

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 period ended December 31, 2018. This MD&A is dated and based on information available as at March 13, 2019 and should be read in conjunction with audited consolidated financial statements for the year ended December 31, 2018 and 2017 ("**Financial Statements**"). The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board using Generally Accepted Accounting Principles ("**GAAP**"). Additional information relating to the Company, including the Company's Annual Information Form, may be found on www.sedar.com and by visiting Pine Cliff's website at www.pinecliffenergy.com.

Pine Cliff's head office is based in Calgary, Alberta, Canada. Common shares of the Company ("**Common Shares**") 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-GAAP 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.

2018 AND FOURTH QUARTER 2018 HIGHLIGHTS

Highlights from 2018 and the fourth quarter of 2018 are as follows:

- generated \$4.4 million of adjusted funds flow (\$0.01 per basic share) for the three months ended December 31, 2018;
- generated \$10.5 million (\$0.03 per basic share) of adjusted funds flow during the year ended December 31, 2018;
- realized a \$2.51 per Mcf gas price for the three months ended December 31, 2018, 44% higher than the AECO 5A benchmark of \$1.74 per Mcf;
- realized a \$2.07 per Mcf gas price for the year ended December 31, 2018, 34% higher than the AECO 5A benchmark of \$1.54 per Mcf;
- achieved average production of 19,684 Boe/d (94% natural gas) in 2018, only 8% lower than the 21,408 Boe/d in 2017, despite incurring minor drilling and recompletion capital spending in 2018, over half of which was spent in the fourth quarter of 2018 with no corresponding increase in production from that specific spend until 2019;
- completed a private placement of \$19 million of term debt to Alberta Investment Management Corporation and extended \$12 million of insider debt to 2020 to eliminate \$18 million in bank debt, ending 2018 with \$3.6 million in cash; and
- drilled and completed a 100% working interest horizontal oil well that was successfully brought on production in January, 2019.

SELECTED ANNUAL FINANCIAL INFORMATION

	Year ended December 31,		
	2018	2017	2016
(\$000s, unless otherwise indicated)			
FINANCIAL¹			
Oil and gas sales (before royalties)	107,385	125,018	118,642
Total revenue (net of royalties)	100,063	115,076	111,052
Cash flow from operating activities	8,616	25,009	22,489
Adjusted funds flow²	10,513	28,705	19,741
Per share – Basic and Diluted (\$/share)	0.03	0.09	0.06
Loss for the year	(72,719)	(67,864)	(50,387)
Per share – Basic and Diluted (\$/share)	(0.24)	(0.22)	(0.16)
Total assets	354,215	405,228	491,897
Total non-current financial liabilities	60,280	29,307	40,086
Total liabilities	293,241	276,135	296,139
Capital expenditures	10,665	13,477	9,159
Acquisitions	307	(62)	(807)
Dispositions	(285)	(429)	(63,112)
Net Debt²	56,819	53,638	64,224
Weighted average common shares outstanding (000s) - Basic and Diluted	307,076	307,076	306,329
OPERATIONS			
Production			
Natural gas (Mcf/d)	111,110	121,718	124,906
Natural gas liquids (Bbl/d)	940	924	924
Crude oil (Bbl/d)	226	198	753
Total (Boe/d)	19,684	21,408	22,495
Total (Mcfe/d)	118,104	128,448	134,970
Realized commodity sales prices			
Natural gas (\$/Mcf)	2.07	2.39	2.13
Natural gas liquids (\$/Boe)	53.33	43.81	32.53
Crude oil (\$/Bbl)	59.74	57.17	37.41
Total (\$/Boe)	14.95	16.00	14.41
Netback (\$/Boe)			
Operating netback ²	2.68	4.88	4.08
Corporate netback ²	1.47	3.68	2.39
Netback (\$/Mcfe)			
Operating netback ²	0.45	0.81	0.68
Corporate netback ²	0.25	0.61	0.40

¹ Includes results for acquisitions and excludes results for dispositions from the closing dates.

² This is a non-GAAP measure, see NON-GAAP MEASURES for additional information.

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
(\$000s, unless otherwise indicated)				
FINANCIAL				
Oil and gas sales (before royalty expense)	30,110	28,663	107,385	125,018
Cash flow from operating activities	1,415	(4,350)	8,616	25,009
Adjusted funds flow¹	4,433	3,759	10,513	28,705
Per share – Basic and Diluted (\$/share) ¹	0.01	0.01	0.03	0.09
Earnings (loss)	(28,520)	(32,996)	(72,719)	(67,864)
Per share – Basic and Diluted (\$/share)	(0.09)	(0.11)	(0.24)	(0.22)
Capital expenditures	4,302	3,091	10,665	13,477
Acquisitions	(61)	44	307	(62)
Dispositions	(51)	(148)	(285)	(429)
Net debt¹	56,819	53,638	56,819	53,638
Weighted-average common shares outstanding (000s)				
Basic	307,076	307,076	307,076	307,076
Diluted	307,076	307,076	307,076	307,076
OPERATIONS				
Production				
Natural gas (Mcf/d)	110,295	122,304	111,110	121,718
Natural gas liquids (Bbl/d)	957	880	940	924
Crude oil (Bbl/d)	236	225	226	198
Total (Boe/d)	19,576	21,489	19,684	21,408
Realized commodity sales prices				
Natural gas (\$/Mcf)	2.51	2.09	2.07	2.39
Natural gas liquids (\$/Boe)	44.85	47.73	53.33	43.81
Crude oil (\$/Bbl)	32.14	62.41	59.74	57.17
Combined (\$/Boe)	16.72	14.50	14.95	16.00
Netback (\$/Boe)				
Oil and gas sales	16.72	14.50	14.95	16.00
Royalty expense	(0.95)	(1.06)	(1.02)	(1.30)
Transportation expenses	(1.80)	(1.34)	(1.74)	(1.12)
Operating expenses	(10.41)	(9.25)	(9.51)	(8.70)
Operating netback (\$/Boe) ¹	3.56	2.85	2.68	4.88
General and administrative expenses	(0.42)	(0.55)	(0.67)	(0.76)
Interest and bank charges, net of dividend income	(0.68)	(0.40)	(0.54)	(0.44)
Corporate netback (\$/Boe) ¹	2.46	1.90	1.47	3.68
Operating netback (\$ per Mcfe) ¹	0.59	0.48	0.45	0.81
Corporate netback (\$ per Mcfe) ¹	0.41	0.32	0.25	0.61

¹ This is a non-GAAP measure, see NON-GAAP MEASURES for additional information.

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 on variable rate debt. 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 adjusted funds flow ¹		
	Change	\$000s	\$ per share ³
Realized crude oil price ²	\$1.00	405	0.00
Realized natural gas price ²	\$0.10	3,744	0.01
Interest rate on variable rate debt ⁴	1.0%	84	0.00

¹ This analysis does not adjust for changes in working capital and uses corporate royalty rates from the year ended December 31, 2018.

² Pine Cliff has prepared this analysis using its Q4 2018 production volumes annualized for twelve months.

³ Based on the Q4 2018 basic weighted average shares outstanding.

⁴ Based on December 31, 2018 bank debt of \$nil, 2020 \$6 Million Notes and 2020 Related Party Notes, as defined herein, of \$6.0 million, less cash of \$3.6 million.

BENCHMARK PRICES

	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Natural gas						
NYMEX (US\$/Mmbtu) ¹	3.73	2.91	28	3.09	3.07	1
AECO Daily 5A (C\$/Mcf) ²	1.74	1.68	4	1.54	2.14	(28)
Crude oil						
WTI (US\$/Bbl)	52.41	55.40	(5)	63.17	50.95	24
Edmonton Light (C\$/Bbl)	38.94	68.98	(44)	68.44	62.85	9
Foreign exchange						
US\$/C\$	1.331	1.270	5	1.300	1.295	-

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

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

Quarterly Benchmark Prices

Pine Cliff's financial results are influenced by fluctuations in commodity prices, dollar exchange rates and 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.

