

## **PRESIDENT'S MESSAGE TO SHAREHOLDERS**

I hope all of Pine Cliff's shareholders and families are safe during these difficult times. I want to start by reassuring you that our staff has to date remained coronavirus (COVID-19) free. More than 2/3 of Pine Cliff's staff are in our field operations. They have adjusted to working while social-distancing by adopting best practices for COVID-19 and we, as a management team, are impressed with their ability to continue to operate Pine Cliff's well-sites during these times. The transition to working from the office to home for many of our head office staff has been impressively smooth, which has minimized disruptions.

The first quarter of 2020 for Pine Cliff had a promising start with the production performance of all three of our Pekisko oil wells continuing to outperform our internal expectations. This good news however was dampened by the fact that this past winter was the sixth warmest United States winter on record and as a result, natural gas prices were not as strong as they were in Q1 2019. This past quarter's news however was dominated by the unprecedented collapse of crude oil and liquids prices due to global over-supply combined with demand destruction from the COVID-19. Despite the fact that 91% of our Q1 production volume was natural gas, those price drops had a material impact on our revenue and cash flow. These negative impacts however were mitigated to some degree by an increase in natural gas prices, which resulted in Pine Cliff still generating positive cash flow.

Highlights from Pine Cliff's first quarter ended March 31, 2020 include:

- generated \$1.2 million of adjusted funds flow for the three months ended March 31, 2020, despite the AECO 5A benchmark averaging only \$2.02 per Mcf for the quarter;
- produced an average of 19,169 Boe/d (91% natural gas) in the three months ended March 31, 2020, a 2% increase compared to the same period in 2019; and
- tied-in production from the second of two Pekisko oil wells and one Edson oil well drilled in the fourth quarter of 2019.

### **Increase in Natural Gas Prices**

The most positive development for natural gas producers has been the strong inverse relationship that the forward natural gas strip has taken to the WTI crude oil price. This development was accelerated at the end of this last quarter and has continued into the current quarter. On January 1, 2020, the forward strip price for AECO natural gas for 2020 and 2021 was \$1.93/Mcf and \$1.97/Mcf, respectively. As of this morning, those two prices are \$2.59/Mcf and \$2.64/Mcf. The primary force behind this move is the market view that the drop in crude oil prices will result in a dramatic drop in the natural gas that is produced with oil production, also referred to as associated natural gas. This perception appears to be moving to reality. At this time last year there were 1,050 oil and gas rigs operating in North America. Today there are 435. In addition, we are seeing large crude oil producers in both Canada and the United States curtail existing production rather than sell their products at a loss. Although we have not seen the full impact of these changes, the forward natural gas markets have risen on the expectation that the drop in associated gas supply will be greater than the natural gas demand loss caused by the COVID-19 pandemic. This dynamic is something we will be watching closely.

### **Reconnection of Canadian and US Natural Gas Markets**

The other trend we are monitoring is the "reconnection" of the Canadian and American natural gas markets. Over the past few years, Canadian natural gas production was in a state of oversupply and lacked pipeline capacity creating a differential between the Canadian AECO price and the US NYMEX price that at times was over US\$2.50/Mcf. With Canadian natural gas supply declining in 2019 for the first time in six years and TC Energy increasing Western Canada pipeline capacity, the differential has now narrowed to approximately US\$0.60/Mcf. This important development is another reason why we are seeing the AECO natural gas price increase, based on the expected decrease of natural gas supply in the United States as its crude oil production declines.

## Government Programs

Many of you will have read or heard about the various federal and provincial government relief programs that are being made available to the Canadian oil and gas sector. Pine Cliff has applied for the Federal Government's Canada Emergency Wage Subsidy that if accepted would provide us with a subsidy of 75 percent of employee's wages (up to a maximum of \$847 per employee per week) for up to eight weeks. Pine Cliff has also been working with oilfield service contractors to access the Alberta Site Rehabilitation Program to clean up inactive wells. We do not know whether our applications for these programs will be accepted but we will continue to assess all of Government programs as we are made aware of their details to see if it is appropriate for us to apply.

## Outlook

2020 has had the most volatile start to a year that Pine Cliff has ever experienced. Although Q2 and Q3 may still experience unpredictable moves in natural gas pricing, we have entered into physical sales contracts for approximately 40% of our natural gas production during those two periods. The increase in AECO forward pricing to levels we have not seen for several years has raised our optimism for increased cash flow for later in 2020 and into 2021. At this time we do not have any material fixed price contracts beyond Q3 2020.

With the AECO natural gas strip price currently at \$2.64/Mcf for 2021, our operations team is beginning to refocus on economic capital programs that will allow Pine Cliff to grow within its cash flow while also starting to pay down term debt that does not become due until 2022. If we experience a crude oil price recovery in 2021, we will consider drilling more Pekisko oil wells, but we know there will be competition for our excess capital from potential asset acquisitions and internal natural gas recompletion and drilling opportunities. As always, our capital decisions will be based on where our team thinks we can achieve the greatest return on our investments for our shareholders.

Thank you for your continued support as shareholders and stay safe. We look forward to updating you on our progress as we navigate through these chaotic times.

Yours truly,



Phil Hodge  
President and Chief Executive Officer  
May 6, 2020

## 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 March 31, 2020. This MD&A is dated and based on information available as at May 6, 2020 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 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](http://www.sedar.com) and by visiting Pine Cliff's website at [www.pinecliffenergy.com](http://www.pinecliffenergy.com).

Pine Cliff's head office is based in Calgary, Alberta, Canada. Common shares of the Company ("**Common Shares**") are listed for trading on the Toronto Stock Exchange ("**TSX**") under the symbol "**PNE**".

## READER ADVISORIES

This MD&A contains financial measures that are not defined under IFRS and forward-looking statements. Please refer to the sections titled "**NON-GAAP MEASURES**" and "**FORWARD LOOKING INFORMATION**".

### *Other Measurements*

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

Natural gas liquids and oil volumes are recorded in barrels of oil ("**Bbl**") and are converted to a thousand cubic feet equivalent ("**Mcf**") using a ratio of one (1) Bbl to six (6) thousand cubic feet. Natural gas volumes recorded in thousand cubic feet ("**Mcf**") are converted to barrels of oil equivalent ("**Boe**") using the ratio of six (6) thousand cubic feet to one (1) Bbl. This conversion ratio is based on energy equivalence primarily at the burner tip and does not represent a value equivalency at the wellhead. The terms Boe or Mcfe may be misleading, particularly if used in isolation.

## 2020 HIGHLIGHTS

Highlights from the first quarter of 2020 are as follows:

- generated \$1.2 million of adjusted funds flow for the three months ended March 31, 2020, despite the AECO 5A benchmark averaging only \$2.02 per Mcf for the quarter;
- produced an average of 19,169 Boe/d (91% natural gas) in the three months ended March 31, 2020, a 2% increase compared to the same period in 2019; and
- tied-in production from the second of two Pekisko oil wells and one Edson oil well drilled in the fourth quarter of 2019.

