
Pine Cliff Energy Ltd.

**Long-term Value Focus**

**Q3-2015 Report**

## MESSAGE TO SHAREHOLDERS

The industry backdrop in the third quarter of 2015 has continued to be negative, but as a company with a counter-cyclical acquisition strategy, Pine Cliff has experienced its busiest quarter ever. Our biggest accomplishment to date was the highly accretive $185 million dollar asset purchase we announced on November 9th. This purchase is expected to double our cash flow and increase our production by 90%. I will provide some more colour on this deal below, first though, I would like to highlight some of the things we accomplished in the third quarter:

- Pine Cliff increased our production per basic share by 58% as compared to the third quarter of 2014 and increased our oil and gas sales volumes by 84% in the third quarter of 2015 to 12,504 boe per day (75,024 mcf per day) as compared to 6,810 boe per day (40,860 mcf per day) in the third quarter of 2014, as a result of acquisitions completed in the last quarter of 2014 and the second quarter of 2015;
- Despite the realized price of natural gas for the quarter being only $2.95 per mcf compared to $4.29 per mcf in 2014, we generated funds flow from operations of $7.5 million ($0.03 per share) and repaid $4 million of bank debt. We continue to be one of the few companies in our industry that continues to consistently pay down debt;
- We maintained our annual average production guidance of 11,800 to 12,300 boe per day (70,800 to 73,800 mcfe per day) and at the same time we reduced our capital guidance to $7.5 million from our original guidance of $10 million. This is a direct testament to the job our field staff is doing with the assets we are buying; and
- Pine Cliff announced, subsequent to quarter-end, entering into an agreement to acquire $185 million of oil and natural gas assets in Central Alberta as well as $63 million of concurrent financings for the acquisition to maintain our balance sheet strength.

### Operations Update

Pine Cliff's third quarter 2015 production was the highest in the company's history as a result of interruptible service curtailments on third party pipelines being removed early in the quarter, a full quarter of production from the assets acquired May 29, 2015 and full production from 80 reactivated wells in the Many Islands area of Southern Alberta. With the curtailments lifted, our long life, low decline assets continue to perform consistently with production for October averaging 12,850 boe per day (77,760 mcfe per day), based on field estimates. Importantly, our operating costs continue to be some of the lowest in the industry at $8.96 per boe ($1.49 per mcfe) for the quarter and $8.75 per boe ($1.46 per mcfe) for the nine months ended September 30, 2015.

### Acquisition Update

On November 9, 2015, we announced entering into an agreement to acquire assets in the Viking area of Central Alberta and the Ghost Pine area of Central Alberta for cash consideration of $185 million, prior to closing adjustments. The assets produce approximately 11,730 boe per day (July 2015 average provided by the vendor) and are weighted 89% to natural gas, 7% to oil and 4% to natural gas liquids. Not only are we excited about the free funds flow from operations that these assets provide, but this transaction has added more upside inventory locations to our portfolio than all of our other purchases combined. The independent reserve report prepared on the assets has approximately 550 gross (420 net) locations booked which results in a 55% increase to Pine Cliff's reserve life index on a proved plus probable basis to 13 years. This acquisition is expected to close on or around December 11, 2015. Subsequent to closing, Pine Cliff is expected to have a combined asset production base of 23,800 boe per day or 142,800 mcfe per day, moving Pine Cliff into the top twenty natural gas producers in Canada.

Concurrent with the acquisition, Pine Cliff announced a $60 million bought deal financing for subscription receipts as well as a $3 million private placement of common shares to some management, board members, employees, and certain consultants at the same terms as the bought deal financing. The remainder of the acquisition is expected to be financed through an expanded bank credit facility which we intend to pay down with our increased cash flow. This is the first time that we have announced a financing concurrent with an acquisition as we felt that it was prudent to maintain a strong balance sheet and cost of capital for us to be able to prosper in this challenging commodity price environment.

**Outlook**

As our shareholders know, Pine Cliff's focus is to actively seek opportunities to enhance our shareholders' long term value by acquiring operated, low decline natural gas assets with long-life reserves and low operating costs. It has been a successful four years as we have managed to transact on nine deals from the hundreds of possible transactions our team has evaluated. Our most recent transaction is the largest acquisition in our history, at some of the lowest purchase price metrics in our history. We did not take this step lightly, and our team has been working on this deal since we first heard of it in February of this year. We continue to believe that buying cash flow positive, low risk, low decline production at these prices will provide a better rate of return to our shareholders than drilling in the current low commodity price environment. We remain firm on this view and we will continue to be guided by the discipline we have shown over the past few years.

While our team has a lot of work to integrate the acquired assets in the fourth quarter, we continue to be extremely busy looking at acquisition opportunities to add additional, high quality assets to our portfolio. Although there is a temptation to rest after concluding a deal like the one we just announced, we realize that this time of the commodity cycle is providing too many attractive possibilities for us to pause. We are excited about the months ahead and I would like to take this opportunity to thank our staff and consultants for the extra effort that was provided by them during the past months. To our shareholders, thank you for your continued support and confidence in our business plan. We look forward to updating you in the future on the next stage of our development.

Yours truly,

Phil Hodge
President and Chief Executive Officer
November 12, 2015

*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 and nine months ended September 30, 2015 and 2014, which can be found on www.sedar.com and is subject to the same cautionary statements as set out therein.*

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| ($000s, unless otherwise indicated) | | | | |
| **FINANCIAL** | | | | |
| **Oil and gas sales** | **21,000** | 17,469 | **57,255** | 52,981 |
| **Cash flow from operating activities** | **6,617** | 6,390 | **19,795** | 23,672 |
| **Funds flow from operations** [1] | **7,507** | 8,104 | **19,268** | 27,373 |
| Basic per share ($/share) | **0.03** | 0.04 | **0.08** | 0.14 |
| Diluted per share ($/share) | **0.03** | 0.04 | **0.08** | 0.13 |
| **Earnings (loss)** | **(10,697)** | 918 | **(20,957)** | 6,220 |
| Basic per share ($/share) | **(0.05)** | 0.00 | **(0.09)** | 0.03 |
| Diluted per share ($/share) | **(0.05)** | 0.00 | **(0.09)** | 0.03 |
| **Capital expenditures, excluding acquisitions** | **2,051** | 5,291 | **5,384** | 8,401 |
| **Acquisitions, after adjustments** | **(166)** | 32,116 | **13,525** | 32,116 |
| **Net debt (working capital)** [2] | **35,208** | (63,503) | **35,208** | (63,503) |
| Weighted-average common shares outstanding (000s) | | | | |
| Basic | **236,920** | 203,677 | **235,805** | 202,519 |
| Diluted | **236,920** | 211,123 | **235,805** | 210,363 |
| **OPERATIONS** | | | | |
| **Production** [3, 4] | | | | |
| Natural gas (Mcf/d) | **70,843** | 38,383 | **68,856** | 37,134 |
| Crude oil (Bbls/d) | **128** | 90 | **125** | 60 |
| Natural gas liquids (Bbls/d) | **569** | 323 | **514** | 238 |
| Total (Boe/d) | **12,504** | 6,810 | **12,115** | 6,487 |
| **Realized commodity sales prices** | | | | |
| Natural gas ($/Mcf) | **2.95** | 4.29 | **2.76** | 4.67 |
| Crude oil ($/Bbl) | **47.90** | 78.65 | **51.27** | 86.30 |
| Natural gas liquids ($/Boe) | **23.59** | 55.61 | **26.46** | 65.18 |
| Combined ($/Boe) | **18.25** | 27.88 | **17.31** | 29.91 |
| **Netback ($/Boe)** | | | | |
| Operating netback ($/Boe) [5] | **7.92** | 15.08 | **7.46** | 17.36 |
| Corporate netback ($/Boe) [6] | **6.52** | 12.94 | **5.83** | 15.46 |

[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.
[2] Net debt (working capital) is a non-IFRS measure calculated as the sum of bank debt and trade and other payables less trade and other receivables, cash, prepaid expenses and deposits and investments. At September 30, 2014 the Company did not have any debt and was in a net cash position.
[3] The results for the three and nine months ended September 30, 2015 include the results of the May 2015 Acquisition for the period of May 29 to September 30, 2015.
[4] The results for the three and nine month periods ended September 30, 2014 include the results of an asset acquisition in the Carrot Creek/Edson Assets core area for the period of August 7, 2014 to September 30, 2014.
[5] 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.
[6] Corporate netback is a non-IFRS measure calculated as the Company's operating netback, less general and administrative expenses, interest and bank charges plus finance and dividend income, averaged over the Boe production of the Company.

**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, 2015 for Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") and should be read in conjunction with the unaudited interim condensed consolidated financial statements as at and for the three and nine month periods ended September 30, 2015 and 2014, together with the notes related thereto, and the audited consolidated financial statements as at and for the year ended December 31, 2014, together with the notes related thereto ("2014 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 TSX Venture Exchange 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 six 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"). Where amounts are expressed in Mcf equivalent, natural gas liquids and oil volumes are recorded in Bbl and are converted to a thousand cubic feet equivalent ("Mcfe" or daily equivalent of "Mcfe/d") using the same ratio. 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**

Natural gas and crude oil prices fluctuate in response to changing market forces, creating varying impacts on Pine Cliff's financial results. The Company's potential exposure to commodity price and interest rate fluctuations are summarized in the table below, which shows the estimated impact that certain commodity price and interest rate changes would have on the Company's funds flow from operations for the third quarter of 2015. The sensitivities below are based on business conditions, transactions, interest rates and commodity price variables during the third quarter of 2015. Accordingly, these sensitivities may not be indicative of financial results for other periods, under other economic circumstances or with additional fluctuations in commodity prices.

| Business environment sensitivities | | Impact on annual funds flow from operations [1] | |
|---|---|---|---|
| | Change | $000s | $ per share [3] |
| Crude oil price - Edmonton par ($/Bbl) [2] | $1.00 | 180 | 0.00 |
| Natural gas price - AECO ($/Mcf) [2] | $0.10 | 2,350 | 0.01 |
| Interest rate on variable rate debt | 1.0% | 430 | 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 third quarter 2015 daily sales volumes annualized for twelve months.
[3] Based on the third quarter of 2015 basic weighted average shares outstanding of 236,919,759.

