Pine Cliff Energy Ltd.

Long-term Value Focus

Q2-2016 Report

MESSAGE TO SHAREHOLDERS

The second quarter of 2016 was the most challenging three months our company has faced since I joined Pine Cliff in 2012. Our team continues to pride itself on being one of the lowest cost operators in our industry, but we could not avoid having negative cash flow this past quarter. Despite the difficult quarter, we still managed the following highlights:

- Strengthened our balance sheet, repaying $23.6 million in bank debt through the sale of royalty assets and investments in public companies;
- Maintained low operating costs of $9.66 per Boe and reduced G&A to $0.87 per Boe (a 48% decrease from the same quarter in the previous year);
- Increased production by 92% to 22,647 Boe/d (92% gas) from 11,814 Boe/d (95% gas) in the second quarter of 2015, representing a 48% increase on a basic per share basis. Despite shutting in approximately 300 Boe/d of uneconomic production and deferring non-essential repairs, production continues to perform well in all areas with an estimated corporate decline rate of approximately 10%; and
- Despite AECO pricing of $1.32 per Mcf compared to the second quarter of 2015 of $2.52 per Mcf, and without the use of hedges, we minimized our funds used in operations to only $3.7 million.

Subsequent to the second quarter, Pine Cliff:

- Completed our borrowing base redetermination and have entered into an agreement with our banking syndicate for an $85 million credit facility;
- Issued $11 million of subordinated debentures to insiders of the company with an interest expense lower than our bank syndicate rate;
- Issued 30,000 units consisting of subordinated debentures totalling $30 million and 4.5 million share purchase warrants, exercisable at $1.38 to the Alberta Investment Management Company ("AIMCo");
- Announced the sale of a non-core oil asset for gross proceeds of $5.5 million, which is expected to close on or before August 31, 2016; and
- After all of these subsequent events, our total debt at the end of August is expected to be approximately $120 million and our bank debt is expected to be approximately $80 million.

The backdrop to the second quarter's low commodity prices resulted in increased industry bankruptcies and extensive equity and debt issuances to repair extended balance sheets. The bank credit redeterminations during this period created significant stress for companies in our industry and resulted in numerous credit facility reductions. Pine Cliff was not an exception to this stress. Nevertheless, our team is proud of how we reduced our bank syndicate exposure by $100 million during this time without an equity issuance. At the same time, we added another strong investment partner, AIMCo, that shares our long term view on the viability of our business model.

As we enter the third quarter, natural gas prices have recovered materially due to warmer weather and reduced drilling activity. With our corporate break-even gas price of approximately $1.75 per Mcf (before capital expenditures), we are once again generating positive funds flow from operations. With one of the highest sensitivities to natural gas prices in our industry and with natural gas demand continuing to increase, we are well positioned to provide our shareholders with increased exposure to a rising natural gas pricing environment.

Our goal has always been to deliver long term value to our shareholders by acquiring operated, low decline natural gas assets with long reserve life and low operating costs. The nine acquisitions that we have executed in the last 4.5 years have put us in a strong position to achieve this goal. I have never been as excited about what our team has built as I am now as we enter into a fall/winter season where natural gas demand is at an all time high level. Our entire company focus is about the long term generation of free cash flow even at low gas prices, and with a corporate production decline rate of approximately 10% and an extensive inventory of drilling locations, we believe in the sustainability of our business model for years to come.

This has been a difficult time for all of us as shareholders and we would like to again thank all of you for your ongoing support. It is appreciated and we are confident it will be well rewarded in the years to come.

Yours truly,

Phil Hodge
President and Chief Executive Officer
August 10, 2016

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
($000s, unless otherwise indicated)				
FINANCIAL[1]				
Oil and gas sales (before royalty expense)	**20,695**	17,333	**47,925**	36,112
Cash flow from (used in) operating activities	**(4,371)**	4,182	**5,251**	13,178
Funds flow from (used in) operations[2]	**(3,655)**	5,555	**(2,257)**	11,737
Per share – Basic and Diluted ($/share)	**(0.01)**	0.02	**(0.01)**	0.05
Loss	**(25,862)**	(4,757)	**(42,039)**	(10,260)
Per share – Basic and Diluted ($/share)	**(0.08)**	(0.02)	**(0.14)**	(0.04)
Capital expenditures, excluding acquisitions	**749**	447	**4,366**	3,333
Acquisitions, after adjustments	**240**	13,304	**825**	13,691
Capital dispositions, after adjustments	**24,702**	-	**24,702**	-
Net Debt[3]	**122,032**	38,405	**122,032**	38,405
Weighted-average common shares outstanding (000s)				
Basic and Diluted	**305,928**	236,022	**305,720**	235,239
OPERATIONS				
Production				
Natural gas (Mcf/d)	**124,966**	67,502	**127,025**	67,853
Crude oil (Bbls/d)	**886**	119	**804**	124
Natural gas liquids (Bbls/d)	**933**	445	**996**	485
Total (Boe/d)	**22,647**	11,814	**22,971**	11,918
Realized commodity sales prices				
Natural gas ($/Mcf)	**1.32**	2.52	**1.64**	2.64
Crude oil ($/Bbl)	**39.92**	54.10	**33.73**	53.05
Natural gas liquids ($/Boe)	**28.94**	30.97	**28.60**	28.21
Combined ($/Boe)	**10.04**	16.12	**11.46**	16.74
Netback ($/Boe)				
Oil and gas sales	**10.04**	16.12	**11.46**	16.74
Royalty income	**0.25**	0.11	**0.27**	0.07
Royalty expense	**(0.65)**	(0.71)	**(0.80)**	(0.96)
Operating costs	**(9.66)**	(8.44)	**(9.58)**	(8.64)
Operating netback ($/Boe)[4]	**(0.02)**	7.08	**1.35**	7.21
General and administrative	**(0.87)**	(1.68)	**(1.07)**	(1.50)
Interest and bank charges and dividend income	**(0.87)**	(0.21)	**(0.82)**	(0.25)
Corporate netback ($/Boe)[5]	**(1.76)**	5.19	**(0.54)**	5.46

[1] Includes results for acquisitions and excludes results for dispositions from the closing dates.
[2] Funds flow from (used in) 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.
[3] Net debt 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.
[4] Operating netback is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties and operating expenses, averaged over the Boe production of the Company.
[5] 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 six months ended June 30, 2016 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 six month periods ended June 30, 2016 and 2015, together with the notes related thereto, and the audited consolidated financial statements as at and for the year ended December 31, 2015, together with the notes related thereto ("2015 Annual Financial Statements"). Additional information relating to the Company, including the Company's Annual Information Form, may be found on www.sedar.com and by visiting Pine Cliff's website at www.pinecliffenergy.com.

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

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

Business environment sensitivities		Impact on annual funds flow from operations[1]	
	Change	$000s	$ per share[3]
Crude oil price - Edmonton par ($/Bbl)[2]	$1.00	510	0.00
Natural gas price -AECO ($/Mcf)[2]	$0.10	4,370	0.01
Interest rate on variable rate debt	1.0%	1,210	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 second quarter 2016 daily sales volumes annualized for twelve months.
[3] Based on the second quarter of 2016 basic weighted average shares outstanding of 305,928,166.

