



Long-term Value Focus
Annual Report 2023

I hope everyone is doing well. Pine Cliff has been busy integrating our acquisition of Certus Oil and Gas, which closed on December 13th. We are pleased to report that the performance of these assets thus far has exceeded our expectations. Concurrently, we are managing the challenges posed by the unusually mild winter weather and its impact on the North American natural gas market, where prices have been halved in recent months. Key highlights from our fourth quarter and the entirety of 2023 include:

- exited Q4 and the 2023 year with production at ~26,000 Boe/d¹, the highest yearly exit production rate in Pine Cliff's 12 year history;
- generated \$9.7 million (\$0.03 per basic and fully diluted share) and \$58.7 million (\$0.17 per basic and \$0.16 per fully diluted share) of adjusted funds flow² for the three months and year-ended December 31, 2023, compared to \$40.2 million (\$0.11 per basic and fully diluted share) and \$163.2 million (\$0.47 per basic and \$0.45 per fully diluted share) for the comparable periods in 2022;
- net present value for proved plus probable reserves of \$476.8 million, discounted at 10%, an increase of \$67 million or 16.3%, from December 31, 2022, primarily as a result of the Certus acquisition;
- paid dividends of \$11.6 million (\$0.03 per basic and fully diluted share) and \$46.0 million (\$0.13 per basic and fully diluted share) during the three and 12 months ended December 31, 2023, compared to \$10.8 million (\$0.03 per basic and diluted share) and \$23.6 million (\$0.07 per basic and diluted share) for the comparable periods in 2022; and
- production averaged 21,454 Boe/d³ and 20,660 Boe/d³ for the three and the year ended December 31, 2023, 2% higher and 2% lower respectively than the comparable periods in 2022.

Dividend Adjustment

Pine Cliff has been consistent with our messaging to shareholders about our dividend sustainability. We promised to defend it strongly while emphasizing we would not use debt to maintain it, nor would we keep it at its current level if we thought that doing so could impair the underlying value of Pine Cliff. We have worked too hard, for too many years, to weaken the Company right before we enter an expected prosperous period for Pine Cliff and our industry. We believe this conservative fiscal strategy will continue to be the foundation of our future success and growth, as it has been in the past.

The precipitous fall in natural gas spot prices over the past five months has dampened our 2024 cash flow projections to the point where maintaining our dividend at its current level will result in Pine Cliff paying dividends using debt and not free cash flow. This scenario is not sustainable. Although we are optimistic that external factors and reduced drilling activity may support higher natural gas prices later this year, hope is not a strategy. Therefore, starting in March, we are reducing our regular monthly to \$0.005 per share or \$0.06 per share on an annualized basis. We are confident that with this reduction, combined with our physical hedge contracts in place and a limited capital expenditure budget for 2024, the dividend payout ratio will not exceed 100% of Pine Cliff's estimated 2024 adjusted funds flow.

We have increased our dividend twice since its inception in June 2022, however I have always considered the Pine Cliff dividend to be a variable dividend. Of course, my preference would be that the dividend would continue to rise and never drop, but I know that if you maintain a high payout ratio like we have done to return maximum cash to our shareholders, there is a risk the dividend may have to be reduced in a low commodity price environment. I do believe that with low decline assets in your portfolio, it is possible to continue to manage a dividend in an oil and gas business. It requires a strong focus on operating costs and a team that will continue to opportunistically add production through the drill bit or through acquisitions, as appropriate. It requires disciplined capital allocation decision makers who share the goal of making their company more valuable in the future. Pine Cliff has these skills and capabilities, and because management are PNE shareholders, our motivations are aligned with our other owners. We will continue to make difficult capital allocation decisions to protect the integrity of the business and improve shareholder value.

2024 CAPEX and Production Guidance

Pine Cliff successfully exceeded our 2023 annual production guidance, averaging 20,660 Boe/d¹ on developmental capital of \$12.6 million. In 2024, we are anticipating spending approximately \$7 million of developmental capital, and we expect that level of spending to result in average annual production of between 24,000 and 25,000 Boe/d³, with approximately 79% of that production being natural gas. The reason our 2024 CAPEX is 40% lower than our 2023 CAPEX, even though Pine Cliff

production is 30% higher this year, is that we do not believe 2024 is a time to be drilling natural gas wells. We will save our locations for better commodity prices.

Hedging And Market Diversification Strategy

In the early years of Pine Cliff, we did not use hedging in our marketing strategy. Our production was over 90% natural gas and we were fully exposed to the volatility of the commodity. Over the past few years, we have increased our use of physical hedges as we transitioned to a dividend paying company. We anticipate another volatile year for commodity prices in 2024, and to reduce this risk, we proactively increased our 2024 hedge exposure from previous years to approximately 22% of our natural gas production at an average price of \$3.19 Mcf and 33% of our crude oil production at an average price of \$99.48 Bbl. We will continue to selectively utilize hedging in the coming years to support our business and our dividend.

In addition to using physical hedges, our marketing group works closely with our operations team to determine the best strategies to utilize our three pipelines that take natural gas production out of the Province of Alberta. Their work has resulted in realized natural gas pricing 14% higher than the AECO 5A benchmark in the 12 months ended December 31, 2023. Our preference is to use flexible and shorter-term solutions to optimize pricing rather than entering long-term pipeline commitments to other markets. We believe that the attractiveness of the AECO marketing hub in Alberta will rise in the coming years and we want to ensure we retain maximum flexibility to take advantage of that trend.

CFO Transition

Pine Cliff's Chief Financial Officer, Alan MacDonald, will be retiring from his position. I am happy to announce that Kris Zack, who joined Pine Cliff last September as Vice-President Finance, has been appointed Pine Cliff's Chief Financial Officer effective May 1, 2024. Kris has over two decades of capital market and auditing experience and has been invaluable to Pine Cliff through the Certus integration.

On a personal note, Alan has been a pleasure to work with. His calm demeanour and sage advice have helped us navigate some choppy waters during his tenure. Pine Cliff and its shareholders are forever indebted to his significant contributions in making our company into what it is today. Thanks Alan.

Webcast

There was a lot of information in this quarter, so we are going to give our shareholders another way to receive this information and ask management some questions. We will be conducting **a live webcast at 10:00 AM MST (12:00 Noon EST) on March 5th**. Participants can access the live webcast via this [Link](#) or through the links provided on the Company's website.

Outlook

The short-term attention on weather and natural gas storage has overshadowed an exciting time in our industry with new oil and gas pipelines being completed to the West Coast in Western Canada. AECO forward strip natural gas prices in Western Canada are over \$3 Mcf in 2025 and LNG exports are expected to more than double in North America in the next four years. We believe that Pine Cliff is a unique investment option in this environment with our dividend, strong balance sheet, low production decline rate and significant leverage to Western Canada natural gas prices. Our job at Pine Cliff is to continue to deliver to our investors the same discipline of capital allocation and business judgment we have demonstrated over the past 12 years to increase shareholder value and build a stronger company. Thank you for your confidence in our team and for trusting in our process.

Yours truly,



Phil Hodge
President and Chief Executive Officer
March 4, 2024

¹Comprised of 123,150 Mcf/d natural gas, 2,950 Bbl/d NGLs and 2,525 Bbl/d light and medium oil.

²Please refer to the attached Management's Discussion and Analysis for Reader Advisories regarding forward-looking information, non-GAAP measures and oil and gas measurements and definitions. 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 period ended December 31, 2023, which can be found on www.sedarplus.com and is subject to the same cautionary statements as set out therein.

³Refer to the March 4, 2024 Press Release for commodity split by product.

Reserves Information

McDaniel & Associates Consultants Limited (“**McDaniel**”) was engaged to prepare evaluations of the reserves of Pine Cliff Energy Ltd. (“**Pine Cliff**” or the “**Company**”) at December 31, 2023. 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, 2023. 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. As defined in NI 51-101, proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is 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 plus probable 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 2023 year include:

- Net present value for proved plus probable (“**P+P**”) reserves of \$476.8 million, discounted at 10%, an increase of \$65.3 million, or 16%, from December 31, 2022, primarily as a result of the Acquisition, as defined herein, offsetting the impact of lower natural gas benchmark pricing;
- Pine Cliff increased its 2023 P+P reserves by 29.0 MMBoe prior to adjusting for 2023 production, a reserve replacement ratio of 325% of 2024 estimated production⁵ as a result of the 31.5 MMBoe added from the Acquisition;
- Remaining P+P reserves of 89.2 MMboe (71% conventional natural gas and coal bed methane) at December 31, 2023 increased 31% from 67.6 MMboe at December 31, 2022 largely as a result of the Acquisition; and
- Approximately 70% of total reserve volumes are classified as total proved reserves, 30% are classified as probable reserves.

Pine Cliff’s Reserves

McDaniel has used a three-consultant average price (McDaniel, GLJ & Sproule) forecast, resulting in a price forecast of \$2.20 and \$3.37 per MMBtu for AECO natural gas and US\$73.67 and US\$74.98 per Bbl for WTI oil in 2024 and 2025 respectively.

Summary of Remaining Working Interest Reserves, as of December 31, 2023

Reserve Category	Oil ^{1,2} MBbl	Natural Gas Liquids MBbl	Conventional Natural Gas MMcf	Coal Bed Methane MMcf	Oil Equivalent MBoe
Proved					
Developed Producing	3,210.0	6,283.0	204,978.9	22,133.9	47,345.1
Developed Non-Producing	218.8	90.2	1,956.6	-	635.1
Undeveloped	944.0	2,804.2	20,059.4	-	7,091.4
Total Proved	4,372.9	9,177.4	226,994.9	22,133.9	55,071.8
Probable	2,400.6	5,451.7	87,299.8	6,668.1	23,513.6
Total Proved plus Probable	6,773.5	14,629.1	314,294.7	28,802.0	78,585.4

¹ Amounts may not add due to rounding.

² Oil includes light and medium and heavy oil. Light and medium oil represents 100 per cent of total proved and P+P reserves.

Summary of Net Present Values of Future Net Revenue, Before Income Taxes, as of December 31, 2023

(\$ millions)	Discounted at (% per year)				
	0%	5%	10%	15%	20%
Reserve Category¹					
Proved					
Developed Producing	51.1	199.9	213.7	198.1	178.1
Developed Non-Producing	21.1	12.8	8.7	6.3	4.9
Undeveloped	142.2	87.7	57.3	39.0	27.3
Total Proved	214.4	300.4	279.7	243.5	210.3
Probable	484.6	292.9	197.2	142.4	107.9
Total Proved plus Probable	699.0	593.2	476.8	385.9	318.2

¹Amounts may not add due to rounding.

Reconciliation of Gross Reserves by Principal Product Type, as of December 31, 2023

Reserve Reconciliation Company Gross ¹	Oil ²	Natural Gas Liquids	Natural Gas ³	Oil Equivalent
	MBbl	MBbl	MMcf	MBoe
Total Proved				
December 31, 2022	3,099.3	3,663.1	270,514.8	51,848.3
Extension	91.6	23.2	751.1	240.0
Technical Revisions	(23.9)	193.1	(5,933.4)	(819.8)
Acquisitions	2,439.6	7,987.3	53,881.2	19,407.1
Economic Factors	3.3	(195.6)	(5,680.5)	(1,139.1)
Production	(458.0)	(544.8)	(39,229.4)	(7,541.0)
December 31, 2023	5,152.0	11,126.2	274,303.8	61,995.5
Total Proved plus Probable				
December 31, 2022	4,882.9	4,834.2	347,587.80	67,648.4
Extension	374.6	91.3	3,035.40	971.8
Technical Revisions	(61.9)	211.4	(8,783.80)	(1,314.4)
Acquisitions	3,387.8	13,461.3	87,872.50	31,494.5
Economic Factors	9.3	(251.1)	(11,164.10)	(2,102.5)
Production	(458.0)	(544.8)	(39,229.40)	(7,541.0)
December 31, 2023	8,134.7	17,802.3	379,318.3	89,156.7

¹Amounts may not add due to rounding.

²Oil includes light and medium and heavy oil. Light and medium oil represents 100 per cent of total proved and P+P reserves.

³Natural gas includes conventional natural gas and coal bed methane. Conventional natural gas represents 90 per cent total proved and P+P reserves.

Commodity Prices

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

Year	WTI Oil (US\$/Bbl) ¹	\$C to US\$ Foreign exchange rate ¹	Edmonton Light Crude Oil (Cdn\$/Bbl) ¹	AECO Gas (Cdn\$/MMBtu) ¹
2024	73.67	1.33	92.91	2.20
2025	74.98	1.33	95.04	3.37
2026	76.14	1.32	96.07	4.05
2027	77.66	1.32	97.99	4.13
2028	79.22	1.32	99.95	4.21
2029	80.80	1.32	101.94	4.30
2030-2037	88.42	1.32	111.56	4.70
Thereafter	+2.0%/yr	1.32	+2.0%/yr	+2.0%/yr

¹ Source: Average of three consultant price forecasts, effective January 1, 2024 (McDaniel, GLJ Petroleum Consultants Ltd. and Sproule Associates Limited).

Please refer to the attached Management's Discussion and Analysis for Reader Advisories regarding forward-looking information, non-GAAP measures and oil and gas measurements and definitions. This Reserves Information should be read in conjunction with the audited consolidated financial statements of Pine Cliff Energy Ltd. together with Management's Discussion and Analysis and Annual Information Form for the year ended December 31, 2023, which can be found on www.sedarplus.com and is subject to the same cautionary statements as set out therein.

This Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position of Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") for the year ended December 31, 2023. This MD&A is dated and based on information available as at March 4, 2024 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2023 and 2022 ("Financial Statements"). The Financial Statements have been prepared in accordance with International Accounting Standards ("IFRS") issued by the International Accounting Standards Board. Additional information relating to the Company, including the Company's annual information form ("AIF"), may be found on www.sedarplus.ca and by visiting Pine Cliff's website at <http://www.pinecliffenergy.com>.

Pine Cliff is a dividend-paying company headquartered in Calgary, Alberta, Canada. Common shares of the Company ("Common Shares") are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol "PNE".

READER ADVISORIES

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

Other Measurements

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

Please refer to the section titled "GLOSSARY" for measurements and abbreviations that may be used in the MD&A.

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

2023 AND FOURTH QUARTER 2023 RESULTS

Results from 2023 are as follows:

- Generated \$9.7 million (\$0.03 per basic and fully diluted per share) and \$58.7 million (\$0.17 per basic and \$0.16 per fully diluted share) of adjusted funds flow for the three months and year ended December 31, 2023, compared to \$40.2 million (\$0.11 per basic and fully diluted share) and \$163.2 million (\$0.47 per basic and \$0.45 per fully diluted share) for comparable periods in 2022;
- Generated net income of \$0.8 million (\$0.00 per basic and fully diluted share) and \$9.1 million (\$0.03 per basic and fully diluted share) for the three months and year ended December 31, 2023, compared to \$24.7 million (\$0.07 per basic and fully diluted share) and \$108.9 million (\$0.31 per basic and \$0.30 per fully diluted share) for the comparable periods in 2022;
- Production averaged 21,454 Boe/d and 20,660 Boe/d during the three months and year-ended December 31, 2023, representing a 2% increase and 2% decrease from the comparable periods in 2022;
- Paid dividends of \$11.6 million (\$0.03 per basic and fully diluted share) and \$46.0 million (\$0.13 per basic and fully diluted share) for the three months and year ended December 31, 2023, compared to \$10.8 million (\$0.03 per basic and fully diluted share) and \$23.6 million (\$0.07 per basic and fully diluted share) in the comparable periods in 2022;
- Completed the acquisition of Certus Oil & Gas ("Acquisition") for total consideration of \$108.9 million on December 13, 2023, expanding Pine Cliff's operations in Central Alberta and providing a new core area; and
- Entered into a three-year secured term debt facility in the amount of \$56.3 million to fund a portion of the Acquisition.