**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 current 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.

The Company has been active in the acquisition and divestiture market and has executed eight key transactions since January 2012. These acquisitions have built Pine Cliff's asset base in its two core areas and increased annual production volumes steadily. In the current year, Pine Cliff completed an acquisition in May 2015 of oil and natural gas assets in the Carrot Creek/Edson Assets, as defined herein, core area and shallow natural gas assets in the Southern Assets, as defined herein, core area (the "May 2015 Acquisition"), adding additional base production volumes of approximately 1,000 Boe/d.

Subsequent to September 30, 2015, Pine Cliff announced an acquisition of oil and natural gas assets in Central Alberta, which is expected to increase production by more than 11,000 Boe/d. Refer to the disclosure under "Subsequent Events" for further information.

Management is pleased with its progress and believes that the assets that have been assembled to date and the cash flow from these assets will provide Pine Cliff with significant future opportunities. In the near-term, Pine Cliff will continue to maintain a strong financial position, drill, recomplete or optimize selected strategic wells and aggressively pursue, evaluate and attempt to execute on further accretive business acquisitions.

**PINE CLIFF'S OPERATIONS**

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

- Southern Assets – Pine Cliff holds a package of high-quality, high working interest, low decline, producing shallow gas assets mainly in southeast Alberta and minor interests in 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 meaningful 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, clay-rich sands and long production life;

- Carrot Creek/Edson – Pine Cliff holds a working interest in a package of liquid rich natural gas assets which are located near the town of Edson, Alberta (the "Carrot Creek/Edson Assets"). In addition to the producing assets, Pine Cliff has, in aggregate, 45 gross (15.5 net) sections of undeveloped land. The Carrot Creek/Edson Assets have multi-zone potential which can be further exploited using horizontal drilling technology; and

- Minor properties – the balance of Pine Cliff's 2015 production comes from non-operated properties in the Sundance area of northwest Alberta, and from non-operated properties in the Harmatten, Garrington and Carstairs areas of central Alberta, however the Company does not currently have large enough land positions or working interests in these areas to consider them significant core areas.

Please refer to the operations sections and other sections of the MD&A for detailed discussions on variances during the comparative quarters and to Pine Cliff's previously issued interim and annual MD&A for changes in prior quarters.

**SELECTED QUARTERLY FINANCIAL INFORMATION**

| | 2015 | | | 2014 | | | | 2013 |
|---|---|---|---|---|---|---|---|---|
| ($000s, unless otherwise indicated) | **Q3** | Q2 [1] | Q1 | Q4 [2] | Q3 [3] | Q2 | Q1 | Q4 [4] |
| Average sales volumes (boe/d) | **12,504** | 11,814 | 12,021 | 12,095 | 6,810 | 6,371 | 6,276 | 6,443 |
| Operating netback ($/boe) [5] | **7.92** | 7.08 | 7.33 | 11.74 | 15.08 | 17.45 | 19.82 | 10.26 |
| Oil and gas sales | **21,000** | 17,454 | 18,801 | 25,469 | 17,469 | 17,136 | 18,376 | 12,621 |
| Oil and gas sales, net of royalties | **19,425** | 16,692 | 17,487 | 22,819 | 15,700 | 15,339 | 16,447 | 11,634 |
| Total revenue | **19,517** | 16,784 | 17,608 | 23,003 | 15,907 | 15,540 | 16,634 | 11,839 |
| Cash flow from operating activities | **6,617** | 4,182 | 8,998 | 13,969 | 6,390 | 7,242 | 10,039 | 6,631 |
| Funds flow from operations [6] | **7,507** | 5,555 | 6,182 | 11,615 | 8,104 | 9,180 | 10,089 | 5,564 |
| Per share - basic ($/share) | **0.03** | 0.02 | 0.03 | 0.05 | 0.04 | 0.05 | 0.05 | 0.03 |
| Per share - diluted ($/share) | **0.03** | 0.02 | 0.03 | 0.05 | 0.04 | 0.04 | 0.05 | 0.02 |
| Earnings (loss) | **(10,697)** | (4,757) | (5,503) | (8,929) | 918 | 2,333 | 2,969 | 3,772 |
| Per share - basic ($/share) | **(0.05)** | (0.02) | (0.02) | (0.04) | 0.00 | 0.01 | 0.01 | 0.01 |
| Per share - diluted ($/share) | **(0.05)** | (0.02) | (0.02) | (0.04) | 0.00 | 0.01 | 0.01 | 0.01 |

[1] The results for Q2-2015 include the results of the May 2015 Acquisition that closed on May 29, 2015 for the period of May 29 to June 30, 2015.
[2] The results for Q4-2014 include the results of an acquisition of shallow natural gas assets in the Southern Assets core area that closed on October 1, 2014 for the period of October 1 to December 31, 2014.
[3] The results for Q3-2014 include the results of an acquisition of liquids rich natural gas assets in the Carrot Creek/Edson Assets core area that closed on August 7, 2014 for the period of August 7 to September 30, 2014.
[4] The results for Q3-2013 include the results of an acquisition of shallow natural gas assets in the Southern Assets core area that closed on July 24, 2013 for the period of July 24 to September 30, 2013 and the an acquisition of shallow natural gas assets in the Southern Assets core area that closed on August 30, 2013 for the period of August 30 to September 30, 2013.
[5] 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.
[6] 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.

**Quarterly trends**

During the third quarter of 2015, Pine Cliff reports that:

- In the past eight quarters, the Company has been focused on increasing production through acquisitions in both of its core areas, which has led to generally increased sales volumes over the last eight quarters;
- Operating netbacks declined from the first quarter of 2014 until the second quarter of 2015 due to decreases in commodity prices. There was an increase in operating netbacks compared to the second quarter of 2015 due to a decrease in operating expenses per Boe and a slight increase in commodity pricing; and
- Beginning in the fourth quarter of 2014, Pine Cliff has recorded a loss in each quarter related to decreased commodity prices. This is emphasized in the fourth quarter of 2014 and the third quarter of 2015, where a $3.8 million and $7.6 million impairment expense, respectively, was taken due to decreased forward pricing.

**Third quarter 2015 highlights**

During the third quarter of 2015, Pine Cliff reports that it:

- Increased average daily sales volumes to 12,504 Boe/d as compared to 11,814 Boe/d in the second quarter of 2015. The increase is mainly a result of having a full quarter of production from the May 2015 Acquisition and fewer third party restrictions;
- Achieved quarterly funds flow from operations of $7.5 million, an increase of 36% as compared to the second quarter of 2015 funds flow from operations of $5.5 million. This increase is mainly a result of a slightly higher commodity price environment combined with increased production from the May 2015 Southern Asset acquisition;
- Realized a quarterly loss of $10.7 million, a 55% increase as compared to the second quarter of 2015 loss of $4.8 million, mainly a result of higher overall operating and depletion and depreciation expenses, a $7.6 million impairment expense, offset by increased revenue from operations; and
- Announced, subsequent to quarter end, entering into an agreement to acquire certain oil and natural gas assets in Central Alberta, as well as a $60.0 million bought deal financing and $3.0 million Private Placement, as defined herein.

## GUIDANCE FOR 2015

The 2015 guidance provides information as to management's expectation for results of operations for 2015. Readers are cautioned that the 2015 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

| | 2015 Guidance | Nine months ended September 30, 2015 |
|---|---|---|
| Barrels of oil equivalent per day | 11,800 - 12,300 | 12,115 |

Pine Cliff is projecting production volumes in 2015 to average between 11,800 Boe/d and 12,300 Boe/d, representing an increase of 53% over the 2014 average production (percent change based on the mid-point of the 2015 guidance). This guidance was upwardly revised as a result of the closing of the May 2015 Acquisition, on May 29, 2015. Pine Cliff is on track to meet its current production guidance for 2015 and anticipates adjusting its guidance concurrent with the closing of the Acquisition, as defined herein.

### Capital Expenditures

| | 2015 Guidance | Nine months ended September 30, 2015 |
|---|---|---|
| ($000's) | | |
| Total, excluding acquisitions | 7,500 | 5,384 |

Pine Cliff remains committed to adding assets to its portfolio and is optimistic that the current depressed commodity pricing environment may provide accretive acquisition opportunities for the Company. Pine Cliff is lowering its capital guidance for 2015 from $10.0 million to $7.5 million, before acquisitions, as a result of a delay in the timing of non-operated drilling. Capital expenditures during the first nine months of 2015 were $5.4 million, before acquisitions. Pine Cliff's capital budget is designed to be flexible based on natural gas pricing and is expected to be substantially lower than the Company's estimated 2015 funds flow from operations, based on current strip pricing, positioning Pine Cliff to continue to strengthen its balance sheet in 2015.

Pine Cliff expects 2015 operating expenses to average approximately $9.00 per Boe, royalties to average approximately 10% of revenue and general and administrative and net interest expenses to average approximately $1.80 per Boe, for an approximate corporate breakeven natural gas price of $2.00 per Mcf.