	Three months ended March 31,	
	2020	2019
(\$000s, unless otherwise indicated)		
<b>FINANCIAL<sup>1</sup></b>		
<b>Commodity sales (before royalty expense)</b>	<b>25,441</b>	32,063
<b>Cash flow from operating activities</b>	<b>1,637</b>	7,925
<b>Adjusted funds flow<sup>2</sup></b>	<b>1,153</b>	6,823
Per share – Basic and Diluted (\$/share) <sup>2</sup>	-	0.02
<b>Loss</b>	<b>(20,011)</b>	(6,525)
Per share – Basic and Diluted (\$/share)	<b>(0.06)</b>	(0.02)
<b>Capital expenditures</b>	<b>1,822</b>	995
<b>Net debt<sup>2</sup></b>	<b>65,532</b>	51,820
Weighted-average common shares outstanding (000s)		
Basic and diluted	<b>327,784</b>	307,076
<b>OPERATIONS</b>		
<b>Production</b>		
Natural gas (Mcf/d)	<b>104,412</b>	104,186
Natural gas liquids (Bbl/d)	<b>1,231</b>	981
Crude oil (Bbl/d)	<b>536</b>	396
Total (Boe/d)	<b>19,169</b>	18,741
<b>Realized commodity sales prices</b>		
Natural gas (\$/Mcf)	<b>2.19</b>	2.84
Natural gas liquids (\$/Boe)	<b>22.69</b>	37.64
Crude oil (\$/Bbl)	<b>43.47</b>	58.89
Combined (\$/Boe)	<b>14.58</b>	19.01
<b>Netback (\$/Boe)</b>		
Commodity sales	<b>14.58</b>	19.01
Royalty expense	<b>(1.00)</b>	(1.02)
Transportation expenses	<b>(1.36)</b>	(1.84)
Net operating expenses	<b>(9.97)</b>	(10.47)
Operating netback (\$/Boe) <sup>2</sup>	<b>2.25</b>	5.68
General and administrative expenses	<b>(0.85)</b>	(0.95)
Interest and bank charges	<b>(0.75)</b>	(0.69)
Corporate netback (\$/Boe) <sup>2</sup>	<b>0.65</b>	4.04
Operating netback (\$ per Mcfe) <sup>2</sup>	<b>0.38</b>	0.95
Corporate netback (\$ per Mcfe) <sup>2</sup>	<b>0.11</b>	0.67

<sup>1</sup> Includes results for acquisitions and excludes results for disposition from the closing date.

<sup>2</sup> 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. 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 <sup>1</sup>		
	Change <sup>2</sup>	\$000s	\$ per share <sup>4</sup>
Realized natural gas price <sup>3</sup>	\$0.10	3,514	0.01
Realized NGL price <sup>3</sup>	\$1.00	400	0.00
Realized crude oil price <sup>3</sup>	\$1.00	200	0.00

<sup>1</sup> This analysis does not adjust for changes in working capital and uses corporate royalty rates from the three months ended March 31, 2020.

<sup>2</sup> 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.

<sup>3</sup> Pine Cliff has prepared this analysis using its Q1 2020 production volumes annualized for twelve months.

<sup>4</sup> Based on the Q1 2020 basic weighted average shares outstanding.

## BENCHMARK PRICES

	Three months ended March 31,		
	2020	2019	% Change
<b>Natural gas</b>			
NYMEX (US\$/Mmbtu) <sup>1</sup>	1.95	3.12	(38)
AECO Daily 5A (C\$/Mcf) <sup>2</sup>	2.02	2.61	(23)
<b>Crude oil</b>			
WTI (US\$/Bbl)	46.17	54.88	(16)
Edmonton Light (C\$/Bbl)	51.44	66.44	(23)
<b>Foreign exchange</b>			
US\$/C\$	1.345	1.329	1

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

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

## 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.

	Q1-2020	Q4-2019	Q3-2019	Q2-2019	Q1-2019	Q4-2018	Q3-2018	Q2-2018
<b>Natural gas</b>								
NYMEX (US\$/Mmbtu) <sup>1</sup>	1.95	2.50	2.23	2.64	3.12	3.73	2.85	2.78
AECO Daily 5A (C\$/Mcf) <sup>2</sup>	2.02	2.46	0.90	1.03	2.61	1.74	1.19	1.18
Pine Cliff realized natural gas price (C\$/Mcf)	2.19	2.52	1.55	1.69	2.84	2.51	1.88	1.55
<b>Crude oil</b>								
WTI (US\$/Bbl)	46.17	56.96	56.45	59.81	54.88	52.41	69.50	67.88
Edmonton Light (C\$/Bbl)	51.44	66.57	68.41	73.85	66.44	38.94	81.95	80.66
Pine Cliff realized NGL price (C\$/Bbl)	22.69	35.36	25.75	29.74	37.64	32.14	74.15	71.19
Pine Cliff realized oil price (C\$/Bbl)	43.47	59.91	61.33	65.16	58.89	44.85	61.05	56.74
<b>Foreign exchange</b>								
US\$/C\$	1.345	1.320	1.321	1.338	1.329	1.331	1.310	1.290

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

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

During the three months ended March 31, 2020, the AECO daily benchmark decreased by 23% compared to the same period of 2019. The changes for the quarter are mainly due to supply and demand factors including pipeline and storage constraints, weather, economic conditions in producing and consuming regions throughout North America and political factors. While the price realized by

the Company for natural gas production from Western Canada is still influenced by the Alberta price hub AECO, diversification projects to delivery points such as Dawn and TransGas into Saskatchewan have created the option to decrease that influence. See “COMMODITY SALES” section for additional information on the diversification project premiums compared to AECO 5A.

The average benchmarks for WTI and Edmonton Light crude decreased by 16% and 23%, for the three months ended March 31, 2020, as compared to the same period in 2019, due to increased levels of North American oil production combined with uncertainties of future demand. The novel coronavirus (“COVID-19”) has been declared a pandemic by the World Health Organization and governments at all levels in Canada and around the world are taking stringent steps to contain the spread of the virus. These actions have resulted in significant disruption to global economic activity, including a dramatic decrease in crude oil and natural gas liquids (“NGL”) demand. In addition, global crude oil is in over supply which has contributed to the lack of market equilibrium and, as a result, commencing in March 2020, the Company experienced a significant decrease in benchmark crude oil pricing and wider Canadian oil differentials. 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

Total sales volumes by product	Three months ended March 31,		
	2020	2019	% Change
Natural gas (Mcf)	9,501,450	9,376,746	1
NGLs (Bbl)	112,012	88,266	27
Crude oil (Bbl)	48,776	35,617	37
Total Boe	1,744,363	1,686,674	3
Total Mcfe	10,466,178	10,120,044	3
Natural gas weighting	91%	93%	(2)

Average daily sales volumes by product	Three months ended March 31,		
	2020	2019	% Change
Natural gas (Mcf/d)	104,412	104,186	-
NGLs (Bbl/d)	1,231	981	25
Crude oil (Bbl/d)	536	396	35
Total (Boe/d)	19,169	18,741	2
Total (Mcfe/d)	115,014	112,446	2

Average daily sales volumes by area	Three months ended March 31,		
	2020	2019	% Change
Central (Boe/d)	9,936	8,980	11
Southern (Boe/d)	7,508	7,872	(5)
Edson (Boe/d)	1,725	1,889	(9)
Total (Boe/d)	19,169	18,741	2

Pine Cliff's sales volumes increased by 2% to 19,169 Boe/d (115,014 Mcfe/d) from 18,741 Boe/d (112,446 Mcfe/d) for the three months ended March 31, 2020, as compared to the same period in 2019. The increase in production is mainly from the May 2019 acquisition, slightly offset by production declines.

