MESSAGE TO SHAREHOLDERS

The year 2014 is off to an excellent start for Pine Cliff and its shareholders. In the first quarter, we were rewarded with record cash flow from our portfolio of high quality, low decline assets that we had assembled over the last two years. We were also fortunate enough to see these achievements reflected in an increase in our share price.

Highlights during the first quarter are as follows:

- Achieved record quarterly funds flow from operations of $10.1 million (fourth quarter of 2013 – $5.6 million), mainly a result of higher natural gas prices;
- Realized quarterly earnings of $3.0 million (fourth quarter of 2013 – earnings of $3.7 million); and
- Attained average daily sales volumes of 6,276 boe per day as compared to 6,443 boe per day in the fourth quarter of 2013.

The first quarter of 2014 was characterized by increased, albeit extremely volatile, natural gas pricing. Pine Cliff's realized price on our sales during this period was $5.17 per mcf, an increase of 57% over the same period of 2013, and the highest pricing we have received since the revitalization of our business strategy. As we had no commodity hedges in place, we were fortunate to be able to realize on the full increase in prices that the cold winter delivered. Pine Cliff's high natural gas weighting (over 95%), low corporate overhead, low operating expenses and low capital expenditure budget gives our company a high leverage to any movement in natural gas pricing and therefore this quarter's increase in pricing had a significant impact on our funds flow from operations. For example, using our first quarter 2014 volumes annualized for twelve months, a Cdn $0.10 per mcf increase in AECO pricing would improve annual funds flow from operations by approximately $1.4 million.

Pine Cliff's production during the first quarter of 2014 was 6,276 boe per day, a decrease of 3% from the fourth quarter of 2013. The decrease in production is due in part to the extreme cold weather that prompted the increase in natural gas pricing causing a number of shallow gas wells to be shut-in during the quarter as a result of freeze offs. Additionally, Pine Cliff estimates that approximately 200 boe per day of its production was deferred to future periods as a result of unplanned maintenance at a third party gas processing facility.

Pine Cliff's balance sheet strengthened further in the first three months of 2014 and we exited the quarter with no debt and positive working capital of $23.5 million. Given that Pine Cliff's 2014 budgeted capital expenditures of $13.6 million are anticipated to be well within funds flow from operations, Pine Cliff's balance sheet will continue to strengthen throughout 2014, giving us more capital to execute on accretive acquisitions. The acquisition and divestiture market continues to be active in 2014 and our team is very busy evaluating and pursuing assets and companies that we think would be positive value additions to our portfolio. We remain optimistic that we will continue to grow through acquisitions, but we can assure our shareholders that we will remain disciplined in our attempts to do so. During the last two years, we have seen a strong "buyer's market" and Pine Cliff has taken advantage of this market, and will continue to do so, however, Pine Cliff's continued focus is to seek transactions that will increase shareholder value on a per share basis.

Thank you for your support and we look forward to updating you in the near future on the next stage of our development.

Yours truly,

Phil Hodge
President and Chief Executive Officer
May 14, 2014

Please refer to the attached Management's Discussion and Analysis for Reader Advisories regarding forward-looking information, non-IFRS measures and oil and gas measurements. This President's Message should be read in conjunction with the unaudited condensed consolidated interim financial statements of Pine Cliff Energy Ltd. together with Management's Discussion and Analysis for the three months ended March 31, 2014 and 2013, which can be found on www.sedar.com and is subject to the same cautionary statements as set out therein.

	Three months ended March 31	
	2014	2013
($000s, unless otherwise indicated)		
FINANCIAL		
Oil and gas sales	**18,376**	5,458
Cash flow from operating activities	**10,039**	3,101
Funds flow from operations [1]	**10,089**	2,401
Basic per share ($/share)	**0.05**	0.02
Diluted per share ($/share)	**0.05**	0.02
Earnings	**2,969**	8,271
Basic per share ($/share)	**0.01**	0.05
Diluted per share ($/share)	**0.01**	0.05
Capital expenditures, excluding acquisitions	**1,120**	2,315
Acquisitions	**-**	45,203
Bank debt	**-**	65
Working capital	**23,512**	588
Weighted-average common shares outstanding (000s)		
Basic	**200,710**	153,332
Diluted	**208,634**	159,958
OPERATIONS		
Production [2]		
Natural gas (mcf/d)	**36,116**	13,726
Crude oil (bbls/d)	**56**	46
Natural gas liquids (bbls/d)	**201**	202
Total (boe/d)	**6,276**	2,536
Realized commodity sales prices		
Natural gas ($/mcf)	**5.17**	3.23
Crude oil ($/bbl)	**91.01**	84.11
Natural gas liquids ($/bbl)	**59.65**	62.45
Combined ($/boe)	**32.53**	23.92
Netback ($/boe)		
Operating netback ($/boe) [3]	**19.82**	10.26

[1] 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.
[2] The results for Q1-2013 include the results of the Southern Assets for the 40 day period of February 19 to March 31, 2013.
[3] 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.

May 14, 2014

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position for the three months ended March 31, 2014 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 month period ended March 31, 2014 and 2013, together with the notes related thereto, and the audited consolidated financial statements as at and for the year ended December 31, 2013, together with the notes related thereto ("2013 Annual Financial Statements"). Additional information relating to the Company, including the Company's Annual Information Form, may be found on www.sedar.com and by visiting Pine Cliff's website at www.pinecliffenergy.com.

