Pine Cliff Energy Ltd.

Long term Value Focus

Q2-2020 Report

PRESIDENT'S MESSAGE TO SHAREHOLDERS

I hope all of Pine Cliff's shareholders and families are healthy during these unprecedented times.

The second quarter of 2020 was dominated by the collapse of crude oil and liquids prices due to global over-supply combined with demand destruction from the coronavirus ("**COVID-19**") pandemic. Despite 92% of our Q2 production volume being natural gas, the price collapse had a material impact on our revenue and funds flow. While the negative impact of low crude oil and liquids prices was mitigated to some degree by stable natural gas prices, it was not enough to prevent Pine Cliff from generating negative adjusted funds flow for only the 5th quarter in our past 33 quarters of operation. OPEC and non-OPEC producers reacted to the over-supply of crude oil by curtailing global production and, as we enter the second half of 2020, crude oil and liquids prices have recovered to levels that, along with strengthening natural gas prices, gives Pine Cliff optimism for the second half of the year.

Highlights from Pine Cliff's second quarter ended June 30, 2020 include:

- realized $2.03 per Mcf natural gas price for the three months ended June 30, 2020, 3% higher than the AECO 5A benchmark of $1.98 per Mcf and 20% higher than the $1.69 per Mcf realized for the comparable quarter in 2019;
- produced an average of 18,968 Boe/d and 19,068 Boe/d in the three and six months ended June 30, 2020, a 1% decrease and 1% increase respectively compared to the same periods in 2019; and
- tied-in production from 1 gross (0.08 net) Edson oil well drilled in the first quarter of 2020.

Increase in Forward Natural Gas Prices

In Q2 2019, the AECO 5A natural gas price was $1.03 per Mcf. In Q2 2020 this number was $1.98 per Mcf. Pine Cliff has protected the downside risk to summer natural gas prices with approximately 45% of our production hedged through Q3. The strengthening of forward AECO natural gas prices has us optimistic for the back half of 2020 and into 2021, whereas of this morning, current forward prices are $2.57 per Mcf for the balance of 2020 and $2.66 per Mcf for calendar 2021.

There are various reasons for the increase in forward AECO natural gas prices, but two significant factors appear to be: (i) lower crude oil prices have resulted in a decrease in crude oil drilling and thereby reduced production of associated natural gas; and (ii) natural gas drilling has also dropped dramatically with the availability of capital being constrained. In January 2020, there was an average of 995 oil and gas drilling rigs operating in North America and for July 2020, that average had fallen to only 290. In Canada alone, oil and gas drilling rigs have fallen from an average of 204 in January 2020 to an average of 36 in July 2020.

Government Programs

During the second quarter Pine Cliff received two payments from the Federal Government's Canada Emergency Wage Subsidy Program ("**CEWS**") totaling $561,000, which provided Pine Cliff with a subsidy of 75% of employee's wages (up to a maximum of $847 per employee per week) for a period of eight weeks. Pine Cliff has also been working with service providers to participate in both the Alberta Site Rehabilitation Program and the Saskatchewan Accelerated Site Closure Program. At this time, any awards Pine Cliff receives through these programs would be 100% federal government funded.

Outlook

The first half of 2020 has been the most volatile and unpredictable start to a year that Pine Cliff has ever experienced, but we believe that the prospects for Canadian natural gas producers have improved significantly. AECO summer pricing is considerably stronger than last year, and that has allowed us to maintain steady production levels rather than having to curtail production for economic reasons as was necessary in 2019. Forward natural gas prices in Canada for the next twelve

months are the strongest in years which raises the prospects for improved funds flow in the second half of 2020 and into 2021. Pine Cliff continues to be disciplined and focused on its strategy, including prioritizing the health and safety of its employees. Pine Cliff successfully transitioned its office staff to work remotely in March and as restrictions eased through July, a portion of our workforce has returned to the office. We continue to monitor the situation related to COVID-19 and will follow the advice of public health officials in supporting our employees, their families and our business partners.

Pine Cliff has been built with the goal of creating a sustainable company that can leverage the low production decline and low operating costs of its assets to generate positive adjusted funds flow in a positive natural gas price environment. Pine Cliff has navigated through a difficult period over the past few years, but we feel we have emerged stronger and ready to participate in an improved natural gas environment. Thank you for your continued support as shareholders and stay safe.

Yours truly,

Phil Hodge
President and Chief Executive Officer
August 5, 2020

Please refer to the attached Management's Discussion and Analysis for Reader Advisories regarding forward looking information, non-GAAP measures, oil and gas measurements, definitions and is subject to the same cautionary statements as set out therein

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 June 30, 2020. This MD&A is dated and based on information available as at August 5, 2020 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020 ("**Financial Statements**"), the audited annual consolidated financial statements for the year ended December 31, 2019 ("**Annual Financial Statements**") and the annual management's discussion and analysis for the year ended December 31, 2019 ("**Annual MD&A**"). The Financial Statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" using accounting principles consistent with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board 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 ("**Mcfe**") 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.

2020 HIGHLIGHTS

Highlights from the three and six months ended June 30, 2020 are as follows:

- Realized $2.03 per Mcf natural gas price for the three months ended June 30, 2020, 3% higher than the AECO 5A benchmark of $1.98 per Mcf and 20% higher than the $1.69 per Mcf realized for the comparable quarter in 2019;
- produced an average of 18,968 Boe/d and 19,068 Boe/d in the three and six months ended June 30, 2020, a 1% decrease and 1% increase respectively compared to the same periods in 2019;
- tied-in 1 gross (0.08 net) Edson well during the quarter that was drilled in the first quarter of 2020; and
- accessed the Federal Government's Canada Emergency Wage Subsidy Program ("**CEWS**") during the quarter, reducing office and field payroll expenses in total by $561,000.

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
($000s, unless otherwise indicated)				
FINANCIAL[1]				
Oil and gas sales (before royalty expense)	**21,693**	21,497	**47,134**	53,560
Cash flow from operating activities	**539**	6,503	**2,176**	14,428
Adjusted funds flow[2]	**(1,229)**	(2,047)	**(76)**	4,776
Per share – Basic and Diluted ($/share)[2]	**(0.00)**	(0.01)	**-**	0.02
Loss	**(14,164)**	(24,179)	**(34,175)**	(30,704)
Per share – Basic and Diluted ($/share)	**(0.04)**	(0.08)	**(0.10)**	(0.10)
Capital expenditures	**2,175**	815	**3,997**	1,810
Net debt[2]	**69,273**	58,162	**69,273**	58,162
Weighted-average common shares outstanding				
Basic and diluted	**327,784**	314,130	**327,784**	310,623
OPERATIONS				
Production				
Natural gas (Mcf/d)	**104,611**	105,965	**104,510**	105,080
Natural gas liquids (Bbl/d)	**1,075**	1,063	**1,153**	1,022
Crude oil (Bbl/d)	**458**	399	**497**	398
Total (Boe/d)	**18,968**	19,123	**19,068**	18,933
Natural gas ($/Mcf)	**2.03**	1.69	**2.11**	2.26
Natural gas liquids ($/Boe)	**14.56**	29.74	**18.90**	33.51
Crude oil ($/Bbl)	**22.10**	65.16	**33.63**	62.06
Combined ($/Boe)	**12.57**	12.35	**13.58**	15.63
Netback ($/Boe)				
Oil and gas sales	**12.57**	12.35	**13.58**	15.63
Royalty expense	**(0.59)**	(0.22)	**(0.79)**	(0.62)
Transportation expenses	**(1.37)**	(1.72)	**(1.37)**	(1.78)
Operating expenses	**(10.02)**	(10.23)	**(10.00)**	(10.35)
Operating netback ($/Boe)[2]	**0.59**	0.18	**1.42**	2.88
General and administrative expenses	**(0.58)**	(0.74)	**(0.71)**	(0.84)
Interest and bank charges, net of dividend income	**(0.72)**	(0.62)	**(0.73)**	(0.66)
Corporate netback ($/Boe)[2]	**(0.71)**	(1.18)	**(0.02)**	1.38
Operating netback ($ per Mcfe)[2]	**0.10**	0.03	**0.24**	0.48
Corporate netback ($ per Mcfe)[2]	**(0.12)**	(0.20)	**-**	0.23

[1] Includes results from acquisitions and excludes results for disposition from the closing date
[2]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[4]
Realized natural gas price[3]	$0.10	3,589	0.01
Realized NGL price[3]	$1.00	369	0.00
Realized crude oil price[3]	$1.00	157	0.00

[1] This analysis does not adjust for changes in working capital and uses corporate royalty rates from the six months ended June 30, 2020.
[2] Sensitivity pricing changes are based on a change in realized prices for natural gas of $0.10/Mcf and $1.00 Bbl for both crude oil and NGLs, as defined herein.
[3] Pine Cliff has prepared this analysis using its Q2 2020 production volumes annualized for twelve months.
[4] Based on the Q2 2020 basic weighted average shares outstanding.