SELECTED ANNUAL FINANCIAL INFORMATION

	Year ended December 31,		
	2023	2022	2021
(\$000s, unless otherwise indicated)			
FINANCIAL¹			
Commodity sales (before royalties)	188,852	306,208	163,985
Commodity sales (net of royalties)	168,889	270,448	146,976
Cash provided by operating activities	66,627	150,452	49,483
Adjusted funds flow²	58,687	163,206	59,106
Per share – Basic (\$/share)	0.17	0.47	0.18
Per share – Diluted (\$/share)	0.16	0.45	0.17
Net income	9,121	108,939	81,421
Per share – Basic (\$/share)	0.03	0.31	0.24
Per share – Diluted (\$/share)	0.03	0.30	0.23
Total assets	477,072	375,053	378,997
Total liabilities	377,144	241,325	333,579
Capital expenditures	20,966	29,077	21,568
Acquisitions	109,326	1,119	23,147
Dispositions	(379)	(2,649)	(320)
Dividends	46,015	23,574	-
Per share – Basic (\$/share)	0.13	0.07	-
Per share – Diluted (\$/share)	0.13	0.07	-
Positive net cash (net debt)²	(71,679)	55,913	(49,652)
Total non-current financial liabilities³	48,578	2,296	44,521
Weighted average common shares outstanding (000s) - Basic	354,057	346,443	337,254
Weighted average common shares outstanding (000s) - Diluted	359,375	360,033	348,285
OPERATIONS			
Production			
Natural gas (Mcf/d)	107,471	109,801	100,655
NGLs (Bbl/d)	1,493	1,459	1,250
Crude oil (Bbl/d)	1,255	1,256	419
Total (Boe/d)	20,660	21,015	18,445
Total (Mcfe/d)	123,960	126,090	110,670
Realized commodity sales prices			
Natural gas (\$/Mcf)	2.99	5.43	3.55
NGLs (\$/Boe)	53.51	72.38	48.65
Crude oil (\$/Bbl)	92.29	108.79	73.47
Total (\$/Boe)	25.04	39.92	24.36
Netback (\$/Boe)			
Operating netback ²	8.57	22.41	10.36
Corporate netback ²	7.77	21.28	8.78
Netback (\$/Mcfe)			
Operating netback ²	1.43	3.74	1.73
Corporate netback ²	1.30	3.55	1.46

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

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

³ Includes lease liabilities, Term Loan, as defined herein, Demand Loan, as defined herein, term debt, due to related party and promissory notes.

	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
(\$000s, unless otherwise indicated)				
FINANCIAL				
Commodity sales (before royalty expense)	45,465	76,928	188,852	306,208
Cash provided by operating activities	16,559	33,791	66,627	150,452
Adjusted funds flow¹	9,700	40,200	58,687	163,206
Per share – Basic (\$/share) ¹	0.03	0.11	0.17	0.47
Per share – Diluted (\$/share) ¹	0.03	0.11	0.16	0.45
Net income	841	24,685	9,121	108,939
Per share – Basic (\$/share)	0.00	0.07	0.03	0.31
Per share – Diluted (\$/share)	0.00	0.07	0.03	0.30
Capital expenditures	3,616	6,637	20,966	29,077
Acquisitions	109,014	528	109,326	1,119
Dividends	11,567	10,797	46,015	23,574
Per share – Basic (\$/share)	0.03	0.03	0.13	0.07
Per share – Diluted (\$/share)	0.03	0.03	0.13	0.07
Positive net cash (net debt)¹	(71,679) ¹	55,913	(71,679)	55,913
Weighted-average common shares outstanding (000s)				
Basic	355,969	350,216	354,057	346,443
Diluted	359,262	360,322	359,375	360,033
OPERATIONS				
Production				
Natural gas (Mcf/d)	110,499	109,307	107,471	109,801
NGLs (Bbl/d)	1,690	1,463	1,493	1,459
Crude oil (Bbl/d)	1,347	1,360	1,255	1,256
Total (Boe/d)	21,454	21,041	20,660	21,015
Realized commodity sales prices				
Natural gas (\$/Mcf)	2.59	5.53	2.99	5.43
NGLs (\$/Boe)	48.51	65.91	53.51	72.38
Crude oil (\$/Bbl)	93.15	99.13	92.29	108.79
Combined (\$/Boe)	23.03	39.74	25.04	39.92
Netback (\$/Boe)				
Commodity sales	23.03	39.74	25.04	39.92
Processing and gathering	0.75	0.54	0.68	0.49
Royalty expense	(2.63)	(4.42)	(2.65)	(4.66)
Transportation expenses	(1.45)	(1.42)	(1.43)	(1.41)
Operating expenses	(13.66)	(13.38)	(13.07)	(11.93)
Operating netback (\$/Boe) ¹	6.04	21.06	8.57	22.41
General and administrative expenses	(1.03)	(0.41)	(0.99)	(0.89)
Interest and bank charges	(0.26)	(0.06)	(0.10)	(0.31)
Interest income	0.16	0.17	0.29	0.07
Corporate netback (\$/Boe) ¹	4.91	20.76	7.77	21.28
Operating netback (\$ per Mcfe) ¹	1.01	3.51	1.43	3.74
Corporate netback (\$ per Mcfe) ¹	0.82	3.46	1.30	3.55

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

SENSITIVITIES

Pine Cliff's results are sensitive to changes in the business environment in which it operates. The following chart shows the Company's sensitivity to key commodity price variables. The sensitivity calculations are performed independently showing the effect of the change of one variable; all other variables are held constant.

Business environment sensitivities	Impact on annual adjusted funds flow ^{1,2}		
	Change	\$000s	\$ per share ⁴
Realized natural gas price ³	\$0.10	3,491	0.01
Realized NGLs price ³	\$1.00	485	0.00
Realized crude oil price ³	\$1.00	408	0.00

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

² This analysis does not adjust for changes in working capital and uses corporate royalty rates from the year ended December 31, 2023.

³ Pine Cliff has prepared this analysis using its Q4 2023 production volumes annualized for twelve months.

⁴ Based on the Q4 2023 basic weighted average shares outstanding.

BENCHMARK PRICES

	Three months ended December 31,			Year ended December 31,		
	2023	2022	% Change	2023	2022	% Change
Natural gas						
NYMEX (US\$/MMBtu) ¹	2.88	6.26	(54)	2.79	6.64	(58)
AECO Daily 5A (C\$/Mcf) ²	2.30	5.09	(55)	2.63	5.29	(50)
Crude oil						
WTI (US\$/Bbl)	78.32	82.64	(5)	77.62	94.23	(18)
Edmonton Light (C\$/Bbl)	99.79	110.13	(9)	100.58	120.10	(16)
Foreign exchange						
US\$/C\$	1.362	1.358	-	1.350	1.303	4

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

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

Quarterly Benchmark Prices

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

	Q4-2023	Q3-2023	Q2-2023	Q1-2023	Q4-2022	Q3-2022	Q2-2022	Q1-2022
Natural gas								
NYMEX (US\$/MMBtu) ¹	2.88	2.55	2.30	3.42	6.26	8.20	7.17	4.95
AECO Daily 5A (C\$/Mcf) ²	2.30	2.58	2.44	3.21	5.09	4.14	7.20	4.72
Pine Cliff realized natural gas price (C\$/Mcf)	2.59	2.88	2.79	3.74	5.53	4.85	6.45	4.88
Crude oil								
WTI (US\$/Bbl)	78.32	82.26	73.78	76.13	82.64	91.56	108.41	94.29
Edmonton Light (C\$/Bbl)	99.79	107.85	95.33	99.34	110.13	116.79	137.84	115.66
Pine Cliff realized NGLs price (C\$/Bbl)	48.51	52.69	49.39	64.19	65.91	72.02	81.73	69.72
Pine Cliff realized Oil price (C\$/Bbl)	93.15	96.44	86.27	92.44	99.13	103.56	126.23	108.68
Foreign exchange								
US\$/C\$	1.362	1.341	1.343	1.352	1.358	1.306	1.277	1.266

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

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

In the three months and year ended December 31, 2023, the AECO daily benchmark was 55% and 50% lower compared to the same periods of 2022. The changes for the periods are mainly due to an increase in natural gas storage levels resulting from supply and demand factors, including warmer than normal winters throughout North America limiting demand, all while natural gas production in North America was increasing in anticipation of additional liquefied natural gas (“LNG”) export capacity from North America. The price realized by the Company for natural gas production in Western Canada is primarily influenced by the Alberta price hub AECO, while diversification projects to delivery points such as Dawn in Ontario and TransGas into Saskatchewan have created diversification pricing options to complement AECO pricing.

The average benchmarks for WTI crude decreased by 5% and 18%, for the three months and year ended December 31, 2023, as compared to the same periods in 2022, primarily due to supply and demand factors including global economic conditions and geopolitical factors.

Agreements made between the Organization of Petroleum Exporting Countries (“OPEC”) and other crude oil producing countries globally have brought the supply of global oil production into approximate balance with demand. While crude oil prices reflect current supply and demand dynamics, future crude oil prices remain volatile as future crude oil prices reflect the uncertainty that global economic conditions and geopolitical factors will have on crude oil demand.

Canadian crude prices are based upon refinery postings at Edmonton, Alberta and are linked to WTI through transportation tariffs to common markets and the foreign exchange rate.

The supply and demand dynamics for NGLs components such as ethane, propane, butane, and condensate impact the relationship between the price of NGLs and the price of crude oil. The fluctuations in NGLs price normally correlate with changes in the Edmonton Light oil price due to the Company’s miscellaneous NGL components.

SALES VOLUMES

Total sales volumes by product	Three months ended December 31,			Year ended December 31,		
	2023	2022	% Change	2023	2022	% Change
Natural gas (Mcf)	10,166,440	10,056,224	1	39,229,102	40,075,125	(2)
NGLs (Bbl)	155,479	134,597	16	544,764	532,567	2
Crude oil (Bbl)	123,900	125,166	(1)	458,015	458,539	-
Total Boe	1,973,786	1,935,800	2	7,540,963	7,670,294	(2)
Total Mcfe	11,842,714	11,614,802	2	45,245,776	46,021,761	(2)
Natural gas weighting	86%	87%	(1)	87%	87%	-

Average daily sales volumes by product	Three months ended December 31,			Year ended December 31,		
	2023	2022	% Change	2023	2022	% Change
Natural gas (Mcf/d)	110,499	109,307	1	107,471	109,801	(2)
NGLs (Bbl/d)	1,690	1,463	16	1,493	1,459	2
Crude oil (Bbl/d)	1,347	1,360	(1)	1,255	1,256	-
Total (Boe/d)	21,454	21,041	2	20,660	21,015	(2)
Total (Mcfe/d)	128,724	126,246	2	123,960	126,090	(2)

Average daily sales volumes by area	Three months ended December 31,			Year ended December 31,		
	2023	2022	% Change	2023	2022	% Change
Central (Boe/d)	13,158	12,269	7	12,155	12,124	-
Southern (Boe/d)	6,523	6,733	(3)	6,573	6,853	(4)
Edson (Boe/d)	1,773	2,039	(13)	1,932	2,038	(5)
Total (Boe/d)	21,454	21,041	2	20,660	21,015	(2)

Pine Cliff’s sales volumes increased by 2% to 21,454 Boe/d (128,724 Mcfe/d) for the three months ended December 31, 2023, as compared to the same period in 2022. The increase in production is due primarily from the Acquisition, slightly offset by natural production declines. Pine Cliff’s sales volumes decreased by 2% to 20,660 Boe/d (123,960 Mcfe/d) for the year ended December 31, 2023, as compared to the same period in 2022. The decrease in production is due primarily from natural production declines.

Pine Cliff is projecting 2024 production volumes of 24,000 – 25,000 Boe/d (144,000 – 150,000 Mcfe/d), weighted approximately 79% towards natural gas.

COMMODITY SALES

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2023	2022	% Change	2023	2022	% Change
Natural gas	26,380	55,650	(53)	117,432	217,772	(46)
NGLs	7,543	8,871	(15)	29,149	38,549	(24)
Crude oil	11,542	12,407	(7)	42,271	49,887	(15)
Total commodity sales	45,465	76,928	(41)	188,852	306,208	(38)
% of revenue from natural gas sales	58%	72%	(14)	62%	71%	(9)

Realized Prices

\$ per unit	Three months ended December 31,			Year ended December 31,		
	2023	2022	% Change	2023	2022	% Change
Natural gas (\$/Mcf)	2.59	5.53	(53)	2.99	5.43	(45)
NGLs (\$/Bbl)	48.51	65.91	(26)	53.51	72.38	(26)
Crude oil (\$/Bbl)	93.15	99.13	(6)	92.29	108.79	(15)
Total (\$/Boe)	23.03	39.74	(42)	25.04	39.92	(37)
Total (\$/Mcfe)	3.84	6.62	(42)	4.17	6.65	(37)

Commodity sales in the three months ended December 31, 2023 of \$45.5 million decreased 41% from \$76.9 million in the corresponding period in the prior year. The quarterly decrease of \$31.5 million consists of \$33.0 million attributed to lower realized commodity prices, slightly offset by \$1.5 million attributed to higher production volumes. Commodity sales in the year ended December 31, 2023 of \$188.9 million decreased 38% from \$306.2 million during the year ended December 31, 2022. The year-to-date decrease of \$117.4 million consists of \$112.2 million attributed to lower realized commodity prices and \$5.2 million attributed to lower production volumes.

Pine Cliff's realized natural gas price was \$2.59 per Mcf in the three months ended December 31, 2023, 53% lower than the \$5.53 per Mcf realized in the corresponding period of the prior year. Pine Cliff's realized natural gas price was \$2.99 per Mcf during the year ended December 31, 2023, 45% lower than the \$5.43 per Mcf realized in the corresponding period of the prior year. Pine Cliff's realized natural gas price was 13% and 14% higher than the AECO 5A benchmarks for the three months and year ended December 31, 2023 respectively, both a result of Pine Cliff's marketing diversification programs and fixed price physical natural gas sales contracts.

For the three months and year ended December 31, 2023, Pine Cliff's realized NGLs price was \$48.51 per Bbl and \$53.51 per Bbl, compared to \$65.91 per Bbl and \$72.38 per Bbl, in the corresponding periods of the prior year. For the three months and year ended December 31, 2023, Pine Cliff's realized oil price was \$93.15 per Bbl and \$92.29 per Bbl, compared to \$99.13 per Bbl and \$108.79 per Bbl in the corresponding periods of the prior year. Pine Cliff's realized crude oil prices in the three months and year ended December 31, 2023 were 93% and 92% of Edmonton Light compared to 90% and 91% in the corresponding periods of the prior year. Pine Cliff's realized NGLs prices in the three months and year ended December 31, 2023 were 49% and 53% of Edmonton Light compared to 60% in the corresponding periods of the prior year. This decrease in crude oil and NGLs pricing in the three months and year ended December 31, 2023, compared to the corresponding periods of 2023, is due primarily to global economic and geopolitical factors and their impact on global oil demand.

ROYALTY EXPENSE

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2023	2022	% Change	2023	2022	% Change
Total royalty expense	5,196	8,554	(39)	19,963	35,760	(44)
\$ per Boe	2.63	4.42	(40)	2.65	4.66	(43)
\$ per Mcfe	0.44	0.74	(40)	0.44	0.78	(43)
Royalty expense as a % of commodity sales	11%	11%	-	11%	12%	(8)

For the three months ended December 31, 2023, total royalty expense decreased by 39% to \$5.2 million from \$8.6 million in the corresponding period of the prior year. Royalty expense as a percentage of commodity sales were 11% in the three months ended December 31, 2023, unchanged from the corresponding period of the prior year.

For the year ended December 31, 2023, total royalty expense decreased by 44% to \$20.0 million from \$35.8 million in the corresponding period of the prior year. Royalty expense as a percentage of commodity sales decreased to 11% during the year ended December 31, 2023, compared to 12% in the corresponding period of the prior year. The decrease in royalty expense as a percentage of commodity sales for the year ended December 31, 2023 is mainly due to lower natural gas, crude oil and NGL commodity pricing.

Pine Cliff anticipates royalty expenses to average between 10.5% - 11.5% of commodity sales in 2024.

