prices, lower liquids weighting and higher operating expenses per boe offset by lower royalties per boe.

Overall, Pine Cliff generated a corporate netback of \$5.65 and \$7.90 per boe for the three and nine months ended September 30, 2013, respectively, as compared to \$5.43 and 4.50 per boe in the same periods of 2012.

**OIL AND GAS SALES**

	Three months ended September 30				Nine months ended September 30			
	2013		2012		2013		2012	
(000s, except per boe amounts)	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe
Natural gas <sup>1</sup>	7,552	2.45	1,071	2.76	18,926	2.91	2,257	2.32
Crude oil	644	104.53	216	80.57	1,731	98.66	500	79.24
NGLs	1,523	86.76	910	60.84	3,549	68.58	2,471	64.12
<b>Total sales</b>	<b>9,719</b>	<b>18.26</b>	<b>2,197</b>	<b>26.69</b>	<b>24,261</b>	<b>21.01</b>	<b>5,228</b>	<b>25.22</b>

<sup>1</sup> Per unit values are expressed in \$ per mcf.

Oil and gas sales increased by 342% from \$2,197,000 in the third quarter of 2012 to \$9,719,000 in the third quarter of 2013, reflecting increased sales volumes from the Skope Acquisition that closed on February 19, 2013, the Monogram Asset Acquisition that closed on July 24, 2013 and the Additional Interests Acquisition that closed on August 30, 2013. Conversely, in the third quarter of 2012, oil and gas sales were mainly comprised of revenue from the Carrot Creek Assets.

The lower liquids weighting in 2013 resulted in a lower average overall realized price that was partially offset by an overall higher commodity price environment in 2013. Pine Cliff's realized price in the three and nine months ended September 30, 2013 was \$18.26, and \$21.01 per boe, respectively, as compared to \$26.69, and \$25.22 per boe in the three and nine months ended September 30, 2012, respectively.

**Commodity prices and foreign exchange rates**

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

	Q3-2013	Q2-2013	Q1-2013	Q4-2012	Q3-2012	Q2-2012	Q1-2012	Q4-2011
<b>Natural gas</b>								
NYMEX (US\$/mmbtu) <sup>1</sup>	3.60	4.09	3.35	3.36	2.81	2.26	2.77	3.61
AECO (C\$/mcf)	2.43	3.52	3.18	3.20	2.31	1.89	2.15	3.19
<b>Crude oil</b>								
WTI (US\$/bbl)	105.82	94.22	94.37	88.18	92.22	93.49	102.93	94.06
Edmonton light (C\$/bbl)	105.18	93.03	88.65	84.47	84.79	84.42	92.70	97.86
<b>Foreign exchange</b>								
C\$/US\$	1.0385	1.0234	1.0089	0.9913	0.9948	1.0102	1.0012	1.0231

<sup>1</sup> mmbtu is the abbreviation for millions of British thermal units. One mcf of natural gas is approximately 1.02 mmbtu.

The average NYMEX gas price in the United States increased by 28% in the third quarter of 2013 as compared to the third quarter of 2012, while benchmark AECO natural gas prices in Canada increased by 5% in the same period. The differential between NYMEX and AECO widened substantially in the third quarter of 2013 owing in part to a longer term shift to higher gas transportation costs to the rest of North America. The natural gas market is facing tough structural challenges and Pine Cliff's short-term view is that there will be continued pressure on AECO gas prices and that the differential between NYMEX and AECO will remain volatile. To mitigate this risk, subsequent to September 30, 2013, Pine Cliff locked in the differential between NYMEX and AECO at US\$0.36 per mmbtu for the months of November and December 2013 for approximately 40% of the Company's natural gas production. A derivative transaction of this nature exposes these Pine Cliff volumes to price fluctuations of the NYMEX price curve as opposed to the AECO price curve.

WTI oil prices averaged US\$105.82 per bbl in the third quarter of 2013 as compared to US\$92.22 per bbl in the third quarter of 2012. Canadian crude prices are based upon refiner postings at Edmonton, Alberta and are linked to WTI through transportation tariffs to common markets and the foreign exchange rate. In 2012, the price differentials between Edmonton light oil prices and WTI substantially increased, due in part to refinery outages and seasonal turnarounds as well as transportation capacity issues. The disconnect between the indices largely evaporated by the end of 2012. There remains potential for the price differentials to remain volatile in future periods. In the three months ended September 30, 2013, the realized price of Pine Cliff's oil was \$104.53 per bbl, as a result of quality adjustments to the average posted Edmonton light crude oil price of \$105.18 per bbl for the same period.



Historically, the average price of NGLs has tracked the price of oil. However, beginning in the latter part of the second quarter of 2012, changes in the supply and demand for certain NGLs such as ethane, propane and butane affected the relationship between the price of NGLs and the price of oil. In the three months ended September 30, 2013, the realized price of Pine Cliff's NGLs was \$86.76 per bbl, representing approximately 82% of the Edmonton light crude oil prices as compared to 66% in the three months ended September 30, 2012.

Price differentials for commodities have the potential to remain volatile for the remainder of 2013.

**ROYALTIES**

	Three months ended September 30				Nine months ended September 30			
	2013		2012		2013		2012	
(000s, except per boe amounts)	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe
Total	<b>1,124</b>	<b>2.11</b>	373	4.53	<b>2,536</b>	<b>2.20</b>	919	4.43
% of oil and gas sales	<b>12%</b>		17%		<b>10%</b>		18%	

Royalties for the three and nine months ended September 30, 2013 were \$2.11 and \$2.20 per boe, respectively, as compared to \$4.53 and \$4.43 per boe for the three and nine months ended September 30, 2012, respectively. As a percentage of oil and gas sales, royalties averaged 12% and 10% for the three and nine months ended September 30, 2013, respectively, as compared to 17% and 18% for the three and nine months ended September 30, 2012, respectively. The decrease in royalties on a per boe basis and as a percentage of oil and gas sales is due to a lower royalty rate on the Southern Assets, higher than anticipated royalty credits and lower royalty rates on newly drilled wells.

**OPERATING EXPENSES**

	Three months ended September 30				Nine months ended September 30			
	2013		2012		2013		2012	
(000s, except per boe amounts)	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe
Operating expenses	<b>4,696</b>	<b>8.83</b>	729	8.80	<b>11,282</b>	<b>9.77</b>	1,695	8.15
% of oil and gas sales	<b>48%</b>		33%		<b>47%</b>		32%	

As compared to the same period in 2012, operating expenses per boe increased 20% in the nine months ended September 30, 2013 to \$9.77 per boe. The increase is due in part to higher than average operating expenses for the Southern Assets stemming from downtime experienced as a result of a pipeline break, weather issues and turnarounds. Operating expenses for the three months ended September 30, 2013 are consistent with the same period in 2012.

Pine Cliff is committed to seeking ways to increase efficiencies in the field on its operated properties and is working with its partners on its non-operated properties to attempt to decrease the operating expenses per boe in future periods.

**GENERAL AND ADMINISTRATIVE EXPENSES**

	Three months ended September 30				Nine months ended September 30			
	2013		2012		2013		2012	
(000s, except per boe amounts)	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe
Total	<b>905</b>	<b>1.70</b>	451	5.48	<b>2,234</b>	<b>1.94</b>	1,175	5.67
Less: non-recurring transaction costs	<b>40</b>	<b>0.08</b>	203	2.47	<b>194</b>	<b>0.17</b>	378	1.82
	<b>865</b>	<b>1.62</b>	248	3.01	<b>2,040</b>	<b>1.77</b>	797	3.85
% of oil and gas sales	<b>9%</b>		11%		<b>8%</b>		15%	

General and administrative expenses ("G&A"), excluding non-recurring transaction costs, decreased on a per boe basis to \$1.62 and \$1.77 per boe in the three and nine months ended September 30, 2013, respectively, as compared to \$3.01 and \$3.85 per boe in the three and nine months ended September 30, 2012, respectively. In the three and nine months ended September 30, 2013, Pine Cliff incurred \$132,000 and \$293,000, respectively, of G&A related to its minerals division, which has been included in the consolidated totals above. On an absolute dollar basis, G&A has increased considerably due to the revitalized strategic focus of the Company which has, most notably, increased costs for additional staff. To keep G&A at a low level, Pine Cliff shares some common expenses with Bonterra Energy Corp. ("Bonterra"), a related party.

