

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

This Management's Discussion and Analysis ("**MD&A**") for Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is dated March 15, 2017. This MD&A and the audited financial statements with respect to the three and twelve months ended December 31, 2016 (the "**Reporting Periods**") as compared to the three and twelve months ended December 31, 2015 (the "**Comparable Prior Periods**") have been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the audited financial statements of the Corporation and related notes for the year ended December 31, 2016. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

This MD&A uses "funds flow", "funds flow from operations", "funds flow per common share", "netback", "operating netback", "estimated operating netback", "operating margin", "total cash costs", "adjusted working capital deficit" and "total debt", which do not have standardized meanings prescribed by generally accepted accounting principles ("**GAAP**") and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. For further information, see "*Non-GAAP Measures*" in this MD&A.

This MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. Such forward-looking information is based upon certain expectations and assumptions and actual results may differ materially from those expressed or implied by such forward-looking information. For further information regarding the forward-looking information contained herein, including the assumptions underlying such forward-looking information, see "*Advisories – Forward-Looking Information*" in this MD&A.

All boe amounts have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil and all Mcfe amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. For further information, see "*Advisories*" in this MD&A.

ABOUT BIRCHCLIFF

Birchcliff is a Calgary, Alberta based intermediate oil and natural gas company with operations concentrated in its one core area, the Peace River Arch of Alberta, which is centred northwest of Grande Prairie, Alberta. Birchcliff's common shares are listed for trading on the Toronto Stock Exchange (the "**TSX**") under the symbol "BIR" and are included in the S&P/TSX Composite Index. Additional information relating to the Corporation, including its Annual Information Form for the financial year ended December 31, 2016, is available on the SEDAR website at www.sedar.com and on the Corporation's website at www.birchcliffenergy.com.

HIGHLIGHTS FOR 2016

The year 2016 marked the completion of a transformational transaction for Birchcliff. On July 28, 2016, Birchcliff closed the acquisition of significant petroleum and natural gas properties and related assets located in the Gordondale area of Alberta (the "**Gordondale Assets**") from a senior producer (the "**Gordondale Acquisition**"). The Gordondale Assets include high working interest operated production and a large contiguous land base which is adjacent to Birchcliff's existing Pouce Coupe properties. The purchase price for the Gordondale Acquisition was \$613.5 million, after closing adjustments and other related costs.

The Gordondale Acquisition was funded through a bought deal financing of 107,520,000 subscription receipts of the Corporation ("**Subscription Receipts**") at a price of \$6.25 per Subscription Receipt (the

“**Public Offering**”) and a private placement of 3,000,000 Subscription Receipts at a price of \$6.25 per Subscription Receipt (the “**Concurrent Private Placement**”). The Public Offering and the Concurrent Private Placement (collectively, the “**Financings**”) closed concurrently on July 13, 2016 and the aggregate gross proceeds of \$690.8 million were held in escrow pending completion of the Gordondale Acquisition. On July 28, 2016, Birchcliff closed the Gordondale Acquisition and each Subscription Receipt was exchanged for one common share of the Corporation for no additional consideration. The aggregate gross proceeds of the Financings were released from escrow to pay the balance of the purchase price for the Gordondale Acquisition and the balance of the fees payable to the underwriters of the Public Offering, with the remaining aggregate net proceeds applied to reduce indebtedness under the Corporation’s extendible revolving credit facilities (the “**Credit Facilities**”).

Highlights for 2016 also include the following:

- Record annual average production of 49,236 boe/d, a 26% increase from 2015 annual average production of 38,950 boe/d.
- Funds flow of \$147.4 million (\$0.74/basic common share), an 8% decrease from \$160.8 million (\$1.06/basic common share) in 2015.
- Net loss to common shareholders of \$28.3 million (\$0.14/basic common share), as compared to the net loss to common shareholders of \$16.2 million (\$0.11/basic common share) in 2015.
- Operating costs of \$4.18/boe, an 8% decrease from \$4.54/boe in 2015.
- Long-term bank debt at December 31, 2016 was \$572.5 million, an 8% decrease from \$622.1 million at December 31, 2015. Total debt at December 31, 2016 was \$600.0 million, a 7% decrease from \$643.6 million at December 31, 2015.
- Net capital expenditures of \$148.5 million, excluding the Gordondale Acquisition, and net capital expenditures of \$762.0 million, including the Gordondale Acquisition.
- In connection with the closing of the Gordondale Acquisition, the Credit Facilities were amended to increase the borrowing base to \$950 million from \$750 million.

Highlights for the fourth quarter of 2016 include the following:

- Record quarterly average production of 60,750 boe/d, a 50% increase from 40,445 boe/d in the fourth quarter of 2015.
- Funds flow of \$71.8 million (\$0.27/basic common share), a 113% increase from \$33.7 million (\$0.22/basic common share) in the fourth quarter of 2015.
- Net income to common shareholders of \$11.1 million (\$0.04/basic common share), as compared to the net loss to common shareholders of \$10.3 million (\$0.07/basic common share) in the fourth quarter of 2015.
- Operating costs of \$4.54/boe, a 9% increase from \$4.16/boe in the fourth quarter of 2015.
- Net capital expenditures of \$62.5 million.

2017 OUTLOOK

Birchcliff’s 2017 capital expenditure program of \$355 million (the “**2017 Capital Program**”) includes total drilling and development capital of \$229.8 million and facilities and infrastructure capital of \$85.6 million. The 2017 Capital Program contemplates the drilling, completing, equipping and bringing on production of a total of 46 (46.0 net) wells and also includes the remaining portion of the capital associated with the completion, equipping and/or bringing on production of 10 wells drilled in 2016. Accordingly, it is expected that a total of 56 (56.0 net) wells will be brought on production during 2017.

Birchcliff expects its annual average production in 2017 to be between 70,000 and 74,000 boe/d and its fourth quarter average production in 2017 to be 80,000 to 82,000 boe/d.

Birchcliff has entered into natural gas hedging contracts for 187,600 GJ/d (163,600 Mcf/d) at an average AECO price of CDN\$3.02/GJ (\$3.46/Mcf) for 2017. Birchcliff has also entered into financial swaps for 1,500 bbls/d of crude oil at an average price of CDN\$69.90/bbl for the period from January 1, 2017 to December 31, 2017. With approximately 50% of the Corporation's forecast 2017 natural gas production hedged, the Corporation expects to fully fund the 2017 Capital Program out of internally generated funds flow. This assumes a forecast average WTI price of US\$55.00/bbl of oil and a forecast average AECO price of CDN\$3.00/GJ of natural gas during 2017 and that the Corporation's production targets for 2017 are achieved.

Birchcliff's Board of Directors approved a quarterly dividend policy for the Corporation's common shares in November 2016. On March 1, 2017, the Board of Directors declared the first dividend payable under this policy in respect of the quarter ending March 31, 2017 in the amount of \$0.025 per common share. This dividend is payable on March 31, 2017 to shareholders of record at the close of business on March 15, 2017 and has been designated as an "eligible dividend" for the purposes of the *Income Tax Act* (Canada).

Birchcliff's 2016 results showcased it as one of the industry leading low-cost producers and finders of natural gas, oil and NGLs in the Peace River Arch of Alberta. The Corporation is focused on executing the 2017 Capital Program and completing the Phase V and VI expansions of its 100% owned and operated natural gas plant located in the Pouce Coupe area (the "**PC Gas Plant**"), all with the goal of producing in excess of 100,000 boe/d by the end of 2018.

See "Advisories – Forward-Looking Information".

SELECTED ANNUAL INFORMATION

	2016	2015	2014
Average daily production (boe)	49,236	38,950	33,734
Petroleum and natural gas revenue (\$000s) ⁽¹⁾	337,586	317,304	472,888
Average sales price (\$ CDN) ⁽¹⁾			
Light oil – (per bbl)	51.40	53.68	92.39
Natural gas – (per Mcf)	2.41	2.90	4.74
NGLs – (per bbl)	31.23	50.76	85.13
Total – (per boe)	18.73	22.31	38.39
Funds flow from operations (\$000s)	147,443	160,756	300,498
Per common share – basic (\$)	0.74	1.06	2.03
Per common share – diluted (\$)	0.73	1.04	1.97
Net income (loss) (\$000s)	(24,335)	(12,160)	114,304
Net income (loss) to common shareholders (\$000s)	(28,335)	(16,160)	110,304
Per common share – basic (\$)	(0.14)	(0.11)	0.75
Per common share – diluted (\$)	(0.14)	(0.11)	0.72
Capital expenditures, net (\$000s)	762,030	247,207	450,932
Operating costs (\$ per boe)	4.18	4.54	5.22
Total assets (\$000s)	2,710,457	2,025,373	1,918,680
Adjusted working capital deficit (\$000s)	27,495	21,538	76,712
Non-revolving term credit facilities (\$000s)	-	-	129,476
Revolving term credit facilities (\$000s)	572,517	622,074	339,557
Total debt (\$000s)	600,012	643,612	545,745
Common shares outstanding (000s):			
End of period – basic	264,042	152,308	152,214
End of period – diluted	279,881	167,817	166,302
Weighted average common shares for period – basic	199,581	152,286	147,764
Weighted average common shares for period – diluted	202,686	154,078	152,243
Series A preferred shares outstanding – end of period (000s)	2,000	2,000	2,000
Series A – dividend distribution (\$000s)	4,000	4,000	4,000
Per Series A preferred share (\$)	2.00	2.00	2.00
Series C preferred shares outstanding – end of period (000s)	2,000	2,000	2,000
Series C – dividend distribution (\$000s)	3,500	3,500	3,500
Per Series C preferred share (\$)	1.75	1.75	1.75

(1) Excludes the effect of hedges using financial instruments.