Second quarter 2016 highlights

During the second quarter of 2016, Pine Cliff reports that it:

- Strengthened its balance sheet, repaying $23.6 million in bank debt through the sale of the royalty assets and investments in public companies;
- Continued to be one of the lowest cost operators in the industry by maintaining low operating costs of $9.66 per Boe and reducing G&A expenses to $0.87 per Boe (a 48% decrease from the same quarter in the previous year);
- Increased production by 92% to 22,647 Boe/d (92% gas) from 11,814 Boe/d (95% gas) in the second quarter of 2015, representing a 48% increase on a basic per share basis. Despite shutting in approximately 300 Boe/d of uneconomic production and deferring non-essential repairs, production continues to perform well in all areas with an estimated corporate decline rate of approximately 10%; and
- Despite AECO pricing of $1.32 per Mcf compared to the second quarter of 2015 of $2.52 per Mcf, and without the use of hedges, minimized funds used in operations to only $3.7 million.

PINE CLIFF'S STRATEGIC OBJECTIVES AND ACQUISITIONS

Pine Cliff is a growth oriented oil and gas exploration and production company operating material asset positions in the Western Canadian Sedimentary Basin ("WCSB"). The Company's current vision is to deliver long-term value to shareholders by continuing to build a portfolio of high-return assets for future growth focusing on counter cyclical natural gas opportunities while maintaining, improving and further exploiting its current assets.

The Company has been active in the acquisition and divestiture market and has executed nine key transactions since January 2012.

The most recent acquisitions include:

- The acquisition of certain oil and natural gas assets in the Carrot Creek/Edson area of Alberta in August 2014;
- The acquisition of certain shallow natural gas assets in Alberta and Southern Saskatchewan in October 2014;
- The acquisition of certain shallow natural gas assets in the Southern core area and Edson core area in May 2015 (the "May 2015 Acquisition"); and
- The acquisition of certain oil and natural gas assets in the Viking and Ghost Pine areas of Central Alberta in December 2015 (the "December 2015 Acquisition").

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.

PINE CLIFF'S OPERATIONS

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

- Central Assets – Pine Cliff holds low decline assets in the Ghost Pine and Viking areas of Central Alberta with average working interests of 76% and 78%, respectively. Ghost Pine production and development opportunities are mostly from the late Cretaceous Horse Shoe Canyon Edmonton group and the stacked Belly River sands. The majority of the Viking production comes from the Viking shore face sands and there is considerable upside in the Colorado shale which is a deep water siltstone. Pine Cliff has identified over 1,000 potential gross vertical drilling opportunities in the Ghost Pine Horseshoe Canyon Coal Bed Methane and approximately 140 potential horizontal gross drilling opportunities in the Viking Colorado Shale;

- Southern Assets – Pine Cliff holds an approximate 85% working interest in a package of high-quality, low decline, producing shallow gas assets mainly in southeast Alberta and other interests in southwest Saskatchewan. 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 gas fields in Western Canada. These fields are characterized by their shallow depths, low-permeability, clay-rich sands and long production life;

- Edson – Pine Cliff holds working interests in a package of liquid rich natural gas assets which are located near the town of Edson, Alberta. In addition to the producing assets, Pine Cliff has, in aggregate, 42 potential gross (12.7 net) sections of undeveloped land with over 90 potential gross drilling opportunities. The Edson Assets are "deep basin" assets with multi-zone potential, many of which can be exploited using horizontal drilling technology; and

- Other – Pine Cliff also has working interests from non-operated properties in the Sundance, Harmattan, and Garrington areas of Alberta, and in the Cadillac area of Southern Saskatchewan. The Company does not currently have large enough land positions or working interests in these areas to consider them significant core areas at this time.

SALES VOLUMES

	Three months ended June 30		Six months ended June 30	
Total sales volumes by product	**2016**	2015	**2016**	2015
Natural gas (Mcf)	**11,371,892**	6,142,692	**23,118,585**	12,281,448
Crude oil (Bbls)	**80,633**	10,841	**146,386**	22,354
NGLs (Bbls)	**84,870**	40,532	**181,319**	87,806
Barrels of oil equivalent	**2,060,818**	1,075,155	**4,180,803**	2,157,068
Natural gas weighting	**92%**	95%	**92%**	95%

	Three months ended June 30		Six months ended June 30	
Average daily sales volumes by product	**2016**	2015	**2016**	2015
Natural gas (Mcf/d)	**124,966**	67,502	**127,025**	67,853
Crude oil (Bbls/d)	**886**	119	**804**	124
NGLs (Bbls/d)	**933**	445	**996**	485
Total	**22,647**	11,814	**22,971**	11,918

	Three months ended June 30		Six months ended June 30	
Average daily sales volumes by property	**2016**	2015	**2016**	2015
(Boe/d)				
Southern Assets	**9,402**	9,923	**9,669**	10,024
Edson	**2,193**	1,697	**2,086**	1,699
Central Assets	**10,777**	-	**10,912**	-
Other properties	**275**	194	**304**	195
Total	**22,647**	11,814	**22,971**	11,918

Pine Cliff's sales volumes increased 92% to 22,647 Boe/d (135,882 Mcfe/d) and 93% to 22,971 Boe/d (137,826 Mcfe/d) in the three and six months ended June 30, 2016, as compared to the same periods of 2015. The increases were the result of two significant acquisitions completed in May and December 2015 along with production additions from modest 2015 and 2016 capital programs, slightly offset by shutting in approximately 300 Boe/d of uneconomic production. Despite deferring non-essential well repairs, base production continues to perform well in all areas with an estimated corporate decline of approximately 10%.

OPERATING AND CORPORATE NETBACKS

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

	Three months Ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
($ per Boe)				
Oil and gas sales	**10.04**	16.12	**11.46**	16.74
Royalty income	**0.25**	0.11	**0.27**	0.07
Royalty expense	**(0.65)**	(0.71)	**(0.80)**	(0.96)
Operating expenses	**(9.66)**	(8.44)	**(9.58)**	(8.64)
Operating netback	**(0.02)**	7.08	**1.35**	7.21
General and administrative expense	**(0.87)**	(1.68)	**(1.07)**	(1.50)
Interest and bank charges	**(0.89)**	(0.30)	**(0.84)**	(0.35)
Finance and dividend income	**0.02**	0.09	**0.02**	0.10
Corporate netback	**(1.76)**	5.19	**(0.54)**	5.46
Operating netback ($ per Mcfe)	**(0.00)**	1.18	**0.23**	1.20
Corporate netback ($ per Mcfe)	**(0.29)**	0.87	**(0.09)**	0.91

Pine Cliff had operating netbacks of $(0.02) and $1.35 per Boe for the three and six months ended June 30, 2016, as compared to $7.08 and $7.21 per Boe for the three and six months ended June 30, 2015. Overall, Pine Cliff had corporate netbacks of ($1.76) and ($0.54) per Boe for the three and six months ended June 30, 2016 as compared to $5.19 and $5.46 per Boe for the same periods of 2015. The decreases in both the operating and corporate netback are primarily due to lower commodity prices, higher operating and interest expenses, somewhat offset by lower royalty expenses and general and administrative expenses, on a per Boe basis, continuing to be one of the lowest total cost operators in the industry.

OIL AND GAS SALES

	Three months ended June 30				Six months ended June 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ Per Boe	**$**	**$ per Boe**	$	$ per Boe
Natural gas[1]	**15,020**	**1.32**	15,492	2.52	**37,802**	**1.64**	32,449	2.64
Crude oil	**3,219**	**39.92**	586	54.10	**4,937**	**33.73**	1,186	53.05
NGLs	**2,456**	**28.94**	1,255	30.97	**5,186**	**28.60**	2,477	28.21
Total oil and gas sales	**20,695**	**10.04**	17,333	16.12	**47,925**	**11.46**	36,112	16.74

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

Oil and gas sales for the three and six months ended June 30, 2016, increased by 19% and 33%, as compared to the same periods of 2015. Oil and gas sales were higher due to increased volumes from the two significant acquisitions completed in 2015, offset by lower commodity prices in 2016. Pine Cliff's realized prices in the three and six months ended June 30, 2016 were $10.04 and $11.46 per Boe, a decrease of 38% and 32% as compared to the same periods of 2015.

