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Long-term  
Value Focus

Q2-2017 Report

## MESSAGE TO SHAREHOLDERS

Our second quarter was quite similar to the previous quarter with our team maintaining a consistent focus on operations and generating positive cash flow. This past quarter did, however, have a few headwinds, with pipeline curtailments impacting Western Canada natural gas storage levels and consequently AECO pricing and with wet weather disrupting some of our scheduled swabbing. Despite these obstacles, our revenue was the second best in Pine Cliff's history and Pine Cliff generated \$10.8 million in funds flow from operations. Significant highlights from the second quarter and first half of 2017 were that Pine Cliff:

- generated \$35.4 million of total revenue, 71% higher than the \$20.7 million of total revenue generated in the second quarter of 2016;
- for the six months ended June 30, 2017, total revenue increased by 47% to \$70.5 million compared to \$47.9 million in the six months ended June 30, 2016;
- generated \$10.8 million (\$0.04 per basic share) of funds flow from operations, compared to \$3.7 million of funds flow used in operations (\$0.01 per basic share) in the second quarter of 2016;
- generated \$22.1 million (\$0.07 per basic share) of funds flow from operations in the six months ended June 30, 2017, compared to \$2.3 million of funds flow used in operations (\$0.01 per basic share) in the six months ended June 30, 2016;
- achieved production of 21,077 Boe/d (94% natural gas), only 7% lower than the 22,647 Boe/d in the second quarter of 2016, despite having sold over 600 Boe/d of production late in 2016, which impacted 2017 production volumes, and short-term production curtailments of approximately 400 Boe/d in the second quarter of 2017;
- reduced bank debt by \$8.8 million, ending the quarter with \$10.7 million in bank debt, which is \$110.4 million less than the second quarter of 2016 amount of \$121.1 million. The reduction in bank debt resulted in reduced interest and bank expenses to \$0.52 per Boe in the second quarter of 2017, 42% lower than the \$0.89 per Boe in the second quarter of 2016; and
- reduced net debt by \$7.6 million, ending the quarter with \$51.4 million in net debt, which is 1.2 times annualized second quarter 2017 cash flow and \$70.7 million less than the second quarter of 2016 net debt level of \$122.0 million.

For the 21st of the past 22 quarters, we again generated positive cash flow, with \$10.8 million of funds flow from operations while only spending \$3.3 million in capital expenditures. We continued to selectively choose drilling and optimization well locations in the second quarter as we felt that the level of gas prices did not justify more aggressive use of our free cash flow on capital expenditures.

## Outlook

Entering into the third quarter of each year is usually an interesting time for natural gas weighted companies like Pine Cliff and 2017 is no exception. The days are now getting shorter and the North American natural gas market is much "tighter" than last year which means there is less gas in storage than the previous summer at this time. Our long range view of natural gas continues to be bolstered by the increasing LNG export facilities being built in the United States and the fact that U.S. dry natural gas production has declined for 15 consecutive months compared with previous year periods, but the short term natural gas prices will still largely be impacted by weather.

I often get asked what size I think Pine Cliff will eventually get to and I get the sense that my response rarely satisfies the questioner. We have never had a target size for our company, although we are cognizant that as we grow more institutional investors may be able to invest in our company. We have always analyzed every opportunity independently and having now looked at over 400 potential transactions in the past five and a half years, our team is quite adept at valuing the key components of a deal or assets. Despite the fact that we have one of the industry's fastest growth rates with a 66% production per share compounded annual growth rate since 2013, we can never predict when or how big our next transaction may be. That said, 2017 is a buyer's market like we have not seen before. Oil and gas equity prices have been reduced throughout the industry and access to capital is as restricted as I have ever seen it since we started Pine Cliff in 2012. Despite this backdrop, quality assets are still being made available for sale. We will continue to seek creative ways to add assets to our model that fit our goal of building an asset base that will deliver long term cash flow to our shareholders, all while minimizing dilutive impact to current shareholders. If we can't achieve these goals, then we will move on to the next opportunity.

On the point of value to shareholders, I can assure you that your management team is actively considering the best uses of the free cash flow our assets are generating. The 2016 focus of reducing bank debt has now been replaced with a discussion of the merits of organic growth, acquisitions, implementing a dividend or buying back our own shares. This is a nice problem to have, and frankly, not one that is shared by many in our industry in this low commodity price environment. What should give you some comfort is that we will be making these capital decisions with the sole goal of optimizing value for our shareholders. That is the advantage of having management that are significant shareholders.

We thank you for your patience and support in the path we have chosen to deliver you long-term value.

Yours truly,



Phil Hodge  
President and Chief Executive Officer  
August 9, 2017

*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 and definitions. This President's Message should be read in conjunction with the unaudited condensed consolidated financial statements of Pine Cliff Energy Ltd. together with Management's Discussion and Analysis for the period ended June 30, 2017, which can be found on [www.sedar.com](http://www.sedar.com) and is subject to the same cautionary statements as set out therein.*

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
(\$000s, unless otherwise indicated)				
<b>FINANCIAL<sup>1</sup></b>				
<b>Oil and gas sales (before royalty expense)</b>	<b>35,378</b>	20,695	<b>70,526</b>	47,925
<b>Cash flow from (used in) operating activities</b>	<b>10,007</b>	(4,371)	<b>23,842</b>	5,251
<b>Funds flow from (used in) operations<sup>2</sup></b>	<b>10,834</b>	(3,655)	<b>22,067</b>	(2,257)
Per share – Basic and Diluted (\$/share) <sup>2</sup>	<b>0.04</b>	(0.01)	<b>0.07</b>	(0.01)
<b>Loss</b>	<b>(2,118)</b>	(25,862)	<b>(4,654)</b>	(42,039)
Per share – Basic and Diluted (\$/share)	<b>(0.01)</b>	(0.08)	<b>(0.02)</b>	(0.14)
<b>Capital expenditures</b>	<b>3,267</b>	749	<b>7,068</b>	4,366
<b>Acquisitions</b>	<b>(97)</b>	240	<b>(97)</b>	825
<b>Proceeds on dispositions</b>	<b>(216)</b>	(24,702)	<b>(216)</b>	(24,702)
<b>Net Debt<sup>2</sup></b>	<b>51,372</b>	122,032	<b>51,372</b>	122,032
Weighted-average common shares outstanding (000s)				
Basic and diluted	<b>307,076</b>	305,928	<b>307,076</b>	305,720
<b>OPERATIONS</b>				
<b>Production</b>				
Natural gas (Mcf/d)	<b>119,410</b>	124,966	<b>120,040</b>	127,025
Natural gas liquids (Bbls/d)	<b>912</b>	933	<b>908</b>	996
Crude oil (Bbls/d)	<b>263</b>	886	<b>230</b>	804
Total (Boe/d)	<b>21,077</b>	22,647	<b>21,145</b>	22,971
<b>Realized commodity sales prices</b>				
Natural gas (\$/Mcf)	<b>2.80</b>	1.32	<b>2.82</b>	1.64
Natural gas liquids (\$/Boe)	<b>43.44</b>	28.94	<b>42.92</b>	28.60
Crude oil (\$/Bbl)	<b>55.04</b>	39.92	<b>55.38</b>	33.73
Combined (\$/Boe)	<b>18.45</b>	10.04	<b>18.43</b>	11.46
<b>Netback (\$/Boe)</b>				
Oil and gas sales	<b>18.45</b>	10.04	<b>18.43</b>	11.46
Realized hedging gain	<b>0.10</b>	-	<b>0.05</b>	-
Royalty income	-	0.25	-	0.27
Royalty expense	<b>(1.46)</b>	(0.65)	<b>(1.64)</b>	(0.80)
Operating expenses	<b>(9.68)</b>	(9.66)	<b>(9.56)</b>	(9.58)
Operating netback (\$/Boe) <sup>2</sup>	<b>7.41</b>	(0.02)	<b>7.28</b>	1.35
General and administrative expenses	<b>(1.27)</b>	(0.87)	<b>(1.00)</b>	(1.07)
Interest and bank charges, net of dividend income	<b>(0.49)</b>	(0.87)	<b>(0.50)</b>	(0.82)
Corporate netback (\$/Boe) <sup>2</sup>	<b>5.65</b>	(1.76)	<b>5.78</b>	(0.54)
Operating netback (\$ per Mcfe) <sup>2</sup>	<b>1.24</b>	0.00	<b>1.21</b>	0.23
Corporate netback (\$ per Mcfe) <sup>2</sup>	<b>0.94</b>	(0.29)	<b>0.96</b>	(0.09)

<sup>1</sup> Includes results for acquisitions and excludes results for dispositions from the closing dates.

<sup>2</sup> This is a non-IFRS measure, see NON-IFRS MEASURES for additional information.

## INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position of Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") for the three and six month periods ended June 30, 2017. This MD&A is dated and based on information available as at August 9, 2017 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2017 ("Financial Statements") and the audited annual consolidated financial statements for the year ended December 31, 2016 ("Annual Financial Statements") and the annual management's discussion and analysis for the year ended December 31, 2016 ("Annual MD&A"). The Financial Statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" using accounting principles consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. Additional information relating to the Company, including the Company's Annual Information Form, may be found on [www.sedar.com](http://www.sedar.com) and by visiting Pine Cliff's website at [www.pinecliffenergy.com](http://www.pinecliffenergy.com).

Pine Cliff's head office is based in Calgary, Alberta, Canada. Common shares of the Company are listed 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 IFRS and forward-looking statements. Please refer to the sections titled "NON-IFRS MEASURES" and "FORWARD LOOKING INFORMATION".

### Other Measurements

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

Natural gas liquids and oil volumes are recorded in barrels of oil ("Bbl") and are converted to a thousand cubic feet equivalent ("Mcf") using a ratio of one (1) Bbl to six (6) thousand cubic feet. Natural gas volumes recorded in thousand cubic feet ("Mcf") are converted to barrels of oil equivalent ("Boe") using the ratio of six (6) thousand cubic feet to one (1) Bbl. This conversion ratio is based on energy equivalence primarily at the burner tip and does not represent a value equivalency at the wellhead. The terms Boe or Mcfe 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 <sup>1</sup>		
	Change	\$000s	\$ per share <sup>3</sup>
Crude oil price - Edmonton par (\$/Bbl) <sup>2</sup>	\$1.00	333	0.00
Natural gas price -AECO (\$/Mcf) <sup>2</sup>	\$0.10	4,096	0.01
Interest rate on variable rate debt <sup>4</sup>	1.0%	109	0.00

<sup>1</sup> This analysis does not adjust for changes in working capital and uses royalty rates from Q2 2017.

<sup>2</sup> Pine Cliff has prepared this analysis using its Q2 2017 production volumes annualized for twelve months.

