Pine Cliff Energy Ltd.

Long-term Value Focus

Q3-2016 Report

MESSAGE TO SHAREHOLDERS

Writing this letter feels considerably better than it did last quarter. I am very pleased to inform you that your company is making money again after a brief but painful second quarter. This quarter we:

- Achieved a Pine Cliff record quarter revenue of $32.4 million;
- Generated $7.0 million of funds flow from operations ($0.02 per share) compared to $7.5 million in the third quarter of 2015 ($0.03 per share), despite realized natural gas prices being $2.33 per Mcf this quarter compared to $2.94 per Mcf a year ago;
- Continued to be one of the lowest cost operators in the industry with operating costs of $9.43 per Boe ($1.57 per Mcf) and reducing G&A expenses to $0.74 per Boe ($0.12 per Mcf), a 31% decrease from the same quarter in the previous year;
- Increased production by 80% to 22,521 Boe/d (93% natural gas) from 12,504 Boe/d (94% natural gas) in the third quarter of 2015, representing a 40% increase on a per share basis;
- Restructured the bank debt by issuing $41 million in subordinated debt and entering into an agreement with the banking syndicate for an $85 million credit facility;
- Continued to strengthen our balance sheet, paying down $8.7 million of bank debt with funds flow from operations and the sale of a non-core oil asset; and
- Reduced our net debt by $11.7 million from the second quarter of 2016.

Due to the combination of reduced gas production in North America and a much warmer summer in the United States boosting natural gas demand, we have seen natural gas prices recover from their lows in the second quarter. This quarter had considerable significance to Pine Cliff as it was the first full quarter since our December acquisition that we have had realized natural gas prices above $2.00 per Mcf. As you can see by our financials, we have been busy integrating that acquisition in 2016 and we are now seeing the benefits of those efforts in our reduced operating costs to complement our record revenue.

Our team is proud of the fact that in 2016 we reduced our banking syndicate exposure by $100 million at the request of the banks, added a strong investment partner in AIMCo, maintained our corporate cash flow break-even point at approximately $1.75 per Mcf and did not issue shares to dilute our shareholders while achieving all of this. The volatility in natural gas prices this year has been unprecedented and while we are cautiously optimistic of the future for natural gas pricing, we continue to be committed to further strengthening our balance sheet by using cash flow to pay down debt.

You might wonder why we are optimistic on natural gas prices given the low prices we experienced in the first half of 2016. We believe that there have been three fundamental structural changes in natural gas demand that have been masked by the unusually warm winter. First, material shipments of LNG are leaving North America for the first time in 2016. Current shipments are expected to be approximately 1.2 Bcf per day by the end of the year and this number is projected to rise to over eight Bcf per day by 2020. Second, Mexican pipeline exports from the US increased to approximately 3.5 Bcf per day from less than two Bcf per day in 2014. And finally, natural gas surpassed coal in 2016 as the largest source of electric generation in the US. All three of these demand pulls occurred in the same year that natural gas supply declined in North America for the first time since 2005. I find it striking that we had the warmest winter in 112 years and our North American gas storage on November 3rd is almost at the same storage level as it was one year previously. We are now entering into the natural gas storage withdrawal season, and with our predictable asset base and one of the highest sensitivities to natural gas prices in the industry, we are well positioned to provide our shareholders with exposure to potentially rising natural gas prices. As an illustration of the material impact that natural gas pricing has on our corporate netback, you can see that for the first nine months of this year our netback was $0.13 per Mcf at an average realized natural gas price of $1.87 per Mcf, but in 2015 our corporate netback was $0.97 per Mcf at an average realized natural gas price of $2.74 per Mcf. Every $0.10 per Mcf move in AECO prices equates to almost $4.4 million of annual cash flow or $0.014 per outstanding share.

Notwithstanding all the market turbulence of the past four and 3/4 years, Pine Cliff's strategy has never changed. We have patiently built up both a quality portfolio of assets and a specialized team of employees that can generate true free cash flow at gas prices above $2.50 per Mcf while keeping production flat. We currently estimate that we have over 800 potential gross drilling and recompletion locations that can deliver at least a 10% rate of return at $3.00 per Mcf or less. We will continue to look at adding quality assets to our company, but as we say internally, everything is "nice to have, nothing is need to have". Any acquisition will only be made if the incremental value on a per share basis justifies the addition. This is the kind of focus you get from a management team that is aligned with you as owners of the business.

For almost all of 2016, we have been looking forward to the end of this year to see how our company will perform with higher gas prices. So far, we are happy with the results. We would like to thank all of you for showing the confidence and support to stand behind our team during a difficult period for our industry. We continue to believe you will be rewarded for your patience and confidence and we are excited about what lies ahead for us.

Yours truly,

Phil Hodge
President and Chief Executive Officer
November 9, 2016

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 audited consolidated financial statements of Pine Cliff Energy Ltd. together with Management's Discussion and Analysis for the three and nine month periods ended September 30, 2016 and 2015, 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	
	2016	2015	**2016**	2015
($000s, unless otherwise indicated)				
FINANCIAL[1]				
Oil and gas sales (before royalty expense)	**32,401**	20,933	**80,326**	57,045
Cash flow from operating activities	**4,606**	6,617	**9,857**	19,795
Funds flow from operations[2]	**6,972**	7,507	**4,715**	19,268
Per share – Basic and Diluted ($/share)	**0.02**	0.03	**0.02**	0.08
Loss	**(11,558)**	(10,697)	**(53,597)**	(20,957)
Per share – Basic and Diluted ($/share)	**(0.04)**	(0.05)	**(0.18)**	(0.09)
Capital expenditures, excluding acquisitions	**1,437**	2,051	**5,803**	5,384
Acquisitions, after adjustments	**(603)**	(166)	**222**	13,525
Capital dispositions, proceeds	**5,378**	-	**30,080**	-
Net Debt[3]	**110,312**	35,208	**110,312**	35,208
Weighted-average common shares outstanding (000s)				
Basic and Diluted	**306,878**	236,920	**306,109**	235,805
OPERATIONS				
Production				
Natural gas (Mcf/d)	**125,082**	70,843	**126,373**	68,856
Crude oil (Bbls/d)	**803**	128	**804**	125
Natural gas liquids (Bbls/d)	**871**	569	**954**	514
Total (Boe/d)	**22,521**	12,504	**22,820**	12,115
Realized commodity sales prices				
Natural gas ($/Mcf)	**2.33**	2.94	**1.87**	2.74
Crude oil ($/Bbl)	**41.81**	47.90	**33.93**	51.27
Natural gas liquids ($/Boe)	**31.67**	23.59	**31.65**	26.46
Combined ($/Boe)	**15.64**	18.19	**12.85**	17.25
Netback ($/Boe)				
Oil and gas sales	**15.64**	18.19	**12.85**	17.25
Royalty income	**-**	0.06	**0.18**	0.06
Royalty expense	**(1.13)**	(1.37)	**(0.91)**	(1.10)
Operating costs	**(9.43)**	(8.96)	**(9.53)**	(8.75)
Operating netback ($/Boe)[4]	**5.08**	7.92	**2.59**	7.46
General and administrative	**(0.74)**	(1.08)	**(0.96)**	(1.35)
Interest and bank charges and dividend income	**(0.98)**	(0.32)	**(0.86)**	(0.28)
Corporate netback ($/Boe)[5]	**3.36**	6.52	**0.77**	5.83
Operating netback ($ per Mcfe)	**0.85**	1.32	**0.43**	1.24
Corporate netback ($ per Mcfe)	**0.56**	1.09	**0.13**	0.97

[1] Includes results for acquisitions and excludes results for dispositions from the closing dates.
[2] Funds flow from operations is a non-IFRS measure that represents the total of funds provided by operating activities, before adjusting for changes in non-cash working capital, and decommissioning obligations settled.
[3] Net debt is a non-IFRS measure calculated as the sum of bank debt, subordinated promissory notes at the principal amount, due to related party, 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 three and nine months ended September 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 three and nine month periods ended September 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]	$1.00	460	0.00
Natural gas price -AECO ($/Mcf)[2]	$0.10	4,380	0.01
Interest rate on variable rate debt	1.0%	820	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 2016 daily sales volumes annualized for twelve months.

