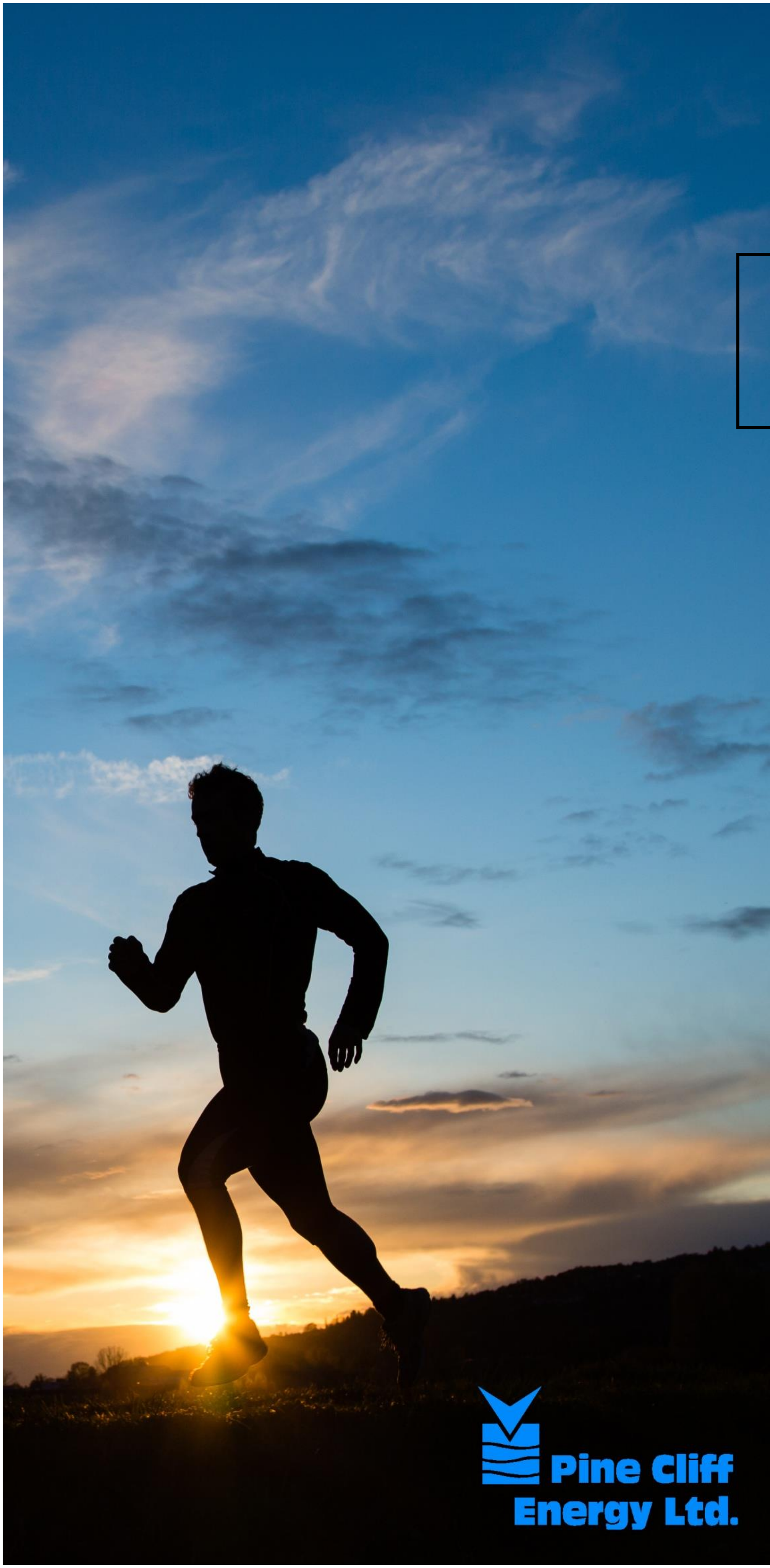

Long-term Value Focus

Annual Report 2015

2015 was the busiest year in Pine Cliff's history and the fourth quarter in particular was a hectic time to be a Pine Cliff employee. Significant highlights from our fourth quarter were as follows:

- Closed the largest acquisition in the company's history, adding approximately 11,730 Boe per day of production in the Ghost Pine and Viking areas of Central Alberta. This purchase lowered our industry leading production decline rate to less than 12%, decreased our corporate break-even point to less than $2.00 per mcf (before CAPEX) and materially increased our drilling inventory;
- Closed $72 million of equity financings;
- Amended our credit facility and increased our borrowing base to $185 million and added two Canadian Financial Institutions for a total of five in the syndicate;
- Attained record average daily sales volumes of 15,051 Boe per day as compared to 12,504 Boe per day in the third quarter of 2015 and exited the year with a year-over-year per basic share production growth of 49%; and
- Achieved significant growth in total proved reserves to 59 million Boe and total proved plus probable reserves to 79 million Boe, representing year-over-year basic per share reserves growth of 75% and 72%, respectively.

We are also very pleased to announce that on March 3, 2016, our shares began trading on the Toronto Stock Exchange (PNE-T).

Strategic Growth in a Chaotic Time

Our goal has always been to deliver long term value to our shareholders. We have always said that we will trade short term cash flow for long term opportunities, however as the capital and commodity markets continue to experience high volatility, it is not always easy to walk that walk. We did not take lightly the decisions to transact on the assets we bought in 2015. We raised equity in one of the toughest capital markets in recent memory because we did not want to overly extend our use of debt, but we firmly believed that buying quality assets in times of industry distress will serve our shareholders well over time. We personally stood behind those decisions as insiders continuing to buy PNE stock this past quarter. These are not easy times to be operating an oil and gas company in Western Canada as cash flow across our industry has been materially reduced in 2016. We have stayed focused on our key strengths by minimizing our capital expenditures while continuing to lower our operating costs and our field staff need to be commended for the results they have demonstrated.

As we build and strengthen our asset base during these difficult times, we continue to stay as lean as possible while operating our assets to the high standards we and our shareholders expect of us. For example, our head office only had 26 employees at year end, while operating over 23,000 BOE per day. I am proud of the team we have assembled to optimize our assets.

Outlook

The drop in oil and gas prices in the past 12 months has demanded that all companies in our industry reexamine their growth strategies as access to capital is currently being restricted to only a small group of companies. The 2015-16 winter was one of the warmest in North American recorded history and that has punished the natural gas price due to increased gas in storage. However, natural gas demand continues to quietly accelerate with coal to gas shifting continuing, LNG exports commencing and pipeline exports to Mexico now surpassing 3.5 BCF/day. Natural gas supply growth has finally begun to drop due to production declines, associated gas reductions from reduced oil drilling and fewer natural gas rigs in operation due to the poor economics of drilling. We remain confident that price will need to eventually react positively to these changes, but we will watch this closely and take whatever measures we believe are prudent to protect our company in the meantime.

It is now over four years since Pine Cliff started down this path and we will continue to manage your company with the same disciplined approach and focus on long-term shareholder value we have in the past. To borrow the theme of the runner on our annual report cover, we have always held the view that this is a marathon, not a sprint. We are now seeing the unmistakable indicators that the finish line may not be as far away as we once thought it might be. Our business plan has been designed for us to survive during the difficult times so that we can prosper in the better times. We are excited about the opportunities that continue to present themselves and I would like to thank our staff for their amazing effort integrating the new Ghost Pine and Viking assets. To our shareholders, thank you for your continued support and confidence in our business plan.

Yours truly,

Phil Hodge
President and Chief Executive Officer
March 17, 2016

Please refer to the attached Management's Discussion and Analysis for Reader Advisories regarding forward-looking information, non-IFRS measures and oil and gas measurements. This President's Message should be read in conjunction with the audited consolidated financial statements of Pine Cliff Energy Ltd. together with Management's Discussion and Analysis for the year ended December 31, 2015, which can be found on www.sedar.com and is subject to the same cautionary statements as set out therein.

RESERVES INFORMATION

McDaniel's and Associates Limited was engaged to prepare evaluations of the Company's reserves at December 31, 2015. The evaluations of petroleum and natural gas reserves were conducted in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**") with the effective date of December 31, 2015. The gross reserves in the following tables represent Pine Cliff's ownership interest before royalties and before consideration of the Company's royalty interest reserves. Tables may not add due to rounding.

Where amounts are expressed on a Boe basis, natural gas volumes have been converted to oil equivalence at six Mcf per one Bbl. Where amounts are expressed in Mcfe, natural gas liquids and oil volumes are converted to one Mcfe using the same ratio. The terms Boe and Mcfe may be misleading, particularly if used in isolation. This conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Highlights of Pine Cliff's reserves for the 2015 year include:

- Proved reserves increased to 59,452.3 MBoe (91% natural gas) at December 31, 2015 from 26,035.9 MBoe (96% natural gas) at December 31, 2014, an increase of 128% and 75% on a per basic share basis;
- Proved plus probable reserves increased to 78,701.3 MBoe (91% natural gas) at December 31, 2015 from 35,063.9 MBoe (94% natural gas) at December 31, 2014, an increase of 124% and 72% on a per basic share basis;
- Approximately 76% of total reserves are classified as proved reserves with 24% classified as probable reserves;
- Approximately 97% of proved reserves are classified as proved developed; and
- Net present value for proved plus probable reserves of $340 million, discounted at 10%; an increase of $101 million, or 42%, from December 31, 2014.

Summary of Remaining Working Interest Reserves, as of December 31, 2015

	Light and Medium Oil	Natural Gas (Non-associated and associated)	Natural Gas Liquids	BOE
Reserve Category:	Mbbl	MMcf	Mbbl	Mboe
Proved				
Developed Producing	2,429.6	314,044.5	2,645.6	57,415.9
Developed Non-Producing	0.8	2,450.9	8.6	417.9
Undeveloped	14.3	6,759.2	477.7	1,618.6
Total Proved	**2,444.7**	**323,254.6**	**3,131.9**	**59,452.3**
Probable	646.1	105,548.5	1,011.4	19,248.9
Total Proved plus Probable	**3,090.8**	**428,803.0**	**4,143.3**	**78,701.3**

Summary of Net Present Values of Future Net Revenue, Before Income Taxes, as of December 31, 2015 [1]

	Discounted at (% per Year)			
($000's)	0%	5%	10%	15%
Reserve Category:				
Proved				
Developed Producing	265,553.3	256,473.0	231,602.0	206,372.7
Developed Non-Producing	6,788.7	5,128.2	4,035.6	3,284.2
Undeveloped	17,855.7	12,102.0	8,345.8	5,783.9
Total Proved	**290,197.6**	**273,703.2**	**243,983.4**	**215,440.8**
Probable	249,908.7	150,307.5	96,082.8	64,645.9
Total Proved plus Probable	**540,106.3**	**424,010.8**	**340,066.2**	**280,086.7**

[1] Includes abandonment and reclamation costs.

Reconciliation of Gross Reserves by Principal Product Type, as of December 31, 2015

	Light and Medium Oil and Natural Gas Liquids		Natural Gas and CBM		BOE	
	Proved (Mbbl)	Proved plus Probable (Mbbl)	Proved (Mmcf)	Proved plus Probable (Mmcf)	Proved (MBoe)	Proved Plus Probable (MBoe)
December 31, 2014	**1,128.4**	**1,952.6**	**149,444.9**	**198,668.1**	**26,035.9**	**35,064.0**
Extension	52.0	65.5	2,674.3	3,246.8	497.7	606.6
Technical Revisions	482.1	371.3	16,814.7	9,526.0	3,284.6	1,959.1
Acquisitions	4,226.1	5,164.8	185,388.3	252,417.4	35,124.2	47,234.4
Economic factors	(60.0)	(68.1)	(4,428.4)	(8,416.1)	(798.1)	(1,470.8)
Production [1]	(252.0)	(252.0)	(26,639.2)	(26,639.2)	(4,691.9)	(4,691.9)
December 31, 2015	**5,576.6**	**7,234.0**	**323,254.5**	**428,803.1**	**59,452.5**	**78,701.3**

[1] The production shown in the above reconciliation includes production from the acquisitions as of the closing dates.

Finding, Development and Acquisition ("FD&A") Costs [1]

Pine Cliff has been very active developing its asset base, primarily through acquisitions. Over three years, the Company has incurred the following FD&A costs, including changes in Future Development Capital:

	2015	2014	2013	3 year average
$/Boe				
Proved Reserves	5.36	7.76	6.65	6.16
Proved plus probable reserves	4.58	7.06	5.80	5.38
$/Mcfe				
Proved Reserves	0.89	1.29	1.11	1.03
Proved plus probable reserves	0.76	1.18	0.97	0.90

Pine Cliff has incurred the following FD&A costs, excluding changes in Future Development Capital:

	2015	2014	2013	3 year average
$/Boe				
Proved Reserves	5.26	9.89	4.07	6.00
Proved plus probable reserves	4.14	7.67	3.26	4.73
$/Mcfe				
Proved Reserves	0.88	1.65	0.68	1.00
Proved plus probable reserves	0.69	1.28	0.54	0.79

[1] FD&A costs are calculated as the aggregate of development capital plus acquisition capital, net of dispositions, plus the change in future development capital for the period divided by the change in total reserves for the period, excluding production.