<sup>3</sup> Based on the Q2 2017 basic weighted average shares outstanding.

<sup>4</sup> Based on June 30, 2017 bank debt of \$10.7 million, 2018 Notes, as defined herein, of \$6.0 million, and 2018 Related Party Notes, as defined herein, of \$5.0 million.

## Second quarter 2017 highlights

Significant highlights from the second quarter of 2017 are as follows:

- generated \$35.4 million of total revenue, 71% higher than the \$20.7 million of total revenue generated in the second quarter of 2016 and the second highest quarterly revenue total in Pine Cliff history;
- for the six months ended June 30, 2017, total revenue increased by 47% to \$70.5 million compared to \$47.9 million in the six months ended June 30, 2016;
- generated \$10.8 million (\$0.04 per basic share) of funds flow from operations, compared to \$3.7 million of funds flow used in operations (\$0.01 per basic share) in the second quarter of 2016;
- generated \$22.1 million (\$0.07 per basic share) of funds flow from operations in the six months ended June 30, 2017, compared to \$2.3 million of funds flow used in operations (\$0.01 per basic share) in the six months ended June 30, 2016; achieved production of 21,077 Boe/d (94% natural gas), only 7% lower than the 22,647 Boe/d in the second quarter of 2016, despite having sold over 600 Boe/d of production late in 2016, which impacted 2017 production volumes, and short-term production curtailments of approximately 400 Boe/d in the second quarter of 2017;
- reduced bank debt by \$8.8 million, ending the quarter with \$10.7 million in bank debt, which is \$110.4 million less than the second quarter of 2016 amount of \$121.1 million. The reduction in bank debt resulted in reduced interest and bank expenses to \$0.52 per Boe in the second quarter of 2017, 42% lower than the \$0.89 per Boe in the second quarter of 2016; and
- reduced net debt by \$7.6 million, ending the quarter with \$51.4 million in net debt, which is 1.2 times annualized second quarter 2017 cash flow and \$70.7 million less than the second quarter of 2016 net debt level of \$122.0 million.

## PINE CLIFF'S STRATEGIC OBJECTIVES AND ACQUISITIONS

Pine Cliff is a natural gas focused, exploration and production company operating in the Western Canadian Sedimentary Basin ("WCSB"). The Company's strategy is to deliver long-term value to shareholders by developing its existing portfolio of long-life, low decline natural gas assets, while also actively seeking counter cyclical growth opportunities to acquire oil and natural gas assets.

The Company has been active in the acquisition and divestiture market since January 2012, with the most recent transactions including the:

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

Management believes the assets that have been assembled to date, and the cash flow from these assets, provide Pine Cliff with a strong foundation from which to generate long-term growth in shareholder value.

## PINE CLIFF'S OPERATIONS

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

- Central Area – Pine Cliff owns low decline and long reserve life assets in the Ghost Pine and Viking areas of Central Alberta with average mineral working interests of 76% and 79% respectively. Each area is characterized with multiple stacked productive horizons and extensive ownership and operatorship of infrastructure which provides Pine Cliff with direct control for the majority of our production. The Ghost Pine area has wide-spread low decline, liquid rich gas production from the deeper Manville Sands and Mississippian carbonate. Near term development opportunities are focused on the Horse Shoe Canyon coals and the stacked Belly River sands. Pine Cliff has identified 892 gross (525 net) potential vertical drilling locations in the Ghost Pine Horseshoe Canyon coal bed methane fairway. The majority of the production in the Viking area comes from the Viking shore face sands but there is material upside in the Colorado Shale which is a deep water silt stone. Pine Cliff has identified 138 gross (138 net) potential horizontal drilling locations in the Viking area Colorado Shale. In addition to the drilling inventory, Pine Cliff has generated a sizeable inventory of recompletion opportunities in Central Area wellbores that are anticipated to provide attractive low risk returns. Approximately 46% of Pine Cliff's corporate production comes from the Central Area assets.
- Southern Area – Pine Cliff holds approximately an 82% working interest in a number of very low decline, producing shallow gas assets in Southeast Alberta and Southwest Saskatchewan. The majority of production in the Southern Area comes from the upper Cretaceous Milk River, Medicine Hat and Second White Specks sands which together provide Pine Cliff with a meaningful interest in some of the largest gas fields in Western Canada. These fields are characterized by their shallow depth

and long production life. Pine Cliff's natural gas production in this area often receives premium to AECO pricing through sales into Saskatchewan and Montana. Approximately 43% of Pine Cliff's corporate production comes from the Southern Area assets.

- Edson Area – Pine Cliff holds an average 42% working interest in a collection of liquid rich natural gas assets located in the Edson area of Alberta. The Edson Area assets are typical “deep basin” tight gas assets with multi-zone potential that are suited for horizontal drilling development in all commodity cycles. Pine Cliff's recent developmental efforts have been focused on the emerging Ellerslie sandstone play which is an extensive shallow marine valley system. Pine Cliff has 44 gross (12.2 net) sections of undeveloped land with over 91 gross (32 net) potential drilling locations as at December 31, 2016. Approximately 10% of Pine Cliff's corporate production comes from the Edson Area assets.

## GUIDANCE FOR 2017

Pine Cliff's 2017 guidance provides information as to management's expectation for results of operations for 2017. Readers are cautioned that the 2017 guidance may not be appropriate for other purposes. The Company's expected results are sensitive to fluctuations in the business environment and may vary accordingly. See “**FORWARD-LOOKING INFORMATION**”.

### Production

	<b>Full Year 2017 Guidance</b>	Six months ended June 30, 2017
Barrels of oil equivalent per day (Boe/d)	<b>21,250 – 21,750</b>	21,145
Million of cubic feet equivalent per day (Mcf/d)	<b>127,500 – 130,500</b>	126,870

Pine Cliff's extended third party pipeline outages through the first six months of 2017 combined with weather related downtime in the first three months has the Company targeting our 2017 production guidance near the lower end of our original guidance range of 21,250 Boe/d to 21,750 Boe/d.

### Capital Expenditures

(\$000s)	<b>Full Year 2017 Guidance</b>	Six months ended June 30, 2017
Total, excluding acquisitions	<b>17,000</b>	7,068

Pine Cliff is lowering its capital guidance for 2017 from \$18.5 million to \$17.0 million, before acquisitions, primarily as a result of lower than anticipated recompletion costs. Pine Cliff anticipates directing \$12.0 million of the capital budget to drilling in the Edson and Central areas of Alberta and conducting recompletions in various areas. Additionally, Pine Cliff anticipates spending approximately \$3.3 million on major maintenance capital and \$1.7 million on facility and other capital. Pine Cliff will monitor its capital spending throughout the year, and it may be modified depending on commodity prices, drilling results and non-operated drilling activity.

### Operating and General & Administrative Expenditures

Pine Cliff is targeting operating expenses of approximately \$9.40 per Boe (\$1.57 per Mcfe) in 2017 which is consistent with our 2016 reported operating expense of \$9.39 per Boe (\$1.57 per Mcfe), but a 2% increase from our original 2017 guidance of \$9.20 per Boe (\$1.53 per Mcfe). The increase in guidance is primarily related to our current production forecast trending toward the lower end of our original guidance range.

Pine Cliff anticipates general & administrative expenses to average approximately \$1.05 per Boe (\$0.18 per Mcfe) in 2017, compared to 2016 general & administrative expenses of \$0.85 per Boe (\$0.14 per Mcfe).

## BENCHMARKS PRICES

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

	Q2-2017	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015
<b>Natural gas</b>								
NYMEX (US\$/Mmbtu) <sup>1</sup>	3.13	3.25	2.95	2.78	1.95	2.05	2.28	2.77
AECO Daily 5A (C\$/Mcf) <sup>2</sup>	2.77	2.68	3.08	2.31	1.39	1.82	2.45	2.89
Pine Cliff realized natural gas price (\$/Mcf)	2.80	2.83	2.93	2.33	1.32	1.94	2.47	2.95
<b>Crude oil</b>								
WTI (US\$/Bbl)	48.28	51.91	49.29	44.94	45.59	33.45	42.18	46.43
Edmonton light (C\$/Bbl)	61.87	63.91	61.61	54.71	54.71	40.69	52.87	56.17
<b>Foreign exchange</b>								
US\$/C\$	1.340	1.320	1.334	1.305	1.289	1.375	1.335	1.309

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

<sup>2</sup> AECO prices are quoted in \$/Gigajoule. Price has been converted from \$/GJ to \$/Mcf by multiplying by 1.05.

North American natural gas benchmarks increased in the three months ended June 30, 2017 with the AECO benchmark 99% higher as compared to the same period of 2016, resulting from decreased natural gas supply and increased natural gas demand from coal to natural gas shifting, LNG exports leaving North America, increasing exports to Mexico, and better demand in Alberta, which was lower in the second quarter of 2016 due to the Fort McMurray wildfire. The price realized by the Company for natural gas production from Western Canada is determined primarily by the Alberta price hub AECO/NIT. Most of Pine Cliff's natural gas production is in Alberta and a small amount is produced in Saskatchewan.

The average WTI benchmarks and Edmonton light crude decreased by 7% and 3% in the three months ended June 30, 2017, as compared to the first quarter, despite certain members of OPEC and non-members reducing crude oil output in 2017. This OPEC cut was partially offset by increased production from OPEC members not bound to the production restrictions and increased production from U.S shale fields. Canadian crude prices are based upon refiner postings at Edmonton, Alberta and are linked to WTI through transportation tariffs to common markets and the foreign exchange rate. Pine Cliff's oil is sold at a discount to the Edmonton Light crude oil price as a result of quality differences.

The supply and demand dynamics for certain NGL components 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 six months ended June 30, 2017, the realized price of Pine Cliff's NGL's was \$43.44 and \$42.92, which was 70% and 68% of Edmonton light.

During the second quarter of 2017, the Company entered into physical fixed price natural gas sales contracts to help mitigate its exposure to future fluctuations in natural gas prices during the summer months of 2017. While commodity contracts may have opportunity costs when commodity benchmarks differ from the contracted prices, such transactions are not meant to be speculative.