[3] Based on the third quarter of 2016 basic weighted average shares outstanding of 306,878,173.

Third quarter 2016 highlights

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

- Achieved record quarterly revenue of $32.4 million;
- Generated funds flow from operations of $7.0 million with realized natural gas pricing of only $2.33 per Mcf;
- Strengthened its balance sheet, repaying $8.7 million in bank debt through the sale of non-core assets and funds flow from operations;
- Continued to be one of the lowest cost operators in the industry by maintaining low operating costs of $9.43 per Boe ($1.57 per Mcf) and reducing G&A expenses to $0.74 per Boe ($0.12 per Mcf), a 31% decrease from the same quarter in the previous year; and
- Increased production by 80% to 22,521 Boe/d (93% gas) from 12,504 Boe/d (94% gas) in the third quarter of 2015, representing a 40% increase on a basic per share basis.

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 quality 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 transactions include:

- The acquisition of certain shallow natural gas assets in the Southern core area and Edson core area in May 2015 (the "May 2015 Acquisition");
- 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"); and
- The disposition of certain fee lands and royalty interests in June 2016 (the "Royalty Disposition").

Management is pleased with its progress and believes 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/Three Hills and Camrose/Viking areas of Central Alberta with average mineral working interest of 76% and 79% respectively. Both areas are characterized with multiple stacked productive horizons. Ghost Pine/Three Hills 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 but there is considerable upside in the Colorado Shale which is a deep water siltstone. Pine Cliff has identified approximately 900 potential gross vertical drilling locations in the Ghost Pine/Three Hills Horseshoe Canyon Coal Bed Methane fairway and approximately 140 potential horizontal gross drilling locations in the Viking Colorado Shale;

- Southern Assets – Pine Cliff holds an approximate 85% working interest in a package of 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 locations. 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 in 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.

SALES VOLUMES

Total sales volumes by product	Three months ended September 30 **2016**	2015	Nine months ended September 30 **2016**	2015
Natural gas (Mcf)	**11,507,513**	6,517,524	**34,626,098**	18,797,730
Crude oil (Bbls)	**73,887**	11,796	**220,273**	34,149
NGLs (Bbls)	**80,095**	52,391	**261,414**	140,197
Barrels of oil equivalent	**2,071,901**	1,150,441	**6,252,703**	3,307,301
Natural gas weighting	**93%**	94%	**92%**	95%

Average daily sales volumes by product	Three months ended September 30 **2016**	2015	Nine months ended September 30 **2016**	2015
Natural gas (Mcf/d)	**125,082**	70,843	**126,373**	68,856
Crude oil (Bbls/d)	**803**	128	**804**	125
NGLs (Bbls/d)	**871**	569	**954**	514
Total	**22,521**	12,504	**22,820**	12,115

Average daily sales volumes by property	Three months ended September 30 **2016**	2015	Nine months ended September 30 **2016**	2015
(Boe/d)				
Southern Assets	**9,350**	10,150	**9,562**	10,066
Edson	**2,220**	2,155	**2,131**	1,852
Central Assets	**10,733**	-	**10,851**	-
Other properties	**218**	199	**276**	197
Total	**22,521**	12,504	**22,820**	12,115

Pine Cliff's sales volumes increased 80% to 22,521 Boe/d (135,126 Mcfe/d) and 88% to 22,820 Boe/d (136,920 Mcfe/d) in the three and nine months ended September 30, 2016, as compared to the same periods of 2015. The increases were primarily the result of significant acquisitions completed in May and December 2015 along with production additions from modest 2015 and 2016 capital programs, slightly offset by minor shut-in production. 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 September 30		Nine months ended September 30	
	2016	2015	**2016**	2015
($ per Boe)				
Oil and gas sales	**15.64**	18.19	**12.85**	17.25
Royalty income	**-**	0.06	**0.18**	0.06
Royalty expense	**(1.13)**	(1.37)	**(0.91)**	(1.10)
Operating expenses	**(9.43)**	(8.96)	**(9.53)**	(8.75)
Operating netback	**5.08**	7.92	**2.59**	7.46
General and administrative expense	**(0.74)**	(1.08)	**(0.96)**	(1.35)
Interest and bank charges	**(0.98)**	(0.40)	**(0.88)**	(0.37)
Finance and dividend income	**-**	0.08	**0.02**	0.09
Corporate netback	**3.36**	6.52	**0.77**	5.83
Operating netback ($ per Mcfe)	**0.85**	1.32	**0.43**	1.24
Corporate netback ($ per Mcfe)	**0.56**	1.09	**0.13**	0.97

Pine Cliff had operating netbacks of $5.08 and $2.59 per Boe for the three and nine months ended September 30, 2016, as compared to $7.92 and $7.46 per Boe for the three and nine months ended September 30, 2015. Pine Cliff had corporate netbacks of $3.36 and $0.77 per Boe for the three and nine months ended September 30, 2016 as compared to $6.52 and $5.83 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 expenses and interest and bank charges, somewhat offset by lower royalty expenses and general and administrative expenses, on a per Boe basis.

OIL AND GAS SALES

	Three months ended September 30				Nine months ended September 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ Per Boe	**$**	**$ Per Boe**	$	$ Per Boe
Natural gas[1]	**26,775**	**2.33**	19,132	2.94	**64,578**	**1.87**	51,584	2.74
Crude oil	**3,089**	**41.81**	565	47.90	**7,473**	**33.93**	1,751	51.27
NGLs	**2,537**	**31.67**	1,236	23.59	**8,275**	**31.65**	3,710	26.46
Total oil and gas sales	**32,401**	**15.64**	20,933	18.19	**80,326**	**12.85**	57,045	17.25

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

Oil and gas sales for the three and nine months ended September 30, 2016, increased by 55% and 41%, 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, partially offset by lower commodity prices in 2016. Pine Cliff's realized prices in the three and nine months ended September 30, 2016 were $15.64 and $12.85 per Boe, a decrease of 14% and 26% 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.

	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014
Natural gas								
NYMEX (US$/Mmbtu)[1]	**2.78**	1.95	2.05	2.28	2.77	2.67	2.96	3.96
AECO Daily 5A (C$/Mcf)	**2.31**	1.39	1.82	2.45	2.89	2.64	2.74	3.58
Crude oil								
WTI (US$/Bbl)	**44.94**	45.59	33.45	42.18	46.43	57.94	48.63	73.15
Edmonton light (C$/Bbl)	**54.71**	54.71	40.69	52.87	56.17	67.63	51.78	75.58
Foreign exchange								
US$/C$	**1.3051**	1.2886	1.3748	1.3353	1.3094	1.2294	1.2411	1.1357

[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 started to recover in the third quarter of 2016 as a result of decreasing natural gas supply and less concerns that Alberta and US would see storage reach capacity before the start of winter. 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 third quarter of 2016, the benchmark AECO natural gas price in Canada decreased by 20% to $2.31 per Mcf as compared to the third quarter of 2015. The AECO monthly strip for the next 12 months is currently trading in the $2.64 per Mcf range. Pine Cliff's realized natural gas price during the three and nine months ended September 30, 2016 was $2.33 and $1.87 per Mcf, a decrease of 21% and 32%, respectively, compared to $2.94 and $2.74 per Mcf for the same periods of 2015.