Commodity Prices

The Commodity prices used in the above calculations of reserves are as follows:

Year	WTI Crude Oil (US$/bbl) [1]	Edmonton Light Crude Oil ($C/bbl) [1]	Alberta AECO Spot Price ($C/MMBtu) [1]	$C to $US Exchange Rate [1]
2016	45.00	56.60	2.70	1.37
2017	53.60	66.40	3.20	1.33
2018	62.40	72.80	3.55	1.25
2019	69.00	80.90	3.85	1.25
2020	73.10	83.20	3.95	1.21
2021	77.30	88.20	4.20	1.21
2022	81.60	93.30	4.45	1.21
2023	86.20	98.70	4.70	1.21
2024	87.90	100.70	4.80	1.21
2025	89.60	102.60	4.90	1.21
2026	91.40	104.70	5.00	1.21
2027	93.30	106.90	5.10	1.21
2028	95.10	108.90	5.20	1.21
2029	97.00	111.10	5.30	1.21
2030	99.00	113.40	5.40	1.21
Thereafter	+2%/yr	+2%/yr	+2%/yr	1.21

[1] Source: McDaniel & Associates Consultants Ltd. Price forecasts, effective January 1, 2016

FINANCIAL AND OPERATIONAL HIGHLIGHTS [1]

	Three months ended December 31		Year ended December 31	
	2015	2014	**2015**	2014
($000s, unless otherwise indicated)				
FINANCIAL				
Oil and gas sales (before royalties)	**21,598**	25,469	**78,853**	78,450
Cash flow from operating activities	**973**	10,268	**20,768**	37,641
Funds flow from operations [2]	**6,550**	11,615	**25,818**	38,988
Per share - Basic and Diluted ($/share)	**0.03**	0.05	**0.11**	0.18
Loss	**(3,300)**	(8,929)	**(24,257)**	(1,942)
Per share - Basic and Diluted ($/share)	**(0.01)**	(0.04)	**(0.10)**	(0.01)
Capital expenditures, excluding acquisitions	**1,875**	2,686	**7,259**	11,087
Acquisitions, after adjustments	**179,540**	103,097	**193,065**	135,213
Net debt [3]	**141,770**	33,512	**141,770**	33,512
Weighted-average common shares outstanding (000s)				
Basic and Diluted	**240,983**	233,718	**240,149**	211,025
OPERATIONS				
Production				
Natural gas (Mcf/d)	**85,233**	68,430	**72,984**	45,022
Crude oil (Bbls/d)	**264**	124	**160**	75
Natural gas liquids (Bbls/d)	**581**	566	**530**	320
Total (Boe/d)	**15,051**	12,095	**12,854**	7,899
Realized commodity sales prices				
Natural gas ($/Mcf)	**2.47**	3.63	**2.67**	4.27
Crude oil ($/Bbl)	**44.07**	69.17	**48.26**	79.38
Natural gas liquids ($/Boe)	**21.17**	34.90	**25.00**	51.70
Combined ($/Boe)	**15.60**	22.89	**16.81**	27.20
Netback ($/Boe)				
Oil and gas sales	**15.60**	22.89	**16.81**	27.20
Royalties	**(1.03)**	(2.38)	**(1.08)**	(2.82)
Operating costs	**(8.41)**	(8.77)	**(8.65)**	(9.18)
Operating netback ($/Boe) [4]	**6.16**	11.74	**7.08**	15.20
General and administrative	**(0.98)**	(0.97)	**(1.24)**	(1.71)
Finance expense and dividend income	**(0.44)**	(0.32)	**(0.33)**	0.04
Corporate netback ($/Boe) [5]	**4.74**	10.45	**5.51**	13.53

[1] Includes results from acquisitions from the closing dates.
[2] Funds flow from operations is a non-IFRS measure that represents the total of funds provided by operating activities, before adjusting for changes in non-cash working capital.
[3] Net debt is a non-IFRS measure calculated as the sum of bank debt and trade and other payables less trade and other receivables, cash, prepaid expenses and deposits and investments.
[4] Operating netback is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties and operating expenses, averaged over the Boe production of the Company.
[5] Corporate netback is a non-IFRS measure calculated as the Company's operating netback, less general and administrative expenses, interest and bank charges plus finance and dividend income, averaged over the Boe production of the Company.

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position for the year ended December 31, 2015 for Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") and should be read in conjunction with the audited consolidated financial statements as at and for the years ended December 31, 2015 and 2014, together with the notes related thereto (the "Financial Statements"). Additional information relating to the Company, including the Company's Annual Information Form, may be found on www.sedar.com and by visiting Pine Cliff's website at www.pinecliffenergy.com.

Pine Cliff's head office is based in Calgary, Alberta, Canada. Common shares of the Company are listed and posted 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 International Financial Reporting Standards ("IFRS") and forward-looking statements. Readers are cautioned that the MD&A should be read in conjunction with the Company's disclosure under "Non-IFRS Measures" and "Forward-Looking Information" included at the end of the MD&A.

Other Measurements
All amounts herein are presented in Canadian dollars unless otherwise specified. All references to C$ or $ are to Canadian dollars and references to US$ are to United States dollars.

Where amounts are expressed in a barrel of oil equivalent ("Boe" or daily equivalent of "Boe/d"), natural gas volumes have been converted to barrels of oil equivalent on the basis that six thousand cubic feet of natural gas ("Mcf" or daily equivalent of "Mcf/d") is equal to one barrel of oil ("Bbl" or daily equivalent of "Bbl/d"). This conversion ratio is based on energy equivalence primarily at the burner tip and does not represent a value equivalency at the wellhead. The term Boe may be misleading, particularly if used in isolation.

SENSITIVITIES

Pine Cliff's results are sensitive to changes in the business environment in which it operates. The following chart shows the Company's sensitivity to key commodity price variables and interest rates. 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 funds flow from operations [1]	
	Change	$000s	$ per share [3]
Crude oil price - Edmonton par ($/Bbl) [2]	$1.00	600	0.00
Natural gas price - AECO ($/Mcf) [2]	$0.10	4,380	0.01
Interest rate on variable rate debt	1.0%	1,550	0.01

[1] This analysis does not adjust for changes in working capital and uses current royalty rates.
[2] Pine Cliff has prepared this analysis using its 2015 exit production volumes annualized for twelve months.
[3] Based on December 31, 2015 basic shares outstanding of 305,582,287.

2015 highlights

During 2015, Pine Cliff reported that it:

- Closed the acquisition of additional assets in Central Alberta in December 2015, which added over 11,000 Boe/d of production as of the closing date;
- Closed the acquisition of additional assets in the Southern and Edson core areas in May 2015, which added approximately 1,000 Boe/d of production;
- Completed common share issuances in December at a price of $1.08 per share for gross proceeds of $72.0 million;
- Achieved record oil and gas sales volumes for the three months and year ended December 31, 2015 of 15,051 Boe/d and 12,846 Boe/d as compared to 12,095 Boe/d and 7,899 Boe/d in the three months and year ended December 31, 2014, mainly as a result of its acquisitions; and
- Decreased the Company's operating and general and administrative expenses per Boe by 6% and 27% for the year ended December 31, 2015 compared to fiscal 2014 as a result of cost cutting initiatives and operational synergies from the 2015 acquisitions.

PINE CLIFF'S STRATEGIC OBJECTIVES AND ACQUISITIONS

Pine Cliff is a growth oriented oil and gas exploration and production company seeking to acquire material natural gas asset positions in the Western Canadian Sedimentary Basin ("WCSB") to enlarge its current core areas and create new core areas of production with significant reserves, drilling inventories, low operating costs and low declines. The Company's current vision is to deliver long-term value to shareholders by building a portfolio of high-return assets for future growth focusing on counter cyclical natural gas opportunities and oil and liquids drilling and optimization opportunities.

The Company has been active in the acquisition and divestiture market and has executed nine key transactions since January 2012. The most recent acquisitions include:

- The acquisition of certain oil and natural gas assets in the Carrot Creek/Edson area of Alberta in August 2014 (the "August 2014 Acquisition");
- The acquisition of certain shallow natural gas assets in Alberta and Southern Saskatchewan in October 2014 (the "October 2014 Acquisition");
- The acquisition of certain shallow natural gas assets in the Southern core area and Edson core area in May 2015 (the "May 2015 Acquisition"); and
- The acquisition of certain oil and natural gas assets in the Viking and Ghost Pine area of Central Alberta in December 2015 (the "December 2015 Acquisition").

Management is pleased with its progress and believes that the assets that have been assembled to date and the cash flow from these assets will provide Pine Cliff with significant future opportunities. In the near-term, Pine Cliff will continue to maintain a strong financial position, drill, recomplete or optimize selected strategic wells and aggressively pursue, evaluate and attempt to execute on further accretive business acquisitions.

PINE CLIFF'S OPERATIONS

Pine Cliff's main areas of production are as follows:

- Central Assets – On December 11, 2015, Pine Cliff added a new core area to its portfolio, with the acquisition of natural gas weighted, low decline assets in the Ghost Pine and Viking areas of Central Alberta for which Pine Cliff has average working interests of 76% and 78%, respectively. Ghost Pine production and development opportunities are mostly from the late Cretaceous Horse Shoe Canyon Edmonton group and the stacked Belly River sands. The majority of the Viking production comes from the Viking shore face sands and there is considerable upside in the Colorado shale which is a deep water siltstone. Pine Cliff has identified approximately 1,050 potential gross drilling opportunities in the Ghost Pine Horseshoe Canyon Coal Bed Methane and approximately 140 potential gross drilling opportunities in the Viking Colorado Shale;

- Southern Assets – at December 31, 2015, Pine Cliff holds an approximate 85% working interest in a package of high-quality, low decline, producing shallow gas assets mainly in southeast Alberta and minor interests in southwest Saskatchewan. The majority of the producing zones in these properties are from the upper Cretaceous Milk River, Medicine Hat and Second White Specks sands, which together constitute a meaningful interest for Pine Cliff in one of the largest Canadian gas fields in Western Canada. Pine Cliff has identified approximately 300 potential gross drilling opportunities in the Southern Assets. These fields are characterized by their shallow depths, low-permeability, clay-rich sands and long production life;

- Edson – Pine Cliff holds working interests in a package of liquid rich natural gas assets which are located near the town of Edson, Alberta. In addition to the producing assets, Pine Cliff has, in aggregate, 44 gross (13.5 net) sections of undeveloped land with approximately 90 potential gross drilling opportunities. The Edson Assets have multi-zone potential which can be further exploited using horizontal drilling technology; and

- Other – Pine Cliff also has working interests from non-operated properties in the Sundance, Harmattan, and Garrington areas of Alberta, and in the Cadillac area of Southern Saskatchewan. The Company does not currently have large enough land positions or working interests in these areas to consider them significant core areas at this time.

GUIDANCE FOR 2016

The 2016 guidance provides information as to management's expectation for results of operations for 2016. Readers are cautioned that the 2016 guidance may not be appropriate for other purposes. The Company's expected results are sensitive to fluctuations in the business environment and may vary accordingly. This guidance contains forward-looking information and should be read in conjunction with the Company's disclosure under "Forward-Looking Information" included on the final page of the MD&A.

Production

	2016 Guidance	Year ended December 31, 2015
Barrels of oil equivalent per day	22,500 - 23,000	12,854

Pine Cliff is projecting productions volumes in 2016 to average between 22,500 Boe/d and 23,000 Boe/d, weighted approximately 92% towards natural gas and representing an increase of 77% over the 2015 average production (percent change based on the mid-point of the 2016 guidance).

Capital Expenditures

	2016 Guidance	Year ended December 31, 2015
($000's)		
Total, excluding acquisitions	10,000	7,259

Pine Cliff remains committed to adding assets to its portfolio and is optimistic that the current depressed commodity pricing environment may provide accretive acquisition opportunities for the Company. Pine Cliff's board of directors has approved a 2016 capital budget of $10.0 million (the "Capital Budget") which may be modified throughout 2016 depending on commodity prices and wells proposed on non-operated lands.

SALES VOLUMES

	Three months ended December 31		Year ended December 31	
Total sales volumes by product	**2015**	2014	**2015**	2014
Natural gas (Mcf)	**7,841,432**	6,295,554	**26,639,158**	16,433,043
Crude oil (Bbls)	**24,259**	11,406	**58,408**	28,219
NGLs (Bbls)	**53,419**	52,033	**193,616**	116,872
Barrels of oil equivalent	**1,384,583**	1,112,698	**4,691,883**	2,883,932
Natural gas weighting	**94%**	94%	**95%**	95%

	Three months ended December 31		Year ended December 31	
Average daily sales volumes by product	**2015**	2014	**2015**	2014
Natural gas (Mcf/d)	**85,233**	68,430	**72,984**	45,022
Crude oil (Bbls/d)	**264**	124	**160**	75
NGLs (Bbls/d)	**581**	566	**530**	320
Total (Boe/d)	**15,051**	12,095	**12,854**	7,899

	Three months ended December 31		Year ended December 31	
Average daily sales volumes by property	**2015**	2014	**2015**	2014
(Boe/d)				
Southern Assets	**10,301**	10,322	**10,125**	6,548
Edson	**2,049**	1,595	**1,902**	1,136
Central Assets	**2,425**	-	**611**	-
Other properties	**276**	178	**216**	215
Total	**15,051**	12,095	**12,854**	7,899

For the three months ended December 31, 2015, Pine Cliff's sales volumes increased 24% to 15,051 Boe/d as compared to 12,095 Boe/d for the three months ended December 31, 2014. The increase in the quarter is mainly a result of the May 2015 Acquisition which added approximately 1,000 Boe/d to the quarter, and the December 2015 Acquisition which added approximately 2,425 Boe/d to the quarter. Production for the quarter was negatively impacted by freeze offs and third party curtailments of approximately 250 Boe/d.

For the year ended December 31, 2015, Pine Cliff's sales volumes increased 63% to 12,854 Boe/d, as compared to 7,899 Boe/d for year ended December 31, 2014. The increases were mainly a result of production from the full year of the October 2014 Acquisition, the May 2015 Acquisition and the December 2015 Acquisition.

Pine Cliff operates the majority of its assets and the Company focused its attention in 2015 on minimize production declines, particularly in the Southern Assets core area. Contributing to Pine Cliff's base production using minimal capital expenditures, during the second half of 2015, Pine Cliff reactivated approximately 80 wells that had been shut-in in the Southern Assets core area. Through swabbing programs and regular maintenance, Pine Cliff continued to further reduce the declines on its shallow gas assets and Pine Cliff estimates its corporate decline on its base production to be less than 12%.

OPERATING AND CORPORATE NETBACKS

The components of the operating and corporate netback are summarized as follows:

	Three months ended December 31		Year ended December 31	
	2015	2014	**2015**	2014
($ per Boe)				
Oil and gas sales	**15.60**	22.89	**16.81**	27.20
Royalties	**(1.03)**	(2.38)	**(1.08)**	(2.82)
Operating expenses	**(8.41)**	(8.77)	**(8.65)**	(9.18)
Operating netback	**6.16**	11.74	**7.08**	15.20
General and administrative expense	**(0.98)**	(0.97)	**(1.24)**	(1.71)
Interest and bank charges	**(0.51)**	(0.49)	**(0.41)**	(0.23)
Finance and dividend income	**0.07**	0.17	**0.08**	0.27
Corporate netback	**4.74**	10.45	**5.51**	13.53
Operating netback ($ per Mcfe)	**1.03**	1.96	**1.18**	2.53
Corporate netback ($ per Mcfe)	**0.79**	1.74	**0.92**	2.26

Pine Cliff generated an operating netback of $6.16 and $7.08 per Boe for the three months and year ended December 31, 2015, respectively, as compared to $11.74 and $15.20 per Boe for the three months and year ended December 31, 2014. Overall, Pine Cliff generated a corporate netback of $4.74 and $5.51 per Boe for the three months and year ended December 31, 2015, as compared to $10.45 and $13.53 per Boe in the same period of 2014. The decreases in Q4 and in the year of 2015 are primarily due to lower commodity prices, somewhat offset by lower royalties and operating expenses per Boe.

OIL AND GAS SALES

	Three months ended December 31				Year ended December 31			
	2015		2014		**2015**		2014	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Natural gas [1]	**19,398**	**2.47**	22,864	3.63	**71,193**	**2.67**	70,168	4.27
Crude oil	**1,069**	**44.07**	789	69.17	**2,819**	**48.26**	2,240	79.38
NGLs	**1,131**	**21.17**	1,816	34.90	**4,841**	**25.00**	6,042	51.70
Total sales	**21,598**	**15.60**	25,469	22.89	**78,853**	**16.81**	78,450	27.20

[1] Per unit values are expressed in $ per Mcf.

Oil and gas sales for the three months decreased by 15% as compared to the same period in 2014, reflecting an overall lower commodity price environment in 2015. Pine Cliff's realized price in the three months ended December 31, 2015 was $15.60 per Boe as compared to $22.89 per Boe in the same period of 2014, reflecting an overall decrease in the commodity price environment.