	Q4-2018	Q3-2018	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017	Q1-2017
Natural gas								
NYMEX (US\$/Mmbtu) ¹	3.73	2.85	2.78	2.99	2.91	2.98	3.13	3.25
AECO Daily 5A (C\$/Mcf) ²	1.74	1.19	1.18	2.07	1.68	1.45	2.77	2.68
Pine Cliff realized natural gas price (\$/Mcf)	2.51	1.88	1.55	2.35	2.09	1.86	2.82	2.83
Crude oil								
WTI (US\$/Bbl)	52.41	69.50	67.88	62.87	55.40	48.20	48.28	51.91
Edmonton Light (C\$/Bbl)	38.94	81.95	80.66	72.21	68.98	56.65	61.87	63.91
Foreign exchange								
US\$/C\$	1.331	1.310	1.290	1.270	1.270	1.250	1.340	1.320

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

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

During the three months and year ended December 31, 2018, the AECO daily benchmark increased by 4% and decreased 28% compared to the same periods of 2017. The changes for the quarter and year are mainly due to supply and demand factors including pipeline and storage constraints, weather, economic conditions in producing and consuming regions throughout North America and political factors. While the price realized by the Company for natural gas production from Western Canada is still influenced by the Alberta price hub AECO, diversification projects to delivery points such as Dawn, Empress and TransGas into Saskatchewan have decreased that influence significantly. The diversification projects materially increased realized natural gas pricing for Pine Cliff in

fiscal 2018. See “OIL AND GAS SALES” section for additional information on the diversification project premiums compared to AECO 5A.

The average benchmarks for WTI and Edmonton Light crude increased by 24% and 9%, for the year ended December 31, 2018, as compared to the same period in 2017, due to increasing global demand and the management of global crude oil production volumes by OPEC and several non-OPEC countries. Canadian crude prices are based upon refinery postings at Edmonton, Alberta and are linked to WTI through transportation tariffs to common markets and the foreign exchange rate.

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.

SALES VOLUMES

Total sales volumes by product	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Natural gas (Mcf)	10,147,122	11,251,434	(10)	40,555,104	44,428,062	(9)
NGLs (Bbl)	88,039	80,985	9	343,162	337,130	2
Crude oil (Bbl)	21,757	20,762	5	82,420	73,784	12
Total Boe	1,800,983	1,976,986	(9)	7,184,766	7,815,591	(8)
Total Mcfe	10,805,898	11,861,916	(9)	43,108,596	46,893,546	(8)
Natural gas weighting	94%	95%	(1)	94%	95%	1

Average daily sales volumes by product	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Natural gas (Mcf/d)	110,295	122,304	(10)	111,110	121,718	(9)
NGLs (Bbl/d)	957	880	9	940	924	2
Crude oil (Bbl/d)	236	225	5	226	198	14
Total (Boe/d)	19,576	21,489	(9)	19,684	21,408	(8)
Total (Mcfe/d)	117,456	128,934	(9)	118,104	128,448	(8)

Average daily sales volumes by area	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Central (Boe/d)	9,097	10,382	(12)	9,231	10,039	(8)
Southern (Boe/d)	8,517	8,958	(5)	8,462	9,141	(7)
Edson (Boe/d)	1,962	2,149	(9)	1,991	2,228	(11)
Total (Boe/d)	19,576	21,489	(9)	19,684	21,408	(8)

Pine Cliff's sales volumes decreased by 9% to 19,576 Boe/d (117,456 Mcfe/d) and 8% to 19,684 Boe/d (118,104 Mcfe/d) for the three months and year ended December 31, 2018, as compared to the same periods in 2017. The decreases relate mainly to natural gas production declines and short term voluntary shut-ins for the first three quarters of 2018 due to low natural gas commodity pricing, slightly offset by production gains from the Company's recompletion and drilling programs. Pine Cliff's sales volumes only decreased by 8% for the year ended December 31, 2018, despite only incurring \$6.5 million of drilling and recompletion capital spending with approximately half of that amount being spent in the fourth quarter of 2018 with no corresponding production until 2019.

Pine Cliff is projecting 2019 production volumes of 18,500 – 19,000 Boe/d (111,000 – 114,000 Mcfe/d), weighted approximately 93% towards natural gas.

OIL AND GAS SALES

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Natural gas	25,462	23,507	8	84,161	106,104	(21)
NGL	3,949	3,864	2	18,300	14,772	24
Crude oil	699	1,292	(46)	4,924	4,142	19
Total oil and gas sales	30,110	28,663	5	107,385	125,018	(14)
% of revenue from natural gas sales	85%	82%	3	78%	85%	(7)

Realized prices

\$ per unit	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Natural gas (\$/Mcf)	2.51	2.09	20	2.07	2.39	(13)
NGL (\$/Bbl)	44.85	47.73	(6)	53.33	43.81	22
Crude oil (\$/Bbl)	32.14	62.41	(49)	59.74	57.17	4
Total (\$/Boe)	16.72	14.50	15	14.95	16.00	(7)
Total (\$/Mcfe)	2.79	2.42	15	2.49	2.67	(7)

Oil and gas sales in the three months ended December 31, 2018 of \$30.1 million increased by \$1.4 million from \$28.7 million in the three months ended December 31, 2017, with a \$4.0 million increase from higher realized commodity pricing being offset by a \$2.6 million decrease from lower production. Oil and gas sales for the year ended December 31, 2018, decreased by \$17.6 million to \$107.4 million from \$125.0 million for the year ended December 31, 2017, with \$7.5 million of the decrease attributable to lower realized prices and \$10.1 million from lower sales volumes.

Pine Cliff's realized natural gas price was \$2.51 per Mcf in the three months ended December 31, 2018, 20% higher than the \$2.09 per Mcf realized in the corresponding period of the prior year, despite the AECO 5A reference prices being only 4% higher, as a result of Pine Cliff's marketing diversification to non-AECO markets and fixed price physical natural gas sales contracts. Pine Cliff's realized natural gas price was \$2.07 per Mcf for the year ended December 31, 2018, 13% lower than the \$2.39 per Mcf in the corresponding period of the prior year as a result of lower natural gas market prices, somewhat offset by marketing diversification premiums and fixed price physical natural gas sales contracts. For the three months and year ended December 31, 2018, Pine Cliff's realized natural gas pricing was 44% and 34% higher than the AECO 5A benchmark compared to 24% and 12% in the corresponding periods of the prior year.

For the three months and year ended December 31, 2018, Pine Cliff's realized NGL prices were \$44.85 per Bbl and \$53.33 per Bbl, compared to \$47.73 per Bbl and \$43.81 per Bbl in the corresponding periods of the prior year. For the three months and year ended December 31, 2018, Pine Cliff's realized oil prices were \$32.14 per Bbl and \$59.74 per Bbl, compared to \$62.41 per Bbl and \$57.17 per Bbl in the corresponding periods of the prior year. The fluctuations in NGL and oil prices were a direct result of changes in the Edmonton Light oil price. Pine Cliff's realized NGL prices in the three months and year ended December 31, 2018 were 115% and 69% of Edmonton Light compared to 69% and 70% in the corresponding periods of the prior year. Pine Cliff's realized oil prices in the three months and year ended December 31, 2018 were 83% and 87% of Edmonton Light compared to 90% and 91% in the corresponding periods of the prior year.