The average Edmonton light crude and WTI benchmarks both dropped by 3% for the third quarter of 2016 compared to the third quarter of 2015. Edmonton light oil averaged $54.71 per Bbl in the third quarter of 2016 compared to $56.17 per Bbl in the third quarter of 2015 and WTI oil prices averaged US$44.94 per Bbl in the third quarter of 2016 as compared to US$46.43 per Bbl in the third quarter of 2015. In the three and nine months ended September 30, 2016, the realized price of Pine Cliff's oil was $41.81 and $33.93 per Bbl, representing 76% and 60% of Edmonton Light, as a result of quality adjustments to the average Edmonton light crude oil price of $54.71 and $56.71 per Bbl.

The supply and demand for certain NGLs such as ethane, propane, butane, and condensate in the recent past has impacted the relationship between the price of NGLs and the price of oil. In the three and nine months ended September 30, 2016, the realized price of Pine Cliff's NGLs was $31.67 and $31.65 per Bbl representing approximately 58% and 63% of the Edmonton light crude oil prices, respectively, as compared to 42% and 45% in the three and nine months ended September 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. 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 September 30				Nine months ended September 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ Per Boe**	$	$ Per Boe	**$**	**$ Per Boe**	$	$ Per Boe
Total royalty revenue	**-**	**-**	67	0.06	**1,111**	**0.18**	210	0.06

On an absolute dollar basis, royalty revenue for the nine months ended September 30, 2016 increased significantly as compared to the same period of 2015, primarily as a result of the royalty stream from the fee lands acquired in the December 2015 Acquisition. Royalty income for the nine months ended September 30, 2016 was $0.18 per Boe, as compared to $0.06 per Boe for the same period 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.

ROYALTY EXPENSE

	Three months ended September 30				Nine months ended September 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ Per Boe**	$	$ Per Boe	**$**	**$ Per Boe**	$	$ Per Boe
Total royalty expense	**2,334**	**1.13**	1,575	1.37	**5,676**	**0.91**	3,651	1.10
% of oil and gas sales	**7%**		8%		**7%**		6%	

On an absolute dollar basis, royalty expense for the three and nine months ended September 30, 2016 increased by 48% and 55% 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 nine months ended September 30, 2016 was $1.13 and $0.91 per Boe, as compared to $1.37 and $1.10 per Boe for the same periods of 2015.

OPERATING EXPENSES

	Three months ended September 30				Nine months ended September 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ Per Boe**	$	$ Per Boe	**$**	**$ Per Boe**	$	$ Per Boe
Total operating expenses	**19,548**	**9.43**	10,304	8.96	**59,602**	**9.53**	28,943	8.75
% of oil and gas sales	**60%**		49%		**74%**		51%	

On an absolute dollar basis, operating expenses for the three and nine months ended September 30, 2016 increased by 90% and 106%, 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 nine months ended September 30, 2016 were $9.43 and $9.53 per Boe, as compared to $8.96 and $8.75 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 $9.60 per Boe ($1.60 per Mcfe) in 2016. Pine Cliff remains committed to seeking ways to increase efficiencies in the field to decrease the operating expenses.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

	Three months ended September 30				Nine months ended September 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ Per Boe**	$	$ Per Boe	**$**	**$ Per Boe**	$	$ Per Boe
Gross G&A	**2,048**	**0.99**	1,304	1.14	**6,802**	**1.08**	4,477	1.35
Add: non-recurring transaction costs	**-**	**-**	16	0.01	**-**	**-**	161	0.05
Less: overhead recoveries	**(519)**	**(0.25)**	(78)	(0.07)	**(779)**	**(0.12)**	(158)	(0.05)
Total G&A expenses	**1,529**	**0.74**	1,242	1.08	**6,023**	**0.96**	4,480	1.35
% of oil and gas sales	**5%**		6%		**7%**		8%	

Despite production increasing by 80% and 88% in the three and nine months ended September 30, 2016, as compared to the same periods in 2015, G&A only increased by 23% and 34% on an absolute dollar basis for these periods, reflecting cost efficiencies and reducing or eliminating discretionary costs. The increase in G&A relates to increased staffing requirements, expenses related to the TSX listing, and other incremental G&A costs associated with the integration of the December 2015 Acquisition, somewhat offset by higher overhead recoveries associated with the December 2015 Acquisition. On a per Boe basis, G&A for the three and nine months ended September 30, 2016 decreased to $0.74 and $0.96, from $1.08 and $1.35 for the same periods of 2015. To minimize G&A expenses further, Pine Cliff shares some common expenses with Bonterra Energy Corp. ("Bonterra"), a related party.

SHARE-BASED PAYMENTS

	Three months ended September 30				Nine months ended September 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ Per Boe**	$	$ Per Boe	**$**	**$ Per Boe**	$	$ Per Boe
Total share-based payments	**808**	**0.39**	899	0.78	**2,405**	**0.38**	2,551	0.77
% of oil and gas sales	**2%**		4%		**3%**		4%	

The Company has an equity settled stock-based compensation plan. Stock options are granted to certain officers, directors, employees and consultants, with the number, term and vesting period of the options granted being determined at the discretion of the Company's board of directors to a maximum of 10% of outstanding common shares.

In the nine months ended September 30, 2016, Pine Cliff granted 1,746,000 stock options to purchase common shares at a weighted average exercise price of $0.86. As at September 30, 2016, the Company had 13,157,431 stock options outstanding (September 30, 2015 – 12,775,300), representing 4.3% of common shares outstanding. In the three and nine months ended September 30, 2016, Pine Cliff recorded share-based payments expense of $0.8 million and $2.4 million related to the stock options outstanding.

DEPLETION, DEPRECIATION, AND IMPAIRMENT

	Three months ended September 30				Nine months ended September 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ Per Boe**	$	$ Per Boe	**$**	**$ Per Boe**	$	$ Per Boe
Oil and gas assets	**17,015**	**8.21**	12,130	10.54	**51,510**	**8.24**	35,115	10.62
Impairment of oil and gas assets	**-**	**-**	7,586	6.59	**-**	**-**	7,586	2.29
Total	**17,015**	**8.21**	19,716	17.13	**51,510**	**8.24**	42,701	12.91

On an absolute dollar basis, Pine Cliff's depletion and depreciation expense, excluding impairments increased 40% and 47% in the three and nine months ended September 30, 2016, as compared to the same periods in 2015. This increase in depletion is primarily a result of an increase in production volumes from the December 2015 acquisition, partially offset by lower depletion rates from the December 2015 Acquisition.

Depletion and depreciation expense, excluding impairments per Boe decreased 22% in the three and nine months ended September 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 September 30				Nine 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	**1,480**	**0.71**	1,029	0.89	**3,720**	**0.59**	2,831	0.86
Unwinding of the discounted value of subordinated promissory notes	**29**	**0.01**	-	-	**29**	**-**	-	-
Interest and bank charges	**2,030**	**0.98**	464	0.40	**5,523**	**0.88**	1,218	0.37
Total finance expenses	**3,539**	**1.70**	1,493	1.29	**9,272**	**1.47**	4,049	1.23
% of oil and gas sales	**11%**		7%		**12%**		7%	

In the three and nine months ended September 30, 2016, Pine Cliff incurred finance expenses of $3.5 million and $9.3 million, as compared to $1.5 million and $4.0 million in the same periods of 2015. The increase in finance expenses in 2016 primarily relates to increased interest and bank charges from higher debt levels to finance the December 2015 Acquisition, higher interest rates incurred on the debt as compared to the same periods of 2015 and one-time costs associated with the borrowing base redetermination and the subordinated promissory notes. In the third quarter of 2016, Pine Cliff issued subordinated promissory notes and a related party subordinated promissory note, which decreased the Company's bank debt. Please refer to the Capital Resources and Liquidity sections.