BENCHMARK PRICES

	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% Change	**2020**	2019	% Change
Natural gas						
NYMEX (US$/Mmbtu)[1]	**1.72**	2.64	(35)	**1.84**	2.88	(36)
AECO Daily 5A (C$/Mcf)[2]	**1.98**	1.03	92	**2.00**	1.82	10
Crude oil						
WTI (US$/Bbl)	**27.85**	59.81	(53)	**37.01**	57.35	(35)
Edmonton Light (C$/Bbl)	**29.77**	73.85	(60)	**40.60**	70.15	(42)
Foreign exchange						
US$/C$	**1.386**	1.338	4	**1.365**	1.334	2

[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.

	Q2-2020	Q1-2020	Q4-2019	Q3-2019	Q2-2019	Q1-2019	Q4-2018	Q3-2018
Natural gas								
NYMEX (US$/Mmbtu)[1]	**1.72**	1.95	2.50	2.23	2.64	3.12	3.73	2.85
AECO Daily 5A (C$/Mcf)[2]	**1.98**	2.02	2.46	0.90	1.03	2.61	1.74	1.19
Pine Cliff realized natural gas price (C$/Mcf)	**2.03**	2.19	2.52	1.55	1.69	2.84	2.51	1.88
Crude oil								
WTI (US$/Bbl)	**27.85**	46.17	56.96	56.45	59.81	54.88	52.41	69.50
Edmonton Light (C$/Bbl)	**29.77**	51.44	66.57	68.41	73.85	66.44	38.94	81.95
Pine Cliff realized NGL price (C$/Bbl)	**14.56**	22.69	35.36	25.75	29.74	37.64	44.85	61.05
Pine Cliff realized oil price (C$/Bbl)	**22.10**	43.47	59.91	61.33	65.16	58.89	32.14	74.15
Foreign exchange								
US$/C$	**1.386**	1.345	1.320	1.321	1.338	1.329	1.331	1.310

[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.

In the three and six months ended June 30, 2020 the AECO daily benchmark increased by 92% and 10% respectively, compared to the same periods of 2019. The higher prices for this quarter are mainly due to improved egress in Alberta and the ability to deliver natural gas volumes into storage. 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 and TransGas into Saskatchewan have created the option to manage that influence. See "**COMMODITY SALES**" section for additional information on the diversification project premiums compared to AECO 5A.

The average benchmarks for WTI crude decreased by 53% and 35%, for the three and six months ended June 30, 2020, as compared to the same periods in 2019, due to the novel coronavirus ("**COVID-19**") being declared a pandemic by the World Health Organization and governments at all levels in Canada and around the world taking stringent steps to contain the spread of the virus. These actions have resulted in significant disruption to global economic activity, resulting in a dramatic decrease in crude oil and natural gas liquids ("**NGL**") demand. With global crude oil being in over-supply, the Company experienced a significant decrease in benchmark crude oil pricing. 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. The fluctuations in NGL price correlate significantly with changes in the Edmonton Light oil price.

SALES VOLUMES

	Three months ended June 30,			Six months ended June 30		
Total sales volumes by product	**2020**	2019	% Change	**2020**	2019	% Change
Natural gas (Mcf)	**9,519,606**	9,642,804	(1)	**19,021,056**	19,019,544	-
NGLs (Bbl)	**97,785**	96,692	1	**209,797**	184,958	13
Crude oil (Bbl)	**41,657**	36,351	15	**90,434**	71,968	26
Total Boe	**1,726,043**	1,740,177	(1)	**3,470,407**	3,426,850	1
Total Mcfe	**10,356,258**	10,441,062	(1)	**20,822,442**	20,561,100	1
Natural gas weighting	**92%**	92%	-	**91%**	93%	(2)

	Three months ended June 30,			Six months ended June 30,		
Average daily sales volumes by product	**2020**	2019	% Change	**2020**	2019	% Change
Natural gas (Mcf/d)	**104,611**	105,965	(1)	**104,510**	105,080	(1)
NGLs (Bbl/d)	**1,075**	1,063	1	**1,153**	1,022	13
Crude oil (Bbl/d)	**458**	399	15	**497**	398	26
Total (Boe/d)	**18,968**	19,123	(1)	**19,068**	18,933	1
Total (Mcfe/d)	**113,808**	114,738	(1)	**114,408**	113,598	1

	Three months ended June 30,			Six months ended June 30,		
Average daily sales volumes by area	**2020**	2019	% Change	**2020**	2019	% Change
Central (Boe/d)	**9,849**	9,294	6	**9,892**	9,138	8
Southern (Boe/d)	**7,547**	8,071	(6)	**7,528**	7,972	(6)
Edson (Boe/d)	**1,572**	1,758	(11)	**1,648**	1,823	(10)
Total (Boe/d)	**18,968**	19,123	(1)	**19,068**	18,933	1

Pine Cliff's sales volumes decreased by 1% to 18,968 Boe/d (113,808 Mcfe/d) and increased by 1% to 19,068 Boe/d (114,408 Mcfe/d) for the three months and six months ended June 30, 2020, as compared to the same period in 2019. The nominal increase in production is mainly from the Q4 2019 drilling program, slightly offset by production declines.

COMMODITY SALES

	Three months ended June 30,			Six months ended June 30,		
($000s)	**2020**	2019	% Change	**2020**	2019	% Change
Natural gas	**19,349**	16,252	19	**40,129**	42,896	(6)
NGL	**1,423**	2,876	(51)	**3,964**	6,198	(36)
Crude oil	**921**	2,369	(61)	**3,041**	4,466	(32)
Total oil and gas sales	**21,693**	21,497	1	**47,134**	53,560	(12)
% of revenue from natural gas sales	**89%**	76%	13	**85%**	80%	5

Realized prices

	Three months ended June 30,			Six months ended June 30,		
$ per unit	**2020**	2019	% Change	**2020**	2019	% Change
Natural gas ($/Mcf)	**2.03**	1.69	20	**2.11**	2.26	(7)
NGL ($/Bbl)	**14.56**	29.74	(51)	**18.90**	33.51	(44)
Crude oil ($/Bbl)	**22.10**	65.16	(66)	**33.63**	62.06	(46)
Total ($/Boe)	**12.57**	12.35	2	**13.58**	15.63	(13)
Total ($/Mcfe)	**2.09**	2.06	2	**2.26**	2.61	(13)

Commodity sales in the three months ended June 30th, 2020 of $21.7 million increased slightly from $21.5 million in the same period of 2019, primarily due to higher realized natural gas prices. Commodity sales in the six months ended June 30, 2020, decreased $6.4 million to $47.1 million from $53.6 million in the six months ended June 30, 2019, with the decrease attributable to lower realized commodity prices.

Pine Cliff's realized natural gas price was $2.03 per Mcf in the three months ended June 30, 2020, 20% higher than the $1.69 per Mcf realized in the corresponding period of the prior year, correlating with the AECO 5A reference price increase of 92% as a result of improving egress and the ability of natural gas in Western Canada being able to be produced into storage. Pine Cliff's realized natural gas price was $2.11 per Mcf in the six months ended June 30, 2020, 7% lower than the $2.26 per Mcf realized in the corresponding periods of the prior year. Pine Cliff's realized natural gas price was 2% higher and 5% higher than the AECO 5A benchmark in the three and six months ended June 30, 2020, both a result of Pine Cliff's marketing diversification to non-AECO markets and fixed price physical natural gas sales contracts.

For the three and six months ended June 30, 2020 Pine Cliff's realized NGL price was $14.56 per Bbl and $18.90 per Bbl, compared to $29.74 per Bbl and $33.51 per Bbl in the corresponding periods of the prior year. For the three and six months ended June 30, 2020, Pine Cliff's realized crude oil price was $22.10 per Bbl and $33.63 per Bbl, compared to $65.16 per Bbl and $62.06 per Bbl in the corresponding periods of the prior year. Pine Cliff's realized crude oil prices in the three and six months ended June 30, 2020 were 74% and 83% of Edmonton Light compared to 88% in both corresponding periods of the prior year. Pine Cliff's realized NGL prices in the three and six months ended June 30, 2020 were 49% and 47% of Edmonton Light compared to 40% and 48% in the corresponding periods of the prior year. This decrease in NGL prices is consistent with the reduction in realized crude oil prices.

The disruption to global economic activity due to the spread of the COVID-19 global health pandemic has resulted in a reduction of global demand for crude oil and a decrease in the world price of crude oil.

ROYALTY EXPENSE

	Three months ended June 30,			Six months ended June 30,		
($000s)	**2020**	2019	% Change	**2020**	2019	% Change
Total royalty expense	**1,017**	391	160	**2,757**	2,110	31
$ per Boe	**0.59**	0.22	168	**0.79**	0.62	27
$ per Mcfe	**0.10**	0.04	168	**0.13**	0.10	27
Royalty expense as a % of oil and gas sales	**5%**	2%	150	**6%**	4%	50

For the three and six months ended June 30, 2020, total royalty expense increased by 160% and 31% to $1.0 million and $2.8 million from $0.4 million and $2.1 million in the corresponding periods of the prior year. Royalty expense as a percentage of commodity sales increased to 5% and 6% in the three and six months ended June 30, 2019, compared to 2% and 4% in the corresponding periods of the prior year. The increase in royalty expenses as a percentage of commodity sales for the three and six months ended June 30, 2020, is primarily due to an increase in natural gas prices and a lower gas cost allowance.