## SALES VOLUMES

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| **Total sales volumes by product** | **2015** | 2014 | **2015** | 2014 |
| Natural gas (Mcf) | **6,517,524** | 3,531,232 | **18,797,730** | 10,137,489 |
| Crude oil (Bbls) | **11,796** | 8,315 | **34,149** | 16,813 |
| NGLs (Bbls) | **52,391** | 29,687 | **140,197** | 64,839 |
| Barrels of oil equivalent | **1,150,441** | 626,541 | **3,307,301** | 1,771,234 |
| Natural gas weighting | **94%** | 94% | **95%** | 95% |

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| **Average daily sales volumes by product** | **2015** | 2014 | **2015** | 2014 |
| Natural gas (Mcf/d) | **70,843** | 38,383 | **68,856** | 37,134 |
| Crude oil (Bbls/d) | **128** | 90 | **125** | 60 |
| NGLs (Bbls/d) | **569** | 323 | **514** | 238 |
| Total (Boe/d) | **12,504** | 6,810 | **12,115** | 6,487 |

| Average daily sales volumes by property | Three months ended September 30 **2015** | 2014 | Nine months ended September 30 **2015** | 2014 |
|---|---|---|---|---|
| (Boe/d) | | | | |
| Southern Assets | **10,150** | 5,268 | **10,066** | 5,278 |
| Carrot Creek | **2,155** | 1,303 | **1,852** | 981 |
| Minor properties | **199** | 239 | **197** | 228 |
| Total | **12,504** | 6,810 | **12,115** | 6,487 |

Pine Cliff's sales volumes increased 87% in the nine months ended September 30, 2015, as compared to the same period of 2014, to 12,115 Boe/d (72,690 Mcfe/d). The increase was mainly due to a significant acquisition which was completed in the last quarter of 2014, as well as the May 2015 Acquisition, and small production adds from a modest 2014 and 2015 capital program. Also contributing to Pine Cliff's base production and low decline rate, during the second and third quarter of 2015, Pine Cliff reactivated approximately 80 wells that had been shut in the Southern Assets core area. Base production continues to perform extremely well in all areas with an estimated annual corporate decline of less than 13%.

Pine Cliff's sales volumes in the third quarter of 2015 increased 84% over the same quarter of 2014. In the third quarter of 2015, production was negatively impacted as a result of interruptible service curtailments on third party pipelines and shut in wells, deferring an average of 235 Boe/d and 80 Boe/d, respectively, in the third quarter of 2015. The majority of these curtailments have been lifted subsequent to quarter end and Pine Cliff's long life, low decline, natural gas assets continue to perform as expected, with production for October averaging approximately 12,850 Boe/d (77,100 Mcfe/d), based on field estimates.

**OPERATING AND CORPORATE NETBACKS**

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

| | Three months ended September 30 **2015** | 2014 | Nine months ended September 30 **2015** | 2014 |
|---|---|---|---|---|
| ($ per Boe) | | | | |
| Oil and gas sales | **18.25** | 27.88 | **17.31** | 29.91 |
| Royalties | **(1.37)** | (2.82) | **(1.10)** | (3.10) |
| Operating expenses | **(8.96)** | (9.98) | **(8.75)** | (9.45) |
| Operating netback | **7.92** | 15.08 | **7.46** | 17.36 |
| General and administrative expense | **(1.08)** | (2.26) | **(1.35)** | (2.18) |
| Interest and bank charges | **(0.40)** | (0.21) | **(0.37)** | (0.06) |
| Finance and dividend income | **0.08** | 0.33 | **0.09** | 0.34 |
| Corporate netback | **6.52** | 12.94 | **5.83** | 15.46 |
| Operating netback ($ per Mcfe) | **1.32** | 2.51 | **1.24** | 2.89 |
| Corporate netback ($ per Mcfe) | **1.09** | 2.16 | **0.97** | 2.58 |

Pine Cliff generated an operating netback of $7.92 and $7.46 per Boe for the three and nine months ended September 30, 2015, respectively, as compared to $15.08 and $17.36 per Boe for the three and nine months ended September 30, 2014. Overall, Pine Cliff generated a corporate netback of $6.52 and $5.83 per Boe for the three and nine months ended September 30, 2015, as compared to $12.94 and $15.46 per boe for the same period of 2014. The decreases in both the operating and corporate netback in the three and nine months ended September 30, 2015, as compared to the same period of 2014, are mainly due to lower commodity prices, partially offset by higher sales volumes and lower royalties and operating expenses per Boe.

**OIL AND GAS SALES**

| | Three months ended September 30 | | | | Nine months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | | 2014 | | **2015** | | 2014 | |
| (000s, except per Boe amounts) | **$** | **$ per Boe** | $ | $ per Boe | **$** | **$ per Boe** | $ | $ per Boe |
| Natural gas [1] | **19,199** | **2.95** | 15,164 | 4.29 | **51,794** | **2.76** | 47,304 | 4.67 |
| Crude oil | **565** | **47.90** | 654 | 78.65 | **1,751** | **51.27** | 1,451 | 86.30 |
| NGLs | **1,236** | **23.59** | 1,651 | 55.61 | **3,710** | **26.46** | 4,226 | 65.18 |
| Total sales | **21,000** | **18.25** | 17,469 | 27.88 | **57,255** | **17.31** | 52,981 | 29.91 |

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

Oil and gas sales for the three and nine months ended September 30, 2015 increased by 20% and 8%, respectively, as compared to the same periods of 2014. Oil and gas sales were higher due to increased sales volumes from acquisitions completed subsequent to the third quarter of 2014, offset by lower commodity prices in 2015. Pine Cliff's realized prices in the three and nine months ended September 30, 2015 were $18.25 and $17.31 per Boe, respectively, a decrease of 35% and 42% as compared to the same periods of 2014.

**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 - 2015** | Q2-2015 | Q1-2015 | Q4-2014 | Q3-2014 | Q2-2014 | Q1-2014 | Q4-2013 |
|---|---|---|---|---|---|---|---|---|
| **Natural gas** | | | | | | | | |
| NYMEX (US$/Mmbtu)[1] | **2.77** | 2.67 | 2.96 | 3.96 | 4.07 | 4.56 | 4.90 | 3.63 |
| AECO (C$/Mcf) | **2.89** | 2.64 | 2.74 | 3.58 | 4.00 | 4.67 | 5.69 | 3.52 |
| **Crude oil** | | | | | | | | |
| WTI (US$/Bbl) | **46.43** | 57.94 | 48.63 | 73.15 | 97.17 | 102.99 | 98.68 | 97.44 |
| Edmonton light (C$/Bbl) | **56.18** | 67.63 | 51.78 | 75.58 | 97.01 | 105.68 | 100.23 | 86.75 |
| **Foreign exchange** | | | | | | | | |
| US$/C$ | **1.3094** | 1.2294 | 1.2411 | 1.1357 | 1.0893 | 1.0905 | 1.1035 | 1.0498 |

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

In the first half of 2014, North American natural gas prices reached their highest average levels since 2008 as a result of a cold winter that established record setting demand resulting in depleted inventory levels in both Canada and the United States. Strong prices contributed to significant drilling activity resulting in supply growth leading to a supply-demand imbalance resulting in price deterioration for natural gas in the latter part of 2014 and continuing into 2015. In the third quarter of 2015 the benchmark AECO natural gas price in Canada decreased by 28% as compared to the third quarter of 2014, and average NYMEX gas price in the United States decreased by 32% in the same period. AECO prices have continued to weaken into October as a result of uncertainties around Western Canadian natural gas supplies and forecasts for a warm winter. The AECO monthly strip for the next 12 months is currently trading in the $2.63 per Mcf range. Pine Cliff's realized natural gas price was $2.95 per Mcf for the three months ended, and $2.76 Mcf for the nine months ended, September 30, 2015.

Similarly, in the first three quarters of 2014, North American crude oil prices continued to be strong, averaging over US$95 per bbl in the third quarter of 2014. The over-supplied nature of the oil market became apparent late in 2014 with this sentiment continuing into 2015 caused by the continued and increased production from the shale plays in the United States, slower than expected global demand growth and sustained production levels by the Organization of the Petroleum Exporting Countries ("OPEC"). As a result, there is currently a crude oil supply-demand imbalance. The sell-off in global oil prices was a market reaction to restore the supply-demand balance, given that OPEC has not reduced output in 2015. Current oil prices are below marginal supply costs for new production from many areas, resulting in a significant reduction in 2015 budgeted capital spending for the global energy sector. Reduced drilling activity is expected to slow supply growth, however there is a lag between drilling activity levels and resultant oil production due to the life cycle of well completions and tie-ins. WTI oil prices averaged US$46.43 per Bbl in the third quarter of 2015 as compared to US$97.17 per Bbl in the third quarter of 2014. Canadian crude prices are exchange traded and are based upon WTI in US dollars less a stream differential, adjusted for quality, less applicable transportation tolls from Edmonton, Alberta. In the three and nine months ended September 30, 2015, the realized price of Pine Cliff's oil was $47.90 and $51.27 per Bbl, respectively, as a result of quality adjustments to the average posted Edmonton light crude oil price of $56.18 and $58.24 per Bbl, respectively.

Historically, the average price of NGLs has tracked the price of oil. However, in recent years, 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 and nine months ended September 30, 2015, the realized price of Pine Cliff's NGLs was $23.59 and $26.46 per Bbl, respectively, representing approximately 40% and 45% of the Edmonton light crude oil prices as compared to 58% and 65% in the three and nine months ended September 30, 2014.