Oil and gas sales for the year ended December 31, 2015 increased 1% reflecting increased sales volumes from acquisitions completed during 2015, somewhat offset by an overall lower commodity price environment in 2015. Pine Cliff's realized price in the year ended December 31, 2015 was $16.81 per Boe as compared to $27.20 per Boe in the year ended December 31, 2014.

Commodity prices and foreign exchange rates

Pine Cliff's financial results are significantly influenced by fluctuations in commodity prices, including price differentials. The following table shows select market benchmark prices and foreign exchange rates in the last eight quarters to assist in understanding the volatility in prices and foreign exchange rates that have impacted Pine Cliff's business.

	Q4 - 2015	Q3 - 2015	Q2-2015	Q1-2015	Q4-2014	Q3-2014	Q2-2014	Q1-2014
Natural gas								
NYMEX (US$/Mmbtu)[1]	**2.28**	2.77	2.67	2.96	3.96	4.07	4.56	4.90
AECO (C$/Mcf)	**2.45**	2.89	2.64	2.74	3.58	4.00	4.67	5.69
Crude oil								
WTI (US$/Bbl)	**42.18**	46.43	57.94	48.63	73.15	97.17	102.99	98.68
Edmonton light (C$/Bbl)	**52.87**	56.17	67.63	51.78	75.58	97.01	105.68	100.23
Foreign exchange								
US$/C$	**1.3353**	1.3094	1.2294	1.2411	1.1357	1.0893	1.0905	1.1035

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

In the first six months of 2014, North American natural gas prices reached their highest average levels since 2008 as a result of a cold winter that established record setting demand resulting in depleted inventory levels in both Canada and the United States. Strong prices contributed to significant drilling activity creating supply growth and a supply-demand imbalance resulting in price deterioration for natural gas in the latter part of 2014 and continuing throughout 2015. In the fourth quarter of 2015 the benchmark AECO natural gas price in Canada decreased by 32% as compared to the fourth quarter of 2014, and average NYMEX gas prices in the United States decreased by 42% in the same period. The AECO monthly strip for the next 12 months is currently trading in the $2.08 per Mcf range. Pine Cliff's realized natural gas price during the three months and year ended December 31, 2015 was $2.47 and $2.67 per Mcf, a decrease of 32% and 37% compared to the same periods of 2014.

Similarly, in the first six months of 2014, the North American crude oil prices reached their highest average levels since 2008, however an over-supplied oil market became apparent late in 2014, with the continued production from the shale plays in the United States, slower than expected global demand growth, and sustained production levels by OPEC. The sell-off in global oil prices was a market reaction to OPEC's decision not to reduce production. Current oil prices are below marginal supply costs for new production for many areas, resulting in a significant reduction in 2016 budgeted capital spending for the global energy sector. Reduced drilling activity is expected to slow supply growth and re-balance markets, however there is a lag between drilling activity levels and resultant oil production due to the life cycle of well completions and tie-ins. WTI oil prices averaged US$42.18 per Bbl in the fourth quarter of 2015 as compared to US$73.15 per Bbl in the fourth quarter of 2014. Canadian crude prices are based upon refiner postings at Edmonton, Alberta and are linked to WTI through transportation tariffs to common markets and the foreign exchange rate. In the three months and year ended December 31, 2015, the realized price of Pine Cliff's oil was $44.07 and $48.26 per Bbl, as a result of quality adjustments to the average posted Edmonton light crude oil price of $52.87 and $57.11 per Bbl.

Historically, the average price of NGLs has tracked the price of oil. However, changes in the supply and demand for certain NGLs such as ethane, propane and butane have impacted the relationship between the price of NGLs and the price of oil. In the three months and year ended December 31, 2015, the realized price of Pine Cliff's NGLs was $21.17 per Bbl and $25.00 per Bbl, representing approximately 40% and 44% of the Edmonton light crude oil prices as compared to 46% and 68% in the three months and year ended December 31, 2014.

Pine Cliff does not currently utilize a hedging strategy and thereby has not eliminated any of the upside, or potential downside, of price fluctuations for its shareholders. The Company continues to monitor the fluctuating commodity prices closely and their impact on its results and strategies.

ROYALTIES

	Three months ended December 31				Year ended December 31			
	2015		2014		**2015**		2014	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Total	**1,432**	**1.03**	2,650	2.38	**5,083**	**1.08**	8,145	2.82
% of oil and gas sales	**7%**		10%		**6%**		10%	

On an absolute dollar basis, royalties for the three months ended December 31, 2015 decreased by 46% as compared to the same period of 2014, as a result of lower commodity prices. Royalties for the three months ended December 31, 2015 was $1.03 per Boe, as compared to $2.38 per Boe for the three months ended December 31, 2014.

On an absolute dollar basis, royalties for the year ended December 31, 2015 decreased by 38%, as compared to the same period of 2014, reflecting lower commodity prices as well as higher than anticipated gas cost allowance credits received on various properties in the second quarter of 2015. Royalties for the year ended December 31, 2015 were $1.08 per Boe, as compared to $2.82 per Boe for the year ended December 31, 2014. As a percentage of oil and gas sales, royalties for the year ended December 31, 2015 averaged 6% compared to 10% for the year ended December 31, 2014.

OPERATING EXPENSES

	Three months ended December 31				Year ended December 31			
	2015		2014		**2015**		2014	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Operating expenses	**11,648**	**8.41**	9,758	8.77	**40,591**	**8.65**	26,489	9.18
% of oil and gas sales	**54%**		38%		**51%**		34%	

On an absolute dollar basis, operating expenses for the three months and year ended December 31, 2015 increased by 19% and 53%, as compared to the same periods of 2014, reflecting increased production from a full year of the 2014 acquisitions combined with the May 2015 and December 2015 acquisitions. Operating expenses for the three months and year ended December 31, 2015 were $8.41 and $8.65 per Boe, as compared to $8.77 and $9.18 per Boe for the three months and year ended December 31, 2014. The decrease on a per Boe basis is due in part to lower than average operating expenses on the shallow gas assets acquired in the fourth quarter of 2014 and in the second quarter of 2015 as a result of operating efficiencies of the Company.

Pine Cliff remains committed to seeking ways to increase efficiencies in the field on its operated properties and is working with its partners on its non-operated properties to decrease the operating expenses. In addition, Pine Cliff has been working diligently with its suppliers to find additional cost savings and to date has been able to realize meaningful reductions in service costs.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

	Three months ended December 31				Year ended December 31			
	2015		2014		**2015**		2014	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Adjusted G&A	**1,253**	**0.90**	1,008	0.91	**5,768**	**1.23**	4,823	1.67
Add: non-recurring transaction costs	**160**	**0.12**	239	0.21	**283**	**0.06**	313	0.11
Less: overhead recoveries	**(54)**	**(0.04)**	(164)	(0.15)	**(212)**	**(0.05)**	(190)	(0.07)
Total G&A	**1,359**	**0.98**	1,083	0.97	**5,839**	**1.24**	4,946	1.71
% of oil and gas sales	**6%**		4%		**7%**		6%	

On an absolute dollar basis, total G&A for the three months and year ended December 31, 2015 has increased by 25% and 18%, as compared to the same periods in 2014, reflecting increased staffing requirements associated with the 2014 and 2015 acquisitions. On a per Boe basis, G&A for the three months and year ended December 31, 2015 was $0.98 and $1.24 as compared to $0.97 and $1.71 per Boe for the three months and year ended December 31, 2014. To keep G&A at a low level, Pine Cliff shares some common expenses with Bonterra Energy Corp. ("Bonterra"), a related party and is diligently seeking ways to increase efficiencies, reduce or eliminate discretionary costs, and reduce overhead expenses.

In the year ended December 31, 2015, Pine Cliff incurred $0.3 million in transaction costs related to the May 2015 Acquisition and December 2015 Acquisition. In the year ended December 31, 2014, Pine Cliff incurred $0.3 million in transaction costs related to the August 2014 Acquisition and the October 2014 Acquisition. The transaction costs are comprised of legal, accounting, consulting, regulatory and other one-time expenses associated with those acquisitions.

SHARE-BASED PAYMENTS

	Three months ended December 31				Year ended December 31			
	2015		2014		**2015**		2014	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Total	**832**	**0.60**	746	0.67	**3,383**	**0.72**	2,245	0.78
% of oil and gas sales	**4%**		3%		**4%**		3%	

The Company has an equity settled stock-based compensation plan. Stock options are granted to certain officers, directors, employees and consultants, with the term and vesting period of the options granted being determined at the discretion of the Company's board of directors. An option's maximum term is five years.

In 2015, Pine Cliff granted stock options to purchase 6,877,900 common shares at a weighted average exercise price of $1.11 per share. As at December 31, 2015, the Company had 17,237,700 stock options outstanding (December 31, 2014 – 15,694,800), representing 5.6% of common shares outstanding. In the three months and year ended December 31, 2015, Pine Cliff recorded share-based payment expense of $0.8 million and $3.4 million, respectively, (three months and year ended December 31, 2014 – $0.7 million and $2.2 million, respectively), related to the stock options issued.

DEPLETION, DEPRECIATION AND IMPAIRMENT

	Three months ended December 31				Year ended December 31			
	2015		2014		**2015**		2014	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Depletion and depreciation	**10,716**	**7.74**	12,439	11.18	**45,831**	**9.77**	28,914	10.03
Impairment of oil and gas assets	**-**	**-**	3,835	3.45	**7,586**	**1.62**	3,835	1.33
Impairment of goodwill	**-**	**-**	3,535	3.18	**-**	**-**	3,535	1.23
Total	**10,716**	**7.74**	19,809	17.81	**53,417**	**11.39**	36,284	12.59
% of oil and gas sales	**50%**		78%		**68%**		46%	

On an absolute dollar basis, Pine Cliff's depletion and depreciation expense decreased 14% in the three months ended December 31, 2015, as compared to the three months ended in 2014. This decrease was a result of adding reserves in the quarter at a low cost mainly from the December 2015 Acquisition.

On an absolute dollar basis, Pine Cliff's depletion and depreciation expense increased 59% in the year ended December 31, 2015, as compared to the year ended in 2014. This increase in depletion was largely a result of an increase in the Company's overall production primarily related from the October 2014 Acquisition and the May 2015 Acquisition.

At September 30, 2015, the Company determined that the carrying amount of the Edson cash generating unit ("CGU") exceeded its fair value. The full amount of the impairment was attributed to property, plant and equipment, and as a result, an impairment loss of $7.6 million was recorded. The impairment in 2015 was largely a result of a decrease in forecast benchmark commodity prices. The Company has determined at December 31, 2015 there were no further impairments to their CGU's.

FINANCE EXPENSES

	Three months ended December 31				Year ended December 31			
	2015		2014		**2015**		2014	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Unwinding of the discounted value of decommissioning liabilities	**701**	**0.51**	946	0.85	**3,532**	**0.75**	1,922	0.67
Interest and bank charges	**701**	**0.51**	548	0.49	**1,919**	**0.41**	661	0.23
Total	**1,402**	**1.02**	1,494	1.34	**5,451**	**1.16**	2,583	0.90
% of oil and gas sales	**6%**		6%		**7%**		3%	

In the three months ended December 31, 2015, Pine Cliff incurred finance expenses of $1.4 million, as compared to $1.5 million in the three months ended December 31, 2014.

In the year ended December 31, 2015, Pine Cliff incurred finance expenses of $5.5 million, as compared to $2.6 million in the year ended December 31, 2014. Interest expense in 2015 primarily relates to interest on Pine Cliff's syndicated facility, as defined herein and bank charges incurred as a result of revisions to Pine Cliff's borrowing base and syndicating its credit facility. Please refer to the Capital Resources and Liquidity sections.

FINANCE AND DIVIDEND INCOME

	Three months ended December 31				Year ended December 31			
	2015		2014		**2015**		2014	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Finance and dividend income	**92**	**0.07**	184	0.17	**397**	**0.08**	779	0.27

In the three months and year ended December 31, 2015, Pine Cliff received $0.1 million and $0.4 million, respectively, in dividends from its investment in Bonterra (three months and year ended December 31, 2014 - $0.2 million and $0.8 million).

INCOME TAXES

	Three months ended December 31				Year ended December 31			
	2015		2014		**2015**		2014	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Deferred tax expense (recovery)	**(2,399)**	**(1.73)**	(957)	(0.86)	**(10,257)**	**(2.19)**	479	0.17

During the fourth quarter of 2015, a deferred tax recovery of $2.4 million was recorded, as compared to a deferred tax recovery of $1.0 million in the fourth quarter of 2014. Pine Cliff recognized a deferred tax recovery of $10.3 million in the year ended December 31, 2015, as compared to a deferred tax expense of $0.5 million in the year ended December 31, 2014. The 2015 recovery is primarily related to temporary differences arising from the book basis of Pine Cliff's assets and liabilities relative to the tax basis.

Pine Cliff has approximately $480.8 million in tax pools at December 31, 2015 (December 31, 2014 – $302.8 million) available for future use as deductions from taxable income. The significant increase in tax pools is a result of tax pools that were acquired in the May 2015 Acquisition and the December 2015 Acquisition.

The Company has the following tax pools, which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

($ 000s)	Rate of Utilization (%)	Amount
Undepreciated capital costs	20-100	68,590
Canadian oil and gas property expenditures	10	344,695
Canadian development expenditures	30	9,871
Canadian exploration expenditures	100	11
Eligible capital expenditures (CEC)	7	122
Share issue costs	20	6,716
Non-capital losses carried forward	100	49,997
Capital losses carried forward [1]		829
		480,831

[1] The capital losses carried forward can only be claimed against taxable capital gains.

LOSS

Year end to year end variance analysis:

($000s)	
Loss for the year ended December 31, 2014	**(1,942)**
Price variance	(29,964)
Volume variance	30,367
Royalties	3,062
Operating expenses	(14,102)
General and administrative	(893)
Share-based payments	(1,138)
Depletion and depreciation	(16,917)
Finance expenses	(2,868)
Finance and dividend income	(382)
Deferred tax recovery (expense)	10,736
Impairment of goodwill	3,535
Impairment of property, plant and equipment	(3,751)
Loss for the year ended December 31, 2015	**(24,257)**

In the year ended December 31, 2015, net loss increased by $22.3 million to $24.3 million as compared to a net loss of $1.9 million in the year ended December 31, 2014. The increase in net loss is due to higher depletion, depreciation, and operating expenses in 2015 resulting from increased production. The increased revenue from higher production was offset by lower commodity prices.

Other comprehensive earnings

Other comprehensive earnings relates to the changes in fair value of Pine Cliff's investment in Bonterra, and two other public corporations. At December 31, 2015, Pine Cliff's investments have a fair value of $3.6 million as compared to $8.8 million at December 31, 2014.