TRANSPORTATION COSTS

	Three months ended June 30,			Six months ended June 30,		
($000s)	**2020**	2019	% Change	**2020**	2019	% Change
Total transportation costs	**2,366**	2,988	(21)	**4,742**	6,084	(22)
$ per Boe	**1.37**	1.72	(20)	**1.37**	1.78	(23)
$ per Mcfe	**0.23**	0.29	(20)	**0.23**	0.30	(23)

Transportation costs decreased by 21% and 22% to $2.4 million and $4.7 million for the three and six months ended June 30, 2020, as compared to $3.0 million and $6.1 million in the corresponding periods of the prior year. The lower transportation expenses are related to the Company delivering a lower proportion of its natural gas to non-AECO markets.

OPERATING EXPENSES

	Three months ended June 30,			Six months ended June 30,		
($000s)	**2020**	2019	% Change	**2020**	2019	% Change
Operating expenses	**18,088**	18,571	(3)	**36,424**	36,944	(1)
Less: processing income	**(787)**	(766)	3	**(1,737)**	(1,485)	17
Net production expense	**17,301**	17,805	(3)	**34,687**	35,459	(2)
$ per Boe	**10.02**	10.23	(2)	**10.00**	10.35	(3)
$ per Mcfe	**1.67**	1.71	(2)	**1.67**	1.72	(3)

Net operating expenses decreased by 3% and 2% to $17.3 million and $34.7 million for the three and six months ended June 30, 2020, as compared to $17.8 million and $35.5 million in the corresponding periods of the prior year, primarily as a result of realizing cost savings from field optimization initiatives in 2020 and higher processing and gathering income. On a per Boe basis, operating costs decreased to $10.02 per Boe and $10.00 per Boe for the three and six months ended June 30, 3030 compared to $10.23 per Boe and 10.35 per Boe in the corresponding periods of 2019.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

	Three months ended June 30,			Six months ended June 30,		
($000s)	**2020**	2019	% Change	**2020**	2019	% Change
Gross G&A	**1,451**	1,812	(20)	**3,472**	4,033	(14)
Add: non-recurring transaction costs	**-**	15	-	**-**	15	(100)
Less: overhead recoveries	**(455)**	(543)	(16)	**(991)**	(1,163)	(15)
Total G&A expenses	**996**	1,284	(22)	**2,481**	2,885	(14)
$ per Boe	**0.58**	0.74	(22)	**0.71**	0.84	(15)
$ per Mcfe	**0.10**	0.12	(22)	**0.12**	0.14	(15)

G&A decreased by 22% to $1 million in the three months ended June 30, 2020, as compared to $1.3 million in the corresponding period of the prior year. The decrease in G&A during the three months ended June 30, 2020 is primarily a result of lower head office costs, including the receipt of the Federal Government of Canada's Wage Subsidy Program ("**CEWS**") for two months. G&A decreased to $2.5 million for the six months ended June 30, 2020 as compared to $2.9 million in the corresponding period of the prior year.

On a per Boe basis, G&A for the three months ended June 30, 2030, decreased 22% to $0.58 per Boe from $0.74 per Boe in the corresponding period of the prior year, primarily a result of timing of expenditures, and the receipt of CEWS. On a per Boe basis, G&A for the six months ended June 30, 2020 decreased 15% to $0.71 per Boe from $0.84 per Boe in the corresponding period of the prior year, primarily a result of the receipt of CEWS.

SHARE-BASED PAYMENTS

($000s)	Three months ended June 30, 2020	2019	% Change	Six months ended June 30, 2020	2019	% Change
Total share-based payments	**173**	316	(45)	**395**	661	(40)
$ per Boe	**0.10**	0.18	(44)	**0.11**	0.19	(42)
$ per Mcfe	**0.02**	0.03	(44)	**0.02**	0.03	(42)

The decrease in share-based payments of 45% and 40% for the three and six months ended June 30, 2020 compared to the corresponding periods of 2019 is primarily a result of the decrease in the fair value of the stock options granted in 2020. 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 the outstanding Common Shares.

During the six months ended June 30, 2019, Pine Cliff granted 8,506,850 stock options to purchase Common Shares at a weighted average exercise price of $0.14 (June 30, 2019 – 7,134,141 at an average exercise price of $0.21). As at June 30, 2020, the Company had 28,855,803 stock options outstanding representing 8.8% of Common Shares outstanding (June 30, 2019 – 25,749,628 representing 7.9% of Common Shares outstanding).

DEPLETION, DEPRECIATION AND IMPAIRMENT

($000s)	Three months ended June 30, 2020	2019	% Change	Six months ended June 30, 2020	2019	% Change
Total depletion and depreciation	**11,403**	11,930	(4)	**23,000**	23,319	(1)
$ per Boe	**6.61**	6.86	(4)	**6.63**	6.80	(3)
$ per Mcfe	**1.10**	1.14	(4)	**1.10**	1.13	(3)
Impairment	**-**	8,200	(100)	**7,900**	8,200	(4)
Total depletion, depreciation and impairment	**11,403**	20,130	(43)	**30,900**	31,519	(2)
$ per Boe	**6.61**	11.57	(43)	**8.90**	9.2	(3)
$ per Mcfe	**1.10**	1.93	(43)	**1.48**	1.53	(3)

Depletion and depreciation expense for the three and six months ended June 30, 2020, totaled $11.4 million and $23.0 million compared to $11.9 million and $23.3 million in the corresponding periods of the prior year. The decrease is a result of a lower depletable base. Depletion and depreciation per Boe will fluctuate from one period to the next depending on changes in reserves that result from commodity prices and the amount and success of capital expenditures. Depletion is calculated using total proved and probable reserves and reserves estimates are subject to revision.

PP&E Impairment Assessment

As at June 30, 2020, the Company reviewed for indicators of impairment and determined there were no impairment indicators present. An impairment of $7.9 million was recorded for the period ended March 31, 2020.

The following cash generating units ("**CGU**") were impaired as of June 30:

($000s)	Six months ended June 30, 2020	2019
CGU		
Edson	**7,900**	-
Southern	**-**	8,200
Total Impairment	**7,900**	8,200

FINANCE EXPENSES

($000s)	Three months ended June 30, 2020	2019	%Change	Six months ended June 30, 2020	2019	% Change
Interest expense and bank charges	**1,242**	1,076	15	**2,543**	2,246	13
$ per Boe	**0.72**	0.62	16	**0.73**	0.66	11
$ per Mcfe	**0.12**	0.10	16	**0.12**	0.11	11
Non cash:						
Accretion on decommissioning provision	**1,333**	1,606	(17)	**2,752**	3,142	(12)
Accretion on term debt	**26**	80	(68)	**52**	158	(67)
Total finance expenses	**2,601**	2,762	(6)	**5,347**	5,546	(4)
$ per Boe	**1.51**	1.59	(5)	**1.54**	1.62	(5)
$ per Mcfe	**0.25**	0.26	(5)	**0.26**	0.27	(5)

Finance expenses decreased by 6% and 4% to $2.6 million and $5.3 million for the three and six months ended June 30, 2020, as compared to $2.8 million and $5.5 million in the corresponding period of the prior year, primarily a result of a decrease in accretion expenses related to a lower risk free rate used to unwind the discount on the decommissioning provision, slightly offset by higher interest costs due to increased Term Debt, as defined herein. Please refer to the "DEBT, LIQUIDITY AND CAPITAL RESOURCES" section for additional information.

CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS

($000s)	**Six months ended June 30, 2020**	Year ended December 31, 2019
Exploration and evaluation	**10**	398
Property, plant and equipment	**3,987**	7,981
Capital expenditures	**3,997**	8,379
Acquisitions	**(10)**	8,801
Dispositions	**(30)**	(1,542)
Total	**3,957**	15,638

Capital expenditures

Capital expenditures on PP&E of $4.0 million during the six months ended June 30, 2020 were directed towards the drilling, completion, and tie-in of two gross (0.2 net) wells in the Edson area for $0.9 million, the tie-in of the operated Pekisko wells drilled during the fourth quarter of 2019 for $0.5 million, facility and maintenance capital of $2.3 million, and $0.3 million of other miscellaneous capital additions.

DECOMMISSIONING PROVISION

The total current and long-term decommissioning provision of $233.8 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 June 30, 2020, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was $249.9 million (December 31, 2019 - $249.3 million). The discounted and inflated amount required to settle the decommissioning liabilities of $233.8 million has been calculated assuming a 2.0% inflation rate (December 31, 2019 – 1.95%) and discounted using a risk-free nominal rate of 2.30% (December 31, 2019 – 2.57%). During the six months ended June 30, 2020, due to forces influencing global capital markets, long-term risk-free nominal rates in Canada declined below target inflation rates, implying a negative real rate of return. The Company determined that applying these rates to current cost estimates would not provide an accurate measurement of the decommissioning provision as observable stand-alone risk-free real rates of return continue to be positive. To provide a more accurate measurement of the provision, the Company applied a risk-free real return rate of 0.3 percent to estimate the present value of the decommissioning provision at June 30, 2020, resulting in a change in estimate.