**COMMODITY SALES**

(\$000s)	Three months ended March 31,		
	2020	2019	% Change
Natural gas	20,780	26,644	(22)
NGL	2,541	3,322	(24)
Crude oil	2,120	2,097	1
Total commodity sales	25,441	32,063	(21)
% of revenue from natural gas sales	82%	83%	(1)

**Realized prices**

\$ per unit	Three months ended March 31,		
	2020	2019	% Change
Natural gas (\$/Mcf)	2.19	2.84	(23)
NGL (\$/Bbl)	22.69	37.64	(40)
Crude oil (\$/Bbl)	43.47	58.89	(26)
Total (\$/Boe)	14.58	19.01	(23)
Total (\$/Mcf)	2.43	3.17	(23)

Commodity sales in the three months ended March 31, 2020 of \$25.4 million decreased by \$6.7 million from \$32.1 million in the same period of 2019, with a \$7.8 million decrease from lower realized commodity pricing being slightly offset by a \$1.1 million increase from higher sales volumes.

Pine Cliff's realized natural gas price was \$2.19 per Mcf in the three months ended March 31, 2020, 23% lower than the \$2.84 per Mcf realized in the corresponding period of the prior year, correlating with the AECO 5A reference price decrease of 23% as of a result of an unseasonal mild winter across North America in the first quarter of 2020. For the three months ended March 31, 2020, Pine Cliff's realized natural gas price was 8% higher than the AECO 5A benchmark compared to 9% in the corresponding period of the prior year, both a result of Pine Cliff's marketing diversification to non-AECO markets and fixed price physical natural gas sales contracts.

For the three months ended March 31, 2020 Pine Cliff's realized NGL price was \$22.69 per Bbl, compared to \$37.64 per Bbl in the corresponding period of the prior year. For the three months ended March 31, 2020, Pine Cliff's realized oil price was \$43.47 per Bbl, compared to \$58.89 per Bbl in the corresponding period of the prior year. Pine Cliff's realized oil and NGL prices in the three months ended March 31, 2020 were 85% and 37% of Edmonton Light compared to 89% and 52% in the corresponding period of the prior year. This decrease of NGL price compared to Edmonton Light in the three months ended March 31, 2020 compared to the first quarter of 2019 is mainly due to lower butane, propane and condensate pricing as a result of market conditions.

The significant disruption to global economic activity due to the spread of the COVID-19 global health pandemic has resulted in an unprecedented drop in global demand for crude oil. Concurrently, the inability of crude oil producing countries globally to manage the oversupply of crude oil at the beginning of March 2020, has resulted in a dramatic decrease in the world price of crude oil. The average of three independent consultant price forecasts, effective April 1, 2020, estimates the benchmark WTI crude oil price for the remaining nine months ended December 31, 2020, to average US\$32.50 per Bbl. At May 6, 2020, the WTI strip price for the remainder of 2020 settled at US\$27.64 per Bbl.

**ROYALTY EXPENSE**

(\$000s)	Three months ended March 31,		
	2020	2019	% Change
Total royalty expense	1,740	1,719	1
\$ per Boe	1.00	1.02	(2)
\$ per Mcfe	0.17	0.17	(2)
Royalty expense as a % of commodity sales	7%	5%	40

For the three months ended March 31, 2020, total royalty expense increased slightly by 1%. Royalty expense as a percentage of commodity sales increased to 7% in the three months ended March 31, 2020, from 5% in the corresponding period of the prior year.

The increase in royalty expenses as a percentage of commodity sales for the three months ended March 31, 2020 is due to adjustments to gas cost allowance.

### TRANSPORTATION COSTS

(\$000s)	Three months ended March 31,		
	2020	2019	% Change
Total transportation costs	2,376	3,096	(23)
\$ per Boe	1.36	1.84	(26)
\$ per Mcfe	0.23	0.31	(26)

Transportation costs decreased by 23% to \$2.4 million for the three months ended March 31, 2020, as compared to \$3.1 million in the corresponding period 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.

### NET OPERATING EXPENSES

(\$000s)	Three months ended March 31,		
	2020	2019	% Change
Operating expenses	18,336	18,373	-
Less: processing and gathering income	(950)	(719)	32
Total net operating expenses	17,386	17,654	(2)
\$ per Boe	9.97	10.47	(5)
\$ per Mcfe	1.66	1.75	(5)

Net operating expenses decreased by 2% to \$17.4 million for the three months ended March 31, 2020, as compared to \$17.7 million in the corresponding period 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 \$9.97 per Boe for the three months ended March 31, 2020 compared \$10.47 per Boe in the corresponding period of 2019.

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

(\$000s)	Three months ended March 31,		
	2020	2019	% Change
Gross G&A	2,021	2,221	(9)
Less: overhead recoveries	(536)	(620)	(14)
Total G&A expenses	1,485	1,601	(7)
\$ per Boe	0.85	0.95	(11)
\$ per Mcfe	0.14	0.16	(11)

G&A expenses decreased to \$1.5 million for the three months ended March 31, 2020, as compared to \$1.6 million in the corresponding period of the prior year. The decrease in G&A during the three months ended March 31, 2020 is primarily as a result of lower head office costs.

G&A per Boe decreased 11% to \$0.85 per Boe for the three months ended March 31, 2020 compared to \$0.95 per Boe in the corresponding period of 2019.

### SHARE-BASED PAYMENTS

(\$000s)	Three months ended March 31,		
	2020	2019	% Change
Total share-based payments	222	345	(36)
\$ per Boe	0.13	0.20	(35)
\$ per Mcfe	0.02	0.03	(35)

The decrease in share-based payments of 36% for the three months ended March 31, 2020 compared to the prior period of 2019 is primarily a result of a 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 outstanding Common Shares.

During the three months ended March 31, 2020, the Company granted 87,750 stock options (March 31, 2019 – 18,000) with an average exercise price of \$0.12. As at March 31, 2020, the Company had 25,631,488 stock options outstanding representing 7.8% of Common Shares outstanding (March 31, 2019 – 20,852,507 representing 6.7% of Common Shares outstanding).