FUNDS FLOW FROM OPERATIONS

	Three months ended December 31		Year ended December 31	
	2015	2014	**2015**	2014
($000s, except per Boe amounts)				
Loss for the period	**(3,300)**	(8,929)	**(24,257)**	(1,942)
Adjustments for:				
Share-based payments	**832**	746	**3,383**	2,245
Unwinding of the discount on decommissioning liabilities	**701**	946	**3,532**	1,922
Depletion, depreciation, and impairment	**10,716**	19,809	**53,417**	36,284
Deferred tax expense (recovery)	**(2,399)**	(957)	**(10,257)**	479
Funds flow from operations	**6,550**	11,615	**25,818**	38,988
Funds flow from operations ($/Boe)	**4.74**	10.45	**5.51**	13.53
Funds flow from operations ($/Mcfe)	**0.79**	1.74	**0.92**	2.26

Funds flow from operations, which represents cash flow from operating activities before changes in non-cash working capital was $6.6 million and $25.8 million in the three months and year ended December 31, 2015, respectively, as compared to $11.6 million and $39.0 million in the same periods of 2014. The decrease in funds flow from operations in both periods is primarily due to lower commodity prices.

ADDITIONS TO PROPERTY AND EQUIPMENT AND EXPLORATION AND EVALUATION ASSETS

	Year ended December 31, 2015	Year ended December 31, 2014
($000s)		
Exploration and evaluation assets - minerals division	**963**	50
Oil and gas assets	**6,718**	10,765
Vehicles and administrative assets	**504**	272
Acquistions	**213,119**	144,543
Dispositions	**-**	(3,229)
Capitalized decomissioning liabilities	**52,373**	110,666
Total	**273,677**	263,067

In the year ended December 31, 2015, Pine Cliff added $273.7 million in capital assets to its balance sheet as compared to $263.1 million in the year ended December 31, 2014. Included in these additions are $52.4 million of capitalized decommissioning liabilities for the year ended December 31, 2015 (December 31, 2014 - $110.1 million) as a result of decommissioning liabilities recognized through acquisitions and revisions to the estimated discount rate and the outflows to settle the decommissioning liability in the future. Pine Cliff completed two significant acquisitions during 2015 which added $177.6 million of property, plant and equipment and $35.5 million of exploration and evaluation assets.

In 2015, Pine Cliff participated in one gross (0.40 net) well in the Edson area, and two gross (0.14 net) wells in the Sundance area. Additionally, Pine Cliff reactivated approximately 80 wells in the Southern Assets, recompleted an existing wellbore in the Edson Assets and conducted major turnovers and upgrades on facilities on the Southern Assets and the Edson Assets.

RELATED PARTY TRANSACTIONS

Management services agreement

Pine Cliff has a management services agreement with Bonterra, an oil and gas corporation that is publicly traded on the Toronto Stock Exchange and has some common directors and management with Pine Cliff, to provide executive services, technical services, accounting services, oil and gas administration and office administration. Total fees for each of the years ended December 31, 2015 and 2014 were $0.06 million, plus certain administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As at December 31, 2015, Pine Cliff owed Bonterra $0.3 million (Pine Cliff owed Bonterra at December 31, 2014 – $0.2 million). This agreement was terminated on December 31, 2015.

Investment in Bonterra
As at December 31, 2015, Pine Cliff owned 204,633 common shares in Bonterra (December 31, 2013 – 204,633) representing less than 1% of the outstanding shares of Bonterra at that date. The shares, as of December 31, 2015, have a fair value of $3.5 million (December 31, 2014 – $8.5 million). For the year ended December 31, 2015, Pine Cliff received dividend income of $0.4 million from this investment (December 31, 2014 – $0.7 million).

Related party transactions are in the normal course of operations and from time to time Pine Cliff Energy Ltd. and Bonterra Energy Corp. will enter into various minor transactions at market value in circumstances that are considered mutually beneficial.

CAPITAL RESOURCES

Bank Debt

As at December 31, 2015, the Company had a $185 million syndicated credit facility with a syndicate of five Canadian Financial Institutions (the "Syndicated Facility"). The Syndicated Facility consists of a $165.0 million revolving syndicated credit facility and a $20.0 million revolving operating facility. Security for the Syndicated Facility consists of floating demand debentures totaling $500,000,000 and a general security agreement with first ranking over all current and acquired properties. Amounts drawn under the Syndicated Facility at December 31, 2015 were $156.0 million (December 31, 2014 - $47.8 million). Amounts borrowed under the Syndicated Facility bear interest at the Canadian prime rate plus 1.0% to 2.5% or the bankers' acceptance rate plus 2.0% to 3.5%, depending, in each case, on the ratio of consolidated debt to EBITDA, which is calculated as earnings (loss) excluding depreciation, depletion and accretion, share based payments, interest, taxes and other non-cash items.

Working capital is calculated as current assets minus current liabilities and represents the ability of a company to satisfy both maturing short-term debt and upcoming operational expenses. The capital intensive nature of the oil and gas business may result in working capital deficiencies from time to time. Pine Cliff manages its working capital ratio to ensure that it has sufficient unused funds under its credit facility and access to capital to accommodate such circumstances. As at December 31, 2015, the Company had working capital of $14.2 million compared to working capital at December 31, 2014 of $14.0 million, excluding bank debt classified as current.

The Syndicated Facility is a one year revolving facility with the initial revolving period ending on July 31, 2016 and is reviewed semi-annually on November 30th and May 31st. If the Syndicated Facility is not renewed it will convert to a 364-day term loan. The Syndicated Facility has no fixed terms of repayment.

As at December 31, 2015, the Company has a $0.6 million letter of credit issued against its Syndicated Facility. The Company was in compliance with its bank covenants during the year ended December 31, 2015.

Share Capital

On December 3, 2015, Pine Cliff completed a private placement and issued 2,777,778 common shares at a price of $1.08 per common share for gross proceeds of $3.0 million which were used to pay a portion of the purchase price of the December 2015 Acquisition. On November 27, 2015, Pine Cliff completed a short form prospectus bought deal subscription receipt financing issuing 63,888,520 subscription receipts for gross proceeds of $69 million which were used to pay a portion of the purchase price of the December 2015 Acquisition. On December 11, 2015, the closing date of the December 2015 Acquisition, the subscription receipts were converted to common shares on a one for one basis.

During 2015, Pine Cliff issued 6,877,900 common shares as a result of stock option exercises for gross proceeds of $3.3 million.

As of December 31, 2015, a total of 305,192,287 Pine Cliff shares were issued and outstanding and 17,237,700 stock options were issued and outstanding. As at March 17, 2016 a total of 305,582,287 shares were issued and outstanding and 16,958,200 stock options were issued and outstanding.

LIQUIDITY

Liquidity describes a company's ability to access cash. Growth companies operating in the upstream oil and gas business, such as Pine Cliff, require sufficient cash to fund exploration and development projects, to increase production and reserves, to acquire strategic oil and gas assets and to repay debt.

Funds flow from operations and the unused portion of the credit facility will allow Pine Cliff to meet its short-term financial liabilities, as well as future capital requirements, at a reasonable cost. The Company believes it has sufficient funding and access to capital to meet its obligations as they come due and, if required, will consider selling non-core assets, additional short-term financing or issuing equity in order to meet its future liabilities.

The following table highlights Pine Cliff's sources and uses of cash for the three months and years ended December 31, 2015 and 2014:

	Three months ended December 31		Year ended December 31	
	2015	2014	**2015**	2014
($000s)				
Funds flow from operations	**6,550**	11,615	**25,818**	38,988
Bank debt proceeds	**112,392**	44,473	**108,183**	47,555
Issuance of common shares, net of share issue costs	**68,813**	(24)	**68,813**	57,142
Exercise of stock options	**935**	233	**3,530**	2,605
Increase (decrease) in non-cash working capital	**(6,875)**	10,828	**(5,387)**	(4,328)
Decrease in cash	**(400)**	38,358	**(633)**	1,109
Total capital expenditures, including acquisitions	**181,415**	105,483	**200,324**	143,071
Capital expenditures, including acquisitions:				
Oil and gas	**181,378**	105,482	**200,287**	143,021
Minerals	**37**	1	**37**	50

In 2015, Pine Cliff funded its capital expenditures and acquisitions of $200.3 million with funds flow from operations of $25.8 million, with funds raised through issuing of common shares totaling $75.5 million ($72.3 million net of share issue costs) and with bank debt of $108.2 million. Additionally, Pine Cliff's non-cash working capital decreased by $5.4 million.

COMMITMENTS AND CONTINGENCIES

In the normal course of business, Pine Cliff has entered into arrangements and incurred obligations that will impact the Company's future operations and liquidity. The maturity dates of the Company's commitments are as follows:

	Total	< 6 months	6 - 12 months	> 12 months
($000s)				
Trade and other payables	9,978	9,978	-	-
Office and equipment leases	179	29	29	120
Vehicle leases	787	103	101	583
Bank loan - principal	155,938	-	-	155,938
Bank loan - future interest	9,259	1,462	2,924	4,873
Total commitments and contingencies	176,141	11,572	3,054	161,514

SELECTED ANNUAL INFORMATION [1]

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
($000s, unless otherwise indicated)			
FINANCIAL			
Oil and gas sales (before royalties)	**78,853**	78,450	36,882
Total revenue (net of royalties)	**74,167**	71,084	34,695
Cash flow from operating activities	**20,768**	37,641	16,062
Funds flow from operations [2]	**25,818**	38,988	14,700
Basic per share ($/share)	**0.11**	0.18	0.09
Diluted per share ($/share)	**0.11**	0.18	0.08
Earnings (loss)	**(24,257)**	(1,942)	10,910
Basic per share ($/share)	**(0.10)**	(0.01)	0.06
Diluted per share ($/share)	**(0.10)**	(0.01)	0.06
Total assets	**640,775**	410,697	180,486
Total long term liabilities	**240,452**	164,513	42,685
Capital expenditures, excluding acquisitions	**7,259**	11,087	11,813
Acquisitions, after adjustments	**193,065**	135,213	42,250
Net debt [3]	**141,770**	33,512	(13,621)
Weighted-average common shares outstanding (000s)			
Basic	**240,149**	211,025	172,494
Diluted	**240,149**	211,025	179,707
OPERATIONS			
Production			
Natural gas (Mcf/d)	**72,984**	45,022	27,042
Crude oil (Bbls/d)	**160**	75	64
Natural gas liquids (Bbls/d)	**530**	320	216
Total (Boe/d)	**12,854**	7,899	4,787
Realized commodity sales prices			
Natural gas ($/Mcf)	**2.67**	4.27	3.04
Crude oil ($/Bbl)	**48.26**	79.38	93.08
Natural gas liquids ($/Boe)	**25.00**	51.70	58.62
Combined ($/Boe)	**16.81**	27.20	21.11
Netback ($/boe)			
Operating netback [4]	**7.08**	15.20	9.70
Corporate netback [5]	**5.51**	13.53	8.40

[1] Includes results from acquisitions from the closing dates.
[2] Funds flow from operations is a non-IFRS measure that represents the total of funds provided by operating activities, before adjusting for changes in non-cash working capital.
[3] Net debt is a non-IFRS measure calculated as the sum of bank debt and trade and other payables less trade and other receivables, cash, prepaid expenses and deposits and investments. At December 31, 2013 the Company did not have any debt and was in a net cash position.
[4] Operating netback is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties and operating expenses, averaged over the Boe production of the Company.
[5] Corporate netback is a non-IFRS measure calculated as the Company's operating netback, less general and administrative expenses, interest and bank charges plus finance and dividend income, averaged over the Boe production of the Company.

SELECTED QUARTERLY FINANCIAL INFORMATION [1]

	2015				2014			
($000s, unless otherwise indicated)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Average sales volumes (boe/d)	**15,051**	12,504	11,814	12,021	12,095	6,810	6,371	6,276
Operating netback ($/boe) [2]	**6.16**	7.92	7.08	7.33	11.74	15.08	17.45	19.82
Total revenue	**20,258**	19,517	16,784	17,608	23,003	15,907	15,540	16,634
Cash flow from operating activities	**973**	6,617	4,182	8,998	13,969	6,390	7,242	10,039
Funds flow from operations [3]	**6,550**	7,507	5,555	6,182	11,615	8,104	9,180	10,089
Per share - basic ($/share)	**0.03**	0.03	0.02	0.03	0.05	0.04	0.05	0.05
Per share - diluted ($/share)	**0.03**	0.03	0.02	0.03	0.05	0.04	0.04	0.05
Earnings (loss)	**(3,300)**	(10,697)	(4,757)	(5,503)	(8,929)	918	2,333	2,969
Per share - basic ($/share)	**(0.01)**	(0.05)	(0.02)	(0.02)	(0.04)	0.00	0.01	0.01
Per share - diluted ($/share)	**(0.01)**	(0.05)	(0.02)	(0.02)	(0.04)	0.00	0.01	0.01

[1] Includes results from acquisitions from the closing dates.
[2] Operating netback is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties and operating expenses, averaged over the Boe production of the Company.
[3] Funds flow from operations is a non-IFRS measure that represents the total of funds provided by operating activities, before adjusting for changes in non-cash working capital.

QUARTERLY TRENDS

During the fourth quarter of 2015, Pine Cliff reports that:

- In the past eight quarters, the Company has been focused on increasing production through the four acquisitions in its core areas, which has led to increased sales volumes over the last eight quarters;
- Operating netbacks have declined from the first quarter of 2014 until the second quarter of 2015 and then again in the fourth quarter of 2015 mainly due to decreases in commodity prices.
- Beginning in the fourth quarter of 2014, Pine Cliff has recorded a loss in each quarter primarily related to decreased commodity prices. In addition, in the fourth quarter of 2014 and the third quarter of 2015, a $3.8 million and $7.6 million impairment expense was taken due to decreased forward pricing; and
- Total revenue has increased steadily in 2015 related to the May 2015 Acquisition and December 2015 Acquisition, slightly offset with decreased 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 AND RISK MANAGEMENT

The Company faces both financial and non-financial risks inherent in the oil and gas business. Financial risks include: commodity price risk, foreign exchange risk, interest rate risk, and credit risk. 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. In the remainder of this section, the principal risks and how they have been addressed will be discussed.

Commodity Price Risk

In principle, management and the board of directors believe that Pine Cliff's shareholders buy its shares for, among other reasons, the opportunity to benefit from increases in commodity prices. Therefore, whenever possible, management and the board of directors will implement commodity price risk management strategies which do not remove this opportunity for shareholders, specifically Pine Cliff may purchase put options which set floors for such indices as WTI and AECO. There will be times when management and the board of directors believe that Pine Cliff's liquidity may be insufficient to acquire the level and type of protection considered ideal, or that Pine Cliff requires liquidity for other more immediate opportunities to create value, and in those instances Pine Cliff may consider alternatives such as collars or swaps. Pine Cliff monitors its commodity price risk and will continue to evaluate its risk and potential program on a regular basis. The use of derivative instruments is governed under formal policies and is subject to limits established by the board of directors and the revolving credit facility. As at December 31, 2015, Pine Cliff had not entered into any commodity price risk management contracts.

