

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian dollars, 000s)

(unaudited)

	Note	As at June 30, 2015	As at December 31, 2014
ASSETS			
Current assets			
Cash and cash equivalents		253	196
Trade and other receivables		10,241	14,582
Prepaid expenses and deposits		2,790	1,990
Investments	4	6,568	8,755
Total current assets		19,852	25,523
Exploration and evaluation assets	5	9,820	9,126
Property, plant and equipment	6	338,195	348,623
Restricted cash		4	4
Deferred taxes		32,140	27,421
Total assets		400,011	410,697
LIABILITIES			
Current liabilities			
Trade and other payables		10,750	11,280
Bank debt		47,507	47,755
Total current liabilities		58,257	59,035
Decommissioning liabilities	7	162,542	164,513
Total liabilities		220,799	223,548
SHAREHOLDERS' EQUITY			
Share capital	8	195,145	191,319
Contributed surplus		2,675	2,262
Accumulated other comprehensive loss		(3,003)	(1,087)
Deficit		(15,605)	(5,345)
Total shareholders' equity		179,212	187,149
Total liabilities and shareholders' equity		400,011	410,697

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

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(Canadian dollars, 000s except per share data)

(unaudited)

	Note	Three months ended June 30		Six months ended June 30	
		2015	2014	2015	2014
Oil and gas sales		17,454	17,136	36,255	35,512
Royalties		(762)	(1,797)	(2,076)	(3,726)
Finance and dividend income	4	92	201	213	388
REVENUE		16,784	15,540	34,392	32,174
EXPENSES					
Operating		9,075	5,231	18,639	10,477
General and administration		1,805	1,169	3,238	2,446
Depletion and depreciation	6	10,938	5,320	22,985	10,387
Share-based payments	8	870	346	1,652	1,043
Finance expenses		1,241	283	2,556	635
Total expenses		23,929	12,349	49,070	24,988
Earnings (loss) before income taxes		(7,145)	3,191	(14,678)	7,186
Deferred tax expense (recovery)		(2,388)	858	(4,418)	1,884
EARNINGS (LOSS) FOR THE PERIOD		(4,757)	2,333	(10,260)	5,302
Earnings (loss) per share (\$)					
	8				
Basic		(0.02)	0.01	(0.04)	0.03
Diluted		(0.02)	0.01	(0.04)	0.03

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

(Canadian dollars, 000s)

(unaudited)

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Earnings (loss) for the period	(4,757)	2,333	(10,260)	5,302
OTHER COMPREHENSIVE EARNINGS (LOSS)				
Unrealized gain (loss) on investments	(605)	2,267	(2,189)	2,229
Deferred taxes on unrealized loss (gain) on investments	75	(306)	273	(300)
OTHER COMPREHENSIVE EARNINGS (LOSS) FOR THE PERIOD, NET OF TAX	(530)	1,961	(1,916)	1,929
TOTAL COMPREHENSIVE EARNINGS (LOSS) FOR THE PERIOD	(5,287)	4,294	(12,176)	7,231

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian dollars, 000s)

(unaudited)

	Note	Three months ended June 30		Six months ended June 30	
		2015	2014	2015	2014
CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):					
OPERATING ACTIVITIES					
Earnings (loss) for the period		(4,757)	2,333	(10,260)	5,302
Items not affecting cash:					
Share-based payments		870	346	1,652	1,043
Depletion and depreciation		10,938	5,320	22,985	10,387
Finance expenses		1,241	283	2,556	635
Gain on foreign exchange		(24)	-	(24)	-
Deferred tax expense (recovery)		(2,388)	858	(4,418)	1,884
Changes in non-cash working capital accounts		(1,373)	(1,937)	1,441	(1,987)
Interest and bank charges paid		(325)	40	(754)	18
Cash and cash equivalents provided by operating activities		4,182	7,243	13,178	17,282
INVESTING ACTIVITIES					
Expenditures on property, plant and equipment	6	(441)	(1,966)	(3,323)	(3,083)
Expenditures on exploration and evaluation assets	5	(6)	(24)	(10)	(27)
Acquisitions, net of working capital acquired	3	(13,304)	-	(13,691)	-
Changes in non-cash working capital accounts		(443)	798	1,564	(1,494)
Cash and cash equivalents used in investing activities		(14,194)	(1,192)	(15,460)	(4,604)
FINANCING ACTIVITIES					
Share issue costs, net of tax	8	(2)	-	(8)	-
Exercise of stock options	8	1,879	1,092	2,595	2,063
Bank debt, net		8,235	-	(248)	(200)
Cash and cash equivalents provided by financing activities		10,112	1,092	2,339	1,863
Increase (decrease) in cash and cash equivalents		100	7,143	57	14,541
Cash and cash equivalents - beginning of period		153	8,703	196	1,305
CASH AND CASH EQUIVALENTS - END OF PERIOD		253	15,846	253	15,846