Pine Cliff's head office is based in Calgary, Alberta, Canada. Common shares of the Company are listed 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		Impact on annual funds flow from operations [1]	
	Change	$000s	$ per share [3]
Crude oil price - Edmonton par ($/bbl) [2]	$1.00	130	0.00
Natural gas price - AECO ($/mcf) [2]	$0.10	1,430	0.01
Foreign exchange (CAD/USD)	1.0%	-	0.00
Interest rate on variable rate debt	1.0%	-	0.00

[1] This analysis does not adjust for changes in working capital and uses current royalty rates.
[2] Pine Cliff has prepared this analysis using its first quarter 2014 daily sales volumes annualized for twelve months.
[3] Based on the first quarter of 2014 basic weighted average shares outstanding of 200,710,315.

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 two years, including: the acquisition of certain oil and natural gas assets in the Carrot Creek area of Alberta (the "Carrot Creek Assets"); the combination of its operations with those of Geomark Exploration Ltd. ("Geomark"); the acquisition of Skope Energy Ltd. (the "Skope Acquisition"); the acquisition of additional working interests 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"); and the acquisition of additional interests in the Southern Assets (the "Additional Interests Acquisition").

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 increases in the price of natural gas. In the near-term, Pine Cliff will continue to maintain a strong statement of financial position, drill selected strategic wells and aggressively pursue, evaluate and attempt to execute on accretive business acquisitions.

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, 15.5 gross (7.01 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 March 31, 2014, Pine Cliff holds an approximate 95% 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 2014 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.

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 or capital expenditures in 2014 and incurred $0.1 million on general and administrative expenses in the first three months of 2014 (2013 - $0.5 million).

GUIDANCE FOR 2014

The 2014 guidance provides information as to management's expectation for results of operations for 2014. Readers are cautioned that the 2014 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

	2014 Guidance	Three months ended March 31, 2014
Barrels of oil equivalent per day	6,100 - 6,500	6,276

Pine Cliff maintains its 2014 production guidance of 6,100 – 6,500 boe/d and Pine Cliff's first quarter production is within its budgeted production range.

Capital Expenditures

($000's)	2014 Guidance	Three months ended March 31, 2014
Total	13,600	1,120

Pine Cliff remains committed to an accretive acquisition program in 2014 while continuing to focus on maintaining a strong statement of financial position. Capital expenditures during the first three months of 2014 were $1.1 million. Pine Cliff plans to fund its 2014 capital expenditures from funds flow from operations.

In total, Pine Cliff maintains its capital guidance and plans to spend approximately $13.6 million in 2014. 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. This program is anticipated to be substantially less than the Company's estimated 2014 funds flow from operations, which remains dependent on natural gas prices.

SELECTED QUARTERLY FINANCIAL INFORMATION

	2014	2013				2012		
($000s, unless otherwise indicated)	**Q1**	Q4	Q3 [1]	Q2	Q1 [2]	Q4 [3]	Q3	Q2
Average sales volumes (boe/d)	**6,276**	6,443	5,784	4,335	2,536	832	895	972
Operating netback ($/boe) [4]	**19.82**	10.26	7.32	10.75	10.26	11.94	13.36	11.78
Oil and gas sales	**18,376**	12,621	9,719	9,084	5,458	2,319	2,197	2,130
Oil and gas sales, net of royalties	**16,447**	11,634	8,595	8,546	4,584	1,894	1,824	1,735
Total revenue	**16,634**	11,839	8,783	8,727	5,346	2,752	1,824	1,735
Cash flow from operating activities	**10,039**	6,631	2,579	3,751	3,101	660	246	1,198
Funds flow from operations [5]	**10,089**	5,564	3,014	3,721	2,401	775	442	520
Per share - basic ($/share)	**0.05**	0.03	0.02	0.02	0.02	0.01	0.01	0.01
Per share - diluted ($/share)	**0.05**	0.02	0.02	0.02	0.02	0.01	0.01	0.01
Earnings (loss)	**2,969**	3,722	(709)	(183)	8,271	(862)	(472)	(450)
Per share - basic ($/share)	**0.01**	0.01	0.00	0.00	0.05	(0.01)	(0.01)	(0.01)
Per share - diluted ($/share)	**0.01**	0.01	0.00	0.00	0.05	(0.01)	(0.01)	(0.01)

[1] 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.
[2] 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.
[3] 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.
[4] 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.
[5] 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.

First quarter 2014 highlights

During the first quarter of 2014, Pine Cliff reports that it:

- Attained average daily sales volumes of 6,276 boe/d as compared to 6,443 boe/d in the fourth quarter of 2013. The decrease is mainly a result of some shallow well freeze-offs experienced as a result of the cold winter and production being deferred due to a plant shut down at a third party gas processing facility;
- Achieved record quarterly funds flow from operations of $10.1 million (fourth quarter of 2013 – $5.6 million), mainly a result of a higher commodity price environment; and
- Realized quarterly earnings of $3.0 million (fourth quarter of 2013 –$3.7 million), mainly a result of non-cash depletion and depreciation, share based payment expense and higher operating costs.