In the nine months ended September 30, 2013, Pine Cliff incurred \$59,000 in transaction costs related to the acquisition of the Monogram Asset Acquisition and the Additional Interests Acquisition. In the three months ended March 31, 2013, Pine Cliff

incurred \$135,000 in transaction costs related to the acquisition of Skope. The transaction costs are comprised of legal, accounting, consulting and regulatory expenses associated with those business transactions.

**SHARE-BASED PAYMENTS**

	Three months ended September 30				Nine months ended September 30			
	2013		2012		2013		2012	
(000s, except per boe amounts)	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe
Total	578	1.09	203	2.47	1,676	1.45	516	2.49
% of oil and gas sales	6%		9%		7%		10%	

The Company has an equity settled stock-based compensation plan. Stock options are granted to certain officers, directors, employees and consultants, with the term and vesting period of the options granted being determined at the discretion of the Company's board of directors. An option's maximum term is five years.

In the three and nine months ended September 30, 2013, Pine Cliff granted stock options to purchase 1,410,000 and 1,930,000 common shares, respectively, at a weighted average exercise price of \$1.00 and \$0.96 per share, respectively. As at September 30, 2013, the Company had 11,954,000 stock options outstanding (September 30, 2012 - 3,525,000). In the three and nine months ended September 30, 2013, Pine Cliff recorded share-based payment expense of \$578,000 and \$1,676,000, respectively (three and nine months ended September 30, 2012 - \$203,000 and \$516,000, respectively), related to the stock options issued. In the three and nine months ended September 30, 2013, Pine Cliff incurred \$39,000 and \$116,000, respectively, of share-based payment expenses related to its minerals division, which has been included in the consolidated totals above.

**DEPLETION AND DEPRECIATION**

	Three months ended September 30				Nine months ended September 30			
	2013		2012		2013		2012	
(000s, except per boe amounts)	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe
Oil and gas assets	4,845	9.11	793	9.64	10,089	8.74	1,994	9.62
Office furniture and equipment	58	0.11	-	-	58	0.05	-	-
Total	4,903	9.22	793	9.64	10,147	8.79	1,994	9.62
% of oil and gas sales	50%		36%		42%		38%	

Pine Cliff's depletion and depreciation expense decreased 4% and 9% on a per boe basis in the three and nine months ended September 30, 2013, respectively, as compared to the same period in 2012. The decrease in depletion and depreciation expense per boe in 2013 is a result of the Southern Assets, added in 2013, which realize a lower depletion rate per boe than the Carrot Creek Assets due to a higher reserve base.

**FINANCE EXPENSES**

	Three months ended September 30				Nine months ended September 30			
	2013		2012		2013		2012	
(000s, except per boe amounts)	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe
Unwinding of the discounted value of decommissioning liabilities	262	0.49	14	0.17	590	0.51	30	0.14
Interest and bank charges	168	0.32	202	2.45	204	0.18	512	2.47
Total	430	0.81	216	2.62	794	0.69	542	2.62
% of oil and gas sales	4%		10%		3%		10%	

In the three and nine months ended September 30, 2013, Pine Cliff incurred finance expenses of \$430,000 and \$794,000 respectively, as compared to \$216,000 and \$542,000 in the three and nine months ended September 30, 2012, respectively. Finance expenses in 2013 primarily relate to the unwinding of the discounted value of decommissioning liabilities, which has increased as a result of the significant decommissioning liabilities associated with the Southern Assets. Conversely, finance expenses in 2012 predominately consisted of interest on the related party note payable which was repaid on October 31, 2012, interest on Pine Cliff's revolving demand credit facility and bank charges incurred as a result of the implementation of the revolving demand credit facility. Interest expense in 2013 relates to interest on Pine Cliff's revolving demand credit facility and bank charges incurred as a result of increasing Pine Cliff's borrowing base on the revolving demand credit facility to \$40 million in the third quarter.

Amounts drawn under the revolving demand credit facility are in the form of Canadian prime lending rate based loans, guaranteed notes or letters of credit. The revolving demand credit facility bears interest at the prime lending rate plus 0.75% per annum. Overall, Pine Cliff realized an effective interest rate of 3.75% for the three and nine months ended September 30, 2013.

**FINANCE AND DIVIDEND INCOME**

	Three months ended September 30				Nine months ended September 30			
	2013		2012		2013		2012	
(000s, except per boe amounts)	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe
Finance income	17	0.03	-	-	624	0.54	-	-
Dividend income	171	0.32	-	-	507	0.44	-	-
Total	188	0.35	-	-	1,131	0.98	-	-
% of oil and gas sales	2%		0%		5%		0%	

Finance income in the nine months ended September 30, 2013 is mainly a result of interest received from the Skope Debt Purchase. During the period of November 9, 2012 to February 19, 2013, Pine Cliff collected 8.2% interest on the face value of debt, being \$53.5 million, purchased from the financial institution. Pine Cliff received interest on the Skope Debt Purchase until February 19, 2013 at which time Pine Cliff became the sole shareholder of Skope and as a result the loan ceased.

In the three and nine months ended September 30, 2013, Pine Cliff received \$171,000 and \$507,000, respectively, in dividends from its investment in Bonterra. The investment in Bonterra common shares was acquired through the Geomark Transaction.

**INCOME TAXES**

	Three months ended September 30				Nine months ended September 30			
	2013		2012		2013		2012	
(000s, except per boe amounts)	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe
Deferred tax expense (recovery)	(2,020)	(3.80)	(96)	(1.17)	417	0.36	(1,404)	(6.77)

During the three months ended September 30, 2013, Pine Cliff recorded deferred tax recovery of \$2,020,000, while during the nine months ended September 30, 2013, Pine Cliff recorded deferred tax expense of \$417,000 (three and nine months ended September 30, 2012 - deferred tax recovery of \$96,000 and \$1,404,000 respectively). The deferred tax expense in the nine months ended September 30, 2013 is primarily related to the gain recognized on the purchase of Skope.

Pine Cliff has approximately \$165,000,000 in tax pools at September 30, 2013 (December 31, 2012 - \$39,375,000) available for future use as deductions from taxable income. The significant increase in tax pools is a result of approximately \$93,000,000 of tax pools that were acquired in the Skope Acquisition.

**EARNINGS**

Year to date to year to date variance analysis:

(\$000s)	
<b>Loss for the nine months ended September 30, 2012</b>	<b>(209)</b>
Price variance	(873)
Volume variance	19,906
Royalties	(1,617)
Operating expenses	(9,587)
General and administrative	(1,059)
Share-based payments	(1,160)
Depletion and depreciation	(8,153)
Finance expenses	(252)
Gain on acquisition	11,117
Dividend income	507
Finance income	624
Deferred tax expense	(1,821)
Impairment of investment	(44)
<b>Earnings for the nine months ended September 30, 2013</b>	<b>7,379</b>

In the nine months ended September 30, 2013, earnings increased by \$7,588,000 to \$7,379,000 as compared to the nine months ended September 30, 2012. The increase in earnings is mainly due to the non-cash gain of \$11,117,000 recognized on the acquisition of Skope and a positive volume variance resulting in increased oil and gas sales as a result of the acquisition of the Southern Assets. The positive variances were mainly offset by higher operating expenses, depletion and depreciation and deferred tax expense.