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.

	Q2-2016	Q1-2016	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014	Q3-2014
Natural gas								
NYMEX (US$/Mmbtu)[1]	**1.95**	2.05	2.28	2.77	2.67	2.96	3.96	4.07
AECO (C$/Mcf)	**1.39**	1.82	2.45	2.89	2.64	2.74	3.58	4.00
Crude oil								
WTI (US$/Bbl)	**45.59**	33.45	42.18	46.43	57.94	48.63	73.15	97.17
Edmonton light (C$/Bbl)	**54.71**	40.69	52.87	56.17	67.63	51.78	75.58	97.01
Foreign exchange								
US$/C$	**1.2886**	1.3748	1.3353	1.3094	1.2294	1.2411	1.1357	1.0893

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

North American natural gas benchmarks continued to weaken in the second quarter of 2016 primarily due to the unseasonably mild weather conditions in the latter half of 2015 and first half of 2016 resulting in lower demand and therefore increased amounts of natural gas in storage. The price realized by the Company for natural gas production from Western Canada is determined primarily by AECO since all of Pine Cliff's natural gas production is in Alberta and Saskatchewan. In the second quarter of 2016, the benchmark AECO natural gas price in Canada decreased by 47% to $1.39 per Mcf as compared to the second quarter of 2015. The AECO monthly strip for the next 12 months is currently trading in the $2.68 per Mcf range. Pine Cliff's realized natural gas price during the three and six months ended June 30, 2016 was $1.32 and $1.64 per Mcf, a decrease of 48% and 38%, respectively, compared to $2.52 and $2.64 per Mcf for the same periods of 2015.

The average Edmonton light crude oil and WTI benchmarks improved during the second quarter of 2016 primarily due to increased demand, significant supply reductions and falling U.S crude oil production. WTI oil prices averaged US$45.59 per Bbl in the second quarter of 2016 as compared to US$57.94 per Bbl in the second quarter of 2015. Canadian crude prices are based upon refiner postings at Edmonton, Alberta and are linked to WTI through transportation tariffs to common markets and the foreign exchange rate. In the three and six months ended June 30, 2016, the realized price of Pine Cliff's oil was $39.92 and $33.73 per Bbl, as a result of quality adjustments to the average posted Edmonton light crude oil price of $54.71 and $47.70 per Bbl.

The supply and demand for certain NGLs such as ethane, propane and butane in the recent past has impacted the relationship between the price of NGLs and the price of oil. In the three and six months ended June 30, 2016, the realized price of Pine Cliff's NGLs was $28.94 and $28.60 per Bbl representing approximately 53% and 60% of the Edmonton light crude oil prices, respectively, as compared to 46% and 47% in the three and six months ended June 30, 2015.

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 the Company's results and strategies.

ROYALTY REVENUE

	Three months ended June 30				Six months ended June 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ Per Boe**	$	$ Per Boe	**$**	**$ Per Boe**	$	$ Per Boe
Total royalty revenue	**505**	**0.25**	121	0.11	**1,111**	**0.27**	143	0.07

On an absolute dollar basis, royalty revenue for the three and six months ended June 30, 2016 increased significantly as compared to the same periods of 2015, primarily as a result of the royalty stream from the fee lands acquired in the December 2015 Acquisition. Royalty income for the three and six months ended June 30, 2016 was $0.25 and $0.27 per Boe, as compared to $0.11 and $0.07 per Boe for the same periods of 2015. On June 29, 2016, Pine Cliff sold its fee title land and other minor overriding royalty interests (the "Royalty Assets") for cash proceeds of $24.7 million (the "Royalty Disposition").

ROYALTY EXPENSE

	Three months ended June 30				Six months ended June 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ Per Boe**	$	$ Per Boe	**$**	**$ Per Boe**	$	$ Per Boe
Total royalty expense	**1,336**	**0.65**	762	0.71	**3,342**	**0.80**	2,076	0.96
% of oil and gas sales	**6%**		4%		**7%**		6%	

On an absolute dollar basis, royalty expense for the three and six months ended June 30, 2016 increased by 75% and 61% as compared to the same periods of 2015 due to higher production from the May 2015 Acquisition and the December 2015 Acquisition. Royalty expense for the three and six months ended June 30, 2016 was $0.65 and $0.80 per Boe, as compared to $0.71 and $0.96 per Boe for the same periods of 2015. As a result of the Royalty Disposition, Pine Cliff expects royalty rates to increase by approximately 1% as royalties will now be owed on sold fee lands.

OPERATING EXPENSES

	Three months ended June 30				Six months ended June 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ Per Boe**	$	$ Per Boe	**$**	**$ per Boe**	$	$ per Boe
Total operating expenses	**19,907**	**9.66**	9,075	8.44	**40,054**	**9.58**	18,639	8.64
% of oil and gas sales	**96%**		52%		**84%**		51%	

On an absolute dollar basis, operating expenses for the three and six months ended June 30, 2016 increased by 119% and 115%, as compared to the same periods of 2015, resulting from higher production from the May and December 2015 acquisitions. Operating expenses for the three and six months ended June 30, 2016 were $9.66 and $9.58 per Boe, as compared to $8.44 and $8.64 per Boe for the same periods of 2015. The higher cost on a per Boe basis is primarily a result of higher cost production from the December 2015 Acquisition. Pine Cliff is continuing to look at ways to further reduce operating costs on properties acquired in December 2015.

Pine Cliff anticipates operating expenses to average approximately $9.75 per Boe ($1.63 per Mcfe) in 2016. As a result of the current commodity price environment, Pine Cliff has been working diligently to reduce discretionary operating costs. Cost reduction initiatives include deferring non-essential well repairs, shutting in uneconomic production and working with its suppliers to find additional cost savings. As natural gas prices improve, Pine Cliff will resume maintenance and well repairs on previously deferred projects.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

	Three months ended June 30				Six months ended June 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ Per Boe**	$	$ Per Boe	**$**	**$ per Boe**	$	$ per Boe
Adjusted G&A	**1,822**	**0.88**	1,679	1.57	**4,755**	**1.13**	3,191	1.48
Add: non-recurring transaction costs	**-**	**-**	145	0.13	**-**	**-**	145	0.07
Less: overhead recoveries	**(25)**	**(0.01)**	(19)	(0.02)	**(261)**	**(0.06)**	(98)	(0.05)
Total G&A expenses	**1,797**	**0.87**	1,805	1.68	**4,494**	**1.07**	3,238	1.50
% of oil and gas sales	**9%**		10%		**9%**		9%	

On an absolute dollar basis, total G&A expenses for the three months ended June 30, 2016 were similar, as compared to the same period in 2015. On an absolute dollar basis, total G&A expenses for the six months ended June 30, 2016 have increased by 39%, as compared to the same period in 2015, reflecting increased staffing requirements, expenses related to the TSX listing, and other incremental G&A costs associated with the integration of the December 2015 Acquisition. To minimize G&A expenses, Pine Cliff shares some common expenses with Bonterra Energy Corp. ("Bonterra"), a related party and continues to diligently seek ways to increase efficiencies, reduce or eliminate discretionary costs, and reduce overhead expenses.

SHARE-BASED PAYMENTS

	Three months ended June 30				Six months ended June 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ Per Boe**	$	$ Per Boe	**$**	**$ per Boe**	$	$ per Boe
Total share-based payments	**829**	**0.40**	870	0.81	**1,597**	**0.38**	1,652	0.77
% of oil and gas sales	**4%**		5%		**3%**		5%	

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.