SALES VOLUMES

Total sales volumes by product	2014	Three months ended March 31 2013
Natural gas (mcf)	**3,250,459**	1,235,316
Crude oil (bbls)	**5,018**	4,119
NGLs (bbls)	**18,097**	18,188
Barrels of oil equivalent	**564,858**	228,193
Oil and liquids weighting	**4%**	10%

Average daily sales volumes by product	2014	Three months ended March 31 2013
Natural gas (mcf/d)	**36,116**	13,726
Crude oil (bbls/d)	**56**	46
NGLs (bbls/d)	**201**	202
Total (boe/d)	**6,276**	2,536

Average daily sales volumes by property	2014	Three months ended March 31 2013
(boe/d)		
Southern Assets	**5,307**	1,505
Carrot Creek	**691**	835
Central Alberta	**200**	124
Sundance	**78**	72
Total	**6,276**	2,536

Pine Cliff's sales volumes increased by 147% in the first quarter of 2014 to 6,276 boe/d as compared to 2,536 boe/d in the first quarter of 2013. The significant increase was mainly a result of two acquisitions in the Southern Assets core area in the latter half of 2013. Pine Cliff's production in the first quarter of 2014 was negatively impacted by the extreme weather conditions experienced in western Canada, which caused an abnormally high number of wells to be shut-in as a result of freeze offs. Pine Cliff estimates that approximately 250 boe per day of its Southern Assets production was deferred to later periods as a result of the cold weather. In addition, a portion of Pine Cliff's Carrot Creek production was shut-in during the quarter as a result of operational issues at a third party gas processing facility, which resulted in approximately 200 boe per day being shut-in during the quarter. In the latter part of the quarter, the gas was rerouted to a different third party gas processing facility; however the fees at this facility had a negative impact on operating expenses in the quarter.

OPERATING AND CORPORATE NETBACKS

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

	Three months ended March 31	
	2014	2013
($ per boe)		
Oil and gas sales	**32.53**	23.92
Royalties	**(3.42)**	(3.83)
Operating expenses	**(9.29)**	(9.83)
Operating netback	**19.82**	10.26
General and administrative expense	**(2.26)**	(2.97)
Interest and bank charges	**(0.04)**	(0.10)
Finance and dividend income	**0.34**	3.34
Corporate netback	**17.86**	10.53

Pine Cliff generated an operating netback of $19.82 per boe for the three months ended March 31, 2014, respectively, as compared to $10.26 per boe for the three months ended March 31, 2013. This increase is mainly due to higher natural gas prices, lower operating expenses and royalties per boe which was offset by a lower liquids weighting.

Overall, Pine Cliff generated a corporate netback of $17.86 per boe for the three months ended March 31, 2014, as compared to $10.53 per boe in the same period of 2013.

OIL AND GAS SALES

	Three months ended March 31			
	2014		2013	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe
Natural gas [1]	**16,840**	**5.17**	3,976	3.23
Crude oil	**457**	**91.01**	346	84.11
NGLs	**1,079**	**59.65**	1,136	62.45
Total sales	**18,376**	**32.53**	5,458	23.92

[1] Per unit values are expressed in $ per mcf.

Oil and gas sales increased by 237% from $5.5 million in the first quarter of 2013 to $18.4 million in the first quarter of 2014, reflecting increased sales volumes from acquisitions completed subsequent to the first quarter of 2013 and a higher commodity price environment in 2014. Conversely, in the first quarter of 2013, oil and gas sales were mainly comprised of revenue from the Carrot Creek Assets. Pine Cliff's realized price in the three months ended March 31, 2014 was $32.53 per boe, as compared to $23.92 per boe in the three months ended March 31, 2013, reflecting and overall increase in the commodity price environment.

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.

	Q1-2014	Q4-2013	Q3-2013	Q2-2013	Q1-2013	Q4-2012	Q3-2012	Q2-2012
Natural gas								
NYMEX (US$/mmbtu) [1]	**4.90**	3.63	3.60	4.09	3.35	3.36	2.81	2.26
AECO (C$/mcf)	**5.42**	3.52	2.43	3.52	3.18	3.20	2.31	1.89
Crude oil								
WTI (US$/bbl)	**98.68**	97.44	105.82	94.22	94.37	88.18	92.22	93.49
Edmonton light (C$/bbl)	**100.23**	86.75	105.18	93.03	88.65	84.47	84.79	84.42
Foreign exchange								
C$/US$	**1.1035**	1.0498	1.0385	1.0234	1.0089	0.9913	0.9948	1.0102

[1] mmbtu is the abbreviation for millions of British thermal units. One mcf of natural gas is approximately 1.02 mmbtu.

The natural gas pricing environment improved considerably in the first quarter of 2014 with the benchmark AECO natural gas prices in Canada increased by 70% in the first quarter of 2014 as compared to the first quarter of 2013, and average NYMEX gas price in the United States increasing by 49% in the same period. The extreme cold weather reduced storage volumes to below seasonal levels. The AECO monthly strip for the next 12 months is currently trading in the $4.50 per mcf range, almost 20% higher than the previous 12 months. The AECO monthly strip for the second year out is currently priced at approximately $4.10 per mcf. Pine Cliff's realized natural gas price during the first quarter of 2014 was $5.17 per mcf, an increase of 60% over the same period in 2013.

WTI oil prices averaged US$98.68 per bbl in the first quarter of 2014 as compared to US$94.37 per bbl in the first quarter of 2013. 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. There remains potential for the price differentials to remain volatile in future periods. In the three months ended March 31, 2014, the realized price of Pine Cliff's oil was $91.01 per bbl, as a result of quality adjustments to the average posted Edmonton light crude oil price of $100.23 per bbl for the same period.

Historically, the average price of NGLs has tracked the price of oil. However, changes in the supply and demand for certain NGLs such as ethane, propane and butane have impacted the relationship between the price of NGLs and the price of oil. In the three months ended March 31, 2014, the realized price of Pine Cliff's NGLs was $59.65 per bbl, representing approximately 60% of the Edmonton light crude oil prices as compared to 70% in the three months ended March 31, 2013.