ROYALTY EXPENSE

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Total royalty expense	1,714	2,095	(18)	7,357	10,152	(28)
\$ per Boe	0.95	1.06	(10)	1.02	1.30	(22)
\$ per Mcfe	0.16	0.18	(10)	0.17	0.22	(22)
Royalty expense as a % of oil and gas sales	6%	7%	(14)	7%	8%	(13)

For the three months and year ended December 31, 2018, total royalty expense decreased by 18% and 28% to \$1.7 million and \$7.4 million from \$2.1 million and \$10.2 million in the corresponding periods of the prior year. Royalty expense as a percentage of oil and gas sales decreased to 6% and 7% in the three months ended December 31, 2018, compared to 7% and 8% in the corresponding

periods of the prior year. The decrease in royalty expenses as a percentage of oil in gas sales for the three months ended December 31, 2018, primarily due to gas crown royalties being charged on a reference price that is lower than Pine Cliff's realized gas price and higher gas cost allowance adjustments as realized sales prices increased compared to 2017. The decrease in royalty expenses as a percentage of oil in gas sales for the year ended December 31, 2018 is due to lower commodity prices, gas crown royalties being charged on a reference price that is lower than Pine Cliff's realized gas price and higher gas cost allowance adjustments.

Pine Cliff anticipates royalty expenses to average 7% of oil and gas sales in 2019.

TRANSPORTATION COSTS

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Total transportation costs	3,244	2,648	23	12,525	8,733	43
\$ per Boe	1.80	1.34	34	1.74	1.12	55
\$ per Mcfe	0.30	0.22	34	0.29	0.19	55

Transportation costs increased by 23% and 43% to \$3.2 million and \$12.5 million for the three months and year ended December 31, 2018, as compared to \$2.6 million and \$8.7 million in the corresponding periods of the prior year, primarily a result of higher transportation expenses related to the Company diversifying its natural gas sales delivery to non-AECO markets, including the delivery of approximately 11,000 Mcf/d to Dawn during the three months and year ended December 31, 2018. The increase in transportation costs was more than offset by a higher realized natural gas price during the three months and year ended December 31, 2018.

Pine Cliff anticipates transportation expenses to average \$1.80 per Boe (\$0.30 per Mcfe) in 2019.

OPERATING EXPENSES

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Total operating expenses	18,745	18,288	2	68,332	68,029	-
\$ per Boe	10.41	9.25	13	9.51	8.70	9
\$ per Mcfe	1.73	1.54	13	1.59	1.45	9

Operating expenses increased by 2% to \$18.7 million for the three months ended December 31, 2018, as compared to \$18.3 million in the corresponding period of the prior year, primarily a result of timing of fixed costs and lower third party revenues. On a per Boe basis, operating costs increased to \$10.41 per Boe for the three months ended December 31, 2018 compared \$9.25 per Boe in the corresponding period of 2017, primarily as a result of lower sales volumes, timing of fixed costs and lower third party fee revenue.

Operating expenses were consistent for the year ended December 31, 2018 at \$68.3 million from \$68.0 million in the previous year. On a per Boe basis, operating costs increased to \$9.51 per Boe for the year ended December 31, 2018 compared \$8.70 per Boe in the corresponding period of 2017, primarily as a result of lower sales volumes, higher power costs and lower third party fee revenue.

Pine Cliff anticipates operating expenses to average \$9.80 per Boe (\$1.63 per Mcfe) in 2019.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Gross G&A	1,703	1,705	-	7,516	8,162	(8)
Less: overhead recoveries	(947)	(622)	52	(2,678)	(2,247)	19
Total G&A expenses	756	1,083	(30)	4,838	5,915	(18)
\$ per Boe	0.42	0.55	(24)	0.67	0.76	(12)
\$ per Mcfe	0.07	0.09	(24)	0.11	0.13	(12)

G&A expenses decreased to \$0.8 million and \$4.8 million for the three months and year ended December 31, 2018, as compared to \$1.1 million and \$5.9 million in the corresponding periods of the prior year. The decrease in G&A during the three months and year ended December 31, 2018, primarily a result of higher overhead recoveries and lower discretionary staffing costs.

Despite a decrease in production in 2018 compared to 2017, G&A per Boe decreased 24% to \$0.42 per Boe and 12% to \$0.67 per Boe for the three months and year ended December 31, 2018 compared to \$0.55 per Boe and \$0.76 per Boe in the corresponding periods of 2017, primarily as a result of higher overhead recoveries and lower discretionary staffing costs.

Pine Cliff anticipates G&A expenses to average \$0.75 per Boe (\$0.13 per Mcfe) in 2019.

SHARE-BASED PAYMENTS

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Total share-based payments	505	868	(42)	2,231	3,578	(38)
\$ per Boe	0.28	0.44	(36)	0.31	0.46	(33)
\$ per Mcfe	0.05	0.07	(36)	0.05	0.08	(33)

The decrease in share-based payments of 42% and 38% for the three months and year ended December 31, 2018 compared to the prior periods of 2017, primarily due to the decrease in the fair value of the stock options granted in 2018 to \$0.12 from \$0.26 per option granted in 2017 and a decrease in stock options granted in 2018 as compared to 2017. 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.

During the year ended December 31, 2018, Pine Cliff granted 7,697,800 stock options to purchase Common Shares at a weighted average exercise price of \$0.33. As at December 31, 2018, the Company had 21,028,804 stock options outstanding representing 6.8% of Common Shares outstanding (December 31, 2017 – 21,316,406 representing 6.9% of Common Shares outstanding).

DEPLETION, DEPRECIATION, AND IMPAIRMENT

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Total depletion and depreciation	11,420	11,992	(5)	43,760	49,150	(11)
\$ per Boe	6.34	6.07	4	6.09	6.29	(3)
\$ per Mcfe	1.06	1.01	4	1.02	1.05	(3)
Impairment	-	-	-	-	17,800	(100)
Total depletion, depreciation, and impairment	11,420	11,992	(5)	43,760	66,950	(35)
\$ per Boe	6.34	6.07	4	6.09	8.57	(29)
\$ per Mcfe	1.06	1.01	4	1.02	1.43	(29)

Depletion and depreciation expense, excluding impairment for the three months and year ended December 31, 2018, totaled \$11.4 million and \$43.8 million compared to \$12.0 million and \$49.2 million in the corresponding periods of the prior year. The decreases are a result of lower sales volumes and a lower depletable base. Depletion and depreciation per Boe will fluctuate from one period to the next depending on the amount and type of capital spending and changes in reserves. Depletion is calculated using total proved and probable reserves and reserves estimates are subject to revision.

Property, Plant and Equipment ("PP&E") Impairment Assessment

As at December 31, 2018, the Company had four Cash Generating Units ("CGU") being the Southern CGU, Central Gas CGU, Edson CGU, and Coal Bed Methane CGU. The Company reviewed each CGU's property and equipment at December 31, 2018 for indicators of impairment and determined that an indicator related to the decrease in future commodity prices was present. The company prepared estimates of both the value in use and fair value less cost to sell of each of the Company's CGUs. When it is determined that any CGU carrying value exceeds its recoverable amount, that CGU is considered impaired and an impairment expense is reported that equals this excess.

The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at December 31, 2018:

Year	WTI Oil (US\$/Bbl) ¹	\$C to US\$ Foreign exchange rate ¹	Edmonton Light Crude Oil (Cdn\$/Bbl) ¹	AECO Gas (Cdn\$/MMBtu) ¹
2019	58.58	1.32	67.30	1.88
2020	64.60	1.28	75.84	2.31
2021	68.20	1.25	80.17	2.74
2022	71.00	1.25	83.22	3.05
2023	72.81	1.24	85.34	3.21
2024-2033	82.41	1.24	96.61	3.65
Thereafter	+2.0%/yr	1.24	+2.0%/yr	+2.0%/yr

¹ Source: Average of three consultant price forecasts, effective January 1, 2019 (McDaniel & Associates Consultants Ltd., GLJ Petroleum Consultants Ltd. and Sproule Associates Limited).

The recoverable amounts of each of the Company's CGU's at December 31, 2018 were estimated at their fair value less cost to sell, based on the net present value of discounted future cash flow from operating activities from oil and gas reserves as estimated by the Company's independent reserves evaluator at December 31, 2018. The fair value less costs to sell used to determine the recoverable amounts are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data, but rather, the Company's management best estimates.