Changes in the measurement of the decommissioning provision are added to, or deducted from, the cost of the related asset in property, plant and equipment. When a re-measurement of the decommissioning provision relates to a retired asset, the amount is recorded in the statement of comprehensive loss. 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

Due to Related Party Note

On October 1, 2019, Pine Cliff amended and restated its $6.0 million subordinated promissory note to the Company's Chairman of the Board. This amended and restated promissory note matures on December 31, 2024 ("**Related Party Note**"), bears interest at 6.5% per annum and is payable monthly. The 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 holder of the Term Debt, as defined herein. Interest paid on the Related Party Note for the three and six months ended June 30, 2020 was $0.1 million and $0.2 million (June 30, 2019 - $0.1 million and $0.2 million).

Subordinated Promissory Notes

On October 1, 2019, Pine Cliff amended and restated its $6.0 million subordinated promissory notes. These amended and restated subordinated promissory notes mature on December 31, 2024 ("**$6 Million Notes**"), bear interest at 6.5% per annum and are payable monthly. The $6 Million Notes are 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 Notes are secured by a $6.0 million floating charge debenture over all of the Company's assets and are subordinated to any and all claims in favor of the holder of the Term Debt.

Term Debt

On October 1, 2019, Pine Cliff entered into a credit facility with Alberta Investment Management Corporation ("**AIMCo**"), acting on behalf of its clients, to repay its $30 million promissory notes maturing September 30, 2020 ("**2020 Notes**") and its $19 million promissory notes maturing July 31, 2022 ("**2022 Notes**") and replace them with a non-revolving term credit facility ("**Term Debt**"). The Term Debt consists of a first tranche with a principal amount of $30 million that matures on December 31, 2024 (the **"2024 Tranche**") and a second tranche with a principal amount of $19 million that matures on July 31, 2022 (the **"2022 Tranche**"), (collectively the **"Refinancing** "). Interest on the 2024 Tranche is payable at a rate of 8.75% per annum until September 30, 2020 and thereafter such interest rate will increase by 1% per annum up to 12.75% and interest is payable on the 2022 Tranche at a rate of 7.05% per annum. All or a portion of the principal amount outstanding can be repaid at any time, but without any penalty or premium after September 30, 2022 with respect to the 2024 Tranche and, July 13, 2021 with respect to the 2022 Tranche. A total of 7.5 million Common Share purchase warrants (the "**Warrants**") were issued in connection with the Refinancing, with each Warrant entitling the holder to purchase one Common Share of Pine Cliff for $0.20565, until September 30, 2022. The Refinancing security consists of floating demand debentures totaling $150.0 million and a general security agreement with first ranking over all current and acquired properties.

The fair value of the Refinancing was determined on drawdown to be 10.1%, using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to the Warrants. The value of the Term Debt accretes up to the principal balance of each tranche at maturity.

Non-Financial Covenants

The Term Debt contains various covenants on the part of the Company and its subsidiaries, including covenants that place limitations on certain types of activities, including restrictions or requirements with respect to additional debt, liens, assets sales, hedging activities, management of environmental liabilities, investments, distributions, and mergers and acquisitions. The Term Debt does not include any financial covenants.

Letter of Credit Facility

As at June 30, 2020, the Company had a $2.6 million letter of credit facility ("**LC Facility**") with a Canadian bank which is supported by a performance guarantee from Export Development Canada (December 31, 2019 - $2.6 million). 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 LC Facility does not contain any financial covenants. As at June 30, 2020, the Company had $2.5 million in letters of credit issued against its LC Facility (December 31, 2019 - $2.6 million).

Liquidity and Capital Resources

The Company's capital comprises shareholders' deficit, Term Debt, subordinated promissory notes, due to related party and working capital. Pine Cliff manages the capital structure and makes adjustments considering economic conditions and the risks of the underlying assets. The Company carries a working capital deficiency as cash balances are used to fund ongoing operations. Pine Cliff has and will continue to manage its working capital needs through its physical diversification program, adjusting timing of capital expenditures, executing asset dispositions and issuing equity when practical.

The Company's objectives when managing capital, which the Company defines to include shareholders' equity and net debt, is to ensure that it has the financial capacity, liquidity and flexibility to fund its capital program and acquisitions. As it is not unusual for capital expenditures and acquisitions to exceed cash flow from operating activities in a given period, the Company is required to maintain financial flexibility and liquidity to maintain an optimal capital structure to reduce the cost of capital.

In light of the current volatility in commodity prices due to the effect of COVID-19 on global oil and natural gas demand, the preparation of financial forecasts is challenging. As a result, there may be adverse changes in cash flows and working capital deficiency levels that are currently unforeseen. In order to maintain or adjust the capital structure, the Company may issue debt, Common Shares or a combination thereof and make adjustments to its capital investment programs.

The Company defines and computes its net debt as follows:

($000s)	**June 30, 2020**	December 31, 2019	$ Change
Due to related party[1]	**6,000**	6,000	-
Subordinated promissory notes[1]	**6,000**	6,000	-
Term debt[2]	**49,000**	49,000	-
Trade and other payables	**25,453**	27,514	(2,061)
Less:			
Trade and other receivables	**(10,968)**	(13,597)	2,629
Cash	**(3,794)**	(8,661)	4,867
Prepaid expenses and deposits	**(2,418)**	(2,218)	(200)
Net debt[3]	**69,273**	64,038	5,235

[1] The debt due to related party and subordinated promissory notes are due on December 31, 2024.
[2] The Term Debt for net debt purposes are presented at the principal amount with $19.0 million due on July 31, 2022 and $30.0 million due on December 31, 2024.
[3] This is a non-GAAP measure, see NON-GAAP MEASURES for additional information.

Share Capital

Share capital	**August 5, 2020**	June 30, 2020	December 31, 2019
Common Shares	**327,784,193**	327,784,193	327,784,193
Stock options	**28,736,033**	28,855,803	25,828,738
Warrants	**10,350,000**	10,350,000	10,350,000

COMMITMENTS AND CONTINGENCIES

As at June 30, 2020, the Company has the following commitments and other contractual obligations:

	2020	2021	2022	2023	2024	Thereafter
($000s)						
Trade and other payables	25,453	-	-	-	-	-
Term debt[1]	-	-	19,000	-	30,000	-
Due to related party	-	-	-	-	6,000	-
Subordinated promissory notes	-	-	-	-	6,000	-
Future interest	2,448	5,120	4,861	4,380	4,605	-
Lease obligations[2]	620	1,156	964	788	144	11
Transportation[3]	4,110	6,888	6,057	4,438	3,968	9,475
Total commitments and contingencies	**32,631**	**13,164**	**30,882**	**9,606**	**50,717**	**9,486**

[1] Principal amount.
[2]Future payments associated with lease liabilities
[3]Firm transportation agreements.

QUARTERLY TRENDS AND SELECTED FINANCIAL INFORMATION[1]

	2020			2019			2018	
($000s, unless otherwise indicated)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
FINANCIAL								
Total revenue	**21,463**	24,651	29,520	20,307	21,872	31,063	21,234	24,846
Cash flow from operating activities	**539**	1,637	4,039	(2,931)	6,503	7,925	1,415	(309)
Adjusted funds flow[2]	**(1,229)**	1,153	5,025	(3,922)	(2,047)	6,823	4,433	1,920
Adjusted funds flow per share – basic and diluted ($/share)[2]	**(0.00)**	0.00	0.02	(0.01)	(0.01)	0.02	0.01	0.01
Loss	**(14,164)**	(20,011)	(7,987)	(17,739)	(24,179)	(6,525)	(28,520)	(10,710)
Loss per share – basic and diluted ($/share)	**(0.04)**	(0.06)	(0.02)	(0.05)	(0.08)	(0.02)	(0.09)	(0.03)
Capital expenditures	**2,175**	1,822	5,446	1,123	815	995	4,302	1,910
Acquisitions	**(75)**	65	202	(7)	8,604	2	(61)	659
Dispositions	**(30)**	-	(1,443)	(14)	(85)	-	(51)	(16)
Net debt[2]	**69,273**	65,532	64,038	63,745	58,162	51,820	56,819	56,325
Weighted average common shares outstanding:								
Basic and diluted	**327,784**	327,784	327,784	327,784	314,130	307,076	307,076	307,076
PRODUCTION VOLUMES								
Natural gas (Mcf/d)	**104,611**	104,412	108,208	104,488	105,965	104,186	110,295	111,067
Natural gas liquids (Bbl/d)	**1,075**	1,231	1,216	1,195	1,063	981	957	861
Crude oil (Bbl/d)	**458**	536	410	423	399	396	236	231
Average sales volumes (Boe/d)	**18,968**	19,169	19,661	19,033	19,123	18,741	19,576	19,603
Average sales volumes (Mcfe/d)	**113,808**	115,014	117,966	114,198	114,738	112,446	117,456	117,618
PRICES AND NETBACKS								
Total oil and gas sales ($/Boe)	**12.57**	14.58	17.33	11.48	12.35	19.01	16.72	14.21
Operating netback ($/Boe)[2]	**0.59**	2.25	4.16	(0.97)	0.18	5.68	3.56	2.34
Corporate netback ($/Boe)[2]	**(0.71)**	0.65	2.79	(2.24)	(1.18)	4.04	2.46	1.06
Total oil and gas sales ($/Mcfe)	**2.10**	2.43	2.89	1.91	2.06	3.17	2.79	2.37
Operating netback ($/Mcfe)[2]	**0.10**	0.38	0.69	(0.16)	0.03	0.95	0.59	0.39
Corporate netback ($/Mcfe)[2]	**(0.12)**	0.11	0.47	(0.37)	(0.20)	0.67	0.41	0.18

[1] Includes results for acquisitions from the closing dates.
[2]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 losses have fluctuated primarily due to changes in commodity prices and sales volumes. Losses also fluctuate with non-cash expenditures, including depletion, depreciation and impairments. Selected highlights for the past eight quarters are consistent with those disclosed in the Annual MD&A, except as described below.