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Canadian dollars, 000s)

(unaudited)

	Note	Share capital	Contributed surplus ¹	Accumulated other comprehensive earnings (loss) ²	Retained earnings (deficit)	Total equity
BALANCE AT JANUARY 1, 2014		127,002	3,856	1,567	(3,403)	129,022
Earnings for the period		-	-	-	5,302	5,302
Other comprehensive earnings for the period		-	-	1,929	-	1,929
Share-based payments	8	-	1,043	-	-	1,043
Exercise of options		4,729	(2,666)	-	-	2,063
BALANCE AT JUNE 30, 2014		131,731	2,233	3,496	1,899	139,359
Issuance of shares		60,065	-	-	-	60,065
Share issue costs, net of tax		(2,192)	-	-	-	(2,192)
Loss for the period		-	-	-	(7,244)	(7,244)
Other comprehensive loss for the period		-	-	(4,583)	-	(4,583)
Share-based payments	8	-	1,202	-	-	1,202
Exercise of options		1,715	(1,173)	-	-	542
BALANCE AT DECEMBER 31, 2014		191,319	2,262	(1,087)	(5,345)	187,149
Share issue costs, net of tax	8	(8)	-	-	-	(8)
Loss for the period		-	-	-	(10,260)	(10,260)
Other comprehensive loss for the period		-	-	(1,916)	-	(1,916)
Share-based payments	8	-	1,652	-	-	1,652
Exercise of options		3,834	(1,239)	-	-	2,595
BALANCE AT JUNE 30, 2015		195,145	2,675	(3,003)	(15,605)	179,212

¹ Contributed surplus is comprised of share-based payments.

² Accumulated other comprehensive earnings is comprised of unrealized gains and losses on available-for-sale investments.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 2015 and December 31, 2014 and for the three and six month periods ended June 30, 2015 and 2014 (unaudited)
(all tabular amounts in Canadian dollars 000s, unless otherwise indicated)

1. NATURE OF BUSINESS

Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") is a public company listed on the TSX Venture Exchange and incorporated under the Business Corporations Act (Alberta). The address of the Company's registered office is Suite 850, 1015 4th Street SW, Calgary, Alberta, T2R 1J4.

Pine Cliff is engaged in the exploration, development and production of oil and natural gas in the Western Canadian Sedimentary Basin and conducts many of its activities jointly with others; these interim condensed consolidated financial statements (the "Financial Statements") reflect only the Company's proportionate interest in such activities. The Company had historically been involved in the exploration for precious metals through its subsidiaries.

2. BASIS OF PREPARATION AND CHANGES TO PINE CLIFF'S ACCOUNTING POLICIES**a) Basis of preparation**

The Financial Statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Financial Statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2014 ("2014 Annual Financial Statements").

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

b) Accounting policies and standard changes

The accounting policies and method of computation followed in the preparation of the Financial Statements are the same as those followed in the preparation of Pine Cliff's 2014 Annual Financial Statements.

Future accounting pronouncements**IFRS 15 Revenue from Contracts with Customers ("IFRS 15")**

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

IFRS 9 Financial Instruments ("IFRS 9")

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

IFRS 11 Joint Arrangements ("IFRS 11")

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

3. ACQUISITIONS**Acquisition of core area assets**

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

The results of the Acquisition have been included in the financial statements since May 29, 2015. The Assets have contributed oil and gas sales, net of royalties, of \$0.5 million and operating expenses of \$0.4 million for the period from May 29, 2015 to June 30, 2015. If the Acquisition had occurred on January 1, 2015, the Company's total oil and gas sales, net of royalties, would have been approximately \$36.2 million and operating expenses would have been approximately \$19.0 million for the six months ended June 30, 2015, including the Assets. Pine Cliff does not believe it is practical to estimate the effect on future periods.