QUARTERLY TRENDS AND SELECTED FINANCIAL AND OPERATIONS INFORMATION<sup>1</sup>

(\$000s, unless otherwise indicated)	2017		2016			2015		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<b>FINANCIAL</b>								
Total revenue	<b>34,005</b>	31,735	35,189	30,067	19,905	25,891	20,258	19,517
Cash flow from operating activities	<b>10,007</b>	13,835	12,632	4,606	(4,371)	9,622	973	6,617
Funds flow from operations <sup>2</sup>	<b>10,834</b>	11,233	15,026	6,972	(3,655)	1,398	6,550	7,507
Funds flow from operations per share – basic and diluted (\$/share) <sup>2</sup>	<b>0.04</b>	0.04	0.05	0.02	(0.01)	0.00	0.03	0.03
Impairments	-	-	4,648	-	-	-	-	7,586
Earnings (loss)	<b>(2,118)</b>	(2,536)	3,210	(11,558)	(25,862)	(16,177)	(3,300)	(10,697)
Earnings (loss) per share – basic and diluted (\$/share)	<b>(0.01)</b>	(0.01)	0.01	(0.04)	(0.08)	(0.05)	(0.01)	(0.05)
Capital expenditures	<b>3,267</b>	3,801	3,356	1,437	749	3,617	1,875	2,051
Acquisitions, after adjustments	<b>(97)</b>	-	(1,029)	(603)	240	585	179,540	(166)
Capital dispositions	<b>(216)</b>	-	(33,032)	(5,378)	(24,702)	-	-	-
Net debt <sup>2</sup>	<b>51,372</b>	58,930	64,224	110,312	122,032	143,587	141,770	35,208
Weighted average common shares outstanding:								
Basic	<b>307,076</b>	307,076	306,977	306,878	305,928	305,512	240,983	236,920
Diluted	<b>307,076</b>	307,076	307,095	306,878	305,928	305,512	240,983	236,920
<b>PRODUCTION VOLUMES</b>								
Natural gas (Mcf/d)	<b>119,410</b>	120,677	120,540	125,082	124,966	129,085	85,233	70,843
Natural gas liquids (Bbls/d)	<b>912</b>	903	833	871	933	1,060	581	569
Crude oil (Bbls/d)	<b>263</b>	198	602	803	886	723	264	128
Average sales volumes (Boe/d)	<b>21,077</b>	21,214	21,525	22,521	22,647	23,297	15,051	12,504
Average sales volumes (Mcf/d)	<b>126,462</b>	127,284	129,150	135,126	135,882	139,782	90,303	75,025
<b>PRICES AND NETBACKS</b>								
Total oil and gas sales (\$/Boe)	<b>18.45</b>	18.41	19.35	15.64	10.04	12.84	15.56	18.19
Operating netback (\$/Boe) <sup>2</sup>	<b>7.41</b>	7.14	8.81	5.08	(0.02)	2.68	6.16	7.92
Corporate netback (\$/Boe) <sup>2</sup>	<b>5.65</b>	5.88	7.59	3.36	(1.76)	0.66	4.74	6.52
Total oil and gas sales (\$/Mcf)	<b>3.08</b>	3.07	3.23	2.61	1.67	2.14	2.59	3.03
Operating netback (\$/Mcf) <sup>2</sup>	<b>1.24</b>	1.19	1.47	0.85	-	0.45	1.03	1.32
Corporate netback (\$/Mcf) <sup>2</sup>	<b>0.94</b>	0.98	1.27	0.56	(0.29)	0.11	0.79	1.09

<sup>1</sup> Includes results for acquisitions and excludes results for dispositions from the closing dates.

<sup>2</sup> This is a non-IFRS measure, see NON-IFRS MEASURES for additional information.

Over the past eight quarters, Pine Cliff's revenues, cash flow from operating activities and funds flow from operating activities and earnings (loss) have fluctuated due to changes in commodity prices and sales volumes largely from acquisitions and dispositions. Earnings (loss) also fluctuates with non-cash expenditures, including depletion, depreciation and impairments. Selected highlights for the past eight quarters are presented below:

- Average sales volumes increased from the third quarter in 2015 to the first quarter of 2016 as a result of the May 2015 Acquisition and the December 2015 Acquisition. Sales volumes decreased in the second quarter of 2016 to the second quarter of 2017 related to natural production declines as well as dispositions in the third and fourth quarters of 2016, partially offset by production additions from modest capital spending in 2016 and 2017.
- Total revenue of \$35.2 million in the fourth quarter of 2016 was the highest in the eight quarters presented due to higher natural gas prices and higher production from the May 2015 Acquisition and the December 2015 Acquisition, partially offset by decreased royalty revenue related to the Royalty Disposition in June 2016, production decreases related to the December 2016 Disposition, and lower realized crude oil and natural gas prices. Revenues decreased in the second quarter of 2016 and from the fourth quarter of 2016 to the first quarter of 2017 as a result of lower commodity prices and lower sales volumes,



but have increased from the first quarter of 2017 to the second quarter of 2017 related to increased commodity prices and lower royalty rates.

- Funds flow from operating activities of \$15.0 million in the fourth quarter of 2016 were the highest in the eight quarters presented as a result of the highest natural gas prices. Funds flow from operations decreased in the first and second quarters of 2017 from the fourth quarter of 2016, as a result of lower natural gas prices and lower production volumes.
- Earnings of \$3.2 million in the fourth quarter of 2016 were the highest in the eight quarters presented as a result of that quarter having the highest natural gas price. Earnings (loss) decreased in the first and second quarters of 2017 compared to the fourth quarter of 2016, primarily as a result of lower commodity and lower production volumes.

## SALES VOLUMES

<b>Total sales volumes by product</b>	Three months ended June 30,			Six months ended June 30,		
	<b>2017</b>	2016	% Change	<b>2017</b>	2016	% Change
Natural gas (Mcf)	<b>10,866,269</b>	11,371,892	(4)	<b>21,727,216</b>	23,118,585	(6)
NGLs (Bbls)	<b>83,036</b>	84,870	(2)	<b>164,308</b>	181,319	(9)
Crude oil (Bbls)	<b>23,912</b>	80,633	(70)	<b>41,688</b>	146,386	(72)
Total Boe	<b>1,917,992</b>	2,060,818	(7)	<b>3,827,199</b>	4,180,803	(8)
Total Mcfe	<b>11,507,953</b>	12,364,910	(7)	<b>22,963,192</b>	25,084,815	(8)
Natural gas weighting	<b>94%</b>	92%	2	<b>95%</b>	92%	3

<b>Average daily sales volumes by product</b>	Three months ended June 30,			Six months ended June 30,		
	<b>2017</b>	2016	% Change	<b>2017</b>	2016	% Change
Natural gas (Mcf/d)	<b>119,410</b>	124,966	(4)	<b>120,040</b>	127,025	(5)
NGLs (Bbls/d)	<b>912</b>	933	(2)	<b>908</b>	996	(9)
Crude oil (Bbls/d)	<b>263</b>	886	(70)	<b>230</b>	804	(71)
Total (Boe/d)	<b>21,077</b>	22,647	(7)	<b>21,145</b>	22,971	(8)
Total (Mcf/d)	<b>126,462</b>	135,882	(7)	<b>126,870</b>	137,826	(8)

<b>Average daily sales volumes by area</b>	Three months ended June 30,			Six months ended June 30,		
	<b>2017</b>	2016	% Change	<b>2017</b>	2016	% Change
Central Assets (Boe/d)	<b>9,664</b>	10,777	(10)	<b>9,680</b>	10,912	(11)
Southern Assets (Boe/d)	<b>9,095</b>	9,402	(3)	<b>9,183</b>	9,669	(5)
Edson (Boe/d)	<b>2,318</b>	2,468	(6)	<b>2,282</b>	2,390	(5)
Total (Boe/d)	<b>21,077</b>	22,647	(7)	<b>21,145</b>	22,971	(8)
Total (Mcf/d)	<b>126,462</b>	135,882	(7)	<b>126,870</b>	137,826	(8)

Pine Cliff's sales volumes decreased 7% to 21,077 Boe/d (126,462 Mcfe/d) and 8% to 21,145 Boe/d (126,870 Mcfe/d) for the three and six months ended June 30, 2017, as compared to the same periods of 2016. The decrease is primarily the result of the December 2016 Disposition and natural declines, slightly offset by production increases from a minor capital program in the first half of 2017. Production was also negatively impacted by approximately 400 Boe/d for the three months ended June 30, 2017 and 325 Boe/d for the six months ended June 30, 2017. The production volume decreases for the year are primarily from weather related downtime in the first quarter and third party pipeline curtailments and downstream outages. Base production continues to perform well in all areas with an estimated annual corporate decline rate of approximately 10%.

**OIL AND GAS SALES****Oil and Gas Sales**

(\$000s)	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Natural gas	30,455	15,020	103	61,165	37,802	62
NGL	3,607	2,456	47	7,052	5,186	36
Crude oil	1,316	3,219	(59)	2,309	4,937	(53)
Total oil and gas sales	35,378	20,695	71	70,526	47,925	47
% of revenue from natural gas sales	86%	73%	13	87%	79%	8

**Benchmark Pricing**

	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	2017	2016	% Change
<b>Natural gas</b>						
NYMEX (US\$/Mmbtu) <sup>1</sup>	3.13	1.95	61	3.19	2.00	60
AECO Daily 5A (C\$/Mcf) <sup>2</sup>	2.77	1.39	99	2.72	1.61	69
<b>Crude oil</b>						
WTI (US\$/Bbl)	48.28	45.59	6	50.10	39.52	27
Edmonton light (C\$/Bbl)	61.87	54.71	13	62.89	47.70	32
<b>Foreign exchange</b>						
US\$/C\$	1.340	1.289	4	1.330	1.332	-

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

<sup>2</sup> AECO prices are quoted in \$/Gigajoule. Price has been converted from \$/GJ to \$/Mcf by multiplying by 1.05.

**Realized prices**

\$ per unit	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Natural gas (\$/Mcf)	2.80	1.32	112	2.82	1.64	72
NGL (\$/Bbl)	43.44	28.94	50	42.92	28.60	50
Crude oil (\$/Bbl)	55.04	39.92	38	55.38	33.73	64
Total (\$/Boe)	18.45	10.04	84	18.43	11.46	61
Total (\$/Mcfe)	3.08	1.67	84	3.07	1.91	61

Oil and gas sales in the three months ended June 30, 2017, increased \$14.7 million to \$35.4 million from \$20.7 million in the three months ended June 30, 2016 with \$16.1 million of the increase being attributable to higher realized prices, slightly offset by \$1.4 million from lower sales volumes. Oil and gas sales in the six months ended June 30, 2017, increased \$22.6 million to \$70.5 million from \$47.9 million in the six months ended June 30, 2016 with \$26.7 million of the increase being attributable to higher realized prices, slightly offset by \$4.1 million from lower sales volumes.