Pine Cliff currently does not utilize a hedging strategy and thereby does not eliminate any of the upside, or potential downside, of price fluctuations for its shareholders. The Company continues to monitor the fluctuating commodity prices closely and their impact on our results and strategies.

ROYALTIES

	Three months ended March 31			
	2014		2013	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe
Total	**1,929**	**3.42**	874	3.83
% of oil and gas sales	**10%**		16%	

Royalties for the three months ended March 31, 2014 were $3.42 per boe, respectively, as compared to $3.83 per boe for the three months ended March 31, 2013, respectively. As a percentage of oil and gas sales, royalties averaged 10% for the three months ended March 31, 2014, as compared to 16% for the three months ended March 31, 2013. 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 and temporary lower royalty rates on newly drilled wells.

OPERATING EXPENSES

	Three months ended March 31			
	2014		2013	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe
Operating expenses	**5,246**	**9.29**	2,244	9.83
% of oil and gas sales	**29%**		41%	

Operating expenses for the three months ended March 31, 2014 averaged $9.29 per boe, as compared to $9.83 per boe in the same period of 2013. The decrease is due in part to lower average operating expenses per boe on the Southern Assets which make up a larger percentage of Pine Cliff's 2014 production, offset by higher processing costs being incurred as a result of rerouting a portion of Pine Cliff's production to a third party gas processing facility as a result of unscheduled plant maintenance in its previous third party owned facility and costs associated with rectifying freeze-offs from extreme cold weather.

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 March 31			
	2014		2013	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe
Total	**1,277**	**2.26**	678	2.97
Less: non-recurring transaction costs	**-**	**-**	135	0.59
	1,277	**2.26**	543	2.38
% of oil and gas sales	**7%**		10%	

General and administrative expenses ("G&A"), excluding non-recurring transaction costs, decreased on a per boe basis to $2.26 per boe in the three months ended March 31, 2014, as compared to $2.38 per boe in the three months ended March 31, 2013. In the three months ended March 31, 2014, Pine Cliff incurred a negligible amount 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 due to an increased number of staff in the three months ended March 31, 2014 as compared to the same period of 2013 as a result of increased staffing requirements associated with the 2013 acquisitions. To keep G&A at a low level, Pine Cliff shares some common expenses with Bonterra Energy Corp. ("Bonterra"), a related party.

In the three months ended March 31, 2013, Pine Cliff incurred $0.1 million 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 March 31			
	2014		2013	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe
Total	**697**	**1.23**	562	2.46
% of oil and gas sales	**4%**		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 months ended March 31, 2014, Pine Cliff granted stock options to purchase 300,000 common shares at a weighted average exercise price of $1.04 per share. As at March 31, 2014, the Company had 13,123,000 stock options outstanding (March 31, 2013 – 10,640,000) which represents 7% of common shares outstanding. In the three months ended March 31, 2014, Pine Cliff recorded share-based payment expense of $0.7 million (March 31, 2013 - $0.6 million), related to the stock options issued. In the three months ended March 31, 2014, Pine Cliff incurred $0.02 million 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 March 31			
	2014		2013	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe
Oil and gas assets	**5,019**	**8.89**	1,868	8.19
Office furniture and equipment	**48**	**0.08**	-	-
Total	**5,067**	**8.97**	1,868	8.19
% of oil and gas sales	**28%**		34%	

Pine Cliff's depletion and depreciation expense increased 10% on a per boe basis in the three months ended March 31, 2014, respectively, as compared to the same period in 2013. The increase in depletion and depreciation expense per boe in 2014 is a result of the Southern Assets.

FINANCE EXPENSES

	Three months ended March 31			
	2014		2013	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe
Unwinding of the discounted value of decommissioning liabilities	**331**	**0.59**	93	0.41
Interest and bank charges	**21**	**0.04**	23	0.10
Total	**352**	**0.63**	116	0.51
% of oil and gas sales	**2%**		2%	

In the three months ended March 31, 2014, Pine Cliff incurred finance expenses of $0.4 million as compared to $0.1 million in the three months ended March 31, 2013. Finance expenses in 2014 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.

FINANCE AND DIVIDEND INCOME

	Three months ended March 31			
	2014		2013	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe
Finance income	**3**	**0.01**	598	2.62
Dividend income	**184**	**0.33**	164	0.72
Total	**187**	**0.34**	762	3.34
% of oil and gas sales	**1%**		14%	

In the three months ended March 31, 2014, Pine Cliff received $0.2 million in dividends from its investment in Bonterra. The investment in Bonterra common shares was acquired through the Geomark Transaction.

INCOME TAXES

	Three months ended March 31			
	2014		2013	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe
Deferred tax expense	**1,026**	**1.82**	2,699	11.83
Total	**1,026**	**1.82**	2,699	11.83
% of oil and gas sales	**6%**		49%	

During the three months ended March 31, 2014, Pine Cliff recorded deferred tax expense of $1.0 million (three months ended March 31, 2013 - $2.7 million).

Pine Cliff has approximately $187.2 million in tax pools at March 31, 2014 (December 31, 2013 – $195.4 million) available for future use as deductions from taxable income. The significant increase in tax pools is a result of approximately $93.0 million of tax pools that were acquired in the Skope Acquisition.