#### DEPLETION, DEPRECIATION AND IMPAIRMENT

(\$000s)	Three months ended March 31,		
	2020	2019	% Change
Total depletion and depreciation	11,597	11,389	2
\$ per Boe	6.65	6.75	(1)
\$ per Mcfe	1.11	1.13	(1)
Impairment	7,900	-	100
Total depletion, depreciation and impairment	19,497	11,389	71
\$ per Boe	11.18	6.75	66
\$ per Mcfe	1.86	1.13	66

Depletion and depreciation expense for the three months ended March 31, 2020, totaled \$11.6 million compared to \$11.4 million in the corresponding period of the prior year. The increase for the year is a result of a higher depletable base. Depletion and depreciation per Boe will fluctuate from one period to the next depending on changes in reserves and the amount and success of capital expenditures. Depletion is calculated using total proved and probable reserves and reserves estimates are subject to revision.

#### Property Plant and Equipment (“PP&E”) Impairment Assessment

As at March 31, 2020, the Company had four cash generating units (“CGU”) being the Southern CGU, Central CGU, Edson CGU and Coal Bed Methane CGU. The Company reviewed each CGU's property and equipment at March 31, 2020 for indicators of impairment and determined that an indicator related to the decrease in future commodity prices was present. The company prepared estimates of both the value in use and fair value less cost to sell of each of the Company's CGUs. When it is determined that any CGU carrying value exceeds its recoverable amount, that CGU is considered impaired and an impairment expense is reported that equals this excess.

The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at March 31, 2020:

Year	WTI Oil (US\$/Bbl) <sup>1</sup>	\$C to US\$ Foreign exchange rate <sup>1</sup>	Edmonton Light Crude Oil (Cdn\$/Bbl) <sup>1</sup>	AECO Gas (Cdn\$/MMBtu) <sup>1</sup>
2020 (9 months)	32.50	1.43	32.14	1.85
2021	43.35	1.38	49.45	2.30
2022	52.02	1.33	62.69	2.44
2023	58.37	1.33	71.02	2.49
2024	59.53	1.33	72.44	2.54
2025-2034	66.49	1.33	80.91	2.84
Thereafter	+2.0%/yr	1.33	+2.0%/yr	+2.0%/yr

<sup>1</sup> Source: Average of three independent consultant price forecasts, effective April 1, 2020 (McDaniel Associates Consultants Ltd., GLJ Petroleum Consultants Ltd. and Sproule Associates Limited).

The recoverable amounts of each of the Company's CGU's at March 31, 2020 were estimated at their fair value less cost to sell, based on the net present value of future cash flows from oil and gas reserves as estimated by the Company's independent reserves evaluator at December 31, 2019, adjusted for production and future pricing changes during the three months ended March 31, 2020. The fair value less costs to sell used to determine the recoverable amounts are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data, but rather, the Company's management's best estimates.

The Company used a pre-tax 15% discount rate for the March 31, 2020 impairment test which took into account risks specific to the CGU's and inherent in the oil and gas business.

The following CGU was impaired:

(\$000s)	Three months ended March 31,	
	2020	2019
CGU	7,900	-
Edson	7,900	-
Total Impairment	7,900	-

For the quarter ended March 31, 2020, a 1% increase in the discount rate applied to the Company's future estimated cash flows would result in an increase in impairment across all of the Company's CGU's by approximately \$3.0 million (2019 - \$nil), whereas a 10% increase in forward commodity prices would result in a \$6.8 million reversal of the impairment (2019 - \$nil) recognized in the comprehensive loss for the three months ended March 31, 2020.

## FINANCE EXPENSES

(\$000s)	Three months ended March 31,		
	2020	2019	% Change
Interest expense and bank charges	1,301	1,170	11
\$ per Boe	0.75	0.69	9
\$ per Mcfe	0.12	0.12	9
Non cash:			
Accretion on decommissioning provision	1,419	1,536	(8)
Accretion on term debt	26	78	(67)
Total finance expenses	2,746	2,784	(1)
\$ per Boe	1.57	1.65	(5)
\$ per Mcfe	0.26	0.28	(5)

Finance expenses decreased by 1% to \$2.7 million for the three months ended March 31, 2020, as compared to \$2.8 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.

## DEFERRED INCOME TAX

Pine Cliff has approximately \$401.6 million in tax pools as at March 31, 2019 (December 31, 2019 - \$400.3 million), available for future use as deductions to reduce taxable income. Included in the Company's tax pools are estimated non-capital loss carry-forwards of \$144.9 million (December 31, 2018 - \$138.7 million) that expire between the years 2030 and 2040.

## CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS

(\$000s)	Three months ended	Year ended
	March 31, 2020	December 31, 2019
Exploration and evaluation	13	398
Property, plant and equipment	1,809	7,981
Capital expenditures	1,822	8,379
Acquisitions	65	8,801
Dispositions	-	(1,542)
Total	1,887	15,638

Capital expenditures on PP&E of \$1.8 million during the three months ended March 31, 2020 were directed towards a drilling and completion of two gross (0.2 net) wells in the Edson area for \$0.7 million, facility and maintenance capital of \$0.5 million, \$0.4 million for equipping and tie-in and \$0.2 million of other miscellaneous capital additions.

## DECOMMISSIONING PROVISION

The total current and long-term decommissioning provision of \$232.5 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 March 31, 2020, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$250.0 million (December 31, 2019 - \$249.3 million). The discounted and inflated amount required to settle the decommissioning liabilities of \$232.5 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 quarter ended March 31, 2020, due to forces currently influencing global capital markets, including COVID-19, 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 March 31, 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 months ended March 31, 2020 was \$0.1 million (March 31, 2019 - \$0.1 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 March 31, 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.

### 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 and uncertainty regarding the timing for recovery in such prices, along with the effect of COVID-19 on global oil 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. At March 31, 2020, the Company had a working capital deficiency of \$4.5 million, an increase of \$3.0 million from December 31, 2019, primarily due to a decline in natural gas prices due to an unseasonal mild winter across North America and a decline in crude oil and NGL prices due to global supply and demand factors. 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)	Year ended December 31,		
	March 31, 2020	December 31, 2019	\$ Change
Due to related party <sup>1</sup>	6,000	6,000	-
Subordinated promissory notes <sup>1</sup>	6,000	6,000	-
Term debt <sup>2</sup>	49,000	49,000	-
Trade and other payables	24,744	27,514	(2,770)
Less:			
Trade and other receivables	(10,504)	(13,597)	3,093
Cash	(5,843)	(8,661)	2,818
Prepaid expenses and deposits	(3,865)	(2,218)	(1,647)
Net debt <sup>3</sup>	65,532	64,038	1,494

<sup>1</sup> The debt due to related party and subordinated promissory notes are due on December 31, 2024.

<sup>2</sup> 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.

<sup>3</sup> This is a non-GAAP measure, see NON-GAAP MEASURES for additional information.