Foreign Exchange
Of the financial risks which can be managed through the use of financial instruments, foreign exchange is second in importance to commodity prices. Most of this exposure is related to the revenues, which are directly or indirectly (in the case of natural gas), affected by the rate of exchange between Canadian dollars and US dollars. When the Canadian dollar is relatively weak, as it has been recently, Pine Cliff's revenue stream as expressed in Canadian dollars is adversely impacted.

The Canadian dollar has become a petro-currency as it tends to move in accordance with the variance in international crude prices denominated in US dollars. As a result, for a company with Canadian dollar as its reporting currency, the exchange rate has become a dampening factor for variance in commodity prices. As crude prices strengthen, for example, the currency tends to strengthen as well, which offsets at least in part the benefit of the increase in the commodity price. Conversely, the negative impact of falling prices can be reduced to the extent that the exchange rate weakens in harmony.

Foreign exchange risk can be managed through financial instruments such as forward foreign exchange contracts, cross-currency swaps, and various types of options strategies. Pine Cliff continues to review its overall financial outlook with the board of directors.

Interest Rates
Interest rates are third in the hierarchy of risks to oil and gas companies which can be managed through financial instruments and they tend to be a material consideration only for companies with significant leverage. In Pine Cliff's case, management will balance its free funds flow from operations to capital expenditures in order to minimize amounts outstanding on the revolving credit facility.

If interest rates applicable to Pine Cliff's bank debt at December 31, 2015 were to have increased or decreased by one percent it is estimated that Pine Cliff's annual funds flow from operations would decrease or increase, respectively, by less than $0.6 million. Pine Cliff has not seen this risk as sufficiently material to warrant an active program of risk management in the short-term.

Credit Risk
Credit risk is the risk that Pine Cliff will suffer a financial loss as a result of counterparty default under a financial or commercial arrangement. Examples include failure of a financial institution to honor obligations under a financial instrument, or failure of a purchaser of Pine Cliff's hydrocarbon production to meet its obligations to pay Pine Cliff for the production. Additionally, a joint venture partner might be unable to fund its commitments to a capital program with which Pine Cliff wishes to proceed; however, this risk is limited due to Pine Cliff's high working interest properties. Accounts receivable, cash and cash equivalents, and derivative financial instruments are subject to credit risk exposure and the carrying values reflect management's assessment of the associated maximum exposure to such credit risk.

With respect to Pine Cliff's product sales, its exposure is short-term in nature as the Company generally receives payment, in accordance with industry practices, on the 25th day of the month following production. Pine Cliff's contractual arrangements are with reputable and creditworthy counterparties, are short-term in nature, and do not include fixed prices, which helps to further mitigate risk. Pine Cliff is in active discussions with other counterparties of comparable credit quality to diversify as its production base grows and the Company's potential requirements for risk management services increases.

Liquidity Risk
Liquidity risk is the risk that the Company will not be able to generate enough cash or obtain financing to meet its financial obligations as they come due. Companies operating in the upstream oil and gas industry require sufficient cash in order to fund capital programs necessary to maintain and increase production and proved reserves, to acquire strategic oil and gas assets and to repay debt. Pine Cliff actively maintains a revolving term credit facility to ensure it has sufficient funds available to meet its financial liabilities, as well as its capital requirements, at a reasonable cost. The existing banking arrangements at December 31, 2015 consist of a revolving term credit facility of $185 million of which $150.9 million is drawn. The Company will consider issuing equity in order to meet future capital requirements or fund acquisitions, if required. Management believes it has sufficient funding to meet its obligations as they come due.

Pine Cliff will prudently manage its liquidity position, and the Company has designed its capital program to be scalable in the sense that capital can be deferred into future years, if required. In this regard, Pine Cliff monitors its liquidity position relative to budget monthly and in a detailed formal review quarterly. As at the date of this MD&A, Pine Cliff is in line with respect to funding capacity target levels.

Operational
This category encompasses a number of risks. Wells may produce at lower initial production rates than planned, or face steeper decline rates. Operating costs can increase due to such considerations as unanticipated workovers or higher than expected costs associated with corrosion. Pine Cliff follows prudent industry practices with respect to insurance where practicable and as guided by external experts, but cannot fully insure against all risks. With respect to non-insurable operating risks, the Company has designed business process controls and accountability to identify problems at the earliest possible occasion and implement solutions.

However, investors must appreciate that operational risk is very much a characteristic of the business, and can never be entirely eliminated.

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

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

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

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

Staffing
Pine Cliff functions in a very competitive environment for professional staff, and this staff is key to its ultimate success. Recognizing this, the board of directors approved a competitive compensation program including: bonuses based on the annual performance of the Company, benefits and a stock option program to provide for long-term incentive and retention.

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

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

CRITICAL ACCOUNTING 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 and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses for the period reported. The significant accounting policies used by the Company are disclosed in the notes to the consolidated financial statements. Management believes that the most critical accounting policies that may have an impact on the Company's financial results are those that specifically relate to the accounting for its oil and gas interests, including amounts recorded for depletion and the impairment test which are both based on estimates of proved and probable reserves, production rates, oil prices, future costs and other relevant assumptions. Actual results could differ materially from such estimates.

Reserves Base
Oil and gas property and equipment is depreciated on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with NI 51-101 and incorporating the estimated future development costs associated with extracting those reserves. Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of oil, natural gas and NGLs which geological, geophysical and engineering data demonstrate with a degree of certainty to be recoverable in future years from reservoirs and which are considered commercially producible. The level of estimated reserves is also a key determinant in assessing whether the carrying value of any of the Company's property and equipment has been impaired.

Impairment Indicators and Discount Rate
The recoverable amounts of the Company's cash generating units and individual assets have been determined based on the higher of the present value of value-in-use calculations and discounted fair values less costs to sell. These calculations require the use of estimates and assumptions, including the discount rate. It is reasonably possible that the commodity price assumptions may change, which may then impact the estimated life of the field and economical reserves recoverable and may then require a material adjustment to the carrying value of property and equipment. The Company monitors internal and external indicators of impairment relating to its tangible assets.

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

Income Taxes
The Company recognizes the net future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

Business Combinations
Business combinations are viewed from the acquirer's perspective and it is assumed that one of the parties can be identified as the acquirer. The determination of the acquirer requires judgment as to which entity has obtained control or the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities. A judgment is reached through a combination of quantitative and qualitative factors.

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

ACCOUNTING POLICY AND STANDARD CHANGES

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

The nature and impact of each new standard or amendment is described below:

Future accounting pronouncements

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

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

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

NON-IFRS MEASURES

This MD&A uses the terms “funds flow from operations”, “operating netbacks” and “net debt” which are not recognized 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, as well as to assess potential acquisitions.

The Company considers funds flow from operations 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. Funds flow from operations and funds flow from operations per share should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as per the statement of cash flows which is considered the most directly comparable measure under IFRS. Funds flow from operations is calculated as cash flow from operating activities before changes in non-cash working capital. Funds flow from operations 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.

	Three months ended December 31		Year ended December 31	
	2015	2014	**2015**	2014
($000s)				
Cash flow from operating activities	**973**	13,973	**20,768**	37,645
Adjusted by:				
(Increase) decrease in non-cash working capital	**5,577**	(2,358)	**5,050**	1,343
Funds flow from operations	**6,550**	11,615	**25,818**	38,988

The Company considers operating netback to be a key indicator of profitability relative to current commodity prices. Operating netback and operating netback per Boe are calculated as oil and gas sales, less royalties and operating expenses on an absolute and a per Boe basis, respectively.

The Company considers corporate netback to be a key indicator of overall profitability. Corporate netback and corporate netback per Boe are calculated as operating netback, less G&A and interest expense plus finance and dividend income on an absolute and on an absolute and a per Boe basis, respectively.

Net debt is a term used in the context of liquidity in this MD&A. Net debt is the total of bank debt and trade and other payables, less trade and other receivables, cash, prepaid expenses and deposits and liquid investments. There is no IFRS measure that is reasonably comparable to net debt.

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 development, 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 this MD&A includes, but is not limited to: expected production levels; future capital expenditures, including the amount and nature thereof; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and outlook; expansion and growth of our business and operations; maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; credit risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties and assumptions are difficult to predict and may affect operations, and may include, without limitation: foreign exchange fluctuations; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations 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.

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

The information provided in this report, including the consolidated financial statements, is the responsibility of Pine Cliff's management. In the preparation of these consolidated financial statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

The audit committee has reviewed these consolidated financial statements with management and has reported to the board of directors. The board of directors have approved the consolidated financial statements as presented in this annual report.

"Signed Philip B. Hodge"

Philip B. Hodge, President and Chief Executive Officer

"Signed Cheryne A. Lowe"

Cheryne A. Lowe, Interim Chief Financial Officer and Secretary

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pine Cliff Energy Ltd.

We have audited the accompanying consolidated financial statements of Pine Cliff Energy Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of loss, consolidated statements of comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pine Cliff Energy Ltd. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"Signed Deloitte LLP"

Chartered Professional Accountants, Chartered Accountants
March 17, 2016
Calgary, Canada

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

	Note	**As at December 31, 2015**	As at December 31, 2014
ASSETS			
Current assets			
Cash and cash equivalents		**833**	200
Trade and other receivables		**16,473**	14,582
Prepaid expenses and deposits		**3,250**	1,990
Investments	5	**3,590**	8,755
Total current assets		**24,146**	25,527
Exploration and evaluation assets	6	**45,950**	9,126
Property, plant and equipment	7	**532,059**	348,623
Deferred taxes	9	**38,620**	27,421
Total assets		**640,775**	410,697
LIABILITIES			
Current liabilities			
Trade and other payables	10	**9,978**	11,280
Bank debt	11	**-**	47,755
Total current liabilities		**9,978**	59,035
Bank debt	11	**155,938**	-
Decommissioning liabilities	12	**240,452**	164,513
Total liabilities		**406,368**	223,548
SHAREHOLDERS' EQUITY			
Share capital	13	**266,809**	191,319
Contributed surplus		**3,453**	2,262
Accumulated other comprehensive loss		**(6,253)**	(1,087)
Deficit		**(29,602)**	(5,345)
Total shareholders' equity		**234,407**	187,149
Total liabilities and shareholders' equity		**640,775**	410,697

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

The consolidated financial statements were approved by the Board of Directors and signed on its behalf by:

"Signed George F. Fink" "Signed Randy M. Jarock"

George F. Fink, Director Randy M. Jarock, Director

CONSOLIDATED STATEMENTS OF LOSS
(Canadian dollars, 000s except per share data)

	Note	Year ended **December 31, 2015**	 December 31, 2014
Oil and gas sales		**78,853**	78,450
Royalties		**(5,083)**	(8,145)
Finance and dividend income		**397**	779
REVENUE		**74,167**	71,084
EXPENSES			
Operating		**40,591**	26,489
General and administration	15	**5,839**	4,946
Depletion and depreciation	7	**45,831**	28,914
Share-based payments	13	**3,383**	2,245
Impairment of property, plant and equipment	7	**7,586**	3,835
Impairment of goodwill	8	**-**	3,535
Finance expenses		**5,451**	2,583
Total expenses		**108,681**	72,547
Loss before income taxes		**(34,514)**	(1,463)
Deferred tax expense (recovery)	9	**(10,257)**	479
LOSS FOR THE YEAR		**(24,257)**	(1,942)
Loss per share ($)	13		
Basic		**(0.10)**	(0.01)
Diluted		**(0.10)**	(0.01)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Canadian dollars, 000s)
(unaudited)

	Year ended **December 31, 2015**	 December 31, 2014
Loss for the year	**(24,257)**	(1,942)
OTHER COMPREHENSIVE LOSS		
Unrealized loss on investments	**(5,166)**	(2,988)
Deferred taxes on unrealized loss on investments	**-**	334
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(5,166)**	(2,654)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(29,423)**	(4,596)

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

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

	Note	Year ended December 31, 2015	December 31, 2014
CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Loss for the year		**(24,257)**	(1,942)
Items not affecting cash:			
Share-based payments		**3,383**	2,245
Depletion and depreciation		**45,831**	28,914
Finance expenses		**5,451**	2,583
Deferred tax expense (recovery)		**(10,257)**	479
Impairment of property, plant and equipment	7	**7,586**	3,835
Impairment of goodwill	8	**-**	3,535
Changes in non-cash working capital accounts	18	**(5,050)**	(1,343)
Interest paid		**(1,919)**	(661)
Cash and cash equivalents provided by operating activities		**20,768**	37,645
INVESTING ACTIVITIES			
Expenditures on property, plant and equipment	7	**(5,921)**	(11,037)
Disposition of property, plant and equipment	7	**-**	3,229
Expenditures on exploration and evaluation assets	6	**(1,338)**	(50)
Acquisitions	4	**(193,065)**	(135,213)
Changes in non-cash working capital accounts	18	**(107)**	(2,981)
Cash and cash equivalents used in investing activities		**(200,431)**	(146,052)
FINANCING ACTIVITIES			
Issuance of common shares, net of share issue costs	13	**68,813**	57,142
Exercise of stock options	13	**3,530**	2,605
Bank debt		**108,183**	47,555
Changes in non-cash working capital accounts	18	**(230)**	-
Cash and cash equivalents provided by financing activities		**180,296**	107,302
Increase (decrease) in cash and cash equivalents		**633**	(1,105)
Cash and cash equivalents - beginning of year		**200**	1,305
CASH AND CASH EQUIVALENTS - END OF YEAR		**833**	200

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Canadian dollars, 000s)

	Note	Share capital	Contributed surplus [1]	Accumulated other comprehensive earnings (loss) [2]	Deficit	Total equity
BALANCE AT JANUARY 1, 2014		**127,002**	**3,856**	**1,567**	**(3,403)**	**129,022**
Issuance of shares		60,065	-	-	-	60,065
Share issue costs, net of tax		(2,192)	-	-	-	(2,192)
Loss for the period		-	-	-	(1,942)	(1,942)
Other comprehensive loss for the year		-	-	(2,654)	-	(2,654)
Share-based payments	13	-	2,245	-	-	2,245
Exercise of options		6,444	(3,839)	-	-	2,605
BALANCE AT DECEMBER 31, 2014		**191,319**	**2,262**	**(1,087)**	**(5,345)**	**187,149**
Issuance of shares	13	71,999	-	-	-	71,999
Share issue costs, net of tax	13	(2,231)	-	-	-	(2,231)
Loss for the period		-	-	-	(24,257)	(24,257)
Other comprehensive loss for the year		-	-	(5,166)	-	(5,166)
Share-based payments	13	-	3,383	-	-	3,383
Exercise of options		5,722	(2,192)	-	-	3,530
BALANCE AT December 31, 2015		**266,809**	**3,453**	**(6,253)**	**(29,602)**	**234,407**

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

[2] Accumulated other comprehensive earnings (loss) is comprised of unrealized gains and losses on available-for-sale investments.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at December 31, 2015 and 2014 and for the years then ended
(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 and incorporated under the Business Corporations Act (Alberta). The address of the Company's registered office is Suite 850, 1015 4th Street SW, Calgary, Alberta, T2R 1J4.