In 2016, annual average production was 49,236 boe/d, up 26% from 2015 and up 46% from 2014. These production increases were largely attributed to the production volumes acquired pursuant to the Gordondale Acquisition, as well as the success of Birchcliff's capital drilling program since 2014 which resulted in increased incremental production from new Montney/Doig horizontal natural gas wells producing to the PC Gas Plant.

Birchcliff generated lower funds flow in 2016 as compared to the prior two years. This was largely due to a lower average sales price of \$18.73/boe in 2016, down 16% from 2015 and down 51% from 2014, primarily offset by the production volumes acquired pursuant to the Gordondale Acquisition. Realized oil wellhead prices averaged \$51.40/bbl in 2016, down 4% from 2015 and down 44% from 2014. Realized natural gas wellhead prices averaged \$2.41/Mcf in 2016, down 17% from 2015 and down 49% from 2014. The decline in the corporate realized sales price is primarily due to a supply/demand imbalance of oil and natural gas that has resulted in above average inventory levels in North America over the last two years.

Birchcliff recorded a net loss to common shareholders of \$28.3 million (\$0.14/basic common share) in 2016 as compared to a net loss to common shareholders of \$16.2 million (\$0.11/basic common share) in 2015 and net income to common shareholders of \$110.3 million (\$0.75/basic common share) in 2014. The change from the net income position in 2014 was largely due to the year-over-year decreases in funds flow from operations resulting from lower average commodity prices and higher depletion expense resulting from increased production volumes and was also impacted by gains and losses on the sale of assets recorded in the last three years.

Net capital expenditures in 2016 were significantly higher as compared to 2015 and 2014, primarily due to the Gordondale Acquisition that was completed in July 2016 for cash consideration of \$613.5 million, after closing adjustments and other related costs. Excluding the Gordondale Acquisition, capital expenditures have generally decreased year-over-year as a result of general economic conditions and depressed commodity prices. Capital expenditures in the last three years were largely directed towards the Montney/Doig Resource Play which included: (i) the drilling and completion of new Montney/Doig horizontal natural gas wells that have been tied into the PC Gas Plant; (ii) the Phase V expansion of the PC Gas Plant (including related wells and infrastructure) which will increase the natural gas processing capacity from 180 MMcf/d to a licensed processing capacity of 260 MMcf/d; and (iii) the Gordondale Acquisition.

FUNDS FLOW FROM OPERATIONS

	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015
(\$000s)				
Funds flow from operations	71,806	33,697	147,443	160,756
Per common share – basic (\$)	0.27	0.22	0.74	1.06
Per common share – diluted (\$)	0.27	0.22	0.73	1.04

Funds flow increased from the three month Comparable Prior Period largely due to higher average realized commodity prices and the production volumes acquired pursuant to the Gordondale Acquisition. During the three month Reporting Period, realized oil prices increased 23% and realized natural gas prices increased 24% from the Comparable Prior Period. Birchcliff's production for the three month Reporting Period averaged 60,750 boe/d, an increase of 50% from the Comparable Prior Period.

Funds flow decreased from the twelve month Comparable Prior Period largely due to lower average realized commodity prices, primarily offset by the production volumes acquired pursuant to the Gordondale Acquisition. During the twelve month Reporting Period, realized oil prices were down 4% and realized natural gas prices were down 17% from the twelve month Comparable Prior Period. Birchcliff's

production for the twelve month Reporting Period averaged 49,236 boe/d, an increase of 26% from the twelve month Comparable Prior Period.

The following table provides a breakdown of total cash costs on a per boe basis and the percentage change period-over-period:

(\$/boe)	Three months ended December 31,			Twelve months ended December 31,		
	2016	2015	% Change	2016	2015	% Change
Royalty expense	1.82	0.94	94%	1.16	0.81	43%
Operating expense	4.54	4.16	9%	4.18	4.54	(8%)
Transportation and marketing expense	2.42	2.31	5%	2.38	2.45	(3%)
General & administrative expense, net	1.19	2.01	(41%)	1.19	1.61	(26%)
Interest expense	1.40	1.80	(22%)	1.68	1.60	5%
Total cash costs	11.37	11.22	1%	10.59	11.01	(4%)

On a per boe basis, total cash costs for the three month Reporting Period increased 1% compared to the Comparable Prior Period, primarily driven by higher royalty, operating and transportation and marketing expenses associated with the Gordondale Assets and partially offset by lower general and administrative and interest expenses.

On a per boe basis, total cash costs for the twelve month Reporting Period were down 4% from the twelve month Comparable Prior Period, primarily driven by lower operating, transportation and marketing and general and administrative expenses and partially offset by higher royalty and interest expenses.

See “Discussion of Operations” in this MD&A for further details regarding the period-over-period movement in commodity prices, production volumes and cash costs discussed above.

NET INCOME (LOSS) TO COMMON SHAREHOLDERS

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015
Net income (loss)	12,085	(9,322)	(24,335)	(12,160)
Net income (loss) to common shareholders⁽¹⁾	11,085	(10,322)	(28,335)	(16,160)
Per common share – basic (\$)	0.04	(0.07)	(0.14)	(0.11)
Per common share – diluted (\$)	0.04	(0.07)	(0.14)	(0.11)

(1) Net income (loss) to common shareholders is calculated by adjusting net income (loss) for dividends paid on the Series A Preferred Shares during the period. Per common share amounts are calculated by dividing net income (loss) to common shareholders by the weighted average number of basic or diluted common shares outstanding for the period.

For the three month Reporting Period, Birchcliff realized net income to common shareholders of \$11.1 million compared to a net loss to common shareholders of \$10.3 million in the Comparable Prior Period. The change to a net income position was primarily due to higher funds flow from operations, offset by an increase in aggregate depletion costs resulting from production volumes acquired pursuant to the Gordondale Acquisition and a \$9.6 million non-cash “marked to market” unrealized loss recorded in the three month Reporting Period in respect of Birchcliff’s commodity risk management contracts outstanding at December 31, 2016.

For the twelve month Reporting Period, Birchcliff realized a net loss to common shareholders of \$28.3 million compared to the net loss to common shareholders of \$16.2 million in the Comparable Prior Period. The increase in the net loss to common shareholders from the twelve month Comparable Prior Period was largely due to lower funds flow from operations, a \$10.9 million non-cash loss on the sale of assets in the Progress area that was completed in the second quarter of 2016 and a \$9.4 million unrealized loss on risk management contracts recorded in the twelve month Reporting Period.

The net loss in the Comparable Prior Periods included a non-cash deferred income tax expense adjustment in the amount of \$7.8 million that was recorded in the second quarter of 2015 as a result of the 2015

change in the Alberta corporate income tax rate from 10% to 12% and non-cash deferred income tax expense adjustment in the amount of \$10.2 million that was recorded in the three month Comparable Prior Period in connection with the denial of the Veracel tax pools by the Tax Court of Canada (the “**Trial Court**”). For more information on these deferred income tax adjustments in 2015, see “*Income Taxes*” in this MD&A.

PC GAS PLANT NETBACKS

During the twelve month Reporting Period, Birchcliff processed approximately 68% of its total corporate natural gas production and 59% of its total corporate production through the PC Gas Plant, with an average plant and field operating cost of \$0.25/Mcfe (\$1.49/boe). The estimated operating netback at the PC Gas Plant was \$1.90/Mcfe (\$11.38/boe), resulting in an operating margin of 75% in 2016.

The following table details Birchcliff’s annual net production and estimated operating netback for wells producing to the PC Gas Plant, on a production month basis:

	Twelve months ended December 31, 2016		Twelve months ended December 31, 2015	
Average daily production, net to Birchcliff:				
Natural gas (Mcf)	168,444		163,641	
Oil & NGLs (bbls)	960		1,287	
Total boe	29,034		28,560	
Sales liquids yield (bbls/MMcf)	5.7		7.9	
% of corporate natural gas production	68%		81%	
% of corporate production	59%		73%	
AECO – C daily (\$/Mcf)	\$2.16		\$2.69	
Netback and cost:	<i>\$/Mcfe</i>	<i>\$/boe</i>	<i>\$/Mcfe</i>	<i>\$/boe</i>
Petroleum and natural gas revenue ⁽¹⁾	2.54	15.21	3.17	19.03
Royalty expense	(0.06)	(0.38)	(0.11)	(0.63)
Operating expense ⁽²⁾	(0.25)	(1.49)	(0.31)	(1.90)
Transportation and marketing expense	(0.33)	(1.96)	(0.31)	(1.88)
Estimated operating netback	\$1.90	\$11.38	\$2.44	\$14.62
Operating margin	75%	75%	77%	77%

(1) Excludes the effect of hedges using financial instruments.