EARNINGS

Quarter to quarter variance analysis:

($000s)	
Earnings for the three months ended March 31, 2013	**8,271**
Price variance	1,355
Volume variance	11,563
Royalties	(1,055)
Operating expenses	(3,002)
General and administrative	(599)
Share-based payments	(135)
Depletion and depreciation	(3,199)
Finance expenses	(236)
Gain on acquisition	(11,117)
Dividend income	20
Finance income	(595)
Deferred tax expense (recovery)	1,673
Impairment of investment	25
Earnings for the three months ended March 31, 2014	**2,969**

In the three months ended March 31, 2014, earnings decreased by $5.3 million to $3.0 million as compared to the three months ended March 31, 2013. The decrease in earnings is mainly due to higher depletion expense in the first quarter of 2014 and a one-time $11.1 million gain on acquisition in the prior year, offset by a positive volume variance from the first quarter of 2014 as compared to the first quarter of 2013.

Other comprehensive earnings
Other comprehensive earnings relates to the increase and decrease in fair value of Pine Cliff's investment in Bonterra and Nighthawk Gold Corp. ("Nighthawk"). At March 31, 2014, Pine Cliff's investment in Bonterra and Nighthawk has a fair value of $11.0 million and $0.1 million, respectively, as compared to $11.1 million and $0.1 million, respectively, at December 31, 2013.

FUNDS FLOW FROM OPERATIONS

	Three months ended March 31	
	2014	2013
($000s, except per boe amounts)		
Earnings	**2,969**	8,271
Adjustments for:		
Share-based payments	**697**	562
Depletion and depreciation	**5,067**	1,868
Impairment of investment	**-**	25
Unwinding of the discount on decommissioning	**331**	93
Gain on acquisition	**-**	(11,117)
Deferred tax expense (recovery)	**1,026**	2,699
Funds flow from operations	**10,089**	2,401
Funds flow from operations ($/boe)	**17.85**	10.52

Funds flow from operations, which represents cash flow from operating activities before changes in non-cash working capital was $10.1 million in the three months ended March 31, 2014 as compared to $2.4 million in the same period of 2013. The increase in funds flow from operations is primarily due to the increased revenues earned as a result of increased production from the Southern Assets acquisition and high commodity pricing in the current quarter.

SHARE CAPITAL

As of March 31, 2014, a total of 201,717,759 Pine Cliff shares were issued and outstanding. In the first quarter of 2014, Pine Cliff issued 1,525,000 common shares as a result of stock option exercises. As of the date hereof, 203,180,259 Pine Cliff shares were issued and outstanding.

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

($000s)	**Three months ended March 31, 2014**	Year ended December 31, 2013
Exploration and evaluation assets - oil and gas division	**-**	170
Exploration and evaluation assets - minerals division	**3**	990
Oil and gas assets	**1,033**	10,468
Administrative assets	**84**	185
Acquistions	**-**	94,348
Dispositions	**-**	(1,202)
Capitalized asset retirement costs	**1,876**	5,148
Total	**2,996**	110,107

In the three months ended March 31, 2014, Pine Cliff added $3.0 million in capital assets to its balance sheet as compared to $110.1 million in the year ended December 31, 2013.

In the first quarter of 2014 Pine Cliff participated in one gross gas well drilled (0.15 net) in the Sundance area. This well was completed in April 2014 and is expected to be on production in May 2014. Pine Cliff also recompleted an existing wellbore targeting a secondary zone and added facilities on its Southern Assets.

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 month periods ended March 31, 2014 and 2013 were $0.02 million, plus certain administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As at March 31, 2014, Pine Cliff owed Bonterra $0.2 million (December 31, 2013 – $0.2 million).

Investment in Bonterra

As at March 31, 2014, 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 March 31, 2014 have a fair value of approximately $11.0 million (December 31, 2013 – $11.1 million). For the three months ended March 31, 2014, Pine Cliff received dividend income of $0.2 million (March 31, 2013 – $0.2 million).

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.

The following table highlights Pine Cliff's sources and uses of cash for the three months ended March 31, 2014 and 2013:

	Three months ended March 31	
	2014	2013
($000s)		
Funds flow from operations	**10,089**	2,401
Bank debt repayment	**(200)**	(2,972)
Exercise of stock options	**971**	-
Cash from acquisitions	**-**	1,476
Increase (decrease) in non-cash working capital	**(2,342)**	1,024
Decrease (increase) in cash	**(7,398)**	386
Total capital expenditures, including acquisitions	**1,120**	2,315
Capital expenditures, including acquisitions:		
Oil and gas division	**1,117**	2,147
Minerals division	**3**	168

In the first quarter of 2014, Pine Cliff funded its capital expenditures from funds flow from operations. The existing banking arrangements at March 31, 2014 are comprised of a revolving demand credit facility in the amount of $40 million, of which none is drawn at March 31, 2014. The current revolving period will end on May 31, 2014 and if the revolving demand credit facility is not renewed any amounts owing will become payable in full on demand. Pine Cliff has a $4.9 million letter of credit issued against its revolving term credit facility in connection with its limited liability rating in the Province of Saskatchewan. The Company was in compliance with its quantitative bank debt covenants during the three months ended March 31, 2014 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.

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 March 31, 2014, the Company had working capital of $23.5 million (December 31, 2013 – $13.6 million).

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 include trade and other payables of $5.3 million that are due in less than six months from the balance sheet date.

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, 2013.

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, 2013.

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 2013 Annual Financial Statements, except for the adoption of new standards and interpretations effective as of January 1, 2014.