In the six months ended June 30, 2016, Pine Cliff granted 1,455,000 stock options to purchase common shares at a weighted average exercise price of $0.86. As at June 30, 2016, the Company had 13,968,931 stock options outstanding (June 30, 2015 – 12,775,300), representing 4.6% of common shares outstanding. In the three and six months ended June 30, 2016, Pine Cliff recorded share-based payments expense of $0.8 million and $1.6 million related to the stock options issued.

DEPLETION AND DEPRECIATION

	Three months ended June 30				Six months ended June 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ Per Boe**	$	$ Per Boe	**$**	**$ Per Boe**	$	$ per Boe
Total depletion and depreciation	**17,597**	**8.54**	10,938	10.18	**34,495**	**8.25**	22,985	10.66

On an absolute dollar basis, Pine Cliff's depletion and depreciation expense increased 61% and 50% in the three and six months ended June 30, 2016, as compared to the same periods in 2015. This increase in depletion was largely a result of an increase in the Company's production from 2015 acquisitions. Depletion and depreciation expense per Boe decreased 16% and 23% in the three and six months ended June 30, 2016, as compared to the same periods of 2015 as a result of lower per unit depletion for the December 2015 Acquisition compared to the Company's other properties.

FINANCE EXPENSES

	Three Months ended June 30				Six months ended June 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ Per Boe**	$	$ Per Boe	**$**	**$ per Boe**	$	$ per Boe
Unwinding of the discounted value of decommissioning liabilities	**1,209**	**0.59**	916	0.85	**2,240**	**0.54**	1,802	0.84
Interest and bank charges	**1,844**	**0.89**	325	0.30	**3,493**	**0.84**	754	0.35
Total finance expenses	**3,053**	**1.48**	1,241	1.15	**5,733**	**1.38**	2,556	1.19
% of oil and gas sales	**15%**		7%		**12%**		7%	

In the three and six months ended June 30, 2016, Pine Cliff incurred finance expenses of $3.1 and $5.7 million, as compared to $1.2 and $2.6 million in the same periods of 2015. The increase in finance expenses in 2016 primarily relates to the increase in bank debt to finance the December 2015 Acquisition. Please refer to the Capital Resources and Liquidity sections.

DIVIDEND INCOME

	Three months ended June 30				Six months ended June 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ Per Boe**	$	$ Per Boe	**$**	**$ per Boe**	$	$ per Boe
Total dividend income	**41**	**0.02**	92	0.09	**102**	**0.02**	213	0.10

In the six months ended June 30, 2016 and 2015, Pine Cliff received $0.1 million and $0.2 million in dividends from its investment in Bonterra. The investment in Bonterra common shares were acquired through the acquisition of Geomark Exploration Ltd. During the quarter, Pine Cliff sold all common shares in Bonterra for cash proceeds of $5.4 million.

INCOME TAXES

	Three months ended June 30				Six months ended June 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Total deferred tax recovery	**(1,168)**	**(0.57)**	(2,388)	(2.22)	**(2,290)**	**(0.55)**	(4,418)	(2.05)

During the three and six months ended June 30, 2016, Pine Cliff recorded a deferred tax recovery of $1.2 and $2.3 million compared to a deferred tax recovery of $2.4 and $4.4 million in the same periods of 2015. In the six months ended June 30, 2016, Pine Cliff had an unrecognized deferred tax asset of $6.4 million, which relates to uncertainty around the Company's ability to fully utilize tax deductions when applying current forecasted commodity prices. The deferred tax recovery is primarily related to temporary differences in the future arising from the book basis of Pine Cliff's assets and liabilities relative to the tax basis.

Pine Cliff has approximately $454.2 million in tax pools at June 30, 2016 (December 31, 2015 - $480.8 million) available for future use as deductions from taxable income. Included in these pools are estimated non-capital loss carry forwards of $72.0 million (December 31, 2015 - $50.0 million) that expire between the years 2030 and 2036.

LOSS

Quarter to quarter variance analysis:

($000s)	
Loss for the six months ended June 30, 2015	**(10,260)**
Price variance	(10,958)
Volume variance	23,739
Royalties	(1,266)
Operating expenses	(21,415)
General and administrative	(1,256)
Share-based payments	55
Depletion and depreciation	(11,510)
Finance expenses	(3,177)
Realized loss in investments	(4,270)
Gain on disposition	518
Finance and dividend income	(111)
Deferred tax recovery (expense)	(2,128)
Loss for the six months ended June 30, 2016	**(42,039)**

In the six months ended June 30, 2016, the net loss increased by $31.7 million to $42.0 million as compared to a net loss of $10.3 million in the period ended June 30, 2015. The increase in net loss is a result of higher depletion, depreciation, operating expenses, and lower revenues.

Other comprehensive earnings

Other comprehensive earnings in the quarter is a result of reclassifying the other comprehensive loss recorded in prior quarters from unrealized losses on investments to the consolidated statement of loss as a result of selling investments in public companies for net proceeds of $5.6 million and realizing losses of $4.3 million.

FUNDS FLOW FROM (USED IN) OPERATIONS

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
($000s, except per Boe amounts)				
Loss for the period	**(25,862)**	(4,757)	**(42,039)**	(10,260)
Adjustments for:				
Share-based payments	**829**	870	**1,597**	1,652
Unwinding of the discount on decommissioning liabilities	**1,209**	916	**2,240**	1,802
Gain on foreign exchange	**-**	(24)	**-**	(24)
Realized loss on sale of investments	**4,270**	-	**4,270**	-
Gain on disposition	**(518)**	-	**(518)**	-
Depletion, depreciation and impairment	**17,597**	10,938	**34,495**	22,985
Deferred tax recovery	**(1,180)**	(2,388)	**(2,302)**	(4,418)
Funds flow from (used in) operations	**(3,655)**	5,555	**(2,257)**	11,737
Funds flow from (used in) operations ($/Boe)	**(1.76)**	5.19	**(0.54)**	5.44
Funds flow from (used in) operations ($/Mcfe)	**(0.29)**	0.87	**(0.09)**	0.91

Funds used in operations, which represents cash flow used in operating activities before changes in non-cash working capital and decommissioning expenditures, was $3.7 million and $2.3 million in the three and six months ended June 30, 2016, as compared to funds flow from operations of $5.6 million and $11.7 million in the same periods of 2015. The decrease in funds flow from operations is primarily due to lower commodity prices.

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

	Six months ended June 30, 2016	Year ended December 31, 2015
($000s)		
Exploration and evaluation assets - minerals division	**7**	963
Oil and gas assets	**4,302**	6,718
Vehicles and administrative assets	**57**	504
Acquisitions	**825**	213,119
Dispositions	**(24,184)**	-
Capitalized decommissioning liabilities	**59,457**	52,373
Total	**40,464**	273,677

In the six months ended June 30, 2016, Pine Cliff added $40.5 million in capital assets to its balance sheet as compared to $273.7 million in the year ended December 31, 2015. The additions included $59.5 million of capitalized decommissioning liabilities for the period ended June 30, 2016 (December 31, 2015 - $52.3 million) as a result of decommissioning liabilities recognized through drilling ($0.03 million), revisions to the estimated discount rate and the outflows to settle the decommissioning liability in the future ($59.5 million), somewhat offset by the disposition of the Royalty Assets of $24.2 million.

Additionally, in the six months ended June 30, 2016, Pine Cliff had additions to oil and gas assets of $4.3 million from participation in drilling three gross (1.0 net) wells in the Edson area, reactivations of approximately 20 wells that had been shut-in in the Southern Assets area, minor recompletions, and other various minor capital additions.