(2) Represents plant and field operating costs.

The decrease in the percentage of corporate natural gas production and corporate production producing to the PC Gas Plant for the twelve month Reporting Period is primarily due to the liquids-rich production acquired pursuant to the Gordondale Acquisition.

DISCUSSION OF OPERATIONS

The following table sets forth Birchcliff’s P&NG revenues, production and percentage of production and sales price by product category:

	Three months ended December 31, 2016				Three months ended December 31, 2015			
	Total Revenue ⁽¹⁾ (\$000s)	Average Daily Production	Average (%)	Average (\$/unit)	Total Revenue (\$000s)	Average Daily Production	Average (%)	Average (\$/unit)
Light oil (bbls)	26,018	4,656	8	60.75	16,032	3,530	9	49.36
Natural gas (Mcf)	88,135	289,587	79	3.31	51,792	211,127	87	2.67
NGLs (bbls) ⁽²⁾	21,254	7,830	13	29.50	7,625	1,727	4	47.98
Total P&NG sales (boe)	135,407	60,750	100	24.23	75,449	40,445	100	20.28
Royalty revenue	50			0.01	27			-
P&NG revenues	135,457			24.24	75,476			20.28

- (1) Excludes the effect of hedges using financial instruments.
- (2) NGLs prices are Birchcliff's realized prices adjusted for fractionation costs associated with the Gordondale Assets.

	Twelve months ended December 31, 2016				Twelve months ended December 31, 2015			
	Total Revenue ⁽¹⁾ (\$000s)	Average Daily Production	(%)	Average (\$/unit)	Total Revenue (\$000s)	Average Daily Production	(%)	Average (\$/unit)
Light oil (bbls)	70,144	3,729	8	51.40	72,636	3,707	10	53.68
Natural gas (Mcf)	218,432	247,373	83	2.41	213,494	201,418	86	2.90
NGLs (bbls) ⁽²⁾	48,901	4,279	9	31.23	30,991	1,673	4	50.76
Total P&NG sales (boe)	337,477	49,236	100	18.73	317,121	38,950	100	22.31
Royalty revenue	109			-	183			0.01
P&NG revenues	337,586			18.73	317,304			22.32

- (1) Excludes the effect of hedges using financial instruments.
- (2) NGLs prices are Birchcliff's realized prices adjusted for fractionation costs associated with the Gordondale Assets.

The increase in P&NG revenues from the three month Comparable Prior Period was largely attributable to increased production volumes acquired pursuant to the Gordondale Acquisition and higher average realized commodity prices in the three month Reporting Period.

The increase in P&NG revenues from the twelve month Comparable Prior Period was largely attributable to increased production volumes acquired pursuant to the Gordondale Acquisition and offset by lower average realized commodity prices in the twelve month Reporting Period.

Petroleum and Natural Gas Revenues

Production

Production averaged 60,750 boe/d in the three month Reporting Period and 49,236 boe/d in the twelve month Reporting Period, a 50% and 26% increase, respectively, from the Comparable Prior Periods. The increase in production from the Comparable Prior Periods was largely due to the production volumes acquired pursuant to the Gordondale Acquisition and incremental production added from new Montney/Doig horizontal natural gas wells, partially offset by natural production declines. Birchcliff's quarterly average production for the three month Reporting Period was slightly below its guidance of 62,000 to 63,000 boe/d and its annual average production for the twelve month Reporting Period was within its guidance of 49,000 to 51,000 boe/d. Birchcliff's production was adversely impacted by transportation service curtailments on TransCanada's NGTL System and by unplanned downtime and maintenance activities in its Worsley area during the three month Reporting Period.

The production volumes acquired from the Gordondale Assets averaged approximately 22,631 boe/d in the three month Reporting Period and reflect the first full quarter of production from the Gordondale Assets. The Gordondale Assets increased Birchcliff's average daily production for the twelve month Reporting Period by approximately 9,806 boe/d, which includes production from July 28, 2016 to December 31, 2016.

Production attributed to the Gordondale Assets has been naturally declining since the Corporation acquired the assets in July 2016. No new Montney horizontal oil and gas wells were brought on-stream in the Gordondale area in 2016. In the three month Reporting Period, Birchcliff drilled and cased its first wells in the Gordondale area acquired pursuant to the Gordondale Acquisition, consisting of six 100% wells (three Montney D2 horizontal oil wells and three Montney D1 horizontal liquids-rich natural gas wells). These wells were brought on-stream in the first quarter of 2017.

Production consisted of approximately 79% natural gas, 8% light oil and 13% NGLs in the three month Reporting Period as compared to 87% natural gas, 9% light oil and 4% NGLs in the Comparable Prior Period. Production consisted of 83% natural gas, 8% light oil and 9% in the twelve month Reporting Period as compared to 86% natural gas, 10% light oil and 4% NGLs in the Comparable Prior Period. The decrease in corporate natural gas weighting in the Reporting Periods is attributed to the production volumes acquired pursuant to the Gordondale Acquisition, which also resulted in the increase in the corporate NGLs weighting in the three month Reporting Period. Production from the Gordondale Assets during the three month Reporting Period consisted of approximately 59% natural gas, 13% light oil and 28% NGLs in the three month Reporting Period. The higher weighting of NGLs is a reflection of the liquids-rich nature of the Montney/Doig Resource Play in the Gordondale area.

Commodity prices

Birchcliff sells the majority of its light crude oil on a spot basis and the majority of its natural gas production for prices based on the AECO natural gas spot price. The average realized price the Corporation receives for its light crude oil and natural gas production depends on a number of factors, including the average benchmark prices for crude oil and natural gas, the US to Canadian dollar exchange rate and transportation and product quality differentials.

The average benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for these commodities. The principal benchmark trading exchanges that Birchcliff compares its oil price to are the WTI oil spot price and the Canadian Edmonton Par spot price. The differential between the WTI oil spot price and Canadian Edmonton Par spot price can widen due to a number of factors, including, but not limited to, downtime in North American refineries, rising domestic production, high inventory levels in North America and lack of pipeline infrastructure connecting to key consuming oil markets.

Canadian AECO natural gas prices are mainly influenced by North American supply and demand fundamentals which can be impacted by a number of factors, including, but not limited to, weather-related conditions, changing demographics, economic growth, underground storage levels, net import and export markets, pipeline takeaway capacity, cost of competing fuels, drilling and completion rates and efficiencies in extracting natural gas from North American natural gas basins.

The following table sets forth the average benchmark prices and Birchcliff's average realized sales price:

	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015
<i>Average benchmark prices:</i>				
Light oil – WTI Cushing (US\$/bbl)	49.29	42.18	43.32	48.80
Light oil – Edmonton Par (\$/bbl)	61.66	53.78	53.90	57.76
Natural gas – AECO – C daily (\$/MMbtu) ⁽¹⁾	3.09	2.46	2.16	2.69
Exchange rate – (US\$/CDN\$)	1.33	1.34	1.33	1.29
<i>Birchcliff's average realized sales price⁽²⁾:</i>				
Light oil (\$/bbl)	60.75	49.36	51.40	53.68
Natural gas (\$/Mcf)	3.31	2.67	2.41	2.90
NGLs (\$/bbl)	29.50	47.98	31.23	50.76
Average corporate realized sales price (\$/boe)	24.23	20.28	18.73	22.31

(1) \$1.00/MMbtu = \$1.00/Mcf based on a standard heat value Mcf.

(2) Excludes the effect of hedges using financial instruments.

The average corporate realized sales price was \$24.23/boe for the three month Reporting Period, a 19% increase from the Comparable Prior Period. This increase was largely due to higher oil and natural gas spot

prices in the three month Reporting Period and a higher average realized sales price attributable to the liquids-rich Gordondale Assets.

The average corporate realized sales price was \$18.73/boe for the twelve month Reporting Period, a 16% decrease from the twelve month Comparable Prior Period. This decrease was largely due to a lower average spot price for AECO natural gas and WTI USD oil which resulted from a supply/demand imbalance for these commodities in North America during the twelve month Reporting Period. This was partially offset by a higher average realized sales price attributable to the liquids-rich Gordondale Assets in the three month Reporting Period.

The Gordondale Assets received a higher average realized sales price compared to the Corporation's largest producing asset (the PC Gas Plant and related wells and infrastructure), largely as a result of higher volume weighting of NGLs produced in the Gordondale area which received a higher value on a per boe basis than the Corporation's natural gas sales. The higher weighting of NGLs in the total corporate production mix improved Birchcliff's overall average realized sales price. During the three month Reporting Period, the average realized oil and natural gas sales price for the Gordondale Assets was approximately \$25.67/boe as compared to \$24.23/boe on a corporate basis.