**Other comprehensive earnings**

Other comprehensive earnings relates to the increase and decrease in fair value of Pine Cliff's investment in Bonterra. At September 30, 2013, Pine Cliff's investment in Bonterra has a fair value of \$11,494,000 as compared to \$9,339,000 at December 31, 2012.

**FUNDS FLOW FROM OPERATIONS**

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
(\$000s, except per boe amounts)				
Earnings (loss)	(709)	(472)	7,379	(209)
Adjustments for:				
Share-based payments	578	203	1,676	516
Depletion and depreciation	4,903	793	10,147	1,994
Impairment of investment	-	-	44	-
Unwinding of the discount on decommissioning liabilities	262	14	590	30
Gain on acquisition	-	-	(11,117)	-
Deferred tax expense (recovery)	(2,020)	(96)	417	(1,404)
Funds flow from operations	3,014	442	9,136	927
Funds flow from operations (\$/boe)	5.65	5.37	7.90	4.47

Funds flow from operations, which represents cash flow from operating activities before changes in non-cash working capital and interest payable, was \$3,014,000 and \$9,136,000 in the three and nine months ended September 30, 2013, respectively, as compared to \$442,000 and \$927,000 in the three and nine months ended September 30, 2012, respectively. The increase in funds flow from operations is primarily due to the increase in activity with the acquisition of the Carrot Creek Assets and the Southern Assets, in addition to finance and dividend income.

**SHARE CAPITAL**

As of September 30, 2013, a total of 181,952,759 Pine Cliff shares were issued and outstanding. Subsequent to September 30, 2013, Pine Cliff completed a public share issuance of 18,200,000 common shares and issued 20,000 common shares as a result of stock option exercises. As of the date hereof, 200,172,759 Pine Cliff shares were issued and outstanding.

**ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT AND EXPLORATION AND EVALUATION ASSETS**

	Nine months ended September 30, 2013	Year ended December 31, 2012
(\$000s)		
Exploration and evaluation assets - oil and gas division	74	92
Exploration and evaluation assets - minerals division	795	248
Oil and gas assets	6,086	1,961
Furniture and office equipment	176	3
Acquisitions	93,866	32,007
Capitalized asset retirement costs	6,792	169
Total	107,789	34,480

In the nine months ended September 30, 2013, Pine Cliff added \$107,789,000 in capital assets to its balance sheet as compared to \$34,480,000 in the year ended December 31, 2012. The Skope Acquisition, the Monogram Asset Acquisition and the Additional Interests Acquisition included property, plant and equipment of \$89,199,000 and exploration and evaluation assets of \$4,667,000.

Pine Cliff drilled one gross oil well (0.30 net well) in December 2012 in the Rock Creek zone which was brought on production in April 2013. The flow rates from the Rock Creek well have been very positive to date and the Company's oil and liquids production has increased since the well came on production. Pine Cliff drilled one gross gas well (0.1875 net well) in January 2013 in the Wilrich zone which was brought on production in March 2013. The initial flow rates from the Wilrich gas well were disappointing and Pine Cliff and its partners continue to review their alternatives for this well. Pine Cliff drilled one gross (0.1875 net) Gething gas well in August 2013 which was brought on production on November 1, 2013 and drilled one gross (1.0 net) Wilrich gas well in September 2013 on lands acquired in a farm-in deal, which will be brought on production in mid-November 2013. In the first nine months of 2013, Pine Cliff also acquired a section of prospective land at a crown land sale, recompleted an existing wellbore targeting a secondary zone and successfully reworked an underperforming well.

#### **Minerals division**

As part of its Minerals Division, in the first quarter of 2013, Pine Cliff spent \$168,000 to complete the first phase of the drilling program on the King's Canyon gold property in Utah that was initiated in the fourth quarter of 2012 and was encouraged with the initial results. The second phase of drilling commenced in the second quarter of 2013 to test exploration targets and follow up results of the initial program, for which Pine Cliff spent an additional \$627,000. Pine Cliff is currently reviewing the drilling results. Drilling was completed on both the portion of the property on which the Company has an option to acquire a 100% interest on a claim block for US\$1,000,000 (which includes the historical, but presently non-compliant National Instrument 43-101 *Standards for Disclosure for Mineral Projects*, gold mineral resource in the Crown Zone) and on the 100% owned land surrounding the Crown Option Claims, which includes the Royal Zone.

#### **RELATED PARTY TRANSACTIONS**

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

#### **Management services agreement**

Pine Cliff has a management services agreement with Bonterra, an oil and gas corporation that is publicly traded on the Toronto Stock Exchange with some common directors and management, to provide executive services, technical services, accounting services, oil and gas administration and office administration for Pine Cliff. Total fees for each of the three and nine month periods ended September 30, 2013 and 2012 were \$15,000, and \$45,000, respectively, plus administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As at September 30, 2013, Pine Cliff owed Bonterra \$145,000 (December 31, 2012 - \$48,000).

#### **Investment in Bonterra**

As at September 30, 2013, Pine Cliff owns 204,633 common shares in Bonterra (December 31, 2012 - 204,633) representing less than 1% of the outstanding shares of Bonterra at that date. The shares as of September 30, 2013 have a fair value of \$11,494,000 (December 31, 2012 - \$9,339,000). For the three and nine months ended September 30, 2013, Pine Cliff received dividend income of \$171,000, and \$507,000, respectively, from this investment (September 30, 2012 - \$nil).

#### **Business combination with Geomark**

On October 19, 2012 Geomark and Pine Cliff combined their operations pursuant to an arrangement agreement. Geomark had some common directors and some common management with Pine Cliff. At the time of the Geomark Transaction, Geomark owned 432,812 common shares of Pine Cliff which were subsequently sold in the public market for a loss on sale of investment of \$34,000, net of tax.

#### **LIQUIDITY**

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

The following table highlights Pine Cliff's sources and uses of cash for the three and nine months ended September 30, 2013 and 2012:

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
(\$000s)				
Funds flow (deficiency) from operations	3,014	442	9,136	927
Bank debt proceeds (repayment)	20,485	(178)	17,448	11,918
Proceeds from related party note payable	-	-	-	7,000
Purchase of term deposit	-	-	(21,500)	-
Maturity of term deposit	21,500	-	21,500	-
Issuance of common shares, net of share issue costs	4	-	23,707	2,885
Exercise of stock options	46	-	46	-
Interest payable	-	(38)	-	-
Cash from acquisitions	-	-	1,476	-
Changes in non-cash working capital	2,224	(212)	284	231
Decrease in cash	1,266	-	497	277
<b>Total capital expenditures, including acquisitions</b>	<b>48,539</b>	<b>14</b>	<b>52,594</b>	<b>23,238</b>
Capital expenditures, including acquisitions:				
Oil and gas division	48,425	14	51,799	23,238
Mining division	114	-	795	-

In the third quarter of 2013, Pine Cliff funded its capital expenditures from funds flow from operations and funds raised through an issuance of shares that was completed in the second quarter for \$25,080,000 (\$23,888,000, net of share issue costs). The existing banking arrangements at September 30, 2013 are comprised of a revolving demand credit facility in the amount of \$40,000,000, of which \$20,485,000 is drawn at September 30, 2013. The current revolving period will end on March 31, 2014 and if the revolving demand credit facility is not renewed any amounts owing will become payable in full on demand. The Company was in compliance with its quantitative bank debt covenants during the nine months ended September 30, 2013 and will take steps to ensure that it remains in compliance with its covenants in future periods and anticipates renewing the credit facility at the end of the revolving period. Subsequent to September 30, 2013, Pine Cliff repaid all of its outstanding bank debt.

Funds flow from operations and the unused portion of the credit facility will allow Pine Cliff to meet its short-term financial liabilities, as well as future capital requirements, at a reasonable cost. The Company believes it has sufficient funding and access to capital to meet its obligations as they come due and, if required, will consider additional short-term financing or issuing equity in order to meet its future liabilities.