The Company used a pre-tax 15% discount rate for the December 31, 2018 impairment test which took into account risks specific to the CGU's and inherent in the oil and gas business. The impairment testing concluded that the fair value less costs to sell for the Company's CGU's at December 31, 2018 is greater than the carrying amounts and therefore no impairment was recorded in 2018.

The following CGU's were impaired as at December 31, 2017:

CGUs	2018	2017
Edson	-	14,000
Coal Bed Methane	-	3,800
Total Impairment	-	17,800

Exploration and Evaluation Assets ("E&E") Impairment Assessment

In accordance with IFRS, an impairment test is performed if the Company identified an indication of impairment. An E&E asset shall be assessed for impairment before reclassification to PP&E if the Company determines technical feasibility and commercial viability of extraction. At December 31, 2018 and 2017, the Company determined that no indicators of impairment existed on its E&E assets and therefore an impairment test was only performed for E&E assets transferred to PP&E.

FINANCE EXPENSES

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Interest expense and bank charges	1,218	842	45	3,855	3,694	4
Non cash:						
Accretion on decommissioning provision	1,453	1,305	11	5,389	4,984	8
Accretion on subordinated promissory notes	77	57	35	267	221	21
Total finance expenses	2,748	2,204	25	9,511	8,899	7
\$ per Boe	1.53	1.11	38	1.32	1.14	16
\$ per Mcfe	0.25	0.19	38	0.22	0.19	16

Finance expenses increased by 25% and 7% to \$2.7 million and \$9.5 million for the three months and year ended December 31, 2018, as compared to \$2.2 million and \$8.9 million in the corresponding periods of the prior year, primarily a result of higher interest costs due to higher interest rates paid on the additional subordinated promissory notes as well as an increase in accretion expenses related to a higher inflation rate used to unwind the discount. Please refer to the "DEBT, LIQUIDITY AND CAPITAL RESOURCES" section for additional information.

DIVIDEND INCOME

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Total dividend income	-	52	(100)	35	210	(83)
\$ per Boe	-	0.03	(100)	-	0.03	(100)

During the year ended December 31, 2018, Pine Cliff received \$0.035 million in dividends from its investment in one dividend paying company.

DEFERRED INCOME TAX

For the year ended December 31, 2018, deferred income tax expenses amounted to \$28.9 million from \$20.8 million in the same period of 2017.

As at December 31, 2018, the Company did not record a future income tax asset (December 31, 2017 - \$29.3 million) as it is not currently probable that Pine Cliff can utilize its tax pools against taxable profit. As at December 31, 2018, a deferred income tax asset has not been recognized on \$73.4 million (December 31, 2017 - \$33.3 million) of deductible temporary differences as it is not probable that future taxable earnings will be available against which the Company can utilize the benefits.

The Company had the following tax pools, including non-capital loss carry-forwards, at December 31, 2018:

Category of tax pool	Rate of Utilization (%)	2018
Undepreciated capital costs	4 - 100	34,726
Canadian oil and gas property expenditures	10	226,174
Canadian development expenditures	30	12,760
Canadian exploration expenditures	100	167
Share issue costs	20	1,680
Non-capital losses carried forward ¹	100	109,941
Capital losses carried forward ²		4,119
		389,567

¹ Non-capital losses expire between the years 2030 and 2038.

² The capital losses carried forward can only be claimed against taxable capital gains.

As at December 31, 2018, the unused non-capital losses expire between 2030 and 2038, and the unused capital losses have no expiry date. The deductible temporary differences do not expire under tax legislation. Pine Cliff has approximately \$389.6 million in tax pools as at December 31, 2018 (December 31, 2017 - \$383.0 million), available for future use as deductions from taxable income.

REALIZED LOSS IN INVESTMENTS

Pine Cliff sold its investment in one public dividend paying company for proceeds of \$2.3 million and realized a loss on that sale of \$2.7 million during the first quarter of 2018.

EARNINGS (LOSS)

Year to year variance analysis:

(\$000s)

Loss for the year ended December 31, 2017	(67,864)
Price variance	(7,542)
Volume variance	(10,091)
Royalty expense	2,795
Transportation costs	(3,792)
Operating expenses	(303)
General and administrative	1,077
Depletion and depreciation	5,390
Share-based payments	1,347
Finance expenses	(612)
Realized loss in investments	(2,687)
Dividend income	(175)
Deferred income expense	(8,062)
Impairment	17,800
Loss for the year ended December 31, 2018	(72,719)

CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS

(\$000s)	Year ended December 31,	
	2018	2017
Exploration and evaluation	239	79
Property, plant and equipment	10,426	13,398
Capital expenditures	10,665	13,477
Acquisitions	307	(62)
Dispositions	(285)	(429)
Total	10,687	12,986

Capital expenditures on PP&E of \$10.4 million during the year ended December 31, 2018 were directed towards drilling nine gross (2.0 net) wells in the Edson and Central areas for \$5.9 million, facility and maintenance capital of \$3.2 million, recompletions of \$0.6 million and \$0.7 million of other miscellaneous capital additions.

DECOMMISSIONING PROVISION

The total future decommissioning provision of \$216.2 million was estimated by management based on the Company's working interest and estimated costs to remediate, reclaim and abandon its wells, pipelines, and facilities and estimated timing of the costs to be incurred in future periods.

At December 31, 2018, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$264.6 million (December 31, 2017 - \$244.3 million). The discounted and inflated amount required to settle the decommissioning liabilities of \$216.2 million has been calculated assuming a 1.88% inflation rate (December 31, 2017 - 1.72%) and discounted using an average risk-free interest rate of 2.88% (December 31, 2017 - 2.57%). These obligations are currently expected to be settled based on the useful lives of the underlying assets, some of which extend beyond 35 years into the future.

DEBT, LIQUIDITY AND CAPITAL RESOURCES

Bank Credit Facilities

As at December 31, 2018, the Company had an \$11.0 million syndicated credit facility (the “**Credit Facility**”) with three Canadian Financial Institutions (the “**Syndicate**”) (December 31, 2017 - \$45.0 million Credit Facility). The Credit Facility of \$11.0 million consists of a \$6.0 million revolving syndicated credit facility and a \$5.0 million revolving operating facility. 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 December 31, 2018, were \$nil (December 31, 2017 - \$18.0 million). Borrowings under the Credit Facility bear interest at the Canadian prime rate plus 1.5% to 4.0% or the bankers’ acceptance rates plus 2.5% to 5.0%, depending, in each case, on the ratio of consolidated debt to EBITDA, plus applicable standby fees. EBITDA is calculated as earnings (loss) excluding depreciation, depletion, impairment and accretion, share based payments, interest, taxes and other non-cash items. The Credit Facility matures July 28, 2019, and if it is not renewed it will convert to a one day term loan due on July 29, 2019. The Credit Facility is reviewed semi-annually on November 30th and May 31st.

As at December 31, 2018, the Company had \$2.9 million in letters of credit issued against its Credit Facility (December 31, 2017 - \$2.0 million). The Credit Facility does not contain any financial covenants but Pine Cliff is subject to non-financial covenants under its Credit Facility. Compliance with these covenants is monitored on a regular basis and as at December, 2018, Pine Cliff was in compliance with all covenants.

Letter of Credit Facility

In the first quarter of 2019, the Company entered into a \$2.6 million letter of credit facility (the “**LC Facility**”) with a Canadian bank which is supported by a performance guarantee from Export Development Canada. The LC Facility is for issuing letters of credit to counterparties and is available on a demand basis. Letters of credit issued under the LC Facility incur an issuance fee of 4% per annum. The Company transferred \$1.1 million of the existing \$2.9 million letters of credit to the LC Facility.

Due to Related Party Note

As at December 31, 2018, Pine Cliff had a \$6.0 million promissory note outstanding to the Company’s Chairman of the Board maturing on September 30, 2020 (“**2020 Related Party Note**”) that bears interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility and is payable monthly. The 2020 Related Party Note is secured by a \$6.0 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 \$30 Million 2020 Notes and \$19 Million 2022 Notes, as defined herein. Interest paid on the 2020 Related Party Note for the year December 31, 2018 was \$0.3 million (December 31, 2017 - \$0.2 million).