Pine Cliff's realized natural gas price was \$2.80 per Mcf and \$2.82 per Mcf for the three and six months ended June 30, 2017, 112% and 72% higher than the \$1.32 per Mcf and \$1.64 per Mcf in the corresponding periods of the prior year, primarily as a result of an increase in the AECO natural gas price. For the three and six months ended June 30, 2017, Pine Cliff's realized NGL prices were \$43.44 per Bbl and \$42.92 per Bbl, compared to \$28.94 per Bbl and \$28.60 per Bbl in the corresponding periods of the prior year. For the three and six months ended June 30, 2017, Pine Cliff's realized oil prices were \$55.04 per Bbl and \$55.38 per Bbl, compared to \$39.92 per Bbl and \$33.73 per Bbl in the corresponding periods of the prior year. The increases in NGL and oil prices were a result of a corresponding increase in the Edmonton Light oil price. Pine Cliff's realized NGL price in the three and six months ended June 30, 2017 were 70% and 68% of Edmonton Light compared to 53% and 60% in the corresponding periods of the prior year. Pine Cliff's realized oil price in the three and six months ended June 30, 2017 were 89% and 88% of Edmonton Light compared to 73% and 71% in the corresponding periods of the prior year.

**ROYALTY REVENUE**

(\$000s)	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Total royalty revenue	-	505	(100)	-	1,111	(100)

On June 29, 2016, the Company sold its fee title lands and other minor overriding royalty interests for cash consideration of \$24.7 million. As a result, there is no royalty income in the current year periods.

**ROYALTY EXPENSE**

(\$000s)	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Total royalty expense	2,798	1,336	109	6,264	3,342	87
\$ per Boe	1.46	0.65	125	1.64	0.80	105
\$ per Mcfe	0.24	0.11	118	0.27	0.13	108
Royalty expense as a % of oil and gas sales	8%	6%	33	9%	7%	29

For the three and six months ended June 30, 2017, total royalty expense increased by 109% and 87% to \$2.8 million and \$6.3 million from \$1.3 million and \$3.3 million in the corresponding periods of the prior year. Royalty expense as a percentage of oil and gas sales increased to 8% and 9% in the three and six months ended June 30, 2017, compared to 6% and 7% in the corresponding periods of the prior year. The increase in royalty expense is primarily as a result of higher oil and gas revenue, and higher royalty rates due to the sale of fee title lands in 2016. Pine Cliff expects royalties to average 9% of sales in 2017.

**OPERATING EXPENSES**

(\$000s)	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Total operating expenses	18,565	19,907	(7)	36,599	40,054	(9)
\$ per Boe	9.68	9.66	-	9.56	9.58	-
\$ per Mcfe	1.61	1.61	-	1.59	1.60	(1)

Operating expenses decreased by 7% and 9% to \$18.6 Million and \$36.6 million for the three and six months ended June 30, 2017, as compared to \$19.9 million and \$40.1 million in the corresponding periods of the prior year, primarily as a result of lower production in the current year period. On a per Boe basis, operating costs were similar for the three and six months ended June 30, 2017 compared the same periods 2016.

Pine Cliff anticipates operating expenses to average approximately \$9.40 per Boe (\$1.57 per Mcfe) in 2017. Pine Cliff is committed to continuously seeking to increase efficiencies and decrease field operating expenses, although quarterly variances may result from timing of expenditures and seasonality.

**GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")**

(\$000s)	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Gross G&A	2,152	1,822	18	4,544	4,755	(4)
Less: overhead recoveries	276	(25)	(1,204)	(701)	(261)	169
Total G&A expenses	2,428	1,797	35	3,843	4,494	(14)
\$ per Boe	1.27	0.87	46	1.00	1.07	(7)
\$ per Mcfe	0.21	0.15	40	0.17	0.18	(6)

G&A increased by 35% to \$2.4 million in the three months ended June 30, 2017, as compared to \$1.8 million in the three months ended June 30, 2016. On a per Boe basis, G&A for the three months ended June 30, 2017, increased by 46% to \$1.27 per Boe from \$0.87 per Boe. The increase in G&A is partially a result of higher estimated discretionary staffing costs as Pine Cliff generated funds flow from operations of \$10.8 million in the three months ended June 30, 2017 compared to funds used in operations of \$3.7 million in the three months ended June 30, 2016. Overhead recoveries were also negatively impacted in the three months ended June 30, 2017 as a result of recalculating overhead amounts charged to partners in prior periods.

G&A decreased by 14% to \$3.8 million in the six months ended June 30, 2017, as compared to \$4.5 million in the six months ended June 30, 2016. On a per Boe basis, G&A for the six months ended June 30, 2017, decreased by 7% to \$1.00 per Boe from \$1.07 per Boe in the three months ended June 30, 2016. The decrease in G&A is primarily a result of higher overhead recoveries and non-recurring costs in the first half of 2016 due to integrating the December 2015 Acquisition, slightly offset by decreased production.

Pine Cliff anticipates G&A expenses to average approximately \$1.05 per Boe (\$0.18 per Mcfe) in 2017.

#### SHARE-BASED PAYMENTS

(\$000s)	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Total share-based payments	<b>835</b>	829	1	<b>1,614</b>	1,597	1
\$ per Boe	<b>0.44</b>	0.40	10	<b>0.42</b>	0.38	11
\$ per Mcfe	<b>0.07</b>	0.07	-	<b>0.07</b>	0.06	17

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 Pine Cliff common shares ("Common Shares").

During the six months ended June 30, 2017, Pine Cliff granted 5,030,150 stock options to purchase Common Shares at a weighted average exercise price of \$0.79. As at June 30, 2017, the Company had 23,261,612 stock options outstanding (June 30, 2016 - 13,968,931), representing 7.6% of Common Shares outstanding.

#### DEPLETION AND DEPRECIATION

(\$000s)	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Total depletion and depreciation	<b>12,149</b>	17,597	(31)	<b>24,294</b>	34,495	(30)
\$ per Boe	<b>6.33</b>	8.54	(26)	<b>6.35</b>	8.25	(23)
\$ per Mcfe	<b>1.06</b>	1.42	(25)	<b>1.06</b>	1.38	(23)

Depletion and depreciation expense for the three and six months ended June 30, 2017, totaled \$12.1 million and \$24.3 million compared to \$17.6 million and \$34.5 million in the corresponding periods of the prior year, as a result of lower production, the 2016 dispositions, and lower depletion rates. Depletion and depreciation per Boe will fluctuate from one period to the next depending on the amount and type of capital spending and the changes in reserves. Depletion is calculated using total proved and probable reserves and reserves estimates are subject to revision.

#### FINANCE EXPENSES

(\$000s)	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Accretion on decommissioning liabilities	<b>1,217</b>	1,209	1	<b>2,416</b>	2,240	8
Interest and bank charges	<b>988</b>	1,844	(46)	<b>2,041</b>	3,493	(42)
Accretion on subordinated promissory notes	<b>54</b>	-	-	<b>108</b>	-	-
Total finance expenses	<b>2,259</b>	3,053	(26)	<b>4,565</b>	5,733	(20)
\$ per Boe	<b>1.18</b>	1.48	(20)	<b>1.19</b>	1.38	(14)
\$ per Mcfe	<b>0.20</b>	0.25	(20)	<b>0.20</b>	0.23	(13)

In the three and six months ended June 30, 2017, Pine Cliff incurred finance expenses of \$2.3 million and \$4.6 million, 26% and 20% lower than the \$3.1 million and \$5.7 million in the corresponding periods of the prior year. The decrease is largely due to decreased interest and bank charges from lower debt levels, somewhat offset by slightly higher accretion on decommissioning liabilities. Please refer to the "CAPITAL RESOURCES" section for additional information.

**DIVIDEND INCOME**

(\$000s)	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Total dividend income	52	41	27	105	102	3
\$ per Boe	0.03	0.02	50	0.03	0.02	50

In the three and six months ended June 30, 2017, Pine Cliff received \$0.1 million in dividends from its investment in a dividend paying company.

**OPERATING AND CORPORATE NETBACKS**

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

(\$ per Boe)	Three months ended June 30,			Six months ended June 30,		
	2017	2016	\$ Change	2017	2016	\$ Change
Oil and gas sales	18.45	10.04	8.41	18.43	11.46	6.97
Realized hedging gain	0.10	-	0.10	0.05	-	0.05
Royalty income	-	0.25	(0.25)	-	0.27	(0.27)
Royalty expense	(1.46)	(0.65)	(0.81)	(1.64)	(0.80)	(0.84)
Operating expenses	(9.68)	(9.66)	(0.02)	(9.56)	(9.58)	0.02
Operating netback <sup>1</sup>	7.41	(0.02)	7.43	7.28	1.35	5.93
General and administrative expense	(1.27)	(0.87)	(0.40)	(1.00)	(1.07)	0.07
Interest and bank charges, net of dividend income	(0.49)	(0.87)	0.38	(0.50)	(0.82)	0.32
Corporate netback <sup>1</sup>	5.65	(1.76)	7.41	5.78	(0.54)	6.32
Operating netback (\$ per Mcfe) <sup>1</sup>	1.24	0.00	1.24	1.21	0.23	0.99
Corporate netback (\$ per Mcfe) <sup>1</sup>	0.94	(0.29)	1.23	0.96	(0.09)	1.05

<sup>1</sup>This is a non-IFRS Measure, see NON-IFRS MEASURES for additional information.

Pine Cliff's corporate netback increased to \$5.65 per Boe and \$5.78 per Boe for the three and six months June 30, 2017, from \$(1.76) per Boe and \$(0.54) per Boe in the corresponding periods of the prior year. This increase is primarily due to higher commodity prices and lower interest and bank charges, somewhat offset by higher royalty and G&A expenses and lower royalty income compared to the same periods of 2016.

**DEFERRED TAX RECOVERY**

For the six months ended June 30, 2017, deferred tax recovery decreased to \$0.5 million from \$2.3 million in the same period of 2016. This decrease is primarily a result of the lower loss before income taxes of \$5.2 million in the six months ended June 30, 2017 as compared to \$44.3 million in the six months ended June 30, 2016.

Pine Cliff has approximately \$394.2 million in tax pools at June 30, 2017, available for future use as deductions from taxable income. Included in these pools are estimated non-capital loss carry forwards of \$76.7 million that expire between the years 2030 and 2037.

**EARNINGS (LOSS)**

Quarter to quarter variance analysis:

(\$000s)

<b>Loss for the six months ended June 30, 2016</b>	<b>(42,039)</b>
Price variance	26,655
Volume variance	(4,054)
Gain on commodity contracts	1,373
Royalty revenue	(1,111)
Royalty expense	(2,922)
Operating expenses	3,455
General and administrative	651
Depletion and depreciation	10,201
Share-based payments	(17)
Finance expenses	1,168
Realized loss in investments	4,270
Gain on disposition	(518)
Dividend income	3
Deferred tax recovery	(1,769)
<b>Loss for the six months ended June 30, 2017</b>	<b>(4,654)</b>

During the six months ended June 30, 2017, Pine Cliff's net loss decreased by \$37.3 million to \$4.7 million as compared to a net loss of \$42.0 million during the six months ended June 30, 2016. The decrease in net loss is mainly a result of higher commodity prices, gain on commodity contracts, lower depletion and depreciation, operating expenses, and finance expenses, partially offset by higher royalty and G&A expenses, lower royalty revenue, lower deferred tax recovery, and lower production volumes.