The Acquisition has been accounted for using the acquisition method and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

Net assets acquired:	
Property and equipment	14,493
Exploration and evaluation assets	684
Decommissioning liabilities	(1,888)
Total net assets acquired	13,289
Consideration:	
Cash	13,289
Total purchase price	13,289

Transaction costs of \$0.1 million have been expensed in the three month period ended June 30, 2015 and are included in general and administrative expenses in the condensed consolidated statement of earnings (loss) and are part of operating cash flows in the condensed consolidated statement of cash flows. The purchase price allocation is preliminary and is subject to change based on the final statement of adjustments for the acquisition.

4. TRANSACTIONS WITH RELATED PARTIES

Management services agreement

Pine Cliff has a management services agreement with Bonterra, an oil and gas corporation that is publicly traded on the Toronto Stock Exchange with some common directors and management, to provide executive services, technical services, accounting services, oil and gas administration and office administration for Pine Cliff. Total fees for each of the three and six month periods June 30, 2015 and 2014 were \$0.02 million and \$0.03 million, respectively, plus the reimbursement of certain administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As at June 30, 2015, Pine Cliff owed Bonterra \$0.2 million (December 31, 2014 - \$0.2 million).

Investment in Bonterra

As at June 30, 2015, Pine Cliff owns 204,633 common shares in Bonterra (December 31, 2014 - 204,633) representing less than 1% of the outstanding shares of Bonterra at that date. The shares, as of June 30, 2015, have a fair value of approximately \$6.4 million (December 31, 2014 - \$8.5 million). For the three and six months ended June 30, 2015, Pine Cliff received dividend income of \$0.1 million and \$0.2 million, respectively (three and six months ended June 30, 2014 - \$0.2 million and \$0.3 million, respectively).

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

5. EXPLORATION AND EVALUATION ASSETS

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

Cost:	Oil and gas properties	Minerals properties	Total
Balance at December 31, 2013	5,436	1,979	7,415
Additions	-	50	50
Acquisitions	1,661	-	1,661
Balance at December 31, 2014	7,097	2,029	9,126
Additions	1	9	10
Acquisitions	684	-	684
Balance at June 30, 2015	7,782	2,038	9,820

6. PROPERTY, PLANT AND EQUIPMENT

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

Cost:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 2013	141,236	538	141,774
Additions	10,765	272	11,037
Acquisitions	142,882	-	142,882
Decommissioning liabilities	110,666	-	110,666
Dispositions	(3,898)	-	(3,898)
Balance at December 31, 2014	401,651	810	402,461
Additions	3,085	238	3,323
Acquisitions	14,895	-	14,895
Decommissioning liabilities	(5,661)	-	(5,661)
Balance at June 30, 2015	413,970	1,048	415,018

Accumulated depletion and depreciation:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 2013	(21,654)	(104)	(21,758)
Depletion and depreciation	(28,690)	(224)	(28,914)
Impairment	(3,835)	-	(3,835)
Dispositions	669	-	669
Balance at December 31, 2014	(53,510)	(328)	(53,838)
Depletion and depreciation	(22,833)	(152)	(22,985)
Balance at June 30, 2015	(76,343)	(480)	(76,823)

Carrying value at:	Oil and gas properties	Administrative assets	Total
December 31, 2014	348,141	482	348,623
June 30, 2015	337,627	568	338,195

7. DECOMMISSIONING LIABILITIES

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

At June 30, 2015, the estimated total undiscounted amount required to settle the decommissioning liabilities was \$206.8 million (December 31, 2014 - \$196.3 million). The provision has been calculated assuming a 1.7% inflation rate (December 31, 2014 - 1.6%). These obligations will be settled based on the useful lives of the underlying assets which extend up to 56 years into the future. This amount has been discounted using an average risk-free interest rate of 2.7% (December 31, 2014 - 2.3%).

Changes to decommissioning liabilities were as follows:

	June 30, 2015	December 31, 2014
Decommissioning provision, beginning of period	164,513	42,685
Provisions acquired through acquisitions	1,888	9,242
Revisions (changes in estimates and discount rates)	(5,661)	110,664
Accretion expense during period	1,802	1,922
Decommissioning provision, end of period	162,542	164,513

8. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares without nominal or par value. The Company is also authorized to issue, in one or more series, an unlimited number of Class B Preferred Shares without nominal or par value.