Pine Cliff does not currently utilize a hedging strategy and thereby has not eliminated 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 September 30 | | | | Nine months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | | 2014 | | **2015** | | 2014 | |
| (000s, except per Boe amounts) | **$** | **$ per Boe** | $ | $ per Boe | **$** | **$ per Boe** | $ | $ per Boe |
| Total | **1,575** | **1.37** | 1,769 | 2.82 | **3,651** | **1.10** | 5,495 | 3.10 |
| % of oil and gas sales | **8%** | | 10% | | **6%** | | 10% | |

Royalties for the three and nine months ended September 30, 2015 decreased 51% and 65%, respectively, to $1.37 and $1.10 per Boe, respectively, as compared to $2.82 and $3.10 per Boe for the three and nine months ended September 30, 2014, respectively. As a percentage of oil and gas sales, royalties in the three and nine months ended September 30, 2015 averaged 8% and 6%, respectively, as compared to 10% for both the three and nine months ended September 30, 2014. Royalty rates, which are dependent on production volumes per well and commodity prices, were lower in 2015 as a result of lower commodity prices as well as higher than anticipated royalty credits received on various properties in the second quarter.

**OPERATING EXPENSES**

| | Three months ended September 30 | | | | Nine months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | | 2014 | | **2015** | | 2014 | |
| (000s, except per Boe amounts) | **$** | **$ per Boe** | $ | $ per Boe | **$** | **$ per Boe** | $ | $ per Boe |
| Operating expenses | **10,304** | **8.96** | 6,254 | 9.98 | **28,943** | **8.75** | 16,731 | 9.45 |
| % of oil and gas sales | **49%** | | 36% | | **51%** | | 32% | |

Operating expenses per Boe for both the three and nine months ended September 30, 2015 decreased by 10% and 7%, respectively, as compared to the same periods of 2014. The decrease is due in part to lower average operating expenses per Boe on the shallow natural gas assets acquired in the fourth quarter of 2014 and second quarter of 2015.

Pine Cliff anticipates operating expenses to average approximately $9.00 per Boe ($1.50 per Mcfe) in 2015. Pine Cliff remains 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. In addition, as a result of the downturn in the oil and gas sector because of the current commodity price environment, Pine Cliff has been and will continue to work diligently with its suppliers to find additional cost savings and to date has been able to realize meaningful reductions in service costs.

**GENERAL AND ADMINISTRATIVE EXPENSES**

| | Three months ended September 30 | | | | Nine months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | | 2014 | | **2015** | | 2014 | |
| (000s, except per Boe amounts) | **$** | **$ per Boe** | $ | $ per Boe | **$** | **$ per Boe** | $ | $ per Boe |
| Total G&A | **1,242** | **1.08** | 1,417 | 2.26 | **4,480** | **1.35** | 3,863 | 2.18 |
| Less: non-recurring transaction costs | **(16)** | **(0.01)** | (77) | (0.12) | **(161)** | **(0.05)** | (77) | (0.04) |
| Add back: overhead recoveries | **78** | **0.07** | - | - | **158** | **0.05** | - | - |
| Adjusted G&A | **1,304** | **1.14** | 1,340 | 2.14 | **4,477** | **1.35** | 3,786 | 2.14 |
| % of oil and gas sales | **6%** | | 8% | | **8%** | | 7% | |

Adjusted general and administrative expenses ("G&A") per Boe, decreased 47% and 37% in the three and nine months ended September 30, 2015, respectively, as compared to the same periods of 2014. On an absolute dollar basis, G&A has increased in 2015 mainly due to increased staffing requirements associated with the 2014 and 2015 acquisitions. To keep G&A at a low level, Pine Cliff shares some common expenses with Bonterra Energy Corp. ("Bonterra"), a related party. As a result of the downturn in the commodity price environment in 2015, Pine Cliff has presently implemented a salary freeze for all staff and is working diligently to cut discretionary G&A.

In the nine months ended September 30, 2015, Pine Cliff incurred $0.2 million in transaction costs related to acquisitions. The transaction costs are comprised of legal, accounting, consulting and regulatory expenses associated with acquisitions.

**SHARE-BASED PAYMENTS**

| | Three months ended September 30 | | | | Nine months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | | 2014 | | **2015** | | 2014 | |
| (000s, except per Boe amounts) | **$** | **$ per Boe** | $ | $ per Boe | **$** | **$ per Boe** | $ | $ per Boe |
| Total | **899** | **0.78** | 456 | 0.73 | **2,551** | **0.77** | 1,499 | 0.85 |
| % of oil and gas sales | **4%** | | 3% | | **4%** | | 3% | |

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 nine months ended September 30, 2015, Pine Cliff granted stock options to purchase 459,000 common shares at a weighted average exercise price of $1.47. As at September 30, 2015, the Company had 12,775,300 stock options outstanding (September 30, 2014 – 11,112,000), representing 5.4% of common shares outstanding. In the three and nine months ended September 30, 2015, Pine cliff recorded share-based payment expenses of $0.9 million and $2.6 million, respectively, related to the stock options issued, (three and nine months ended September 30, 2014 - $0.5 million and $1.5 million, respectively).

**DEPLETION, DEPRECIATION, AND IMPAIRMENT**

| | Three months ended September 30 | | | | Nine months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | | 2014 | | **2015** | | 2014 | |
| (000s, except per Boe amounts) | **$** | **$ per Boe** | $ | $ per Boe | **$** | **$ per Boe** | $ | $ per Boe |
| Oil and gas assets | **12,044** | **10.47** | 5,987 | 9.56 | **34,877** | **10.55** | 16,311 | 9.21 |
| Office furniture and equipment | **86** | **0.07** | 48 | 0.08 | **238** | **0.07** | 111 | 0.06 |
| Impairment of oil and gas assets | **7,586** | **6.59** | - | - | **7,586** | **2.29** | - | - |
| Total | **19,716** | **17.13** | 6,035 | 9.64 | **42,701** | **12.91** | 16,422 | 9.27 |
| % of oil and gas sales | **94%** | | 35% | | **75%** | | 31% | |

Pine Cliff's depletion and depreciation expense, excluding impairments increased 9% and 15% on a per Boe basis in the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. The increase in depletion and depreciation expense, excluding impairments, per Boe in 2015 is mainly a result of a higher depletion rate on the Southern Assets which contributed approximately 81% and 83% of the total production for the three and nine months ended September 30, 2015, respectively.

At September 30, 2015, the Company determined that the carrying amount of the Carrot Creek/Edson Assets cash generating units ("CGUs") exceeded its fair value less costs of disposal. The full amount of the impairment was attributed to property, plant, and equipment, and as a result, an impairment loss of $7.6 million was recorded. The impairment in 2015 was largely a result of a decline in the current and forward commodity prices.

**FINANCE EXPENSES**

| | Three months ended September 30 | | | | Nine months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | | 2014 | | **2015** | | 2014 | |
| (000s, except per Boe amounts) | **$** | **$ per Boe** | $ | $ per Boe | **$** | **$ per Boe** | $ | $ per Boe |
| Unwinding of the discounted value of decommissioning liabilities | **1,029** | **0.89** | 324 | 0.52 | **2,831** | **0.86** | 975 | 0.55 |
| Interest and bank charges | **464** | **0.40** | 130 | 0.21 | **1,218** | **0.37** | 114 | 0.06 |
| Total | **1,493** | **1.29** | 454 | 0.73 | **4,049** | **1.23** | 1,089 | 0.61 |
| % of oil and gas sales | **7%** | | 3% | | **7%** | | 2% | |

In the three and nine months ended September 30, 2015, Pine Cliff incurred finance expenses of $1.5 million and $4.0 million, respectively, as compared to $0.5 million and $1.1 million in the three and nine months ended September 30, 2014, respectively. Finance expenses in 2015 primarily relate to the unwinding of the discounted value of the decommissioning liabilities, which has increased as a result of the decommissioning liabilities associated with acquisitions that closed in the last quarter of 2014.

On July 31, 2015, Pine Cliff entered into a $70 million syndicated credit facility with a syndicate of three Canadian Chartered Banks (the "Syndicated Facility"). The Syndicated Facility consists of a $60.0 million revolving syndicated credit facility and a $10.0 million revolving operating facility that replaced the Company's $70 million non-syndicated, revolving demand credit facility (the "Demand Facility"). Amounts drawn under the Syndicated Facility at September 30, 2015 were $43.6 million (December 31, 2014 - $47.8 million under the Demand Facility). Amounts borrowed under the Syndicated Facility bear interest at the Company's option of either Canadian prime rate plus 1.0% to 2.5% or the bankers' acceptance rate plus 2.0% to 3.5%, depending, in each case, on the ratio of consolidated debt to EBITDA, which is calculated as earnings (loss) excluding depreciation, depletion and accretion, share based payments, interest, taxes and other non-cash items.

The Syndicated Facility is a one year revolving facility with the initial revolving period ending on July 31, 2016 and is reviewed semi-annually. If the Syndicated Facility is not renewed it will convert to a 364-day term loan. The Syndicated Facility has no fixed terms of repayment. Fees related to the Syndicated Facility totaled $0.2 million of which $0.2 million has been deferred over the term of the debt and $0.04 million was expensed for the nine months ended September 30, 2015.

**FINANCE AND DIVIDEND INCOME**

| | Three months ended September 30 | | | | Nine months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | | 2014 | | **2015** | | 2014 | |
| (000s, except per Boe amounts) | **$** | **$ per Boe** | $ | $ per Boe | **$** | **$ per Boe** | $ | $ per Boe |
| Finance and dividend income | **92** | **0.08** | 207 | 0.33 | **305** | **0.09** | 595 | 0.34 |
| % of oil and gas sales | **0%** | | 1% | | **1%** | | 1% | |

In the three and nine months ended September 30, 2015, Pine Cliff received $0.1 million and $0.3 million, respectively, in dividends from its investment in Bonterra (three and nine months ended September 30, 2014 - $0.2 million and $0.6 million, respectively).