**FUNDS FLOW FROM OPERATIONS**

(\$000s)	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Cash flow from operating activities	<b>10,007</b>	(4,371)	(329)	<b>23,842</b>	5,251	354
Adjusted by:						
Increase in non-cash working capital	<b>554</b>	642	(14)	<b>(2,540)</b>	(7,642)	(67)
Decommissioning liabilities settled	<b>273</b>	74	269	<b>765</b>	134	471
Funds flow from (used in) operations <sup>1</sup>	<b>10,834</b>	(3,655)	(396)	<b>22,067</b>	(2,257)	(1,078)
Funds flow from (used in) operations (\$/Boe) <sup>1</sup>	<b>5.65</b>	(1.76)	(421)	<b>5.78</b>	(0.54)	(1,170)
Funds flow from (used in) operations (\$/Mcf) <sup>1</sup>	<b>0.94</b>	(0.29)	(424)	<b>0.96</b>	(0.09)	(1,167)
Funds flow from (used in) operations – basic and diluted (\$/share) <sup>1</sup>	<b>0.04</b>	(0.01)	(500)	<b>0.07</b>	(0.01)	(800)

<sup>1</sup> This is a non-IFRS measure, see NON-IFRS MEASURES for additional information.

Pine Cliff's funds flow from operations increased to \$10.8 million and \$22.1 million for the three and six months ended June 30, 2017, from funds used in operations of \$3.7 million and \$2.3 million in the three and six months ended June 30, 2016. This increase is primarily due to higher commodity prices, lower operating and interest expenses, somewhat offset by higher royalty and G&A expenses and lower production volumes compared to the same periods of 2016.

**OTHER COMPREHENSIVE EARNINGS (LOSS)**

Activity in other comprehensive earnings (loss) ("OCI") for the six months ended June 30, 2017 relates to the revaluation of investments held at June 30, 2017 of \$2.5 million in one public company. OCI for the six months ended June 30, 2016 is a result of

reclassifying the OCI 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.

### CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS

(\$000s)	Six months ended June 30, 2017	Year ended December 31, 2016
Exploration and evaluation assets	32	127
Oil and gas assets	7,036	8,842
Vehicles and administrative assets	-	190
Capital expenditures	7,068	9,159
Acquisitions, after adjustments	(97)	(807)
Dispositions	(216)	(63,112)
<b>Total</b>	<b>6,755</b>	<b>(54,760)</b>

Capital expenditures of \$7.1 million in the six months ended June 30, 2017, were directed towards drilling six gross (1.1 net) wells in the Edson area for \$4.0 million, minor facility and maintenance capital of \$2.2 million, recompletions of \$0.8 million, and \$0.1 million of other miscellaneous capital additions.

### DEBT, LIQUIDITY AND CAPITAL RESOURCES

#### Bank Credit Facilities

As at June 30, 2017, the Company had a \$45.0 million syndicated credit facility (the "**Credit Facility**") with four Canadian Financial Institutions (the "**Syndicate**") (December 31, 2016 - \$60.0 million Credit Facility). The Credit Facility consists of a \$35.0 million revolving syndicated credit facility and a \$10.0 million revolving operating facility for a total facility of \$45.0 million. Security 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 June 30, 2017, were \$10.7 million (December 31, 2016 - \$30.9 million). Amounts borrowed under the Credit Facility bore 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. EBITDA is calculated as earnings (loss) excluding depreciation, depletion and accretion, unrealized hedging gains, share based payments, interest, taxes and other non-cash items. The Credit Facility matures July 27, 2018, and if it is not renewed it will convert to a one day term loan due on July 28, 2018. The Credit Facility will be reviewed semi-annually on November 30<sup>th</sup> and May 31<sup>st</sup>, with the next renewal scheduled for November 30, 2017. The Credit Facility has no fixed terms of repayment.

As at June 30, 2017, the Company had \$1.7 million of letters of credit issued against its Credit Facility (December 31, 2016 - \$1.7 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 June 30, 2017, Pine Cliff was in compliance with all covenants.

#### Subordinated Promissory Notes due July 29, 2018

As at June 30, 2017, the Company had \$6.0 million outstanding in promissory notes maturing on July 29, 2018 (the "**2018 Notes**") that bears interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility, payable monthly. The 2018 Notes were issued to a shareholder and a relative of that shareholder of the Company, owning directly or by discretion and control, greater than 10% of the Company's outstanding Common Shares. The 2018 Notes can be repaid at any time without penalty and 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, the Renewed Credit Facility, and the 2020 Note holder.

#### Due to Related Party - Promissory Note due July 29, 2018

Pine Cliff has a \$5.0 million promissory note outstanding to the Company's Chairman of the Board maturing on July 29, 2018 ("**2018 Related Party Note**") that bears interest at 0.25% less than the monthly average effective interest rate paid on 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 holder of the Subordinated Promissory Notes due September 30, 2020. Interest paid on the 2018 Related Party Note in the three and six months ended June 30, 2017, was \$0.05 million and \$0.1 million (three and six months ended June 30, 2016 - \$Nil).

**Subordinated Promissory Notes due September 30, 2020**

As at June 30, 2017, the Company has 30,000 units ("Units" or "Unit") outstanding at a price of \$1,000 per Unit for a principal debt balance 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 (the "2020 Notes"), which is payable semi-annually; and (ii) 150 Common Share purchase warrants (the "Warrants"). The 2020 Notes mature on September 30, 2020 and all or a portion of the principal amount outstanding can be repaid without penalty after August 10, 2017. 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 and the Renewed Credit Facility. A total of 4.5 million Warrants are outstanding, each entitling the holder to purchase one Common Share for \$1.38 until August 10, 2018.

**Share Capital**

Share capital	August 9, 2017	June 30, 2017	December 31, 2016
Common shares	307,075,787	307,075,787	307,075,787
Stock options	23,561,612	23,261,612	22,773,431
Warrants	4,500,000	4,500,000	4,500,000

**Capital Requirements**

Pine Cliff is lowering its capital budget for 2017 from \$18.5 million to \$17.0 million, before acquisitions, primarily as a result of lower than anticipated recompletion costs. Pine Cliff anticipates funding its capital budget primarily through cash flow from operations. Budgeted future capital expenditures are largely discretionary in nature and Pine Cliff is able to adjust the nature, amount and timing of most planned capital expenditures to changes in the business and commodity price environment.

Pine Cliff will continue to focus on additional opportunities to enhance shareholders' long term value which could include additional asset acquisitions or dispositions.

**Liquidity**

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

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

During the six months ended June 30, 2017, the Company financed its capital expenditures with cash provided by operating activities while also reducing bank debt.

**COMMITMENTS AND CONTINGENCIES**

As at June 30, 2017, the Company has the following lease commitments and other contractual obligations:

	2017	2018	2019	2020	2021	Thereafter
(\$000s)						
Subordinated promissory notes <sup>1</sup>	-	6,000	-	30,000	-	-
Trade and other payables	23,862	-	-	-	-	-
Due to related party	-	5,000	-	-	-	-
Bank loan – principal	-	10,675	-	-	-	-
Future interest	1,480	2,570	2,025	1,519	-	-
Transportation commitments <sup>2</sup>	2,927	7,469	6,509	6,000	5,404	20,132
Vehicle leases	501	428	338	254	30	-
Office and equipment leases	247	438	436	464	464	922
<b>Total commitments and contingencies</b>	<b>29,017</b>	<b>32,580</b>	<b>9,308</b>	<b>38,237</b>	<b>5,898</b>	<b>21,054</b>

<sup>1</sup> The subordinated promissory notes for commitments are presented at the principal amount.

<sup>2</sup> Transportation commitments – transportation contracts for the movement of commodities from Pine Cliff's production areas to consuming markets.



**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 is exposed to both financial and non-financial risks inherent in the oil and gas business. Financial risks include: commodity prices, interest rates, equity price, foreign exchange, credit availability, and liquidity. 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. The Company has several practices and policies in place to help mitigate these risks.

**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. During the second quarter of 2017, the Company entered into physical fixed price natural gas sales contracts to help mitigate its exposure to future fluctuations in natural gas prices. Based on June 30, 2017 natural gas prices, a ten cent per Mcf price change would have increased or decreased the unrealized gain related to physical natural gas sales contracts, respectively, by \$0.2 million (December 31, 2016 - \$Nil).

At June 30, 2017, the following physical fixed price natural gas sales contracts were outstanding with an unrealized fair market value of \$1.2 million (December 31, 2016 - \$Nil):

## Physical Natural Gas Sales Contracts:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price (\$CAD/GJ)	Fixed Sale Price (\$CAD/Mcf) <sup>1</sup>	Fair Market Value (\$000s)
July 1, 2017 to October 31, 2017	NIT	5,000	2.720	2.856	262
July 1, 2017 to October 31, 2017	NIT	5,000	2.750	2.888	281
July 1, 2017 to October 31, 2017	NIT	5,000	2.775	2.914	296
July 1, 2017 to October 31, 2017	NIT	5,000	2.865	3.008	351
<b>Total unrealized commodity contracts gain</b>					<b>1,190</b>

<sup>1</sup> Price has been converted from \$/GJ to \$/Mcf by multiplying by of 1.05.

Pine Cliff's net income (loss) includes the following realized and unrealized gain (loss) on commodity contracts in place during the six months ended June 30, 2017:

	Three and six months ended June 30,	
	2017	2016
Commodity contracts:		
Realized commodity contracts gain	183	-
Unrealized commodity contracts gain	1,190	-
<b>Total gain on commodity contracts</b>	<b>1,373</b>	-
Realized commodity contracts gain (\$/Boe)	0.05	-
Realized commodity contracts gain (\$/Mcfe)	0.01	-

*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 quarter ended June 30, 2017, would have increased or decreased, respectively, by \$0.1 million (December 31, 2016 - \$0.4 million).

### *Equity Price Risk*

Equity price risk refers to the risk that the fair value of the investments will fluctuate due to changes in equity markets. Equity price risk arises from the realizable value of the investments that the Company holds which are subject to variable equity prices which on disposition gives rise to a cash flow equity price risk.

### *Foreign Exchange Risk*

The Company is exposed to foreign exchange risk because the oil and natural gas prices it receives are primarily determined in reference to United States 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, commodity contracts, and cash, which are a reflection of 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 and commodity contracts, 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 balance at June 30, 2017, of \$16.2 million (December 31, 2016 - \$20.0 million), 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. There are no material financial assets that Pine Cliff considers past due. The Company generally considers amounts greater than 90 days to be past due. As at June 30, 2017, there was \$1.7 million (December 31, 2016 - \$1.8 million) of trade and other receivables over 90 days. As at June 30, 2017, the Company does not consider any trade and other receivables to be impaired.