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

IAS 32 *Financial Instruments: Presentation* ("IAS 32")
Effective January 1, 2014, the Company applied the amendment to IAS 32 clarifying certain of the criteria required to be met in order to permit the offsetting of financial assets and financial liabilities. The amendment has been applied retrospectively and did not result in any adjustments for the three months ended March 31, 2014 or any prior periods.

IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39")
Effective January 1, 2014, the Company applied the amendment to IAS 39 under which there is no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendment has been applied prospectively as required by transitional provisions. The application had no impact on the financial statements for the three months ended March 31, 2014.

IAS 36 *Impairment of Assets* ("IAS 36")
Effective January 1, 2014, the Company applied the amendment to IAS 36 under which certain disclosure requirements were altered. The amendment has been applied retrospectively and did not result in any changes to the financial statements for the three months ended March 31, 2014 or any prior periods.

IFRIC 21 *Levies* ("IFRIC 21")
Effective January 1, 2014, the Company retrospectively adopted IFRIC 21, developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (for example, IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation did not have any impact on the Company's financial statements.

Future accounting pronouncements
There were no new or amended standards issued during the three months ended March 31, 2014 that are applicable to the Company in future periods. A description of the standards and interpretations that will be adopted by the Company in future periods can be found in the 2013 Annual Financial Statements.

SUBSEQUENT EVENTS

Subsequent to March 31, 2014, Pine Cliff granted 1,099,500 stock options to employees and officers with a weighted average exercise price of $1.55, based on the market price immediately preceding the date of grant. The options vest between one and three years and expire between October 7, 2015 and November 5, 2017.

Subsequent to March 31, 2014, Pine Cliff issued 1,462,500 common shares as a result of stock option exercises completed at a weighted average exercise price of $0.66.

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 March 31	
	2014	2013
($000s)		
Cash flow from operating activities	**10,039**	3,101
Adjusted by:		
Increase (decrease) in non-cash working capital	**50**	(700)
Funds flow from operations	**10,089**	2,401

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 an absolute and 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 March 31, 2014**	As at December 31, 2013
ASSETS			
Current assets			
Cash and cash equivalents		**8,703**	1,305
Trade and other receivables		**8,291**	9,217
Prepaid expenses and deposits		**566**	591
Investments	3	**11,242**	11,287
Total current assets		**28,802**	22,400
Exploration and evaluation assets	4	**7,418**	7,415
Property, plant and equipment	5	**117,942**	120,016
Restricted cash		**33**	33
Goodwill		**3,535**	3,535
Deferred taxes		**26,076**	27,087
Total assets		**183,806**	180,486
LIABILITIES			
Current liabilities			
Trade and other payables		**5,290**	8,579
Bank debt	6	**-**	200
Total current liabilities		**5,290**	8,779
Decommissioning liabilities		**44,891**	42,685
Total liabilities		**50,181**	51,464
SHAREHOLDERS' EQUITY			
Share capital	7	**129,033**	127,002
Contributed surplus		**3,491**	3,856
Accumulated other comprehensive earnings		**1,535**	1,567
Deficit		**(434)**	(3,403)
Total shareholders' equity		**133,625**	129,022
Total liabilities and shareholders' equity		**183,806**	180,486

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 March 31, 2014	Three months ended March 31, 2013
Oil and gas sales		**18,376**	5,458
Royalties		**(1,929)**	(874)
Dividend income	3	**184**	164
Finance income		**3**	598
REVENUE		**16,634**	5,346
EXPENSES			
Operating		**5,246**	2,244
General and administration		**1,277**	678
Depletion and depreciation	5	**5,067**	1,868
Share-based payments	7	**697**	562
Impairment of investment		**-**	25
Finance expenses		**352**	116
Total expenses		**12,639**	5,493
Earnings (loss) before other income and income taxes		**3,995**	(147)
Gain on acquisition		**-**	11,117
Earnings before income taxes		**3,995**	10,970
Deferred tax expense		**1,026**	2,699
EARNINGS FOR THE PERIOD		**2,969**	8,271
Earnings per share ($)	7		
Basic		**0.01**	0.05
Diluted		**0.01**	0.05

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 March 31, 2014	Three months ended March 31, 2013
Earnings for the period	**2,969**	8,271
OTHER COMPREHENSIVE EARNINGS (LOSS)		
Unrealized gain (loss) on investments	**(38)**	759
Deferred taxes on unrealized gain (loss) on investments	**6**	(95)
OTHER COMPREHENSIVE EARNINGS (LOSS) FOR THE PERIOD, NET OF TAX	**(32)**	664
TOTAL COMPREHENSIVE EARNINGS FOR THE PERIOD	**2,937**	8,935

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 March 31, 2014	March 31, 2013
CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Earnings for the period		**2,969**	8,271
Items not affecting cash:			
Share-based payments		**697**	562
Depletion and depreciation		**5,067**	1,868
Finance expenses		**352**	116
Gain on acquisition		**-**	(11,117)
Deferred tax expense		**1,026**	2,699
Impairment of investment		**-**	25
Changes in non-cash working capital accounts		**(50)**	700
Interest and bank charges paid		**(22)**	(23)
Cash and cash equivalents provided by operating activities		**10,039**	3,101
INVESTING ACTIVITIES			
Expenditures on property and equipment	5	**(1,117)**	(2,107)
Expenditures on exploration and evaluation assets	4	**(3)**	(208)
Acquisitions, net of working capital acquired		**-**	1,476
Changes in non-cash working capital accounts		**(2,292)**	324
Cash and cash equivalents used in investing activities		**(3,412)**	(515)
FINANCING ACTIVITIES			
Exercise of stock options	7	**971**	-
Bank debt repayment		**(200)**	(2,972)
Cash and cash equivalents provided by (used in) financing activities		**771**	(2,972)
Increase (decrease) in cash and cash equivalents		**7,398**	(386)
Cash and cash equivalents - beginning of period		**1,305**	817
CASH AND CASH EQUIVALENTS - END OF PERIOD		**8,703**	431