Working capital is calculated as current assets minus current liabilities and represents the ability of a company to satisfy both maturing short-term debt and upcoming operational expenses. The capital intensive nature of the oil and gas business may result in working capital deficiencies from time to time. Pine Cliff manages its working capital ratio to ensure that it has sufficient unused funds under its credit facility and access to capital to accommodate such circumstances. Additionally, the revolving demand credit facility requires Pine Cliff to maintain a working capital ratio computed as current assets less current liabilities, excluding the current portion of bank debt and inclusive of unused funds under the credit facility, of greater than 1:1. As at September 30, 2013, the Company had negative working capital of \$6,973,000 (December 31, 2012 – positive working capital of \$35,077,000). To manage the working capital deficiency, on October 17, 2013 Pine Cliff completed a \$20,020,000 share offering and subsequently paid off all outstanding bank debt.

**COMMITMENTS AND CONTINGENCIES**

In the normal course of business, Pine Cliff has entered into arrangements and incurred obligations that will impact the Company's future operations and liquidity. The maturity dates of the Company's commitments are as follows:

	Total	< 6 months	6 - 12 months	> 12 months
(\$000s)				
Trade and other payables	6,242	6,242	-	-
Bank loan - principal	20,485	20,485	-	-
Bank loan - future interest	384	384	-	-
	27,111	27,111	-	-

**OFF BALANCE SHEET TRANSACTIONS**

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

**FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company faces both financial and non-financial risks inherent in the oil and gas business. Financial risks include: commodity price risk, foreign exchange risk, interest rate risk, and credit risk. 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.

A comprehensive discussion of Pine Cliff's financial instruments and risk management is provided in the Company's MD&A for the year ended December 31, 2012.

**CRITICAL ACCOUNTING ESTIMATES**

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

A comprehensive discussion of the judgments, assumptions and estimates made by management is provided in the Company's annual MD&A for the year ended December 31, 2012.

**ACCOUNTING POLICY AND STANDARD CHANGES**

The accounting policies and method of computation followed in the preparation of the Financial Statements are the same as those followed in the preparation of Pine Cliff's 2012 Annual Financial Statements, except for the adoption of new standards and interpretations effective as of January 1, 2013.

The nature and impact of each new standard or amendment is described below:

**IFRS 10 Consolidated Financial Statements ("IFRS 10"), IAS 28 Investments in Associates and Joint Ventures ("IAS 28"), IFRS 11 Joint Arrangements ("IFRS 11") and IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12")**

As disclosed in the 2012 Annual Financial Statements, effective January 1, 2013, the Company adopted, as required, IFRS 10, IAS 28 and IFRS 12. Pine Cliff reviewed its consolidation methodology and determined that the adoption of IFRS 10 did not result in a change in the consolidation status of its subsidiaries.

Under IFRS 11, interests in joint arrangements are classified as either joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. Pine Cliff performed a review of its interest in other entities and did not identify any significant interests for which it shares joint control.

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period requires that they are provided. Accordingly, the Company has not made such disclosures.

#### **IFRS 13 Fair Value Measurement ("IFRS 13")**

Effective January 1, 2013, the Company adopted, as required, IFRS 13 and applied the standard prospectively as required by transitional provisions. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. There has been no change to Pine Cliff's methodology for determining the fair value for its financial assets and liabilities and, as such, the application of IFRS 13 has not resulted in any adjustments to the fair value measurements carried out by the Company.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements period. The application had no impact on the financial statements for the three months ended September 30, 2013.

#### **IAS 1 Presentation of Financial Statements ("IAS 1")**

Effective January 1, 2013, the Company applied the amendment to IAS 1 requiring items within other comprehensive earnings to be grouped into two categories: items that will not be subsequently reclassified to earnings or loss and items that may be subsequently reclassified to earnings or loss when specific conditions are met. The amendment has been applied retrospectively and, as such, the presentation of items in other comprehensive earnings has been modified. The application of IAS 1 did not result in any adjustments to other comprehensive earnings or accumulated other comprehensive income.

#### **IAS 34 Interim financial reporting ("IAS 34") and segment information for total assets and liabilities (Amendment)**

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 *Operating Segments*. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker ("CODM") and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. The Company does not regularly provide this disclosure to the CODM and as a result of this amendment, the Company does not provide this information in its financial statements for the three months ended September 30, 2013.

#### **Future accounting pronouncements**

The IASB issued amendments to IAS 36, "Impairment of Assets" that require retrospective application and will be adopted by the Company on January 1, 2014. The Company is currently assessing the impact the adoption of these amended standards will have on the Company's consolidated financial statements.

#### **SUBSEQUENT EVENTS**

On October 17, 2013, Pine Cliff completed a public offering of 18,200,000 common shares at a price of \$1.10 per common share for gross proceeds of \$20,020,000.

On October 16, 2013, Pine Cliff obtained a letter of credit in the amount of \$4,928,000 in connection with its limited liability rating in the Province of Saskatchewan.

Subsequent to September 30, 2013, Pine Cliff issued 750,000 stock options to its employees and consultants with a weighted-average exercise price of \$1.13 per share, based on the market price immediately preceding the date of grant. The options vest between one and three years and expire between April 22, 2015 and May 4, 2017.

On October 10, 2013, Pine Cliff entered into a financial derivative for the period of November 1, 2013 to December 31, 2013 for 15,000 mmbtu per day at a differential of US\$0.36 per mmbtu.



**NON-IFRS MEASURES**

This MD&A uses the terms "funds flow from operations", "operating netbacks", "corporate netbacks" and "net debt" which are not recognized 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, as well as to assess potential acquisitions.

The Company considers funds flow from operations a key performance measure as it demonstrates the Company's ability to generate the funds necessary to repay debt and fund future growth through capital investment. Funds flow from operations and funds flow from operations per share should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as per the statement of cash flows which is considered the most directly comparable measure under IFRS. Funds flow from operations is calculated as cash flow from operating activities before changes in non-cash working capital and changes in interest payable. Funds flow from operations per share is calculated using the same weighted average number of shares outstanding as in the case of the earnings per share calculation for a reporting period.

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
(\$000s)				
Cash flow from operating activities	<b>2,579</b>	246	<b>9,431</b>	1,113
Less:				
Change in non-cash working capital	<b>(435)</b>	(158)	<b>295</b>	186
Change in interest payable	-	(38)	-	-
Funds flow from operations	<b>3,014</b>	442	<b>9,136</b>	927

The Company considers operating netback to be a key indicator of profitability relative to current commodity prices. Operating netback and operating netback per boe are calculated as oil and gas sales, less royalties and operating expenses on an absolute and a per boe basis, respectively.

The Company considers corporate netback to be a key indicator of overall profitability. Corporate netback and corporate netback per boe are calculated as operating netback, less G&A and interest expense plus finance and dividend income on an absolute and on a per boe basis, respectively.

Net debt is a term used in the context of liquidity in this MD&A. Net debt is the total of bank debt, related party note payable and trade and other payables, less trade and other receivables, cash and term deposit. There is no IFRS measure that is reasonably comparable to net debt.

**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 development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: expected production levels; future capital expenditures, including the amount and nature thereof; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and guidance; the closing of the Additional Interests Acquisition; expansion and growth of our business and operations; maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; risks; and other such matters.