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

2. BASIS OF PREPARATION

a) Statement of compliance

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

The Financial Statements were authorized for issue by the Company's board of directors on March 17, 2016.

b) Basis of measurement

The Financial Statements have been prepared on a historical cost basis, except for certain financial instruments and share-based payment transactions which are measured at fair value.

c) Use of judgments and estimates

The timely preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities as at the date of the statement of financial position. Actual results could differ materially from estimated amounts and affect the results reported in the Financial Statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty in applying accounting principles that have the most significant effect on the amounts recognized in the Financial Statements are included in the following notes:

- Note 4 – Acquisitions
- Note 6 – Valuation of exploration and evaluation assets ("E&E")
- Note 7 – Valuation of property, plant and equipment ("PP&E")
- Note 8 – Valuation of goodwill
- Note 12 – Provisions for decommissioning costs
- Note 13 – Measurement of share-based payments
- Note 17 – Valuation of financial instruments

Judgments

In the process of applying Pine Cliff's accounting policies, judgments, apart from those involving estimates, have been made, of which the following may have the most significant effect on the amounts recognized in the Financial Statements:

Reserves base

PP&E assets are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* and incorporating the estimated future cost of developing and extracting those reserves. Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainly to be recoverable in future years from known reservoirs and which are considered commercially producible. Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is 90% likely that the actual remaining quantities recovered will exceed the estimated proved reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved and probable reserves. The level of estimated reserves is a key determinant in assessing whether the carrying value of any of the Company's PP&E assets has been impaired.

Impairment indicators and discount rate
The recoverable amounts of Pine Cliff's cash generating units ("CGUs") and individual assets have been determined based on the higher of the present value of value-in-use calculations and discounted fair values. These calculations require the use of estimates and assumptions, including the discount rate. It is quite likely that the commodity price assumptions may change, which would then impact the estimated life of the field and economical reserves recoverable and may then require a material adjustment to the carrying value of PP&E. The Company monitors internal and external indicators of impairment relating to its tangible assets.

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

Business combinations
Business combinations are viewed from the acquirer's perspective and it is assumed that one of the parties can be identified as the acquirer. The determination of the acquirer requires judgment as to which entity has obtained control or the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities. A judgment is reached through a combination of quantitative and qualitative factors.

Income taxes
The Company recognizes the net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

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

d) Presentation currency
The Company's functional and presentation currency is the Canadian dollar. Monetary assets and liabilities are translated into Canadian dollars at the rates prevailing on the reporting date. Non-monetary assets and liabilities are translated into Canadian dollars at the rates prevailing on the transaction dates. Exchange gains and losses are recorded as income or expense in the period in which they occur.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation
The Financial Statements include the accounts of Pine Cliff and its subsidiary companies, Geomark Exploration Ltd. ("Geomark"), Geomark Minerals USA Inc., WMC International Limited and Pine Cliff Border Pipelines Limited. All subsidiary companies are wholly owned. All intercompany balances, transactions and earnings or losses are eliminated upon consolidation.

b) 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. This generally occurs when product is physically transferred into a third-party pipeline or when the delivery truck arrives at a customer's receiving location. Revenue represents Pine Cliff's share and is recorded net of royalty obligations to governments and other mineral interest owners.

Finance and dividend income is recorded when earned.

c) Foreign currency translation
Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency"). Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the Functional Currency of an entity are recognized in the consolidated statement of loss.

d) Joint arrangements
Pine Cliff conducts significant portions of its oil and gas operations through jointly controlled operations and the financial statements reflect only the Company's proportionate interest in such activities. Joint control exists for contractual arrangements governing the Company's assets whereby Pine Cliff has less than 100% working interest, all the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. The Company has no interests in jointly controlled entities. The Company recognizes in its financial statements its interests in assets that it owns, the liabilities and expenses that it incurs and its share of income earned by the joint arrangements.

e) Cash and cash equivalents
Cash and cash equivalents includes short-term, highly liquid investments that mature within three months of the date of their purchase.

f) Investments
Investments consist of equity securities classified on initial recognition as available-for-sale and are carried at fair value. Fair value is determined by multiplying the period end trading price of the investments by the number of equity securities held as at period end. Unrealized holding gains and losses are recognized in other comprehensive income. Net gains and losses arising on disposal are recognized in net earnings.

g) Exploration and evaluation assets
E&E expenditures incurred prior to acquiring the legal right to explore are charged to expense as incurred.

E&E expenditures represent undeveloped land costs and license and exploration well costs. Undeveloped land costs, licenses and exploration well costs are initially capitalized and, if subsequently determined to have not found sufficient reserves to justify commercial production, are charged to expense. E&E assets continue to be capitalized as long as sufficient progress is being made to assess the reserves and economic viability of the well and/or related project. Once technical feasibility and commercial viability has been established, E&E assets are transferred to PP&E. E&E assets are assessed for impairment either annually, upon transfer to PP&E or where indicators arise to ensure they are not carried above their recoverable amounts.

No depletion is charged on E&E assets.

h) Property, plant and equipment
PP&E assets include developed assets acquired, transferred-in E&E costs, development drilling and other subsurface expenditures. PP&E assets are carried at cost less accumulated depletion and depreciation and impairment losses. The initial cost of an asset is comprised of its purchase price or construction cost, including expenditures such as drilling costs, the present value of the initial and changes in the estimate of any decommissioning obligation associated with the asset, finance expenses on qualifying assets and costs that are directly attributable to bringing the asset to the location and condition necessary to operate as intended by management and which result in an identifiable future benefit. Improvements that increase capacity or extend the useful lives of the assets are capitalized.

Expenditures on major maintenance of producing assets include the cost of replacement assets or parts of assets, inspection costs or overhaul costs. Where an asset, or part of an asset that was separately depreciated, is replaced and it is probable that there are future economic benefits associated with the item, the expenditure is capitalized and the carrying amount of the replaced item is derecognized. Inspection costs associated with major maintenance programs and necessary for continued operation of the asset are capitalized and amortized over the period to the next inspection. All other maintenance costs are expensed as incurred.

i) Depletion and depreciation
When commercial production has commenced in an area, PP&E assets, including estimated future development costs, are depleted using the unit-of-production method over their proved plus probable reserve life ("Proved plus Probable Method"). Furniture, fixtures and other equipment are depreciated over their estimated useful lives. Depletion and depreciation is recognized in the consolidated statement of loss.

Depletion and depreciation methods, useful lives and residual values are reviewed annually, with any amendments considered to be changes in estimates and accounted for prospectively.

j) Impairment of PP&E

The carrying amounts of the Company's PP&E assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If such indication exists, then the assets' carrying amounts are assessed for impairment. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash flows from continuing use that are largely independent of the cash flows of other assets or groups of assets, CGUs.

The recoverable amount of an asset or a CGU is the greater of its value-in-use and its fair value. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. In assessing the carrying value of its unproved properties, the Company takes into account future plans for those properties, the remaining terms of the leases and other factors that may be indicators of potential impairment. Impairment losses are recognized in the consolidated statement of loss. Impairment losses recognized in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets of the CGU on a pro-rata basis.

For assets excluding goodwill, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. If the amount of the impairment loss decreases in a subsequent period and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

k) Goodwill

Goodwill acquired in a business combination is initially recorded at cost, and for impairment testing purposes, is allocated to each of the CGUs that are expected to benefit from the expenditure. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The Company tests goodwill for impairment at least annually, or more frequently if events or circumstances indicate that goodwill may be impaired. The Company bases its test on the assessment of the recoverable amount of the CGU. Where the recoverable amount of the CGU is less than the carrying amount, the Company reduces the carrying value to the estimated recoverable amount and a goodwill impairment loss is included in the consolidated statement of loss. An impairment loss in respect of goodwill cannot be reversed.

l) Impairment of financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

All impairment losses are recognized in the statement of loss. An impairment loss is reversed if there is an indicator that the impairment reversal can be related objectively to an event occurring after the impairment loss was recognized. Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available-for-sale is reversed through other comprehensive loss instead of the statement of loss. For financial assets measured at amortized cost, the reversal is recognized in the statement of loss.

m) Decommissioning liabilities

The Company recognizes a decommissioning liability, with a corresponding increase to the carrying amount of the related PP&E, in the period in which a reasonable estimate of the fair value can be made of the statutory, contractual, constructive or legal liabilities associated with the retirement and reclamation of the Company's oil and gas properties, facilities and pipelines. The amount recognized is the estimated cost of decommissioning, discounted to its present value using the risk free rate. The estimates are reviewed periodically. Changes in the provision as a result of changes to the timing of expenditures, costs or risk free rates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to PP&E. The unwinding of the discount on the decommissioning provision is charged to the consolidated statement of loss.

Actual costs incurred upon settlement of the obligations are charged against the provision to the extent of the liability recorded and the remaining balance of the actual costs is recorded in the consolidated statement of loss.

n) Income taxes

Tax expense comprises current and deferred taxes. Tax is recognized in the consolidated statement of loss except to the extent that it relates to items recognized directly in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that are substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized using the liability method, providing for unused tax losses, unused tax credits and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they are unlikely to reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which unused tax loses, unused tax credits and temporary differences can be utilized. Deferred tax assets are reviewed at the end of each period and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

o) Share-based payments

The Company accounts for share-based payments using the fair-value method of accounting for stock options granted to officers, directors, employees and service providers using the Black-Scholes option pricing model. Share-based payments are recognized through the consolidated statement of loss over the vesting period with a corresponding amount reflected in contributed surplus in equity. For awards issued in tranches that vest at different times, the fair value of each tranche is recognized over its respective vesting period.

At the grant date and at the end of each reporting period, the Company assesses and reassesses for subsequent periods its estimate of the number of awards that are expected to vest and recognizes the impact of the revisions in the consolidated statement of loss. Upon exercise of share-based options, the proceeds received net of any transaction costs and the fair value of the exercised share-based options is credited to share capital.

p) Financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument and are classified into one of the following five categories: fair-value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial liabilities at amortized cost.

Cash is classified as fair-value through profit or loss. Trade and other receivables and loan receivables are classified as loans and receivables which are measured at amortized cost. Investments are classified as available-for-sale which are measured at fair value. Trade and other payables and bank debt are classified as financial liabilities at amortized cost.

Subsequent measurement of financial instruments is based on their initial classification. Fair-value through profit or loss financial instruments are measured at fair value and changes in fair value are recognized in the consolidated statement of loss. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired at which time the cumulative loss that had been recognized in other comprehensive income is reclassified to earnings or loss. The remaining categories of financial instruments are recognized at amortized cost using the effective interest method.

q) Risk management contracts

The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign currency exchange rates and interest rates in the normal course of its business. The Company may use a variety of instruments to manage these exposures. For transactions where hedge accounting is not applied, the Company accounts for such instruments using the fair value method by initially recording an asset or liability, and recognizing changes in the fair value of the instruments in earnings as unrealized gains or losses on risk management contracts. Fair values of financial instruments are based on third party quotes or valuations provided by independent third parties. Any realized gains or losses on risk management contracts are recognized in net earnings in the period they occur.

The Company may elect to use hedge accounting when there is a high degree of correlation between the price movements in the financial instruments and the items designated as being hedged and the Company has documented the relationship between the instruments and the hedged item as well its risk management objective and strategy for undertaking hedge transactions. During the years ended December 31, 2015 and 2014, the Company did not designate any of its financial instruments as hedges. There were no risk management contracts outstanding as at December 31, 2015 and 2014.

r) Earnings (loss) per share
Basic per share amounts are calculated by dividing the earnings or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the reporting period.

Diluted per share amounts are calculated similar to basic per share amounts except that the weighted average common shares outstanding are increased to include additional common shares from the assumed exercise of dilutive share options. The number of additional outstanding common shares is calculated by assuming that the outstanding in-the-money share options were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

s) Finance income and expense
Finance expenses are comprised of interest expenses and bank charges on borrowings and the unwinding of the discount on provisions. Interest expenses and bank charges are considered operating expenses on the statement of cash flows. Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. Qualifying assets are those assets that necessarily take a substantial period of time to get ready for their intended use. All other borrowing costs are recognized in earnings or loss. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

Interest income is recognized as the interest accrues, using the effective interest method. The effective interest method uses the rate that discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

t) Recent and future pronouncements issued

ACCOUNTING POLICY AND STANDARD CHANGES

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

The nature and impact of each new standard or amendment is described below:

Future accounting pronouncements

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

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

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

4. ACQUISITIONS

Acquisition of new core area in December 2015

On December 11, 2015, Pine Cliff completed the acquisition of certain oil and natural gas assets in the Ghost Pine and Viking areas in the Province of Alberta (the "December 2015 Acquisition") for cash consideration of $185.0 million, prior to any adjustments.

The results of the December 2015 Acquisition have been included in the financial statements since December 11, 2015 and have contributed oil and gas sales, net of royalties, of $3.1 million and operating expenses of $2.1 million for the period from December 11, 2015 to December 31, 2015. If the December 2015 Acquisition had occurred on January 1, 2015, the Company's total increase in oil and gas sales, net of royalties, related to the acquisition would have been approximately $80.3 million, and an increase in operating expenses related to the acquisition would have been approximately $43.3 million for the year ended December 31, 2015. If the December 2015 Acquisition had occurred on January 1, 2015, the Company's total oil and gas sales, net of royalties would have been approximately $150.9 million, and operating expenses would have been approximately $81.8 million for the year ended December 31, 2015, excluding the May 2015 Acquisition.

Net assets acquired:	
Property and equipment	162,970
Exploration and evaluation assets	35,177
Decommissioning liabilities	(18,083)
Total net assets acquired	180,064

Consideration:	
Cash	180,064
Total purchase price	180,064

Transaction costs related to the December 2015 acquisition of $0.2 million were expensed in the year ended December 31, 2015 and are included in general and administrative expenses in the consolidated statement of loss and are part of operating cash flows in the consolidated statement of cash flows. The purchase price allocation is preliminary and is subject to change.

Acquisition of core area assets in May 2015

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

The results of the May 2015 Acquisition have been included in the financial statements since May 29, 2015 and have contributed oil and gas sales, net of royalties, of $3.4 million and operating expenses of $1.2 million for the period from May 29, 2015 to December 31, 2015. If the May 2015 Acquisition had occurred on January 1, 2015, the Company's total increase in oil and gas sales, net of royalties, related to the acquisition would have been approximately $5.4 million, and an increase in operating expenses related to the acquisition would have been approximately $1.6 million for the year ended December 31, 2015. If the May 2015 Acquisition had occurred on January 1, 2015, the Company's total oil and gas sales, net of royalties would have been approximately $75.8 million, and operating expenses would have been approximately $41.0 million for the year ended December 31, 2015, excluding the December 2015 Acquisition.

The May 2015 Acquisition has been accounted for using the acquisition method and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

Net assets acquired:	
Property and equipment	14,604
Exploration and evaluation assets	684
Decommissioning liabilities	(1,888)
Total net assets acquired	13,400

Consideration:	
Cash	13,400
Total purchase price	13,400

Transaction costs related to the May 2015 acquisition of $0.1 million were expensed in the year ended December 31, 2015 and are included in general and administrative expenses in the consolidated statement of loss and are part of operating cash flows in the consolidated statement of cash flows. The purchase price allocation is preliminary and is subject to change.