The Company's commodity contracts balance at June 30, 2017, of \$1.2 million (December 31, 2016 - \$Nil), is primarily with oil and gas marketers. Amounts due from these parties have generally been received within 30 to 60 days. There are no commodity contracts that Pine Cliff considers past due.

Pine Cliff assesses its financial assets quarterly to determine if there has been any impairment. During the quarter ended June 30, 2017, the Company recorded \$Nil (December 31, 2016 - \$0.5 million) bad debt expense against trade and other accounts receivables.

### **Liquidity Risk**

Liquidity risk is the risk that Pine Cliff will not be able to meet its financial obligations as they become due. Pine Cliff actively manages its liquidity through cash, debt and equity management strategies. Such strategies include continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under the existing Credit Facility arrangements and opportunities to issue additional equity, including common shares. Pine Cliff actively monitors its credit and working capital to ensure that it has sufficient available funds to meet its financial requirements at a reasonable cost. Management believes that funds generated from these sources will be adequate to settle Pine Cliff's financial liabilities.

The Company currently has a \$45.0 million Credit Facility, of which \$10.7 million was drawn at June 30, 2017. 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. If required, Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities.

### **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, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. Management believes that the most critical accounting policies that may have an impact on the Company's financial results are those that specifically relate to the accounting for its oil and gas interests, including amounts recorded for depletion and the impairment test which are both based on estimates of proved and probable reserves, production rates, oil prices, future costs and other relevant assumptions. Actual results could differ materially from such estimates.

A comprehensive discussion of the significant accounting policies, judgements, assumptions and estimates made by management is provided in the Company's Annual Financial Statements and MD&A for the year ended December 31, 2016.

### **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 the Annual Financial Statements.

### **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 six months ended June 30, 2017. 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](http://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 measures 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. These measures should not be considered as an alternative to, or more meaningful than, IFRS measures including net income (loss), cash provided by operating activities, or total liabilities.

#### **Funds Flow from Operations**

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 or Mcfe should not be considered as an alternative to, or more meaningful than, cash flow from operating activities presented on 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 or Mcfe is calculated using the sales volumes reported for a reporting period. Our method of calculating this measure may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

#### **Operating and Corporate Netback**

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 the sum of oil and gas sales and realized hedging gains, 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 dividend income on an absolute and a per Mcfe basis, respectively.

Pine Cliff uses these measures to assist in understanding the Company's ability to generate positive cash flow at current commodity prices and it provides an analytical tool to benchmark changes in operational performance against prior periods. Readers are cautioned, however, that these measures should not be construed as an alternative to other terms such as net income determined in accordance with IFRS as a measure of performance. Pine Cliff's method of calculating these measures may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

**Net Debt**

The Company considers net debt to be a key indicator of leverage. Net debt is calculated as the sum of bank debt, subordinated promissory notes, and trade and other current payables less trade and other current receivables, cash, prepaid expenses and deposits, investments, and commodity contracts as shown in the table below:

(\$000s)	June 30, 2017	December 31, 2016	\$ Change
Bank debt	10,675	30,851	(20,176)
Due to related party – due July 29, 2018	5,000	5,000	-
Subordinated promissory notes – due July 29, 2018	6,000	6,000	-
Subordinated promissory notes – due September 30, 2020 <sup>1</sup>	30,000	30,000	-
Trade and other payables and accrued liabilities	23,862	21,319	2,543
Less:			
Trade and other receivables	(16,228)	(20,012)	3,784
Cash	(118)	(148)	30
Prepaid expenses and deposits	(4,219)	(3,491)	(728)
Investments	(2,410)	(5,295)	2,885
Commodity contracts	(1,190)	-	(1,190)
<b>Net Debt</b>	<b>51,372</b>	<b>64,224</b>	<b>(12,852)</b>

<sup>1</sup>The subordinated promissory notes for net debt are presented at the principal amount.

Net debt is not a recognized measure under IFRS and Pine Cliff's method of calculating this measure may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

**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, expected operating cost, royalty and G&A 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; ability to implement a dividend or buy back shares; 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; Pine Cliff’s ability to generate cash flow and free cash flow; 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 13, 2017 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 unaudited 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 unaudited interim condensed consolidated financial statements with management and has reported to the board of directors. The board of directors have approved the unaudited interim condensed consolidated financial statements as presented in this interim report.

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

	Note	As at June 30, 2017	As at December 31, 2016
<b>ASSETS</b>			
Current assets			
Cash		118	148
Trade and other receivables	13, 14	16,228	20,012
Prepaid expenses and deposits		4,219	3,491
Investments	3	2,410	5,295
Commodity contracts	14	1,190	-
Total current assets		24,165	28,946
Exploration and evaluation assets	4	31,740	33,610
Property, plant and equipment	5	363,771	379,643
Deferred taxes	6	50,608	49,698
Total assets		470,284	491,897
<b>LIABILITIES</b>			
Current liabilities			
Trade and other payables		23,862	21,319
Bank debt	7	-	30,851
Total current liabilities		23,862	52,170
Bank debt	7	10,675	-
Due to related party	8	5,000	5,000
Subordinated promissory notes	9	35,194	35,086
Decommissioning liabilities	10	205,331	203,883
Total liabilities		280,062	296,139
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	11	268,743	268,743
Warrants		958	958
Contributed surplus		7,362	5,748
Accumulated other comprehensive gain (loss)		(2,198)	298
Deficit		(84,643)	(79,989)
Total shareholders' equity		190,222	195,758
Total liabilities and shareholders' equity		470,284	491,897

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**(Canadian dollars, 000s except per share data)  
(unaudited)

	Note	Three months ended June 30,		Six months ended June 30,	
		2017	2016	2017	2016
<b>REVENUE</b>					
Oil and gas sales		35,378	20,695	70,526	47,925
Royalty expense		(2,798)	(1,336)	(6,264)	(3,342)
Royalty income		-	505	-	1,111
Oil and gas sales, net of royalties		32,580	19,864	64,262	45,694
Gain on commodity contracts	14	1,373	-	1,373	-
Dividend income		52	41	105	102
Total revenue		34,005	19,905	65,740	45,796
<b>EXPENSES</b>					
Operating		18,565	19,907	36,599	40,054
General and administration		2,428	1,797	3,843	4,494
Depletion and depreciation	5	12,149	17,597	24,294	34,495
Share-based payments	11	835	829	1,614	1,597
Finance	12	2,259	3,053	4,565	5,733
Gain on disposition		-	(518)	-	(518)
Realized loss on investments		-	4,270	-	4,270
Total expenses		36,236	46,935	70,915	90,125
Loss before income taxes		(2,231)	(27,030)	(5,175)	(44,329)
Deferred tax recovery	6	113	1,168	521	2,290
<b>LOSS FOR THE PERIOD</b>		<b>(2,118)</b>	<b>(25,862)</b>	<b>(4,654)</b>	<b>(42,039)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
Unrealized gain (loss) on investments	3	(1,239)	(825)	(2,885)	-
Deferred taxes on unrealized loss on investments	6	166	-	389	-
Amounts reclassified from comprehensive loss		-	6,253	-	6,253
<b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX</b>		<b>(1,073)</b>	<b>5,428</b>	<b>(2,496)</b>	<b>6,253</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>		<b>(3,191)</b>	<b>(20,434)</b>	<b>(7,150)</b>	<b>(35,786)</b>
<b>Loss per share (\$)</b>					
Basic and diluted	11	(0.01)	(0.08)	(0.02)	(0.14)

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



**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Canadian dollars, 000s)

(unaudited)

	Note	Three months ended June 30,		Six months ended June 30,	
		2017	2016	2017	2016
<b>CASH PROVIDED BY (USED IN):</b>					
<b>OPERATING ACTIVITIES</b>					
Loss for the period		<b>(2,118)</b>	(25,862)	<b>(4,654)</b>	(42,039)
Items not affecting cash:					
Share-based payments	11	<b>835</b>	829	<b>1,614</b>	1,597
Depletion and depreciation	5	<b>12,149</b>	17,597	<b>24,294</b>	34,495
Finance expenses		<b>2,259</b>	3,053	<b>4,565</b>	5,733
Gain on disposition of assets		-	(518)	-	(518)
Loss on sale of investments		-	4,270	-	4,270
Deferred tax expense (recovery)	6	<b>(113)</b>	(1,180)	<b>(521)</b>	(2,302)
Unrealized gain on commodity contracts	14	<b>(1,190)</b>	-	<b>(1,190)</b>	-
Changes in non-cash working capital accounts	12	<b>(554)</b>	(642)	<b>2,540</b>	7,642
Interest and bank charges	12	<b>(988)</b>	(1,844)	<b>(2,041)</b>	(3,493)
Decommissioning obligation settled	10	<b>(273)</b>	(74)	<b>(765)</b>	(134)
Cash provided by (used in) operating activities		<b>10,007</b>	(4,371)	<b>23,842</b>	5,251
<b>INVESTING ACTIVITIES</b>					
Expenditures on property, plant and equipment	5	<b>(3,235)</b>	(742)	<b>(7,036)</b>	(4,359)
Expenditures on exploration and evaluation assets		<b>(32)</b>	(7)	<b>(32)</b>	(7)
Acquisitions		<b>97</b>	(240)	<b>97</b>	(825)
Proceeds on disposition of assets		<b>216</b>	24,702	<b>216</b>	24,702
Proceeds on sale of investments		-	5,573	-	5,573
Changes in non-cash working capital accounts	12	<b>1,759</b>	(1,652)	<b>3,059</b>	3,361
Cash provided by (used in) investing activities		<b>(1,195)</b>	27,634	<b>(3,696)</b>	28,445
<b>FINANCING ACTIVITIES</b>					
Exercise of stock options	11	-	413	-	635
Bank debt	7	<b>(8,846)</b>	(23,614)	<b>(20,176)</b>	(34,871)
Changes in non-cash working capital accounts	12	-	(189)	-	(172)
Cash used in financing activities		<b>(8,846)</b>	(23,390)	<b>(20,176)</b>	(34,408)
Increase (decrease) in cash		<b>(34)</b>	(127)	<b>(30)</b>	(712)
Cash - beginning of period		<b>152</b>	248	<b>148</b>	833
<b>CASH - END OF PERIOD</b>		<b>118</b>	121	<b>118</b>	121