**INCOME TAXES**

| | Three months ended September 30 | | | | Nine months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | | 2014 | | **2015** | | 2014 | |
| (000s, except per Boe amounts) | **$** | **$ per Boe** | $ | $ per Boe | **$** | **$ per Boe** | $ | $ per Boe |
| Deferred tax expense (recovery) | **(3,440)** | **(2.99)** | 373 | 0.60 | **(7,858)** | **(2.38)** | 2,257 | 1.27 |
| % of oil and gas sales | **16%** | | 2% | | **14%** | | 4% | |

During the three and nine months ended September 30, 2015 Pine Cliff recorded deferred tax recovery of $3.4 million and $7.9 million, respectively (three and nine months ended September 30, 2014 – expense of $0.4 million and $2.3 million, respectively). The deferred tax recovery is primarily related to the $7.6 million impairment loss recorded on the Carrot Creek/Edson Assets. Effective July 1, 2015, the Alberta provincial government announced a 20% increase in Alberta corporate income tax rates from 10% to 12%, increasing Pine Cliff's deferred tax asset by approximately $1.6 million.

Pine Cliff has approximately $301.9 million in tax pools at September 30, 2015 (September 30, 2014 – $192.3 million) available for future use as deductions from taxable income. The significant increase in tax pools is a result of tax pools that were acquired in acquisitions in the last quarter of 2014, as well as the May 2015 Acquisition in the second quarter of 2015.

**EARNINGS (LOSS)**

Year to date to year to date variance analysis:

| ($000s) | |
|---|---|
| **Earnings for the nine months ended September 30, 2014** | **6,220** |
| Price variance | (22,318) |
| Volume variance | 26,592 |
| Royalties | 1,844 |
| Operating expenses | (12,212) |
| General and administrative | (617) |
| Share-based payments | (1,052) |
| Depletion and depreciation | (18,693) |
| Finance expenses | (2,960) |
| Finance and dividend income | (290) |
| Deferred tax recovery (expense) | 10,115 |
| Impairment of property, plant and equipment | (7,586) |
| **Loss for the nine months ended September 30, 2015** | **(20,957)** |

In the nine months ended September 30, 2015, earnings decreased by $27.2 million to a loss of $21.0 million, as compared to earnings of $6.2 million in the nine months ended September 30, 2014. The decrease in earnings is due to a lower commodity price environment, higher depletion and depreciation expenses and an impairment expense in 2015. This was offset by a positive volume variance, a decrease in royalties and a deferred tax recovery in 2015.

**Other comprehensive earnings**

Other comprehensive earnings relates to the decrease in fair value of Pine Cliff's investment in Bonterra, Nighthawk Gold Corp. and another public corporation. At September 30, 2015, Pine Cliff's investments have a fair value of $4.1 million as compared to $8.8 million at December 31, 2014.

**FUNDS FLOW FROM OPERATIONS**

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| ($000s, except per Boe amounts) | | | | |
| Earnings (loss) for the period | **(10,697)** | 918 | **(20,957)** | 6,220 |
| Adjustments for: | | | | |
| Share-based payments | **899** | 456 | **2,551** | 1,499 |
| Unwinding of the discount on decommissioning liabilities | **1,029** | 324 | **2,831** | 975 |
| Depletion, depreciation, and impairment | **19,716** | 6,035 | **42,701** | 16,422 |
| Deferred tax expense (recovery) | **(3,440)** | 371 | **(7,858)** | 2,257 |
| Funds flow from operations | **7,507** | 8,104 | **19,268** | 27,373 |
| Funds flow from operations ($/Boe) | **6.52** | 12.94 | **5.83** | 15.46 |
| Funds flow from operations ($/Mcfe) | **1.09** | 2.16 | **0.97** | 2.58 |

Funds flow from operations, which represents cash flow from operating activities before changes in non-cash working capital, was $7.5 million and $19.3 million in the three and nine months ended September 30, 2015, respectively, as compared to $8.1 million and $27.3 million in the same periods of 2014. The decrease in funds flow from operations is primarily due to a lower commodity price environment, offset by an increase in production volumes of the Company with the acquisitions in the last quarter of 2014 and the second quarter of 2015.

**SHARE CAPITAL**

As of September 30, 2015, a total of 236,919,759 Pine Cliff shares were issued and outstanding. During the nine months ended September 30, 2015, Pine Cliff issued 3,040,500 common shares as a result of stock option exercises.

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

| ($000s) | **Nine months ended September 30, 2015** | Year ended December 31, 2014 |
|---|---|---|
| Exploration and evaluation assets - minerals division | **34** | 50 |
| Oil and gas assets | **4,976** | 10,765 |
| Vehicles and administrative assets | **374** | 272 |
| Acquistions | **15,456** | 144,543 |
| Dispositions | **-** | (3,229) |
| Capitalized decomissioning liabilities | **9,816** | 110,666 |
| Total | **30,656** | 263,067 |

In the nine months ended September 30, 2015, Pine Cliff added $30.7 million in capital assets to its balance sheet as compared to $263.1 million in the year ended December 31, 2014. Included in these additions were acquisitions of $15.5 million in certain oil and natural gas assets in the Carrot Creek/Edson area of Alberta and certain shallow natural gas assets in Southern Alberta in May 2015.

Additionally, Pine Cliff participated in one gross (0.4 net) liquids rich gas well in the Carrot Creek/Edson Assets core area, reactivated approximately 80 wells in the Southern Assets core area, recompleted an existing wellbore in the Carrot Creek/Edson Assets core area and conducted major turnovers and upgrades on facilities on the Southern Assets and the Carrot Creek/Edson Assets.

The additions to property, plant and equipment also included an increase of $9.8 million for the nine months ended September 30, 2015 (December 31, 2014 – an increase of $110.7 million) as a result of changes to the decommissioning liabilities recognized through revisions to the estimated discount rates and the outflows to settle the decommissioning liability in the future.

**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 company 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 September 30, 2015 and 2014 were $0.02 million and $0.05 million, respectively, plus the reimbursement of certain administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As at September 30, 2015, Pine Cliff owed Bonterra $0.1 million (December 31, 2014 – $0.2 million).

**Investment in Bonterra**

As at September 30, 2015, Pine Cliff owns 204,633 common shares in Bonterra (December 31, 2014 – 204,633) representing less than 1% of the outstanding shares of Bonterra at that date. The shares, as of September 30, 2015, have a fair value of approximately $4.0 million (December 31, 2014 – $8.5 million). For the three and nine months ended September 30, 2015, Pine Cliff received dividend income of $0.1 million and $0.3 million, respectively (three and nine months ended September 30, 2014 - $0.2 million and $0.5 million, respectively).

**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 and to acquire strategic oil and gas assets.

The following table highlights Pine Cliff's sources and uses of cash for the three and nine month periods ended September 30, 2015 and 2014:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| ($000s) | | | | |
| Funds flow from operations | **7,507** | 8,104 | **19,268** | 27,373 |
| Bank debt proceeds (repayment) | **(3,961)** | 3,282 | **(4,209)** | 3,082 |
| Issuance of common shares, net of share issue costs | **-** | 57,166 | **-** | 57,166 |
| Share issue costs | **-** | - | **(8)** | - |
| Exercise of stock options | **-** | 309 | **2,595** | 2,372 |
| Increase (decrease) in non-cash working capital | **(1,493)** | (11,675) | **1,488** | (15,156) |
| Decrease in cash | **(168)** | (22,708) | **(225)** | (37,249) |
| Total capital expenditures, including acquisitions | **1,885** | 34,478 | **18,909** | 37,588 |
| Capital expenditures, including acquisitions: | | | | |
| Oil and gas | **1,851** | 34,456 | **18,875** | 37,539 |
| Minerals | **34** | 22 | **34** | 49 |

In the third quarter of 2015, Pine Cliff funded its capital expenditures from its funds flow from operations. The existing banking arrangements at September 30, 2015 is a Syndicated Facility with three Canadian chartered banks, which consists of a $60 million revolving term credit facility and a $10 million revolving operating facility, of which $43.5 million is drawn. The Syndicated Facility is a one year revolving facility with the initial revolving period ending on July 31, 2016. If the Syndicated Facility is not renewed it will convert to a 364-day term loan.

Amounts borrowed under the Syndicated Facility bear interest at the Company's option of either the Canadian prime rate plus 1.0% to 2.5% or the bankers' acceptance rate plus 2.0% to 3.5%, depending, in each case, on the ratio of consolidated debt to earnings before interest, taxes, depreciation, and amortization. The proceeds of the Syndicated Facility may be used for general corporate purposes, including working capital and acquisitions.

Funds flow from operations and the unused portion of the Syndicated 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 for acquisitions, will consider additional short-term financing or issuing equity in order to meet such 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. As at September 30, 2015, the Company had working capital of $8.4 million as compared to a working capital deficit at December 31, 2014 of $33.5 million, mainly a result of the bank debt being considered a current liability.

**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 | 11,436 | 11,436 | - | - |
| Office and equipment leases | 27 | 18 | 1 | 8 |
| Vehicle leases | 523 | 71 | 69 | 383 |
| Bank loan - principal | 43,546 | - | - | 43,546 |
| Bank loan - future interest | 2,993 | 816 | 816 | 1,361 |
| Total commitments and contingencies | 58,525 | 12,341 | 886 | 45,298 |

**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, 2014.

**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, 2014.

**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 2014 Annual Financial Statements.

**Future accounting pronouncements**

**IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")**
In May 2014, the IASB published the new revenue standard, IFRS 15, which specifies how and when revenue should be recognized and requires more informative and relevant disclosures. The standard is required to be applied on first interim periods beginning on or after January 1, 2018, with early application permitted. The Company is currently assessing the impact the adoption of this standard will have on the financial statements.

**IFRS 9 *Financial Instruments*** ("**IFRS 9**")
In July 2014, the IASB has amended IFRS 9 which amends its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The Company is currently assessing the impact the adoption of this standard will have on the financial statements.