\$6 Million Subordinated Promissory Notes due September 30, 2020

On July 29, 2016, the Company issued \$6.0 million in promissory notes maturing on July 29, 2018. In July 2018, these notes were amended to mature on September 30, 2020 (“**\$6 Million 2020 Notes**”). The \$6 Million 2020 Notes bear interest at 0.25% less than the monthly average effective interest rate paid on the Credit Facility, payable monthly. The \$6 Million 2020 Notes were issued to a shareholder and a relative of that shareholder, owning directly or by discretion and control, greater than 10% of the Common Shares. The \$6 Million 2020 Notes are secured by a \$6.0 million of floating charge debenture over all of the Company’s assets and are subordinated to any and all claims in favor of the Credit Facility and the \$30 Million 2020 Note and \$19 Million 2022 Note holders.

\$30 Million Subordinated Promissory Notes due September 30, 2020

On August 10, 2016, the Company issued 30,000 units (“**2020 Units**” or “**2020 Unit**”) at a price of \$1,000 per 2020 Unit for aggregate proceeds of \$30.0 million. Each 2020 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 (“**\$30 Million 2020 Note**” or “**\$30 Million 2020 Notes**”), which are payable semi-annually; and (ii) 150 Common Share purchase warrants (“**2018 Warrants**”). The \$30 Million 2020 Notes mature on September 30, 2020 and all or a portion of the principal amount outstanding can be repaid earlier without penalty and the \$30 Million 2020 Notes are secured by a \$30.0 million floating charge debenture over all of the Company’s assets and is subordinated to any and all claims in favor of the Credit Facility. A total of 4.5 million 2018 Warrants were issued, entitling the holder to purchase one Common Share for each 2018 Warrant at a price of \$1.38. The 2018 Warrants all expired on August 10, 2018.

The \$30 Million 2020 Notes were determined to be a hybrid instrument with an embedded derivative. The fair value of the debt component of the \$30 Million 2020 Notes were determined on issuance to be 7.8%, using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to Warrants. The value of the debt will accrete up to the principal balance at maturity.

\$19 Million Subordinated Promissory Notes due July 31, 2022

On July 13, 2018, the Company issued 19,000 units ("2022 Units" or "2022 Unit") at a price of \$1,000 per 2022 Unit for aggregate proceeds of \$19.0 million. Each 2022 Unit is comprised of: (i) one promissory note with a par value of \$1,000 per note and bearing interest at 7.05% per annum ("**\$19 Million 2022 Note**" or "**\$19 Million 2022 Notes**"), which are payable semi-annually; and (ii) 150 Common Share purchase warrants ("**2021 Warrants**"). The \$19 Million 2022 Notes mature on July 31, 2022 and all or a portion of the principal amount outstanding can be repaid without penalty after three years. A total of 2.85 million 2021 Warrants were issued, entitling the holder to purchase one Common Share of Pine Cliff for each 2021 Warrant at a price of \$0.51, until July 13, 2021.

The \$19 Million 2022 Notes were determined to be a hybrid instrument with an embedded derivative. The fair value of the debt component of the \$19 Million 2022 Notes were determined on issuance to be 7.6%, using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to Warrants. The value of the debt will accrete up to the principal balance at maturity.

Share Capital

Share capital	March 13, 2019	December 31, 2018	December 31, 2017
Common Shares	307,075,787	307,075,787	307,075,787
Stock options	20,545,804	21,028,804	21,316,406
Warrants	2,850,000	2,850,000	4,500,000

Capital Resources

Pine Cliff's capital budget for 2019 has been approved by its board of directors at approximately \$10.0 million, including \$2.5 million for abandonments and reclamation and before acquisitions and dispositions. Pine Cliff anticipates funding its capital budget through adjusted funds flow. Budgeted future capital expenditures related to drilling 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

It is anticipated that cash flows from operating activities and the unused portion of the Credit Facility will allow Pine Cliff to meet its financial liabilities, as well as fund future capital requirements, at a reasonable cost. The Company believes it has sufficient funding to meet its obligations as they come due and, if required, would consider selling non-core assets, additional debt financing, or issuing equity in order to meet its future liabilities.

During the year ended December 31, 2018, the Company financed its capital expenditures with cash flow from operating activities and its Credit Facility.

COMMITMENTS AND CONTINGENCIES

As at December 31, 2018, the Company has the following commitments and other contractual obligations:

	2019	2020	2021	2022	2023	Thereafter
(\$000s)						
Subordinated promissory notes ¹	-	36,000	-	19,000	-	-
Trade and other payables	16,772	-	-	-	-	-
Due to related party	-	6,000	-	-	-	-
Future interest	4,229	3,506	1,340	1,005	-	-
Lease Obligations	963	980	885	692	517	-
Transportation ²	9,244	7,066	6,096	5,249	3,168	12,145
Total commitments and contingencies	31,208	53,552	8,321	25,946	3,685	12,145

¹ Principal amount.

² Firm transportation agreements.

QUARTERLY TRENDS AND SELECTED FINANCIAL INFORMATION

(\$000s, unless otherwise indicated)	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
FINANCIAL								
Total revenue	28,396	24,148	20,419	27,100	25,444	23,892	34,005	31,735
Cash flow from operating activities	1,415	(309)	531	6,979	(4,350)	5,517	10,007	13,835
Adjusted funds flow ¹	4,433	1,920	(977)	5,137	3,759	2,879	10,834	11,233
Adjusted funds flow per share – basic and diluted (\$/share) ¹	0.01	0.01	0.00	0.02	0.01	0.01	0.04	0.04
Impairments	-	-	-	-	-	17,800	-	-
Earnings (loss)	(28,520)	(10,710)	(17,909)	(15,580)	(32,996)	(30,214)	(2,118)	(2,536)
Earnings (loss) per share – basic and diluted (\$/share)	(0.09)	(0.03)	(0.06)	(0.05)	(0.11)	(0.10)	(0.01)	(0.01)
Capital expenditures	4,302	1,910	1,276	3,177	3,091	3,318	3,267	3,801
Acquisitions	(61)	659	(3)	(288)	44	(9)	(97)	-
Dispositions	(51)	(16)	(135)	(83)	(148)	(65)	(216)	-
Net debt ¹	56,819	56,325	54,737	52,414	53,638	53,377	52,562	58,930
Weighted average common shares outstanding:								
Basic	307,076	307,076	307,076	307,076	307,076	307,076	307,076	307,076
Diluted	307,076	307,076	307,076	307,076	307,076	307,076	307,076	307,076
PRODUCTION VOLUMES								
Natural gas (Mcf/d)	110,295	111,067	110,242	112,871	122,304	124,450	119,410	120,677
Natural gas liquids (Bbl/d)	957	861	967	977	880	998	912	903
Crude oil (Bbl/d)	236	231	216	219	225	123	263	198
Average sales volumes (Boe/d)	19,576	19,603	19,557	20,008	21,489	21,863	21,077	21,214
Average sales volumes (Mcfe/d)	117,456	117,618	117,342	120,048	128,934	131,178	126,462	127,284
PRICES AND NETBACKS								
Total oil and gas sales (\$/Boe)	16.72	14.21	12.33	16.50	14.50	12.75	18.55	18.41
Operating netback (\$/Boe) ¹	3.56	2.34	0.72	4.04	2.85	2.30	7.41	7.14
Corporate netback (\$/Boe) ¹	2.46	1.06	(0.55)	2.86	1.90	1.44	5.65	5.88
Total oil and gas sales (\$/Mcfe)	2.79	2.37	2.06	2.75	2.49	2.13	3.09	3.07
Operating netback (\$/Mcfe) ¹	0.59	0.39	0.12	0.67	0.48	0.38	1.24	1.19
Corporate netback (\$/Mcfe) ¹	0.41	0.18	(0.09)	0.48	0.32	0.24	0.94	0.98

¹ This is a non-GAAP measure, see NON-GAAP MEASURES for additional information.