TRANSPORTATION COSTS

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2023	2022	% Change	2023	2022	% Change
Total transportation costs	2,866	2,743	4	10,810	10,806	-
\$ per Boe	1.45	1.42	2	1.43	1.41	1
\$ per Mcfe	0.24	0.24	2	0.24	0.24	1

For the three months and year ended December 31, 2023, total transportation costs increased by 4% to \$2.9 million from \$2.7 million and was unchanged at \$10.8 million for the twelve months ended December 31, 2023. The higher transportation expenses in the fourth quarter of 2023 compared to the corresponding period in 2022 is due to the Company diverting additional volumes to markets with higher pricing points than AECO.

Pine Cliff anticipates transportation expenses to average between \$1.40 - \$1.50 per Boe (\$0.23 - \$0.25 per Mcfe) in 2024.

NET OPERATING EXPENSES

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2023	2022	% Change	2023	2022	% Change
Operating expenses	26,956	25,898	4	98,535	91,490	8
Less: processing and gathering income	(1,481)	(1,046)	42	(5,159)	(3,780)	36
Net operating expenses	25,475	24,852	3	93,376	87,710	6
\$ per Boe	12.91	12.84	1	12.39	11.44	8
\$ per Mcfe	2.15	2.14	1	2.07	1.91	8

Net operating expenses increased to \$25.5 million for the three months ended December 31, 2023, as compared to \$24.9 million in the corresponding period of the prior year, primarily as a result of an increase in fixed operating expenses, including municipal property tax rates, regulatory fees and inflationary pressures. Net operating expenses increased to \$93.4 million for the year ended December 31, 2023, as compared to \$87.7 million for the prior year, primarily as a result of an increase in fixed operating expenses.

On a per Boe basis, operating costs increased to \$12.91 per Boe and \$12.39 per Boe for the three months and year ended December 31, 2023 compared to \$12.84 per Boe and \$11.44 per Boe in the corresponding periods of 2022.

Pine Cliff anticipates net operating expenses to average between \$12.00 - \$13.00 per Boe (\$2.00 - \$2.17 per Mcfe) in 2024.

GENERAL AND ADMINISTRATIVE EXPENSES (“G&A”)

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2023	2022	% Change	2023	2022	% Change
Gross G&A	2,801	1,853	51	10,920	10,183	7
Less: overhead recoveries	(765)	(1,060)	28	(3,425)	(3,364)	(2)
Total G&A expenses	2,036	793	157	7,495	6,819	10
\$ per Boe	1.03	0.41	151	0.99	0.89	11
\$ per Mcfe	0.17	0.07	151	0.17	0.15	11

G&A increased by 157% to \$2.0 million in the three months ended December 31, 2023, as compared to \$0.8 million in the corresponding period of the prior year. The increase in G&A during the three months ended December 31, 2023 is primarily a result of an increase in the provision for compensation costs pursuant to the Company's short term incentive bonus program in the comparable quarter in 2022. G&A increased to \$7.5 million for the year ended December 31, 2023 as compared to \$6.8 million in the corresponding period of the prior year and reflects a decrease in bad debt recoveries and inflationary increases.

On a per Boe basis, G&A for the three months ended December 31, 2023, increased 151% to \$1.03 per Boe from \$0.41 per Boe in the corresponding period of the prior year, primarily due to a decrease in the provision for compensation costs in the comparable quarter. On a per Boe basis, G&A for the year ended December 31, 2023 increased 11% to \$0.99 per Boe from \$0.89 per Boe in the prior year.

Pine Cliff anticipates G&A expenses to average between \$1.25 - \$1.35 per Boe (\$0.21 - \$0.23 per Mcfe) in 2024.

SHARE-BASED COMPENSATION

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2023	2022	% Change	2023	2022	% Change
Total share-based compensation	844	725	16	2,856	2,456	16
\$ per Boe	0.43	0.37	16	0.38	0.32	19
\$ per Mcfe	0.07	0.06	16	0.06	0.05	19

Share based compensation increased by 16% for the three months and year ended December 31, compared to the corresponding period of 2022 primarily as a result of the increase in stock options granted in 2023 compared to 2022. Stock options are granted to certain officers, directors, and employees with the number, term and vesting period of the options granted being determined at the discretion of the Company's board of directors to a maximum of 10% of the outstanding Common Shares.

During the year ended December 31, 2023, Pine Cliff granted 11,603,180 stock options to purchase Common Shares at a weighted average exercise price of \$1.32 (December 31, 2022 - 7,161,600 at an average exercise price of \$1.89). As at December 31, 2023, the Company had 20,704,822 stock options outstanding, representing 5.8% of Common Shares outstanding (December 31, 2022 - 18,323,519 representing 5.2% of Common Shares outstanding).

DEPLETION, DEPRECIATION, AND PROPERTY, PLANT AND EQUIPMENT IMPAIRMENT

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2023	2022	% Change	2023	2022	% Change
Total depletion and depreciation	12,820	10,835	18	43,928	44,074	-
\$ per Boe	6.50	5.60	16	5.83	5.75	1
\$ per Mcfe	1.08	0.93	16	0.97	0.96	1
Impairment reversal	-	-	-	-	(4,500)	(100)
Total depletion, depreciation, and impairment	12,820	10,835	18	43,928	39,574	11
\$ per Boe	6.50	5.60	16	5.83	5.16	13
\$ per Mcfe	1.08	0.93	16	0.97	0.86	13

Depletion and depreciation expense for the three months and year ended December 31, 2023, totaled \$12.8 million and \$43.9 million compared to \$10.8 million and \$44.1 million in the corresponding periods of the prior year. The increase for the year is a result of a higher depletable base and changes in reserves volumes. Depletion and depreciation per Boe will fluctuate from one period to the next depending on changes in reserves, the amount and success of capital expenditures and the amount of future development costs. Depletion is calculated using total proved and probable reserves and reserves estimates are subject to revision.

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

As at December 31, 2023, the Company had three cash generating units (“CGU’s”) being the Southern CGU, Central CGU and Edson CGU. In accordance with IFRS, an impairment test is performed if the Company identifies indicators of impairment at the end of a reporting period. At December 31, 2023, there were no indicators of impairment or additional impairment reversals for PP&E assets and therefore an impairment test was not required.

Exploration and Evaluation Assets (“E&E”) Impairment Assessment

During the three months and year ended December 31, 2023, the Company determined that the E&E mining assets were not commercially viable and recognized the expense in the statements of comprehensive income.

FINANCE EXPENSES

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2023	2022	% Change	2023	2022	% Change
Interest expense and bank charges	515	112	360	733	2,407	(70)
\$ per Boe	0.26	0.06	333	0.10	0.31	(68)
\$ per Mcfe	0.04	0.01	333	0.02	0.05	(68)
Non cash:						
Accretion on decommissioning provision	1,815	1,644	10	6,874	6,157	12
Accretion on term loan	23	-	100	23	-	100
Accretion on promissory notes	-	-	-	-	97	(100)
Total finance expenses	2,353	1,756	34	7,630	8,661	(12)
\$ per Boe	1.19	0.91	31	1.01	1.13	(11)
\$ per Mcfe	0.20	0.15	31	0.17	0.19	(11)

Finance expenses increased by 34% to \$2.4 million for the three months ended December 31, 2023, as compared to \$1.8 million in the corresponding period of the prior year and decreased by 12% to \$7.6 million for the year ended December 31, 2023, as compared to \$8.7 million in the corresponding period of the prior year. Please refer to the “DEBT, LIQUIDITY AND CAPITAL RESOURCES” section for additional information.

DEFERRED INCOME TAX

The Company has recorded a deferred tax asset of \$43.6 million (December 31, 2022 - \$37.0 million) related to the benefit of tax pools, as it is probable that they will be recovered.

The Company had the following tax pools, including non-capital loss carry-forwards, at December 31, 2023:

Category of tax pool (\$000s)	Rate of Utilization (%)	As at December 31, 2023
Undepreciated capital costs	7 - 55	38,571
Canadian oil and gas property expenditures	10	188,942
Canadian development expenditures	30	41,274
Canadian exploration expenditures	100	167
Share issue costs	20	4,747
Non-capital losses carried forward ¹	100	108,626
Capital losses carried forward ²		5,624
Total		387,951

¹ Non-capital losses expire between the years 2031 and 2040.

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

CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS

(\$000s)	Year ended December 31,	
	2023	2022
Exploration and evaluation	34	63
Property, plant and equipment	20,932	29,014
Capital expenditures	20,966	29,077
Acquisitions	109,326	1,119
Dispositions	(379)	(2,649)
Total	129,913	27,547

Capital expenditures on PP&E totaled \$21.0 million, including development capital of \$11.8 million primarily to drill one gross (0.3 net) Caroline oil well, drill and tie-in three gross (2.1 net) Pekisko oil wells, drill and complete one gross (0.2 net) non-operated conventional natural gas well in Edson, optimization and maintenance capital of \$9.0 million and office capital expenditures of \$0.2 million.

Acquisition

On December 13, 2023, the Company acquired Certus Oil & Gas Inc. (“**Certus**”) for total consideration of \$108.9 million (the “**Acquisition**”). This amount included \$72.3 million paid to Certus shareholders, \$33.0 million to repay Certus term debt and settle financial derivatives, the assumption of a working capital deficiency of \$2.6 million and payment of the Company’s closing costs of \$1.0 million. As part of the acquisition the Company acquired decommissioning obligations of \$26.5 million. As a result of completing the Acquisition, Certus became a wholly owned subsidiary of Pine Cliff and was subsequently amalgamated with Pine Cliff on January 1, 2024.

The Acquisition was funded from existing cash resources and the Term Loan. The Company applied the optional concentration test under IFRS 3, which resulted in the Acquisition being accounted for as an asset acquisition. The acquired assets are included in the Central CGU.

DECOMMISSIONING PROVISION

The total current and long-term decommissioning provision of \$271.2 million was estimated by management based on the Company’s working interest and estimated costs to remediate, reclaim and abandon its wells, pipelines, and facilities and estimated timing of the costs to be incurred in future periods.

At December 31, 2023, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$327.3 million (December 31, 2022 - \$277.3 million). The discounted and inflated amount required to settle the decommissioning liabilities of \$271.2 million has been calculated assuming a 2.00% inflation rate (December 31, 2022 - 2.00%) and discounted using an average risk-free interest rate of 3.08% (December 31, 2022 - 3.33%). These obligations are currently expected to be settled based on the useful lives of the underlying assets, some of which extend beyond 50 years into the future.

DEBT, LIQUIDITY AND CAPITAL RESOURCES**Term Loan**

On December 13, 2023, the Company entered into a three-year first lien, non-revolving term loan facility (“**Term Loan**”). The amounts borrowed under the Term Loan bear interest at an annual interest rate equal to Canadian Prime Lending Rate (the “**Prime Rate**”) plus 3.65%, where Prime Rate cannot be less than 6.95%. The Company is required to make mandatory principal quarterly repayments equal to \$2.11 million, payable on the first banking day of January, April, July and October of each calendar year, commencing April 1, 2024. The Term Loan has a maturity date of December 13, 2026 on which date the remaining outstanding principal balance is to be paid.

The Company shall not have the right to make an optional prepayment of the outstanding principal balance until after December 12, 2025, which shall include an amount of 1.5% of the principal amount prepaid, except for the following one-time optional prepayments:

- (i) as a one-time option on December 12, 2024, make a prepayment of a portion (but not all) of the outstanding principal amount plus an amount of 4% of the principal amount prepaid; provided that the portion of the outstanding principal balance to be prepaid: (A) is not less than 15% and (B) not greater than 25%, in each case, of the outstanding principal balance under the Term Loan immediately prior to such partial prepayment;
- (ii) as a one-time option on March 12, 2025, make a prepayment of all or any portion of the outstanding principal balance plus an amount of 4% of the principal amount prepaid; provided that such outstanding principal balance to be prepaid is not less than 15% of the outstanding principal balance under the Term Loan immediately prior to such partial prepayment; and
- (iii) as a one-time option on June 12, 2025, make a prepayment of all or any portion of the outstanding principal balance plus an amount of 3% of the principal amount prepaid; provided that such outstanding principal balance to be prepaid is not less than 15% of the outstanding principal balance under the Term Loan immediately prior to such partial prepayment.

The amount drawn under the Term Loan at December 31, 2023 was \$56.3 million (December 31, 2022 - \$nil). Based on the calculated fair value of the Term Loan as at December 31, 2023, the effective interest rate was determined to be 12.9% using the effective interest method. The effective interest rate was calculated by discounting future payments of interest and principal with the residual value allocated to issue costs of \$1.3 million. The value of the loan will accrete up to the principal balance at maturity. Interest accrued at December 31, 2023 was \$0.3 million (December 31, 2022 - \$nil). The borrowings were used to fund the Acquisition.

Security for the Term Loan consists of floating demand debentures totaling \$110.0 million (December 31, 2022 - \$nil) over all of the Company's assets and a general security agreement with first priority ranking over all personal and real property.

The Company is subject to certain financial covenants under its Term Loan as follows:

- Consolidated Debt, as defined herein, to EBITDA, as defined herein, ratio shall not exceed 1.5:1.0; and
- Asset Coverage ratio, as defined herein, of not less than 1.5:1.0.

Consolidated Debt is defined as all indebtedness for borrowed money, including issued and drawn letters of credit or letters of guarantee.

EBITDA is defined as net income for the trailing twelve-month period excluding finance costs, provision for current and deferred income tax, depletion and depreciation, share option compensation and gain or loss on sale of assets and impairment of assets, less cash taxes paid and decommissioning expenses incurred during the period.

Asset Coverage ratio is defined as the proved developed producing reserves of the Company (before income tax, discounted at 10%), as evaluated by an independent third-party engineering report and evaluated on strip commodity pricing, divided by the consolidated borrowings of the Company at December 31 of the calendar year. The ratio is calculated and revaluated for strip pricing at June 30 period end, based on an internally prepared engineering report.

The Company was in compliance with its Term Loan covenants at December 31, 2023.

Demand Loan

The Company has a demand loan ("**Demand Loan**") of \$8.0 million with a Canadian chartered bank, of which \$4.0 million was drawn at December 31, 2023 (December 31, 2022 - \$nil). Borrowings bear interest at the bank's prime lending rate plus 2.0%. Letters of credit issued under the Demand Loan are supported by a performance guarantee from Export Development Canada for an amount up to \$6.7 million and incur an issuance fee of 2.38%. At December 31, 2023, the Company had issued \$0.8 million in letters of credit (December 31, 2022 - \$1.7 million).

The Demand Loan is secured by a general security agreement over certain tangible field facilities of the Company.

The Company is subject to the following financial covenant under its Demand Loan:

Senior Debt, as defined herein, to Net EBITDA, as defined herein, ratio shall not exceed 3.0:1.0 at the end of each quarter-end.

Senior Debt is defined as any secured indebtedness for borrowed money. Net EBITDA shall mean net income excluding finance costs, provision for current and deferred income tax, depletion and depreciation, share option compensation and gain or loss on sale of assets and impairment of assets, less cash taxes and dividends paid, on a trailing twelve-month basis.

The Company was in compliance with its Demand Loan covenant at December 31, 2023.

Capital Resources

Pine Cliff's approved capital budget for 2024 is \$17.5 million, including \$6.5 million in development capital, \$3.5 million on facility optimization and maintenance capital and \$7.5 million on abandonments and reclamation. This capital budget does not include acquisitions and dispositions. Pine Cliff anticipates funding its capital budget from adjusted funds flow. Budgeted future capital expenditures related to drilling are largely discretionary in nature and Pine Cliff is able to adjust the nature, amount and timing of most planned capital expenditures to changes in the business and commodity price environment.

Liquidity

As at December 31, 2023, the Company's capital comprises shareholders' equity, Term Loan and working capital, including Demand Loan. Pine Cliff manages the capital structure and adjusts considering economic conditions and the risks of the underlying assets. The Company currently has a working capital deficiency of \$33.3 million. The working capital was negatively impacted at December 31, 2023 with the closing of Acquisition, which included a higher working capital deficiency than expected, primarily due to weaker natural gas and crude oil prices. Pine Cliff has and will continue to manage its working capital needs through its physical diversification program, adjusting timing of capital expenditures, executing asset dispositions, managing dividend levels and issuing equity when practical. On March 4, 2024, the Company reduced its regular monthly dividend to \$0.005 per common share.

Forecasted commodity prices provides for supportive funds flow in 2024 and beyond to fund the Company's capital expenditure budget and a sustainable dividend.