With respect to the Gordondale Assets, NGLs (ethane, propane, butane) are substantially recovered from the raw natural gas stream at a third-party deep cut natural gas processing facility which reduces the heat content value and realized sales price of natural gas from the area. During the three month Reporting Period, Birchcliff's heat content value for the Gordondale Assets was 39.1 MJ/m³ as compared to the corporate average of approximately 40.1 MJ/m³.

During the Reporting Periods, the average realized NGLs price on a corporate basis was lower than the Comparable Prior Periods primarily due to increased production weighting of ethane, propane and butane in the Reporting Periods, which typically receive a price below condensate (C5+). During the Comparable Prior Periods, NGLs were comprised of substantially all condensate (C5+).

Birchcliff's realized corporate natural gas sales price at the wellhead averaged \$3.31/Mcf for the three month Reporting Period and \$2.41/Mcf for the twelve month Reporting Period which were higher than the average posted benchmark price for the Reporting Periods. Birchcliff receives premium pricing for its natural gas production due to its high heat content from its properties in the Pouce Coupe area. The following table sets forth Birchcliff's average realized sales price and heat content premium from its natural gas production:

	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015
AECO – C daily (\$/MMbtu) ⁽¹⁾	3.09	2.46	2.16	2.69
Heat content premium	0.22	0.21	0.25	0.21
Average realized natural gas sales price (\$/Mcf)	3.31	2.67	2.41	2.90

(1) \$1.00/MMBtu = \$1.00/Mcf based on a standard heat value Mcf.

Commodity Price Risk Management

The Corporation maintains an ongoing commodity price risk management program in order to reduce volatility in its financial results and to protect a portion of its funds flow, its capital expenditure programs and its dividend payments. As a part of this, the Corporation utilizes various financial derivative and physical delivery sales contracts. The Board has authorized the Corporation to hedge such portion of its forecast production as is permitted by the Corporation's Credit Facilities, which permit the Corporation to hedge up to 65% of its forecast production over the following four fiscal quarters for terms not exceeding three years.

Birchcliff's strategy for 2017 is to hedge approximately 50% of its estimated annual average natural gas production and up to 50% of its oil production using a combination of financial derivatives and physical sales contracts, depending on its outlook for commodity prices. As at March 15, 2017, the Corporation has hedged approximately 50% of its forecast natural gas production for 2017 and approximately 20% of its forecast oil production. Birchcliff has committed under its financial and physical sales contracts to the sale of 187,600 GJ/d of natural gas in 2017 at an estimated average wellhead price of \$3.46/Mcf (\$3.02/GJ).

Financial derivative contracts

As at December 31, 2016, the Corporation had the following financial derivatives in place:

Product	Type of Contract	Notional quantity	Term ⁽¹⁾	Contract price	Fair value (\$000s)
Natural Gas	Financial swap	40,000 GJ/d	January 1, 2017 – December 31, 2017	AECO CDN \$2.97/GJ	4,345
Natural Gas	Financial swap	20,000 GJ/d	January 1, 2017 – December 31, 2017	AECO CDN \$2.98/GJ	2,042
Natural Gas	Financial swap	10,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN \$3.35/GJ	19
Natural Gas	Financial swap	10,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN \$3.40/GJ	(17)
Crude oil	Financial swap	1,500 bbls/d	January 1, 2017 – December 31, 2017	WTI CDN \$69.90/bbl	3,044
Fair value liabilities⁽²⁾					9,433

(1) Transactions with common terms and the same counterparty have been aggregated and presented at the weighted average price, where applicable.

(2) Birchcliff has not designated its financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity price contracts to be effective economic hedges. As a result, all such financial derivative contracts are recorded on the statement of financial position on a "marked to market" fair value basis at December 31, 2016, with the changes in fair value being recognized as a non-cash unrealized gain or loss in profit or loss. These contracts are not entered into for trading or speculative purposes.

The fair value liabilities of the Corporation's financial derivative contracts at December 31, 2016 was \$9.4 million. As of December 31, 2016, if the future strip prices for AECO natural gas had been CDN\$0.10/GJ higher, with all other variables held constant, the after tax net loss in 2016 would have increased by \$2.4 million. As of December 31, 2016, if the future strip prices for WTI crude oil had been CDN\$1.00/bbl higher, with all other variables held constant, the after tax net loss in 2016 would have increased by \$0.4 million.

The following table provides a summary of the realized and unrealized gains (losses) on the Corporation's financial derivative contracts:

	Three months ended December 31,				Twelve months ended December 31,			
	2016		2015 ⁽¹⁾		2016		2015 ⁽¹⁾	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
Realized gain (loss) on derivatives	(134)	(0.02)	-	-	802	0.04	-	-
Unrealized (loss) on derivatives	(9,603)	(1.72)	-	-	(9,433)	(0.52)	-	-

(1) During 2015, the Corporation did not have any financial derivative contracts in place.

There were no financial derivative contracts entered into subsequent to December 31, 2016.

Physical delivery sales contracts

As at December 31, 2016 the Corporation had the following physical delivery sales contracts in place:

Product	Type of Contract	Volume	Term ⁽¹⁾	Contract price
Natural Gas	Fixed price	20,000 GJ/d	January 1, 2017 – December 31, 2017	AECO CDN\$2.99/GJ
Natural Gas	Fixed price	20,000 GJ/d	January 1, 2017 – December 31, 2017	AECO CDN\$2.98/GJ
Natural Gas	Fixed price	20,000 GJ/d	January 1, 2017 – December 31, 2017	AECO CDN\$3.00/GJ
Natural Gas	Fixed price	10,000 GJ/d	January 1, 2017 – December 31, 2017	AECO CDN\$3.00/GJ
Natural Gas	Fixed price	50,000 GJ/d	January 1, 2017 – December 31, 2017	AECO CDN\$3.05/GJ
Natural Gas	Fixed price	10,000 GJ/d	Oct 1, 2017 – December 31, 2017	AECO CDN\$3.35/GJ

(1) Transactions with common terms and the same counterparty have been aggregated and presented at the weighted average price, where applicable.

There were no physical delivery sales contracts entered into subsequent to December 31, 2016. The Corporation's physical delivery sales contracts are considered normal executory sales contracts and are not recorded at fair value.

Royalties

The following table details Birchcliff's royalty expense:

	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015
Oil & natural gas royalties (\$000s) ⁽¹⁾	10,177	3,499	20,911	11,548
Oil & natural gas royalties (\$/boe)	1.82	0.94	1.16	0.81
Effective royalty rate (%) ⁽²⁾	8%	5%	6%	4%

(1) Royalties are paid primarily to the Government of Alberta.

(2) The effective royalty rate is calculated by dividing the aggregate royalties into petroleum and natural gas sales for the period.

Birchcliff's aggregate royalty expense in the three month Reporting Period increased from the Comparable Prior Period primarily due to increased oil and NGLs production from the Gordondale Assets and higher average realized commodity prices during the three month Reporting Period and the effect these higher prices have on the sliding scale royalty calculation under the previous Alberta Royalty Framework (the "Previous Framework").

Birchcliff's aggregate royalty expense in the twelve month Reporting Period increased from the Comparable Prior Period primarily due to increased oil and NGLs production attributable to the Gordondale Assets, partially offset by lower average realized commodity prices during the twelve month Reporting Period and the effect these lower prices have on the sliding scale royalty calculation.

The increase in the effective royalty rates from the Comparable Prior Periods were due to higher NGLS weighting from the Gordondale Assets which generally have higher sliding scale royalty rates under the Previous Framework. During the three month Reporting Period, the effective royalty rate for the Gordondale Assets was approximately 13%.

The Government of Alberta announced a new Modernized Royalty Framework (the "MRF") on January 29, 2016 and on April 21, 2016 provided additional royalty details and technical formulas for the MRF. Production from wells drilled prior to January 1, 2017 will continue under the Previous Framework for 10 years before transitioning to the MRF. Wells drilled after January 1, 2017 will pay a 5% flat royalty until revenues exceed a normalized well cost allowance, which will be based on vertical well depth, lateral

length (for horizontal wells) and total proppant used in the fracking of the well, after which royalty rates will range between 5% and 40% depending on commodity prices.

On July 12, 2016, the Government of Alberta announced that operators could apply to opt into the MRF prior to the implementation date of January 1, 2017, and thus gain earlier access to the new program. In 2016, Birchcliff applied for early access to the MRF and received approval from the Alberta Energy Regulator (the “AER”) for six wells.

Operating Costs

The following table provides a breakdown of Birchcliff’s operating costs:

	Three months ended December 31,				Twelve months ended December 31,			
	2016		2015		2016		2015	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
Field operating costs	25,786	4.61	15,711	4.22	76,706	4.26	65,281	4.59
Recoveries	(429)	(0.08)	(385)	(0.10)	(1,700)	(0.09)	(1,500)	(0.10)
Field operating costs, net	25,357	4.53	15,326	4.12	75,006	4.17	63,781	4.49
Expensed workovers and other	28	0.01	143	0.04	245	0.01	730	0.05
Operating costs	25,385	4.54	15,469	4.16	75,251	4.18	64,511	4.54

On an aggregate basis, operating costs increased in the Reporting Periods as compared to the Comparable Prior Periods largely due to additional operating, processing and service costs associated with the production volumes acquired pursuant to the Gordondale Acquisition.