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

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

	Note	Share capital	Contributed surplus <sup>1</sup>	Accumulated other comprehensive income (loss) <sup>2</sup>	Warrants	Deficit	Total Equity
<b>BALANCE AT JANUARY 1, 2016</b>		<b>266,809</b>	<b>3,453</b>	<b>(6,253)</b>	-	<b>(29,602)</b>	<b>234,407</b>
Share issue costs, net of tax		(240)	-	-	-	-	(240)
Loss for the period		-	-	-	-	(42,039)	(42,039)
Transfer of realized loss on sale of investments		-	-	6,253	-	-	6,253
Share-based payments	11	-	1,597	-	-	-	1,597
Exercise of options	11	1,183	(548)	-	-	-	635
<b>BALANCE AT JUNE 30, 2016</b>		<b>267,752</b>	<b>4,502</b>	-	-	<b>(71,641)</b>	<b>200,613</b>
Issuance of warrants		-	-	-	995	-	995
Unit issue costs, net of tax		-	-	-	(37)	-	(37)
Loss for the period		-	-	-	-	(8,348)	(8,348)
Unrealized gain on investments, net of tax		-	-	298	-	-	298
Share-based payments	11	-	1,599	-	-	-	1,599
Exercise of options	11	991	(353)	-	-	-	638
<b>BALANCE AT DECEMBER 31, 2016</b>		<b>268,743</b>	<b>5,748</b>	<b>298</b>	<b>958</b>	<b>(79,989)</b>	<b>195,758</b>
Loss for the period		-	-	-	-	(4,654)	(4,654)
Unrealized loss on investments, net of tax	3	-	-	(2,496)	-	-	(2,496)
Share-based payments	11	-	1,614	-	-	-	1,614
<b>BALANCE AT JUNE 30, 2017</b>		<b>268,743</b>	<b>7,362</b>	<b>(2,198)</b>	<b>958</b>	<b>(84,643)</b>	<b>190,222</b>

<sup>1</sup>Contributed surplus is comprised of share-based payments.<sup>2</sup>Accumulated other comprehensive income (loss) is comprised of unrealized gains and losses on available-for-sale investments.

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

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

As at June 30, 2017 and December 31, 2016 and for the three and six month periods ended June 30, 2017 and 2016.

(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 (“**TSX**”) 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 acquisition, 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 unaudited interim condensed consolidated financial statements (the “**Financial Statements**”) reflect only the Company’s proportionate interest in such activities.

**2. BASIS OF PREPARATION****a) Statement of Compliance**

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 audited consolidated financial statements for the year ended December 31, 2016 (“**2016 Annual Financial Statements**”).

The Financial Statements were authorized for issue by the Company’s board of directors on August 9, 2017.

**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 2016 Annual Financial Statements.

**3. INVESTMENTS**

As at June 30, 2017, the Company had an investment of \$2.4 million in one public dividend paying company.

<b>Investments, December 31, 2016</b>	<b>5,295</b>
Unrealized loss on investments	(2,885)
<b>Investments, June 30, 2017</b>	<b>2,410</b>

**4. EXPLORATION AND EVALUATION ASSETS**

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

Exploration and evaluation assets:	Oil and gas properties	Mineral properties	Total
Balance at December 31, 2015	42,958	2,992	45,950
Additions	88	39	127
Transfer to property, plant, and equipment	(1,176)	-	(1,176)
Impairment	(4,648)	-	(4,648)
Dispositions	(6,643)	-	(6,643)
<b>Balance at December 31, 2016</b>	<b>30,579</b>	<b>3,031</b>	<b>33,610</b>
Additions	18	14	32
Transfer to property, plant, and equipment	(1,902)	-	(1,902)
<b>Balance at June 30, 2017</b>	<b>28,695</b>	<b>3,045</b>	<b>31,740</b>

**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, 2015	638,000	1,314	639,314
Additions	8,842	190	9,032
Transfer from exploration and evaluation	1,176	-	1,176
Acquisitions	(807)	-	(807)
Dispositions	(59,952)	-	(59,952)
Decommissioning liabilities	(41,479)	-	(41,479)
<b>Balance at December 31, 2016</b>	<b>545,780</b>	<b>1,504</b>	<b>547,284</b>
Additions	7,036	-	7,036
Transfer from exploration and evaluation	1,902	-	1,902
Acquisitions	(97)	-	(97)
Dispositions	(216)	-	(216)
Decommissioning liabilities	(203)	-	(203)
<b>Balance at June 30, 2017</b>	<b>554,202</b>	<b>1,504</b>	<b>555,706</b>

Accumulated depletion and depreciation:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 2015	(106,582)	(673)	(107,255)
Depletion and depreciation	(63,944)	(443)	(64,387)
Dispositions	4,001	-	4,001
<b>Balance at December 31, 2016</b>	<b>(166,525)</b>	<b>(1,116)</b>	<b>(167,641)</b>
Depletion and depreciation	(24,065)	(229)	(24,294)
<b>Balance at June 30, 2017</b>	<b>(190,590)</b>	<b>(1,345)</b>	<b>(191,935)</b>

Carrying value at:	Oil and gas properties	Administrative assets	Total
December 31, 2016	379,255	388	379,643
<b>June 30, 2017</b>	<b>363,612</b>	<b>159</b>	<b>363,771</b>

**6. DEFERRED TAXES**

The Company has recorded a deferred tax asset related to the benefit of tax pools, as it is probable that they will be recovered.

	As at June 30, 2017	As at December 31, 2016
Deferred income tax assets (liabilities):		
Share issue costs	1,103	1,341
Investment	343	(47)
Decommissioning liabilities	55,430	55,981
Property and equipment	(22,293)	(24,710)
Other	(316)	-
Capital losses carried forward	155	155
Non-capital losses carried forward	21,122	20,980
Asset before unrecognized deferred tax	55,544	53,700
Less: unrecognized deferred tax	(4,936)	(4,002)
Net deferred income tax asset	50,608	49,698

Pine Cliff has approximately \$394.2 million in tax pools at June 30, 2017, available for future use as deductions from taxable income. Included in these pools are estimated non-capital loss carry forwards of \$76.2 million that expire between the years 2030 and 2037.

**7. BANK DEBT**

As at June 30, 2017, the Company had a \$45.0 million syndicated credit facility (the "Credit Facility") with four Canadian Financial Institutions (the "Syndicate") (December 31, 2016 - \$60.0 million Credit Facility). The Credit Facility consists of a \$35.0 million revolving syndicated credit facility and a \$10.0 million revolving operating facility for a total facility of \$45.0 million. Security 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 June 30, 2017, were \$10.7 million (December 31, 2016 - \$30.9

million). Amounts borrowed under the Credit Facility bore 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. EBITDA is calculated as earnings (loss) excluding depreciation, depletion and accretion, unrealized hedging gains, share based payments, interest, taxes and other non-cash items. The Credit Facility matures July 27, 2018, and if it is not renewed it will convert to a one day term loan due on July 28, 2018. The Credit Facility will be reviewed semi-annually on November 30<sup>th</sup> and May 31<sup>st</sup>, with the next renewal scheduled for November 30, 2017. The Credit Facility has no fixed terms of repayment.

As at June 30, 2017, the Company had \$1.7 million of letters of credit issued against its Credit Facility (December 31, 2016 - \$1.7 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 June 30, 2017, Pine Cliff was in compliance with all covenants.

### 8. DUE TO RELATED PARTY

Pine Cliff has a \$5.0 million promissory note outstanding to the Company's Chairman of the Board maturing on July 29, 2018 ("**2018 Related Party Note**") that bears interest at 0.25% less than the monthly average effective interest rate paid on 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 holder of the Subordinated Promissory Notes due September 30, 2020. Interest paid on the 2018 Related Party Note in the three and six months ended June 30, 2017, was \$0.05 million and \$0.1 million (three and six months ended June 30, 2016 - \$Nil).

### 9. SUBORDINATED PROMISSORY NOTES

The following table reconciles Pine Cliff's Subordinated Promissory Notes:

Subordinated promissory notes due September 30, 2020:	
Issued – August 10, 2016	29,004
Accretion expense	82
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Subordinated promissory notes due September 30, 2020 as at December 31, 2016	29,086
Accretion expense	108
<b>Subordinated promissory notes due September 30, 2020 as at June 30, 2017</b>	<b>29,194</b>
<hr/>	
Subordinated promissory notes due July 29, 2018:	
Issued – July 29, 2016	6,000
<b>Subordinated promissory notes due July 29, 2018 as at June 30, 2017 and December 31, 2016</b>	<b>6,000</b>
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Total subordinated promissory notes, as at December 31, 2016	35,086
<b>Total subordinated promissory notes, as at June 30, 2017</b>	<b>35,194</b>

### 10. DECOMMISSIONING LIABILITIES

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

At June 30, 2017, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$246.4 million (December 31, 2016 - \$240.2 million). The provision has been calculated assuming a 1.70% inflation rate (December 31, 2016 - 1.76%). These obligations are currently expected to be settled based on the useful lives of the underlying assets, some of which extend beyond 40 years into the future. This amount has been discounted using an average risk-free interest rate of 2.44% (December 31, 2016 - 2.39%).

Changes to decommissioning liabilities were as follows:

	(\$000s)
Decommissioning provision, January 1, 2016	240,452
Provisions related to dispositions	(10,393)
Provisions related to acquisitions	505
Increase in liabilities relating to development activities	301
Decommissioning expenditures	(279)
Revisions (change in estimate and discount rates)	(31,892)
Accretion expense during period	5,189
<b>Decommissioning provision, December 31, 2016</b>	<b>203,883</b>
Increase in liabilities relating to development activities	73
Provisions related to acquisitions	233
Decommissioning expenditures	(765)
Revisions (changes in estimates, inflation rate, and discount rates)	(509)
Accretion expense during period	2,416
<b>Decommissioning provision, June 30, 2017</b>	<b>205,331</b>

## 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

	Common Shares (000s)	Share capital (\$000s)
Issued and outstanding share capital continuity:		
Balance at December 31, 2015	305,192	266,809
Exercise of options	1,884	1,934
<b>Balance at December 31, 2016 and June 30, 2017</b>	<b>307,076</b>	<b>268,743</b>

### Stock Options

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 stock options up to 10% of outstanding common shares on the grant date. 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.