The Company defines and computes its positive net cash/net debt as follows:

(\$000s)	December 31, 2023	December 31, 2022	\$ Change
Cash	-	54,428	(54,428)
Trade and other receivables	23,657	27,187	(3,530)
Prepaid expenses and deposits	7,321	3,767	3,554
Investments	208	171	37
Less:			
Trade and other payables	(43,840)	(29,640)	(14,200)
Term loan	(55,023)	-	(55,023)
Demand loan	(4,002)	-	(4,002)
Positive net cash (net debt) ¹	(71,679)	55,913	(127,592)

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

Share Capital

Share capital	March 4, 2024	December 31, 2023	December 31, 2022
Common Shares	356,305,269	356,298,069	350,908,570
Stock options	21,258,622	20,704,822	18,323,519

COMMITMENTS AND CONTINGENCIES

As at December 31, 2023, the Company has the following commitments and other contractual obligations:

	2024	2025	2026	2027	2028	Thereafter
(\$000s)						
Accounts payable and accrued liabilities	43,840	-	-	-	-	-
Demand loan	4,002	-	-	-	-	-
Term loan ¹	14,216	13,327	44,605	-	-	-
Lease obligations ¹	1,252	1,082	819	229	7	-
Transportation ²	10,330	8,047	6,924	5,235	1,254	748
Total commitments and contingencies	73,640	22,456	52,348	5,464	1,261	748

¹ These amounts include the notional principal and interest payments.

² Firm transportation agreements.

SUBSEQUENT EVENTS**Dividends**

On January 31, 2024 and February 29, 2024, the Company paid a monthly dividend of \$0.01083 per Common Share.

On March 4, 2024, the Company declared a monthly dividend of \$0.005 per Common Share. The dividend is payable March 28, 2024, to all shareholders of record on March 15, 2024.

QUARTERLY TRENDS AND SELECTED FINANCIAL INFORMATION

(\$000s, unless otherwise indicated)	Q4-2023	Q3-2023	Q2-2023	Q1-2023	Q4-2022	Q3-2022	Q2-2022	Q1-2022
FINANCIAL								
Total revenue	42,073	45,831	39,680	48,676	69,746	62,778	82,755	59,449
Cash provided by operating activities	16,559	15,238	12,504	22,326	33,791	42,258	50,532	23,871
Adjusted funds flow ¹	9,700	17,123	12,040	19,824	40,200	34,883	55,816	32,307
Per share – Basic (\$/share)	0.03	0.05	0.03	0.06	0.11	0.10	0.16	0.09
Per share – Diluted (\$/share)	0.03	0.05	0.03	0.06	0.11	0.10	0.15	0.09
Net income (loss)	841	4,237	(942)	4,985	24,685	18,629	50,192	15,433
Per share – Basic (\$/share)	0.00	0.01	(0.00)	0.01	0.07	0.05	0.15	0.05
Per share – Diluted (\$/share)	0.00	0.01	(0.00)	0.01	0.07	0.05	0.14	0.04
Capital expenditures	3,616	4,715	8,193	4,442	6,637	12,591	4,282	5,567
Dividends	11,567	11,557	11,478	11,413	10,797	9,888	2,889	-
Per share – Basic (\$/share)	0.03	0.03	0.03	0.03	0.03	0.03	0.01	-
Per share – Diluted (\$/share)	0.03	0.03	0.03	0.03	0.03	0.03	0.01	-
Acquisitions	109,014	-	312	-	528	-	319	272
Positive net cash (net debt) ¹	(71,679)	46,502	49,301	58,139	55,913	35,068	22,496	(24,752)
Weighted average common shares outstanding (000s):								
Basic	355,969	355,710	353,216	351,263	350,216	349,187	345,402	340,835
Diluted	359,262	359,262	353,216	359,675	360,322	360,654	360,703	349,304
PRODUCTION VOLUMES								
Natural gas (Mcf/d)	110,499	108,138	106,024	105,176	109,307	109,936	111,951	107,955
NGLs (Bbl/d)	1,690	1,489	1,343	1,446	1,463	1,547	1,475	1,347
Crude oil (Bbl/d)	1,347	1,383	1,184	1,101	1,360	1,406	1,197	1,057
Average sales volumes (Boe/d)	21,454	20,895	20,198	20,076	21,041	21,276	21,331	20,397
Average sales volumes (Mcfe/d)	128,724	125,370	121,188	120,456	126,246	127,656	127,986	122,382
PRICES AND NETBACKS								
Total commodity sales (\$/Boe)	23.03	25.06	23.00	29.30	39.74	37.13	46.59	36.05
Operating netback (\$/Boe) ¹	6.04	9.65	7.11	11.72	21.06	18.66	30.40	19.41
Corporate netback (\$/Boe) ¹	4.91	8.91	6.55	10.99	20.76	17.82	28.76	17.60
Total commodity sales (\$/Mcfe)	3.84	4.18	3.83	4.88	6.62	6.19	7.77	6.01
Operating netback (\$/Mcfe) ¹	1.01	1.61	1.19	1.95	3.51	3.11	5.07	3.24
Corporate netback (\$/Mcfe) ¹	0.82	1.49	1.09	1.83	3.46	2.97	4.79	2.93

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

Over the past eight quarters, Pine Cliff's revenues, cash provided by operating activities, adjusted funds flow, and net income (loss) have fluctuated primarily due to changes in commodity prices and sales volumes. Net income (loss) also fluctuate with non-cash expenditures, including depletion, depreciation and impairments. Selected highlights for the past eight quarters are consistent with those disclosed in the Annual MD&A, except as described below.

- Average sales volumes decreased in the first quarter of 2023 compared to the fourth quarter of 2022 due primarily to natural production declines and weather-related factors. Average sales volumes increased in the second quarter of 2023 compared to the first quarter of 2023 due primarily to four gross (2.8 net) Peksiko wells coming on production prior to the end of the quarter. Average sales volumes increased in the third quarter of 2023 compared to the second quarter of 2023 due primarily to the wells that came on production in Q2-2023 producing for the full quarter. Average sales volumes increased in the fourth quarter of 2023 compared to the third quarter of 2023 due primarily to sales volumes added from the Acquisition.

- Adjusted funds flow decreased in the first quarter of 2023 compared to the fourth quarter of 2022 due primarily to the decrease in commodity pricing and sales volumes. Adjusted funds flow decreased in the second quarter of 2023 compared to the first quarter of 2023 due primarily to a decrease in commodity pricing. Adjusted funds flow increased in the third quarter of 2023 compared to the second quarter of 2023 due primarily to an increase in commodity pricing. Adjusted funds flow decreased in the fourth quarter of 2023 compared to the third quarter of 2023 due primarily to a decrease in commodity pricing, slightly offset by higher sales volumes.
- Total revenues decreased in the first quarter of 2023 compared to the fourth quarter of 2022 due primarily to the decrease in commodity pricing. Total revenues decreased in the second quarter of 2023 compared to the first quarter of 2023 due primarily to the decrease in commodity pricing. Total revenues increased in the third quarter of 2023 compared to the second quarter of 2023 due primarily to the increase in commodity pricing. Total revenues decreased in the fourth quarter of 2023 compared to the third quarter of 2023 due primarily to a decrease in commodity pricing, slightly offset by higher sales volumes.
- Net income decreased in the first quarter of 2023 compared to the fourth quarter of 2022 due primarily to the decrease in total revenue. Net income(loss) decreased in the second quarter of 2023 compared to the first quarter of 2023 due primarily to the decrease in total revenue. Net income increased in the third quarter of 2023 compared to the second quarter of 2023 due primarily to the increase in total revenue. Net income decreased in the fourth quarter of 2023 compared to the third quarter of 2023 due primarily to the decrease in total revenue, slightly offset by deferred tax recovery.

OFF BALANCE SHEET TRANSACTIONS

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

FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement

Financial instruments of the Company consist of cash, accounts receivable, investments, accounts payable and accrued liabilities, Demand Loan and Term loan. The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, Demand Loan and Term Loan approximate their respective fair values due to the short time before maturing. The carrying value of the Term Loan approximates its fair value due to its interest rates reflecting current market conditions. Investments are measured at fair value based on quoted market prices.

Assets and liabilities that are measured at fair value are classified into levels, reflecting the method used to make the measurements. Level 1 fair value measurements are based on quoted prices that are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 fair value measurements are based on pricing inputs other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Level 3 valuations are those with inputs for the asset and liability that are not based on observable market data. 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 judgement and may affect the placement within the fair value hierarchy level.

RISK MANAGEMENT

The Company is exposed to both financial and non-financial risks inherent in the oil and gas business. Financial risks include: commodity prices, interest rates, equity price, foreign exchange, credit availability and liquidity. Financial risks can be managed, at least to a degree, through the utilization of financial instruments. Certain non-financial risks can be mitigated through the use of insurance and/or other risk transfer mechanisms, good business practices and process controls, while others must simply be borne.

The Company employs risk management strategies and policies to ensure any exposure to risk is consistent with the Company's business objectives and risk tolerance levels. Risk management is ultimately established by the Board of Directors and is implemented by management. All risks can have an impact upon the financial performance of the Company.

Market Risk

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

Commodity Price Risk

The Company is exposed to commodity price risk since its revenues are dependent on the prices of crude oil, NGLs and natural gas. Commodity prices have fluctuated widely during recent years due to global and regional factors including, but not limited to, supply and demand, inventory levels, weather, economic changes and geopolitical factors and instability. Changes in natural gas, crude oil and NGL prices may have a significant effect, positively or negatively, on the ability of the Company to meet its obligations, capital spending targets and expected operational results. A material decline or extended period of low natural gas, crude oil or NGL prices will result in a reduction of net production revenue. The economics of producing from some wells may change because of lower prices, which will result in reduced production of natural gas, crude oil or NGL prices and a reduction in the volumes of Pine Cliff's reserves. Management may also elect not to produce from certain wells at lower prices.

Physical Sales Contracts

Pine Cliff enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value in the financial statements.

At December 31, 2023, the Company had the following physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Contract Price (\$CAD/GJ) ¹	Contract Price (\$CAD/Mcf) ^{1,2}
April 1, 2024 to October 31, 2024	AECO	10,500	\$2.76	\$2.90
January 1, 2024 to December 31, 2024	AECO	9,626	\$3.49	\$3.66
April 1, 2024 to March 31, 2025	AECO	5,000	\$2.79	\$2.93
April 1, 2024 to October 31, 2025	AECO	2,500	\$2.85	\$2.99
January 1, 2025 to December 31, 2025	AECO	9,037	\$3.57	\$3.75
January 1, 2026 to February 28, 2026	AECO	8,311	\$3.58	\$3.76
January 1, 2024 to October 31, 2024	TransGas ³	13,000	AECO 5A + 0.46/GJ	AECO 5A + 0.48/Mcf

¹ Prices reported are the weighted average prices of the periods.

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

³ Subsidiary of SaskEnergy, Saskatchewan.

Subsequent to December 31, 2023, the Company had the following additional physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Contract Price (\$CAD/GJ) ¹	Contract Price (\$CAD/Mcf) ^{1,2}
April 1, 2024 to October 31, 2025	AECO	5,000	\$2.41	\$2.53
April 1, 2024 to December 31, 2025	AECO	5,000	\$2.85	\$2.99

¹ Prices reported are the weighted average prices of the periods.

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

At December 31, 2023, the Company had the following physical crude oil sales contracts in place:

Contractual Term	Crude Oil	Physical Delivery Quantity (Bbl/day)	Contract Price (\$USD/Bbl) ¹
January 1, 2024 to December 31, 2024	WTI Fixed Price	412	72.87
January 1, 2025 to December 31, 2025	WTI Fixed Price	472	68.91
January 1, 2026 to February 28, 2026	WTI Fixed Price	435	66.60

¹ Prices reported are the weighted average prices of the periods.

Contractual Term	Crude Oil	Physical Delivery Quantity (Bbl/day)	Contract Price (\$CAD/Bbl) ¹
January 1, 2024 to December 31, 2024	WTI Fixed Price	250	\$107.00

¹ Prices reported are the weighted average prices of the periods.

Contractual Term	Crude Oil	Physical Delivery Quantity (Bbl/month)	Contract Price (\$USD/Bbl) ¹
January 1, 2024 to September 30, 2024	WTI Fixed Price	5,000	\$81.25

¹ Prices reported are the weighted average prices of the periods.

Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or funds flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that the Company uses. The principal exposure of the Company is on its borrowings which have a variable interest rate which gives rise to a funds flow interest rate risk.

At December 31, 2023, the Company's debt facilities consist of a \$56.3 million non-revolving first lien Term Loan and an \$8.0 million Demand Loan, secured by specific equipment assets. The borrowings under the Term Loan are at the Canadian Prime Rate plus 3.65%, (whereby Canadian Prime Rate cannot be less than 6.95%) and the Demand Loan is at the banks' prime lending rate plus 2.0%.

Pine Cliff has not entered into any derivative financial instruments to manage this risk at this time.

Equity Price Risk

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

Foreign Currency Exchange Risk

The Company is exposed to risk on foreign exchange rates because the commodity prices it receives are indirectly determined in reference to United States dollar denominated commodity prices. The Company manages this risk by monitoring the foreign exchange rate and evaluating its effect on cash provided by operating activities. Pine Cliff has not entered into any derivative financial instruments to manage this risk at this time.

Sensitivity Analysis

Based on historic movements and volatilities in the interest rate markets and management's current assessment of the financial markets, the Company believes that a 1.0% variation in the Canadian prime interest rate is reasonably possible over a 12-month period.

A 1.0% increase in the Canadian prime lending rate would decrease both annual and comprehensive income by \$0.6 million, assuming the change in interest rate is effective from the beginning of the year and the amount of the Term Loan and the Demand Loan as at December 31, 2023.

A 1.0% decrease in the Canadian prime lending rate would increase both annual and comprehensive income by \$0.2 million, assuming the change in interest rate is effective from the beginning of the year and the amount of the Term Loan and the Demand Loan as at December 31, 2023.

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 accounts receivable and cash, which 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 a Canadian chartered bank. To mitigate the credit risk on accounts receivable, Pine Cliff assesses the financial strength of its counterparties through internal evaluation and limiting exposure to any one counterparty.

The Company's accounts receivable balance at December 31, 2023 of \$23.7 million (December 31, 2022 – \$27.2 million), is primarily with oil and gas marketers and joint venture partners. Amounts due from these parties have generally been received within 30 to 90 days. When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. The Company generally considers amounts greater

than 90 days to be past due. As at December 31, 2023, there was \$1.9 million (December 31, 2022 - \$0.4 million) of accounts receivable over 90 days. Pine Cliff assesses its accounts receivable quarterly to determine if there has been any impairment. During the year ended December 31, 2023, the Company recorded a bad debt expense (recovery) of \$nil (December 31, 2022 - (\$0.4 million)) against accounts receivable.

Liquidity Risk

Liquidity risk is the risk that Pine Cliff will not be able to meet its financial obligations as they become due. Pine Cliff manages its liquidity risk through actively managing its capital, which it defines as cash, debt and equity. Capital management strategies include continuously monitoring forecasted and actual cash provided by (used in) operating, financing and investing activities and opportunities to issue additional equity. Pine Cliff actively monitors its credit and working capital to ensure that it has sufficient available funds to meet its financial requirements at a reasonable cost. Management believes that funds generated from these sources currently will be adequate to settle Pine Cliff's financial liabilities. After examining the economic factors that are causing the liquidity risk facing the Company, the judgment applied to these factors, and the various initiatives that the Company has and will undertake to strengthen its financial position, the Company believes it will have sufficient liquidity to support its ongoing operations and meet its financial obligations as they come due for at least the next twelve months. A significant decline in commodity prices would hamper the Company's ability to rectify its working capital deficit and potentially require the Company to seek other sources of funding. If required, Pine Cliff will also consider reducing its dividend, additional short-term financing or issuing equity in order to meet its future liabilities. Any of these events could affect Pine Cliff's ability to fund ongoing operations.