On a per unit basis, operating costs during the Reporting Periods were reduced by the continued cost benefits achieved from processing incremental volumes of natural gas at the PC Gas Plant, lower service costs resulting from reduced industry activity and various cost reductions and infrastructure optimization initiatives implemented by the Corporation, and were increased by the higher operating cost structure associated with the Gordondale Assets. The Gordondale Assets have a higher cost structure primarily resulting from higher NGLs production weighting and additional fees incurred to process natural gas from the Gordondale Assets at third party deep cut facilities. During the three month Reporting Period, the operating costs for the liquids-rich Gordondale Assets averaged approximately \$6.11/boe as compared to \$4.54/boe on a corporate basis. Birchcliff is currently working on reducing the overall operating cost structure of the Gordondale Assets.

On a production month basis, operating costs averaged approximately \$1.49/boe at the PC Gas Plant during the twelve month Reporting Period, down 22% from \$1.90/boe in the Comparable Prior Period.

Transportation and Marketing Expenses

The following table details Birchcliff’s transportation and marketing expenses:

	Three months ended December 31,				Twelve months ended December 31,			
	2016		2015		2016		2015	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
Transportation and marketing expenses	13,489	2.42	8,603	2.31	42,989	2.38	34,804	2.45

The increase in aggregate transportation and marketing costs from the Comparable Prior Periods was largely due to an increase in trucking and pipeline transportation costs associated with production from the Gordondale Acquisition and increased firm service commitments on TransCanada’s NGTL System, partially offset by lower oil trucking service costs resulting from reduced industry activity in the Reporting Periods. Transportation and marketing expenses for the Gordondale Assets for the three month Reporting Period were \$2.42/boe.

Operating Netbacks

The following table details Birchcliff's net production and operating netback for the Montney/Doig Resource Play, the Worsley Charlie Lake Light Oil Resource Play and on a corporate basis:

	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015
Montney/Doig Resource Play				
Average daily production, net:				
Natural gas (Mcf)	281,680	195,262	237,439	186,260
Oil & NGLs (bbls)	10,842	1,929	5,737	1,846
Total boe	57,789	34,473	45,311	32,890
% of corporate production ⁽¹⁾	95%	85%	92%	84%
Netback and cost (\$/boe):				
Petroleum and natural gas revenue ⁽²⁾	23.38	17.89	17.48	19.43
Royalty expense	(1.74)	(0.61)	(1.08)	(0.47)
Operating expense, net of recoveries	(4.05)	(2.92)	(3.53)	(3.22)
Transportation and marketing expense	(2.26)	(1.85)	(2.14)	(1.94)
Operating netback	15.33	12.51	10.73	13.80
Worsley Charlie Lake Light Oil Resource Play				
Average daily production, net:				
Natural gas (Mcf)	3,360	8,054	5,318	8,497
Oil & NGLs (bbls)	1,523	2,708	2,037	2,819
Total boe	2,082	4,050	2,923	4,236
% of corporate production ⁽¹⁾	3%	10%	6%	11%
Netback and cost (\$/boe):				
Petroleum and natural gas revenue ⁽²⁾	47.73	37.41	37.19	40.58
Royalty expense	(3.58)	(3.12)	(2.19)	(2.89)
Operating expense, net of recoveries	(16.44)	(11.10)	(11.80)	(10.48)
Transportation and marketing expense	(6.80)	(5.99)	(6.19)	(6.06)
Operating netback	20.91	17.20	17.01	21.15
Total Corporate				
Average daily production, net:				
Natural gas (Mcf)	289,587	211,127	247,373	201,418
Oil & NGLs (bbls)	12,484	5,257	8,007	5,380
Total boe	60,750	40,445	49,236	38,950
Netback and cost (\$/boe)				
Petroleum and natural gas revenue ⁽²⁾	24.23	20.28	18.73	22.32
Royalty expense	(1.82)	(0.94)	(1.16)	(0.81)
Operating expense, net of recoveries	(4.54)	(4.16)	(4.18)	(4.54)
Transportation and marketing expense	(2.42)	(2.31)	(2.38)	(2.45)
Operating netback	15.45	12.87	11.01	14.52

(1) Production from Birchcliff's other conventional oil and natural gas properties were not individually significant during the Reporting Periods and Comparable Prior Periods.

(2) Excludes the effect of hedges using financial instruments.

Montney/Doig Resource Play

Birchcliff's production from the Montney/Doig Resource Play was 57,789 boe/d in the three month Reporting Period and 45,311 boe/d in the twelve month Reporting Period, a 68% and 38% increase, respectively, from the Comparable Prior Periods. This increase was largely due to the production volumes associated with the Gordondale Assets which, on average for the periods, accounted for approximately

39% and 22% of the total production from the Montney/Doig Resource Play during the three and twelve month Reporting Periods, respectively.

Birchcliff's recoveries of NGLs from its Montney/Doig Resource Play were 38.5 bbls/MMcf in the three month Reporting Period and 24.2 bbls/MMcf in the twelve month Reporting Period as compared to 9.9 bbls/MMcf in the Comparable Prior Periods.

Of the 38.5 bbls/MMcf of NGLs produced in the three month Reporting Period, approximately 19.6 bbls/MMcf (51%) were high value oil and condensate (C5+). Of the 24.2 bbls/MMcf of NGLs produced in the twelve month Reporting Period, approximately 14.4 bbls/MMcf (60%) were high value oil and condensate (C5+). The increase in NGLs recoveries during the Reporting Periods can be attributed to the NGLs production volumes acquired pursuant to the Gordondale Acquisition. Any NGLs not recovered from the raw natural gas stream increases the heat content value of Birchcliff's sales gas and the realized price.

Birchcliff's operating netback from the Montney/Doig Resource Play was \$15.33/boe (\$2.56/Mcfe) in the three month Reporting Period and \$10.73/boe (\$1.79/Mcfe) in the twelve month Reporting Period, an increase of 23% and a decrease of 22%, respectively, from the Comparable Prior Periods.

The increase in the operating netback from the three month Comparable Prior Period was largely due to higher realized prices received for Birchcliff's oil and natural gas production offset by higher per boe royalties, operating and transportation and marketing costs mainly associated with the Gordondale Assets.

The decrease in the operating netback from the twelve month Comparable Prior Period was largely due to lower realized prices received for Birchcliff's oil, natural gas and NGLs production and higher per boe royalties, operating and transportation and marketing expenses mainly associated with the Gordondale Assets.

The Gordondale Assets have a higher cost structure primarily resulting from higher production weighting to oil and NGLs and additional fees incurred to process natural gas from the Gordondale Assets at third party deep cut facilities.

Worsley Charlie Lake Light Oil Resource Play

Birchcliff's production from the Worsley Charlie Lake Light Oil Resource Play was 2,082 boe/d in the three month Reporting Period and 2,923 boe/d in the twelve month Reporting Period, a decrease of 49% and 31%, respectively, from the Comparable Prior Periods. The decrease in production was largely due to the fact that no new wells were drilled during 2016, as well as natural declines and unplanned downtime resulting from pipeline integrity issues and maintenance activities in the Worsley area. The decrease in production was partially offset by production optimization initiatives in the Worsley field that were ongoing during 2016.

Birchcliff's operating netback from the Worsley Charlie Lake Light Oil Resource Play was \$20.91/boe in the three month Reporting Period and \$17.01/boe in the twelve month Reporting Period, an increase of 22% and a decrease of 20%, respectively, from the Comparable Prior Periods. The increase in the three month Reporting Period was largely due to higher average realized commodity prices received for Birchcliff's production offset by increased operating costs as compared to the three month Comparable Prior Period. The decrease in the twelve month Reporting Period was largely due to lower average realized commodity prices received for Birchcliff's production and higher operating costs as compared to the twelve month Comparable Prior Period.

Administrative Expenses

The components of Birchcliff's net administrative expenses are detailed in the table below:

	Three months ended December 31,				Twelve months ended December 31,			
	2016		2015		2016		2015	
	(\$000s)	(%)	(\$000s)	(%)	(\$000s)	(%)	(\$000s)	(%)
<i>Cash:</i>								
Salaries and benefits ⁽¹⁾	10,056	78	12,036	80	25,576	67	27,067	69
Other ⁽²⁾	2,856	22	3,041	20	12,449	33	12,297	31
	12,912	100	15,077	100	38,025	100	39,364	100
Operating overhead recoveries	(35)	(1)	(47)	(1)	(154)	(1)	(232)	(1)
Capitalized overhead ⁽³⁾	(6,234)	(48)	(7,536)	(50)	(16,382)	(42)	(16,308)	(41)
General & administrative expenses, net	6,643	51	7,494	49	21,489	57	22,824	58
General & administrative expenses, net per boe	\$1.19		\$2.01		\$1.19		\$1.61	
<i>Non-cash:</i>								
Stock-based compensation	1,583	100	1,694	100	6,053	100	7,732	100
Capitalized stock-based compensation ⁽³⁾	(903)	(57)	(921)	(54)	(3,575)	(59)	(4,526)	(59)
Stock-based compensation, net	680	43	773	46	2,478	41	3,206	41
Stock-based compensation, net per boe	\$0.12		\$0.21		\$0.14		\$0.23	
Administrative expenses, net	7,323		8,267		23,967		26,030	
Administrative expenses, net per boe	\$1.31		\$2.22		\$1.33		\$1.84	

(1) Includes salaries, benefits and bonuses paid to officers and employees of the Corporation.