DIVIDEND INCOME

	Three months ended September 30				Nine months ended September 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ Per Boe**	$	$ Per Boe	**$**	**$ Per Boe**	$	$ Per Boe
Total dividend income	**-**	**-**	92	0.08	**102**	**0.02**	305	0.09

In the nine months ended September 30, 2016 and 2015, Pine Cliff received $0.1 million and $0.3 million in dividends from its investment in Bonterra Energy Corp. ("Bonterra"). The investment in Bonterra common shares were acquired through the acquisition of Geomark Exploration Ltd. During the year, Pine Cliff sold all common shares in Bonterra for cash proceeds of $5.4 million.

INCOME TAXES

	Three months ended September 30				Nine months ended September 30			
	2016		2015		**2016**		2015	
(000s, except per Boe amounts)	**$**	**$ Per Boe**	$	$ Per Boe	**$**	**$ Per Boe**	$	$ Per Boe
Total deferred tax recovery	**(814)**	**(0.39)**	(3,440)	(2.99)	**(3,104)**	**(0.50)**	(7,858)	(2.38)

During the three and nine months ended September 30, 2016, Pine Cliff recorded a deferred tax recovery of $0.8 million and $3.1 million compared to a deferred tax recovery of $3.4 million and $7.9 million in the same periods of 2015. In the nine months ended September 30, 2016, Pine Cliff had an unrecognized deferred tax asset of $8.4 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 $441.4 million in tax pools at September 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 $73.5 million (December 31, 2015 - $50.0 million) that expire between the years 2030 and 2036.

EARNINGS (LOSS)

Quarter to quarter variance analysis:	
($000s)	
Loss for the nine months ended September 30, 2015	**(20,957)**
Price variance	(14,149)
Volume variance	38,331
Royalty expenses	(2,025)
Operating expenses	(30,659)
General and administrative	(1,543)
Share-based payments	146
Depletion and depreciation	(16,395)
Finance expenses	(5,223)
Realized loss in investments	(4,270)
Gain on disposition	518
Finance and dividend income	(203)
Deferred tax recovery (expense)	(4,754)
Impairment of property, plant, and equipment	7,586
Loss for the nine months ended September 30, 2016	**(53,597)**

In the nine months ended September 30, 2016, the net loss increased by $32.6 million to $53.6 million as compared to a net loss of $21.0 million in the period ended September 30, 2015. The increase in net loss is mainly a result of higher depletion, depreciation, royalty, operating expenses and lower commodity prices, partially offset by increased volumes.

Other comprehensive earnings

Other comprehensive earnings in the year are a result of reclassifying the other comprehensive losses 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 OPERATIONS

	Three months ended September 30		Nine months ended September 30	
	2016	2015	**2016**	2015
($000s, except per Boe amounts)				
Loss for the period	**(11,558)**	(10,697)	**(53,597)**	(20,957)
Adjustments for:				
Share-based payments	**808**	899	**2,405**	2,551
Unwinding of discounts	**1,509**	1,029	**3,749**	2,831
Realized loss on sale of investments	**-**	-	**4,270**	-
Gain on disposition	**-**	-	**(518)**	-
Depletion, depreciation and impairment	**17,015**	19,716	**51,510**	42,701
Deferred tax recovery	**(802)**	(3,440)	**(3,104)**	(7,858)
Funds flow from operations	**6,972**	7,507	**4,715**	19,268
Funds flow from operations ($/Boe)	**3.36**	6.52	**0.75**	5.83
Funds flow from operations ($/Mcfe)	**0.56**	1.09	**0.13**	0.97

Funds flow from operations, which represents cash flow used in operating activities before changes in non-cash working capital and decommissioning obligations settled, was $7.0 million and $4.7 million in the three and nine months ended September 30, 2016, as compared to funds flow from operations of $7.5 million and $19.3 million in the same periods of 2015. The decrease in funds flow from operations is due primarily to lower commodity prices which was partially offset by increased production volumes and lower cash costs per boe.

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

	Nine months ended September 30, 2016	Year ended December 31,2015
($000s)		
Exploration and evaluation assets - minerals division	**37**	963
Oil and gas assets	**5,700**	6,718
Vehicles and administrative assets	**66**	504
Acquisitions	**308**	213,119
Dispositions	**(30,388)**	-
Capitalized decommissioning liabilities	**63,790**	52,373
Total	**39,513**	273,677

In the nine months ended September 30, 2016, Pine Cliff added $39.5 million in capital assets to its balance sheet as compared to $273.7 million in the year ended December 31, 2015. The additions included $63.8 million of capitalized decommissioning liabilities for the period ended September 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 ($63.8 million), offset partially by the disposition of the Royalty Assets and the disposition of a non-core oil asset, totaling $30.4 million that were sold to pay down of a portion of the bank debt as requested by the banking syndicate.

Additionally, in the nine months ended September 30, 2016, Pine Cliff had additions to oil and gas assets of $5.7 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 the 99,930 net fee title acres that were acquired as part of the December 2015 Acquisition.

On September 12, 2016, Pine Cliff completed the disposition of a non-core asset for cash consideration of $5.4 million, including dispositions of $5.2 million of property, plant and equipment, $1.0 million of exploration and evaluation assets, and $0.8 million of decommissioning liabilities.

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 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 nine month periods ended September 2016 and 2015 were $0.02 million and $0.06 million, respectively, plus the reimbursement of certain administrative costs. As at September 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 nine months ended September 30, 2016, Pine Cliff received dividend income of $0.1 million (nine months ended September 30, 2015 - $0.3 million).

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

On July 29, 2016, Pine Cliff issued a $5.0 million promissory note to a related party of the Company as discussed in the Capital Resources section.

CAPITAL RESOURCES

Bank Debt

As at September 30, 2016, the Company had an $85.0 million syndicated credit facility (the "Credit Facility") with five Canadian Financial Institutions (the "Syndicate") (December 31, 2015 - $185.0 million Credit Facility). The Credit Facility consists of a $75.0 million revolving syndicated credit facility and a $10.0 million revolving operating facility. Security for the Credit Facility consists of floating demand debentures totaling $150.0 million and a general security agreement with first ranking over all current and acquired properties. Amounts drawn under the Credit Facility at September 30, 2016 were $71.4 million (December 31, 2015 - $156.0 million). Amounts borrowed under the Credit Facility bear interest at the Canadian prime rate plus 1.0% to 3.5% or the bankers' acceptance rates plus 2.0% to 4.5%, depending, in each case, on the ratio of consolidated debt to EBITDA and the Company's borrowing base, which is calculated as earnings (loss) excluding depreciation, depletion and accretion, share based payments, interest, taxes and other non-cash items.

The 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 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 Credit Facility has no fixed terms of repayment.

As at September 30, 2016, the Company had $1.7 million of letters of credit issued against its Credit Facility (December 31, 2015 - $0.6 million). The Credit Facility does not contain any financial covenants but Pine Cliff is subject to various nonfinancial covenants under its Credit Facility. Compliance with these covenants is monitored on a regular basis and as at September 30, 2016, Pine Cliff was in compliance with all covenants.

Subordinated Promissory Notes

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

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

On July 29, 2016, the Company issued $6.0 million in promissory notes maturing on July 29, 2018 ("2018 Notes") and bearing interest at 0.25% less than the monthly average effective interest rate paid to the Credit Facility, payable monthly. The 2018 Notes were issued to a shareholder of the company owning greater than 10% of the Company's outstanding common shares and can be repaid at any time without penalty. The 2018 Notes are secured by $6.0 million of floating charge debentures over all of the Company's assets and are subordinated to any and all claims in favor of the Credit Facility and the 2020 Note holder.