The following table details the contractual maturities of Pine Cliff's financial liabilities as at December 31, 2023:

	2024	2025	2026	2027	2028	Thereafter
(\$000s)						
Accounts payable and accrued liabilities	43,840	-	-	-	-	-
Demand loan	4,002	-	-	-	-	-
Term loan ¹	14,216	13,327	44,605	-	-	-
Lease obligations ¹	1,252	1,082	819	229	7	-
Total financial liabilities	63,310	14,409	45,424	229	7	-

¹ These amounts include the notional principal and interest payments.

RISK FACTORS

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

Environmental

All production phases of oil, NGLs and natural gas are subject to environmental regulation pursuant to a variety of Canadian federal, provincial and municipal laws and regulations (collectively, the "**Environmental Regulations**"). Environmental Regulations provide that wells, facility sites and other properties and practices associated with the company's operations be constructed, operated, maintained, abandoned, reclaimed and undertaken in accordance with the requirements set out therein. In addition, certain types of operations, including exploration and development projects and changes to certain existing projects, may require the submission and approval of environmental impact assessments or permit applications. Environmental Regulations impose, among other things, costs, restrictions, liabilities and obligations in connection with the generation, handling, use, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances in the environment. They also impose restrictions, liabilities and obligations in connection with the management of water sources that are being used, or whose use is contemplated, in connection with oil and gas operations. The complexities of changes in Environmental Regulations make it difficult to predict the potential future impact to Pine Cliff.

Compliance with Environmental Regulations requires expenditures. Pine Cliff's future capital expenditures and operating expenses could increase as a result of, among other things, developments in the Company's business, operations, plans and objectives and changes to existing, or implementation of new, Environmental Regulations. Failure to comply with Environmental Regulations may result in, among other things, the imposition of fines, penalties, environmental protection orders, suspension of operations, and could adversely affect the Company's reputation. The costs of complying with Environmental Regulations may have a material adverse

effect on Pine Cliff's business, financial condition, results of operations and cash flows from operating activities. The implementation of new Environmental Regulations or the modification of existing Environmental Regulations affecting the oil and natural gas industry generally could reduce demand for crude oil and natural gas as well as shift hydrocarbon demand toward relatively lower carbon sources, increase compliance costs, lengthen project implementation times, and have an adverse effect on Pine Cliff's business, financial condition, results of operations and cash flows.

Fiscal Environment

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

Operational

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

Regulatory Risks

Regulatory risk is the risk of loss or lost opportunity resulting from the introduction of, or changes in, regulatory requirements or the failure to secure regulatory approval for upstream or downstream development projects. The implementation of new regulations or the modification of existing regulations could impact the Company's existing and planned projects as well as result in increased compliance costs, adversely impacting Pine Cliff's financial condition, results of operations and cash flows.

The oil and gas industry in general and the Company's operations in particular are subject to regulation and intervention under federal, provincial, territorial, state and municipal legislation in Canada in matters such as, but not limited to: land tenure; permitting of production projects; royalties; current and future income taxes; government fees; production rates; environmental protection controls; protection of certain species or lands; provincial and federal land use designations; the reduction of greenhouse gases and other emissions; the export of crude oil, natural gas and other products; the transportation of crude-by-rail or marine transport; the awarding or acquisition of exploration and production, oil sands or other interests; the imposition of specific drilling obligations; control over the development, abandonment and reclamation of fields (including restrictions on production) and/or facilities; and possibly expropriation or cancellation of contract rights. Changes to government regulation could impact the Company's existing and planned projects or increase capital investment or operating expenses, adversely impacting Pine Cliff's financial condition, results of operations and cash flows from operating activities.

Reserves

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

Safety

The operation of Pine Cliff's properties is subject to hazards of finding, recovering, transporting and processing hydrocarbons including, but not limited to: blowouts; fires; explosions; gaseous leaks; migration of harmful substances; oil spills; corrosion; acts of

vandalism; and other accidents or hazards that may occur at or during transport to or from commercial or industrial sites. Any of these hazards can interrupt operations, impact the Company's reputation, cause loss of life or personal injury, result in loss of or damage to equipment, property, information technology systems, related data and control systems, cause environmental damage that may include polluting water, land or air, and may result in fines, civil suits, or criminal charges against Pine Cliff, any of which may have a material adverse effect on Pine Cliff's business, financial condition, results of operations, cash flows, and reputation.

Staffing

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

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

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The timely preparation of the Financial Statements in accordance with IFRS requires Pine Cliff management to make judgments, assumptions and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. Management believes that the most critical accounting policies that may have an impact on the Company's financial results are those that specifically relate to the accounting for its oil and gas interests, including amounts recorded for depletion and the impairment test which are both based on estimates of proved and probable reserves, production rates, oil prices, future costs and other relevant assumptions. Actual results could differ materially from such judgments or estimates.

Judgements

Cash Generating Units

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

Impairment (impairment recovery) indicators

At each reporting date, the Company is required to assess whether there are any internal or external indicators that its petroleum and natural gas properties and equipment within a CGU may be impaired or recovered. Pine Cliff is required to consider information from both external sources (such as negative downturn in forecasted oil and gas commodity prices, significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in the estimate of proved and probable oil and gas reserves and the related cash flows, significant adverse effect on the financial and operational performance of a CGU, evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgment.

Changing Regulation

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social and governance and climate reporting, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standards with the aim to develop sustainability disclosure standards that are globally consistent, comparable, and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters. The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified and it is possible that the long-term effects of these new regulations will affect the Company's business, results from operations, access to capital and financial condition.

Estimates

Reserves

Petroleum and natural gas reserves are used in the calculation of depletion, impairment and impairment reversals and are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with

National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* which incorporate the estimated future cost of developing and extracting those reserves. Reserve estimates and their resulting cash flows are based on engineering data, probability assessments of reserve recoveries, future prices and costs, future production rates, discount rates and the timing and extent of future capital expenditures, all of which are subject to many uncertainties and interpretation. Management expects that over time its reserve estimates will be revised, either upward or downward, based on updated information such as the results of future drilling, production costs, testing and production levels and changes to forward petroleum and natural gas prices.

Exploration and evaluation assets

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

Decommissioning provision

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

Share-based compensation

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

Contingencies

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

Income tax

Tax regulations and legislation are subject to change and there are differing interpretations requiring management judgment. Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in future periods. Deferred tax liabilities are recognized when it is considered probable that temporary differences will be payable to tax authorities in future periods. Income tax filings are subject to audits and re-assessments and changes in facts, circumstances, and interpretations of the standards may result in a material increase or decrease in the Company's provision for income taxes.

Impairment (impairment recovery)

The impairment calculation is based on significant assumptions of proved plus probable oil and natural gas reserves, production rates, benchmark commodity prices, future costs, discount rates and other relevant assumptions. By their nature, these significant assumptions are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

Future Accounting Pronouncements

The following are future accounting pronouncements issued and not yet effective as at December 31, 2023. The Company intends to adopt this standard as it becomes effective and does not expect a significant impact.

IAS 1 –Presentation of Financial Statements

Effective January 1, 2024, amendments to the classification of liabilities as non-current include the requirement that a right to defer settlement must have substance and exist at the end of the reporting period.

CONTROL ENVIRONMENT

Disclosure controls and procedures

Disclosure controls and procedures (“**DC&P**”), as defined in National Instrument 52-109 Certification of Disclosure in Issuers’ Annual and Interim Filings, are designed to provide reasonable assurance that information required to be disclosed in the Company’s annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the Chief Executive Officer (“**CEO**”) and the Chief Financial Officer (“**CFO**”), as appropriate, to allow timely decisions regarding required disclosure. The CEO and the CFO of Pine Cliff evaluated the effectiveness of the design and operation of the Company’s DC&P. Based on that evaluation, the CEO and CFO concluded that Pine Cliff’s DC&P were effective as at December 31, 2023.

Internal control over financial reporting

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

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

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

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

NON-GAAP MEASURES

This MD&A uses the terms “adjusted funds flow”, “operating netbacks”, “corporate netbacks” “positive net cash” and “net debt” which are not recognized measures under IFRS and may not be comparable to similar measures presented by other companies. The Company uses these measures to evaluate its performance, leverage and liquidity. These measures should not be considered as an alternative to, or more meaningful than, IFRS measures including income, cash provided by operating activities, or total liabilities.

Adjusted Funds Flow

The Company considers adjusted funds flow a key performance measure as it demonstrates the Company’s ability to generate the funds necessary to repay debt and fund future growth through capital investment. Adjusted funds flow and adjusted funds flow per Common Share and per Boe or Mcfe should not be considered as an alternative to, or more meaningful than, cash flow provided by operating activities presented on the statement of cash flow which is considered the most directly comparable measure under IFRS. Adjusted funds flow is calculated as cash provided by operating activities before changes in non-cash working capital and decommissioning obligations settled. Adjusted funds flow per Common Share is calculated using the same weighted average number of Common Shares outstanding as in the case of the income per Common Share calculation for a reporting period. Adjusted funds flow per Boe or Mcfe is calculated using the sales volumes reported for a reporting period. Pine Cliff’s method of calculating this measure may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

(\$000s)	Three months ended December 31,			Year ended December 31,		
	2023	2022	Change	2023	2022	Change
Cash provided by operating activities	16,559	33,791	(51)	66,627	150,452	(56)
Adjusted by:						
Change in non-cash working capital	(10,353)	5,252	(297)	(17,433)	6,997	(349)
Decommissioning obligations settled	3,494	1,157	202	9,493	5,757	65
Adjusted funds flow	9,700	40,200	(76)	58,687	163,206	(64)
Adjusted funds flow (\$/Boe)	4.91	20.76	(76)	7.77	21.28	(63)
Adjusted funds flow (\$/Mcf)	0.82	3.46	(76)	1.30	3.55	(63)
Adjusted funds flow – basic (\$/Common Share)	0.03	0.11	(73)	0.17	0.47	(64)
Adjusted funds flow – diluted (\$/Common Share)	0.03	0.11	(73)	0.16	0.45	(64)

Operating and Corporate Netback

The Company considers operating netback to be a key indicator of profitability relative to current commodity prices. Operating netback and operating netback per Boe and per Mcfe are calculated as the sum of commodity sales and processing and gathering income, less royalties, transportation and operating expenses on an absolute and a per Boe or per Mcfe basis, respectively. Company management uses operating netback on a per Boe basis in operational and capital allocation decisions.

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

Pine Cliff uses these measures to assist in understanding the Company's ability to generate cash provided by operating activities at current commodity prices and it provides an analytical tool to benchmark changes in operational performance against prior periods.

Readers are cautioned, however, that these measures should not be construed as an alternative to other terms such as income (loss) determined in accordance with IFRS as a measure of performance. Pine Cliff's method of calculating these measures may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

(\$ per Boe, unless otherwise indicated)	Three months ended December 31,			Year ended December 31,		
	2023	2022	\$ Change	2023	2022	\$ Change
Commodity sales	23.03	39.74	(16.71)	25.04	39.92	(14.88)
Processing and gathering	0.75	0.54	0.21	0.68	0.49	0.19
Royalty expense	(2.63)	(4.42)	1.79	(2.65)	(4.66)	2.01
Transportation costs	(1.45)	(1.42)	(0.03)	(1.43)	(1.41)	(0.02)
Operating expenses	(13.66)	(13.38)	(0.28)	(13.07)	(11.93)	(1.14)
Operating netback	6.04	21.06	(15.02)	8.57	22.41	(13.84)
General and administrative	(1.03)	(0.41)	(0.62)	(0.99)	(0.89)	(0.10)
Interest and bank charges	(0.26)	(0.06)	(0.20)	(0.10)	(0.31)	0.21
Interest income	0.16	0.17	(0.01)	0.29	0.07	0.22
Corporate netback	4.91	20.76	(15.85)	7.77	21.28	(13.51)
Operating netback (\$ per Mcfe)	1.01	3.51	(2.50)	1.43	3.74	(2.31)
Corporate netback (\$ per Mcfe)	0.82	3.46	(2.64)	1.30	3.55	(2.25)

Positive Net Cash/Net Debt

The Company considers positive net cash/net debt to be a key indicator of leverage. Positive net cash/net debt is calculated as the sum of accounts receivable, cash, investments and prepaid expenses and deposits, less Demand Loan, Term Loan and accounts payable and accrued liabilities. See "DEBT, LIQUIDITY AND CAPITAL RESOURCES" section for the table.

Positive net cash/net debt is not a recognized measure under IFRS and Pine Cliff's method of calculating this measure may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A include statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, statements relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about developments, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in the MD&A and Annual MD&A includes, but is not limited to: expected production levels, expected processing and gathering income, expected operating costs, expected transportation costs, expected interest costs, royalty and G&A levels; expected current and deferred income taxes, future capital expenditures, including the amount and nature thereof; future drilling opportunities and Pine Cliff's ability to generate reserves and production from the undrilled locations; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and guidance; expansion and growth of our business and operations; amounts due pursuant to Term Loan, Demand Loan and repayment thereof; maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; risks; Pine Cliff's ability to generate cash provided by operating activities and adjusted funds flow; dividends payments; 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 provided by operating activities to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control. The foregoing factors are not exhaustive.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do, what benefits will be derived there from. Except as required by law, Pine Cliff disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

Undrilled locations consist of drilling and recompletion locations booked in the independent reserve report dated March 4, 2024 prepared by McDaniel & Associates Consultants Limited and unbooked drilling and recompletion locations. Unbooked drilling and recompletion locations are internal estimates based on evaluation of geologic, reserves and spacing based on industry practice. There is no guarantee that Pine Cliff will drill these locations and there is no certainty that the drilling or completing of these locations will result in additional reserves and production or achieve expected internal rates of return. Pine Cliff activity depends on availability of capital, regulatory approvals, commodity prices, drilling costs and other factors.

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

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

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

GLOSSARY

The following is a list of abbreviations that may be used in the MD&A:

Measurement

Bbl/d¹ – barrels per day

Boe/d¹ – barrels of oil equivalent per day

Mcf/d¹ – thousand cubic feet per day

Mcf/d¹ – thousand cubic feet equivalent per day

MMBoe – millions of barrels of oil equivalent

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

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

Financial and Business Environment

AECO – Alberta Energy Company

CGU – Cash Generating Unit

GJ - Gigajoule

NGTL – Nova Gas Transmission Line

WTI – West Texas Intermediate

MMBtu – One million British Thermal Units

The management of Pine Cliff Energy Inc. (the "**Company**") is responsible for the financial information and operating data presented in this financial report. The consolidated financial statements (the "**Financial Statements**") have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and utilize the best estimates and careful judgements of management where appropriate. Operational and other financial information contained throughout the annual report is consistent with that provided in the Financial Statements.

Management has developed and maintains a system of internal controls designed to provide reasonable assurance that all transactions are accurate and reliably recorded, that the Financial Statements accurately report the Company's operating and financial results within acceptable limits of materiality, that all other operational and financial information presented is accurate and that the Company's assets are properly safeguarded.

The Audit Committee, comprised of non-management directors, acts on behalf of the Board of Directors to ensure that management fulfills its financial reporting and internal control responsibilities. The Audit Committee meets regularly with management and the external auditors to discuss financial reporting and internal control matters and ensures each party is properly discharging its responsibilities. The Audit Committee reviewed the Financial Statements with management and the external auditors and recommended approval to the Board of Directors, who approved these Financial Statements.

The Financial Statements have been audited by Deloitte LLP, Chartered Professional Accountants, in accordance with generally accepted auditing standards on behalf of the shareholders and have unlimited and unrestricted access to the Audit Committee.

"Signed Philip B. Hodge"

"Signed Alan MacDonald"

Philip B. Hodge, President and Chief Executive Officer Alan MacDonald, Chief Financial Officer and Corporate Secretary

Independent Auditor's Report

To the Shareholders and the Board of Directors of Pine Cliff Energy Ltd.

Opinion

We have audited the consolidated financial statements of Pine Cliff Energy Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity (deficit) and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policy information (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Property, Plant and Equipment - Oil and gas properties - Refer to Notes 3 and 8 to the financial statements

Key Audit Matter Description

The Company's property, plant and equipment includes oil and gas properties. Oil and gas properties are depleted using the unit-of-production method ("depletion") over their proved plus probable reserves.