Dispositions

On June 29, 2016, Pine Cliff completed the Royalty Disposition for cash consideration of $24.7 million which was above the net book value of the Royalty Assets of $24.2 million, resulting in a gain on disposition of $0.5 million. The Royalty Assets include 99,930 net fee title acres that were acquired as part of the December 2015 Acquisition.

RELATED PARTY TRANSACTIONS

Management services agreement

Pine Cliff had a management services agreement with Bonterra, an oil and gas corporation that is publicly traded on the TSX and that has 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 the six month periods ended June 30, 2016 and 2015 were $0.02 million and $0.03 million, respectively, plus the reimbursement of certain administrative costs. As at June 30, 2016, Pine Cliff owed Bonterra $Nil (December 31, 2015 – $0.3 million). This agreement was terminated on March 31, 2016.

Investment in Bonterra

During the second quarter of 2016 Pine Cliff sold its 204,633 Bonterra common shares for proceeds of $5.4 million (December 31, 2015 – Pine Cliff held 204,633 shares with a fair value of approximately $3.5 million). For the six months ended June 30, 2016, Pine Cliff received dividend income of $0.1 million (six months ended June 30, 2015 - $0.2 million).

Related party transactions are in the normal course of operations and from time to time Pine Cliff and Bonterra may enter into various minor transactions at market value in circumstances that are considered mutually beneficial.

CAPITAL RESOURCES

Bank Debt

As at June 30, 2016, the Company had a $160 million syndicated credit facility (the "Credit Facility") with five Canadian Financial Institutions (the "Syndicate") (December 31, 2015 - $185 million Credit Facility). The Credit Facility consists of a $140 million revolving syndicated credit facility and a $20 million revolving operating facility. Security for the Credit Facility consists of floating demand debentures totaling $500 million and a general security agreement with first ranking over all current and acquired properties. Amounts drawn under the Credit Facility at June 30, 2016 were $121.1 million (December 31, 2015 - $156 million). Amounts borrowed under the Credit Facility bear interest at the Canadian prime rate plus 1.0% to 2.5% or the bankers' acceptance rate 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 Credit Facility is a one year revolving facility with the initial revolving period ending on July 31, 2016 and is reviewed semi-annually on November 30th and May 31st. If the Credit Facility is not renewed it will convert to a 364-day term loan. The Credit Facility has no fixed terms of repayment. Fees related to the Credit Facility totaled $0.5 million of which $0.3 million has been deferred over the term of the debt and $0.2 million was expensed for the six month period ended June 30, 2016.

The May 31, 2016 Credit Facility review was extended to August 10, 2016, through several amending agreements. Amounts borrowed under the Syndicated Facility from June 1, 2016 to August 10, 2016 bear interest at the Canadian prime rate plus 2.25% to 3.75% or the bankers' acceptance rate plus 3.25% to 4.75%, depending, in each case, on the ratio of consolidated debt to EBITDA.

On August 10, 2016, the Company entered into a Restated Credit Agreement with the Syndicate for an $85 million syndicated credit facility (the "Renewed Credit Facility"). The Renewed Credit Facility consists of a $75 million revolving credit facility and a $10 million revolving operating facility. The Renewed Credit Facility has a 364 day revolving period maturing July 28, 2017 and if it is not renewed it will convert to a one day term loan due on July 29, 2017. The Renewed Credit Facility will be reviewed semi-annually on November 30th and May 31st. The November 30, 2016 review has been waived and the May 31, 2017 review has been advanced to March 31, 2017. The Renewed Credit Facility will bear interest at the Canadian prime rate plus 1.0% to 3.5% or the bankers' acceptance rate 2.0% to 4.5%, depending, in each case, on the ratio of consolidated debt to EBITDA.

As at June 30, 2016, the Company had $1.7 million of letters of credit issued against its Syndicated Facility (December 31, 2015 - $0.6 million). The Company was in compliance with its bank covenants during the period ended June 30, 2016.

For further information on capital resources, refer to "**SUBSEQUENT EVENTS**".

Share Capital

As of June 30, 2016, a total of 306,217,287 Pine Cliff shares were issued and outstanding. During the six months ended June 30, 2016, Pine Cliff issued 1,455,000 common shares as a result of stock option exercises.

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 six months ended June 30, 2016 and 2015:

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
($000s)				
Funds flow from (used in) operations	**(3,655)**	5,555	**(2,257)**	11,737
Bank debt repayment	**(23,614)**	8,235	**(34,871)**	(248)
Abandonments	**(74)**	-	**(134)**	-
Dispositions	**24,702**	-	**24,702**	-
Proceeds on sale of investments	**5,573**	-	**5,573**	-
Share issue costs	**-**	(2)	**-**	(8)
Exercise of stock options	**413**	1,879	**635**	2,595
Increase (decrease) in non-cash working capital	**(2,483)**	(1,816)	**10,831**	3,005
Increase (decrease) in cash	**127**	(100)	**712**	(57)
Total capital expenditures, including acquisitions	**989**	13,751	**5,191**	17,024
Capital expenditures, including acquisitions:				
Oil and gas	**982**	13,745	**5,184**	17,014
Minerals	**7**	6	**7**	10

In the six months ended June 30, 2016, Pine Cliff's uses of cash included $5.2 million of capital expenditures, bank debt repayment of $34.9 million, and funds used in operations of $2.3 million. In the six months ended June 30, 2016, Pine Cliff's sources of cash included Royalty Dispositions of $24.7 million, the sale of investments of $5.6 million, exercises of stock options of $0.6 million and increases in working capital of $10.8 million.

COMMITMENTS AND CONTINGENCIES

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

	Total	<6 months	6-12 months	>12 months
($000s)				
Trade and other payables	19,667	19,667	-	-
Office and equipment leases	117	35	35	47
Vehicle leases	1,023	204	186	633
Bank loan - principal	121,067	-	-	121,067
Bank loan - future interest	10,786	1,703	3,406	5,677
Total commitments and contingencies	152,660	21,609	3,627	127,424

SELECTED QUARTERLY FINANCIAL INFORMATION[1]

	2016	2015				2014		
($000s, unless otherwise indicated)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Average sales volumes (Boe/d)	**22,647**	23,297	15,051	12,504	11,814	12,021	12,095	6,810
Operating netback ($/Boe)[2]	**(0.02)**	2.68	6.16	7.92	7.08	7.33	11.74	15.08
Total revenue	**19,905**	25,891	20,258	19,517	16,784	17,608	23,003	15,907
Cash flow from operating activities	**(4,371)**	9,622	973	6,617	4,182	8,998	13,969	6,390
Funds flow from (used in) operations[3]	**(3,655)**	1,398	6,550	7,507	5,555	6,182	11,615	8,104
Per share – basic and diluted ($/share)	**(0.01)**	0.00	0.03	0.03	0.02	0.03	0.05	0.04
Earnings (loss)	**(42,039)**	(16,177)	(3,300)	(10,697)	(4,757)	(5,503)	(8,929)	918
Per share – basic and diluted ($/share)	**(0.08)**	(0.05)	(0.01)	(0.05)	(0.02)	(0.02)	(0.04)	0.00

[1] Includes results for acquisitions and excludes results for dispositions from the closing dates.
[2] 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.
[3] Funds flow from (used in) 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

- Production decreased in the second quarter of 2016 due to deferring non-essential well operations, shutting in uneconomic production, and natural decline; prior to this quarter, production had increased for seven consecutive quarters resulting from acquisitions and capital activity;
- Funds flow from operations and operating netbacks have declined over the last four quarters due to lower commodity prices;
- Total revenue has increased related to acquisitions in the latter half of 2015 for three consecutive quarters and decreased in the second quarter of 2016 due to decreased commodity prices; and
- Beginning in the fourth quarter of 2014, Pine Cliff has recorded a loss in each quarter related to decreased commodity prices.