(2) Includes costs such as rent, legal, tax, insurance, minor computer hardware and software and other general business expenses incurred by the Corporation.

(3) Includes a portion of general and administrative costs and stock-based compensation directly attributable to the exploration and development activities of the Corporation which have been capitalized.

On a per boe basis, net administrative expenses have decreased in the Reporting Periods compared to the Comparable Prior Periods primarily due to the disproportionate increase in production volumes as a result of the Gordondale Acquisition as compared to general and administrative expense.

A summary of the Corporation's outstanding stock options is presented below:

	Twelve months ended December 31, 2016		Twelve months ended December 31, 2015	
	Number	Exercise price (\$) ⁽¹⁾	Number	Exercise price (\$) ⁽¹⁾
Outstanding at beginning of period	12,569,238	7.80	11,147,672	8.45
Granted	3,356,000	3.90	3,358,500	6.62
Exercised	(1,209,363)	(6.28)	(93,333)	(6.26)
Forfeited	(120,400)	(6.78)	(699,201)	(9.70)
Expired	(1,695,700)	(11.46)	(1,144,400)	(9.66)
Outstanding, end of period	12,899,775	6.45	12,569,238	7.80

(1) Determined on a weighted average basis.

At December 31, 2016, there were also 2,939,732 performance warrants outstanding with an exercise price of \$3.00 which expire on January 31, 2020.

Each stock option and performance warrant entitles the holder to purchase one common share at the applicable exercise price.

Depletion and Depreciation Expenses

Depletion and depreciation ("D&D") expenses are a function of the estimated proved plus probable reserve additions, the finding and development costs attributable to those reserves, the associated future

development costs required to recover those reserves and production in the period. The Corporation determines its D&D expenses on a field area basis.

The following table details Birchcliff's D&D expenses:

	Three months ended December 31,				Twelve months ended December 31,			
	2016		2015		2016		2015	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
Depletion and depreciation expenses	43,184	7.73	35,949	9.66	149,369	8.29	147,163	10.35

D&D expenses for the Reporting Periods were higher on an aggregate basis from the Comparable Prior Periods mainly due to the increased production volumes acquired pursuant to the Gordondale Acquisition.

On a per boe basis, D&D expenses decreased from the Comparable Prior Periods mainly as a result of the significant reserves added in both Birchcliff's Pouce Coupe and Gordondale areas (pursuant to the Gordondale Acquisition) in 2016. Included in the depletion calculation for 2016 were 880.5 MMboe of proved plus probable reserves and \$4.15 billion of future development costs required to recover those reserves as estimated by the Corporation's independent qualified reserves evaluators effective December 31, 2016.

Asset impairment assessment

The Corporation reviews its petroleum and natural gas assets for impairment in accordance with International Accounting Standards ("IAS") 36 under International Financial Reporting Standards ("IFRS"). Birchcliff's assets are grouped into cash generating units ("CGU") for the purpose of determining impairment. A CGU represents the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. In determining the Corporation's CGUs, the Corporation took into consideration all available information, including, but not limited to: geographical proximity; geological similarities (i.e. reservoir characteristic, production profiles); degree of shared infrastructure; independent versus interdependent cash flows; operating structure; regulatory environment; management decision-making; and overall business strategy.

The Corporation's CGUs are reviewed at each reporting date for both internal and external indicators of potential impairment. Potential CGU impairment indicators include, but are not limited to: changes to Birchcliff's business plan; deterioration in commodity prices; negative changes in the technological, economic, legal, capital or operating environment; adverse changes to the physical condition of a CGU; current expectations that a material CGU (or a significant component thereof) is more likely than not to be sold or otherwise disposed of before the end of its previously estimated useful life; non-compliance with the agreements governing the Corporation's bank credit facilities; deterioration in the financial and operational performance of a CGU; net assets exceeding market capitalization; and significant downward revisions of estimated recoverable proved plus probable reserves of a CGU. If impairment indicators exist, an impairment test is performed by comparing a CGU's carrying value to its recoverable amount.

Birchcliff performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined that there were no impairment triggers identified at December 31, 2016. As a result, an impairment test was not required at December 31, 2016.

Finance Expenses

The components of the Corporation's finance expenses are set forth in the table below:

	Three months ended December 31,				Twelve months ended December 31,			
	2016		2015		2016		2015	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
<i>Cash:</i>								
Interest on credit facilities	7,822	1.40	6,713	1.80	30,305	1.68	22,861	1.60
<i>Non-cash:</i>								
Accretion on decommissioning obligations	813	0.15	570	0.15	2,547	0.14	2,235	0.16
Amortization of deferred financing fees	330	0.06	235	0.06	1,088	0.06	919	0.06
Finance expenses	8,965	1.61	7,518	2.01	33,940	1.88	26,015	1.82

The increase in the aggregate interest expense from the Comparable Prior Periods was largely due to higher average effective interest rates offset by lower average outstanding total credit facilities balance during the Reporting Periods. The effective interest rates applicable to the drawn loans are based on a pricing margin grid and will change as a result of the ratio of outstanding indebtedness to the trailing four quarter EBITDA as calculated in accordance with the agreement governing the Corporation's Credit Facilities. EBITDA is defined as earnings before interest and non-cash items, including (if any) income taxes, stock-based compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments and depletion, depreciation and amortization.

The following table details the Corporation's effective interest rates under its credit facilities:

	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015
<i>Effective interest rates:</i>				
Revolving working capital facility	5.2%	4.7%	5.2%	4.7%
Revolving syndicated term credit facility	5.2%	4.0%	4.7%	4.0%
Non-revolving term credit facility ⁽¹⁾	-	-	-	4.0%

(1) During the second quarter of 2015, Birchcliff's then existing credit facilities, including the non-revolving term credit facility, were consolidated into the Credit Facilities (as defined herein). Accordingly, the Corporation did not have an outstanding non-revolving term credit facility during the Reporting Periods.

Birchcliff's average outstanding total credit facilities balance was approximately \$599 million and \$632 million, respectively, in the three and twelve month Reporting Periods as compared to \$625 million and \$655 million in the Comparable Prior Periods, calculated as the simple average of the month-end amounts. The decreases from the Comparable Prior Periods are primarily due to the fact that the remaining aggregate net proceeds of the Financings were used to reduce indebtedness under the Credit Facilities. See "Capital Resources and Liquidity" in this MD&A.

Gain (Loss) on Sale of Assets

The following table details Birchcliff's gain and loss on sales of assets:

	Three months ended December 31,				Twelve months ended December 31,			
	2016		2015		2016		2015	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
Gain (loss) on sale of assets	945	0.17	6,683	1.80	(9,489)	(0.53)	7,339	0.52

During the second quarter of 2016, Birchcliff completed the disposition of certain non-core miscellaneous petroleum and natural gas properties and related assets and interests in the Progress area (the "Progress Disposition") that were producing from the Halfway formation. The cash consideration was \$19.0 million, after customary closing adjustments. The Progress Disposition closed in April 2016 and represented approximately 600 boe/d of production (60% light oil) and 4,135 net acres of land. As a result of the

Progress Disposition, Birchcliff recorded a loss on sale of assets of approximately \$10.9 million (\$8.0 million, net of tax) for the twelve month Reporting Period.

In November 2016, Birchcliff completed the disposition of minor assets in the Gordondale area of Alberta for cash consideration of approximately \$1.1 million. These assets did not have any reserves attributed to them. As a result of the disposition, Birchcliff recorded a gain on the sale of approximately \$1.1 million (\$0.8 million, net of tax) in the Reporting Periods.

All 2016 dispositions noted above were considered non-core asset dispositions as they collectively represented less than 1% of both Birchcliff's 2016 production and proved plus probable reserves at December 31, 2016 and therefore were not significant to the Corporation's financial results and operational performance.

Income Taxes

The components of income tax expense (recovery) are set forth in the table below:

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015
Deferred income tax expense (recovery)	4,433	10,552	(9,126)	20,232
Dividend income tax expense on preferred shares	750	750	3,000	3,000
Income tax expense (recovery)	5,183	11,302	(6,126)	23,232
Income tax expense (recovery) per boe	\$0.92	\$3.05	(\$0.34)	\$1.64

The income tax expense for the Comparable Prior Periods included: (i) a non-cash, deferred income tax expense in the amount of \$7.8 million that was recorded in the second quarter of 2015 as a result of the 2015 change in the Alberta corporate income tax rate from 10% to 12%; and (ii) a non-cash deferred income tax expense in the amount of \$10.2 million that was recorded in the fourth quarter of 2015 in respect of the Veracel tax pool (see further detail in the "Veracel tax pools" section below).