***IFRS 11 Joint Arrangements* ("IFRS 11")**
In May 2014 IFRS 11, Joint Arrangements, was clarified by adding new guidance on the accounting for the acquisition of an interest in joint operations that constitute a business. The IASB decided that acquirers of such interests shall apply all of the principles on business combinations accounting in IFRS 3, *Business Combinations*, and other IFRSs, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRSs in relation to business combinations. The new IFRS 11 guidance is effective for annual periods beginning on or after January 1, 2016. The Company is currently assessing the impact the adoption of this standard will have on the financial statements.

## SUBSEQUENT EVENTS

### Agreement to acquire certain Central Alberta oil and natural gas assets

On November 9, 2015, Pine Cliff announced entering into a purchase and sale agreement (the "Agreement") to acquire certain natural gas and oil assets in Central Alberta for cash consideration of $185.0 million, prior to any adjustments (the "Acquisition"), of which Pine Cliff paid a deposit of $18.5 million on November 9, 2015.

The Acquisition will have an effective date of July 1, 2015 and is presently expected to close on or around December 11, 2015. Although the Agreement is binding between the parties, completion of the Acquisition is subject to numerous standard conditions, including title review, rights of first refusals and regulatory approvals. No assurances can be given that the Acquisition will be completed as proposed or at all.

### Public share offering

On November 9, 2015, Pine Cliff announced that it had entered into an agreement with a syndicate of underwriters who have agreed to purchase, on a bought deal basis, 55.6 million subscription receipts ("Subscription Receipts") at a price of $1.08 per Subscription Receipt for aggregate gross proceeds of $60 million. Pine Cliff has granted the underwriters an option to purchase an additional 8.3 million Subscription Receipts (the "Over Allotment Option") on the same terms and conditions, exercisable for a period of 30 days following the closing of the Subscription Receipts. Additionally, the Company announced a private placement of common shares to board of directors members, management, employees, and certain consultants, at the same price as the Subscription Receipts, for aggregate gross proceeds of up to $3.0 million (the "Private Placement" and together with the Subscription Receipts and the Over Allotment Option, the "Offering"). The proceeds of the Offering will be used to fund a portion of the Acquisition.

### Issue of stock options

Subsequent to September 30, 2015, Pine Cliff granted 200,000 stock options to an employee with an exercise price of $1.30, based on the market price immediately preceding the date of grant. The options vest on October 21, 2016 and expire on October 21, 2017.

## NON-IFRS MEASURES

*This MD&A uses the terms "funds flow from operations", "funds flow from operations per share", "funds flow from operations per Boe", "funds flow from operations per Mcfe", "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 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| ($000s) | | | | |
| Cash flow from operating activities | **6,617** | 6,390 | **19,795** | 23,672 |
| Adjusted by: | | | | |
| Increase (decrease) in non-cash working capital | **(890)** | (1,714) | **527** | (3,701) |
| Funds flow from operations | **7,507** | 8,104 | **19,268** | 27,373 |

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

*The Company considers corporate netback to be a key indicator of overall profitability. Corporate netback and corporate netback per Boe and per Mcfe are calculated as operating netback, less G&A and interest expense plus finance and dividend income on an absolute and on an absolute and a per Boe or per Mcfe basis, respectively. The Company considers net debt to be a key indicator of liquidity. Net debt is calculated as the sum of bank debt and trade and other payables less trade and other receivables, cash, prepaid expenses and deposits and investments.*

**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; future acquisition opportunities including Pine Cliff's ability to execute on those opportunities; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and guidance; expansion and growth of our business and operations; amounts drawn on Pine Cliff's credit facility and repayment thereof; maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; risks; 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 interim condensed consolidated financial statements as presented in this interim report.

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

| | Note | **As at September 30, 2015** | As at December 31, 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | | | |
| Cash and cash equivalents | | **425** | 200 |
| Trade and other receivables | | **11,796** | 14,582 |
| Prepaid expenses and deposits | | **3,497** | 1,990 |
| Investments | 4 | **4,056** | 8,755 |
| Total current assets | | **19,774** | 25,527 |
| Exploration and evaluation assets | 5 | **9,845** | 9,126 |
| Property, plant and equipment | 6 | **335,859** | 348,623 |
| Deferred taxes | | **35,871** | 27,421 |
| Total assets | | **401,349** | 410,697 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Trade and other payables | | **11,436** | 11,280 |
| Bank debt | 7 | **-** | 47,755 |
| Total current liabilities | | **11,436** | 59,035 |
| Bank debt | 7 | **43,546** | - |
| Decommissioning liabilities | 8 | **179,151** | 164,513 |
| Total liabilities | | **234,133** | 223,548 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 9 | **195,145** | 191,319 |
| Contributed surplus | | **3,574** | 2,262 |
| Accumulated other comprehensive loss | | **(5,201)** | (1,087) |
| Deficit | | **(26,302)** | (5,345) |
| Total shareholders' equity | | **167,216** | 187,149 |
| Total liabilities and shareholders' equity | | **401,349** | 410,697 |

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 2015 | 2014 | Nine months ended September 30 2015 | 2014 |
|---|---|---|---|---|---|
| Oil and gas sales | | **21,000** | 17,469 | **57,255** | 52,981 |
| Royalties | | **(1,575)** | (1,769) | **(3,651)** | (5,495) |
| Finance and dividend income | 4 | **92** | 207 | **305** | 595 |
| **REVENUE** | | **19,517** | 15,907 | **53,909** | 48,081 |
| **EXPENSES** | | | | | |
| Operating | | **10,304** | 6,254 | **28,943** | 16,731 |
| General and administration | | **1,242** | 1,417 | **4,480** | 3,863 |
| Depletion and depreciation | 6 | **12,130** | 6,035 | **35,115** | 16,422 |
| Impairment of property, plant and equipment | 6 | **7,586** | - | **7,586** | - |
| Share-based payments | 9 | **899** | 456 | **2,551** | 1,499 |
| Finance expenses | | **1,493** | 454 | **4,049** | 1,089 |
| Total expenses | | **33,654** | 14,616 | **82,724** | 39,604 |
| Earnings (loss) before income taxes | | **(14,137)** | 1,291 | **(28,815)** | 8,477 |
| Deferred tax expense (recovery) | | **(3,440)** | 373 | **(7,858)** | 2,257 |
| **EARNINGS (LOSS) FOR THE PERIOD** | | **(10,697)** | 918 | **(20,957)** | 6,220 |
| **Earnings (loss) per share ($)** | 9 | | | | |
| Basic | | **(0.05)** | 0.00 | **(0.09)** | 0.03 |
| Diluted | | **(0.05)** | 0.00 | **(0.09)** | 0.03 |

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 2015 | 2014 | Nine months ended September 30 2015 | 2014 |
|---|---|---|---|---|
| Earnings (loss) for the period | **(10,697)** | 918 | **(20,957)** | 6,220 |
| **OTHER COMPREHENSIVE EARNINGS (LOSS)** | | | | |
| Unrealized gain (loss) on investments | **(2,511)** | (1,674) | **(4,700)** | 555 |
| Deferred taxes on unrealized loss (gain) on investments | **313** | 230 | **586** | (70) |
| **OTHER COMPREHENSIVE EARNINGS (LOSS) FOR THE PERIOD, NET OF TAX** | **(2,198)** | (1,444) | **(4,114)** | 485 |
| **TOTAL COMPREHENSIVE EARNINGS (LOSS) FOR THE PERIOD** | **(12,895)** | (526) | **(25,071)** | 6,705 |

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 2015 | Three months ended September 30 2014 | Nine months ended September 30 2015 | Nine months ended September 30 2014 |
|---|---|---|---|---|---|
| **CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):** | | | | | |
| **OPERATING ACTIVITIES** | | | | | |
| Earnings (loss) for the period | | **(10,697)** | 918 | **(20,957)** | 6,220 |
| Items not affecting cash: | | | | | |
| Share-based payments | | **899** | 456 | **2,551** | 1,499 |
| Depletion and depreciation | | **12,130** | 6,035 | **35,115** | 16,422 |
| Finance expenses | | **1,493** | 454 | **4,049** | 1,089 |
| Deferred tax expense (recovery) | | **(3,440)** | 373 | **(7,858)** | 2,257 |
| Impairment of property, plant and equipment | 6 | **7,586** | - | **7,586** | - |
| Changes in non-cash working capital accounts | | **(890)** | (1,714) | **527** | (3,701) |
| Interest and bank charges paid | | **(464)** | (132) | **(1,218)** | (114) |
| Cash and cash equivalents provided by operating activities | | **6,617** | 6,390 | **19,795** | 23,672 |
| **INVESTING ACTIVITIES** | | | | | |
| Expenditures on property, plant and equipment | 6 | **(726)** | (5,269) | **(4,049)** | (8,352) |
| Disposition of property, plant, and equipment | 6 | **-** | 2,929 | **-** | 2,929 |
| Expenditures on exploration and evaluation | 5 | **(1,325)** | (22) | **(1,335)** | (49) |
| Acquisitions, net of working capital acquired | 3 | **166** | (32,116) | **(13,525)** | (32,116) |
| Changes in non-cash working capital accounts | | **(603)** | (10,089) | **961** | (11,583) |
| Cash and cash equivalents used in investing activities | | **(2,488)** | (44,567) | **(17,948)** | (49,171) |
| **FINANCING ACTIVITIES** | | | | | |
| Issuance of common shares, net of share issue costs | 9 | **-** | 57,166 | **-** | 57,166 |
| Share issue costs | 9 | **-** | - | **(8)** | - |
| Exercise of stock options | 9 | **-** | 309 | **2,595** | 2,372 |
| Bank debt, net | 7 | **(3,961)** | 3,282 | **(4,209)** | 3,082 |
| Changes in non-cash working capital accounts | | **-** | 128 | **-** | 128 |
| Cash and cash equivalents provided by (used in) financing activities | | **(3,961)** | 60,885 | **(1,622)** | 62,748 |
| Increase in cash and cash equivalents | | **168** | 22,708 | **225** | 37,249 |
| Cash and cash equivalents - beginning of period | | **257** | 15,846 | **200** | 1,305 |
| **CASH AND CASH EQUIVALENTS - END OF PERIOD** | | **425** | 38,554 | **425** | 38,554 |