Given the significant judgments made by management related to future commodity prices, discount rates, future production rates, and future operating and development costs used to determine depletion of all oil and gas properties, these estimates and assumptions are subject to a high degree of estimation uncertainty. Auditing these estimates and assumptions required auditor judgment in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased extent of audit effort.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to future commodity prices, discount rates, future production rates, and future operating and development costs used to determine depletion of all oil and gas properties included the following, among others:

- Evaluated future commodity prices by independently developing a reasonable range of forecasts based on reputable third-party forecasts and market data and comparing those to the future commodity prices selected by management;
- Evaluated the Company's reserve evaluators by examining reports and assessing their scope of work and findings and evaluated the reasonableness of the discount rates by developing a range of independent estimates and comparing those to the discount rates selected by management;
- Assessed future production rates by evaluating the Company's independent external reserve evaluator by:
 - Examining reports and assessing their scope of work and findings;
 - Assessing the competence, capability and objectivity by evaluating their relevant professional qualifications and experience;

- Evaluated the reasonableness of future production rates by testing the source financial information underlying the rates and comparing the future production volumes to historical production volumes;
- Evaluated the reasonableness of future operating and development costs by testing the source financial information underlying the estimate, comparing future costs to historical results, and evaluating whether they are consistent with evidence obtained in other areas of the audit.

Deferred Income Taxes — Refer to Notes 3 and 10 to the financial statements

Key Audit Matter Description

The Company recognizes deferred income taxes for the tax expected to be payable or recoverable on differences arising between the financial statement and tax basis of assets and liabilities and is recorded at enacted or substantively enacted tax rates in effect for the years in which the differences are expected to be realized. The Company recognized a deferred income tax asset primarily arising from unused tax losses.

To determine whether it is probable that the deferred income tax assets will be realized, management makes assumptions related to the forecasts of future taxable income, specifically forecasts of future commodity prices, future production rates, and future operating and development costs. As a result of the significant measurement uncertainty, auditing the probability of the deferred income tax assets being realized and the forecast of future taxable income required a high degree of auditor judgment, which resulted in an increased extent of audit effort.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to the assessing the probability of the deferred income tax assets being realized and management's forecasts of future taxable income included the following, among others:

- Evaluated management's ability to accurately forecast future taxable income by comparing actual results to management's historical forecasts;
- Evaluated forecasts of future taxable income, specifically forecasts of future commodity prices, future production rates, and future operating and development costs by performing the audit procedures described above in the Property, Plant and Equipment – Oil and gas properties Key Audit Matter;
- Evaluating whether management's estimates of future taxable income are consistent with the requirements of IAS 12 - Income Taxes relating to the probability of forecasted taxable income and the length of the forecasted period.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Christopher Gill.

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
March 4, 2024

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian dollars, 000s)

	Note	2023	As at December 31, 2022
ASSETS			
Current assets			
Cash		-	54,428
Accounts receivable	5	23,657	27,187
Prepaid expenses and deposits		7,321	3,767
Investments		208	171
Total current assets		31,186	85,553
Exploration and evaluation	7	-	2,413
Property, plant and equipment	8	402,295	250,045
Deferred income taxes	10	43,591	37,042
Total assets		477,072	375,053
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	5	43,840	29,640
Term loan	11	8,440	-
Demand loan	12	4,002	-
Lease liabilities	9	1,119	1,002
Decommissioning provision	13	7,100	6,900
Total current liabilities		64,501	37,542
Lease liabilities	9	1,995	2,296
Term loan	11	46,583	-
Decommissioning provision	13	264,065	201,487
Total liabilities		377,144	241,325
SHAREHOLDERS' EQUITY			
Share capital	14	278,623	277,650
Contributed surplus		18,746	16,617
Accumulated other comprehensive loss		(224)	(216)
Deficit		(197,217)	(160,323)
Total shareholders' equity		99,928	133,728
Total liabilities and shareholders' equity		477,072	375,053

Commitments (Note 19)

Subsequent events (Note 21)

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 Philip B. Hodge"

Philip B. Hodge, President & CEO
and Director

"Signed Calvin B. Jacober"

Calvin B. Jacober, Chair of the Audit Committee
and Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Canadian dollars, 000s except per share data)

	Note	Years ended December 31,	
		2023	2022
REVENUE			
Commodity sales	15	188,852	306,208
Royalty expense		(19,963)	(35,760)
Commodity sales, net of royalties		168,889	270,448
Processing and gathering		5,159	3,780
Interest income		2,212	500
Total revenue		176,260	274,728
EXPENSES			
Operating		98,535	91,490
Transportation		10,810	10,806
Depletion and depreciation	8	43,928	44,074
Impairment (reversal)	7, 8	2,447	(4,500)
Site decommissioning grants		-	(5,142)
Share-based compensation	14	2,856	2,456
Finance	16	7,630	8,661
General and administrative	17	7,495	6,819
Gain on disposition		-	(2,495)
Total expenses		173,701	152,169
Income before income taxes		2,559	122,559
Deferred income taxes	10	6,562	(13,620)
NET INCOME FOR THE YEAR		9,121	108,939
OTHER COMPREHENSIVE LOSS			
Unrealized gain (loss) on investments		86	(177)
Realized loss on investments		(102)	-
Deferred income tax on unrealized loss on investments		8	21
OTHER COMPREHENSIVE LOSS, NET OF TAX		(8)	(156)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		9,113	108,783
Net income per share (\$)			
Basic	14	0.03	0.31
Diluted	14	0.03	0.30

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

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

	Note	Share capital	Contributed surplus ¹	Accumulated other comprehensive loss ²	Deficit	Total Shareholders' equity
BALANCE AT DECEMBER 31, 2021		275,766	15,400	(60)	(245,688)	45,418
Net income for the year		-	-	-	108,939	108,939
Dividends	14	-	-	-	(23,574)	(23,574)
Share-based compensation		-	2,456	-	-	2,456
Other comprehensive loss, net of tax		-	-	(156)	-	(156)
Exercise of stock options	14	1,884	(1,239)	-	-	645
BALANCE AT DECEMBER 31, 2022		277,650	16,617	(216)	(160,323)	133,728
Net income for the year		-	-	-	9,121	9,121
Dividends	14	-	-	-	(46,015)	(46,015)
Share-based compensation		-	2,856	-	-	2,856
Other comprehensive loss, net of tax		-	-	(8)	-	(8)
Exercise of stock options	14	973	(727)	-	-	246
BALANCE AT DECEMBER 31, 2023		278,623	18,746	(224)	(197,217)	99,928

¹Contributed surplus is comprised of share-based compensation.

²Accumulated other comprehensive loss is comprised of realized and unrealized losses on financial assets held at fair value through other comprehensive loss.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian dollars, 000s)

	Note	Years ended December 31,	
		2023	2022
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net income for the year		9,121	108,939
Items not affecting cash:			
Depletion and depreciation	8	43,928	44,074
Impairment (reversal)	7, 8	2,447	(4,500)
Site decommissioning grants		-	(5,142)
Share-based compensation	14	2,856	2,456
Finance expenses	16	7,630	8,661
Deferred income taxes	10	(6,562)	13,620
Gain on disposition		-	(2,495)
Interest and bank charges	16	(733)	(2,407)
Decommissioning obligations settled	13	(9,493)	(5,757)
Changes in non-cash working capital accounts	16	17,433	(6,997)
Cash provided by operating activities		66,627	150,452
FINANCING ACTIVITIES			
Exercise of stock options	14	246	645
Term loan, net of issuance costs	11	55,000	-
Demand loan	12	4,002	-
Dividends	14	(46,015)	(23,574)
Repayment of term debt		-	(30,000)
Repayment of related party debt		-	(6,000)
Repayment of promissory notes		-	(6,000)
Payments on lease obligations	9	(1,086)	(1,232)
Cash provided by (used in) financing activities		12,147	(66,161)
INVESTING ACTIVITIES			
Property, plant and equipment	8	(20,932)	(29,014)
Exploration and evaluation	7	(34)	(63)
Property acquisitions	8	(109,326)	(1,119)
Proceeds from dispositions	8	379	2,649
Proceeds on sale of investments		315	-
Changes in non-cash working capital accounts	16	(3,604)	(9,190)
Cash used in investing activities		(133,202)	(36,737)
Increase (decrease) in cash		(54,428)	47,554
Cash - beginning of year		54,428	6,874
CASH - END OF YEAR		-	54,428

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2023 and 2022 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 ("**TSX**") and incorporated under the *Business Corporations Act (Alberta)*. The address of the Company's registered office is Suite 850, 1015 - 4th Street SW, Calgary, Alberta, T2R 1J4.

Pine Cliff is engaged in the acquisition, exploration, development and production of natural gas and crude oil 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.

2. BASIS OF PREPARATION**a) Statement of Compliance**

These consolidated financial statements have been prepared under International Financial Reporting Standards ("**IFRS**"), as issued by the International Accounting Standards Board as at and for the year ended December 31, 2023, including 2022 comparative periods.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 4, 2024, the date the Board of Directors approved the statements.

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. The methods used to measure fair values are discussed in Note 5.

c) Functional and presentation currency

The Company's functional and presentation currency is the Canadian dollar.

d) Use of judgements and estimates

The timely preparation of the Financial Statements in accordance with IFRS requires Pine Cliff management to make judgements, 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 statements 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 notes.

Judgements

In the process of applying Pine Cliff's accounting policies, judgements, 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:

Note 5 – Financial instruments

Note 7 – Exploration and evaluation assets ("**E&E**")

Note 8 – Property, plant and equipment ("**PP&E**")

Note 13 – Decommissioning provision

Note 14 – Share capital

Cash Generating Units

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

Impairment (impairment recovery) indicators

At each reporting date, the Company is required to assess whether there are any internal or external indicators that its petroleum and natural gas properties and equipment within a CGU may be impaired or recovered. Pine Cliff is required to consider information from both external sources (such as negative downturn in forecasted oil and gas commodity prices, significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in the estimate of proved and probable oil and gas reserves and the related cash flows, significant adverse effect on the financial and operational performance of a CGU, evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgment.

Changing Regulation

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social and governance and climate reporting, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standards with the aim to develop sustainability disclosure standards that are globally consistent, comparable, and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters. The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified and it is possible that the long-term effects of these new regulations will affect the Company's business, results from operations, access to capital and financial condition.

Estimates

Reserves

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

Exploration and evaluation assets

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

Decommissioning provision

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

Share-based compensation

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

Contingencies

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

Income tax

Tax regulations and legislation are subject to change and there are differing interpretations requiring management judgment. Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in future periods. Deferred tax liabilities are recognized when it is considered probable that temporary differences will be payable to tax authorities in future periods. Income tax filings are subject to audits and re-assessments and changes in facts, circumstances, and interpretations of the standards may result in a material increase or decrease in the Company's provision for income taxes.

Impairment (impairment recovery)

The impairment calculation is based on significant assumptions of proved plus probable oil and natural gas reserves, production rates, benchmark commodity prices, future costs, discount rates and other relevant assumptions. By their nature, these significant assumptions are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

3. MATERIAL ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the Financial Statements.

a) Basis of consolidation

The Financial Statements include the accounts of Pine Cliff and its subsidiary companies, Geomark Exploration Ltd., Pine Cliff Border Pipelines Limited and Certus Oil & Gas Inc. All subsidiary companies are wholly owned. All intercompany balances, transactions and income or losses are eliminated upon consolidation.

b) Revenue recognition

Revenue associated with the sale of natural gas, crude oil and natural gas liquids ("NGLs") is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when Pine Cliff satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of natural gas, crude oil and NGLs coincides with legal title passing to the customer and the customer taking physical possession.

The collection of revenue associated with the sale of natural gas, NGLs and crude oil occurs on or about the 25th of the month following production.

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

Revenue from interest on cash on hand is recognized when earned.

c) 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. Contractual arrangements for the Company's jointly controlled operations, where it does not have a 100% working interest, govern that the partners have rights to the assets and obligations for the liability. It is possible that at some future date allocation adjustments to revenues and expenditures could result from revised billings, audit or litigation with these other participants. Pine Cliff does not have any joint arrangements that are individually material to the Company or that are structured through joint venture arrangements.

d) Cash

Cash is comprised of cash on hand and short-term highly liquid investments that mature within three months of the date of their purchase.

e) Property, plant and equipment

PP&E include developed assets acquired, transferred-in E&E costs, development drilling, right-of-use assets and other surface expenditures. PP&E assets are carried at cost less accumulated depletion and depreciation and impairment. The initial cost of an asset is comprised of its purchase price, construction cost or estimated lease payments over the term of a lease, 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, 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, plant turnaround costs, or major 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.

Subsequent costs incurred to the determination of technical feasibility and commercial viability are recognized as PP&E when they increase the future economic benefits in the specific asset to which they relate. Such capitalized developed and producing petroleum and natural gas interests generally represent costs incurred in developed proved and/or probable reserves and bringing in or enhancing production from such reserves. The cost of day-to-day servicing petroleum and natural gas properties and equipment is expensed as incurred.

Gains and losses on disposal of PP&E are determined as the difference between proceeds from disposal and the carrying amount of the asset sold and are recognized as a gain or loss on disposal in the statements of comprehensive income.

f) Lease obligations

Lease obligations are initially measured at the present value of the lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate for that asset. Generally, the Company uses the implicit interest rate of the lease. The lease obligation is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate or a change in estimate of the amount expected to be payable.

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- leases of low value assets; and
- leases with a duration of 12 months or less.

g) 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. Plant turnarounds and major overhauls are depreciated over their expected life. Other equipment is depreciated over estimated useful lives on a straight-line basis. Depletion and depreciation is recognized in the consolidated statements of comprehensive income.

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.

h) Impairment of E&E and PP&E

The carrying amounts of the Company's E&E and 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 that are not evaluated individually are grouped together into CGUs.

The recoverable amount of an asset or a CGU is the greater of its fair value less cost to sell ("FVLCS") and value-in-use ("VIU"). An impairment 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 considers future plans for those properties, the remaining terms of the leases and other factors that may be indicators of potential impairment. Impairment is recognized in the statements of comprehensive income. Impairment recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU.

Impairment recognized in prior periods are assessed at each reporting date for any indications that the impairment has decreased or no longer exists. If the amount of the impairment decreases in a subsequent period and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment 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 had been recognized.

i) Impairment of financial assets

Impairment of financial assets is determined by measuring the assets' expected credit loss ("ECL"). The ECL pertaining to accounts receivable is assessed at initial recognition and this provision is re-assessed at each reporting date. 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 provided by operating activities of that asset. Financial assets are tested for impairment on an individual basis. An impairment in respect of a financial asset held at fair value through other comprehensive income (loss) is calculated by reference to its current fair value.

Impairment is recognized in the consolidated statements of comprehensive income. Impairment is reversed if there is an indicator that the impairment reversal can be related objectively to an event occurring after the impairment was recognized. For financial assets measured at amortized cost, the reversal is recognized in the consolidated statements of comprehensive income.

j) Decommissioning provision

The Company recognizes a decommissioning provision in the period in which it has a present legal or constructive liability and a reasonable estimate of the amount can be made. On a periodic basis, Pine Cliff management reviews these estimates, and changes, if any, are prospectively applied. The decommissioning provision is recorded as a liability, with a corresponding increase to the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the associated proved plus probable reserves. Periodic revisions to the liability specific discount rates, estimated timing of cash flows and/or to the original estimated undiscounted costs can also result in changes to the decommissioning provision. The decommissioning provision is increased each reporting period with the passage of time as an accretion of decommissioning provision expense is reported in finance expenses and changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the provision are recorded against the provision to the extent of the liability recorded and the remaining balance of the actual costs is recorded in the statements of comprehensive income.

k) Government grants

Government grants are recognized when there is reasonable assurance that Pine Cliff will comply with the conditions attached to them and the grants will be received. If a grant is received before it is certain whether compliance with all conditions will be achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the conditions of a grant relate to income or expense, it is recognized in the statements of comprehensive income. When the conditions of a grant relate to an underlying asset, it is recognized as a reduction to the carrying amount of the related asset.

l) Income taxes

Income tax comprises current and deferred taxes. Income tax is recognized in the statements of comprehensive income except to the extent that it relates to items recognized in other comprehensive loss or directly in equity, in which the related income tax expense or recovery is also recognized directly into other comprehensive loss or elsewhere in shareholders' equity.