After excluding the effects of the above noted tax adjustments for the Comparable Prior Periods, Birchcliff recorded a deferred income tax expense of \$4.4 million for the three month Reporting Period and a deferred income tax recovery of \$9.1 million for the twelve month Reporting Period as compared to a deferred income tax expense of approximately \$0.4 million and \$2.2 million in the Comparable Prior Periods. The increase in deferred income tax expense from the three month Comparable Prior Period was a result of a higher net income before tax recorded in the three month Reporting Period. The deferred income tax recovery in the twelve month Reporting Period was a result of a net loss before tax position in that period.

The Corporation's estimated income tax pools were \$2.1 billion at December 31, 2016. Management expects that future taxable income will be available to utilize the accumulated tax pools. The components of the Corporation's estimated income tax pools are set forth in the table below:

(\$000s)	Tax pools as at December 31, 2016
Canadian oil and gas property expense	621,237
Canadian development expense	248,550
Canadian exploration expense	263,509
Undepreciated capital costs	337,649
Non-capital losses	615,043
Financing costs and other	23,069
Estimated income tax pools⁽¹⁾	2,109,057

(1) Excludes Veracel tax pools of \$39.3 million which were reassessed by the Canada Revenue Agency.

Veracel tax pools

Birchcliff's 2006 income tax filings were reassessed by the Canada Revenue Agency (the "CRA") in 2011 (the "Reassessment"). The Reassessment was based on the CRA's position that the tax pools available to Veracel Inc. ("Veracel"), prior to its amalgamation with Birchcliff, ceased to be available to Veracel after Birchcliff and Veracel amalgamated on May 31, 2005 (the "Veracel Transaction"). The Veracel tax pools in dispute totalled \$39.3 million. Birchcliff appealed the Reassessment to the Trial Court and the trial of that appeal occurred in November 2013. On October 1, 2015, the Trial Court issued its decision (the "Trial Decision") and dismissed Birchcliff's appeal on the basis of the general anti-avoidance rule contained in the *Income Tax Act* (Canada). As a result of the Trial Decision, Birchcliff recorded a non-cash deferred income tax expense in the amount of \$10.2 million in the fourth quarter of 2015. Birchcliff appealed the Trial Decision to the Federal Court of Appeal. The appeal was heard in January 2017 and the Corporation is currently awaiting a decision.

CAPITAL EXPENDITURES

The following table sets forth a summary of the Corporation's capital expenditures:

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015
Land	1,057	3,468	4,529	9,261
Seismic	253	355	1,203	3,542
Workovers	1,770	1,213	3,809	6,015
Drilling and completions	40,039	32,024	89,111	160,091
Well equipment and facilities	17,597	6,346	66,839	78,146
Finding and development capital	60,716	43,406	165,491	257,055
Acquisitions	1,958	-	614,273	-
Dispositions	(1,473)	(10,281)	(20,720)	(10,947)
Finding, development and acquisition capital	61,201	33,125	759,044	246,108
Administrative assets	1,281	408	2,986	1,099
Net capital expenditures (cash)	62,482	33,533	762,030	247,207

In the twelve month Reporting Period, Birchcliff had total capital expenditures of \$168.5 million (finding and development capital plus administrative assets) and net capital expenditures of \$148.5 million (net of acquisitions and dispositions), in each case excluding the \$613.5 million Gordondale Acquisition. These capital expenditure amounts were slightly above Birchcliff's guidance of \$164 million total capital expenditures and \$145 million net capital expenditures.

During the twelve month Reporting Period, Birchcliff had net capital expenditures totalling \$762.0 million which included \$613.5 million (81%) on the Gordondale Acquisition (net of adjustments), \$54.7 million (7%) on the drilling and completion of Montney/Doig horizontal natural gas wells in Pouce Coupe, \$16.8 million (2%) on the drilling of Montney horizontal oil and natural gas wells in Gordondale and \$27.6 million (4%) on the field construction of Phase V of the PC Gas Plant which will increase processing capacity from 180 MMcf/d to 260MMcf/d. Field installation of Phase V commenced in January 2017 and it is expected that it will be commissioned and operational in October 2017. Also included in the twelve month Reporting Period was the cash consideration of \$19.0 million for the Progress Disposition.

In the twelve month Reporting Period, Birchcliff drilled a total of 22 (22.0 net) wells, consisting of 14 (14.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area, 6.0 (6.0 net) Montney horizontal oil and natural gas wells in the Gordondale area, 1 (1.0 net) water disposal well in the Gordondale area and 1 (1.0 net) Charlie Lake horizontal light oil well in the Worsley area.

Birchcliff had net capital expenditures totalling \$62.5 million in the three month Reporting Period which included \$17.9 million (29%) on the drilling and completion of Montney/Doig horizontal natural gas wells

in Pouce Coupe and \$16.4 million (27%) on the drilling of Montney horizontal oil and natural gas wells in Gordondale.

In the three month Reporting Period, Birchcliff drilled a total of 9 (9.0 net) wells consisting of 2 (2.0 net) Montney/Doig horizontal natural gas wells in Pouce Coupe, 6 (6.0 net) Montney horizontal oil and natural gas wells in Gordondale and 1 (1.0 net) water disposal well in Gordondale.

The remaining capital during the Reporting Periods was spent on land and seismic, infrastructure and expansion projects in the Montney/Doig Resource Play and the Worsley Charlie Lake Light Oil Resource Play and on other oil and gas exploration and development projects in the Peace River Arch.

CAPITAL RESOURCES AND LIQUIDITY

Liquidity and Capital Resources

The Corporation generally relies on its funds flow from operations and available credit under its existing credit facilities to fund its capital requirements, including its dividend payments. In addition, the Corporation may from time to time seek additional capital in the form of debt and/or equity or dispose of non-core properties to fund its on-going capital expenditure programs and protect its balance sheet.

The following table sets forth a summary of the Corporation's capital resources:

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015
Funds flow from operations	71,806	33,697	147,443	160,756
Changes in non-cash working capital from operations	19,248	11,336	(5,586)	(11,066)
Decommissioning expenditures	(480)	(247)	(1,343)	(893)
Exercise of stock options	6,060	-	7,597	585
Issue of common shares	51	-	690,801	-
Share issue costs	(8)	-	(27,589)	-
Financing fees paid on credit facilities	-	-	(795)	(940)
Dividends paid on preferred shares	(1,875)	(1,875)	(7,500)	(7,500)
Net change in non-revolving term credit facilities ⁽¹⁾	-	-	-	(129,970)
Net change in revolving term credit facilities	(62,269)	(4,923)	(49,540)	283,340
Prepaid expenses on acquisition	-	-	(1,206)	-
Changes in non-cash working capital from investing	29,949	(4,455)	9,738	(47,102)
Capital resources	62,482	33,533	762,020	247,210

(1) During the second quarter of 2015, Birchcliff's then existing credit facilities, including the non-revolving term credit facility, were consolidated into the Credit Facilities (as defined herein). Accordingly, the Corporation did not have an outstanding non-revolving term credit facility during the Reporting Periods.

Birchcliff's funds flow from operations depends on a number of factors, including, but not limited to, commodity prices, production and sales volumes, operating expenses, royalties and foreign exchange rates. The Corporation has been closely monitoring commodity prices and its capital spending and in response to continued low commodity prices, has taken proactive measures with a view to ensuring liquidity and financial flexibility in the current environment.

On July 13, 2016, the Corporation closed the Financings for aggregate gross proceeds of approximately \$690.8 million. On July 28, 2016, Birchcliff closed the Gordondale Acquisition and the aggregate gross proceeds of the Financings were used to pay the balance of the purchase price for the Gordondale Acquisition and the balance of the fees payable to the underwriters of the Public Offering, with the remaining aggregate net proceeds applied to reduce indebtedness under the Corporation's Credit Facilities. In addition, the borrowing base under the Credit Facilities was increased to \$950 million from \$750 million in connection with the closing of the Gordondale Acquisition. As a result of the completion of the Gordondale Acquisition and the Financings, Birchcliff has not only positioned itself for future growth but has also significantly improved its financial position. As of December 31, 2016, the balance outstanding

under the Credit Facilities (excluding adjusted working capital deficit) was \$573 million as compared to \$622 million at December 31, 2015. See *“Bank Debt”*.

The 2017 Capital Program is set at approximately \$355 million and is expected to be fully funded out of internally generated funds flow, which assumes a forecast average WTI price of US\$55.00/bbl of oil and a forecast average AECO price of CDN\$3.00/GJ of natural gas during 2017. Birchcliff has hedged approximately 50% of its 2017 forecast natural gas production at \$3.02/GJ to help protect its funds flow and capital expenditure programs. Birchcliff has also entered into financial swaps for 1,500 bbls/d of crude oil at an average price of CDN\$69.90/bbl for 2017. See *“Commodity Price Risk Management”*.