### Share Capital

Share capital	May 6, 2020	March 31, 2020	December 31, 2019
Common Shares	327,784,193	327,784,193	327,784,193
Stock options	25,561,488	25,631,488	25,828,738
Warrants	10,350,000	10,350,000	10,350,000

**COMMITMENTS AND CONTINGENCIES**

As at March 31, 2020, the Company has the following commitments and other contractual obligations:

	2020	2021	2022	2023	2024	Thereafter
(\$000s)						
Trade and other payables	24,744	-	-	-	-	-
Term debt <sup>1</sup>	-	-	19,000	-	30,000	-
Due to related party	-	-	-	-	6,000	-
Subordinated promissory notes	-	-	-	-	6,000	-
Future interest	3,634	5,120	4,861	4,380	4,605	-
Lease Obligations	929	1,126	934	758	114	3
Transportation <sup>2</sup>	6,318	6,888	6,057	4,438	3,968	9,475
<b>Total commitments and contingencies</b>	<b>35,625</b>	<b>13,134</b>	<b>30,852</b>	<b>9,576</b>	<b>50,687</b>	<b>9,478</b>

<sup>1</sup> Principal amount.

<sup>2</sup> Firm transportation agreements.

**QUARTERLY TRENDS AND SELECTED FINANCIAL INFORMATION**

(\$000s, unless otherwise indicated)	2020		2019		2018			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>FINANCIAL<sup>1</sup></b>								
Total revenue	24,651	29,520	20,307	21,872	31,063	21,234	24,846	29,014
Cash flow from operating activities	1,637	4,039	(2,931)	6,503	7,925	1,415	(309)	531
Adjusted funds flow <sup>2</sup>	1,153	5,025	(3,922)	(2,047)	6,823	4,433	1,920	(977)
Adjusted funds flow per share – basic and diluted (\$/share) <sup>2</sup>	0.00	0.02	(0.01)	(0.01)	0.02	0.01	0.01	0.00
Loss	(20,011)	(7,987)	(17,739)	(24,179)	(6,525)	(28,520)	(10,710)	(17,909)
Loss per share – basic and diluted (\$/share)	(0.06)	(0.02)	(0.05)	(0.08)	(0.02)	(0.09)	(0.03)	(0.06)
Capital expenditures	1,822	5,446	1,123	815	995	4,302	1,910	1,276
Acquisitions	65	202	(7)	8,604	2	(61)	659	(3)
Dispositions	-	(1,443)	(14)	(85)	-	(51)	(16)	(135)
Net debt <sup>2</sup>	65,532	64,038	63,745	58,162	51,820	56,819	56,325	54,737
Weighted average common shares outstanding:								
Basic and diluted	327,784	327,784	327,784	314,130	307,076	307,076	307,076	307,076
<b>PRODUCTION VOLUMES</b>								
Natural gas (Mcf/d)	104,412	108,208	104,488	105,965	104,186	110,295	111,067	110,242
Natural gas liquids (Bbl/d)	1,231	1,216	1,195	1,063	981	957	861	967
Crude oil (Bbl/d)	536	410	423	399	396	236	231	216
Average sales volumes (Boe/d)	19,169	19,661	19,033	19,123	18,741	19,576	19,603	19,557
Average sales volumes (Mcfe/d)	115,014	117,966	114,198	114,738	112,446	117,456	117,618	117,342
<b>PRICES AND NETBACKS</b>								
Total commodity sales (\$/Boe)	14.58	17.33	11.48	12.35	19.01	16.72	14.21	12.33
Operating netback (\$/Boe) <sup>2</sup>	2.25	4.16	(0.97)	0.18	5.68	3.56	2.34	0.72
Corporate netback (\$/Boe) <sup>2</sup>	0.65	2.79	(2.24)	(1.18)	4.04	2.46	1.06	(0.55)
Total commodity sales (\$/Mcfe)	2.43	2.89	1.91	2.06	3.17	2.79	2.37	2.06
Operating netback (\$/Mcfe) <sup>2</sup>	0.38	0.69	(0.16)	0.03	0.95	0.59	0.39	0.12
Corporate netback (\$/Mcfe) <sup>2</sup>	0.11	0.47	(0.37)	(0.20)	0.67	0.41	0.18	(0.09)

<sup>1</sup> Includes results for acquisitions and excludes results for disposition from the closing date.

<sup>2</sup> 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.

- 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 increased 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, NGL's 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 COVID-19 global health pandemic, crude oil and NGL demand has dropped sharply. At the same time, global participants have increased oil supply negatively impacting global oil prices and increasing commodity price risk for the Company. 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 three months ended March 31, 2020, Pine Cliff's average sales volumes were 91% natural gas.

### Physical Sales Contracts

At March 31, 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) <sup>1</sup>	Fixed Sale Price (\$CAD/Mcf) <sup>2</sup>
April 1, 2020 to October 31, 2020	AECO	30,000	\$1.58	\$1.66
April 1, 2020 to October 31, 2020	TransGas <sup>3</sup>	9,000	\$2.40	\$2.52
April 1, 2021 to October 31, 2021	AECO	2,500	\$1.93	\$2.03

<sup>1</sup> Prices reported are the weighted average prices of the periods.

<sup>2</sup> Price has been converted from \$/GJ to \$/Mcf by multiplying by 1.05.

<sup>3</sup> Subsidiary of SaskEnergy, Saskatchewan.

At May 6, 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) <sup>1</sup>	Fixed Sale Price (\$CAD/Mcf) <sup>2</sup>
May 1, 2020 to October 31, 2020	AECO	5,000	\$1.97	\$2.07
June 1, 2020 to October 31, 2020	AECO	2,500	\$2.35	\$2.47
April 1, 2021 to October 31, 2021	AECO	2,500	\$2.03	\$2.13

<sup>1</sup> Prices reported are the weighted average prices of the periods.

<sup>2</sup> Price has been converted from \$/GJ to \$/Mcf by multiplying by 1.05.

Pine Cliff has approximately 40% of its natural gas volumes under physical sales contracts for the period from April 1, 2020 to October 31, 2020.

### 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 March 31, 2020 of \$10.5 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 March 31, 2020, there was \$1.4 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 three months ended March 31, 2020, the Company recorded \$0.1 million (March 31, 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 including uncertainty regarding the timing for recovery in such prices, along with the effect 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.

### **Financial Derivative Contracts**

Pine Cliff had no financial derivative contracts in place during the three months ended March 31, 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, commodity 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 three months ended March 31, 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](http://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.