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

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

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

The information provided in this report, including the interim condensed consolidated financial statements, is the responsibility of Pine Cliff's management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

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

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

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Canadian dollars, 000s)

(unaudited)

	Note	As at September 30, 2013	As at December 31, 2012
<b>ASSETS</b>			
Current assets			
Cash		320	817
Trade and other receivables		4,984	3,499
Prepaid expenses and deposits		2,906	193
Loan receivable	3	-	28,000
Investments	4	11,544	9,418
<b>Total current assets</b>		<b>19,754</b>	<b>41,927</b>
Exploration and evaluation assets	5	8,326	2,790
Property, plant and equipment	6	122,779	30,673
Restricted cash		33	33
Goodwill		3,535	3,535
Deferred taxes		20,593	1,731
<b>Total assets</b>		<b>175,020</b>	<b>80,689</b>
<b>LIABILITIES</b>			
Current liabilities			
Trade and other payables		6,242	3,813
Bank debt	7	20,485	3,037
<b>Total current liabilities</b>		<b>26,727</b>	<b>6,850</b>
Decommissioning liabilities		42,236	2,818
<b>Total liabilities</b>		<b>68,963</b>	<b>9,668</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	8	107,671	83,542
Contributed surplus		3,392	1,749
Accumulated other comprehensive earnings		1,928	43
Deficit		(6,934)	(14,313)
<b>Total shareholders' equity</b>		<b>106,057</b>	<b>71,021</b>
<b>Total liabilities and shareholders' equity</b>		<b>175,020</b>	<b>80,689</b>

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

**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)**

(Canadian dollars, 000s except per share data)

(unaudited)

	Note	Three months ended September 30		Nine months ended September 30	
		2013	2012	2013	2012
Oil and gas sales		9,719	2,197	24,261	5,228
Royalties		(1,124)	(373)	(2,536)	(919)
Dividend income		171	-	507	-
Finance income		17	-	624	-
<b>REVENUE</b>		<b>8,783</b>	<b>1,824</b>	<b>22,856</b>	<b>4,309</b>
<b>EXPENSES</b>					
Operating		4,696	729	11,282	1,695
General and administration		905	451	2,234	1,175
Depletion and depreciation	6	4,903	793	10,147	1,994
Share-based payments	8	578	203	1,676	516
Impairment of investment		-	-	44	-
Finance expenses		430	216	794	542
Total expenses		11,512	2,392	26,177	5,922
Loss before other income and income taxes		(2,729)	(568)	(3,321)	(1,613)
Gain on acquisition	3	-	-	11,117	-
Earnings (loss) before income taxes		(2,729)	(568)	7,796	(1,613)
Deferred tax expense (recovery)		(2,020)	(96)	417	(1,404)
<b>EARNINGS (LOSS) FOR THE PERIOD</b>		<b>(709)</b>	<b>(472)</b>	<b>7,379</b>	<b>(209)</b>
<b>Earnings (loss) per share (\$)</b>					
	8				
Basic		(0.00)	(0.01)	0.04	(0.00)
Diluted		(0.00)	(0.01)	0.04	(0.00)

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

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)**

(Canadian dollars, 000s)

(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Earnings (loss) for the period	(709)	(472)	7,379	(209)
<b>OTHER COMPREHENSIVE EARNINGS (LOSSES)</b>				
Unrealized gain (loss) on investment	1,372	(14)	2,154	(101)
Deferred taxes on unrealized gain (loss) on investment	(171)	2	(269)	13
<b>OTHER COMPREHENSIVE EARNINGS (LOSS) FOR THE PERIOD</b>	<b>1,201</b>	<b>(12)</b>	<b>1,885</b>	<b>(88)</b>
<b>COMPREHENSIVE EARNINGS (LOSS) FOR THE PERIOD</b>	<b>1,693</b>	<b>(484)</b>	<b>9,264</b>	<b>(297)</b>

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

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Canadian dollars, 000s)

(unaudited)

	Note	Three months ended September 30 2013	2012	Nine months ended September 30 2013	2012
<b>CASH PROVIDED BY (USED IN):</b>					
<b>OPERATING ACTIVITIES</b>					
Earnings (loss) for the period		(709)	(472)	7,379	(209)
Items not affecting cash:					
Share-based payments		578	203	1,676	516
Depletion and depreciation		4,903	793	10,147	1,994
Finance expenses		430	216	794	542
Gain on acquisition		-	-	(11,117)	-
Deferred tax expense (recovery)		(2,020)	(96)	417	(1,404)
Impairment (recovery) of investment		-	-	44	-
Changes in non-cash working capital accounts		(435)	(158)	295	186
Interest and bank charges paid		(168)	(240)	(204)	(512)
Cash provided by operating activities		2,579	246	9,431	1,113
<b>INVESTING ACTIVITIES</b>					
Expenditures on property and equipment	6	(2,928)	(14)	(6,262)	(539)
Expenditures on exploration and evaluation assets	5	(148)	-	(869)	(91)
Acquisitions, net of cash acquired	3	(45,463)	-	(43,987)	(22,608)
Purchase of term deposit		-	-	(21,500)	-
Maturity of term deposit		21,500	-	21,500	-
Changes in non-cash working capital accounts		2,719	(54)	(136)	45
Cash used in investing activities		(24,320)	(68)	(51,254)	(23,193)
<b>FINANCING ACTIVITIES</b>					
Issuance of common shares, net of share issue costs	8	4	-	23,707	2,885
Exercise of stock options		46	-	46	-
Proceeds from related party note payable		-	-	-	7,000
Bank debt		20,485	(178)	17,448	11,918
Changes in non-cash working capital accounts		(60)	-	125	-
Cash provided by (used in) financing activities		20,475	(178)	41,326	21,803
Increase (decrease) in cash		(1,266)	-	(497)	(277)
Cash - beginning of period		1,586	-	817	277
<b>CASH - END OF PERIOD</b>		<b>320</b>	<b>-</b>	<b>320</b>	<b>-</b>

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

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Canadian dollars, 000s)

(unaudited)

	Note	Share capital	Contributed surplus <sup>1</sup>	Accumulated other comprehensive earnings <sup>2</sup>	Deficit	Total equity
<b>BALANCE AT JANUARY 1, 2012</b>		14,819	766	(137)	(13,242)	2,206
Shares issued pursuant to a rights offering		1,961	-	-	-	1,961
Shares issued pursuant to a private placement		1,000	-	-	-	1,000
Share issue costs, net of tax		(76)	-	-	-	(76)
Comprehensive earnings (loss) for the period		-	-	(88)	(209)	(297)
Share-based payments	8	-	516	-	-	516
<b>BALANCE AT SEPTEMBER 30, 2012</b>		<b>17,704</b>	<b>1,282</b>	<b>(225)</b>	<b>(13,451)</b>	<b>5,310</b>
Shares issued pursuant to a private placement		5,600	-	-	-	5,600
Shares issued to Geomark shareholders		60,508	-	-	-	60,508
Share issue costs, net of tax		(236)	-	-	-	(236)
Comprehensive earnings (loss) for the period		-	-	267	(862)	(595)
Share-based payments	8	-	467	-	-	467
Cancellation of shares		(280)	-	-	-	(280)
Issuance of shares		246	-	-	-	246
<b>BALANCE AT DECEMBER 31, 2012</b>		<b>83,542</b>	<b>1,749</b>	<b>43</b>	<b>(14,313)</b>	<b>71,021</b>
Issuance of shares		25,080	-	-	-	25,080
Share issue costs, net of tax		(1,030)	-	-	-	(1,030)
Comprehensive earnings for the period		-	-	1,885	7,379	9,264
Share-based payments	8	-	1,676	-	-	1,676
Exercise of options		79	(33)	-	-	46
<b>BALANCE AT SEPTEMBER 30, 2013</b>		<b>107,671</b>	<b>3,392</b>	<b>1,928</b>	<b>(6,934)</b>	<b>106,057</b>

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

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

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at September 30, 2013 and December 31, 2012 and for the three and nine month periods ended September 30, 2013 and 2012 (unaudited)

(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 TSX Venture Exchange and incorporated under the Business Corporations Act (Alberta). The address of the Company's registered office is Suite 850, 1015 4th Street SW, Calgary, Alberta, T2R 1J4.