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 [1]	Accumulated other comprehensive earnings [2]	Deficit	Total equity
BALANCE AT JANUARY 1, 2013		**83,542**	**1,749**	**43**	**(14,313)**	**71,021**
Comprehensive earnings for the period		-	-	664	8,271	8,935
Share-based payments		-	562	-	-	562
BALANCE AT MARCH 31, 2013		**83,542**	**2,311**	**707**	**(6,042)**	**80,518**
Issuance of shares		45,100	-	-	-	45,100
Share issue costs, net of tax		(1,801)	-	-	-	(1,801)
Comprehensive earnings for the period		-	-	860	2,639	3,499
Share-based payments		-	1,639	-	-	1,639
Exercise of options		161	(94)	-	-	67
BALANCE AT DECEMBER 31, 2013		**127,002**	**3,856**	**1,567**	**(3,403)**	**129,022**
Comprehensive earnings (loss) for the period		-	-	(32)	2,969	2,937
Share issue costs, net of tax		(2)	-	-	-	(2)
Share-based payments		-	697	-	-	697
Exercise of options		2,033	(1,062)			971
BALANCE AT MARCH 31, 2014		**129,033**	**3,491**	**1,535**	**(434)**	**133,625**

[1] Contributed surplus is comprised of share-based payments.
[2] 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 March 31, 2014 and December 31, 2013 and for the three month periods ended March 31, 2014 and 2013 (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, 2013 ("2013 Annual Financial Statements").

The Financial Statements were authorized for issue by the Company's board of directors on May 14, 2014.

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 2013 Annual Financial Statements, except for the adoption of new standards and interpretations effective as of January 1, 2014.

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

IAS 32 *Financial Instruments: Presentation* ("IAS 32")
Effective January 1, 2014, the Company applied the amendment to IAS 32 clarifying certain of the criteria required to be met in order to permit the offsetting of financial assets and financial liabilities. The amendment has been applied retrospectively and did not result in any adjustments to the Financial Statements for the three months ended March 31, 2014 or any prior periods.

IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39")
Effective January 1, 2014, the Company applied the amendment to IAS 39 under which there is no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendment has been applied prospectively as required by transitional provisions. The application had no impact on the Financial Statements for the three months ended March 31, 2014.

IAS 36 *Impairment of Assets* ("IAS 36")
Effective January 1, 2014, the Company applied the amendment to IAS 36 under which certain disclosure requirements were altered. The amendment has been applied retrospectively and did not result in any changes to the Financial Statements for the three months ended March 31, 2014 or any prior periods.

IFRIC 21 *Levies* ("IFRIC 21")
Effective January 1, 2014, the Company retrospectively adopted IFRIC 21, developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (for example, IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation did not have any impact on the Company's financial statements.

Future accounting pronouncements
There were no new or amended standards issued during the three months ended March 31, 2014 that are applicable to the Company in future periods. A description of the standards and interpretations that will be adopted by the Company in future periods can be found in the 2013 Annual Financial Statements.

3. 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 month periods ended March 31, 2014 and 2013 were $0.02 million plus certain administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As at March 31, 2014, Pine Cliff owed Bonterra $0.2 (December 31, 2013 – $0.2 million).

Investment in Bonterra
As at March 31, 2014, Pine Cliff owns 204,633 common shares in Bonterra (December 31, 2013 – 204,633) representing less than 1% of the outstanding shares of Bonterra at that date. The shares as of March 31, 2014 have a fair value of approximately $11.0 million (December 31, 2013 – $11.1 million). For the three months ended March 31, 2014, Pine Cliff received dividend income of $0.2 million from this investment (March 31, 2013 – $0.2 million).

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.

4. 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, 2012	599	2,191	2,790
Additions	170	990	1,160
Acquisitions	4,667	-	4,667
Dispositions	-	(1,202)	(1,202)
Balance at December 31, 2013	5,436	1,979	7,415
Additions	-	3	3
Balance at March 31, 2014	**5,436**	**1,982**	**7,418**

During the three months ended March 31, 2014, no directly attributable general and administration costs related to mineral exploration and evaluation assets were capitalized (March 31, 2013 - $0.03 million).

5. PROPERTY, PLANT AND EQUIPMENT

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

Cost:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 2012	36,287	5	36,292
Additions	15,616	185	15,801
Acquisitions	89,333	348	89,681
Balance at December 31, 2013	141,236	538	141,774
Additions	2,909	84	2,993
Balance at March 31, 2014	**144,145**	**622**	**144,767**

Accumulated depletion and depreciation:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 2012	(5,619)	-	(5,619)
Depletion and depreciation	(16,035)	(104)	(16,139)
Balance at December 31, 2013	(21,654)	(104)	(21,758)
Depletion and depreciation	(5,019)	(48)	(5,067)
Balance at March 31, 2014	**(26,673)**	**(152)**	**(26,825)**

Carrying value at:	Oil and gas properties	Administrative assets	Total
December 31, 2013	119,582	434	120,016
March 31, 2014	**117,472**	**470**	**117,942**

6. BANK DEBT

Pine Cliff has a $40.0 million revolving demand credit facility (the "Credit Facility") with a Canadian chartered bank, of which none was drawn at March 31, 2014. The current revolving period will end on May 31, 2014 and if the Credit Facility is not renewed it will become payable in full on demand. Amounts 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. The Credit Facility is secured by a first priority security interest on all present and after acquired property of the Company.