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, 2015.

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, 2015.

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 2015 Annual Financial Statements.

SUBSEQUENT EVENTS

Issuance of Subordinated Debt

On July 29, 2016, the Company issued subordinated floating charge debentures to insiders of the Company for a total of $11 million (the "Insider Debentures"). The Insider Debentures mature on July 29, 2018, can be repaid at any time without penalty and will bear interest at 0.25% less than the monthly average effective interest rate paid to the Syndicate.

On August 10, 2016, the Company completed a private placement of 30,000 units (the "Units"), at a price of $1,000 per Unit for aggregate proceeds of $30 million. Each Unit is comprised of: (i) one promissory note (a "Note") with a par value of $1,000 and bearing interest at 6.75% per annum, payable semi-annually; and (ii) 150 common share purchase warrants (the "Warrants"). Pine Cliff issued a total of 4.5 million Warrants, with each Warrant entitling the holder to purchase one common share of the Company at a price of $1.38 until August 10, 2018. The Notes mature on September 30, 2020 and all or a portion of the principal amount outstanding can be repaid without penalty after one year.

Disposition

On August 2, 2016, the Company entered into a purchase and sale agreement (the "Disposition") to sell a non-core asset for gross proceeds of $5.5 million, effective July 1, 2016. The Disposition is anticipated to close on or before August 31, 2016. The agreement related to the Disposition is subject to various standard conditions and there is no assurance that the Disposition will close at all.

Exercise of stock options

Subsequent to June 30, 2016, Pine Cliff issued 738,500 common shares as a result of stock option exercises at an exercise price of $0.38.

ADDITIONAL INFORMATION

Internal Controls

Pine Cliff is required to comply with National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. The certification of interim filings requires us to disclose in the MD&A any changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting. We confirm that no such changes were made to the internal controls over financial reporting during the three and six months ended June 30, 2016. The Chief Executive Officer and Chief Financial Officer have signed form 52-109F2, Certification of Interim Filings, which can be found on SEDAR at www.sedar.com.

NON-IFRS MEASURES

This MD&A uses the terms "funds flow from (used in) operations", "operating netbacks", "corporate netbacks" and "net debt" which are not recognized under IFRS and may not be comparable to similar measures presented by other companies. The Company uses these measures to evaluate its performance, leverage and liquidity, as well as to assess potential acquisitions.

The Company considers funds flow from (used in) 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 (used in) operations and funds flow from (used in) 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 (used in) operations is calculated as cash flow from operating activities before changes in non-cash working capital and changes in interest payable. Funds flow from (used in) 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 June 30		Six months ended June 30	
	2016	2015	**2016**	2015
($000s)				
Cash flow from (used in) operating activities	**(4,371)**	4,182	**5,251**	13,178
Adjusted by:				
(Increase) decrease in non-cash working capital	**642**	1,373	**(7,642)**	(1,441)
Decommissioning obligation settled	**74**	-	**134**	-
Funds flow from (used in) operations	**(3,655)**	5,555	**(2,257)**	11,737

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 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 June 30, 2016**	As at December 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents		**121**	833
Trade and other receivables		**14,707**	16,473
Prepaid expenses and deposits		**3,874**	3,250
Investments	3	**-**	3,590
Total current assets		**18,702**	24,146
Exploration and evaluation assets		**45,957**	45,950
Property, plant and equipment	4,5	**538,021**	532,059
Deferred taxes	6	**40,682**	38,620
Total assets		**643,362**	640,775
LIABILITIES			
Current liabilities			
Trade and other payables		**19,667**	9,978
Total current liabilities		**19,667**	9,978
Bank debt	7	**121,067**	155,938
Decommissioning liabilities	8	**302,015**	240,452
Total liabilities		**442,749**	406,368
SHAREHOLDERS' EQUITY			
Share capital	9	**267,752**	266,809
Contributed surplus		**4,502**	3,453
Accumulated other comprehensive loss		**-**	(6,253)
Deficit		**(71,641)**	(29,602)
Total shareholders' equity		**200,613**	234,407
Total liabilities and shareholders' equity		**643,362**	640,775

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

See Subsequent Events Note 11

CONSOLIDATED STATEMENTS OF LOSS

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

		Three months ended June 30		Six months ended June 30	
	Note	**2016**	2015	**2016**	2015
Oil and gas sales		**20,695**	17,333	**47,925**	36,112
Royalty income		**505**	121	**1,111**	143
Royalty expense		**(1,336)**	(762)	**(3,342)**	(2,076)
Finance and dividend income	3	**41**	92	**102**	213
REVENUE		**19,905**	16,784	**45,796**	34,392
EXPENSES					
Operating		**19,907**	9,075	**40,054**	18,639
General and administration		**1,797**	1,805	**4,494**	3,238
Depletion and depreciation	4	**17,597**	10,938	**34,495**	22,985
Share-based payments		**829**	870	**1,597**	1,652
Gain on disposition	5	**(518)**	-	**(518)**	-
Realized loss on sale of investments	3	**4,270**	-	**4,270**	-
Finance		**3,053**	1,241	**5,733**	2,556
Total expenses		**46,935**	23,929	**90,125**	49,070
Loss before income taxes		**(27,030)**	(7,145)	**(44,329)**	(14,678)
Deferred tax recovery		**(1,168)**	(2,388)	**(2,290)**	(4,418)
LOSS FOR THE PERIOD		**(25,862)**	(4,757)	**(42,039)**	(10,260)
Loss per share ($)					
Basic and Diluted		**(0.08)**	(0.02)	**(0.14)**	(0.04)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Canadian dollars, 000s)
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
Loss for the period	**(25,862)**	(4,757)	**(42,039)**	(10,260)
OTHER COMPREHENSIVE LOSS				
Unrealized loss on investments	**(825)**	(605)	**-**	(2,189)
Deferred taxes on unrealized loss on investments	**-**	75	**-**	273
Amounts reclassified from comprehensive loss	**6,253**	-	**6,253**	-
OTHER COMPREHENSIVE GAIN (LOSS) FOR THE PERIOD, NET OF TAX	**5,428**	(530)	**6,253**	(1,916)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(20,434)**	(5,287)	**(35,786)**	(12,176)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Canadian dollars, 000s)
(unaudited)

	Note	Three months ended June 30		Six months ended June 30	
		2016	2015	**2016**	2015
CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):					
OPERATING ACTIVITIES					
Loss for the period		**(25,862)**	(4,757)	**(42,039)**	(10,260)
Items not affecting cash:					
Share-based payments		**829**	870	**1,597**	1,652
Depletion and depreciation		**17,597**	10,938	**34,495**	22,985
Finance expenses		**3,053**	1,241	**5,733**	2,556
Gain on disposition of assets		**(518)**	-	**(518)**	-
Loss on sale of investments		**4,270**	-	**4,270**	-
Gain on foreign exchange		-	(24)	-	(24)
Deferred tax recovery		**(1,180)**	(2,388)	**(2,302)**	(4,418)
Changes in non-cash working capital accounts		**(642)**	(1,373)	**7,642**	1,441
Interest and bank charges paid		**(1,844)**	(325)	**(3,493)**	(754)
Decommissioning obligation settled		**(74)**	-	**(134)**	-
Cash and cash equivalents provided by (used in) operating activities		**(4,371)**	4,182	**5,251**	13,178
INVESTING ACTIVITIES					
Expenditures on property, plant and equipment	4	**(742)**	(441)	**(4,359)**	(3,323)
Expenditures on exploration and evaluation assets		**(7)**	(6)	**(7)**	(10)
Acquisitions, net of working capital acquired		**(240)**	(13,304)	**(825)**	(13,691)
Proceeds on disposition of assets	5	**24,702**	-	**24,702**	-
Proceeds on sale of investments	3	**5,573**	-	**5,573**	-
Changes in non-cash working capital accounts		**(1,652)**	(443)	**3,361**	1,564
Cash and cash equivalents provided by (used in) investing activities		**27,634**	(14,194)	**28,445**	(15,460)
FINANCING ACTIVITIES					
Share issue costs		**-**	(2)	**-**	(8)
Exercise of stock options	9	**413**	1,879	**635**	2,595
Bank debt	7	**(23,614)**	8,235	**(34,871)**	(248)
Changes in non-cash working capital accounts		**(189)**	-	**(172)**	-
Cash and cash equivalents provided by (used in) financing activities		**(23,390)**	10,112	**(34,408)**	2,339
Increase (decrease) in cash and cash equivalents		**(127)**	100	**(712)**	57
Cash and cash equivalents - beginning of period		**248**	153	**833**	196
CASH AND CASH EQUIVALENTS - END OF PERIOD		**121**	253	**121**	253