Pine Cliff is engaged in the 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 interim condensed consolidated financial statements (the "Financial Statements") reflect only the Company's proportionate interest in such activities. The Company is also involved in the exploration for precious metals through its subsidiaries.

**2. BASIS OF PREPARATION AND CHANGES TO PINE CLIFF'S ACCOUNTING POLICIES****a) Basis of preparation**

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

The Financial Statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2012 ("2012 Annual Financial Statements").

The Financial Statements were authorized for issue by the Company's board of directors on November 11, 2013.

**b) New standards, interpretations and amendments adopted by Pine Cliff**

The accounting policies and method of computation followed in the preparation of the Financial Statements are the same as those followed in the preparation of Pine Cliff's 2012 Annual Financial Statements, except for the adoption of new standards and interpretations effective as of January 1, 2013.

The nature and impact of each new standard or amendment is described below:

**IFRS 10 Consolidated Financial Statements ("IFRS 10"), IAS 28 Investments in Associates and Joint Ventures ("IAS 28"), IFRS 11 Joint Arrangements ("IFRS 11") and IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12")**

Effective January 1, 2013, the Company adopted, as required, IFRS 10, IAS 28 and IFRS 12. Pine Cliff reviewed its consolidation methodology and determined that the adoption of IFRS 10 did not result in a change in the consolidation status of its subsidiaries.

Under IFRS 11, interests in joint arrangements are classified as either joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. Pine Cliff performed a review of its interest in other entities and did not identify any significant interests for which it shares joint control.

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period require that they are provided. Accordingly, the Company has not made such disclosures.

**IFRS 13 Fair Value Measurement ("IFRS 13")**

Effective January 1, 2013, the Company adopted, as required, IFRS 13 and applied the standard prospectively as required by transitional provisions. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. There has been no change to Pine Cliff's methodology for determining the fair value for its financial assets and liabilities and, as such, the application of IFRS 13 has not resulted in any adjustments to the fair value measurements carried out by the Company.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by



IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements period. The application had no impact on the Financial Statements; however the Company provides additional disclosures in Note 9.

#### **IAS 1 Presentation of Financial Statements ("IAS 1")**

Effective January 1, 2013, the Company applied the amendment to IAS 1 requiring items within other comprehensive earnings to be grouped into two categories: items that will not be subsequently reclassified to earnings or loss and items that may be subsequently reclassified to earnings or loss when specific conditions are met. The amendment has been applied retrospectively and, as such, the presentation of items in other comprehensive earnings has been modified. The application of IAS 1 did not result in any adjustments to other comprehensive earnings or accumulated other comprehensive income.

#### **IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)**

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 *Operating Segments*. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker ("CODM") and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. The Company does not regularly provide this disclosure to the CODM and as a result of this amendment, the Company does not provide this information in its Financial Statements.

#### **Future accounting pronouncements**

The IASB issued amendments to IAS 36, "Impairment of Assets" that require retrospective application and will be adopted by the Company on January 1, 2014. The Company is currently assessing the impact the adoption of these amended standards will have on the Company's consolidated financial statements.

### **3. ACQUISITIONS**

#### **Skope Energy Inc.**

On November 9, 2012, Pine Cliff completed the purchase from a Canadian financial institution of all of the outstanding indebtedness and liabilities owing by Skope Energy Partners ("Skope" will collectively refer to Skope Energy Partners, Skope Energy Inc. and Skope Energy International Inc.) and all of the security documents granted by Skope to the financial institution (the "Skope Debt Purchase"). The security documents included a \$200,000,000 demand debenture secured by a first floating charge over all of Skope's assets. Consideration for the Skope Debt Purchase was \$28,000,000 which was funded with cash acquired in the Geomark Transaction of \$20,000,000 and a drawdown of \$8,000,000 on Pine Cliff's Credit Facility.

On February 19, 2013, the Court of Queen's Bench of Alberta approved the Plan of Compromise and Arrangement (the "Plan") filed under the Companies' Creditors Arrangement Act ("CCAA") by Pine Cliff. The purpose of the Plan was to restructure Skope's debt and to effect a compromise of the claims of all unsecured creditors of Skope. In addition to restructuring Skope's unsecured claims, the implementation of the Plan resulted in the redemption, without compensation, of all of the outstanding shares of Skope (and the cancellation, without compensation, of all related options, warrants and other rights to acquire such shares) and the creation of a new class of Class A Voting Shares, 100 of which were issued to Pine Cliff (the "Skope Shares"). Accordingly, Pine Cliff became the sole shareholder of Skope Energy Inc. on February 19, 2013. Consideration for Skope Shares was \$28,000,000, representing the amount that Pine Cliff paid to a Canadian financial institution for the Skope Debt Purchase, less \$202,000 received during the CCAA process as consideration for Pine Cliff's unsecured claim. Skope's assets include an 80% working interest in a package of producing shallow gas assets located in southeast Alberta and southwest Saskatchewan. This transaction has been accounted for as a business combination with Pine Cliff identified as the acquirer.

The results of Skope's assets have been included in the financial statements since February 19, 2013. Skope's assets contributed oil and gas sales, net of royalties, of \$11,320,000 and operating expenses of \$6,783,000 for the period from February 19, 2013 to September 30, 2013. If the acquisition had occurred on January 1, 2013, total oil and gas sales, net of royalties, would have been approximately \$23,238,000 and operating expenses would have been approximately \$12,171,000 for the nine months ended September 30, 2013. Pine Cliff does not believe it is practical to estimate the effect on future periods.

The acquisition has been accounted for using the acquisition method and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

<u>Net assets acquired:</u>	
Property and equipment	41,638
Exploration and evaluation assets	3,565
Decommissioning provision	(28,805)
Working capital, including cash of \$1,275	3,313
Deferred tax asset	19,204
<b>Total net assets acquired</b>	<b>38,915</b>

<u>Consideration:</u>	
Realization of security of the Skope Debt Purchase	28,000
Less: cash consideration for Pine Cliff's unsecured claim	(202)
<b>Total purchase price</b>	<b>27,798</b>
<b>Gain on acquisition</b>	<b>11,117</b>

As the total net assets acquired are greater than the purchase price of the assets, Pine Cliff has recognized a gain on the acquisition of Skope. The gain on acquisition is attributed to the unique nature of this transaction whereby Pine Cliff purchased Skope's debt and security from a Canadian financial institution and realized on its security through the CCAA process to acquire Skope.

Transaction costs of \$135,000 have been expensed in the three month period ended March 31, 2013 and are included in administrative expenses in the income statement and are part of operating cash flows in the consolidated statement of cash flows. In addition to the transaction costs incurred in 2013, Pine Cliff incurred transaction costs of \$350,000 in the three months ended December 31, 2012.

**Additional interest in Monogram unit**

On July 24, 2013, Pine Cliff completed the acquisition of an additional approximate 52% working interest in the Monogram unit and related infrastructure (the "Monogram Assets"). The Monogram Assets are located near the City of Medicine Hat, Alberta and produce dry natural gas mainly from the Milk River, Medicine Hat and Second White Specks zones. The total consideration paid was \$33,738,000, prior to adjustments.

The results of the additional interest in the Monogram Assets have been included in the financial statements since July 24, 2013. The Monogram Assets have contributed oil and gas sales, net of royalties, of \$1,360,000 and operating expenses of \$595,000 for the period from July 24, 2013 to September 30, 2013. If the acquisition had occurred on January 1, 2013, total oil and gas sales, net of royalties, would have been approximately \$26,853,000 and operating expenses would have been approximately \$13,091,000 for the nine months ended September 30, 2013. Pine Cliff does not believe it is practical to estimate the effect on future periods.