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

- Sales volumes decreased from the first quarter of 2017 until the second quarter of 2017, mainly related to natural production declines. Average sales volumes increased in the third quarter of 2017 due to a successful recompletion program in the Company's Central Area. Average sales volumes decreased in the fourth quarter of 2017 through the second quarter of 2018 related to natural production declines and short term production outages, primarily due to voluntary shut-ins in response to low natural gas commodity prices. Average sales volumes increased in the third quarter of 2018 compared to the second quarter of 2018, mainly due to realizing a full quarter of production from wells drilled in the first half of 2018. Average sales volumes decreased in the fourth quarter of 2018 compared to the third quarter of 2018 due to natural production declines, partially offset by production from fourth quarter 2018 capital projects.
- Adjusted funds flow of \$11.2 million in the first quarter of 2017 was the highest in the eight quarters presented as a result of the highest natural gas prices in the eight quarters. Adjusted funds flow decreased from the first quarter of 2017 through the third quarter of 2017, largely a result of fluctuations in natural gas prices and sales volumes. Adjusted funds flow increased

from in the fourth quarter of 2017 and the first quarter of 2018 as a result of higher natural gas prices, slightly offset by lower sales volumes. Adjusted funds flow decreased from the first quarter of 2018 to the second quarter of 2018, mainly as a result of lower commodity prices and sales volumes. Adjusted funds flow increased from the third quarter of 2018 to the fourth quarter of 2018 compared to the second quarter of 2018, mainly as a result of higher commodity prices.

- Loss of \$2.1 million in the second quarter of 2018 was the lowest in the eight quarters presented as a result of that quarter having the highest natural gas price in the eight quarters. Losses decreased from the first and second quarters of 2017, primarily as a result of higher oil and gas sales, slightly offset by a decrease in sales volumes. Losses increased in the third quarter of 2017 compared to the second quarter of 2017, primarily as a result of impairment and lower commodity prices, slightly offset by higher sales volumes. Losses increased in the fourth quarter of 2017 compared to the third quarter of 2017, primarily as a result of a deferred income tax expense. Losses decreased in the first quarter of 2018 compared to the fourth quarter of 2017, mainly as a result of higher oil and gas revenues and a lower deferred income tax expense. Losses increased in the second quarter of 2018 compared to the first quarter of 2018, mainly as a result of lower oil and gas revenues. Losses decreased from the second quarter of 2018 to the third quarter of 2018, mainly as a result of higher commodity prices and higher sales volumes. Losses increased from the third quarter of 2018 to the fourth quarter of 2018 compared as a result of a deferred income tax expense, slightly offset by higher commodity prices.
- Total revenue of \$34.0 million in the second quarter of 2017 was the highest in the eight quarters presented due to high natural gas prices. Total revenues have fluctuated from the first quarter of 2017 to the third quarter of 2018, mainly as a result of changes in commodity prices and sales volumes. Total revenues increased in the fourth quarter of 2018 compared to the third quarter of 2018, mainly as a result of higher commodity prices, slightly offset by lower sales volumes.

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

Financial instruments of the Company consist of cash, trade and other receivables, investments, trade and other payables, due to related party, subordinated promissory notes, and bank debt. The carrying values of cash, trade and other receivables 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. Pine Cliff has no level 2 or 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.

Market Risk

Market risk is the risk that the fair value or future cash flows from operating activities 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 changes and geopolitical factors and instability. 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. A material decline or extended period of low oil or natural gas prices could result in a reduction of net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas and a reduction in the volumes of Pine Cliff's reserves. Management may also elect not to produce from certain wells at lower prices.

Physical Sales Contracts

At December 31, 2018, the Company had the following physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price (\$CAD/GJ)	Fixed Sale Price (\$CAD/Mcf) ¹
January 1, 2019 to March 31, 2019	AECO	5,000	\$2.46	\$2.58
January 1, 2019 to March 31, 2019	DAWN ²	4,000	\$5.30	\$5.57
January 1, 2019 to March 31, 2019 ³	EMPRESS	2,500	+\$2.60	+\$2.73
January 1, 2019 to March 31, 2019 ³	EMPRESS	2,500	+\$3.35	+\$3.52

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

² Dawn Hub into Dawn Township, Ontario.

³ AECO 5A plus listed premium.

Subsequent to December 31, 2018, the Company entered into the following additional physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price (\$CAD/GJ)	Fixed Sale Price (\$CAD/Mcf) ¹
April 1, 2019 to October 31, 2019	AECO	5,000	\$1.20	\$1.26
April 1, 2019 to October 31, 2019	AECO	5,000	\$1.29	\$1.35
April 1, 2019 to October 31, 2019	DAWN ²	4,000	\$3.40	\$3.57
April 1, 2019 to October 31, 2019	DAWN ²	4,000	\$3.44	\$3.62
April 1, 2019 to October 31, 2019	AECO	2,500	\$1.33	\$1.40

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

² Dawn Hub into Dawn Township, Ontario.

Interest Rate Risk

The Company is principally exposed to interest rate risk to the extent it draws on its variable rate debt less cash. Changes in market interest rates could affect the cash flow from operating activities associated with variable rate debt. If interest rates applicable to Pine Cliff's variable rate debt less cash increased or decreased by one percent, it is estimated that Pine Cliff's loss for the year ended December 31, 2018, would have increased or decreased, respectively, by \$0.1 million (December 31, 2017 - \$0.3 million).

Equity Price Risk

Equity price risk refers to the risk that the fair value of investments will fluctuate due to changes in equity markets for each company. Equity price risk is also influenced from the estimated realizable value of investments that the Company holds.

Foreign Exchange Risk

The Company and its share price are exposed to risk on foreign exchange rates because the oil and natural gas prices it receives are indirectly 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 flow from operating activities. Pine Cliff has not entered into any derivative financial instruments to manage this risk at this time.

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 December 31, 2018 of \$13.5 million (December 31, 2017 - \$15.1 million), primarily with oil and gas marketers, joint venture partners and crown royalty credits with the Province of Alberta. Amounts due from these parties have generally been received within 30 to 60 days. When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount.

The Company generally considers amounts greater than 90 days to be past due. As at December 31, 2018, there was \$1.0 million (December 31, 2017 - \$0.5 million) of trade and other receivables over 90 days. Pine Cliff assesses its trade and other receivables quarterly to determine if there has been any impairment. During the year ended December 31, 2018, the Company recorded \$0.3 million (December 31, 2017 - \$0.2 million) of 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 manages its liquidity risk through actively managing its capital, which it defines as cash, debt and equity. Capital management strategies include continuously monitoring forecasted and actual cash flow from operating, financing and investing activities, available credit under the Credit Facility, and opportunities to issue additional equity. 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 currently will be adequate to settle Pine Cliff's financial liabilities.

The Company currently has an \$11.0 million Credit Facility, as defined herein, of which none was drawn at December 31, 2018. 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. There is a risk that the borrowing base of the Credit Facility could be reduced or withdrawn, which may create liquidity risk. Additionally, Pine Cliff has a \$6.0 million promissory note and a \$6.0 million subordinated promissory note that are both due on September 30, 2020 and if this Credit Facility along with the promissory notes are not renewed it may create liquidity risk. If required, Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities.

The Credit Facility matures July 28, 2019. The lenders review the Credit Facility semi-annually on May 31st and November 30th, with the next review scheduled for May 31, 2019. In the event the Credit Facility is not extended, indebtedness under the Credit Facility will become due and repayable on July 29, 2019. There is also a risk that the Credit Facilities will not be renewed for the same amount or on the same terms or that the lenders reduce the borrowing base as a result of their regularly scheduled borrowing base review. Any of these events could affect Pine Cliff's ability to fund ongoing operations.