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

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

| | Note | Share capital | Contributed surplus [1] | Accumulated other comprehensive earnings (loss) [2] | Retained earnings (deficit) | Total equity |
|---|---|---|---|---|---|---|
| **BALANCE AT JANUARY 1, 2014** | | **127,002** | **3,856** | **1,567** | **(3,403)** | **129,022** |
| Issuance of shares | | 60,065 | - | - | - | 60,065 |
| Share issue costs, net of tax | | (2,175) | - | - | - | (2,175) |
| Earnings for the period | | - | - | - | 6,220 | 6,220 |
| Other comprehensive earnings for the period | | - | - | 485 | - | 485 |
| Share-based payments | 9 | - | 1,499 | - | - | 1,499 |
| Exercise of options | | 5,812 | (3,440) | - | - | 2,372 |
| **BALANCE AT SEPTEMBER 30, 2014** | | **190,704** | **1,915** | **2,052** | **2,817** | **197,488** |
| Share issue costs, net of tax | | (17) | - | - | - | (17) |
| Loss for the period | | - | - | - | (8,162) | (8,162) |
| Other comprehensive loss for the period | | - | - | (3,139) | - | (3,139) |
| Share-based payments | 9 | - | 746 | - | - | 746 |
| Exercise of options | | 632 | (399) | - | - | 233 |
| **BALANCE AT DECEMBER 31, 2014** | | **191,319** | **2,262** | **(1,087)** | **(5,345)** | **187,149** |
| Share issue costs, net of tax | 9 | (8) | - | - | - | (8) |
| Loss for the period | | - | - | - | (20,957) | (20,957) |
| Other comprehensive loss for the period | | - | - | (4,114) | - | (4,114) |
| Share-based payments | 9 | - | 2,551 | - | - | 2,551 |
| Exercise of options | | 3,834 | (1,239) | - | - | 2,595 |
| **BALANCE AT SEPTEMBER 30, 2015** | | **195,145** | **3,574** | **(5,201)** | **(26,302)** | **167,216** |

[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 September 30, 2015 and December 31, 2014 and for the three and nine month periods ended September 30, 2015 and 2014 (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 had historically been 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* 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, 2014 ("2014 Annual Financial Statements").

The Financial Statements were authorized for issue by the Company's board of directors on November 12, 2015.

### b) Accounting policies 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 2014 Annual Financial Statements.

**Future accounting pronouncements**

**IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")**
In May 2014, the IASB published the new revenue standard, IFRS 15, which specifies how and when revenue should be recognized and requires more informative and relevant disclosures. The standard is required to be applied on first interim periods beginning on or after January 1, 2018, with early application permitted. The Company is currently assessing the impact the adoption of this standard will have on the Financial Statements.

**IFRS 9 *Financial Instruments*** ("**IFRS 9**")
In July 2014, the IASB has amended IFRS 9 which amends its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The Company is currently assessing the impact the adoption of this standard will have on the Financial Statements.

***IFRS 11 Joint Arrangements* ("IFRS 11")**
In May 2014 IFRS 11, Joint Arrangements, was clarified by adding new guidance on the accounting for the acquisition of an interest in joint operations that constitute a business. The IASB decided that acquirers of such interests shall apply all of the principles on business combinations accounting in IFRS 3, *Business Combinations*, and other IFRSs, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRSs in relation to business combinations. The new IFRS 11 guidance is effective for annual periods beginning on or after January 1, 2016. The Company is currently assessing the impact the adoption of this standard will have on the Financial Statements.

## 3. ACQUISTIONS

**Acquisition of core area assets**
On May 29, 2015, Pine Cliff completed the acquisition of certain oil and natural gas assets (the "Assets") in the Carrot Creek/Edson area and in the Southern Assets area in the Province of Alberta (the "May 2015 Acquisition") for cash consideration of $14.1 million, prior to any adjustments.

The results of the May 2015 Acquisition have been included in the financial statements since May 29, 2015. The Assets have contributed oil and gas sales, net of royalties, of $2.1 million and operating expenses of $0.9 million for the period from May 29, 2015 to September 30, 2015. If the May 2015 Acquisition had occurred on January 1, 2015, the Company's total oil and gas sales, net of royalties, would have been approximately $55.6 million and operating expenses would have been approximately $29.4 million for the nine months ended September 30, 2015, including the Assets. Pine Cliff does not believe it is practical to estimate the effect on future periods.

The May 2015 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:

| Net assets acquired: | |
|---|---|
| Property and equipment | 14,493 |
| Exploration and evaluation assets | 684 |
| Decommissioning liabilities | (1,888) |
| Total net assets acquired | 13,289 |

| Consideration: | |
|---|---|
| Cash | 13,289 |
| Total purchase price | 13,289 |

Transaction costs of $0.2 million were expensed in the nine month period ended September 30, 2015 and are included in general and administrative expenses in the condensed consolidated statement of earnings (loss) and are part of operating cash flows in the condensed consolidated statement of cash flows. The purchase price allocation is preliminary and is subject to change based on the final statement of adjustments for the May 2015 Acquisition.

## 4. TRANSACTIONS WITH RELATED PARTIES

**Management services agreement**
Pine Cliff has a management services agreement with Bonterra Energy Corp. ("Bonterra"), an oil and gas company 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 September 30, 2015 and 2014 were $0.02 million and $0.05 million, respectively, plus the reimbursement of certain administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As at September 30, 2015, Pine Cliff owed Bonterra $0.1 million (December 31, 2014 – $0.2 million).

**Investment in Bonterra**
As at September 30, 2015, Pine Cliff owns 204,633 common shares in Bonterra (December 31, 2014 – 204,633) representing less than 1% of the outstanding shares of Bonterra at that date. The shares, as of September 30, 2015, have a fair value of approximately $4.0 million (December 31, 2014 – $8.5 million). For the three and nine months ended September 30, 2015, Pine Cliff received dividend income of $0.1 million and $0.3 million, respectively (three and nine months ended September 30, 2014 - $0.2 million and $0.5 million, respectively).

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, 2013 | 5,436 | 1,979 | 7,415 |
| Additions | - | 50 | 50 |
| Acquisitions | 1,661 | - | 1,661 |
| Balance at December 31, 2014 | 7,097 | 2,029 | 9,126 |
| Additions | 1,301 | 34 | 1,335 |
| Transfer to property, plant and equipment | (1,300) | - | (1,300) |
| Acquisitions | 684 | - | 684 |
| **Balance at September 30, 2015** | **7,782** | **2,063** | **9,845** |

## 6. 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, 2013 | 141,236 | 538 | 141,774 |
| Additions | 10,765 | 272 | 11,037 |
| Acquisitions | 142,882 | - | 142,882 |
| Decomissioning liabilities | 110,666 | - | 110,666 |
| Dispositions | (3,898) | - | (3,898) |
| Balance at December 31, 2014 | 401,651 | 810 | 402,461 |
| Additions | 3,675 | 374 | 4,049 |
| Transfer from exploration and evaluation | 1,300 | - | 1,300 |
| Acquisitions | 14,772 | - | 14,772 |
| Decomissioning liabilities | 9,816 | - | 9,816 |
| **Balance at September 30, 2015** | **431,214** | **1,184** | **432,398** |

| Accumulated depletion and depreciation: | Oil and gas properties | Administrative assets | Total |
|---|---|---|---|
| Balance at December 31, 2013 | (21,654) | (104) | (21,758) |
| Depletion and depreciation | (28,690) | (224) | (28,914) |
| Impairment | (3,835) | - | (3,835) |
| Dispositions | 669 | - | 669 |
| Balance at December 31, 2014 | (53,510) | (328) | (53,838) |
| Depletion and depreciation | (34,877) | (238) | (35,115) |
| Impairment | (7,586) | - | (7,586) |
| **Balance at September 30, 2015** | **(95,973)** | **(566)** | **(96,539)** |

| Carrying value at: | Oil and gas properties | Administrative assets | Total |
|---|---|---|---|
| December 31, 2014 | 348,141 | 482 | 348,623 |
| **September 30, 2015** | **335,241** | **618** | **335,859** |

**Impairment Assessment**
In accordance with IFRS, an impairment test is performed on a cash generating unit ("CGU") if the Company identifies an indicator of impairment. At September 30, 2015, the Company determined that indicators of impairment existed due to a decline in the current and forward commodity prices, therefore an impairment test was performed for all of the Company's CGUs.

An impairment is recognized if the carrying value of a CGU exceeds the recoverable amount for that CGU. The Company determines the recoverable amount by using fair value less costs to sell, based on discounted future cash flows of proved plus probable reserves using forecast prices and costs, discounted at a rate of 10%. In determining the appropriate discount rate, Pine Cliff referenced recent market transactions completed on assets similar to those in its CGUs.

The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at September 30, 2015. The forecast commodity prices are based on those used by the Company's external reserve evaluators at September 30, 2015 and are a key assumption in assessing the recoverable amount.

| Year | WTI Oil (US$/bbl) [1] | Foreign Exchange Rate [1] | Edmonton Light Crude Oil (Cdn$/bbl) [1] | AECO Gas (Cdn$/mmbtu) [1] |
|---|---|---|---|---|
| 2015 (3 months) | 50.00 | 0.7600 | 60.80 | 2.90 |
| 2016 | 55.00 | 0.7600 | 67.40 | 3.35 |
| 2017 | 61.20 | 0.7800 | 73.40 | 3.65 |
| 2018 | 65.00 | 0.7800 | 78.10 | 3.85 |
| 2019 | 69.00 | 0.8000 | 80.90 | 4.00 |
| 2020-2025 | 82.62 | 0.8000 | 97.58 | 4.78 |
| Thereafter | + 2.0%/yr | 0.8000 | + 2.0%/yr | + 2.0%/yr |

[1] Source: McDaniel & Associates Consultants Ltd. price forecasts, effective October 1, 2015.