Current tax expense is the expected cash tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized based on temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the Financial Statements. Deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill and are not accounted for if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred income tax is calculated on the basis of the tax laws enacted or substantively enacted as at the reporting date and apply to when the related deferred income tax asset is realized or the deferred income tax liability is settled. Current and deferred income tax assets and liabilities are offset when there is a legally enforceable right to settle on a net basis and when such assets and liabilities relate to income taxes imposed by the same taxation authority.

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

m) Financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument and are classified into one of the following three categories: amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

Cash and accounts receivable, are classified as financial assets at amortized cost and reported at amortized cost. A provision for impairment of accounts receivable is established when there is evidence that the Company will not be able to collect all amounts due

according to the original terms of the receivables. Accounts payable and accrued liabilities, Term Loan, as defined herein, and Demand Loan, as defined herein, are classified as financial liabilities at amortized cost.

Subsequent measurement of financial instruments is based on their initial classification. FVTPL financial instruments are measured at fair value and changes in fair value are recognized in net income. FVOCI financial instruments including investments are measured at fair value and changes in fair value are recognized in other comprehensive income. The remaining categories of financial instruments are recognized at amortized cost using the effective interest method.

n) 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. 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 income (or loss) in the period they occur. The Company has not designated any of its risk management contracts as effective accounting hedges.

o) Net income and comprehensive income per share

Basic per share amounts are calculated by dividing the income attributable to holders of Common Shares 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.

p) Finance expenses

Finance expenses are comprised of interest expenses and bank charges on borrowings and the accretion of decommissioning provision and Term Loan. Interest expenses and bank charges are considered operating expenses on the statements 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 income 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.

4. FUTURE ACCOUNTING PRONOUNCEMENTS

The following are future accounting pronouncements issued and not yet effective as at December 31, 2023. The Company intends to adopt this standard as it becomes effective and does not expect a significant impact.

IAS 1 – Presentation of Financial Statements

Effective January 1, 2024, amendments to the classification of liabilities as non-current include the requirement that a right to defer settlement must have substance and exist at the end of the reporting period.

5. FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement

Financial instruments of the Company consist of cash, accounts receivable, investments, accounts payable and accrued liabilities, Demand Loan and Term loan. The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, Demand Loan and Term Loan approximate their respective fair values due to the short time before maturing. The carrying value of the Term Loan approximates its fair value due to its interest rates reflecting current market conditions. Investments are measured at fair value based on quoted market prices.

Assets and liabilities that are measured at fair value are classified into levels, reflecting the method used to make the measurements. Level 1 fair value measurements are based on quoted prices that are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 fair value measurements are based on pricing inputs other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially

observed or corroborated in the marketplace. Level 3 valuations are those with inputs for the asset and liability that are not based on observable market data. 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 judgement 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, 2023 and December 31, 2022:

(\$000s) Description	December 31, 2023		December 31, 2022	
	Carrying value	Fair value	Carrying value	Fair value
Cash	-	-	54,428	54,428
Accounts receivable	23,657	23,657	27,187	27,187
Investments	208	208	171	171
Accounts payable and accrued liabilities	(43,840)	(43,840)	(29,640)	(29,640)
Demand loan	(4,002)	(4,002)	-	-
Term loan	(55,023)	(55,023)	-	-

6. RISK MANAGEMENT

The Company is exposed to both financial and non-financial risks inherent in the oil and gas business. Financial risks include: commodity prices, interest rates, equity price, foreign exchange, credit availability and liquidity. Financial risks can be managed, at least to a degree, through the utilization of financial instruments. Certain non-financial risks can be mitigated through the use of insurance and/or other risk transfer mechanisms, good business practices and process controls, while others must simply be borne.

The Company employs risk management strategies and policies to ensure any exposure to risk is consistent with the Company's business objectives and risk tolerance levels. Risk management is ultimately established by the Board of Directors and is implemented by management. All risks can have an impact upon the financial performance of the Company.

Market Risk

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

Commodity Price Risk

The Company is exposed to commodity price risk since its revenues are dependent on the prices of crude oil, NGLs and natural gas. Commodity prices have fluctuated widely during recent years due to global and regional factors including, but not limited to, supply and demand, inventory levels, weather, economic changes and geopolitical factors and instability. Changes in natural gas, crude oil and NGL prices may have a significant effect, positively or negatively, on the ability of the Company to meet its obligations, capital spending targets and expected operational results. A material decline or extended period of low natural gas, crude oil or NGL prices will result in a reduction of net production revenue. The economics of producing from some wells may change because of lower prices, which will result in reduced production of natural gas, crude oil or NGL prices and a reduction in the volumes of Pine Cliff's reserves. Management may also elect not to produce from certain wells at lower prices.

Physical Sales Contracts

Pine Cliff enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value in the financial statements.

At December 31, 2023, the Company had the following physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Contract Price (\$CAD/GJ) ¹	Contract Price (\$CAD/Mcf) ^{1,2}
April 1, 2024 to October 31, 2024	AECO	10,500	\$2.76	\$2.90
January 1, 2024 to December 31, 2024	AECO	9,626	\$3.49	\$3.66
April 1, 2024 to March 31, 2025	AECO	5,000	\$2.79	\$2.93
April 1, 2024 to October 31, 2025	AECO	2,500	\$2.85	\$2.99
January 1, 2025 to December 31, 2025	AECO	9,037	\$3.57	\$3.75
January 1, 2026 to February 28, 2026	AECO	8,311	\$3.58	\$3.76
January 1, 2024 to October 31, 2024	TransGas ³	13,000	AECO 5A + 0.46/GJ	AECO 5A + 0.48/Mcf

¹ Prices reported are the weighted average prices of the periods.

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

³ Subsidiary of SaskEnergy, Saskatchewan.

Subsequent to December 31, 2023, the Company had the following additional physical natural gas sales contracts in place:

Contractual Term	Delivery Point	Physical Delivery Quantity (GJ/day)	Contract Price (\$CAD/GJ) ¹	Contract Price (\$CAD/Mcf) ^{1,2}
April 1, 2024 to October 31, 2025	AECO	5,000	\$2.41	\$2.53
April 1, 2024 to December 31, 2025	AECO	5,000	\$2.85	\$2.99

¹ Prices reported are the weighted average prices of the periods.

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

At December 31, 2023, the Company had the following physical crude oil sales contracts in place:

Contractual Term	Crude Oil	Physical Delivery Quantity (Bbl/day)	Contract Price (\$USD/Bbl) ¹
January 1, 2024 to December 31, 2024	WTI Fixed Price	412	72.87
January 1, 2025 to December 31, 2025	WTI Fixed Price	472	68.91
January 1, 2026 to February 28, 2026	WTI Fixed Price	435	66.60

¹ Prices reported are the weighted average prices of the periods.

Contractual Term	Crude Oil	Physical Delivery Quantity (Bbl/day)	Contract Price (\$CAD/Bbl) ¹
January 1, 2024 to December 31, 2024	WTI Fixed Price	250	\$107.00

¹ Prices reported are the weighted average prices of the periods.

Contractual Term	Crude Oil	Physical Delivery Quantity (Bbl/month)	Contract Price (\$USD/Bbl) ¹
January 1, 2024 to September 30, 2024	WTI Fixed Price	5,000	\$81.25

¹ Prices reported are the weighted average prices of the periods.

Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or funds flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that the Company uses. The principal exposure of the Company is on its borrowings which have a variable interest rate which gives rise to a funds flow interest rate risk.

At December 31, 2023, the Company's debt facilities consist of a \$56.3 million non-revolving first lien term loan (the "Term Loan") and an \$8.0 million demand operating loan (the "Demand Loan"), secured by specific equipment assets. The borrowings under the Term Loan are at the Canadian Prime Rate plus 3.65%, (whereby Canadian Prime Rate cannot be less than 6.95%) and the Demand Loan is at the banks' prime lending rate plus 2.0%.

Pine Cliff has not entered into any derivative financial instruments to manage this risk at this time.

Equity Price Risk

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

Foreign Currency Exchange Risk

The Company is exposed to risk on foreign exchange rates because the commodity prices it receives are indirectly determined in reference to United States dollar denominated commodity prices. The Company manages this risk by monitoring the foreign exchange rate and evaluating its effect on cash provided by operating activities. Pine Cliff has not entered into any derivative financial instruments to manage this risk at this time.

Sensitivity Analysis

Based on historic movements and volatilities in the interest rate markets and management's current assessment of the financial markets, the Company believes that a 1.0% variation in the Canadian prime interest rate is reasonably possible over a 12-month period.

A 1.0% increase in the Canadian prime lending rate would decrease both annual and comprehensive income by \$0.6 million, assuming the change in interest rate is effective from the beginning of the year and the amount of the Term Loan and the Demand Loan as at December 31, 2023.

A 1.0% decrease in the Canadian prime lending rate would increase both annual and comprehensive income by \$0.2 million, assuming the change in interest rate is effective from the beginning of the year and the amount of the Term Loan and the Demand Loan as at December 31, 2023.

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 accounts receivable and cash, which 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 a Canadian chartered bank. To mitigate the credit risk on accounts receivable, Pine Cliff assesses the financial strength of its counterparties through internal evaluation and limiting exposure to any one counterparty.

The Company's accounts receivable balance at December 31, 2023 of \$23.7 million (December 31, 2022 – \$27.2 million), is primarily with oil and gas marketers and joint venture partners. Amounts due from these parties have generally been received within 30 to 90 days. When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. The Company generally considers amounts greater than 90 days to be past due. As at December 31, 2023, there was \$1.9 million (December 31, 2022 - \$0.4 million) of accounts receivable over 90 days. Pine Cliff assesses its accounts receivable quarterly to determine if there has been any impairment. During the year ended December 31, 2023, the Company recorded a bad debt expense (recovery) of \$nil (December 31, 2022 – (\$0.4 million)) against accounts receivable.

Liquidity Risk

Liquidity risk is the risk that Pine Cliff will not be able to meet its financial obligations as they become due. Pine Cliff manages its liquidity risk through actively managing its capital, which it defines as cash, debt and equity. Capital management strategies include continuously monitoring forecasted and actual cash provided by (used in) operating, financing and investing activities and opportunities to issue additional equity. Pine Cliff actively monitors its credit and working capital to ensure that it has sufficient available funds to meet its financial requirements at a reasonable cost. Management believes that funds generated from these sources currently will be adequate to settle Pine Cliff's financial liabilities. After examining the economic factors that are causing the liquidity risk facing the Company, the judgment applied to these factors, and the various initiatives that the Company has and will undertake to strengthen its financial position, the Company believes it will have sufficient liquidity to support its ongoing operations and meet its financial obligations as they come due for at least the next twelve months. A significant decline in commodity prices would hamper the Company's ability to rectify its working capital deficit and potentially require the Company to seek other sources of funding. If required, Pine Cliff will also consider reducing its dividend, additional short-term financing or issuing equity in order to meet its future liabilities. Any of these events could affect Pine Cliff's ability to fund ongoing operations.

The following table details the contractual maturities of Pine Cliff's financial liabilities as at December 31, 2023:

	2024	2025	2026	2027	2028	Thereafter
(\$000s)						
Accounts payable and accrued liabilities	43,840	-	-	-	-	-
Demand loan	4,002	-	-	-	-	-
Term loan ¹	14,216	13,327	44,605	-	-	-
Lease obligations ¹	1,252	1,082	819	229	7	-
Total financial liabilities	63,310	14,409	45,424	229	7	-

¹ These amounts include the notional principal and interest payments.

7. EXPLORATION AND EVALUATION

Cost:	(\$000s)
Balance at December 31, 2021	2,350
Additions	63
Balance at December 31, 2022	2,413
Additions	34
Impairment	(2,447)
Balance at December 31, 2023	-

E&E Impairment Assessment

During the year ended December 31, 2023, the Company determined that the E&E mining assets were not commercially viable and recognized an impairment for the outstanding balance in the statements of comprehensive income.

8. PROPERTY, PLANT AND EQUIPMENT

Cost:	(\$000s)
Balance at December 31, 2021	707,663
Additions	29,014
Right-of-use assets	500
Acquisitions	1,119
Dispositions	(7,046)
Decommissioning provision	(35,295)
Balance at December 31, 2022	695,955
Additions	20,932
Right-of-use assets	966
Acquisitions	136,914
Dispositions	(2,455)
Decommissioning provision	37,809
Balance at December 31, 2023	890,121

Accumulated depletion and depreciation:	(\$000s)
Balance at December 31, 2021	(413,590)
Depletion and depreciation	(44,074)
Impairment reversal	4,500
Dispositions	7,254
Balance at December 31, 2022	(445,910)
Depletion and depreciation	(43,928)
Dispositions	2,012
Balance at December 31, 2023	(487,826)

Carrying value at:	(\$000s)
December 31, 2022	250,045
December 31, 2023	402,295

PP&E Impairment Assessment

As at December 31, 2023, the Company had three cash generating units (“CGU’s”) being the Southern CGU, Central CGU and Edson CGU. In accordance with IFRS, an impairment test is performed if the Company identifies indicators of impairment at the end of a reporting period. At December 31, 2023, there were no indicators of impairment or additional impairment reversals for PP&E assets and therefore an impairment test was not required.

Acquisition

On December 13, 2023, the Company acquired Certus Oil & Gas Inc. (“Certus”) for total consideration of \$108.9 million (the “Acquisition”). This amount included \$72.3 million paid to Certus shareholders, \$33.0 million to repay Certus term debt and settle financial derivatives, the assumption of a working capital deficiency of \$2.6 million and payment of the Company’s closing costs of \$1.0 million. As part of the acquisition the Company acquired decommissioning obligations of \$26.5 million. As a result of completing the Acquisition, Certus became a wholly owned subsidiary of Pine Cliff and was subsequently amalgamated with Pine Cliff on January 1, 2024.

The Acquisition was funded from existing cash resources and the Term Loan. The Company applied the optional concentration test under IFRS 3, which resulted in the Acquisition being accounted for as an asset acquisition. The acquired assets are included in the Central CGU.

9. LEASE LIABILITIES

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

(\$000s)	As at December 31,	
	2023	2022
2023	-	1,154
2024	1,252	1,017
2025	1,082	847
2026	819	585
2027	229	-
2028	7	-
Total lease payments as at December 31	3,389	3,603
Amounts representing interest	(275)	(305)
Present value of lease payments	3,114	3,298
Current portion of lease obligations	(1,119)	(1,002)
Non-current portion of lease obligations	1,995	2,296

For the year ended December 31, 2023, interest expense of \$0.2 million (December 31, 2022 - \$0.2 million) and a total cash outflow of \$1.1 million (December 31, 2022 - \$1.2 million) was recognized relating to lease obligations.

The right-of-use assets and lease obligation relates to the Company's vehicle and head office lease in Calgary. A right-of-use asset of \$8.2 million and \$5.4 million in depreciation on the right-of-use-assets are included in PP&E. Refer to Note 8.

10. DEFERRED INCOME TAXES

Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial tax rates to income before income taxes as follows:

	Years ended December 31,	
	2023	2022
Income before income taxes	2,559	122,559
Corporate income tax rate	23.5%	23.5%
Computed income tax expense	601	28,807
Non-deductible compensation expense	677	600
Changes in the unrecognized deferred tax assets	(7,139)	(15,955)
Return to provision true-up	(701)	168
Deferred income taxes	(6,562)	13,620

The Company has recorded a deferred tax asset of \$43.6 million (December 31, 2022 - \$37.0 million) related to the benefit of tax pools, as it is probable that they will be recovered.

	As at December 31,	
	2023	2022
Deferred income tax assets		
Share issue costs	1,116	19
Other	265	21
Decommissioning provision	63,716	48,963
Property and equipment	(31,009)	(8,254)
Lease liabilities	732	775
Capital losses carried forward	661	475
Non-capital losses carried forward	25,352	4,741
Asset before unrecognized deferred income tax	60,833	46,740
Less: unrecognized deferred income tax	(17,242)	(9,698)
Net deferred income tax asset	43,591	37,042

Pine Cliff has approximately \$388.0 million in tax pools as at December 31, 2023 (December 31, 2022 - \$240.7 million), available for future use as deductions from taxable income. Included in the Company's tax pools are estimated non-capital loss carry-forwards of \$108.6 million (December 31, 2022 - \$20.8 million) that expire between the years 2031 and 2040.