Due to Related Party

On July 29, 2016, Pine Cliff issued a $5.0 million promissory note to the Company's Chairman of the Board maturing on July 29, 2018 ("2018 Related Party Note") and bearing interest at 0.25% less than the monthly average effective interest rate paid to the Credit Facility, payable monthly. The 2018 Related Party Note can be repaid at any time without penalty and is secured by a $5.0 million floating charge debenture over all of the Company's assets and is subordinated to any and all claims in favor of the Credit Facility and the 2020 Note holder.

Share Capital

As of September 30, 2016, a total of 306,955,787 Pine Cliff shares were issued and outstanding. During the nine months ended September 30, 2016, Pine Cliff issued 1,746,000 common shares as a result of stock option exercises.

LIQUIDITY

Liquidity includes the risk that, as a result of Pine Cliff's operational liquidity requirements, the Company will not have sufficient funds or ability to obtain financing to settle a transaction on the due date or continue to fund its exploration and development projects. This could result in Pine Cliff being forced to sell assets at a value which is less than what they are worth or the Company may be unable to settle or recover financial assets.

The unused portion of the Credit Facility and cash provided by operating activities are expected to allow Pine Cliff to meet its financial liabilities, as well as future capital requirements, at a reasonable cost. Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities, if required. The Credit Facility matures on July 28, 2017, and Pine Cliff expects that it will renegotiate terms on this date.

The Company's exposure to these risks has not changed significantly since December 31, 2015.

The following table highlights Pine Cliff's sources and uses of cash for the three and nine months ended September 30, 2016 and 2015:

	Three months ended September 30		Nine months ended September 30	
	2016	2015	**2016**	2015
($000s)				
Funds flow from operations	**6,972**	7,507	**4,715**	19,268
Bank debt repayment	**(49,692)**	(3,961)	**(84,563)**	(4,209)
Issuance of related party debt	**5,000**	-	**5,000**	-
Issuance of subordinated promissory notes	**36,000**	-	**36,000**	-
Abandonments	**(41)**	-	**(175)**	-
Dispositions	**5,378**	-	**30,080**	-
Proceeds on sale of investments	**-**	-	**5,573**	-
Share issue costs	**(37)**	-	**(37)**	(8)
Exercise of stock options	**282**	-	**917**	2,595
Increase (decrease) in non-cash working capital	**(3,039)**	(1,493)	**7,792**	1,488
Increase (decrease) in cash	**11**	(168)	**723**	(225)
Total capital expenditures, including acquisitions	**834**	1,885	**6,025**	18,909
Capital expenditures, including acquisitions:				
Oil and gas	**804**	1,851	**5,988**	18,875
Minerals	**30**	34	**37**	34

In the nine months ended September 30, 2016, Pine Cliff's uses of cash included $6.0 million of capital expenditures and bank debt repayment of $84.6 million. In the nine months ended September 30, 2016, Pine Cliff's sources of cash included funds flow from operations of $4.7 million, dispositions of oil and gas assets of $30.1 million, the sale of investments of $5.6 million, exercises of stock options of $0.9 million, issuance of subordinated promissory notes of $36.0 million, issuance of a related party debt of $5.0 million and increases in working capital of $7.8 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:

	2016	**2017**	**2018**	**2019**	**2020**	**Thereafter**
($000s)						
Subordinated promissory notes	-	-	6,000	-	30,000	-
Trade and other payables	21,635	-	-	-	-	-
Due to related party	-	-	5,000	-	-	-
Bank loan – principal	-	71,375	-	-	-	-
Future interest	1,658	4,959	2,370	2,025	1,519	-
Firm service commitments[1]	1,330	4,459	2,168	1,133	894	1,098
Vehicle leases	126	485	404	275	213	90
Office and equipment leases[2]	88	495	438	436	464	1,386
Total commitments and contingencies	24,837	81,773	16,380	3,869	33,090	2,574

[1] Pine Cliff firm service commitments include contracts entered into up to November 9, 2016.
[2] Pine Cliff entered into a lease for additional office space in October 2016.

SELECTED QUARTERLY FINANCIAL INFORMATION[1]

	2016			2015				2014
($000s, unless otherwise indicated)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Average sales volumes (Boe/d)	**22,521**	22,647	23,297	15,051	12,504	11,814	12,021	12,095
Operating netback ($/Boe)[2]	**5.08**	(0.02)	2.68	6.16	7.92	7.08	7.33	11.74
Total revenue	**30,067**	19,905	25,891	20,258	19,517	16,784	17,608	23,003
Cash flow from operating activities	**4,606**	(4,371)	9,622	973	6,617	4,182	8,998	13,969
Funds flow from operations[3]	**6,972**	(3,655)	1,398	6,550	7,507	5,555	6,182	11,615
Per share – basic and diluted ($/share)	**0.02**	(0.01)	0.00	0.03	0.03	0.02	0.03	0.05
Loss	**(11,558)**	(25,862)	(16,177)	(3,300)	(10,697)	(4,757)	(5,503)	(8,929)
Per share – basic and diluted ($/share)	**(0.04)**	(0.08)	(0.05)	(0.01)	(0.05)	(0.02)	(0.02)	(0.04)

[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 operations is a non-IFRS measure that represents the total of funds provided by operating activities, before adjusting for changes in non-cash working capital, and decommissioning obligations settled.

QUARTERLY TRENDS

- Average sales volumes increased from the third quarter in 2015 to the first quarter 2016 as a result of the May 2015 Acquisition and the December 2015 Acquisition. Sales volumes decreased in the second and third quarters of 2016 related to natural production declines, partially offset by production additions from modest capital spending in 2016;
- Total revenue of $30.1 million in the third quarter of 2016 was the highest in the past eight quarters due to higher natural gas prices and was higher than the fourth quarter of 2014 to the third quarter of 2015 due higher production from the May 2015 and the December 2015 Acquisitions, partially offset by the lower realized crude oil and natural gas prices;
- Funds flow from operating activities of $7.0 million in the third quarter of 2016 was the highest since the third quarter of 2015 resulting primarily from higher natural gas prices; and
- Losses of $11.6 million in the third quarter of 2016 were lower than the losses in the first and second quarters of 2016 as a result of higher natural gas prices.

OFF BALANCE SHEET TRANSACTIONS

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

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Market Risk

Market risk is the risk that the fair value or future cash flow of the Company's financial instruments will fluctuate because of changes in market prices. Components of market risk to which Pine Cliff is exposed are discussed below.

Commodity Price Risk

The Company is exposed to commodity price risk since its revenues are dependent on the prices of crude oil and natural gas. Commodity prices have fluctuated widely during recent years due to global and regional factors including, but not limited to, supply and demand, inventory levels, weather, economic and geopolitical factors. Changes in oil and natural gas prices may have a significant effect, positively or negatively, on the ability of the Company to meet its obligations, capital spending targets and expected operational results. Currently, the Company does not have any risk management contracts to sell its oil and gas commodities. Commodities are sold at market prices at the date of sale.

Interest Rate Risk

The Company is principally exposed to interest rate risk to the extent it draws on its variable rate debt. Changes in market interest rates could affect the cash flow associated with the credit facility. If interest rates applicable to Pine Cliff's credit facility increased or decreased by one percent it is estimated that Pine Cliff's loss for the nine months ended September 30, 2016 would have increased or decreased, respectively, by $0.8 million.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk because a portion of the oil and natural gas prices it receives are determined in reference to United Stated dollar denominated commodity prices. The Company manages this risk by monitoring the foreign exchange rate and evaluating its effect on cash flows. Pine Cliff has not entered into any derivative financial instruments to manage this risk.