- Adjusted funds flow decreased from the first quarter of 2020 to the second quarter of 2020, mainly as a result of decreases in commodity prices.
- Average sales volumes decreased in the first quarter of 2020 compared to the fourth quarter of 2019 due to maintenance downtime and production declines.
- Adjusted funds flow decreased from the fourth quarter of 2019 to the first quarter of 2020, mainly as a result of decreases in commodity prices.
- Losses increased in the first quarter of 2020 compared to the fourth quarter of 2019 as a result of impairment charges and decreases in commodity prices.
- Total revenues decreased from the fourth quarter of 2019 to the first quarter of 2020, mainly as a result of lower commodity prices.

OFF BALANCE SHEET TRANSACTIONS

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

FINANCIAL INSTRUMENTS

Financial instruments of the Company consist of cash, trade and other receivables, trade and other payables, due to related party, subordinated promissory notes and Term Debt. The carrying values of cash, trade and other receivables and trade and other payables approximate their respective fair values due to the short time before maturing. The carrying values of due to related party, subordinated promissory notes and Term 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.

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's exposure to market risk, credit risk and liquidity risk are consistent with those disclosed in the Annual Financial Statements, except as described in this section.

Market Risk

Market risk is the risk that the fair value or future cash flow 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, natural gas liquids ("**NGLs**") 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. As a result of the spread of the novel coronavirus ("**COVID-19**") global pandemic, crude oil and NGL demand has dropped sharply. Changes in oil, NGL's 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, NGL 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, NGL's 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. The Company does not hedge its crude oil or NGL commodity price risk. During the six months ended June 30, 2020, Pine Cliff's average sales volumes were 92% natural gas.

Physical Sales Contracts

At June 30, 2020, the Company had the following physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price ($CAD/GJ) [1]	Fixed Sale Price ($CAD/Mcf)[2]
July 1, 2020 to October 31, 2020	AECO	37,500	$1.68	$1.76
July 1, 2020 to October 31, 2020	TransGas[3]	9,000	$2.40	$2.52
April 1, 2021 to October 31, 2021	AECO	5,000	$1.98	$2.08

[1] Prices reported are the weighted average prices of the periods.
[2] Price has been converted from $/GJ to $/Mcf by multiplying by 1.05.
[3] Subsidiary of SaskEnergy, Saskatchewan.

At August 5, 2020, the Company had the following additional physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Fixed Sale Price ($CAD/GJ) [1]	Fixed Sale Price ($CAD/Mcf)[2]
November 1, 2020 to March 31, 2021	AECO	2,500	$2.63	$2.76
April 1, 2021 to October 31, 2021	AECO	2,500	$2.35	$2.47

[1] Prices reported are the weighted average prices of the periods.
[2] Price has been converted from $/GJ to $/Mcf by multiplying by 1.05.

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. During these unprecedented market challenges as a result of COVID-19 and the resulting decrease in global crude oil and NGL demand, collection of accounts receivable from third-parties remains a priority of the Company. Pine Cliff's maximum exposure to credit risk is the sum of the carrying values of its trade and other receivables 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 a major Canadian chartered bank. To mitigate the credit risk on trade and other receivables, Pine Cliff assesses the financial strength of its counterparties and endeavors to enter into relationships with larger purchasers with established credit histories.

The Company's trade and other receivables balance at June 30, 2020 of $11.0 million (December 31, 2019 of $13.6 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. The Company generally considers amounts greater than 90 days to be past due. As at June 30, 2020, there was $1.1 million (December 31, 2019 - $1.0 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 six months ended June 30, 2020, the Company recorded $0.2 million (June 30, 2019 - $0.1 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 and opportunities to issue additional equity. In light of the current volatility in crude oil and NGL commodity prices along with the uncertainty of COVID-19 on global crude oil and NGL demand, the preparation of financial forecasts and estimates are increasingly uncertain. 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 as they become due. Any of these events present risks that could affect Pine Cliff's ability to fund ongoing operations. If required, Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities. (**See – Subsequent Event**).

Financial Derivative Contracts

Pine Cliff had no financial derivative contracts in place during the six months ended June 30, 2020 or subsequent thereto.

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.

A comprehensive discussion of the significant accounting policies, judgements, assumptions and estimates made by management is provided in the Company's Annual Financial Statements and Annual MD&A for the year ended December 31, 2019, except as described in "SIGNIFICANT ACCOUNTING POLICIES".

SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenues from the sale of petroleum and natural gas are recorded when the significant risks and rewards of ownership have been transferred to the customer. Revenue is measured at the fair value of the consideration received or receivable. Petroleum and natural gas revenues are recognized when all of the following conditions have been satisfied:

- Pine Cliff has transferred the significant risks and rewards of ownership of the production to the buyer which usually occurs at the time petroleum or natural gas passes through a terminal point;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be reliably measured.

Revenues from fees charged to third parties for product processing and gathering services provided at facilities are recorded as these services are provided.

INTERNAL CONTROLS

Pine Cliff is required to comply with National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. The certification of interim filings requires the Company to disclose in the MD&A any changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting. As of March 16, 2020, due to COVID-19, all of the Company's office staff were requested to work from home and began to work remotely. Despite working remotely, the Company's policies and procedures that result in the effectiveness of the Company's internal control over financial reporting continued to be in place and the Company concluded that such internal controls over financial reporting continued to be effective. Management confirms that no such changes were made to the internal controls over financial reporting during the six months ended June 30, 2020. The Chief Executive Officer and Chief Financial Officer have signed form 52-109F2, Certification of Interim Filings, which can be found on SEDAR at www.sedar.com

NON-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 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.

	Three months ended June 30,			Six months ended June 30,		
($000s)	**2020**	2019	% Change	**2020**	2019	% Change
Cash flow from operating activities	**539**	6,503	(92)	**2,176**	14,428	(85)
Adjusted by:						
Change in non-cash working capital	**(1,940)**	(8,654)	(78)	**(2,925)**	(10,389)	(72)
Decommissioning obligation settled	**172**	104	65	**673**	737	(9)
Adjusted funds flow	**(1,229)**	(2,047)	(40)	**(76)**	4,776	(102)
Adjusted funds flow ($/Boe)	**(0.71)**	(1.18)	(40)	**(0.02)**	1.38	(101)
Adjusted funds flow ($/Mcfe)	**(0.12)**	(0.20)	(40)	**-**	0.23	(101)
Adjusted funds flow – basic and diluted ($/share)	**-**	(0.01)	(100)	**-**	0.02	(100)

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.

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 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 June 30,			Six months ended June 30,		
($ per Boe, unless otherwise indicated)	**2020**	2019	$ Change	**2020**	2019	$ Change
Commodity sales	**12.57**	12.35	0.22	**13.58**	15.63	(2.05)
Royalty expense	**(0.59)**	(0.22)	(0.37)	**(0.79)**	(0.62)	(0.17)
Transportation expense	**(1.37)**	(1.72)	0.35	**(1.37)**	(1.78)	0.41
Operating expense	**(10.02)**	(10.23)	0.21	**(10.00)**	(10.35)	0.35
Operating netback	**0.59**	0.18	0.41	**1.42**	2.88	(1.46)
General and administrative	**(0.58)**	(0.74)	0.16	**(0.71)**	(0.84)	0.13
Interest and bank charges	**(0.72)**	(0.62)	(0.10)	**(0.73)**	(0.66)	(0.07)
Corporate netback	**(0.71)**	(1.18)	0.47	**(0.02)**	1.38	(1.40)
Operating netback ($ per Mcfe)	**0.10**	0.03	0.07	**0.24**	0.48	(0.24)
Corporate netback ($ per Mcfe)	**(0.12)**	(0.20)	0.08	**-**	0.23	(0.23)

Net Debt

The Company considers net debt to be a key indicator of leverage. Net debt is calculated as the sum of due to related party, subordinated promissory notes, Term Debt and trade and other payables less trade and other receivables, cash, prepaid expenses and deposits. See "DEBT, LIQUIDITY AND CAPITAL RESOURCES" section for table.

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.

SUBSEQUENT EVENT

On August 5, 2020, the Company entered into an agreement to establish a $4.0 million borrowing facility (the "**Facility**") with the Company's Chairman of the Board (the "**Lender**"), whereby the Lender will provide up to $4.0 million of borrowings at an interest rate of 6.5% per annum, payable monthly. The term (the "**Term**") of the Facility will expire on the later of: (i) March 31, 2021; or (ii) the date of full repayment of any outstanding borrowings. Amounts can be drawn, repaid and redrawn by the Company at any time during the Term and borrowings under the Facility are payable on demand to the Lender on 60 days written notice. The Facility can be cancelled at any time by the Lender on 60 days written notice, while the Term may also be extended by mutual consent of the Company and the Lender.