The acquisition has been accounted for using the acquisition method and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

<u>Net assets acquired:</u>	
Property and equipment	32,958
Decommissioning provision	(963)
<b>Total net assets acquired</b>	<b>31,995</b>

<u>Consideration:</u>	
Cash	31,995
<b>Total purchase price</b>	<b>31,995</b>

Transaction costs of \$20,000 have been expensed in the three month period ended September 30, 2013 and are included in administrative expenses in the income statement and are part of operating cash flows in the consolidated statement of cash flows.

**Acquisition of interest in shallow gas assets**

On August 30, 2013, Pine Cliff completed the acquisition of an additional interest in the Southern Alberta and Southern Saskatchewan properties ("Southern Assets") that Pine Cliff had originally acquired an interest in through the acquisition of Skope

in February 2013. As part of the acquisition, the current asset management agreement governing Pine Cliff's current and additional interests in the Southern Assets was terminated and Pine Cliff became the operator of the Southern Assets. The acquisition includes a further approximate 7% working interest in the Monogram unit in the Province of Alberta, a further approximate 20% working interest in the Pendor, Black Butte and Eagle Butte areas in the Province of Alberta and a further approximate 18% working interest in the Vidora, Cadillac and Wymark areas in the Province of Saskatchewan. The total consideration to be paid is approximately \$13,250,000, prior to adjustments.

The results of the additional interest in the Southern Assets have been included in the financial statements since August 30, 2013. The Monogram Assets have contributed oil and gas sales, net of royalties, of \$280,000 and operating expenses of \$225,000 for the period from August 30, 2013 to September 30, 2013. If the acquisition had occurred on January 1, 2013, total oil and gas sales, net of royalties, would have been approximately \$25,088,000 and operating expenses would have been approximately \$12,452,000 for the nine months ended September 30, 2013. Pine Cliff does not believe it is practical to estimate the effect on future periods.

The acquisition has been accounted for using the acquisition method and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

<u>Net assets acquired:</u>	
Property and equipment	14,603
Exploration and evaluation assets	1,102
Decommissioning provision	(2,237)
<b>Total net assets acquired</b>	<b>13,468</b>
<u>Consideration:</u>	
Cash	13,468
<b>Total purchase price</b>	<b>13,468</b>

Transaction costs of \$40,000 have been expensed in the three month period ended September 30, 2013 and are included in administrative expenses in the income statement and are part of operating cash flows in the consolidated statement of cash flows.

#### **Information on prior year acquisitions**

On March 1, 2012, Pine Cliff acquired certain oil and natural gas assets in the Carrot Creek area of Alberta for cash consideration of \$22,684,000.

On October 19, 2012, Pine Cliff acquired 100% of the issued and outstanding shares of Geomark Exploration Ltd. ("Geomark"), a related party, in an all share transaction which resulted in the issuance of 81,767,641 common shares of Pine Cliff valued at \$60,508,000. Geomark was a public oil and gas and mineral company with oil and gas properties in Alberta and mineral assets in Utah, Ontario, Nunavut and the Northwest Territories.

#### **4. TRANSACTIONS WITH RELATED PARTIES**

##### **Management services agreement**

Pine Cliff has a management services agreement with Bonterra Energy Corp. ("Bonterra"), an oil and gas corporation that is publicly traded on the Toronto Stock Exchange with some common directors and management, to provide executive services, technical services, accounting services, oil and gas administration and office administration for Pine Cliff. Total fees for each of the three and nine month periods ended September 30, 2013 and 2012 were \$15,000, and \$30,000, respectively, plus administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As at September 30, 2013, Pine Cliff owed Bonterra \$145,000 (December 31, 2012 - \$48,000).

##### **Investment in Bonterra**

As at September 30, 2013, Pine Cliff owns 204,633 common shares in Bonterra (December 31, 2012 - 204,633) representing less than 1% of the outstanding shares of Bonterra at that date. The shares as of September 30, 2013 have a fair value of \$11,494,000 (December 31, 2012 - \$9,339,000). For the three and nine months ended September 30, 2013, Pine Cliff received dividend income of \$171,000 and \$507,000, respectively, from this investment (September 30, 2012 - \$nil).

**Business combination with Geomark**

On October 19, 2012 Geomark and Pine Cliff combined their operations pursuant to an arrangement agreement. Geomark had some common directors and some common management with Pine Cliff. At the time of the Geomark Transaction, Geomark owned 432,812 common shares of Pine Cliff which were subsequently sold in the public market for a loss on sale of investment of \$34,000, net of tax.

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

**5. EXPLORATION AND EVALUATION ASSETS**

The following table reconciles Pine Cliff's exploration and evaluation assets:

Cost:	Oil and gas properties	Minerals properties	Total
Balance at December 31, 2011	-	-	-
Additions	92	248	340
Acquisitions	507	1,943	2,450
Balance at December 31, 2012	599	2,191	2,790
Additions	74	795	869
Acquisitions	4,667	-	4,667
<b>Balance at September 30, 2013</b>	<b>5,340</b>	<b>2,986</b>	<b>8,326</b>

During the three and nine months ended September 30, 2013, \$nil, and \$67,000, respectively (September 30, 2012 - \$nil) of directly attributable general and administration costs related to mineral exploration and evaluation assets were capitalized.

**6. PROPERTY, PLANT AND EQUIPMENT**

The following table reconciles Pine Cliff's property, plant and equipment assets:

Cost:	Oil and gas properties	Office equipment	Total
Balance at December 31, 2011	4,600	2	4,602
Additions	2,130	3	2,133
Acquisitions	29,557	-	29,557
Balance at December 31, 2012	36,287	5	36,292
Additions	12,878	176	13,054
Acquisitions	88,851	348	89,199
<b>Balance at September 30, 2013</b>	<b>138,016</b>	<b>529</b>	<b>138,545</b>

Accumulated depletion and depreciation:	Oil and gas properties	Office equipment	Total
Balance at December 31, 2011	(2,796)	-	(2,796)
Depletion and depreciation	(2,823)	-	(2,823)
Balance at December 31, 2012	(5,619)	-	(5,619)
Depletion and depreciation	(10,089)	(58)	(10,147)
<b>Balance at September 30, 2013</b>	<b>(15,708)</b>	<b>(58)</b>	<b>(15,766)</b>

Carrying value at:	Oil and gas properties	Office equipment	Total
December 31, 2012	30,668	4	30,673
<b>September 30, 2013</b>	<b>122,308</b>	<b>471</b>	<b>122,779</b>

## 7. BANK DEBT

On August 29, 2013, Pine Cliff increased the borrowing base of its revolving demand credit facility (the "Credit Facility") with a Canadian chartered bank to \$40,000,000, of which \$20,485,000 was drawn at September 30, 2013. The Credit Facility is considered a current liability at September 30, 2013 as the current revolving period will end on March 31, 2014 and if the Credit Facility is not renewed it will become payable in full on demand. Amount drawn under this Credit Facility are in the form of Canadian prime lending rate based loans, guaranteed notes or letters of credit. The Credit Facility bears interest at the prime lending rate plus 0.75% per annum and Pine Cliff realized an effective interest rate of 3.75% for the period ended September 30, 2013. The Credit Facility is secured by a first priority security interest on all present and after acquired property of the Company. On October 17, 2013 Pine Cliff completed a \$20,020,000 share offering and subsequently paid off all outstanding bank debt.

## 8. 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
Balance at January 1, 2011	46,146	14,819
Shares issued pursuant to a rights offering	11,536	1,961
Shares issued pursuant to private placements	13,882	6,600
Shares issued to Geomark shareholders	81,768	60,508
Cancellation of shares	(433)	(280)
Issuance of shares	433	246
Share issue costs, net of tax	-	(312)
<b>Balance at December 31, 2012</b>	<b>153,332</b>	<b>83,542</b>
Exercise of options	121	79
Issuance of shares	28,500	25,080
Share issue costs, net of tax	-	(1,030)
<b>Balance at September 30, 2013</b>	<b>181,953</b>	<b>107,671</b>

### Per share calculations

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options 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 nine month period ended September 30, 2013, the Company excluded 810,000 options as their effect is anti-dilutive. For the three month periods ended September 30, 2013 and 2012 and the nine month period ended September 30, 2012 all options were excluded as there was a loss in the periods then ended.