Credit Risk

Credit risk is the risk that a third party will not complete its contractual obligations under a financial instrument and cause the Company to incur a financial loss. Pine Cliff's maximum exposure to credit risk is the sum of the carrying values of its trade and other receivables of $17.1 million at September 30, 2016 (December 31, 2015 - $16.5 million) and cash. The carrying values of these financial assets reflect management's assessment of the associated maximum exposure to such credit risk.

To mitigate the credit risk on its cash, the Company maintains its cash balances with major Canadian chartered banks. To mitigate the credit risk on trade and other receivables, Pine Cliff assesses the financial strength of its counterparties and enters into relationships with larger purchasers with established credit histories.

The Company's trade and other receivables is primarily with oil and gas marketers, joint venture partners and crown royalty credits with the Province of Alberta. Amounts due from these parties have generally been received within 30 to 60 days. When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. The Company generally considers amounts greater than 90 days to be past due. As at September 30, 2016, there was $0.8 million (December 31, 2015 - $1.3 million) of trade and other receivables over 90 days. The Company does not consider any trade and other receivables to be impaired and has not experienced any material credit losses during 2016.

Pine Cliff assesses its financial assets quarterly to determine if there has been any impairment. No impairment provision was required on the Company's financial assets.

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, commodity 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.

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 nine months ended September 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 operations", "operating netbacks", "corporate netbacks" and "net debt" which are not recognized under IFRS and may not be comparable to similar measures presented by other companies. The Company uses these measures to evaluate its performance, leverage and liquidity, as well as to assess potential acquisitions.

The Company considers funds flow from operations a key performance measure as it demonstrates the Company's ability to generate the funds necessary to repay debt and fund future growth through capital investment. Funds flow from operations and funds flow from operations per share and per Boe 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 decommissioning obligations settled. 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. Funds flow from operations per Boe is calculated using the sales volumes reported for a reporting period.

	Three months ended September 30		Nine months ended September 30	
	2016	2015	**2016**	2015
($000s)				
Cash flow from operating activities	**4,606**	6,617	**9,857**	19,795
Adjusted by:				
(Increase) decrease in non-cash working capital	**2,325**	890	**(5,317)**	(527)
Decommissioning obligation settled	**41**	-	**175**	-
Funds flow from operations	**6,972**	7,507	**4,715**	19,268

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. Management uses operating netback on a per Boe basis in operational and capital allocation decisions.

The Company considers corporate netback to be a key indicator of overall 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 developments, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in 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; future drilling opportunities and Pine Cliff's ability to generate reserves and production from the undrilled locations; 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.

Undrilled locations consist of drilling and recompletion locations booked in the independent reserve report dated February 11, 2016 prepared by McDaniel & Associates Consultants Limited and unbooked drilling and recompletion locations. Unbooked drilling and recompletion locations are internal estimates based on evaluation of geologic, reserves and spacing based on industry practice. There is no guarantee that Pine Cliff will drill these locations and there is no certainty that the drilling or completing of these locations will result in additional reserves and production or achieve expected internal rates of return. Pine Cliff activity depends on availability of capital, regulatory approvals, commodity prices, drilling costs and other factors.

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, 2016**	As at December 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents		**110**	833
Trade and other receivables	12	**17,095**	16,473
Prepaid expenses and deposits		**6,493**	3,250
Investments	3	**-**	3,590
Total current assets		**23,698**	24,146
Exploration and evaluation assets	4,6	**44,469**	45,950
Property, plant and equipment	5,6	**521,543**	532,059
Deferred taxes	7	**41,362**	38,620
Total assets		**631,072**	640,775
LIABILITIES			
Current liabilities			
Trade and other payables		**21,635**	9,978
Bank debt	8	**71,375**	-
Total current liabilities		**93,010**	9,978
Bank debt	8	**-**	155,938
Due to related party	3	**5,000**	-
Subordinated promissory notes	9	**35,034**	-
Decommissioning liabilities	10	**307,047**	240,452
Total liabilities		**440,091**	406,368
SHAREHOLDERS' EQUITY			
Share capital	11	**268,191**	266,809
Warrants	11	**958**	-
Contributed surplus		**5,031**	3,453
Accumulated other comprehensive loss		**-**	(6,253)
Deficit		**(83,199)**	(29,602)
Total shareholders' equity		**190,981**	234,407
Total liabilities and shareholders' equity		**631,072**	640,775

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

CONSOLIDATED STATEMENTS OF LOSS

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

		Three months ended September 30		Nine months ended September 30	
	Note	**2016**	2015	**2016**	2015
Oil and gas sales		**32,401**	20,933	**80,326**	57,045
Royalty income		**-**	67	**1,111**	210
Royalty expense		**(2,334)**	(1,575)	**(5,676)**	(3,651)
Finance and dividend income	3	**-**	92	**102**	305
REVENUE		**30,067**	19,517	**75,863**	53,909
EXPENSES					
Operating		**19,548**	10,304	**59,602**	28,943
General and administration		**1,529**	1,242	**6,023**	4,480
Depletion and depreciation	5	**17,015**	12,130	**51,510**	35,115
Impairment of property, plant, and equipment	5	**-**	7,586	**-**	7,586
Share-based payments	11	**808**	899	**2,405**	2,551
Gain on disposition	6	**-**	-	**(518)**	-
Realized loss on sale of investments	3	**-**	-	**4,270**	-
Finance		**3,539**	1,493	**9,272**	4,049
Total expenses		**42,439**	33,654	**132,564**	82,724
Loss before income taxes		**(12,372)**	(14,137)	**(56,701)**	(28,815)
Deferred tax recovery		**(814)**	(3,440)	**(3,104)**	(7,858)
LOSS FOR THE PERIOD		**(11,558)**	(10,697)	**(53,597)**	(20,957)
Loss per share ($)					
Basic and Diluted		**(0.04)**	(0.05)	**(0.18)**	(0.09)

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 September 30		Nine months ended September 30	
	2016	2015	**2016**	2015
Loss for the period	**(11,558)**	(10,697)	**(53,597)**	(20,957)
OTHER COMPREHENSIVE GAIN (LOSS)				
Unrealized loss on investments	**-**	(2,511)	**-**	(4,700)
Deferred taxes on unrealized loss on investments	**-**	313	**-**	586
Amounts reclassified from comprehensive loss	**-**	-	**6,253**	-
OTHER COMPREHENSIVE GAIN (LOSS) FOR THE PERIOD, NET OF TAX	**-**	(2,198)	**6,253**	(4,114)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(11,558)**	(12,895)	**(47,344)**	(25,071)

