

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
ASSETS			
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
LIABILITIES			
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
SHAREHOLDERS' EQUITY			
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
REVENUE					
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
EXPENSES					
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
LOSS FOR THE PERIOD		(2,118)	(25,862)	(4,654)	(42,039)
OTHER COMPREHENSIVE INCOME (LOSS)					
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
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX		(1,073)	5,428	(2,496)	6,253
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(3,191)	(20,434)	(7,150)	(35,786)
Loss per share (\$)					
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
CASH PROVIDED BY (USED IN):					
OPERATING ACTIVITIES					
Loss for the period		(2,118)	(25,862)	(4,654)	(42,039)
Items not affecting cash:					
Share-based payments	11	835	829	1,614	1,597
Depletion and depreciation	5	12,149	17,597	24,294	34,495
Finance expenses		2,259	3,053	4,565	5,733
Gain on disposition of assets		-	(518)	-	(518)
Loss on sale of investments		-	4,270	-	4,270
Deferred tax expense (recovery)	6	(113)	(1,180)	(521)	(2,302)
Unrealized gain on commodity contracts	14	(1,190)	-	(1,190)	-
Changes in non-cash working capital accounts	12	(554)	(642)	2,540	7,642
Interest and bank charges	12	(988)	(1,844)	(2,041)	(3,493)
Decommissioning obligation settled	10	(273)	(74)	(765)	(134)
Cash provided by (used in) operating activities		10,007	(4,371)	23,842	5,251
INVESTING ACTIVITIES					
Expenditures on property, plant and equipment	5	(3,235)	(742)	(7,036)	(4,359)
Expenditures on exploration and evaluation assets		(32)	(7)	(32)	(7)
Acquisitions		97	(240)	97	(825)
Proceeds on disposition of assets		216	24,702	216	24,702
Proceeds on sale of investments		-	5,573	-	5,573
Changes in non-cash working capital accounts	12	1,759	(1,652)	3,059	3,361
Cash provided by (used in) investing activities		(1,195)	27,634	(3,696)	28,445
FINANCING ACTIVITIES					
Exercise of stock options	11	-	413	-	635
Bank debt	7	(8,846)	(23,614)	(20,176)	(34,871)
Changes in non-cash working capital accounts	12	-	(189)	-	(172)
Cash used in financing activities		(8,846)	(23,390)	(20,176)	(34,408)
Increase (decrease) in cash		(34)	(127)	(30)	(712)
Cash - beginning of period		152	248	148	833
CASH - END OF PERIOD		118	121	118	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 ¹	Accumulated other comprehensive income (loss) ²	Warrants	Deficit	Total Equity
BALANCE AT JANUARY 1, 2016		266,809	3,453	(6,253)	-	(29,602)	234,407
Share issue costs, net of tax		(240)	-	-	-	-	(240)
Loss for the period		-	-	-	-	(42,039)	(42,039)
Transfer of realized loss on sale of investments		-	-	6,253	-	-	6,253
Share-based payments	11	-	1,597	-	-	-	1,597
Exercise of options	11	1,183	(548)	-	-	-	635
BALANCE AT JUNE 30, 2016		267,752	4,502	-	-	(71,641)	200,613
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
BALANCE AT DECEMBER 31, 2016		268,743	5,748	298	958	(79,989)	195,758
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
BALANCE AT JUNE 30, 2017		268,743	7,362	(2,198)	958	(84,643)	190,222

¹Contributed surplus is comprised of share-based payments.²Accumulated 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.

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

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)
Balance at December 31, 2016	30,579	3,031	33,610
Additions	18	14	32
Transfer to property, plant, and equipment	(1,902)	-	(1,902)
Balance at June 30, 2017	28,695	3,045	31,740

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)
Balance at December 31, 2016	545,780	1,504	547,284
Additions	7,036	-	7,036
Transfer from exploration and evaluation	1,902	-	1,902
Acquisitions	(97)	-	(97)
Dispositions	(216)	-	(216)
Decommissioning liabilities	(203)	-	(203)
Balance at June 30, 2017	554,202	1,504	555,706

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
Balance at December 31, 2016	(166,525)	(1,116)	(167,641)
Depletion and depreciation	(24,065)	(229)	(24,294)
Balance at June 30, 2017	(190,590)	(1,345)	(191,935)

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

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 30th and May 31st, 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
Subordinated promissory notes due September 30, 2020 as at December 31, 2016	29,086
Accretion expense	108
Subordinated promissory notes due September 30, 2020 as at June 30, 2017	29,194
Subordinated promissory notes due July 29, 2018:	
Issued – July 29, 2016	6,000
Subordinated promissory notes due July 29, 2018 as at June 30, 2017 and December 31, 2016	6,000
Total subordinated promissory notes, as at December 31, 2016	35,086
Total subordinated promissory notes, as at June 30, 2017	35,194

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
Decommissioning provision, December 31, 2016	203,883
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
Decommissioning provision, June 30, 2017	205,331

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
Balance at December 31, 2016 and June 30, 2017	307,076	268,743

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
Outstanding, December 31, 2016	22,773	1.20
Granted	5,030	0.79
Expired	(2,419)	1.45
Forfeited	(2,122)	1.20
Outstanding, June 30, 2017	23,262	1.08
Exercisable, June 30, 2017	2,909	1.14

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
	23,262	2.1	2,909	0.4

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
Numerator				
Loss for the period	(2,118)	(25,862)	(4,654)	(42,039)
Denominator (000s)				
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
	1,205	(2,483)	5,599	10,831
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)
	1,205	(2,483)	5,599	10,831

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	-
Total finance expenses	2,259	3,053	4,565	5,733

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) ¹	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
Total unrealized commodity contracts gain					1,190

¹ 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	-
Total gain on commodity contracts	1,373	-

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 ¹	-	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 ²	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
Total commitments and contingencies	29,017	32,580	9,308	38,237	5,898	21,054

¹ The subordinated promissory notes for commitments are presented at the principal amount.

² 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
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Deloitte LLP

BANKERS

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

STOCK EXCHANGE LISTING

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Trading Symbol: PNE

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