(\$000s)	Three months ended March 31,		
	2020	2019	% Change
Cash flow from operating activities	1,637	7,925	(79)
Adjusted by:			
Change in non-cash working capital	(985)	(1,735)	(43)
Decommissioning obligation settled	501	633	(21)
Adjusted funds flow	1,153	6,823	(83)
Adjusted funds flow (\$/Boe)	0.65	4.04	(84)
Adjusted funds flow (\$/Mcfe)	0.11	0.67	(84)
Adjusted funds flow – basic and diluted (\$/share)	-	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 commodity 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 March 31,		
	2020	2019	\$ Change
Commodity sales	14.58	19.01	(4.43)
Royalty expense	(1.00)	(1.02)	0.02
Transportation expense	(1.36)	(1.84)	0.48
Net operating expense	(9.97)	(10.47)	0.50
Operating netback	2.25	5.68	(3.43)
General and administrative	(0.85)	(0.95)	0.10
Interest and bank charges	(0.75)	(0.69)	(0.06)
Corporate netback	0.65	4.04	(3.39)
Operating netback (\$ per Mcfe)	0.38	0.95	(0.57)
Corporate netback (\$ per Mcfe)	0.11	0.67	(0.56)

### 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.

**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, subordinated promissory notes and due pursuant to Term Debt 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; the effects of COVID-19 on global crude oil demand and pricing; 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, 2020 prepared by McDaniel & Associates Consultants Limited and unbooked drilling and recompletion locations. Unbooked drilling and recompletion locations are internal estimates based on evaluation of geologic, reserves and spacing based on industry practice. There is no guarantee that Pine Cliff will drill these locations and there is no certainty that the drilling or completing of these locations will result in additional reserves and production or achieve expected internal rates of return. Pine Cliff activity depends on availability of capital, regulatory approvals, commodity prices, drilling costs and other factors.

Natural gas liquids and oil volumes are recorded in barrels of oil (“**Bbl**”) and are converted to a thousand cubic feet equivalent (“**Mcf**”) using a ratio of one (1) Bbl to six (6) thousand cubic feet. Natural gas volumes recorded in thousand cubic feet (“**Mcf**”) are converted to barrels of oil equivalent (“**Boe**”) using the ratio of six (6) thousand cubic feet to one (1) Bbl. This conversion ratio is based on energy equivalence primarily at the burner tip and does not represent a value equivalency at the wellhead. The terms Boe or Mcfe may be misleading, particularly if used in isolation.

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

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Canadian dollars, 000s)  
(unaudited)

	Note	As at March 31, 2020	As at December 31, 2019
<b>ASSETS</b>			
Current assets			
Cash		5,843	8,661
Trade and other receivables	4	10,504	13,597
Prepaid expenses and deposits		3,865	2,218
Total current assets		20,212	24,476
Exploration and evaluation	6	8,707	8,694
Property, plant and equipment	7	283,265	290,565
Total assets		312,184	323,735
<b>LIABILITIES</b>			
Current liabilities			
Trade and other payables	4	24,744	27,514
Lease liabilities	8	1,067	1,043
Decommissioning provision	12	2,000	2,000
Total current liabilities		27,811	30,557
Lease liabilities	8	2,468	2,666
Due to related party	9	6,000	6,000
Subordinated promissory notes	10	6,000	6,000
Term debt	11	48,668	48,642
Decommissioning provision	12	230,516	219,360
Total liabilities		321,463	313,225
<b>SHAREHOLDERS' EQUITY (DEFICIT)</b>			
Share capital	13	273,421	273,421
Warrants		460	460
Contributed surplus		13,853	13,631
Deficit		(297,013)	(277,002)
Total shareholders' equity (deficit)		(9,279)	10,510
Total liabilities and shareholders' deficit		312,184	323,735

Commitments (Note 16)

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)

	Note	<b>Three months ended March 31,</b>	
		<b>2020</b>	<b>2019</b>
<b>REVENUE</b>			
Commodity sales	14	<b>25,441</b>	32,063
Royalty expense		<b>(1,740)</b>	(1,719)
Oil and gas sales, net of royalties		<b>23,701</b>	30,344
Processing and gathering	14	<b>950</b>	719
<b>Total revenue</b>		<b>24,651</b>	31,063
<b>EXPENSES</b>			
Operating		<b>18,336</b>	18,373
Transportation		<b>2,376</b>	3,096
Depletion and depreciation	7	<b>11,597</b>	11,389
Impairment	7	<b>7,900</b>	-
Share-based payments	13	<b>222</b>	345
Finance	15	<b>2,746</b>	2,784
General and administrative		<b>1,485</b>	1,601
<b>Total expenses</b>		<b>44,662</b>	37,588
<b>LOSS AND OTHER COMPREHENSIVE LOSS FOR THE PERIOD</b>		<b>(20,011)</b>	(6,525)
<b>Loss per share (\$)</b>			
Basic and diluted	13	<b>(0.06)</b>	(0.02)

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 March 31,	
		2020	2019
<b>CASH PROVIDED BY (USED IN):</b>			
<b>OPERATING ACTIVITIES</b>			
Loss for the period		(20,011)	(6,525)
Items not affecting cash:			
Depletion and depreciation	7	11,597	11,389
Impairment	7	7,900	-
Share-based payments	13	222	345
Finance expenses	15	2,746	2,784
Interest and bank charges	15	(1,301)	(1,170)
Decommissioning obligations settled	12	(501)	(633)
Changes in non-cash working capital accounts	15	985	1,735
Cash provided by operating activities		1,637	7,925
<b>INVESTING ACTIVITIES</b>			
Property, plant and equipment	7	(1,809)	(990)
Exploration and evaluation	6	(13)	(5)
Acquisitions	7	(65)	(2)
Changes in non-cash working capital accounts	15	(2,309)	(3,367)
Cash used in investing activities		(4,196)	(4,364)
<b>FINANCING ACTIVITIES</b>			
Payments on lease obligations	8	(259)	(194)
Cash used in financing activities		(259)	(194)
Increase (decrease) in cash		(2,818)	3,367
Cash - beginning of period		8,661	3,563
<b>CASH - END OF PERIOD</b>		<b>5,843</b>	<b>6,930</b>

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

**CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT**

(Canadian dollars, 000s)

(unaudited)

	Note	Share capital	Contributed surplus <sup>1</sup>	Warrants	Deficit	Total equity (deficit)
<b>BALANCE AT JANUARY 1, 2019</b>		<b>268,743</b>	<b>12,515</b>	<b>288</b>	<b>(220,572)</b>	<b>60,974</b>
Loss for the period		-	-	-	(6,525)	(6,525)
Share-based payments	13	-	345	-	-	345
<b>BALANCE AT MARCH 31, 2019</b>		<b>268,743</b>	<b>12,860</b>	<b>288</b>	<b>(227,097)</b>	<b>54,794</b>
Loss for the period		-	-	-	(49,905)	(49,905)
Share-based payments	13	-	771	-	-	771
Issuance of warrants		-	-	172	-	172
Issuance of common shares, net of share issue costs		4,768	-	-	-	4,768
Share issue costs, net of tax	13	(90)	-	-	-	(90)
<b>BALANCE AT DECEMBER 31, 2019</b>		<b>273,421</b>	<b>13,631</b>	<b>460</b>	<b>(277,002)</b>	<b>10,510</b>
Loss for the period		-	-	-	(20,011)	(20,011)
Share-based payments	13	-	222	-	-	222
<b>BALANCE AT MARCH 31, 2020</b>		<b>273,421</b>	<b>13,853</b>	<b>460</b>	<b>(297,013)</b>	<b>(9,279)</b>

<sup>1</sup>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 March 31, 2020 and December 31, 2019 and for the three months ended March 31, 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**”). Certain comparative amounts have been reclassified to conform to the current quarter’s presentation.