The following table summarizes changes in the number of stock options outstanding:

	Options (000s)	Weighted-average exercise price (\$ per share)
Stock options issued and outstanding:		
Outstanding, December 31, 2015	17,238	1.23
Granted	12,030	1.12
Exercised	(1,884)	0.55
Expired	(3,471)	1.43
Forfeited	(1,140)	1.22
<b>Outstanding, December 31, 2016</b>	<b>22,773</b>	<b>1.20</b>
Granted	5,030	0.79
Expired	(2,419)	1.45
Forfeited	(2,122)	1.20
<b>Outstanding, June 30, 2017</b>	<b>23,262</b>	<b>1.08</b>
<b>Exercisable, June 30, 2017</b>	<b>2,909</b>	<b>1.14</b>

The following table summarizes information about stock options outstanding at June 30, 2017:

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
\$0.73 - \$1.15	11,729	1.0	2,206	0.3
\$1.16 - \$1.58	10,184	1.0	590	0.1
\$1.59 - \$1.97	1,349	0.1	113	0.0
	<b>23,262</b>	<b>2.1</b>	<b>2,909</b>	<b>0.4</b>

The Company records share-based payment expense over the vesting period, based on the fair value of the options granted to employees, directors and consultants. One third of the stock options granted vest annually on the first, second, and third anniversaries of the grant date and expire one year after the vesting date. In the six months ended June 30, 2017, the Company granted 5,030,150 stock options (six months ended June 30, 2016 – 1,455,000) with a fair value of \$0.27 (six months ended June 30, 2016 - \$0.33) per option using the Black-Scholes option pricing model using the following key assumptions:

Assumptions (weighted average):	Six months ended June 30,	
	2017	2016
Exercise price (\$)	0.79	0.86
Estimated volatility of underlying common shares (%)	50.3	57.6
Expected life (years)	3.0	3.0
Risk-free rate (%)	0.8	0.6
Forfeiture rate (%)	3.9	3.9
Expected dividend yield (%)	0.0	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.

#### Per Share Calculations

The average market value of the Company's shares for the purposes of calculating the dilutive effect of stock options and warrants 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 six months ended June 30, 2017 and 2016, all stock options and warrants were excluded as they were not dilutive.

Earnings per share calculation:	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<b>Numerator</b>				
Loss for the period	(2,118)	(25,862)	(4,654)	(42,039)
<b>Denominator (000s)</b>				
Weighted-average common shares outstanding – basic and diluted	307,076	305,928	307,076	305,720
Loss per share – basic and diluted (\$)	(0.01)	(0.08)	(0.02)	(0.14)

#### 12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital is comprised of:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Changes in non-cash working capital:				
Trade and other receivables	1,410	(2,284)	3,784	1,766
Prepaid expenses and deposits	(330)	886	(728)	(624)
Trade and other payables and accrued liabilities	125	(1,085)	2,543	9,689
	<b>1,205</b>	<b>(2,483)</b>	<b>5,599</b>	<b>10,831</b>
Change related to:				
Operating activities	(554)	(642)	2,540	7,642
Investing activities	1,759	(1,652)	3,059	3,361
Financing activities	-	(189)	-	(172)
	<b>1,205</b>	<b>(2,483)</b>	<b>5,599</b>	<b>10,831</b>

Finance expenses are comprised of:

Finance expenses:	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Accretion on decommissioning liabilities	1,217	1,209	2,416	2,240
Interest expense and bank charges	988	1,844	2,041	3,493
Accretion on subordinated promissory notes	54	-	108	-
<b>Total finance expenses</b>	<b>2,259</b>	<b>3,053</b>	<b>4,565</b>	<b>5,733</b>

Cash interest paid in the three and six months ended June 30, 2017, was \$0.2 million and \$0.9 million (three and six months ended June 30, 2016 - \$2.2 million and \$3.9 million). Dividends received during the three and six months ended June 30, 2017, were \$0.05 million and \$0.1 million (three and six months ended June 30, 2016 - \$0.04 million and \$0.1 million).

### 13. FINANCIAL INSTRUMENTS

#### Financial instruments and fair value measurement

Financial instruments of the Company consist of cash, trade and other receivables, investments, commodity contracts, trade and other payables, due to related party, subordinated promissory notes, and bank debt. The carrying values of cash, trade and other receivables, commodity contracts, and trade and other payables approximate their respective fair values due to their short-term to maturity. The carrying values of due to related party, subordinated promissory notes, and bank debt approximate their respective fair values due to their interest rates reflecting current market conditions.

Assets and liabilities that are measured at fair value are classified into levels, reflecting the method used to make the measurements. Level 1 fair value measurements are based on quoted prices that are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 commodity contracts pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. The fair value of Pine Cliff's commodity contracts are determined using pricing models that incorporate future price forecasts (supported by prices from observable market transactions) and credit risk adjustments. Pine Cliff has no level 3 financial instruments. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The following table sets out the Company's classification, carrying value and fair value of financial assets and liabilities as at June 30, 2017 and December 31, 2016:

Description	Level	June 30, 2017		December 31, 2016	
		Carrying value	Fair value	Carrying value	Fair value
Cash	1	118	118	148	148
Trade and other receivables		16,228	16,228	20,012	20,012
Investments	1	2,410	2,410	5,295	5,295
Commodity contracts	2	1,190	1,190	-	-
Trade and other payables		(23,862)	(23,862)	(21,319)	(21,319)
Due to related party		(5,000)	(5,000)	(5,000)	(5,000)
Subordinated promissory notes		(35,194)	(35,194)	(35,086)	(35,086)
Bank Debt		(10,675)	(10,675)	(30,851)	(30,851)

### 14. RISK MANAGEMENT

The Company is exposed to both financial and non-financial risks inherent in the oil and gas business. Financial risks include: commodity prices, interest rates, equity price, foreign exchange, credit availability and liquidity. 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. The Company has several practices and policies in place to help mitigate these risks.

#### 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. During the second quarter of 2017, the Company entered into physical fixed price natural gas sales contracts to help mitigate its exposure to future fluctuations in natural gas prices. Based on June 30, 2017 natural gas prices, a ten cent per Mcf price change would have increased or decreased the unrealized gain related to physical natural gas sales contracts, respectively, by \$0.2 million (December 31, 2016 - \$Nil).

At June 30, 2017, the following physical fixed price natural gas sales contracts were outstanding with an unrealized fair market value of \$1.2 million (December 31, 2016 - \$Nil):

## Physical Natural Gas Sales Contracts:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price (\$CAD/GJ)	Fixed Sale Price (\$CAD/Mcf) <sup>1</sup>	Fair Market Value (\$000s)
July 1, 2017 to October 31, 2017	NIT	5,000	2.720	2.856	262
July 1, 2017 to October 31, 2017	NIT	5,000	2.750	2.888	281
July 1, 2017 to October 31, 2017	NIT	5,000	2.775	2.914	296
July 1, 2017 to October 31, 2017	NIT	5,000	2.865	3.008	351
<b>Total unrealized commodity contracts gain</b>					<b>1,190</b>

<sup>1</sup> Price has been converted from \$/GJ to \$/Mcf by multiplying by of 1.05.

Pine Cliff's net income (loss) includes the following realized and unrealized gain (loss) on commodity contracts in place during the six months ended June 30, 2017:

Commodity contracts:	Three and six months ended June 30,	
	2017	2016
Realized commodity contracts gain	183	-
Unrealized commodity contracts gain	1,190	-
<b>Total gain on commodity contracts</b>	<b>1,373</b>	<b>-</b>

*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 quarter ended June 30, 2017, would have increased or decreased, respectively, by \$0.1 million (December 31, 2016 - \$0.4 million).

*Equity Price Risk*

Equity price risk refers to the risk that the fair value of the investments will fluctuate due to changes in equity markets. Equity price risk arises from the realizable value of the investments that the Company holds which are subject to variable equity prices which on disposition gives rise to a cash flow equity price risk.

*Foreign Exchange Risk*

The Company is exposed to foreign exchange risk because the oil and natural gas prices it receives are primarily determined in reference to United States 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, commodity contracts, and cash, which are a reflection of 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 and commodity contracts, 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 balance at June 30, 2017, of \$16.2 million (December 31, 2016 – \$20.0 million), 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. There are no material financial assets that Pine Cliff considers past due. The Company generally considers amounts greater than 90 days to be past due. As at June 30, 2017, there was \$1.7 million (December 31, 2016 - \$1.8 million) of trade and other receivables over 90 days. As at June 30, 2017, the Company does not consider any trade and other receivables to be impaired.

The Company's commodity contracts balance at June 30, 2017, of \$1.2 million (December 31, 2016 – \$Nil), is primarily with oil and gas marketers. Amounts due from these parties have generally been received within 30 to 60 days. There are no commodity contracts that Pine Cliff considers past due.

Pine Cliff assesses its financial assets quarterly to determine if there has been any impairment. During the quarter ended June 30, 2017, the Company recorded \$Nil (December 31, 2016 - \$0.5 million) bad debt expense against trade and other accounts receivables.

### Liquidity Risk

Liquidity risk is the risk that Pine Cliff will not be able to meet its financial obligations as they become due. Pine Cliff actively manages its liquidity through cash, debt and equity management strategies. Such strategies include continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under the existing Credit Facility arrangements and opportunities to issue additional equity, including common shares. Pine Cliff actively monitors its credit and working capital to ensure that it has sufficient available funds to meet its financial requirements at a reasonable cost. Management believes that funds generated from these sources will be adequate to settle Pine Cliff's financial liabilities.

The Company currently has a \$45.0 million Credit Facility, of which \$10.7 million was drawn at June 30, 2017. 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. If required, Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities.

## 15. COMMITMENTS

As at June 30, 2017, the Company has the following lease commitments and other contractual obligations:

	2017	2018	2019	2020	2021	Thereafter
(\$000s)						
Subordinated promissory notes <sup>1</sup>	-	6,000	-	30,000	-	-
Trade and other payables	23,862	-	-	-	-	-
Due to related party	-	5,000	-	-	-	-
Bank loan – principal	-	10,675	-	-	-	-
Future interest	1,480	2,570	2,025	1,519	-	-
Transportation commitments <sup>2</sup>	2,927	7,469	6,509	6,000	5,404	20,132
Vehicle leases	501	428	338	254	30	-
Office and equipment leases	247	438	436	464	464	922
<b>Total commitments and contingencies</b>	<b>29,017</b>	<b>32,580</b>	<b>9,308</b>	<b>38,237</b>	<b>5,898</b>	<b>21,054</b>

<sup>1</sup> The subordinated promissory notes for commitments are presented at the principal amount.

<sup>2</sup> Transportation commitments – transportation contracts for the movement of commodities from Pine Cliff's production areas to consuming markets.

**BOARD OF DIRECTORS**

Gary J. Drummond  
George F. Fink - Chairman  
Philip B. Hodge  
Randy M. Jarock  
William S. Rice

**OFFICERS**

Philip B. Hodge  
President and Chief Executive Officer  
Cheryne A. Lowe  
Chief Financial Officer and Corporate Secretary  
Terry L. McNeill  
Chief Operating Officer  
Heather A. Isidoro  
Vice President, Business Development

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Computershare Trust Company of Canada

**AUDITORS**

Deloitte LLP

**BANKERS**

Toronto-Dominion Bank  
National Bank of Canada  
Canadian Western Bank  
Business Development Bank of Canada

**STOCK EXCHANGE LISTING**

TSX Exchange  
Trading Symbol: PNE

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