The external reserve evaluators also assess many other financial assumptions regarding royalty rates, operating costs and future development capital, along with several other non-financial assumptions with a direct bearing on reserve volumes. Management considered these assumptions for the impairment test at September 30, 2015, however, it should be noted that all estimates are subject to uncertainty.

At September 30, 2015, the Company determined that the carrying amount of the Carrot Creek/Edson CGU exceeded its fair value. The full amount of the impairment was attributed to property, plant, and equipment and, as a result, an impairment loss of $7.6 million was recorded. The impairment in 2015 was largely a result of a decline in the current and forward commodity prices.

**7. BANK DEBT**

On July 31, 2015, Pine Cliff entered into a $70 million syndicated credit facility with a syndicate of three Canadian Chartered Banks (the "Syndicated Facility"). The Syndicated Facility consists of a $60.0 million revolving syndicated credit facility and a $10.0 million revolving operating facility that replaced the Company's $70 million non-syndicated, revolving demand credit facility (the "Demand Facility"). Security for the Syndicated Facility consists of floating demand debentures totaling $150,000,000 and a general security agreement with first ranking over all current and acquired properties. Amounts drawn under the Syndicated Facility at September 30, 2015 were $43.6 million (December 31, 2014 - $47.8 million under the Demand Facility). Amounts borrowed under the Syndicated Facility bear interest at the Company's option of either Canadian prime rate plus 1.0% to 2.5% or the bankers' acceptance rate plus 2.0% to 3.5%, depending, in each case, on the ratio of consolidated debt to EBITDA, which is calculated as earnings (loss) excluding depreciation, depletion and accretion, share based payments, interest, taxes and other non-cash items.

The Syndicated Facility is a one year revolving facility with the initial revolving period ending on July 31, 2016 and is reviewed semi-annually. If the Syndicated Facility is not renewed it will convert to a 364-day term loan. The Syndicated Facility has no fixed terms of repayment. Fees related to the Syndicated Facility totaled $0.2 million of which $0.2 million has been deferred over the term of the debt and $0.04 million was expensed for the nine months ended September 30, 2015.

Pine Cliff has a $0.6 million letter of credit issued against its Syndicated Facility. The Company was in compliance with its bank covenants during the three and nine month periods ended September 30, 2015.

## 8. DECOMMISSIONING LIABILITIES

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

At September 30, 2015, the estimated total undiscounted amount required to settle the decommissioning liabilities was $207.4 million (December 31, 2014 - $196.3 million). The provision has been calculated assuming a 1.7% inflation rate (December 31, 2014 – 1.6%). These obligations will be settled based on the useful lives of the underlying assets which extend up to 56 years into the future. This amount has been discounted using an average risk-free interest rate of 2.4% (December 31, 2014 – 2.3%).

Changes to decommissioning liabilities were as follows:

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| Decommissioning provision, beginning of period | **164,513** | 42,685 |
| Provisions acquired through acquisitions | **1,952** | 9,242 |
| Increase in liabilities relating to development activities | **39** | - |
| Revisions (changes in estimates and discount rates) | **9,816** | 110,664 |
| Accretion expense during period | **2,831** | 1,922 |
| Decommissioning provision, end of period | **179,151** | 164,513 |

## 9. 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, 2014 | 200,192 | 127,002 |
| Shares issued pursuant to public share offerings | 29,300 | 60,065 |
| Exercise of options | 4,387 | 6,444 |
| Share issue costs, net of tax | - | (2,192) |
| Balance at December 31, 2014 | 233,879 | 191,319 |
| Exercise of options | 3,041 | 3,834 |
| Share issue costs, net of tax | - | (8) |
| Balance at September 30, 2015 | **236,920** | **195,145** |

**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 the three and nine month periods ended September 30, 2015, all options were excluded as there was a loss in the periods then ended (three and nine month periods ended September 30, 2014 - excluded 282,000 and 871,500 options, respectively, as their effect is anti-dilutive).

| Earnings per share calculation: | Three months ended September 30 **2015** | 2014 | Nine months ended September 30 **2015** | 2014 |
|---|---|---|---|---|
| **Numerator** | | | | |
| Earnings (loss) for the period | **(10,697)** | 918 | **(20,957)** | 6,220 |
| **Denominator (000s)** | | | | |
| Weighted-average common shares outstanding - basic | **236,920** | 203,677 | **235,805** | 202,519 |
| Effect of options outstanding | **-** | 7,446 | **-** | 7,844 |
| Weighted-average common shares outstanding - diluted | **236,920** | 211,123 | **235,805** | 210,363 |
| Earnings (loss) per share - basic ($) | **(0.05)** | 0.00 | **(0.09)** | 0.03 |
| Earnings (loss) per share - diluted ($) | **(0.05)** | 0.00 | **(0.09)** | 0.03 |

**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, 2015. 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 Option Plan as at September 30, 2015 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 | 14,479 | 0.73 |
| Granted | 6,838 | 1.62 |
| Exercised | (4,387) | 0.59 |
| Cancelled | (45) | 1.07 |
| Forfeited | (1,190) | 0.76 |
| Outstanding, December 31, 2014 | 15,695 | 1.15 |
| Granted | 459 | 1.47 |
| Exercised | (3,041) | 0.85 |
| Forfeited | (338) | 1.29 |
| Outstanding, September 30, 2015 | 12,775 | 1.23 |
| Exercisable, September 30, 2015 | 2,598 | 0.72 |

The following table summarizes information about stock options outstanding at September 30, 2015:

| Exercise price: | Stock options outstanding (000s) | Weighted-average remaining term (years) | Stock options exercisable (000s) | Weighted-average remaining term (years) |
|---|---|---|---|---|
| $0.38 - $0.90 | 3,410 | 0.6 | 1,830 | 0.6 |
| $0.91 - $1.49 | 3,855 | 1.3 | 477 | 0.7 |
| $1.50 - $1.97 | 5,510 | 1.5 | 291 | 0.2 |
| | 12,775 | 1.2 | 2,598 | 0.6 |

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, 2015, the Company granted 459,000 stock options with an estimated fair value of $0.2 million or $0.57 per option using the Black-Scholes option pricing model with the following key assumptions (weighted-average):

| Assumptions: | Nine months ended September 30, 2015 |
|---|---|
| Exercise price ($) | 1.47 |
| Estimated volatility of underlying common shares (%) | 64 |
| Weighted average expected life (years) | 2.5 |
| Risk-free rate (%) | 0.7 |
| Forfeiture rate (%) | 3.9 |
| 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.

**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 these 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 2014 Annual Financial Statements. The Company's exposure to these risks has not changed significantly since December 31, 2014.

**10. SUBSEQUENT EVENTS**

**Agreement to acquire certain Central Alberta oil and natural gas assets**

On November 9, 2015, Pine Cliff announced entering into a purchase and sale agreement (the "Agreement") to acquire certain natural gas and oil assets in Central Alberta for cash consideration of $185.0 million, prior to any adjustments (the "Acquisition"), of which Pine Cliff paid a deposit of $18.5 million on November 9, 2015.

The Acquisition will have an effective date of July 1, 2015 and is presently expected to close on or around December 11, 2015. Although the Agreement is binding between the parties, completion of the Acquisition is subject to numerous standard conditions, including title review, rights of first refusals and regulatory approvals. No assurances can be given that the Acquisition will be completed as proposed or at all.

**Public share offering**

On November 9, 2015, Pine Cliff announced that it had entered into an agreement with a syndicate of underwriters who have agreed to purchase, on a bought deal basis, 55.6 million subscription receipts ("Subscription Receipts") at a price of $1.08 per Subscription Receipt for aggregate gross proceeds of $60 million. Pine Cliff has granted the underwriters an option to purchase an additional 8.3 million Subscription Receipts (the "Over Allotment Option") on the same terms and conditions, exercisable for a period of 30 days following the closing of the Subscription Receipts. Additionally, the Company announced a private placement of common shares to board of directors members, management, employees, and certain consultants, at the same price as the Subscription Receipts, for aggregate gross proceeds of up to $3.0 million (the private placement, together with the Subscription Receipts and the Over Allotment Option, the "Offering"). The proceeds of the Offering will be used to fund a portion of the Acquisition.

**Issue of stock options**

Subsequent to September 30, 2015, Pine Cliff granted 200,000 stock options to an employee with an exercise price of $1.30, based on the market price immediately preceding the date of grant. The options vest on October 21, 2016 and expire on October 21, 2017.

**BOARD OF DIRECTORS**

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

**OFFICERS**

George F. Fink
Executive Chairman of the Board

Philip B. Hodge
President and Chief Executive Officer

Kristi L. Kunec
Chief Financial Officer and Secretary

Cheryne A. Lowe
Interim Chief Financial Officer

Terry L. McNeill
Chief Operating Officer

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**REGISTRAR AND TRANSFER AGENT**

Computershare Trust Company of Canada
Calgary, Alberta

**AUDITORS**

Deloitte LLP
Calgary, Alberta

**BANKERS**

Toronto-Dominion Bank
Calgary, Alberta

Alberta Treasury Branches
Calgary, Alberta

National Bank of Canada
Calgary, Alberta

**STOCK EXCHANGE LISTING**

TSX Venture Exchange
Trading Symbol: PNE

**WEBSITE**

www.pinecliffenergy.com

Pine Cliff Energy Ltd.