The Credit Facility requires Pine Cliff to maintain a working capital ratio, excluding the related party note payable and the current portion of the bank debt and inclusive of unused funds under the Credit Facility, of greater than 1:1. The Company was in compliance with its quantitative bank debt covenants during the period ended March 31, 2014.

Pine Cliff has a $4.9 million letter of credit issued against its Credit Facility in connection with its limited liability rating in the Province of Saskatchewan.

7. 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, 2013	153,332	83,542
Shares issued pursuant to public share offerings	46,700	45,100
Exercise of options	161	161
Share issue costs, net of tax	-	(1,801)
Balance at December 31, 2013	200,193	127,002
Exercise of options	1,525	2,033
Share issue costs, net of tax	-	(2)
Balance at March 31, 2014	**201,718**	**129,033**

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. No options were excluded in calculating the weighted average number of diluted shares outstanding for three month period ended March 31, 2014. For the three month period ended March 31, 2013, the Company excluded 350,000 options, as their effect is anti-dilutive.

Loss per share calculation:	Three months ended March 31 **2014**	2013
Numerator		
Earnings for the period	**2,969**	8,271
Denominator (000s)		
Weighted-average common shares outstanding - basic	**200,710**	153,332
Effect of options outstanding	**7,924**	6,626
Weighted-average common shares outstanding - diluted	**208,634**	159,958
Earnings per share - basic ($)	**0.01**	0.05
Earnings per share - diluted ($)	**0.01**	0.05

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 March 31, 2014. 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 March 31, 2014 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, 2013	14,478	0.73
Granted	300	1.04
Exercised	(1,525)	0.64
Forfeited	(130)	0.73
Outstanding, March 31, 2014	13,123	0.75
Exercisable as at March 31, 2014	2,697	0.56

The following table summarizes information about stock options outstanding at March 31, 2014:

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
$0.38	2,434	2.1	924	1.9
$0.50 - $0.65	5,730	1.2	1,558	0.2
$0.66 - $1.07	1,661	1.4	215	0.9
$1.08 - $1.12	3,298	2.3	-	-
	13,123	1.7	2,697	0.8

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 three months ended March 31, 2014, the Company granted 300,000 stock options with an estimated fair value of $0.2 million or $0.49 per option using the Black-Scholes option pricing model with the following key assumptions (weighted-average):

Assumptions:	Three months ended March 31, 2014
Exercise price ($)	1.04
Estimated volatility of underlying common shares (%)	83
Weighted average expected life (years)	2.5
Risk-free rate (%)	1.0
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.

8. FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement

Financial instruments of the Company consist of cash and cash equivalents, restricted cash, trade and other receivables, investments, trade and other payables and bank debt. 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 2013 Annual Financial Statements. The Company's exposure to these risks has not changed significantly since December 31, 2013.

9. BUSINESS SEGMENT INFORMATION

Pine Cliff's activities are represented by two industry segments comprised of oil and gas exploration and production, and mineral exploration.

	For the three months ended					
			March 31, 2014			March 31, 2013
	Oil and gas	Minerals	**Total**	Oil and gas	Minerals	Total
Oil and gas sales	18,376	-	**18,376**	5,458	-	5,458
Royalties	(1,929)	-	**(1,929)**	(874)	-	(874)
Dividend income	184	-	**184**	164	-	164
Finance income	3	-	**3**	598	-	598
REVENUE	16,634	-	**16,634**	5,346	-	5,346
EXPENSES						
Operating	5,246	-	**5,246**	2,244	-	2,244
General and administration	1,195	82	**1,277**	618	60	678
Depletion and depreciation	5,067	-	**5,067**	1,868	-	1,868
Share-based payments	661	36	**697**	524	38	562
Impairment of investment	-	-	**-**	25	-	25
Finance expenses	350	2	**352**	116	-	116
Total expenses	12,519	120	**12,639**	5,395	98	5,493
Earnings (loss) before other income and income taxes	4,115	(120)	**3,995**	(49)	(98)	(147)
Gain on acquisition	-	-	**-**	11,117	-	11,117
Earnings (loss) before income taxes	4,115	(120)	**3,995**	11,068	(98)	10,970
Deferred tax expense	1,026	-	**1,026**	2,699	-	2,699
EARNINGS (LOSS) FOR THE PERIOD	3,089	(120)	**2,969**	8,369	(98)	8,271

10. SUBSEQUENT EVENTS

Subsequent to March 31, 2014, Pine Cliff granted 1,099,500 stock options to employees and officers with a weighted average exercise price of $1.55, based on the market price immediately preceding the date of grant. The options vest between one and three years and expire between October 7, 2015 and November 5, 2017.

Subsequent to March 31, 2014, Pine Cliff issued 1,462,500 common shares as a result of stock option exercises completed at a weighted average exercise price of $0.66.

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

Kristi L. Barr
Vice President, Finance and Controller

Terry L. McNeill
Vice President Operations

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REGISTRAR AND TRANSFER AGENT

Olympia Trust Company
Calgary, Alberta

AUDITORS

Deloitte LLP
Calgary, Alberta

BANKERS

Alberta Treasury Branch
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: PNE

WEBSITE

www.pinecliffenergy.com

Pine Cliff Energy Ltd.