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 May 6, 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)	As at March 31, 2019
Operating expenses – as originally reported	17,654
Processing and gathering income - reclassification	719
<b>Operating expenses – as restated</b>	<b>18,373</b>

(\$000s)	As at March 31, 2019
Processing and gathering income – as originally reported	-
Processing and gathering income - reclassification	719
<b>Processing and gathering income – as restated</b>	<b>719</b>

#### 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, as defined herein. 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.

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

(\$000s)	March 31, 2020		December 31, 2019	
Description	Carrying value	Fair value	Carrying value	Fair value
Cash	5,843	5,843	8,661	8,661
Trade and other receivables	10,504	10,504	13,597	13,597
Trade and other payables	(24,744)	(24,744)	(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	(48,668)	(48,668)	(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. At the same time, global participants have increased oil supply negatively impacting global oil prices and increasing commodity price risk for the Company. 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 three months ended March 31, 2020, Pine Cliff's average sales volumes were 91% natural gas.

### Physical Sales Contracts

At March 31, 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) <sup>1</sup>	Fixed Sale Price (\$CAD/Mcf) <sup>2</sup>
April 1, 2020 to October 31, 2020	AECO	30,000	\$1.58	\$1.66
April 1, 2020 to October 31, 2020	TransGas <sup>3</sup>	9,000	\$2.40	\$2.52
April 1, 2021 to October 31, 2021	AECO	2,500	\$1.93	\$2.03

<sup>1</sup> Prices reported are the weighted average prices of the periods.

<sup>2</sup> Price has been converted from \$/GJ to \$/Mcf by multiplying by 1.05.

<sup>3</sup> Subsidiary of SaskEnergy, Saskatchewan.

At May 6, 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) <sup>1</sup>	Fixed Sale Price (\$CAD/Mcf) <sup>2</sup>
May 1, 2020 to October 31, 2020	AECO	5,000	\$1.97	\$2.07
June 1, 2020 to October 31, 2020	AECO	2,500	\$2.35	\$2.47
April 1, 2021 to October 31, 2021	AECO	2,500	\$2.03	\$2.13

<sup>1</sup> Prices reported are the weighted average prices of the periods.

<sup>2</sup> 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 March 31, 2020 of \$10.5 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 March 31, 2020, there was \$1.4 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 three months ended March 31, 2020, the Company recorded \$0.1 million (March 31, 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 including uncertainty regarding the timing for recovery in such prices, along with the effect 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.

### Financial Derivative Contracts

Pine Cliff had no financial derivative contracts in place during the three months ended March 31, 2020 or subsequent thereto.

**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)
<b>Balance at December 31, 2019</b>	<b>5,521</b>	<b>3,173</b>	<b>8,694</b>
Additions	7	6	13
<b>Balance at March 31, 2020</b>	<b>5,528</b>	<b>3,179</b>	<b>8,707</b>

**7. PROPERTY, PLANT AND EQUIPMENT**

Cost:	(\$000s)
<b>Balance at December 31, 2018</b>	<b>588,842</b>
Additions	7,981
Lease obligations	4,585
Transfer from E&E	14,324
Acquisitions	8,801
Dispositions	(1,542)
Decommissioning provision	838
<b>Balance at December 31, 2019</b>	<b>623,829</b>
Additions	1,809
Lease obligations	85
Acquisitions	65
Decommissioning provision	10,238
<b>Balance at March 31, 2020</b>	<b>636,026</b>
Accumulated depletion and depreciation:	(\$000s)
<b>Balance at December 31, 2018</b>	<b>(278,200)</b>
Depletion and depreciation	(46,864)
Impairment	(8,200)
<b>Balance at December 31, 2019</b>	<b>(333,264)</b>
Depletion and depreciation	(11,597)
Impairment	(7,900)
<b>Balance at March 31, 2020</b>	<b>(352,761)</b>
Carrying value at:	(\$000s)
December 31, 2019	290,565
<b>March 31, 2020</b>	<b>283,265</b>

**PP&E Impairment Assessment**

As at March 31, 2020, the Company had four cash generating units (“CGU”) being the Southern CGU, Central CGU, Edson CGU and Coal Bed Methane CGU. The Company reviewed each CGU’s property and equipment at March 31, 2020 for indicators of impairment and determined that an indicator related to the decrease in future commodity prices was present. The company prepared estimates of both the value in use and fair value less cost to sell of each of the Company’s CGUs. When it is determined that any CGU carrying value exceeds its recoverable amount, that CGU is considered impaired and an impairment expense is reported that equals this excess.

The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at March 31, 2020:

Year	WTI Oil (US\$/Bbl) <sup>1</sup>	\$C to US\$ Foreign exchange rate <sup>1</sup>	Edmonton Light Crude Oil (Cdn\$/Bbl) <sup>1</sup>	AECO Gas (Cdn\$/MMBtu) <sup>1</sup>
2020 (9 months)	32.50	1.43	32.14	1.85
2021	43.35	1.38	49.45	2.30
2022	52.02	1.33	62.69	2.44
2023	58.37	1.33	71.02	2.49
2024	59.53	1.33	72.44	2.54
2025-2034	66.49	1.33	80.91	2.84
Thereafter	+2.0%/yr	1.33	+2.0%/yr	+2.0%/yr

<sup>1</sup> Source: Average of three independent consultant price forecasts, effective April 1, 2020 (McDaniel Associates Consultants Ltd., GLJ Petroleum Consultants Ltd. and Sproule Associates Limited).

The recoverable amounts of each of the Company's CGU's at March 31, 2020 were estimated at their fair value less cost to sell, based on the net present value of future cash flows from oil and gas reserves as estimated by the Company's independent reserves evaluator at December 31, 2019, adjusted for production and future pricing changes during the three months ended March 31, 2020. The fair value less costs to sell used to determine the recoverable amounts are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data, but rather, the Company's management's best estimates.

The Company used a pre-tax 15% discount rate for the March 31, 2020 impairment test which took into account risks specific to the CGU's and inherent in the oil and gas business.

The following CGU was impaired:

(\$000s)	Three months ended March 31,	
CGU	2020	2019
Edson	7,900	-
<b>Total Impairment</b>	<b>7,900</b>	-

For the quarter ended March 31, 2020, a 1% increase in the discount rate applied to the Company's future estimated cash flows would result in an increase in impairment across all of the Company's CGU's by approximately \$3.0 million (2019 - \$nil), whereas a 10% increase in forward commodity prices would result in a \$6.8 million reversal of the impairment (2019 - \$nil) recognized in the comprehensive loss for the three months ended March 31, 2020.