Minor Property Acquisitions

Pine Cliff completed minor property acquisitions during the year for net considerations of $0.4 million ($0.4 million allocated to PP&E, and $0.1 million related to decommissioning costs).

Information on prior year acquisitions

Acquisition of Shallow Gas Assets in October 2014

On October 1, 2014, Pine Cliff completed the acquisition of certain shallow natural gas assets in Alberta and Saskatchewan (the "October 2014 Acquisition") for cash consideration of $100.0 million, prior to any adjustments. The assets acquired are part of a large land spread with a high working interest that have a similar production profile to other assets owned by Pine Cliff.

The results of the October 2014 Acquisition have been included in the financial statements since October 1, 2014 and have contributed oil and gas sales, net of royalties, of $9.8 million and operating expenses of $2.4 million for the period from October 1, 2014 to December 31, 2014. If the acquisition had occurred on January 1, 2014, total oil and gas sales, net of royalties would have been approximately $105.4 million and operating expenses would have been approximately $40.6 million for the year ended December 31, 2014.

The October 2014 Acquisition has been accounted for using the acquisition method and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

Net assets acquired:	
Property and equipment	110,616
Exploration and evaluation assets	1,281
Decommissioning liabilities	(9,102)
Total net assets acquired	102,795

Consideration:	
Cash	102,795
Total purchase price	102,795

Transaction costs related to the October 2014 Acquisition of $0.3 million were expensed in the year ended December 31, 2014 and are included in general and administrative expenses in the consolidated statement of loss and are part of operating cash flows in the consolidated statement of cash flows.

Acquisition of Edson Assets in August 2014

On August 7, 2014, Pine Cliff completed the acquisition of certain oil and natural gas assets in the Edson area in the Province of Alberta (the "August 2014 Acquisition") for cash consideration of $33.25 million, prior to any adjustments. The assets acquired are located within areas or immediately adjacent to areas where Pine Cliff owns assets.

The results of the August 2014 Acquisition have been included in the financial statements since August 7, 2014 and have contributed oil and gas sales, net of royalties, of $3.4 million and operating expenses of $1.4 million for the period from August 7, 2014 to December 31, 2014. If the acquisition had occurred on January 1, 2014, total oil and gas sales, net of royalties, would have been approximately $80.1 million and operating expenses would have been approximately $29.3 million for the year ended December 31, 2014.

The August 2014 Acquisition has been accounted for using the acquisition method and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

Net assets acquired:	
Property and equipment	32,051
Exploration and evaluation assets	292
Decommissioning liabilities	(140)
Total net assets acquired	32,203

Consideration:	
Cash	32,203
Total purchase price	32,203

Transaction costs related to the August 2014 Acquisition of $0.02 million were expensed in the year ended December 31, 2014 and are included in general and administrative expenses in the consolidated statement of loss and are part of operating cash flows in the consolidated statement of cash flows.

5. TRANSACTIONS WITH RELATED PARTIES

Management services agreement

Pine Cliff has a management services agreement with Bonterra, an oil and gas corporation that is publicly traded on the Toronto Stock Exchange and has some common directors and management with Pine Cliff, to provide executive services, technical services, accounting services, oil and gas administration and office administration. Total fees for each of the years ended December 31, 2015 and 2014 were $0.06 million, plus certain administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As at December 31, 2015, Pine Cliff owed Bonterra $0.3 million (Pine Cliff owed Bonterra at December 31, 2014 – $0.2 million). This agreement was terminated on December 31, 2015.

Investment in Bonterra

As at December 31, 2015, Pine Cliff owns 204,633 common shares in Bonterra (December 31, 2013 – 204,633) representing less than 1% of the outstanding shares of Bonterra at that date. The shares, as of December 31, 2015, have a fair value of $3.5 million (December 31, 2014 – $8.5 million). For the year ended December 31, 2015, Pine Cliff received dividend income of $0.4 million from this investment (December 31, 2014 – $0.7 million).

Related party transactions are in the normal course of operations and from time to time Pine Cliff Energy Ltd. and Bonterra Energy Corp. will enter into various minor transactions at market value in circumstances that are considered mutually beneficial.

6. EXPLORATION AND EVALUATION ASSETS

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

Cost:	Oil and gas properties	Minerals properties	Total
Balance at December 31, 2013	5,436	1,979	7,415
Additions	-	50	50
Acquisitions	1,661	-	1,661
Balance at December 31, 2014	7,097	2,029	9,126
Additions	1,301	963	2,264
Transfer to property, plant and equipment	(1,301)	-	(1,301)
Acquisitions	35,861	-	35,861
Balance at December 31, 2015	**42,958**	**2,992**	**45,950**

During the years ended December 31, 2015 and 2014, minimal directly attributable general and administration costs related to mineral exploration and evaluation assets were capitalized.

On December 18, 2013, Pine Cliff entered into an option agreement with a third party for the disposition of its Kim gold property located in the Northwest Territories. On December 29, 2015, the option agreement was terminated. The remaining receivable of $0.9 million was recorded in exploration and evaluation assets.

7. PROPERTY, PLANT AND EQUIPMENT

The following table reconciles Pine Cliff's PP&E assets:

Cost:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 2013	141,236	538	141,774
Additions	10,765	272	11,037
Acquisitions	142,882	-	142,882
Decomissioning liabilities	110,666	-	110,666
Dispositions	(3,898)	-	(3,898)
Balance at December 31, 2014	401,651	810	402,461
Additions	5,417	504	5,921
Transfer from exploration and evaluation	1,301	-	1,301
Acquisitions	177,258	-	177,258
Decomissioning liabilities	52,373	-	52,373
Balance at December 31, 2015	**638,000**	**1,314**	**639,314**

Accumulated depletion and depreciation:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 2013	(21,654)	(104)	(21,758)
Depletion and depreciation	(28,690)	(224)	(28,914)
Impairment	(3,835)	-	(3,835)
Dispositions	669	-	669
Balance at December 31, 2014	(53,510)	(328)	(53,838)
Depletion and depreciation	(45,486)	(345)	(45,831)
Impairment	(7,586)	-	(7,586)
Balance at December 31, 2015	**(106,582)**	**(673)**	**(107,255)**

Carrying value at:	Oil and gas properties	Administrative assets	Total
December 31, 2014	348,141	482	348,623
December 31, 2015	**531,418**	**641**	**532,059**

Impairment Assessment

In accordance with IFRS, an impairment test is performed on a cash generating unit ("CGU") if the Company identifies an indicator of impairment. At December 31, 2015, the Company determined that indicators of impairment existed due to a decline in the current and forward commodity prices, therefore an impairment test was performed for all of the Company's CGUs.

An impairment is recognized if the carrying value of a CGU exceeds the recoverable amount for that CGU. The Company determines the recoverable amount by using value in use, based on discounted future cash flows of proved plus probable reserves using forecast prices and costs, discounted at a pre-tax discount rate of 10% (2014 – 10%). In determining the appropriate discount rate, Pine Cliff referenced recent market transactions completed on assets similar to those in its CGUs.

The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at December 31, 2015. The forecast commodity prices are based on those used by the Company's external reserve evaluators at December 31, 2015 and are a key assumption in assessing the recoverable amount.

Year	WTI Oil (US$/bbl) [1]	Foreign Exchange Rate [1]	Edmonton Light Crude Oil (Cdn$/bbl) [1]	AECO Gas (Cdn$/mmbtu) [1]
2016	45.00	0.7300	56.60	2.70
2017	53.60	0.7500	66.40	3.20
2018	62.40	0.8000	72.80	3.55
2019	69.00	0.8000	80.90	3.85
2020	73.10	0.8250	83.20	3.95
2021-2030	89.84	0.8250	102.85	4.91
Thereafter	+ 2.0%/yr	0.8250	+ 2.0%/yr	+ 2.0%/yr

[1] Source: McDaniel & Associates Consultants Ltd. price forecasts, effective January 1, 2016.

The external reserve evaluators also assess many other financial assumptions regarding royalty rates, operating costs and future development capital, along with several other non-financial assumptions with a direct bearing on reserve volumes. Management considered these assumptions for the impairment test at December 31, 2015, however, it should be noted that all estimates are subject to uncertainty.

For the purposes of determining whether impairment of assets has occurred, the extent of any impairment or its reversal, management exercises their judgment in estimating future cash flows for the recoverable amount, being the higher of fair value less costs to sell and value in use. These key judgments include estimates about recoverable reserves, forecast benchmark commodity prices, royalties, operating costs and discount rates.

Management has determined that the Company has five CGUs. As part of its quarterly impairment analysis, the Company assessed its property and equipment assets of each CGU for possible impairment on the basis of the discounted expected future cash flows based on the Company's plans to continue to produce proved plus probable reserves. Projected estimates of cash flows from each CGU have been determined based on the economic life of the reserves using a pre-tax discount rate of 10%. The impairment testing undertaken concluded that the value in use for the Southern Assets CGU, Central Asset Conventional Gas CGU, Central Asset Oil CGU, and Central Asset CBM CGU are greater than the carrying amounts, however, testing concluded that the value in use was less than the carrying amount for the Edson CGU in the third quarter of 2015. In the third quarter and year to date, the Company reported an impairment loss of $7.6 million for the year ended December 31, 2015 related to the Edson CGU largely as a result of the decrease in forecast benchmark commodity prices. The impairment of PP&E assets and any subsequent reversal of such impairment losses are recognized in the statement of earnings (loss).

8. GOODWILL

Carrying value:	
Balance at December 31, 2013	3,535
Impairment of goodwill	(3,535)
Balance at December 31, 2014	-
Acquisitions	-
Balance at December 31, 2015	-

Goodwill is attributable to the oil and gas segment which has been allocated for impairment testing purposes to the CGUs that reflect the lowest level at which goodwill is attributable. The recoverable amounts are based on cash flow projections with assumptions regarding commodity prices, discount rates, production volumes, capital investment and operating costs. At December 31, 2014, the entire balance of goodwill was impaired.

9. DEFERRED TAXES

The Company has recorded a deferred tax asset related to the benefit of tax pools, as it is probable that they will be recovered.

	Year ended December 31	
	2015	2014
Earnings (loss) before income taxes	**(34,514)**	(1,463)
Corporate income tax rate	**26.0%**	25.0%
Computed income tax expense (recovery)	**(8,974)**	(366)
Increase (decrease) resulting from:		
Goodwill impairment	**-**	885
Non-taxable dividends	**(103)**	(183)
Non-deductible compensation expense	**880**	565
Changes in tax rate	**(2,330)**	(162)
Changes in the unrecorded benefit of tax pools	**392**	(2)
Other	**(122)**	(258)
Deferred income tax expense (recovery)	**(10,257)**	479

Deferred income tax recovery varies from the amount that would be computed by applying federal and provincial income tax rates as follows:

	December 31, 2015	December 31, 2014
Deferred income tax assets (liabilities):		
Accounts receivable	**-**	(352)
Share issue costs	**1,813**	1,322
Investment	**496**	(186)
Decommissioning provision	**64,913**	41,429
Exploration and evaluation assets	**(11,863)**	(1,799)
Property and equipment	**(29,329)**	(17,995)
Capital losses carried forward	**128**	16
Non-capital losses carried forward	**13,499**	4,986
Asset before the unrecorded benefit of tax pools	**39,657**	27,421
Less: unrecorded benefit of tax pools	**(1,037)**	-
Net deferred income tax asset	**38,620**	27,421

Pine Cliff has approximately $480.8 million in tax pools at December 31, 2015 (December 31, 2014 – $302.8 million) available for future use as deductions from taxable income. Included in these pools are estimated non-capital loss carry forwards of $50.0 million (December 31, 2014 – $19.3 million) that expire between the years 2030 and 2035. The significant increase in tax pools is a result of tax pools that were acquired in the May 2015 Acquisition and December 2015 Acquisition.

The Company has the following tax pools, which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

($ 000s)	Rate of Utilization (%)	Amount
Undepreciated capital costs	20-100	68,590
Canadian oil and gas property expenditures	10	344,695
Canadian development expenditures	30	9,871
Canadian exploration expenditures	100	11
Eligible capital expenditures (CEC)	7	122
Share issue costs	20	6,716
Non-capital losses carried forward	100	49,997
Capital losses carried forward [1]		829
		480,831

[1] The capital losses carried forward can only be claimed against taxable capital gains.

10. TRADE AND OTHER PAYABLES

Total trade and other payables comprises the following categories:

	December 31, 2015	December 31, 2014
Trade payables	**3,675**	4,867
Accrued payables	**6,303**	6,413
Trade and other payables	**9,978**	11,280

11. BANK DEBT

As at December 31, 2015, the Company had a $185 million syndicated credit facility with a syndicate of five Canadian Financial Institutions (the "Syndicated Facility"). The Syndicated Facility consists of a $165.0 million revolving syndicated credit facility and a $20.0 million revolving operating facility. Security for the Syndicated Facility consists of floating demand debentures totaling $500,000,000 and a general security agreement with first ranking over all current and acquired properties. Amounts drawn under the Syndicated Facility at December 31, 2015 were $156.0 million (December 31, 2014 - $47.8 million). Amounts borrowed under the Syndicated Facility bear interest at the Canadian prime rate plus 1.0% to 2.5% or the bankers' acceptance rate plus 2.0% to 3.5%, depending, in each case, on the ratio of consolidated debt to EBITDA, which is calculated as earnings (loss) excluding depreciation, depletion and accretion, share based payments, interest, taxes and other non-cash items.

The Syndicated Facility is a one year revolving facility with the initial revolving period ending on July 31, 2016 and is reviewed semi-annually on November 30th and May 31st. If the Syndicated Facility is not renewed it will convert to a 364-day term loan. The Syndicated Facility has no fixed terms of repayment. Fees related to the Syndicated Facility totaled $0.5 million of which $0.3 million has been deferred over the term of the debt and $0.2 million was expensed for the year ended December 31, 2015.

As at December 31, 2015, the Company had a $0.6 million letter of credit issued against its Syndicated Facility. The Company was in compliance with its bank covenants during the year ended December 31, 2015.

As at December 31, 2014, Pine Cliff's had a revolving demand credit facility (the "Credit Facility") with a Canadian chartered bank was $70.0 million. The Credit Facility was considered a current liability in 2014 as the current revolving period expired during the year on May 31, 2015. The Credit Facility in the prior year interest was the prime lending rate plus 0.75% per annum and Pine Cliff realized an effective interest rate of 3.75% for the period ended December 31, 2014.

12. DECOMMISSIONING LIABILITIES

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

At December 31, 2015, the estimated total undiscounted amount required to settle the decommissioning liabilities was $315.4 million (December 31, 2014 - $196.3 million). The provision has been calculated assuming a 1.72% inflation rate (December 31, 2014 – 1.6%). These obligations will be settled based on the useful lives of the underlying assets which extend up to 56 years into the future. This amount has been discounted using an average risk-free interest rate of 2.61% (December 31, 2014 – 2.2%).