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, expected interest costs, royalty and G&A levels; future capital expenditures, including the amount and nature thereof; future drilling opportunities and Pine Cliff's ability to generate reserves and production from the undrilled locations; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and guidance; expansion and growth of our business and operations; amounts 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, 2019 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 ("**Mcfe**") 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.

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

	Note	**As at June 30, 2020**	As at December 31, 2019
ASSETS			
Current assets			
Cash		**3,794**	8,661
Trade and other receivables	4	**10,968**	13,597
Prepaid expenses and deposits		**2,418**	2,218
Total current assets		**17,180**	24,476
Exploration and evaluation	6	**8,704**	8,694
Property, plant and equipment	7	**274,146**	290,565
Total assets		**300,030**	323,735
LIABILITIES			
Current liabilities			
Trade and other payables	4	**25,453**	27,514
Lease liabilities	8	**1,095**	1,043
Decommissioning provision	12	**2,000**	2,000
Total current liabilities		**28,548**	30,557
Lease liabilities	8	**2,304**	2,666
Due to related party	9	**6,000**	6,000
Subordinated promissory notes	10	**6,000**	6,000
Term debt	11	**48,694**	48,642
Decommissioning provision	12	**231,754**	219,360
Total liabilities		**323,300**	313,225
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	13	**273,421**	273,421
Warrants		**460**	460
Contributed surplus		**14,026**	13,631
Deficit		**(311,177)**	(277,002)
Total shareholders' equity (deficit)		**(23,270)**	10,510
Total liabilities and shareholders' equity		**300,030**	323,735

Commitments (Note 16)
Subsequent Event (Note 18)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Canadian dollars, 000s except per share data)

(unaudited)

		Three months ended June 30,		Six months ended June 30,	
	Note	**2020**	2019	**2020**	2019
REVENUE					
Commodity sales	14	**21,693**	21,497	**47,134**	53,560
Royalty expense		**(1,017)**	(391)	**(2,757)**	(2,110)
Oil and gas sales, net of royalties		**20,676**	21,106	**44,377**	51,450
Processing and gathering	14	**787**	766	**1,737**	1,485
Total revenue		**21,463**	21,872	**46,114**	52,935
EXPENSES					
Operating		**18,088**	18,571	**36,424**	36,944
Transportation		**2,366**	2,988	**4,742**	6,084
Depletion and depreciation	7	**11,403**	11,930	**23,000**	23,319
Impairment	7	**-**	8,200	**7,900**	8,200
Share-based payments	13	**173**	316	**395**	661
Finance	15	**2,601**	2,762	**5,347**	5,546
General and administrative		**996**	1,284	**2,481**	2,885
Total expenses		**35,627**	46,051	**80,289**	83,639
LOSS AND OTHER COMPREHENSIVE LOSS FOR THE PERIOD		**(14,164)**	(24,179)	**(34,175)**	(30,704)
Loss per share ($)					
Basic and diluted	13	**(0.04)**	(0.08)	**(0.10)**	(0.10)

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

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

	Note	Three months ended June 30, 2020	2019	Six months ended June 30, 2020	2019
CASH PROVIDED BY (USED IN):					
OPERATING ACTIVITIES					
Loss for the period		**(14,164)**	(24,179)	**(34,175)**	(30,704)
Items not affecting cash:					
Depletion and depreciation	7	**11,403**	11,930	**23,000**	23,319
Impairment	7	**-**	8,200	**7,900**	8,200
Share-based payments	13	**173**	316	**395**	661
Finance expenses	15	**2,601**	2,762	**5,347**	5,546
Interest and bank charges	15	**(1,242)**	(1,076)	**(2,543)**	(2,246)
Decommissioning obligations settled	12	**(172)**	(104)	**(673)**	(737)
Changes in non-cash working capital accounts	15	**1,940**	8,654	**2,925**	10,389
Cash provided by operating activities		**539**	6,503	**2,176**	14,428
INVESTING ACTIVITIES					
Property, plant and equipment	7	**(2,178)**	(804)	**(3,987)**	(1,794)
Exploration and evaluation	6	**3**	(11)	**(10)**	(16)
Acquisitions	7	**75**	(8,604)	**10**	(8,606)
Dispositions	7	**30**	85	**30**	85
Changes in non-cash working capital accounts	15	**(248)**	166	**(2,557)**	(3,201)
Cash used in investing activities		**(2,318)**	(9,168)	**(6,514)**	(13,532)
FINANCING ACTIVITIES					
Issuance of common shares, net of share issue costs		**-**	5,345	**-**	5,345
Common share proceeds restricted		**-**	(1,500)	**-**	(1,500)
Payments on lease obligations	8	**(270)**	(202)	**(529)**	(396)
Cash provided by (used in) financing activities		**(270)**	3,643	**(529)**	3,449
Increase (decrease) in cash		**(2,049)**	978	**(4,867)**	4,345
Cash - beginning of period		**5,843**	6,930	**8,661**	3,563
CASH - END OF PERIOD		**3,794**	7,908	**3,794**	7,908

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Canadian dollars, 000s)

(unaudited)

	Note	Share capital	Contributed surplus [1]	Warrants	Deficit	Total equity
BALANCE AT JANUARY 1, 2019		**268,743**	**12,515**	**288**	**(220,572)**	**60,974**
Loss for the period		-	-	-	(30,704)	(30,704)
Share-based payments	13	-	661	-	-	661
Issuance of common shares, net of share issue costs		4,768	-	-	-	4,768
Share issue costs, net of tax		(90)	-	-	-	(90)
BALANCE AT June 30, 2019		**273,421**	**13,176**	**288**	**(251,276)**	**35,609**
Loss for the period		-	-	-	(25,726)	(25,726)
Share-based payments	13	-	455	-	-	455
Issuance of warrants		-	-	172	-	172
BALANCE AT December 31, 2019		**273,421**	**13,631**	**460**	**(277,002)**	**10,510**
Loss for the period		-	-	-	(34,175)	(34,175)
Share-based payments	13	-	395	-	-	395
BALANCE AT June 30, 2020		**273,421**	**14,026**	**460**	**(311,177)**	**(23,270)**

[1]Contributed surplus is comprised of share-based payments.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at June 30, 2020 and December 31, 2019 and for the three and six month periods ended June 30, 2020 and 2019.
(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. Common shares of the Company ("**Common Shares**") are listed for trading on the Toronto Stock Exchange ("**TSX**") under the symbol "**PNE**".

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 condensed consolidated financial statements (the "**Financial Statements**") reflect only the Company's proportionate interest in such activities.

2. BASIS OF PREPARATION

The Financial Statements have been prepared in accordance with IAS 34 – Interim Financial Reporting using International Financial Reporting Standards ("**IFRS**").

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, 2019 ("**Annual Financial Statements**").

The accounting policies, basis of measurement, critical accounting judgments and significant estimates to prepare the Annual Financial Statements as at and for the year ended December 31, 2019 have been applied in the preparation of these Financial Statements, except as described in Note 3.

The Financial Statements were authorized for issue by the Company's board of directors on August 5, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenues from the sale of petroleum and natural gas are recorded when the significant risks and rewards of ownership have been transferred to the customer. Revenue is measured at the fair value of the consideration received or receivable. Petroleum and natural gas revenues are recognized when all of the following conditions have been satisfied.

- Pine Cliff has transferred the significant risks and rewards of ownership of the production to the buyer which usually occurs at the time petroleum or natural gas passes through a terminal point;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be reliably measured.

Revenues from fees charged to third parties for product processing and gathering services provided at facilities are recorded as these services are provided.

Financial statement reclassification

The Company has elected to disclose its processing and gathering revenue gross of operating expenses, as the company believes the revenue stream to be separate from the commodity extraction process. The reclassification had no changes to operating cash flows, or net loss for the period.

($000s)	Three months ended June 30, 2019	Six months ended June 30, 2019
Operating expenses – as originally reported	17,805	35,459
Processing and gathering income - reclassification	766	1,485
Operating expenses – as restated	**18,571**	**36,944**

($000s)	Three months ended June 30, 2019	Six months ended June 30, 2019
Processing and gathering income – as originally reported	-	-
Processing and gathering income - reclassification	766	1,485
Processing and gathering income – as restated	**766**	**1,485**

4. FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement

Financial instruments of the Company consist of cash, trade and other receivables, trade and other payables, due to related party, subordinated promissory notes, and term debt. The carrying values of cash, restricted cash, trade and other receivables and trade and other payables approximate their respective fair values due to the short time before maturing. 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.

The following table sets out the Company's classification, carrying value and fair value of financial assets and liabilities as at June 30, 2020 and December 31, 2019:

($000s)	**June 30, 2020**		December 31, 2019	
Description	**Carrying value**	**Fair value**	Carrying value	Fair value
Cash	**3,794**	**3,794**	8,661	8,661
Trade and other receivables	**10,968**	**10,968**	13,597	13,597
Trade and other payables	**(25,453)**	**(25,453)**	(27,514)	(27,514)
Due to related party	**6,000**	**6,000**	(6,000)	(6,000)
Subordinated promissory notes	**6,000**	**6,000**	(6,000)	(6,000)
Term debt	**(48,694)**	**(48,694)**	(48,642)	(48,642)

5. 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's exposure to market risk, credit risk and liquidity risk are consistent with those disclosed in the Annual Financial Statements, except as described in this note.