## 8. LEASE LIABILITIES

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

	(\$000s)
2020	929
2021	1,126
2022	934
2023	758
2024	114
Thereafter	3
<b>Total lease payments as at March 31, 2020</b>	<b>3,864</b>
Amounts representing interest	(329)
<b>Present value of lease payments</b>	<b>3,535</b>
Current portion of lease obligations	(1,067)
<b>Non-current portion of lease obligations</b>	<b>2,468</b>

For the three months ended March 31, 2020, interest expense of \$0.04 million (March 31, 2019 - \$0.04 million) and a total cash outflow of \$0.3 million (March 31, 2019 - \$0.2 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 months ended March 31, 2020 was \$0.1 million (March 31, 2019 - \$0.1 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 March 31, 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	26	(186)
<b>Term debt - end of year</b>	<b>48,668</b>	<b>48,642</b>

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 March 31, 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.

## 12. DECOMMISSIONING PROVISION

The total current and long-term decommissioning provision of \$232.5 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 March 31, 2020, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$250.0 million (December 31, 2019 - \$249.3 million). The discounted and inflated amount required to settle the decommissioning liabilities of \$232.5 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 quarter ended March 31, 2020, due to forces currently influencing global capital markets, including COVID-19, 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 March 31, 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
<b>Decommissioning provision, December 31, 2019</b>	<b>221,360</b>
Development activities	113
Provisions related to acquisitions	628
Decommissioning expenditures	(501)
Revisions (changes in estimates, inflation rate, and discount rates)	9,497
Accretion	1,419
<b>Decommissioning provision, March 31, 2020</b>	<b>232,516</b>
<b>Less current portion of decommissioning provision</b>	<b>(2,000)</b>
<b>Non-current portion of decommissioning provision</b>	<b>230,516</b>

### 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

	Common Shares (000s)	Share capital (\$000s)
Issued and outstanding share capital continuity:		
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)
<b>Balance, December 31, 2019 and March 31, 2020</b>	<b>327,784</b>	<b>273,421</b>

#### Stock Options

The Company provides an equity settled stock option plan (the "Option Plan") for its directors, employees and consultants. Under the Option Plan, the Company may grant stock options up to 10% of outstanding Common Shares on the grant date. The term and vesting period of the options granted are determined at the discretion of the 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.

	Options (000s)	Weighted-average exercise price (\$ per share)
Stock options issued and outstanding:		
Outstanding, January 1, 2019	21,029	0.75
Granted	13,138	0.18
Expired	(6,524)	1.02
Forfeited	(1,814)	0.62
<b>Outstanding, December 31, 2019</b>	<b>25,829</b>	<b>0.40</b>
Granted	88	0.12
Expired	(286)	0.90
<b>Outstanding, March 31, 2020</b>	<b>25,631</b>	<b>0.41</b>
<b>Exercisable, March 31, 2020</b>	<b>6,686</b>	<b>0.78</b>

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
\$0.095 - \$0.45	19,723	1.9	2,286	0.1
\$0.46 - \$0.81	3,156	0.6	1,648	0.1
\$0.82 - \$1.16	2,752	0.7	2,752	0.7
	<b>25,631</b>	<b>1.6</b>	<b>6,686</b>	<b>0.3</b>

The Company records share-based payment expense over the vesting period, based on the fair value of the options granted to employees, directors and consultants. One third of the stock options granted vest annually on each of the first, second, and third anniversaries of the grant date and expire one year after each respective vesting date. During the three months ended March 31, 2020, the Company granted 87,750 stock options (March 31, 2019 – 18,000) with a fair value of \$0.05 (March 31, 2019 - \$0.09) per option using the Black-Scholes option pricing model using the following key assumptions:

Assumptions (weighted average):	Three months ended March 31,	
	2020	2019
Exercise price (\$)	0.12	0.25
Estimated volatility of underlying common shares (%)	57.6	50.9
Expected life (years)	3.0	3.0
Risk-free rate (%)	1.4	1.9
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
<b>Outstanding, December 31, 2019 and March 31, 2020</b>	<b>10,350</b>	<b>0.29</b>

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 shares outstanding for the three months ended March 31, 2020 and 2019, all stock options and warrants were excluded as they were not dilutive.

Loss per share calculation:	Three months ended March 31,	
	2020	2019
<b>Numerator (\$000s)</b>		
Loss for the period	(20,011)	(6,525)
<b>Denominator (000s)</b>		
Weighted-average Common Shares outstanding – basic and diluted	327,784	307,076
Loss per share – basic and diluted (\$)	(0.06)	(0.02)

#### 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.

(\$000s)	Three months ended March 31,	
	2020	2019
Natural gas	20,780	26,644
NGL	2,541	3,322
Crude oil	2,120	2,097
Total commodity sales	25,441	32,063
Processing and gathering	950	719
Total commodity sales and processing and gathering	26,391	32,782

#### 15. SUPPLEMENTAL CASH FLOW INFORMATION

(\$000s)	Three months ended March 31,	
	2020	2019
Changes in non-cash working capital:		
Trade and other receivables	3,093	(1,430)
Prepaid expenses and deposits	(1,647)	(547)
Trade and other payables and accrued liabilities	(2,770)	345
	(1,324)	(1,632)
Change related to:		
Operating activities	985	1,735
Investing activities	(2,309)	(3,367)
	(1,324)	(1,632)

	Three months ended March 31,	
	2020	2019
Finance expenses:		
Interest expense and bank charges	1,301	1,170
Non cash:		
Accretion on decommissioning provision	1,419	1,536
Accretion on subordinated promissory notes	26	78
Total finance expenses	2,746	2,784

Cash interest paid in the three months ended March 31, 2020, was \$1.6 million (March 31, 2019 - \$2.0 million).

#### 16. COMMITMENTS

As at March 31, 2020, the Company has the following commitments and other contractual obligations:

	2020	2021	2022	2023	2024	Thereafter
(\$000s)						
Trade and other payables	24,744	-	-	-	-	-
Term debt <sup>1</sup>	-	-	19,000	-	30,000	-
Due to related party	-	-	-	-	6,000	-
Subordinated promissory notes	-	-	-	-	6,000	-
Future interest	3,634	5,120	4,861	4,380	4,605	-
Transportation <sup>2</sup>	6,318	6,888	6,057	4,438	3,968	9,475
Total commitments and contingencies	34,696	12,008	29,918	8,818	50,573	9,475

<sup>1</sup> Principal amount.

<sup>2</sup> 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 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. At March 31, 2020, the Company had a working capital deficiency of \$4.5 million, an increase of \$3.0 million from December 31, 2019, primarily due to a decline in natural gas prices due to an unseasonal mild winter across North America and a decline in crude oil and NGL prices due to global supply and demand factors. 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.

**BOARD OF DIRECTORS**

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

**OFFICERS**

Philip B. Hodge  
President and Chief Executive Officer  
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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**REGISTRAR AND TRANSFER AGENT**

Odyssey Trust Company of Canada

**AUDITORS**

Deloitte LLP

**BANKERS**

Toronto-Dominion Bank

**STOCK EXCHANGE LISTING**

TSX Exchange  
Trading Symbol: PNE

**WEBSITE**

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