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Canadian dollars, 000s)
(unaudited)

	Note	Share capital	Contributed surplus[1]	Accumulated other comprehensive loss [2]	Deficit	Total Equity
BALANCE AT JANUARY 1, 2015		**191,319**	**2,262**	**(1,087)**	**(5,345)**	**187,149**
Share issue costs, net of tax		(8)	-	-	-	(8)
Loss for the period		-	-	-	(10,260)	(10,260)
Other comprehensive loss for the period		-	-	(1,916)	-	(1,916)
Share-based payments	9	-	1,652	-	-	1,652
Exercise of options		3,834	(1,239)	-	-	2,595
BALANCE AT JUNE 30, 2015		**195,145**	**2,675**	**(3,003)**	**(15,605)**	**179,212**
Issuance of shares	9	71,999	-	-	-	71,999
Share issue costs, net of tax		(2,225)	-	-	-	(2,225)
Loss for the period		-	-	-	(13,997)	(13,997)
Other comprehensive loss for the period		-	-	(3,250)	-	(3,250)
Share-based payments	9	-	1,731	-		1,731
Exercise of options		1,890	(953)	-		937
BALANCE AT DECEMBER 31, 2015		**266,809**	**3,453**	**(6,253)**	**(29,602)**	**234,407**
Share issue costs, net of tax		(240)	-	-	-	(240)
Loss for the period		-	-	-	(42,039)	(42,039)
Transfer of realized loss on sale of investments		-	-	6,253	-	6,253
Share-based payments	9	-	1,597	-	-	1,597
Exercise of options		1,183	(548)	-	-	635
BALANCE AT JUNE 30, 2016		**267,752**	**4,502**	**-**	**(71,641)**	**200,613**

[1]Contributed surplus is comprised of share-based payments.

[2]Accumulated other comprehensive loss 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 June 30, 2016 and December 31, 2015 and for the six month periods ended June 30, 2016 and 2015 (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 Toronto Stock 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, 2015 ("2015 Annual Financial Statements")

The Financial Statements were authorized for issue by the Company's board of directors on August 10, 2016.

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 2015 Annual Financial Statements.

3. TRANSACTIONS WITH RELATED PARTIES

Management services agreement

Pine Cliff had a management services agreement with Bonterra Energy Corp. ("Bonterra"), an oil and gas corporation that is publicly traded on the TSX that has 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 the six month periods ended June 30, 2016 and 2015 were $0.02 million and $0.03 million, respectively, plus the reimbursement of certain administrative costs. As at June 30, 2016, Pine Cliff owed Bonterra $Nil (December 31, 2015 – $0.3 million). This agreement was terminated on March 31, 2016.

Investment in Bonterra

During the second quarter of 2016 Pine Cliff sold all 204,633 Bonterra common shares the Company owned for proceeds of $5.4 million (December 31, 2015 – Pine Cliff held 204,633 shares with a fair value of approximately $3.5 million). For the six months ended June 30, 2016, Pine Cliff received dividend income of $0.1 million (six months ended June 30, 2015 - $0.2 million).

Related party transactions are in the normal course of operations and from time to time Pine Cliff and Bonterra may enter into various minor transactions at market value in circumstances that are considered mutually beneficial.

4. 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, 2014	401,651	810	402,461
Additions	5,417	504	5,921
Transfer from exploration and evaluation	1,301	-	1,301
Acquisitions	177,258	-	177,258
Decommissioning liabilities	52,373	-	52,373
Balance at December 31, 2015	638,000	1,314	639,314
Additions	4,302	57	4,359
Acquisitions	825	-	825
Dispositions	(24,184)	-	(24,184)
Decommissioning liabilities	59,457	-	59,457
Balance at June 30, 2016	**678,400**	**1,371**	**679,771**

Accumulated depletion and depreciation:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 2014	(53,510)	(328)	(53,838)
Depletion and depreciation	(45,486)	(345)	(45,831)
Impairment	(7,586)	-	(7,586)
Balance at December 31, 2015	(106,582)	(673)	(107,255)
Depletion and depreciation	(34,281)	(214)	(34,495)
Balance at June 30, 2016	**(140,863)**	**(887)**	**(141,750)**

Carrying value at:	Oil and gas properties	Administrative assets	Total
December 31, 2015	531,418	641	532,059
June 30, 2016	**537,537**	**484**	**538,021**

5. DISPOSITIONS

On June 29, 2016, Pine Cliff completed the disposition of fee title land and other minor overriding royalty interests (the "Royalty Assets") for cash consideration of $24.7 million (the "Royalty Disposition") resulting in a gain on disposition of $0.5 million. The Royalty Assets include 99,930 net fee title acres that were acquired in December 2015.

6. DEFERRED TAXES

Deferred tax assets (liabilities) are recognized when it is considered probable that unused tax losses (gains), tax credits and deductible temporary differences will be recovered or payable in the foreseeable future. Deferred tax assets are reduced by an unrecognized amount when, in the opinion of management, is more likely than not that some portion or all of the deferred tax will not be realized. An unrecognized deferred tax amount of $6.4 million has been provided against the Company's deferred tax assets of $47.0 million as the Company believes that it is more likely than not that the net deferred tax assets will not be realized.

The deferred income tax recovery varies from the amount that would be computed by applying federal and provincial income tax rates as follows:

	June 30, 2016	December 31, 2015
Deferred income tax assets (liabilities):		
Share issue costs	**1,573**	1,813
Investment	**-**	496
Decommissioning liabilities	**81,535**	64,913
Exploration and evaluation assets	**(11,864)**	(11,863)
Property and equipment	**(42,941)**	(29,329)
Capital losses carried forward	**128**	128
Non-capital losses carried forward	**18,615**	13,499
Asset before unrecognized deferred tax	**47,046**	39,657
Less: unrecognized deferred tax	**(6,364)**	(1,037)
Net deferred income tax asset	**40,682**	38,620

Pine Cliff has approximately $454.2 million in tax pools at June 30, 2016 (December 31, 2015 - $480.8 million) available for future use as deductions from taxable income. Included in these pools are estimated non-capital loss carry forwards of $72.0 million (December 31, 2015 - $50.0 million) that expire between the years 2030 and 2036.