Market Risk

Market risk is the risk that the fair value or future cash flow 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, natural gas liquids ("**NGLs**") 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. As a result of the spread of the novel coronavirus ("**COVID-19**") global pandemic, crude oil and NGL demand has dropped sharply. Changes in oil, NGL's 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, NGL 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, NGL's 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. The Company does not hedge its crude oil or NGL commodity price risk. During the six months ended June 30, 2020, Pine Cliff's average sales volumes were 91% natural gas.

Physical Sales Contracts

At June 30, 2020, 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]
July 1, 2020 to October 31, 2020	AECO	37,500	$1.68	$1.76
July 1, 2020 to October 31, 2020	TransGas[3]	9,000	$2.40	$2.52
April 1, 2021 to October 31, 2021	AECO	5,000	$1.98	$2.05

[1] Prices reported are the weighted average prices of the periods.
[2] Price has been converted from $/GJ to $/Mcf by multiplying by 1.05.
[3] Subsidiary of SaskEnergy, Saskatchewan.

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. During these unprecedented market challenges as a result of COVID-19 and the resulting decrease in global crude oil and NGL demand, collection of accounts receivable from third-parties remains a priority of the Company. Pine Cliff's maximum exposure to credit risk is the sum of the carrying values of its trade and other receivables 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 a major Canadian chartered bank. To mitigate the credit risk on trade and other receivables, Pine Cliff assesses the financial strength of its counterparties and endeavors to enter into relationships with larger purchasers with established credit histories.

The Company's trade and other receivables balance at June 30, 2020 of $11.0 million (December 31, 2019 of $13.6 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. The Company generally considers amounts greater than 90 days to be past due. As at June 30, 2020, there was $1.1 million (December 31, 2019 - $1.0 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 six months ended June 30, 2020, the Company recorded $0.2 million (June 30, 2019 - $0.1 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 and opportunities to issue additional equity. In light of the current volatility in crude oil and NGL commodity prices along with the uncertainty of COVID-19 on global crude oil and NGL demand, the preparation of financial forecasts and estimates are increasingly uncertain. 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 as they become due. Any of these events present risks that could affect Pine Cliff's ability to fund ongoing operations. If required, Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities. (**See Note 18 – Subsequent Event**).

Financial Derivative Contracts

Pine Cliff had no financial derivative contracts in place during the six months ended June 30, 2020 or subsequent to.

6. EXPLORATION AND EVALUATION

Exploration and evaluation assets ($000s):	Oil and gas properties	Mineral properties	Total
Balance at December 31, 2018	19,500	3,120	22,620
Additions	345	53	398
Transfer to property, plant, and equipment	(14,324)	-	(14,324)
Balance at December 31, 2019	**5,521**	**3,173**	**8,694**
Additions	(3)	13	10
Balance at June 30, 2020	**5,518**	**3,186**	**8,704**

7. PROPERTY, PLANT AND EQUIPMENT

Cost:	($000s)
Balance at December 31, 2018	**588,842**
Additions	7,981
Lease Obligations	4,585
Transfer from exploration and evaluation	14,324
Acquisitions	8,801
Dispositions	(1,542)
Decommissioning provision	838
Balance at December 31, 2019	**623,829**
Additions	3,987
Lease obligations	219
Acquisitions	(10)
Dispositions	(30)
Decommissioning provision	10,315
Balance at June 30, 2020	**638,310**

Accumulated depletion and depreciation:	($000s)
Balance at December 31, 2018	**(278,200)**
Depletion and depreciation	(46,864)
Impairment	(8,200)
Balance at December 31, 2019	**(333,264)**
Depletion and depreciation	(23,000)
Impairment	(7,900)
Balance at June 30, 2020	**(364,164)**

Carrying value at:	($000s)
December 31, 2019	290,565
June 30, 2020	**274,146**

PP&E Impairment Assessment

As at June 30, 2020, the Company reviewed indicators of impairment and determined there were no impairment indicators present. An impairment of $7.9 million was recorded for the period ended March 31, 2020.

The following cash generating units (the "**CGU**") were impaired as of June 30:

CGU	**2020**	2019
Edson	**7,900**	-
Southern	**-**	8,200
Total Impairment	**7,900**	8,200

8. LEASE LIABILITIES

Pine Cliff had the following future commitments associated with its lease liabilities:

	($000s)
2020	620
2021	1,156
2022	964
2023	788
2024	144
Thereafter	11
Total lease payments as at June 30, 2020	3,683
Amounts representing interest	(284)
Present value of lease payments	**3,399**
Current portion of lease obligations	(1,095)
Non-current portion of lease obligations	**2,304**

For the six months ended June 30, 2020, interest expense of $0.08 million (June 30, 2019 - $0.08 million) and a total cash outflow of $0.5 million (June 30, 2019 - $0.4 million) was recognized relating to lease obligations.

9. DUE TO RELATED PARTY

On October 1, 2019, Pine Cliff amended and restated its $6.0 million subordinated promissory note to the Company's Chairman of the Board. This amended and restated promissory note matures on December 31, 2024 ("**Related Party Note**"), bears interest at 6.5% per annum and is payable monthly. The 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 holder of the Term Debt, as defined herein. Interest paid on the Related Party Note for the three and six months ended June 30, 2020 was $0.1 million and $0.2 million (June 30, 2019 - $0.1 million and $0.2 million).

10. SUBORDINATED PROMISSORY NOTES

On October 1, 2019, Pine Cliff amended and restated its $6.0 million subordinated promissory notes. These amended and restated subordinated promissory notes mature on December 31, 2024 ("**$6 Million Notes**"), bear interest at 6.5% per annum and are payable monthly. The $6 Million Notes are 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 Notes are secured by a $6.0 million floating charge debenture over all of the Company's assets and are subordinated to any and all claims in favor of the holder of the Term Debt.

11. TERM DEBT

($000s)	**As at June 30, 2020**	As at December 31, 2019
Term debt – beginning of year	**48,642**	-
Term debt principal drawdown	**-**	49,000
Value allocated to Warrants	**-**	(172)
Accretion expense	**52**	(186)
Term debt - end of year	**48,694**	48,642

On October 1, 2019, Pine Cliff entered into a credit facility with Alberta Investment Management Corporation ("**AIMCo**"), acting on behalf of its clients, to repay its $30 million promissory notes maturing September 30, 2020 ("**2020 Notes**") and its $19 million promissory notes maturing July 31, 2022 ("**2022 Notes**") and replace them with a non-revolving term credit facility ("**Term Debt**"). The Term Debt consists of a first tranche with a principal amount of $30 million that matures on December 31, 2024 (the "**2024 Tranche**") and a second tranche with a principal amount of $19 million that matures on July 31, 2022 (the "**2022 Tranche**"), (collectively the "**Refinancing** "). Interest on the 2024 Tranche is payable at a rate of 8.75% per annum until September 30, 2020 and thereafter such interest rate will increase by 1% per annum up to 12.75% and interest is payable on the 2022 Tranche at a rate of 7.05% per annum. All or a portion of the principal amount outstanding can be repaid at any time, but without any penalty or premium after September 30, 2022 with respect to the 2024 Tranche and, July 13, 2021 with respect to the 2022 Tranche. A total of 7.5 million Common Share purchase warrants (the "**Warrants**") were issued in connection with the Refinancing, with each Warrant entitling the holder to purchase one Common Share of Pine Cliff for $0.20565, until September 30, 2022. The Refinancing security consists of floating

demand debentures totaling $150.0 million and a general security agreement with first ranking over all current and acquired properties.

The fair value of the Refinancing was determined on drawdown to be 10.1%, using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to the Warrants. The value of the Term Debt accretes up to the principal balance of each tranche at maturity.

Non-Financial Covenants

The Term Debt contains various covenants on the part of the Company and its subsidiaries, including covenants that place limitations on certain types of activities, including restrictions or requirements with respect to additional debt, liens, assets sales, hedging activities, management of environmental liabilities, investments, distributions, and mergers and acquisitions. The Term Debt does not include any financial covenants.

Letter of Credit Facility

As at June 30, 2020, the Company had a $2.6 million letter of credit facility ("**LC Facility**") with a Canadian bank which is supported by a performance guarantee from Export Development Canada (December 31, 2019 - $2.6 million). 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 LC Facility does not contain any financial covenants. As at June 30, 2020, the Company had $2.5 million in letters of credit issued against its LC Facility (December 31, 2019 - $2.6 million).

12. DECOMMISSIONING PROVISION

The total current and long-term decommissioning provision of $233.8 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 June 30, 2020, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was $249.9 million (December 31, 2019 - $249.3 million). The discounted and inflated amount required to settle the decommissioning liabilities of $233.8 million has been calculated assuming a 2.0% inflation rate (December 31, 2019 – 1.95%) and discounted using a risk-free nominal rate of 2.30% (December 31, 2019 – 2.57%). During the six months ended June 30, 2020, due to forces influencing global capital markets, long-term risk-free nominal rates in Canada declined below target inflation rates, implying a negative real rate of return. The Company determined that applying these rates to current cost estimates would not provide an accurate measurement of the decommissioning provision as observable stand-alone risk-free real rates of return continue to be positive. To provide a more accurate measurement of the provision, the Company applied a risk-free real return rate of 0.3 percent to estimate the present value of the decommissioning provision at June 30, 2020, resulting in a change in estimate.