The Company had the following tax pools, including non-capital loss carry-forwards, at December 31, 2023:

Category of tax pool (\$000s)	Rate of Utilization (%)	As at December 31, 2023
Undepreciated capital costs	7 - 55	38,571
Canadian oil and gas property expenditures	10	188,942
Canadian development expenditures	30	41,274
Canadian exploration expenditures	100	167
Share issue costs	20	4,747
Non-capital losses carried forward ¹	100	108,626
Capital losses carried forward ²		5,624
Total		387,951

¹ Non-capital losses expire between the years 2031 and 2040.

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

11. TERM LOAN

On December 13, 2023, the Company entered into a three-year first lien, non-revolving term loan facility. The amounts borrowed under the Term Loan bear interest at an annual interest rate equal to Canadian Prime Lending Rate (the "Prime Rate") plus 3.65%, where Prime Rate cannot be less than 6.95%. The Company is required to make mandatory principal quarterly repayments equal to \$2.11 million, payable on the first banking day of January, April, July and October of each calendar year, commencing April 1, 2024. The Term Loan has a maturity date of December 13, 2026 on which date the remaining outstanding principal balance is to be paid.

The Company shall not have the right to make an optional prepayment of the outstanding principal balance until after December 12, 2025, which shall include an amount of 1.5% of the principal amount prepaid, except for the following one-time optional prepayments:

- (i) as a one-time option on December 12, 2024, make a prepayment of a portion (but not all) of the outstanding principal amount plus an amount of 4% of the principal amount prepaid; provided that the portion of the outstanding principal balance to be prepaid: (A) is not less than 15% and (B) not greater than 25%, in each case, of the outstanding principal balance under the Term Loan immediately prior to such partial prepayment;
- (ii) as a one-time option on March 12, 2025, make a prepayment of all or any portion of the outstanding principal balance plus an amount of 4% of the principal amount prepaid; provided that such outstanding principal balance to be prepaid is not less than 15% of the outstanding principal balance under the Term Loan immediately prior to such partial prepayment; and
- (iii) as a one-time option on June 12, 2025, make a prepayment of all or any portion of the outstanding principal balance plus an amount of 3% of the principal amount prepaid; provided that such outstanding principal balance to be prepaid is not less than 15% of the outstanding principal balance under the Term Loan immediately prior to such partial prepayment.

The amount drawn under the Term Loan at December 31, 2023 was \$56.3 million (December 31, 2022 - \$nil). Based on the calculated fair value of the Term Loan as at December 31, 2023, the effective interest rate was determined to be 12.9% using the effective interest method. The effective interest rate was calculated by discounting future payments of interest and principal with the residual value allocated to issue costs of \$1.3 million. The value of the loan will accrete up to the principal balance at maturity. Interest accrued at December 31, 2023 was \$0.3 million (December 31, 2022 - \$nil). The borrowings were used to fund the Acquisition.

Security for the Term Loan consists of floating demand debentures totaling \$110.0 million (December 31, 2022 - \$nil) over all of the Company's assets and a general security agreement with first priority ranking over all personal and real property.

The Company is subject to certain financial covenants under its Term Loan as follows:

- Consolidated Debt, as defined herein, to EBITDA, as defined herein, ratio shall not exceed 1.5:1.0; and
- Asset Coverage ratio, as defined herein, of not less than 1.5:1.0.

Consolidated Debt is defined as all indebtedness for borrowed money, including issued and drawn letters of credit or letters of guarantee.

EBITDA is defined as net income for the trailing twelve-month period excluding finance costs, provision for current and deferred income tax, depletion and depreciation, share option compensation and gain or loss on sale of assets and impairment of assets, less cash taxes paid and decommissioning expenses incurred during the period.

Asset Coverage ratio is defined as the proved developed producing reserves of the Company (before income tax, discounted at 10%), as evaluated by an independent third-party engineering report and evaluated on strip commodity pricing, divided by the consolidated borrowings of the Company at December 31 of the calendar year. The ratio is calculated and revaluated for strip pricing at June 30 period end, based on an internally prepared engineering report.

The Company was in compliance with its Term Loan covenants at December 31, 2023.

12. DEMAND LOAN

The Company has a Demand Loan of \$8.0 million with a Canadian chartered bank, of which \$4.0 million was drawn at December 31, 2023 (December 31, 2022 - \$nil). Borrowings bear interest at the bank's prime lending rate plus 2.0%. Letters of credit issued under the Demand Loan are supported by a performance guarantee from Export Development Canada for an amount up to \$6.7 million and incur an issuance fee of 2.38%. At December 31, 2023, the Company had issued \$0.8 million in letters of credit (December 31, 2022 - \$1.7 million).

The Demand Loan is secured by a general security agreement over certain tangible field facilities of the Company.

The Company is subject to the following financial covenant under its Demand Loan:

Senior Debt, as defined herein, to Net EBITDA, as defined herein, ratio shall not exceed 3.0:1.0 at the end of each quarter-end.

Senior Debt is defined as any secured indebtedness for borrowed money. Net EBITDA shall mean net income excluding finance costs, provision for current and deferred income tax, depletion and depreciation, share option compensation and gain or loss on sale of assets and impairment of assets, less cash taxes and dividends paid, on a trailing twelve-month basis.

The Company was in compliance with its Demand Loan covenant at December 31, 2023.

13. DECOMMISSIONING PROVISION

The total current and long-term decommissioning provision of \$271.2 million was estimated by management based on the Company's working interest and estimated costs to remediate, reclaim and abandon its wells, pipelines, and facilities and estimated timing of the costs to be incurred in future periods.

At December 31, 2023, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was \$327.3 million (December 31, 2022 - \$277.3 million). The discounted and inflated amount required to settle the decommissioning liabilities of \$271.2 million has been calculated assuming a 2.00% inflation rate (December 31, 2022 - 2.00%) and discounted using an average risk-free interest rate of 3.08% (December 31, 2022 - 3.33%). These obligations are currently expected to be settled based on the useful lives of the underlying assets, some of which extend beyond 50 years into the future.

	(\$000s)
Decommissioning provision, January 1, 2022	248,423
Increase in liabilities relating to development activities	113
Provisions related to acquisitions	2,835
Provisions related to dispositions	(7,965)
Site decommissioning grants	(5,142)
Decommissioning expenditures	(5,757)
Changes in estimates	(30,278)
Accretion	6,158
Decommissioning provision, December 31, 2022	208,387
Increase in liabilities relating to development activities	136
Provisions related to acquisitions	27,588
Decommissioning expenditures	(9,493)
Changes in estimates and discount rates	37,673
Accretion	6,874
Decommissioning provision, December 31, 2023	271,165
Less current portion of decommissioning provision	(7,100)
Non-current portion of decommissioning provision	264,065

14. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of Common Shares without nominal or par value. Common Shares carry one vote per share and the right to any dividends declared. 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 and outstanding

	Common Shares (000s)	Share capital (\$000s)
Issued and outstanding share capital continuity:		
Balance, January 1, 2022	339,539	275,766
Exercise of stock options	11,370	1,884
Balance, December 31, 2022	350,909	277,650
Exercise of stock options	5,389	973
Balance, December 31, 2023	356,298	278,623

Stock Options

The Company provides an equity settled stock option plan (the “**Option Plan**”) for its directors, employees and consultants. Under the Option Plan, the Company may grant stock options up to 10% of outstanding Common Shares on the grant date. The term and vesting period of the options granted are determined at the discretion of the Company’s board of directors. The exercise price of each option granted equals the market price of the Common Shares immediately preceding the date of grant and the option’s maximum term is five years.

	Options (000s)	Weighted-average exercise price (\$ per Common Share)
Stock options issued and outstanding:		
Outstanding, January 1, 2022	25,270	0.25
Granted	7,162	1.89
Exercised	(12,896)	0.23
Expired	(291)	0.52
Forfeited	(921)	0.81
Outstanding, December 31, 2022	18,324	0.87
Granted	11,603	1.32
Exercised	(6,291)	0.24
Expired	(596)	1.03
Forfeited	(2,335)	1.13
Outstanding, December 31, 2023	20,705	1.28
Exercisable, December 31, 2023	2,970	1.29

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
\$0.145 - \$0.20	277	0.4	277	0.4
\$0.21 - \$0.33	3,619	1.2	818	0.4
\$0.34 - \$1.30	9,152	2.4	4	1.3
\$1.31 - \$1.60	2,324	2.5	109	0.3
\$1.61 - \$1.92	5,333	1.4	1,762	0.4
	20,705	1.9	2,970	0.4

The Company records share-based compensation expense over the vesting period, based on the fair value of the options granted to employees, directors and consultants. Typically, one third of the stock options granted vest annually on the first, second, and third anniversaries of the grant date and expire one year after each respective vesting date. During the year ended December 31, 2023, the Company granted 11,603,180 stock options (December 31, 2022 - 7,161,600) with a fair value of \$0.34 (December 31, 2022 - \$0.73) per option using the Black-Scholes option pricing model using the following key assumptions:

Assumptions (weighted average):	Years ended December 31,	
	2023	2022
Exercise price (\$)	1.32	1.89
Estimated volatility of underlying Common Shares (%)	61.5	73.2
Expected life (years)	3.0	3.0
Risk-free rate (%)	3.8	2.7
Forfeiture rate (%)	7.5	7.7
Expected dividend yield (%)	9.8	5.1

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

Per Share Calculations

The average market value of the Common Shares for the purposes of calculating the dilutive effect of stock options and warrants was based on quoted market prices for the period that the options were outstanding.

Net income per share calculation (\$000s):	Years ended December 31,	
	2023	2022
Numerator		
Net income for the year	9,121	108,939
Denominator (000s)		
Weighted-average Common Shares outstanding – basic	354,057	346,443
Dilutive effect of options outstanding	5,318	13,590
Weighted-average Common Shares outstanding – diluted	359,375	360,033
Net income per Common Share – basic (\$)	0.03	0.31
Net income per Common Share – diluted (\$)	0.03	0.30

Dividends declared and paid for the year ended December 31, 2023 were \$46.0 million (December 31, 2022 - \$23.6 million) or \$0.13 per Common Share (\$0.07 per Common Share for the year ended December 31, 2022).

15. COMMODITY SALES

The Company's commodity sales revenue is determined pursuant to the terms of the marketing agreements. The revenue for natural gas, crude oil and NGLs is based on the commodity price in the month of production, adjusted for quality, location, allowable deductions, if any, or other factors. Commodity sales revenues are based on marketed indices that are determined on a monthly or daily basis.

(\$000s)	Years ended December 31,	
	2023	2022
Natural gas	117,432	217,772
NGLs	29,149	38,549
Crude oil	42,271	49,887
Total commodity sales	188,852	306,208

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Years ended December 31,	
	2023	2022
Changes in non-cash working capital:		
Accounts receivable	3,530	(5,574)
Prepaid expenses and deposits	(3,554)	(321)
Accounts payable and accrued liabilities	14,200	(9,945)
	14,176	(15,840)
Change related to:		
Operating activities	17,780	(6,997)
Investing activities	(3,604)	(9,190)
	14,176	(16,187)

	Years ended December 31,	
	2023	2022
Finance expenses:		
Interest expense and bank charges	733	2,407
Non cash:		
Accretion on decommissioning provision	6,874	6,157
Accretion on promissory notes and term loan/term debt	23	97
Total finance expenses	7,630	8,661

Cash interest paid in the year ended December 31, 2023, was \$0.2 million (December 31, 2022 - \$3.6 million).

17. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses by nature were as follows:

	Years ended December 31,	
	2023	2022
General and administration expenses:		
Salary and benefits	7,312	7,424
Administrative and other costs	3,607	2,759
Overhead recoveries	(3,424)	(3,364)
Total general and administrative expenses	7,495	6,819

18. 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 short-term cash benefits and its directors and officers also participate in the Option Plan. Director and officer compensation was as follows:

	Years ended December 31,	
	2023	2022
Key management remuneration:		
Short-term benefits ¹	2,053	2,587
Share-based compensation ²	1,265	1,007
Total key management remuneration	3,318	3,594

¹ Short-term benefits includes the salary, other non-cash short-term benefits and directors fees paid to the Company's officers and directors.

² Share-based compensation computed for officers and directors are included in note 14 and include the fair value of awards expensed in the year.

19. COMMITMENTS

As at December 31, 2023, the Company has the following commitments and other contractual obligations:

	2024	2025	2026	2027	2028	Thereafter
(\$000s)						
Accounts payable and accrued liabilities	43,840	-	-	-	-	-
Demand loan	4,002	-	-	-	-	-
Term loan ¹	14,216	13,327	44,605	-	-	-
Lease obligations ¹	1,252	1,082	819	229	7	-
Transportation ²	10,330	8,047	6,924	5,235	1,254	748
Total commitments and contingencies	73,640	22,456	52,348	5,464	1,261	748

¹ These amounts include the notional principal and interest payments.

² Firm transportation agreements.

20. CAPITAL STRUCTURE

The Company's objectives when managing capital, which the Company defines to include shareholders' equity and positive net cash/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 provided by (used in) 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, Common Shares or a combination thereof and make adjustments to its capital investment and dividend programs.

The Company defines and computes its positive net cash/net debt as follows:

(\$000s)	December 31, 2023	December 31, 2022
Cash	-	54,428
Accounts receivable	23,657	27,187
Prepaid expenses and deposits	7,321	3,767
Investments	208	171
Less:		
Accounts payable and accrued liabilities	(43,840)	(29,640)
Term loan	(55,023)	-
Demand loan	(4,002)	-
Positive net cash (net debt)	(71,679)	55,913
Equity	99,928	133,728

The Company's cash provided by (used in) operating activities is expected to 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 service costs, the Company may not generate sufficient cash provided by operating activities to entirely fund its planned oil and gas capital programs or future acquisitions. Accordingly, the Company will continually evaluate the stage of development of its proved and producing reserves and the expected return on investment of acquisitions and consider issuing equity and/or debt or amend its dividend to provide additional financing to maintain appropriate positive net cash/net debt and equity levels.

The Company considers adjusted funds flow to be a key performance measure as it demonstrates the Company's ability to generate funds necessary to fund future growth through capital investment, to pay dividends and where necessary repay debt. Positive net cash (net debt)-to-adjusted funds flow is computed as follows:

	As at December 31,	
	2023	2022
Positive net cash (net debt)-to-adjusted funds flow calculation:		
Cash provided by operating activities	66,627	150,452
Changes in non-cash working capital	(17,433)	6,997
Decommissioning obligations settled in cash	9,493	5,757
Adjusted funds flow	58,687	163,206
Positive net cash (net debt)	(71,679)	55,913
Net debt-to-adjusted funds flow	1.2	-

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 long-term nature of its net debt, including its Term Loan and its capital management objectives.

21. SUBSEQUENT EVENTS

Dividends

On January 31, 2024 and February 29, 2024, the Company paid a monthly dividend of \$0.01083 per Common Share.

On March 4, 2024, the Company declared a monthly dividend of \$0.005 per Common Share. The dividend is payable March 28, 2024, to all shareholders of record on March 15, 2024.

BOARD OF DIRECTORS

William S. Rice - Chairman
Hilary A. Foulkes
Robert B. Fryk
Philip B. Hodge
Calvin B. Jacober
Jacqueline R. Ricci

OFFICERS

Philip B. Hodge
President and Chief Executive Officer
Terry L. McNeill
Chief Operating Officer
Alan MacDonald
Chief Financial Officer and Corporate Secretary
Kristopher B. Zack
Vice President Finance

HEAD OFFICE

850, 1015 - 4th Street SW
Calgary, Alberta T2R 1J4

Phone: (403) 269-2289

Fax: (403) 265-7488

REGISTRAR AND TRANSFER AGENT

Odyssey Trust Company of Canada

AUDITORS

Deloitte LLP

STOCK EXCHANGE LISTING

TSX Exchange
Trading Symbol: PNE

WEBSITE

www.pinecliffenergy.com

INVESTOR CONTACT

info@pinecliffenergy.com