Issued

Issued and outstanding share capital continuity:	Common shares (000s)	Share capital
Balance at January 1, 2014	200,193	127,002
Shares issued pursuant to public share offerings	29,300	60,065
Exercise of options	4,387	6,444
Share issue costs, net of tax	-	(2,192)
Balance at December 31, 2014	233,880	191,319
Exercise of options	3,040	3,834
Share issue costs, net of tax	-	(8)
Balance at June 30, 2015	236,920	195,145

Per share calculations

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding. In calculating the weighted average number of diluted shares outstanding for the three and six month periods ended June 30, 2015, all options were excluded as there was a loss in the periods then ended (three and six month periods ended June 30, 2014 - excluded 540,000 and 1,050,000 options, respectively, as their effect is anti-dilutive).

Earnings per share calculation:	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Numerator				
Earnings (loss) for the period	(4,757)	2,333	(10,260)	5,302
Denominator (000s)				
Weighted-average common shares outstanding - basic	236,022	203,138	235,239	201,931
Effect of options outstanding	-	7,029	-	7,802
Weighted-average common shares outstanding - diluted	236,022	210,167	235,239	209,733
Earnings (loss) per share - basic (\$)	(0.02)	0.01	(0.04)	0.03
Earnings (loss) per share - diluted (\$)	(0.02)	0.01	(0.04)	0.03

Share-based payments

The Company provides an equity settled stock option plan (the "Option Plan") for its directors, employees and consultants. Under the Option Plan, the Company may grant options for up to 10% of outstanding common shares at June 30, 2015. The term and vesting period of the options granted are determined at the discretion of the board of directors. The exercise price of each option granted equals the market price of the Company's stock immediately preceding the date of grant and the option's maximum term is five years.

A summary of the status of the Company's Option Plan as at June 30, 2015 and changes during the period then ended is presented as follows:

	Options (000s)	Weighted-average exercise price (\$ per share)
Stock options issued and outstanding:		
Outstanding, December 31, 2013	14,478	0.73
Granted	6,838	1.62
Exercised	(4,387)	0.59
Cancelled	(45)	1.07
Forfeited	(1,190)	0.76
Outstanding, December 31, 2014	15,694	1.15
Granted	459	1.47
Exercised	(3,040)	0.85
Forfeited	(338)	1.29
Outstanding, June 30, 2015	12,775	1.23
Exercisable, June 30, 2015	2,290	0.64

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

	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
Exercise price:				
\$0.38 - \$0.90	3,410	0.8	1,830	0.8
\$0.91 - \$1.49	3,855	1.5	280	0.5
\$1.50 - \$1.97	5,510	1.8	180	0.3
	12,775	1.4	2,290	0.7

The Company records share-based payment expense over the vesting period, which ranges between one to three years, based on the fair value of the options granted to employees, directors and consultants. In the six months ended June 30, 2015, the Company granted 459,000 stock options with an estimated fair value of \$0.2 million or \$0.36 per option using the Black-Scholes option pricing model with the following key assumptions (weighted-average).

	Six months ended June 30, 2015
Assumptions:	
Exercise price (\$)	1.47
Estimated volatility of underlying common shares (%)	64
Weighted average expected life (years)	2.5
Risk-free rate (%)	0.7
Forfeiture rate (%)	3.9
Expected dividend yield (%)	0.0

Estimated volatility is measured as the standard deviation of expected share price returns based on statistical analysis of historical daily share prices for a representative period.

9. FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement

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

Risks associated with financial assets and liabilities

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

A description of the nature and extent of risks arising from Pine Cliff's financial assets and liabilities can be found in the 2014 Annual Financial Statements. The Company's exposure to these risks has not changed significantly since December 31, 2014.

10. SUBSEQUENT EVENTS**Bank Loan Syndication Agreement**

On July 31, 2015, Pine Cliff entered into a syndicated revolving credit facility (the "Syndicated Facility") with three Canadian chartered banks. The Syndicated Facility consists of a \$60 million extendible revolving term credit facility and a \$10 million revolving operating facility that replaces the Company's \$70 million revolving demand credit facility. The Syndicated Facility is a one year revolving facility with the initial revolving period ending on July 31, 2016. If the Syndicated Facility is not renewed it will convert to a 364-day term loan.

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

BOARD OF DIRECTORS

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

OFFICERS

George F. Fink
Executive Chairman of the Board
Philip B. Hodge
President and Chief Executive Officer
Kristi L. Kunec
Chief Financial Officer and Secretary
Terry L. McNeill
Chief Operating Officer

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AUDITORS

Deloitte LLP
Calgary, Alberta

BANKERS

Toronto-Dominion Bank
Calgary, Alberta
Alberta Treasury Branches
Calgary, Alberta
National Bank of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: PNE

WEBSITE

www.pinecliffenergy.com