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

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

		Three months ended September 30		Nine months ended September 30	
	Note	**2016**	2015	**2016**	2015
CASH AND CASH EQUIVALENTS PROVIDED BY:					
OPERATING ACTIVITIES					
Loss for the period		**(11,558)**	(10,697)	**(53,597)**	(20,957)
Items not affecting cash:					
Share-based payments		**808**	899	**2,405**	2,551
Depletion and depreciation		**17,015**	12,130	**51,510**	35,115
Finance expenses		**3,539**	1,493	**9,272**	4,049
Gain on disposition of assets		**-**	-	**(518)**	-
Loss on sale of investments		**-**	-	**4,270**	-
Gain on foreign exchange		-	-	-	-
Deferred tax recovery		**(802)**	(3,440)	**(3,104)**	(7,858)
Impairment of property, plant, and equipment		**-**	7,586	**-**	7,586
Changes in non-cash working capital accounts		**(2,325)**	(890)	**5,317**	527
Interest and bank charges paid		**(2,030)**	(464)	**(5,523)**	(1,218)
Decommissioning obligations settled		**(41)**	-	**(175)**	-
Cash and cash equivalents provided by operating activities		**4,606**	6,617	**9,857**	19,795
INVESTING ACTIVITIES					
Expenditures on property, plant and equipment	5	**(1,407)**	(726)	**(5,766)**	(4,049)
Expenditures on exploration and evaluation assets	4	**(30)**	(1,325)	**(37)**	(1,335)
Acquisitions, net of working capital acquired		**603**	166	**(222)**	(13,525)
Proceeds on disposition of assets	5,6	**5,378**	-	**30,080**	-
Proceeds on sale of investments	3	**-**	-	**5,573**	-
Changes in non-cash working capital accounts		**(661)**	(603)	**2,700**	961
Cash and cash equivalents provided by (used in) investing activities		**3,883**	(2,488)	**32,328**	(17,948)
FINANCING ACTIVITIES					
Issuance of related party debt	3	**5,000**	-	**5,000**	-
Issuance of subordinated promissory notes	9	**36,000**	-	**36,000**	-
Exercise of stock options	11	**282**	-	**917**	2,595
Bank debt, net	8	**(49,692)**	(3,961)	**(84,563)**	(4,209)
Share issue costs		**(37)**	-	**(37)**	(8)
Changes in non-cash working capital accounts		**(53)**	-	**(225)**	-
Cash and cash equivalents provided by (used in) financing activities		**(8,500)**	(3,961)	**(42,908)**	(1,622)
Increase (decrease) in cash and cash equivalents		**(11)**	168	**(723)**	225
Cash and cash equivalents - beginning of period		**121**	257	**833**	200
CASH AND CASH EQUIVALENTS - END OF PERIOD		**110**	425	**110**	425

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Canadian dollars, 000s)
(unaudited)

	Note	Share capital	Contributed surplus[1]	Accumulated other comprehensive loss [2]	Warrants	Deficit	Total Equity
BALANCE AT JANUARY 1, 2015		**191,319**	**2,262**	**(1,087)**	**-**	**(5,345)**	**187,149**
Share issue costs, net of tax		(8)	-	-	-	-	(8)
Loss for the period		-	-	-	-	(20,957)	(20,957)
Other comprehensive loss for the period		-	-	(4,114)	-	-	(4,114)
Share-based payments	11	-	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**
Issuance of shares	11	71,999	-	-	-	-	71,999
Share issue costs, net of tax		(2,225)	-	-	-	-	(2,225)
Loss for the period		-	-	-	-	(3,300)	(3,300)
Other comprehensive loss for the period		-	-	(1,052)	-	-	(1,052)
Share-based payments	11	-	832	-	-		832
Exercise of options		1,890	(953)	-	-		937
BALANCE AT DECEMBER 31, 2015		**266,809**	**3,453**	**(6,253)**	**-**	**(29,602)**	**234,407**
Issuance of warrants		-	-	-	995	-	995
Share issue costs, net of tax		(362)	-	-	(37)	-	(399)
Loss for the period		-	-	-	-	(53,597)	(53,597)
Transfer of realized loss on sale of investments		-	-	6,253	-	-	6,253
Share-based payments	11	-	2,405	-	-	-	2,405
Exercise of options		1,744	(827)	-	-	-	917
BALANCE AT SEPTEMBER 30, 2016		**268,191**	**5,031**	**-**	**958**	**(83,199)**	**190,981**

[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 September 30, 2016 and December 31, 2015 and for the three and nine month periods ended September 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 November 9, 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 nine month periods ended September 2016 and 2015 were $0.02 million and $0.06 million, respectively, plus the reimbursement of certain administrative costs. As at September 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 nine months ended September 30, 2016, Pine Cliff received dividend income of $0.1 million (nine months ended September 30, 2015 - $0.3 million).

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

Due to Related Party

On July 29, 2016, Pine Cliff issued a $5.0 million promissory note to the Company's Chairman of the Board maturing on July 29, 2018 ("2018 Related Party Note") and bearing interest at 0.25% less than the monthly average effective interest rate paid to the Credit Facility, as defined herein, payable monthly. The 2018 Related Party Note can be repaid at any time without penalty and is secured by a $5.0 million floating charge debenture over all of the Company's assets and is subordinated to any and all claims in favor of the Credit Facility, and the 2020 Note holder, as defined herein.

4. EXPLORATION AND EVALUATION ASSETS

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

Accumulated depletion and depreciation:	Oil and gas properties	Mineral properties	Total
Balance at December 31, 2014	7,097	2,029	9,126
Additions	1,301	963	2,264
Transfer to property, plant, and equipment	(1,301)		(1,301)
Acquisitions	35,861	-	35,861
Balance at December 31, 2015	42,958	2,992	45,950
Additions	-	37	37
Transfer to property, plant, and equipment	(538)	-	(538)
Dispositions	(980)	-	(980)
Balance at September 30, 2016	**41,440**	**3,029**	**44,469**

5. PROPERTY, PLANT AND EQUIPMENT

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

Cost:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 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	5,700	66	5,766
Transfer from exploration and evaluation	538	-	538
Acquisitions	308	-	308
Dispositions	(29,408)	-	(29,408)
Decommissioning liabilities	63,790	-	63,790
Balance at September 30, 2016	**678,928**	**1,380**	**680,308**

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	(51,188)	(322)	(51,510)
Balance at September 30, 2016	**(157,770)**	**(995)**	**(158,765)**

Carrying value at:	Oil and gas properties	Administrative assets	Total
December 31, 2015	531,418	641	532,059
September 30, 2016	**521,158**	**385**	**521,543**

6. 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.

On September 12, 2016, Pine Cliff completed the disposition of a non-core asset for cash consideration of $5.4 million, including dispositions of $5.2 million of property, plant and equipment, $1.0 million of exploration and evaluation assets, and $0.8 million of decommissioning liabilities.

7. 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, it is more likely than not that some portion or all of the deferred tax will not be realized. An unrecognized deferred tax amount of $8.4 million has been provided against the Company's deferred tax assets of $49.8 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:

	September 30, 2016	December 31, 2015
Deferred income tax assets (liabilities):		
Share issue costs	**1,452**	1,813
Investment	**-**	496
Decommissioning liabilities	**83,999**	64,913
Exploration and evaluation assets	**(11,455)**	(11,863)
Property and equipment	**(44,170)**	(29,329)
Capital losses carried forward	**127**	128
Non-capital losses carried forward	**19,847**	13,499
Asset before unrecognized deferred tax	**49,800**	39,657
Less: unrecognized deferred tax	**(8,438)**	(1,037)
Net deferred income tax asset	**41,362**	38,620

Pine Cliff has approximately $441.4 million in tax pools at September 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 $73.5 million (December 31, 2015 - $50.0 million) that expire between the years 2030 and 2036.

8. BANK DEBT

As at September 30, 2016, the Company had an $85.0 million syndicated credit facility (the "Credit Facility") with five Canadian Financial Institutions (the "Syndicate") (December 31, 2015 - $185.0 million Credit Facility). The Credit Facility consists of a $75.0 million revolving syndicated credit facility and a $10.0 million revolving operating facility. Security for the Credit Facility consists of floating demand debentures totaling $150.0 million and a general security agreement with first ranking over all current and acquired properties. Amounts drawn under the Credit Facility at September 30, 2016 were $71.4 million (December 31, 2015 - $156.0 million). Amounts borrowed under the Credit Facility bear interest at the Canadian prime rate plus 1.0% to 3.5% or the bankers' acceptance rates plus 2.0% to 4.5%, depending, in each case, on the ratio of consolidated debt to EBITDA and the Company's borrowing base, which is calculated as earnings (loss) excluding depreciation, depletion and accretion, share based payments, interest, taxes and other non-cash items.

The 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 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 Credit Facility has no fixed terms of repayment.

As at September 30, 2016, the Company had $1.7 million of letters of credit issued against its Credit Facility (December 31, 2015 - $0.6 million). The Credit Facility does not contain any financial covenants but Pine Cliff is subject to various nonfinancial covenants under its Credit Facility. Compliance with these covenants is monitored on a regular basis and as at September 30, 2016, Pine Cliff was in compliance with all covenants.