7. BANK DEBT

As at June 30, 2016, the Company had a $160 million syndicated credit facility (the "Credit Facility") with five Canadian Financial Institutions (the "Syndicate") (December 31, 2015 - $185 million Credit Facility). The Credit Facility consists of a $140 million revolving syndicated credit facility and a $20 million revolving operating facility. Security for the Credit Facility consists of floating demand debentures totaling $500 million and a general security agreement with first ranking over all current and acquired properties. Amounts drawn under the Credit Facility at June 30, 2016 were $121.1 million (December 31, 2015 - $156 million). Amounts borrowed under the Credit Facility bear interest at the Canadian prime rate plus 1.0% to 2.5% or the bankers' acceptance rate 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 Credit Facility is a one year revolving facility with the initial revolving period ending on July 31, 2016 and is reviewed semi-annually on November 30th and May 31st. If the Credit Facility is not renewed it will convert to a 364-day term loan. The Credit Facility has no fixed terms of repayment. Fees related to the Credit Facility totaled $0.5 million of which $0.3 million has been deferred over the term of the debt and $0.2 million was expensed for the six month period ended June 30, 2016.

The May 31, 2016 Credit Facility review was extended to August 10, 2016, through several amending agreements. Amounts borrowed under the Syndicated Facility from June 1, 2016 to August 10, 2016 bear interest at the Canadian prime rate plus 2.25% to 3.75% or the bankers' acceptance rate plus 3.25% to 4.75%, depending, in each case, on the ratio of consolidated debt to EBITDA.

On August 10, 2016, the Company entered into a Restated Credit Agreement with the Syndicate for an $85 million syndicated credit facility (the "Renewed Credit Facility"). The Renewed Credit Facility consists of a $75 million revolving credit facility and a $10 million revolving operating facility. The Renewed Credit Facility has a 364 day revolving period maturing July 28, 2017 and if it is not renewed it will convert to a one day term loan due on July 29, 2017. The Renewed Credit Facility will be reviewed semi-annually on November 30th and May 31st. The November 30, 2016 review has been waived and the May 31, 2017 review has been advanced to March 31, 2017. The Renewed Credit Facility will bear interest at the Canadian prime rate plus 1.0% to 3.5% or the bankers' acceptance rate 2.0% to 4.5%, depending, in each case, on the ratio of consolidated debt to EBITDA.

As at June 30, 2016, the Company had $1.7 million of letters of credit issued against its Syndicated Facility (December 31, 2015 - $0.6 million). The Company was in compliance with its bank covenants during the period ended June 30, 2016.

For additional information on debt, refer to Subsequent Events Note 11.

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 June 30, 2016, the estimated total undiscounted amount required to settle the decommissioning liabilities was $316.8 million (December 31, 2015 - $315.4 million). The provision has been calculated assuming a 1.78% inflation rate (December 31, 2015 – 1.72%). 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 1.96% (December 31, 2015 – 2.61%).

Changes to decommissioning liabilities were as follows:

	2016	2015
Decommissioning provision, January 1 beginning of period	**240,452**	164,513
Provisions acquired through acquisitions	**-**	20,034
Increase in liabilities relating to development activities	**120**	44
Decommissioning expenditures	**(134)**	-
Revisions (change in estimate and discount rates)	**59,337**	52,329
Accretion expense during period	**2,240**	3,532
Decommissioning provision, June 30 end of period	**302,015**	240,452

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, 2015	233,879	191,319
Shares issued pursuant to public share offerings	66,666	71,999
Exercise of options	4,647	5,722
Share issue costs, net of tax	-	(2,231)
Balance at December 31, 2015	305,192	266,809
Share issue costs, net of tax	-	(240)
Exercise of options	1,025	1,183
Balance at June 30, 2016	**306,217**	**267,752**

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 six month periods ended June 30, 2016, all options were excluded as there was a loss for the periods then ended.

	Three months ended June 30		Six months ended June 30	
Earnings per share calculation:	**2016**	2015	**2016**	2015
Numerator				
Loss for the period	**(25,862)**	(4,757)	**(42,039)**	(10,260)
Denominator (000s)				
Weighted-average common shares outstanding – basic and diluted	**305,928**	236,022	**305,720**	235,239
Loss per share – basic and diluted ($)	**(0.08)**	(0.02)	**(0.14)**	(0.04)

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 up to 10% of outstanding common shares at June 30, 2016. The term and vesting period of the options granted are determined at the discretion of the board of directors. The exercise price of each option granted equals the market price of the Company's stock immediately preceding the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as at June 30, 2016 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, 2014	15,695	1.15
Granted	6,878	1.11
Exercised	(4,647)	0.76
Expired	(350)	1.55
Forfeited	(338)	1.29
Outstanding, December 31, 2015	17,238	1.23
Granted	1,455	0.86
Exercised	(1,025)	0.61
Expired	(2,968)	1.44
Forfeited	(731)	1.26
Outstanding, June 30, 2016	13,969	1.20
Exercisable, June 30, 2016	1,307	0.85

The following table summarizes information about stock options outstanding at June 30, 2016:

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
$0.38 - $0.90	1,694	1.5	792	0.1
$0.91 - $1.49	8,731	2.1	263	0.3
$1.50 - $1.97	3,544	1.3	252	0.4
	13,969	1.8	1,307	0.2

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 six months ended June 30, 2016, the Company granted 1,455,000 stock options with a fair value of $0.33 per option using the Black-Scholes option pricing models with the following key assumptions (weighted average):

Assumptions:	Six months ended June 30, 2016
Exercise price ($)	0.86
Estimated volatility of underlying common shares (%)	57.6
Weighted average expected life (years)	3.0
Risk-free rate (%)	0.6
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.

10. FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement

Financial instruments of the Company consist of cash and cash equivalents, trade and other receivables, trade and other payables and bank debt. The carrying values of the financial instruments presented in the Financial Statements approximate their respective fair values due to their short-term to maturity. Financial assets and liabilities are only offset if Pine Cliff has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously.

Risks associated with financial assets and liabilities

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

A description of the nature and extent of risks arising from Pine Cliff's financial assets and liabilities can be found in the 2015 Annual Financial Statements. The Company's exposure to these risks has not changed significantly since December 31, 2015.

11. SUBSEQUENT EVENTS

Issuance of Subordinated Debt

On July 29, 2016, the Company issued subordinated floating charge debentures to insiders of the Company for a total of $11 million (the "Insider Debentures"). The Insider Debentures mature on July 29, 2018, can be repaid at any time without penalty and will bear interest at 0.25% less than the monthly average effective interest rate paid to the Syndicate.

On August 10, 2016, the Company completed a private placement of 30,000 units (the "Units"), at a price of $1,000 per Unit for aggregate proceeds of $30 million. Each Unit is comprised of: (i) one promissory note (a "Note") with a par value of $1,000 and bearing interest at 6.75% per annum, payable semi-annually; and (ii) 150 common share purchase warrants (the "Warrants"). Pine Cliff issued a total of 4.5 million Warrants, with each Warrant entitling the holder to purchase one common share of the Company at a price of $1.38 until August 10, 2018. The Notes mature on September 30, 2020 and all or a portion of the principal amount outstanding can be repaid without penalty after one year.

Disposition

Subsequent to June 30, 2016, the Company entered into a purchase and sale agreement (the "Disposition") to sell a non-core asset for gross proceeds of $5.5 million, effective July 1, 2016. The agreement related to the Disposition is subject to various standard conditions and there is no assurance that the Disposition will close at all.

Exercise of stock options

Subsequent to June 30, 2016, Pine Cliff issued 738,500 common shares as a result of stock option exercises at an exercise price of $0.38.

BOARD OF DIRECTORS

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

OFFICERS

George F. Fink
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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Computershare Trust Company of Canada

AUDITORS

Deloitte LLP

BANKERS

Toronto-Dominion Bank
Alberta Treasury Branches
National Bank of Canada
Canadian Western Bank
Business Development Bank of Canada

STOCK EXCHANGE LISTING

TSX Exchange
Trading Symbol: PNE

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