Changes to decommissioning liabilities were as follows:

	December 31, 2015	December 31, 2014
Decommissioning provision, beginning of year	**164,513**	42,685
Provisions acquired through acquisitions	**20,034**	9,242
Increase in liabilities relating to development activities	**44**	-
Revisions (changes in estimates and discount rates)	**52,329**	110,664
Accretion expense during the year	**3,532**	1,922
Decommissioning provision, end of year	**240,452**	164,513

13. SHARE CAPITAL

Authorized

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

Issued

Issued and outstanding share capital continuity:	Common shares (000s)	Share capital
Balance at January 1, 2014	200,192	127,002
Shares issued pursuant to public share offerings	29,300	60,065
Exercise of options	4,387	6,444
Share issue costs, net of tax	-	(2,192)
Balance at December 31, 2014	233,879	191,319
Shares issued pursuant to private and public share offerings	66,666	71,999
Exercise of options	4,647	5,722
Share issue costs, net of tax	-	(2,231)
Balance at December 31, 2015	**305,192**	**266,809**

Per share calculations

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding. In calculating the weighted average number of diluted shares outstanding for the years ended December 31, 2015 and December 31, 2014, all options were excluded as there was a loss in the years then ended.

	Year ended December 31	
Earnings per share calculation:	**2015**	2014
Numerator		
Loss for the year	**(24,257)**	(1,942)
Denominator (000s)		
Weighted-average common shares outstanding - basic and diluted	**240,149**	211,025
Loss per share - basic and diluted ($)	**(0.10)**	(0.01)

Share-based payments

The Company provides an equity settled stock option plan (the "Option Plan") for its directors, employees and consultants. Under the Option Plan, the Company may grant options for up to 10% of outstanding common shares at December 31, 2015. The term and vesting period of the options granted are determined at the discretion of the board of directors. The exercise price of each option granted equals the market price of the Company's stock immediately preceding the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as at December 31, 2015 and changes during the year then ended is presented as follows:

Stock options issued and outstanding:	Options (000s)	Weighted-average exercise price ($ per share)
Outstanding, December 31, 2013	14,479	0.73
Granted	6,838	1.62
Exercised	(4,387)	0.59
Cancelled	(45)	1.07
Forfeited	(1,190)	0.76
Outstanding, December 31, 2014	15,695	1.15
Granted	6,878	1.11
Exercised	(4,647)	0.76
Expired	(350)	1.55
Forfeited	(338)	1.29
Outstanding, December 31, 2015	17,238	1.23
Exercisable, December 31, 2015	4,897	1.09

The following table summarizes information about stock options outstanding:

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
$0.38 - $0.90	1,914	0.4	1,874	0.4
$0.91 - $1.49	9,994	2.2	1,373	0.3
$1.50 - $1.97	5,330	1.3	1,650	0.3
	17,238	1.7	4,897	0.3

The Company records share-based payment expense over the vesting period, which ranges between one to three years, based on the fair value of the options granted to employees, directors and consultants. In the year ended December 31, 2015, the Company granted 6,877,900 stock options with an estimated fair value of $0.46 per option using the Black-Scholes option pricing model with the following key assumptions (weighted-average):

Assumptions:	Year ended December 31, 2015
Exercise price ($)	1.11
Estimated volatility of underlying common shares (%)	63
Weighted average expected life (years)	2.9
Risk-free rate (%)	0.7
Forfeiture rate (%)	3.9
Expected dividend yield (%)	0.0

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

The weighted average share price when the options were exercised in 2015 was $1.32 (2014 - $1.45).

14. FINANCE EXPENSES

Finance expenses are comprised of:

	Year ended December 31	
	2015	2014
Finance expenses:		
Interest expense and bank charges	**(1,919)**	(615)
Unwinding of the discount on decommissioning liabilities	**(3,532)**	(1,922)
Total finance expenses	**(5,451)**	(2,537)

15. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses by nature were as follows:

	Year ended December 31	
General and administration expenses:	**2015**	2014
Staff expenses	**3,452**	2,807
Consultants	**779**	428
Public company expenses	**78**	45
Professional fees	**485**	709
Intercompany administration	**60**	60
Business development	**32**	74
Foreign exchange	**(145)**	-
Office and other costs	**1,027**	700
Transaction fees (non-reoccurring)	**283**	313
Capitalized G&A and overhead recoveries	**(212)**	(190)
	5,839	4,946

16. KEY MANAGEMENT REMUNERATION

Key management personnel are those persons, including all directors and officers, having authority and responsibility for planning, directing and controlling the activities of the Company. In addition to their salaries, the Company also provides non-cash benefits to its directors and officers. Directors and officers also participate in the Company's option program. Director and officer compensation was as follows:

	Year ended December 31	
Key management remuneration:	**2015**	2014
Short-term benefits [1]	**1,105**	956
Share-based payments [2]	**744**	1,386
	1,849	2,342

[1] Short-term benefits includes the salary and other non-cash short-term benefits of Pine Cliff's President and Chief Executive Officer, Chief Financial Officer, Interim Chief Financial Officer, and Chief Operations Officer as well as director fees paid through Pine Cliff. Other officers are not paid through Pine Cliff as their services are included in the management fee charged by Bonterra (Note 5).
[2] Share-based payments computed for officers and the board of directors as described in Note 13 includes the fair value of awards expensed in the year.

17. FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement
Financial instruments of the Company consist of cash, trade and other receivables, investments, trade and other payables and bank debt. The carrying values of the financial instruments presented in the Financial Statements approximate their respective fair values due to their short-term to maturity.

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 December 31, 2015 and December 31, 2014:

		December 31, 2015		December 31, 2014	
Description:	Level	**Carrying value**	**Fair value**	Carrying value	Fair value
Cash	1	**833**	**833**	200	200
Trade and other receivables		**16,473**	**16,473**	14,582	14,582
Investments	1	**3,590**	**3,590**	8,755	8,755
Trade and other payables		**(9,978)**	**(9,978)**	(11,280)	(11,280)
Bank debt		**(155,938)**	**(155,938)**	(47,755)	(47,755)

18. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended ended December 31	
	2015	2014
Operating activities		
Changes in non-cash working capital:		
Trade and other receivables	**(3,906)**	(3,341)
Prepaid expenses and deposits	**(911)**	(1,399)
Trade and other payables and accrued liabilities	**(233)**	3,397
	(5,050)	(1,343)
Investing activities		
Changes in non-cash working capital:		
Trade and other receivables	**1,089**	(2,341)
Trade and other payables and accrued liabilities	**(1,196)**	(640)
	(107)	(2,981)
Financing activities		
Changes in non-cash working capital:		
Prepaid expenses and deposits	**(349)**	-
Trade and other payables and accrued liabilities	**119**	-
	(230)	-

Interest paid in the year ended December 31, 2015 was $1.9 million (December 31, 2013 – $0.7 million). Dividends received during the year ended December 31, 2014 were $0.4 million (December 31, 2014 – $0.7 million).

19. RISK MANAGEMENT

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

Market risk
Market risk is the risk that the fair value or future cash flow of the Company's financial instruments will fluctuate because of changes in market prices. Components of market risk to which Pine Cliff is exposed are discussed below.

Commodity Price Risk
The Company is exposed to commodity price risk since its revenues are dependent on the prices of crude oil and natural gas. Commodity prices have fluctuated widely during recent years due to global and regional factors including, but not limited to, supply and demand, inventory levels, weather, economic and geopolitical factors. Changes in oil and natural gas prices may have a significant effect, positively or negatively, on the ability of the Company to meet its obligations, capital spending targets and expected operational results. Currently, the Company does not have any risk management contracts to sell its oil and gas commodities. Commodities are sold at market prices at the date of sale.

Interest Rate Risk
The Company is principally exposed to interest rate risk to the extent it draws on its variable rate debt. Changes in market interest rates could affect the cash flow associated with the credit facility. If interest rates applicable to Pine Cliff's credit facility increased or decreased by one percent it is estimated that Pine Cliff's loss for the year ended December 31, 2015 would have increased or decreased, respectively, by $0.6 million.

Equity price risk
Equity price risk refers to the risk that the fair value of the investments will fluctuate due to changes in equity markets. Equity price risk arises from the realizable value of the investments that the Company holds which are subject to variable equity prices which on disposition gives rise to a cash flow equity price risk. The Company will assume full risk in respect of equity price fluctuations.

Foreign Exchange Risk
The Company is exposed to foreign exchange risk because the oil and natural gas prices it receives are primarily determined in reference to United Stated dollar denominated commodity prices. The Company manages this risk by monitoring the foreign exchange rate and evaluating its effect on cash flows. Pine Cliff has not entered into any derivative financial instruments to manage this risk.

Credit Risk
Credit risk is the risk that a third party will not complete its contractual obligations under a financial instrument and cause the Company to incur a financial loss. Pine Cliff's maximum exposure to credit risk is the sum of the carrying values of its trade and other receivables and cash. The carrying values of these financial assets reflect management's assessment of the associated maximum exposure to such credit risk.

To mitigate the credit risk on its cash, the Company maintains its cash balances with major Canadian chartered banks. To mitigate the credit risk on trade and other receivables, Pine Cliff assesses the financial strength of its counterparties and enters into relationships with larger purchasers with established credit histories.

The Company's trade and other receivables balance at December 31, 2015 of $16.5 million (December 31, 2014 – $14.6 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. There are no material financial assets that Pine Cliff considers past due.

Pine Cliff assesses its financial assets quarterly to determine if there has been any impairment. No impairment provision was required on the Company's financial assets.

Liquidity Risk
Liquidity risk includes the risk that, as a result of Pine Cliff's operational liquidity requirements, the Company will not have sufficient funds or ability to obtain financing to settle a transaction on the due date or continue to fund its exploration and development projects. This could result in Pine Cliff being forced to sell assets at a value which is less than what they are worth or the Company may be unable to settle or recover financial assets.

In 2015, Pine Cliff raised $68.8 million (net of share issue costs) through a public and private share offering and increased the Syndicated Facility. The existing banking arrangements at December 31, 2015 comprise of a Syndicate Facility in the amount of $185.0 million, of which $156.0 million is drawn at December 31, 2015. The unused portion of the credit facility and cash provided by operating activities are expected to allow Pine Cliff to meet its financial liabilities, as well as future capital requirements, at a reasonable cost. Pine Cliff will also consider additional short-term financing or issuing equity in order to meet its future liabilities, if required.

Commitments
The Company believes it has sufficient funding and access to capital to meet its obligations as they come due. The maturity dates of the Company's financial liabilities are as follows:

Maturity dates of financial liabilities	Recognized in Financial Statements	Total	< 6 months	6 - 12 months	> 12 months
Trade and other payables	Yes - Liability	9,978	9,978	-	-
Bank loan - principal	Yes - Liability	155,938	-		155,938
Bank loan - future interest	No	9,259	1,462	2,924	4,873
Office and equipment leases	No	179	29	29	120
Vehicle leases	No	787	103	101	583
		176,141	11,572	3,054	161,514

20. CAPITAL STRUCTURE

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 order to maintain or adjust the capital structure, the Company may issue debt, new shares or a combination thereof and make adjustments to its capital investment programs.

The Company's defines and computes its capital as follows:

	December 31, 2015	December 31, 2014
Bank debt	**155,938**	47,755
Trade and other payables and accrued liabilities	**9,978**	11,280
Less:		
Trade and other receivables	**(16,473)**	(14,582)
Cash and cash equivalents	**(833)**	(200)
Prepaid expenses and deposits	**(3,250)**	(1,990)
Investments	**(3,590)**	(8,755)
Net debt	**141,770**	33,508
Equity	**234,407**	187,149

The Company monitors the leverage in its capital structure and the strength of its balance sheet by reviewing its net debt to equity ratio and its debt-to- funds flow from operations (cash flow from operating activities before changes in non-cash working capital) ratio. Debt-to-funds flow from operations and net debt do not have a specified meaning under IFRS and may not be comparable to measures used by other companies.

As Pine Cliff's oil and gas production increases, cash provided by operating activities is expected to increasingly provide the necessary capital for oil and gas exploration and development activities. However, due to the potential impact of adverse changes in commodity prices, production rates, capital efficiencies and material and service costs, Pine Cliff may not generate sufficient cash from operating activities to entirely fund its planned oil and gas capital programs, minerals exploration programs or future acquisitions. Accordingly, the Company will continually evaluate the stage of development of its proved and producing oil reserves, the results of the minerals exploration program and the expected return on investment of acquisitions and consider issuing equity and/or debt to provide additional financing to maintain appropriate net debt and equity levels. The Company sets the amount of capital in proportion to risk and manages to ensure the Company's net debt to equity ratio is less than one. Net debt to equity is computed as follows:

Net debt to equity ratio:	**December 31, 2015**	December 31, 2014
Net debt	**141,770**	33,508
Equity	**234,407**	187,149
Net debt to equity	**0.60**	0.18

The Company considers funds flow from operations to be a key performance measure as it demonstrates the Company's ability to generate funds necessary to repay debt and to fund future growth through capital investment. Net debt-to-funds flow from operations is computed as follows:

	Trailing twelve months ended	
Net debt-to-funds flow from operations calculation:	**December 31, 2015**	December 31, 2014
Cash provided by operating activities	**20,768**	37,641
Changes in non-cash working capital	**(5,050)**	(1,347)
Funds flow from operations	**25,818**	38,988
Net debt	**141,770**	33,508
Net debt-to-funds flow from operations	**5.5**	0.9

The Company's financial objectives and strategy as described above have remained substantially unchanged over the reporting periods. These objectives and strategy are reviewed on an annual basis. The Company believes its ratios are within reasonable limits, in light of the relative size of the Company, the growth of the Company in the year ended December 31, 2015 and its capital management objectives. If the May 2015 Acquisition and the December 2015 Acquisition would have occurred on January 1, 2015, the Company's total increase in oil and gas sales, net of royalties, related to the acquisitions would have been approximately $79.2 million and operating expenses would have been approximately $41.6 million. If the May 2015 Acquisition and the December 2015 Acquisition would have occurred on January 1, 2015, the Company's total oil and gas sales, net of royalties, would have been approximately $152.9 million and operating expenses would have been approximately $82.2 million. Assuming the same net debt at year end, this acquisition would have led to a net debt-to-funds flow from operations of 2.4 for the year ended December 31, 2015.

BOARD OF DIRECTORS

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

OFFICERS

George F. Fink
Executive Chairman of the Board

Philip B. Hodge
President and Chief Executive Officer

Kristi L. Kunec
Chief Financial Officer and Secretary

Cheryne A. Lowe
Interim Chief Financial Officer

Terry L. McNeill
Chief Operating Officer

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Computershare Trust Company of Canada

AUDITORS

Deloitte LLP

BANKERS

Toronto-Dominion Bank
Alberta Treasury Branches
National Bank of Canada
Western Canadian Bank
Business Development Bank of Canada

STOCK EXCHANGE LISTING

TSX Exchange
Trading Symbol: PNE

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