Changes in the measurement of the decommissioning provision are added to, or deducted from, the cost of the related asset in property, plant and equipment. When a re-measurement of the decommissioning provision relates to a retired asset, the amount is recorded in the statement of comprehensive loss. 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.

	($000s)
Decommissioning provision, January 1, 2019	216,189
Provisions related to acquisitions	18,527
Provisions related to dispositions	(43)
Decommissioning expenditures	(1,929)
Revisions (changes in estimates, inflation rate, and discount rates)	(17,646)
Accretion	6,262
Decommissioning provision, December 31, 2019	**221,360**
Development activities	119
Provisions related to acquisitions	628
Provisions related to dispositions	(97)
Decommissioning expenditures	(673)
Revisions (changes in estimates, inflation rate, and discount rates)	9,665
Accretion	2,752
Decommissioning provision, June 30, 2020	**233,754**
Less current portion of decommissioning provision	**(2,000)**
Non-current portion of decommissioning provision	**231,754**

13. SHARE CAPITAL

Authorized

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

Issued

Issued and outstanding share capital continuity:	Common Shares (000s)	Share capital ($000s)
Balance, January 1, 2019	307,076	268,743
Shares issued pursuant to private and public share offerings	20,708	4,768
Share issue costs, net of deferred income tax	-	(90)
Balance, December 31, 2019 and June 30, 2020	**327,784**	**273,421**

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 Company's 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.

Stock options issued and outstanding:	Options (000s)	Weighted-average exercise price ($ per share)
Outstanding, January 1, 2019	21,029	0.75
Granted	13,138	0.18
Expired	(6,524)	1.02
Forfeited	(1,814)	0.62
Outstanding, December 31, 2019	**25,829**	**0.40**
Granted	8,507	0.14
Expired	(4,100)	0.54
Forfeited	(1,380)	0.29
Outstanding, June 30, 2020	**28,856**	**0.36**
Exercisable, June 30, 2020	**8,180**	**0.63**

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
$0.095-$0.45	24,804	2.2	4,243	0.9
$0.46-$0.81	1,530	0.8	1,415	0.8
$0.82-$1.16	2,522	0.4	2,522	0.4
	28,856	2.0	8,180	0.7

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 each of the first, second, and third anniversaries of the grant date and expire one year after each respective vesting date. During the six months ended June 30, 2020, the Company granted 8,506,850 stock options (June 30, 2019 – 7,134,141) with a fair value of $0.06 (June 30, 2019 - $0.08) per option using the Black-Scholes option pricing model using the following key assumptions:

	Six months ended June 30,	
Assumptions (weighted average):	**2020**	2019
Exercise price ($)	**0.14**	0.21
Estimated volatility of underlying common shares (%)	**69.7**	51.8
Expected life (years)	**3.0**	3.0
Risk-free rate (%)	**0.3**	1.6
Forfeiture rate (%)	**3.9**	3.9
Expected dividend yield (%)	**-**	-

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

Warrants

Warrants outstanding:	Warrants (000s)	Weighted-average exercise price ($ per Common Share)
Outstanding, January 1, 2019	2,850	0.51
Granted	7,500	0.21
Outstanding, December 31, 2019 and June 30, 2020	**10,350**	**0.29**

A total of 2,850,000 Warrants expire on July 31, 2021 and 7,500,000 Warrants expire on September 30, 2022.

Per Share Calculations

The average market value of the Common 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 Common Shares outstanding for the three and six months ended June 30, 2020 and 2019, all stock options and warrants were excluded as they were not dilutive.

	Three months ended June 30,		Six months ended June 30,	
Loss per share calculation:	**2020**	2019	**2020**	2019
Numerator				
Loss for the period	**(14,164)**	(24,179)	**(34,175)**	(30,704)
Denominator (000s)				
Weighted-average Common Shares outstanding – basic and diluted	**327,784**	314,130	**327,784**	310,623
Loss per share – basic and diluted ($)	**(0.04)**	(0.08)	**(0.10)**	(0.10)

14. REVENUES

The Company's commodity sales revenue is determined pursuant to the terms of the marketing agreements. The revenue for natural gas, NGL and crude oil is based on the commodity price in the month of production, adjusted for quality, location, allowable deductions, if any, or other factors. Commodity sales revenues are based on marketed indices that are determined on a monthly or daily basis. Processing and gathering revenue is generally negotiated under multi-year contracts that vary by volume.

	Three months ended June 30,		Six months ended June 30,	
($000s)	**2020**	2019	**2020**	2019
Natural gas	**19,349**	16,252	**40,129**	42,896
NGL	**1,423**	2,876	**3,964**	6,198
Crude oil	**921**	2,369	**3,041**	4,466
Total commodity sales	**21,693**	21,497	**47,134**	53,560
Processing and gathering	**787**	766	**1,737**	1,485
Total commodity sales and processing and gathering	**22,480**	22,263	**48,871**	55,045

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30,		Six months ended June 30,	
($000s)	**2020**	2019	**2020**	2019
Changes in non-cash working capital:				
Trade and other receivables	**(464)**	5,129	**2,629**	3,699
Prepaid expenses and deposits	**1,447**	382	**(200)**	(165)
Trade and other payables and accrued liabilities	**709**	3,309	**(2,061)**	3,654
	1,692	8,820	**368**	7,188
Changes related to:				
Operating activities	**1,940**	8,654	**2,925**	10,389
Investing activities	**(248)**	166	**(2,557)**	(3,201)
	1,692	8,820	**368**	7,188

	Three months ended June 30,		Six months ended June 30,	
Finance expenses:	**2020**	2019	**2020**	2019
Interest expense and bank charges	**1,242**	1,076	**2,543**	2,246
Non cash:				
Accretion on decommissioning provision	**1,333**	1,606	**2,752**	3,142
Accretion on subordinated promissory notes	**26**	80	**52**	158
Total finance expenses	**2,601**	2,762	**5,347**	5,546

Cash interest paid in the three and six months ended June 30, 2020, was $0.2 million and $1.8 million (three and six months ended June 30, 2019 - $0.2 million and $2.1 million).

16. COMMITMENTS

As at June 30, 2020, the Company has the following commitments and other contractual obligations:

	2020	2021	2022	2023	2024	Thereafter
($000s)						
Trade and other payables	25,453	-	-	-	-	-
Term debt[1]	-	-	19,000	-	30,000	-
Due to related party	-	-	-	-	6,000	-
Subordinated promissory notes	-	-	-	-	6,000	-
Future interest	2,448	5,120	4,861	4,380	4,605	-
Lease obligations[2]	620	1,156	964	788	144	11
Transportation[3]	4,110	6,888	6,057	4,438	3,968	9,475
Total commitments and contingencies	**32,631**	**13,164**	**30,882**	**9,606**	**50,717**	**9,486**

[1] Principal amount.
[2]See Note 8
[3]Firm transportation agreements.

17. CAPITAL STRUCTURE

The Company's objectives when managing capital, which the Company defines to include shareholders' deficit and net debt, is to ensure that it has the financial capacity, liquidity and flexibility to fund its capital program and acquisitions. As it is not unusual for capital expenditures and acquisitions to exceed cash flow from operating activities in a given period, the Company is required to maintain financial flexibility and liquidity to maintain an optimal capital structure to reduce the cost of capital.

In light of the current volatility in commodity prices and uncertainty regarding the timing for recovery in such prices, along with the effect of COVID-19 on global oil and natural gas demand, the preparation of financial forecasts is challenging. As a result, there may be adverse changes in cash flows and working capital deficiency levels that are currently unforeseen. In order to maintain or adjust the capital structure, the Company may issue debt, Common Shares or a combination thereof and make adjustments to its capital investment programs.

18. SUBSEQUENT EVENT

On August 5, 2020, the Company entered into an agreement to establish a $4.0 million borrowing facility (the "**Facility**") with the Company's Chairman of the Board (the "**Lender**"), whereby the Lender will provide up to $4.0 million of borrowings at an interest rate of 6.5% per annum, payable monthly. The term (the "**Term**") of the Facility will expire on the later of: (i) March 31, 2021; or (ii) the date of full repayment of any outstanding borrowings. Amounts can be drawn, repaid and redrawn by the Company at any time during the Term and borrowings under the Facility are payable on demand to the Lender on 60 days written notice. The Facility can be cancelled at any time by the Lender on 60 days written notice, while the Term may also be extended by mutual consent of the Company and the Lender.

BOARD OF DIRECTORS

George F. Fink - Chairman
Philip B. Hodge
Randy M. Jarock
Jacqueline R. Ricci
William S. Rice

OFFICERS

Philip B. Hodge
President and Chief Executive Officer
Terry L. McNeill
Chief Operating Officer
Alan MacDonald
Chief Financial Officer and Corporate Secretary
Heather A. Isidoro
Vice President, Business Development
Christopher S. Lee
Vice President, Geology

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Deloitte LLP

STOCK EXCHANGE LISTING

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