Loss per share calculation:	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
<b>Numerator</b>				
Earnings (loss) for the period	<b>(709)</b>	(472)	<b>7,379</b>	(209)
<b>Denominator (000s)</b>				
Weighted-average common shares outstanding - basic	<b>181,927</b>	63,564	<b>164,231</b>	61,466
Effect of options outstanding	-	-	<b>6,627</b>	-
Weighted-average common shares outstanding - diluted	<b>181,927</b>	63,564	<b>170,858</b>	61,466
Earnings per share - basic (\$)	<b>(0.00)</b>	(0.01)	<b>0.04</b>	(0.00)
Earnings per share - diluted (\$)	<b>(0.00)</b>	(0.01)	<b>0.04</b>	(0.00)

### Share-based payments

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 options for up to 10% of outstanding common shares at September 30, 2013. The term and vesting period of the options granted are determined at the discretion of the board of directors. The exercise price of each option granted equals the market price of the Company's stock immediately preceding the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as at September 30, 2013 and changes during the period then ended is presented as follows:

Stock options issued and outstanding:	Options (000s)	Weighted-average exercise price (\$ per share)
Outstanding, December 31, 2011	-	-
Granted	10,400	0.58
Forfeited or expired	(160)	0.38
Outstanding, December 31, 2012	10,240	0.58
Granted	1,930	0.96
Exercised	(121)	0.38
Forfeited or expired	(95)	0.65
Outstanding, September 30, 2013	11,954	0.65
Exercisable as at September 30, 2013	1,474	0.44

The following table summarizes information about stock options outstanding at September 30, 2013:

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
\$0.38	2,694	2.5	1,124	2.1
\$0.50 - \$0.65	6,935	1.5	125	2.0
\$0.66 - \$1.07	2,325	2.2	225	1.4
	11,954	1.9	1,474	2.0

The Company records share-based payment expense over the vesting period, which ranges between one to three years, based on the fair value of the options granted to employees, directors and consultants. In the nine months ended September 30, 2013, the Company granted 1,930,000 stock options with an estimated fair value of \$1,081,000 or \$0.56 per option using the Black-Scholes option pricing model with the following key assumptions (weighted-average):

Assumptions:	Nine months ended September 30, 2013
Exercise price (\$)	0.96
Estimated volatility of underlying common shares (%)	146
Weighted average expected life (years)	2.5
Risk-free rate (%)	1.2
Forfeiture rate (%)	3.8
Expected dividend yield (%)	0.0

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

## 9. FINANCIAL INSTRUMENTS

### Financial instruments and fair value measurement

Financial instruments of the Company consist of cash, restricted cash, term deposit, trade and other receivables, investments, trade and other payables and bank debt. Pine Cliff categorizes its term deposit as a level 1 financial instrument at September 30, 2013. The carrying values of the financial instruments presented in the Financial Statements approximate their respective fair values due to their short-term to maturity. Financial assets and liabilities are only offset if Pine Cliff has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously.

### Risks associated with financial assets and liabilities

The Company is exposed to a number of risks associated with its financial assets and liabilities. These risks include commodity price risk, interest rate risk, equity price risk, foreign exchange risk, credit risk and liquidity risk. The Company has several practices and policies in place to help mitigate these risks.

A description of the nature and extent of risks arising from Pine Cliff's financial assets and liabilities can be found in the 2012 Annual Financial Statements. The Company's exposure to these risks has not changed significantly since December 31, 2012.

### 10. BUSINESS SEGMENT INFORMATION

Pine Cliff's activities for the three and nine month period ended September 30, 2013 are represented by two industry segments comprised of oil and gas exploration and production, and mineral exploration. For the nine month period ended September 30, 2012, Pine Cliff's results were represented by only the oil and gas exploration and production segment as the mineral exploration segment was acquired through the business combination with Geomark on October 19, 2012 (Note 3).

	For the three months ended September 30, 2013			For the nine months ended September 30, 2013		
	Oil and gas	Minerals	Total	Oil and gas	Minerals	Total
Oil and gas sales	9,719	-	<b>9,719</b>	24,261	-	<b>24,261</b>
Royalties	(1,124)	-	<b>(1,124)</b>	(2,536)	-	<b>(2,536)</b>
Dividend income	171	-	<b>171</b>	507	-	<b>507</b>
Finance income	17	-	<b>17</b>	624	-	<b>624</b>
<b>REVENUE</b>	<b>8,783</b>	<b>-</b>	<b>8,783</b>	<b>22,856</b>	<b>-</b>	<b>22,856</b>
<b>EXPENSES</b>						
Operating	4,696	-	<b>4,696</b>	11,282	-	<b>11,282</b>
General and administration	773	132	<b>905</b>	1,941	293	<b>2,234</b>
Depletion and depreciation	4,903	-	<b>4,903</b>	10,147	-	<b>10,147</b>
Share-based payments	539	39	<b>578</b>	1,560	116	<b>1,676</b>
Impairment of investment	-	-	-	44	-	<b>44</b>
Finance expenses	430	-	<b>430</b>	794	-	<b>794</b>
Total expenses	11,341	171	<b>11,512</b>	25,768	409	<b>26,177</b>
Loss before other income and income taxes	(2,558)	(171)	<b>(2,729)</b>	(2,912)	(409)	<b>(3,321)</b>
Gain on acquisition	-	-	-	11,117	-	<b>11,117</b>
Earnings (loss) before income taxes	(2,558)	(171)	<b>(2,729)</b>	8,205	(409)	<b>7,796</b>
Deferred tax expense (recovery)	(2,020)	-	<b>(2,020)</b>	417	-	<b>417</b>
<b>EARNINGS (LOSS) FOR THE PERIOD</b>	<b>(538)</b>	<b>(171)</b>	<b>(709)</b>	<b>7,788</b>	<b>(409)</b>	<b>7,379</b>

### 11. SUBSEQUENT EVENTS

On October 17, 2013, Pine Cliff completed a public offering of 18,200,000 common shares at a price of \$1.10 per common share for gross proceeds of \$20,020,000.

On October 16, 2013, Pine Cliff obtained a letter of credit in the amount of \$4,928,000 in connection with its limited liability rating in the Province of Saskatchewan.

Subsequent to September 30, 2013, Pine Cliff issued 750,000 stock options to its employees and consultants with a weighted-average exercise price of \$1.13 per share, based on the market price immediately preceding the date of grant. The options vest between one and three years and expire between April 22, 2015 and May 4, 2017.

On October 10, 2013, Pine Cliff entered into a financial derivative for the period of November 1, 2013 to December 31, 2013 for 15,000 MMBtu per day at a differential of US\$0.36 per MMBtu.

**BOARD OF DIRECTORS**

Gary J. Drummond  
George F. Fink  
Philip B. Hodge  
Randy M. Jarock  
Carl R. Jonsson  
F. William Woodward

**OFFICERS**

George F. Fink  
Executive Chairman of the Board  
Philip B. Hodge  
President and Chief Executive Officer  
Robb D. Thompson  
Chief Financial Officer and Secretary

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Olympia Trust Company  
Calgary, Alberta

**AUDITORS**

Deloitte LLP  
Calgary, Alberta

**SOLICITORS**

Borden Ladner Gervais LLP  
Calgary, Alberta

**BANKERS**

Alberta Treasury Branch  
Calgary, Alberta

**STOCK EXCHANGE LISTING**

TSX Venture Exchange  
Trading Symbol: PNE

**WEBSITE**

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