RISK FACTORS

Certain activities of the Company are affected by factors that are beyond its control or influence. Additional risks and uncertainties that management may be unaware of, or that they determine to be immaterial may also become important factors which affect the Company. Along with the risks discussed in this MD&A, other business risks faced by the Company may be found under "Risk Factors" in the Company's most recent Annual Information Form which is available under the Company's profile at www.sedar.com or by contacting the Company.

Operational

This category encompasses a number of risks. Wells may produce at lower initial production rates than planned, or face steeper decline rates. Operating costs can increase due to such considerations as unanticipated workovers or higher than expected costs associated with corrosion. Pine Cliff follows prudent industry practices with respect to insurance where practicable and as guided by external experts, but cannot fully insure against all risks. With respect to non-insurable operating risks, the Company has attempted to design business process controls and accountability to identify problems at the earliest possible occasion and implement solutions. However, investors must appreciate that operational risk is very much a characteristic of the business, and can never be entirely eliminated.

Reserves

The Company retains independent reserve evaluators and had 100% of the reserves reviewed. The methodologies used assess the certainty of recovery on reserve categories under National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). As per NI 51-101, there is a 90% probability of attaining proven reserves and a 50% probability of attaining the proven plus probable reserves assigned. The Company plans to fund additional drilling and infrastructure expenditures from internal funds flows from operations, as well as the Credit Facility, in order to achieve the reserve assignments. There remains a probability that for technical or economic reasons, the reserves assigned may not be attained. Pine Cliff believes this risk is moderate to low as it is operating in well-established environments. As with operational risk, however, Pine Cliff again cautions investors that reserve risk is endemic and cannot be eliminated.

Safety, Environmental and Regulatory Risks

Safety, environmental and regulatory risks are the risks of loss or lost opportunity resulting from changes to laws governing safety, the environment, royalties and taxation. Safety, environmental and regulatory risks Pine Cliff is exposed to include: aboriginal land claims; uncertainties associated with regulatory approvals; uncertainty of government policy changes; the risk of carrying out operations with

minimal environmental impact; changes in or adoption of new laws and regulations or changes in how they are interpreted or enforced; obtaining required approvals of regulatory authorities and stakeholder support for activities and growth plans.

In November 2015, the Province of Alberta released its Climate Leadership Plan which will impact businesses that contribute to carbon emissions in Alberta. The plan's four key areas include imposing carbon pricing that is applied across all sectors, starting at \$20 per tonne on January 1, 2017 and moving to \$30 per tonne on January 1, 2018, and a 45 percent reduction in methane emissions by the oil and gas sector by 2025. The Company is currently monitoring developments in this plan and will evaluate the expected impact of the plan on its results of operations.

In October 2016, the Government of Canada announced a pan-Canadian approach to the pricing of carbon emissions. The plan includes imposing carbon pricing beginning at a minimum of \$10 per tonne in 2018 and rising by \$10 per tonne each year to \$50 per tonne in 2022. Provinces and territories have a year to introduce their own carbon pricing or adopt a cap-and-trade system that meets or exceeds the federal benchmark. If provinces and territories fail to implement a price or cap-and-trade plan by 2018, the Government of Canada has indicated that they will implement a price in that jurisdiction.

The Government of Alberta has indicated that it intends to meet the federal carbon pricing guidelines, and accordingly the Government of Canada proposals are not expected to significantly impact the Company's results of operations. However, both the Government of Alberta and Government of Canada's approaches to pricing of carbon emissions could nonetheless have material adverse effects on the Company's results of operations, which may include, but are not limited to: increased compliance costs, permitting delays, substantial costs to generate or purchase applicable emission credits or allowance, all of which may increase operating expenses.

The oil and gas industry activities entail numerous environmental impacts which can be detrimental. Even normal operations can generate carbon emissions. Wells can blow out, or pipelines can fail with consequent contamination of soil, air, and water. A small number of Pine Cliff's wells produce natural gas with a high content of hydrogen sulphide, which is poisonous and can be fatal, thus requiring the highest standards of operational responsibility and emergency response practices and procedures.

Resource industries in Canada are subject to extensive environmental legislation and regulations at Federal, Provincial, and Municipal levels. Thus, the Company is at risk not only to the cost of the incidents themselves, but to various sanctions which can be imposed by governments or government instrumentalities. The Company expects that environmental legislation and regulations will continue to be assessed, may become stricter over time, and that the costs of compliance may grow. The international and domestic debate upon controls of greenhouse gas emissions will continue, with unpredictable but potentially material consequences for the oil and gas industry and its participants.

To mitigate environmental risk the Company conducts its operations to target compliance with government regulations and guidelines. Monitoring and reporting programs for environmental health and safety performance in day-to-day operations, as well as inspections and assessments, are designed to provide assurance that to the best of the Company's ability, environmental and regulatory standards are met.

Staffing

Pine Cliff functions in a very competitive environment for professional staff, and this staff is key to the Company's ultimate success. Recognizing this, Pine Cliff's board of directors approved a competitive compensation program including bonuses based on the annual adjusted funds flow performance of the Company, benefits and a stock option program to provide for long-term incentives and to retain staff.

To date, Pine Cliff has found that it has been able to attract qualified individuals to complement its existing team and to build strength in areas where required.

Fiscal Environment

Resource industries are subject to payments to various levels of government, predominantly corporate income taxes to the federal and provincial governments and royalties to provincial governments. In recent years, while the corporate income tax regime has been stable, the royalty regime has not been. A series of changes have had at times both positive and negative effects, but have certainly served to emphasize the materiality of this risk. There is potential for additional future changes to the taxation and royalty regime in Alberta and Saskatchewan and corresponding changes in other jurisdictions where Pine Cliff may operate has created uncertainty surrounding the ability to accurately estimate future taxation and royalties, resulting in additional volatility and uncertainty in the oil and gas market. As a single company, we have no ability to mitigate this risk other than through geographic diversification.

CRITICAL ACCOUNTING JUDGMENTS AND 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 judgments or estimates.

Judgments

Cash Generating Units

Cash Generating Units ("CGUs") are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, share infrastructures and the way in which management monitors Pine Cliff's operations.

Impairment indicators

Judgments are required to assess when impairment indicators exist and impairment testing is required. When assessing the recoverability of petroleum and natural gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on reserve estimates, market value of undeveloped lands and other relevant assumptions.

Estimates

Reserves

Petroleum and natural gas reserves are used in the calculation of depletion, impairment and impairment reversals and are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with NI 51-101 which incorporate the estimated future cost of developing and extracting those reserves. Reserve estimates and their resulting cash flows are based on engineering data, probability assessments of reserve recoveries, future prices and costs, future production rates, discount rates and the timing and extent of future capital expenditures, all of which are subject to many uncertainties and interpretation. Management expects that over time Pine Cliff's reserve estimates will be revised, either upward or downward, based on updated information such as the results of future drilling, production costs, testing and production levels and changes to forward petroleum and natural gas prices.

Exploration and evaluation assets

The application of the Company's accounting policy for E&E expenditures requires judgment in determining whether it is likely that future economic benefit exists when activities have not reached a stage where technical feasibility and commercial viability can be reasonably determined. Factors such as drilling results, future capital programs, future operating expenses, as well as estimated reserves are considered. In addition, management uses judgment to determine when E&E assets are reclassified to PP&E.

Decommissioning provision

Decommissioning, abandonment and site reclamation expenditures will be incurred by the Company at the end of the operating life of the Company's facilities and properties. Decommissioning expenditures are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, and changes to the credit-adjusted risk-free discount rate and expected inflation rate. The expected timing and amount of expenditures can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Deferred income taxes

The Company recognizes the net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flow from operating activities and the application of existing tax laws in each jurisdiction. To the extent that future cash flow from

operating activities and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

Share-based payments

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

ACCOUNTING POLICY AND STANDARD CHANGES

Adopted Accounting Pronouncements

Effective January 1, 2018 the Company adopted IFRS 9. IFRS 9 replaces the sections of IAS 39 Financial Instruments: Recognition and Measurements.