9. SUBORDINATED PROMISSORY NOTES

	September 30, 2016
Valuation at issuance - $30.0 million subordinated promissory notes due September 30, 2020	**29,005**
Accretion expense	**29**
Book value - $30.0 million subordinated promissory notes due September 30, 2020	**29,034**
$6.0 million subordinated promissory notes due July 29, 2018	**6,000**
Subordinated promissory notes, September 30	**35,034**

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

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

On July 29, 2016, the Company issued $6.0 million in promissory notes maturing on July 29, 2018 (“2018 Notes”) and bearing interest at 0.25% less than the monthly average effective interest rate paid to the Credit Facility, payable monthly. The 2018 Notes were issued to a shareholder of the company owning greater than 10% of the Company’s outstanding common shares and can be repaid at any time without penalty. The 2018 Notes are secured by $6.0 million of floating charge debentures over all of the Company’s assets and are subordinated to any and all claims in favor of the Credit Facility and the 2020 Note holder.

10. 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, 2016, the estimated total undiscounted amount required to settle the decommissioning liabilities was $310.9 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 1.82% (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 related to dispositions	**(826)**	-
Provisions related to acquisitions	**86**	20,034
Increase in liabilities relating to development activities	**34**	44
Decommissioning expenditures	**(175)**	-
Revisions (change in estimate and discount rates)	**63,756**	52,329
Accretion expense during period	**3,720**	3,532
Decommissioning provision, September 30 end of period	**307,047**	240,452

11. 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	-	(362)
Exercise of options	1,764	1,744
Balance at September 30, 2016	**306,956**	**268,191**

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

	Three months ended September 30		Nine months ended September 30	
Earnings per share calculation:	**2016**	2015	**2016**	2015
Numerator				
Loss for the period	**(11,558)**	(10,697)	**(53,597)**	(20,957)
Denominator (000s)				
Weighted-average common shares outstanding – basic and diluted	**306,878**	236,920	**306,109**	235,805
Loss per share – basic and diluted ($)	**(0.04)**	(0.05)	**(0.18)**	(0.09)

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 September 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 September 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	1,746	0.86
Exercised	(1,764)	0.52
Expired	(2,968)	1.23
Forfeited	(1,095)	1.41
Outstanding, September 30, 2016	13,157	1.24
Exercisable, September, 2016	812	1.44

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

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
$0.73 - $1.15	8,597	2.0	215	0.7
$1.16 - $1.58	1,433	0.9	390	0.1
$1.59 - $1.97	3,127	1.1	207	0.2
	13,157	1.7	812	0.3

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, 2016, the Company granted 1,746,000 stock options with a fair value of $0.33 per option using the Black-Scholes option pricing models with the following key assumptions:

Assumptions (weighted average):	Nine months ended September 30, 2016
Exercise price ($)	0.86
Estimated volatility of underlying common shares (%)	57.6
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.

Warrants

As at September 30, 2016, there were 4.5 million Warrants outstanding as follows:

Issue date	Number of Warrants (000s)	Amount of Warrants (000s)
Issued with 2020 Note	4,500	995
Share issue costs	-	(37)
Balance, September 30, 2016	4,500	958

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) 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, bank debt, due to related party, and subordinated promissory notes. 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.

b) Market Risk

Market risk is the risk that the fair value or future cash flow of the Company's financial instruments will fluctuate because of changes in market prices. Components of market risk to which Pine Cliff is exposed are discussed below.

Commodity Price Risk

The Company is exposed to commodity price risk since its revenues are dependent on the prices of crude oil and natural gas. Commodity prices have fluctuated widely during recent years due to global and regional factors including, but not limited to, supply and demand, inventory levels, weather, economic and geopolitical factors. Changes in oil and natural gas prices may have a significant effect, positively or negatively, on the ability of the Company to meet its obligations, capital spending targets and expected operational results. Currently, the Company does not have any risk management contracts to sell its oil and gas commodities. Commodities are sold at market prices at the date of sale.

Interest Rate Risk

The Company is principally exposed to interest rate risk to the extent it draws on its variable rate debt. Changes in market interest rates could affect the cash flow associated with the credit facility. If interest rates applicable to Pine Cliff's credit facility increased or decreased by one percent it is estimated that Pine Cliff's loss for the nine months ended September 30, 2016 would have increased or decreased, respectively, by $0.8 million.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk because a portion of the oil and natural gas prices it receives are determined in reference to United Stated dollar denominated commodity prices. The Company manages this risk by monitoring the foreign exchange rate and evaluating its effect on cash flows. Pine Cliff has not entered into any derivative financial instruments to manage this risk.

Credit Risk

Credit risk is the risk that a third party will not complete its contractual obligations under a financial instrument and cause the Company to incur a financial loss. Pine Cliff's maximum exposure to credit risk is the sum of the carrying values of its trade and other receivables of $17.1 million at September 30, 2016 (December 31, 2015 - $16.5 million) and cash. The carrying values of these financial assets reflect management's assessment of the associated maximum exposure to such credit risk.

To mitigate the credit risk on its cash, the Company maintains its cash balances with major Canadian chartered banks. To mitigate the credit risk on trade and other receivables, Pine Cliff assesses the financial strength of its counterparties and enters into relationships with larger purchasers with established credit histories.

The Company's trade and other receivables is primarily with oil and gas marketers, joint venture partners and crown royalty credits with the Province of Alberta. Amounts due from these parties have generally been received within 30 to 60 days. When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. The Company generally considers amounts greater than 90 days to be past due. As at September 30, 2016, there was $0.8 million (December 31, 2015 - $1.3 million) of trade and other receivables over 90 days. The Company does not consider any trade and other receivables to be impaired and has not experienced any material credit losses during 2016.

Pine Cliff assesses its financial assets quarterly to determine if there has been any impairment. No impairment provision was required on the Company's financial assets.

c) Liquidity risk

Liquidity risk includes the risk that, as a result of Pine Cliff's operational liquidity requirements, the Company will not have sufficient funds or ability to obtain financing to settle a transaction on the due date or continue to fund its exploration and development projects. This could result in Pine Cliff being forced to sell assets at a value which is less than what they are worth or the Company may be unable to settle or recover financial assets.

The unused portion of the Credit Facility and cash provided by operating activities are expected to allow Pine Cliff to meet its financial liabilities, as well as future capital requirements, at a reasonable cost. Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities, if required. The Credit Facility matures on July 28, 2017, and Pine Cliff expects that it will renegotiate terms on this date.

The Company's exposure to these risks has not changed significantly since December 31, 2015.

d) Commitments

The Company believes it has sufficient funding and access to capital to meet its obligations as they come due. The maturity dates of the Company's financial liabilities are as follows:

($000s)	Recognized in Financial Statements	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**
Subordinated promissory notes	Yes - Liability	-	-	6,000	-	30,000	-
Trade and other payables	Yes - Liability	21,635	-	-	-	-	-
Due to related party	Yes - Liability	-	-	5,000	-	-	-
Bank loan – principal	Yes - Liability	-	71,375	-	-	-	-
Future interest	No	1,658	4,959	2,370	2,025	1,519	-
Firm service commitments[1]	No	1,330	4,459	2,168	1,133	894	1,098
Vehicle leases	No	126	485	404	275	213	90
Office and equipment leases[2]	No	88	495	438	436	464	1,386
Total commitments and contingencies		24,837	81,773	16,380	3,869	33,090	2,574

[1] Pine Cliff firm service commitments include contracts entered into up to November 9, 2016.
[2] Pine Cliff entered into a lease for additional office space in October 2016.

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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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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