IFRS 9 includes a new classification and measurement approach for financial assets and a forward-looking 'expected credit loss' model. IFRS 9 replaces the multiple classification and measurements models for financial assets with a new model that only has two measurements categories; amortized cost and fair value through profit or loss or other comprehensive income (loss). This determination is made at initial recognition. As a result of adopting IFRS 9, the Company's accounts receivables were reclassified from loans and receivables at amortized cost to financial assets at amortized cost. For financial liabilities, the new standard retains most of the IAS 39 requirements. The main change arises in cases where the Company chooses to designate a financial liability as fair value through earnings (loss). In these situations, the portion of the fair value change related to the Company's own credit risk is recognized in FVOCI. The Company has no financial liabilities that are measured at fair value through net earnings.

The classification of the Company's investments changed from available-for-sale to financial assets measured at fair value. On the day an investment is acquired the Company can make an irrevocable election (on an instrument by instrument basis) to designate investments in equity instruments as at FVTPL, provided those investments are not recorded as FVOCI. The Company's investments will be measured at FVTPL, with gains or losses arising from changes in fair value recognized in the statements of comprehensive loss. The Company has designated its investment as FVTPL on its initial adoption of IFRS 9. The adoption of IFRS 9 did not have a material impact on the Company's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

Effective January 1, 2018 the Company adopted IFRS 15 using a modified retrospective approach. IFRS 15 replaces IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser.

Revenue Recognition Policy

Revenue associated with the sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when Pine Cliff satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas and natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession. The Company principally satisfies its performance obligations at a point in time and the amounts of revenue recognized relating to performance obligations satisfied over time are not significant. Collection of revenue associated with the sale of crude oil, natural gas and natural gas liquids occurs on or about the 25th of the month following production. Pine Cliff enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value through profit or loss.

Future Accounting Changes

IFRS 16 Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which replaces IAS 17 Leases. IFRS 16 requires the recognition of lease assets and liabilities on the balance sheet for most leases, where the entity is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets less than \$5,000 USD are exempt from the balance sheet recognition requirements, and may continue to be treated as operating leases. Lessors will continue with the dual classification model for leases and the accounting for lessors remains virtually unchanged.

The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15. IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

IFRS 16 will be applied by Pine Cliff on January 1, 2019. The Company will adopt IFRS 16 using the modified retrospective approach, whereby the initial effect of applying the standard is estimated to have an impact on the Financial Statements. The impact on the opening balance sheet at January 1, 2019, is expected to increase PP&E and a corresponding increase to accounts payable and finance lease obligations. Interest expense will be recognized on the lease obligation and lease payments will be applied against the lease obligation and accounts payable.

CONTROL ENVIRONMENT

Disclosure controls and procedures

Disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, are designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure. The CEO and the CFO of Pine Cliff evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the CEO and CFO concluded that Pine Cliff's DC&P were effective as at December 31, 2018.

Internal control over financial reporting

Internal control over financial reporting ("ICFR"), as defined in National Instrument 52-109, includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of Pine Cliff;
- are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of Financial Statements in accordance with generally accepted accounting principles and that receipts and expenditures of Pine Cliff are being made in accordance with authorizations of management of Pine Cliff; and
- are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Financial Statements.

The CEO and CFO have designed, or caused to be designed under their supervision, ICFR as defined in National Instrument 52-109 of the Canadian Securities Administrators, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with IFRS. The control framework the Company used to design its ICFR was in accordance with the Committee of Sponsoring Organizations of the Treadway Commission "COSO 2013".

The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal controls over financial reporting at the financial period end of the Company and concluded that such internal controls over financial reporting are effective. It should be noted that while Pine Cliff's CEO and CFO believe that the Company's internal controls and procedures provide a reasonable level of assurance and are effective, however they do not expect that these controls will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that its objectives are met.

NON-GAAP MEASURES

This MD&A uses the terms “adjusted funds flow”, “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 earnings (loss), cash flow from operating activities, or total liabilities.

Adjusted Funds Flow

The Company considers adjusted funds flow 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. Adjusted funds flow and adjusted funds flow 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 flow which is considered the most directly comparable measure under IFRS. Adjusted funds flow is calculated as cash flow from operating activities before changes in non-cash working capital and decommissioning obligations settled. Adjusted funds flow 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. Adjusted funds flow per Boe or Mcfe is calculated using the sales volumes reported for a reporting period. 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.

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Cash flow from operating activities	1,415	(4,350)	(133)	8,616	25,009	(66)
Adjusted by:						
Change in non-cash working capital	2,281	6,891	(67)	(833)	1,313	(163)
Decommissioning obligation settled	737	1,218	(39)	2,730	2,383	15
Adjusted funds flow	4,433	3,759	18	10,513	28,705	(63)
Adjusted funds flow (\$/Boe)	2.46	1.90	29	1.47	3.68	(60)
Adjusted funds flow (\$/Mcfe)	0.41	0.32	29	0.25	0.61	(60)
Adjusted funds flow – basic and diluted (\$/share)	0.01	0.01	-	0.03	0.09	(67)

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, less royalties, transportation and operating expenses on an absolute and a per Boe or per Mcfe basis, respectively. Company 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 results. Corporate netback on an absolute dollar and corporate netback per Boe and per Mcfe are calculated as operating netback, less G&A and interest expense plus dividend income.

Pine Cliff uses these measures to assist in understanding the Company’s ability to generate positive cash flow from operating activities 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 earnings (loss) 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.

	Three months ended December 31,			Year ended December 31,		
	2018	2017	\$ Change	2018	2017	\$ Change
(\$ per Boe, unless otherwise indicated)						
Oil and gas sales	16.72	14.50	2.22	14.95	16.00	(1.05)
Royalty expense	(0.95)	(1.06)	0.11	(1.02)	(1.30)	0.28
Transportation costs	(1.80)	(1.34)	(0.46)	(1.74)	(1.12)	(0.62)
Operating expenses	(10.41)	(9.25)	(1.16)	(9.51)	(8.70)	(0.81)
Operating netback	3.56	2.85	0.71	2.68	4.88	(2.20)
General and administrative	(0.42)	(0.55)	0.13	(0.67)	(0.76)	0.09
Interest and bank charges, net of dividend income	(0.68)	(0.40)	(0.28)	(0.54)	(0.44)	(0.10)
Corporate netback	2.46	1.90	0.56	1.47	3.68	(2.21)
Operating netback (\$ per Mcfe)	0.59	0.48	0.11	0.45	0.81	(0.36)
Corporate netback (\$ per Mcfe)	0.41	0.32	0.09	0.25	0.61	(0.36)

Net Debt

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

	Year ended December 31,		
(\$000s)	2018	2017	\$ Change
Bank debt	-	18,000	(18,000)
Due to related party – due September 30, 2020	6,000	5,000	1,000
Subordinated promissory notes ¹	55,000	36,000	19,000
Trade and other payables	16,772	17,288	(516)
Less:			
Trade and other receivables	(13,536)	(15,148)	1,612
Cash	(3,563)	(1,075)	(2,488)
Prepaid expenses and deposits	(3,854)	(3,882)	28
Investments	-	(2,545)	2,545
Net debt	56,819	53,638	3,181

¹ The subordinated promissory notes for net debt are presented at the principal amount with \$36.0 million due on September 30, 2020 and \$19.0 million due on July 31, 2022.

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 the MD&A and Annual MD&A includes, but is not limited to: expected production levels, expected operating costs, expected transportation costs, 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; amounts due to related party and due pursuant to subordinated promissory notes and repayment thereof; maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; risks; Pine Cliff’s ability to generate cash flow from operating activities and adjusted funds 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 operating activities 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 12, 2018 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.

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.

Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of oil, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.