Management does not foresee any liquidity issues with respect to the operation of Birchcliff’s oil and natural gas business in 2017 and expects that the Corporation will be able to meet its future obligations as they become due. Should commodity prices deteriorate materially, Birchcliff may adjust the 2017 Capital Program accordingly and/or consider the potential sale of non-core assets to fund planned growth. See *“Advisories”*.

Working Capital

The Corporation’s adjusted working capital deficit increased to \$27.5 million at December 31, 2016 from a \$21.5 million deficit at December 31, 2015. The deficit at the end of the Reporting Periods is largely comprised of costs incurred from the drilling of new wells in Pouce Coupe and Gordondale during the three month Reporting Period.

At December 31, 2016, the major component of Birchcliff’s current assets was revenue to be received from its marketers in respect of December 2016 production (72%), which was subsequently received in January 2017. In contrast, current liabilities largely consisted of trade payables (45%) and accrued capital and operating costs (39%). Birchcliff routinely assesses the financial strength of its marketers and joint venture partners. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations.

Adjusted working capital includes items expected for normal operations, including trade receivables and payables, accruals, deposits and prepaid expenses, and excludes the fair value of financial instruments. The Corporation’s adjusted working capital varies primarily due to the timing of such items, as well as due to the size and timing of the Corporation’s net capital expenditures, volatility in commodity prices and changes in revenue, among other things. Birchcliff manages any adjusted working capital deficit using funds flow from operations and advances under the Credit Facilities. Any adjusted working capital deficit position will not reduce the amount available under the Credit Facilities. Management believes that its funds flow from operations and available credit under the Credit Facilities will be sufficient to fund the Corporation’s planned capital expenditures for 2017 and to meet its current and future working capital requirements in 2017.

Bank Debt

Management of debt levels continues to be a priority for Birchcliff given its long-term growth plans and the current volatility in the commodity price environment.

In connection with the closing of the Gordondale Acquisition, the Credit Facilities were amended to increase the borrowing base to \$950 million from \$750 million. After giving effect to the increase in the borrowing base, the Credit Facilities are comprised of: (i) an extendible revolving syndicated term credit facility of \$900 million (the **“Syndicated Credit Facility”**); and (ii) an extendible revolving working capital credit facility of \$50 million (the **“Working Capital Facility”**). The maturity date of the Credit Facilities is May 11, 2018. The Corporation may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made.

Total debt, including the adjusted working capital deficit, was \$600.0 million at December 31, 2016 as compared to \$643.6 million at December 31, 2015. A significant portion of the funds drawn under the Credit Facilities in the Reporting Periods was used to pay costs relating to the drilling and completion of Montney/Doig horizontal natural gas wells in Pouce Coupe including related facilities and infrastructure and the exploration and development of the Montney/Doig Resource Play and the Worsley Charlie Lake Light Oil Resource Play.

The following table sets forth the Corporation's unused Credit Facilities:

As at, (\$000s)	December 31, 2016	December 31, 2015
<i>Maximum borrowing base limit⁽¹⁾:</i>		
Revolving term credit facilities	950,000	800,000
<i>Principal amount utilized:</i>		
Drawn revolving term credit facilities ⁽²⁾	(580,770)	(630,037)
Outstanding letters of credit ⁽³⁾	(12,310)	(242)
	(593,080)	(630,279)
Unused credit	356,920	169,721
% unused credit	38%	21%

(1) The Credit Facilities are subject to a semi-annual review of the borrowing base limit, which limit is directly impacted by the value of Birchcliff's petroleum and natural gas reserves. On July 28, 2016, in connection with the closing of the Gordondale Acquisition, the borrowing base was increased to \$950 million, thus increasing the unused credit available to Birchcliff.

(2) The drawn amounts are not reduced for unamortized costs and fees applicable to the Credit Facilities.

(3) Letters of credit are issued to various service providers. In connection with the closing of the Gordondale Acquisition, the Corporation issued a letter of credit for \$12 million to secure its obligations under various midstream and marketing arrangements. The letter of credit has reduced the amount available under the Working Capital Facility from \$50 million to approximately \$38 million. There were no amounts drawn on the letters of credit during the years ended December 31, 2016 and December 31, 2015.

Contractual Obligations & Commitments

The Corporation enters into various contractual obligations and commitments in the normal course of operations. The following table lists Birchcliff's estimated material contractual obligations and commitments at December 31, 2016:

(\$000s)	2017	2018	2019 - 2021	Thereafter
Accounts payable and accrued liabilities	92,115	-	-	-
Drawn revolving term credit facilities ⁽¹⁾	-	580,770	-	-
Operating leases ⁽²⁾	3,206	4,117	13,625	29,317
Capital commitments ⁽³⁾	36,128	16,849	-	-
Firm transportation, processing and fractionation ⁽⁴⁾	36,315	105,179	294,158	294,980
Estimated contractual obligations⁽⁵⁾	167,764	706,915	307,783	324,297

(1) The maturity date of the Credit Facilities is May 11, 2018. The Corporation may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made.

(2) The Corporation is committed under an existing operating lease relating to its office premises, beginning December 1, 2007 and expiring on November 30, 2017. On December 2, 2015, the Corporation entered into an operating lease commitment relating to a new office premise beginning February 1, 2018 and expiring on January 31, 2028. The commitment amount under the new 10 year office lease is estimated to be \$47.1 million, which includes costs allocated to base rent, parking and building operating expenses. The office lease commitment amounts disclosed in the above table have not been reduced for any rents receivable by the Corporation.

(3) Includes drilling commitments and facility spending commitments relating to the Phase V and VI expansions of the PC Gas Plant.

(4) As a result of the Gordondale Acquisition, Birchcliff's firm transportation, processing and fractionation obligations have increased.

(5) Contractual obligations and commitments that are not material to Birchcliff are excluded from the above table. The Corporation's decommissioning obligations are excluded from the table as these obligations arose from a regulatory requirement rather than from a contractual arrangement. Birchcliff estimates the total undiscounted cash flow to settle its decommissioning obligations on its wells and facilities at December 31, 2016 to be approximately \$267 million and will be incurred as follows: 2017 - \$2.5 million, 2018 - \$2.0 million and \$262.5 million thereafter. The estimate for determining the undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

Birchcliff's Series C Preferred Shares, which are redeemable by their holders after June 30, 2020, have not been included in this table as they are not contractual obligations of the Corporation at the end of the Reporting Periods. Upon receipt of a notice of redemption, the Corporation has an obligation to redeem the Series C Preferred Shares, at its option, for cash or common shares.

OFF-BALANCE SHEET TRANSACTIONS

The Corporation has certain lease arrangements, all of which are reflected in the contractual obligations and commitments table above, which were entered into in the normal course of operations. All leases have been treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. Other than the foregoing, Birchcliff was not involved in any off-balance sheet transactions during the Reporting Periods and Comparable Prior Periods.

OUTSTANDING SHARE INFORMATION

At March 14, 2017, Birchcliff had common shares, Series A Preferred Shares and Series C Preferred Shares that were outstanding. Birchcliff's common shares are listed on the TSX under the symbol "BIR" and are included in the S&P/TSX Composite Index. Birchcliff's Series A Preferred Shares and Series C Preferred Shares are individually listed on the TSX under the symbols "BIR.PR.A" and "BIR.PR.C", respectively.

The following table summarizes the common shares issued by the Corporation:

	Common Shares
Balance at December 31, 2014	152,214,206
Exercise of options	93,333
Balance at December 31, 2015	152,307,539
Exercise of options	1,209,363
Issuance of common shares ⁽¹⁾	110,525,000
Balance at December 31, 2016	264,041,902
Exercise of options	98,800
Balance at March 14, 2017	264,140,702

(1) On July 13, 2016, the Corporation issued 110,520,000 Subscription Receipts at a price of \$6.25 per Subscription Receipt for gross proceeds of approximately \$690.8 million. On July 28, 2016, the Corporation issued 110,520,000 common shares pursuant to the exchange of 110,520,000 Subscription Receipts in connection with the closing of the Gordondale Acquisition. In December 2016, the Corporation issued 5,000 common shares at a price of \$10.11 per common share on a private placement basis.

As at March 14, 2017, the Corporation had the following securities outstanding: 264,140,702 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 17,067,475 stock options to purchase an equivalent number of common shares; and 2,939,732 performance warrants to purchase an equivalent number of common shares.

On November 30, 2016, the Board of Directors declared a quarterly cash dividend of \$1.0 million or \$0.50 per Series A Preferred Share and \$0.875 million or \$0.4375 per Series C Preferred Share for the calendar quarter ending December 31, 2016. In 2016, cash dividends totalled \$4.0 million or \$2.00 per Series A Preferred Share (2015 - \$4.0 million or \$2.00 per Series A) and \$3.5 million or \$1.75 per Series C Preferred Share (2015 - \$3.5 million or \$1.75 per Series C). These preferred share dividends have been designated as "eligible dividends" for the purposes of the *Income Tax Act* (Canada).

Birchcliff's Board of Directors approved a quarterly dividend policy for the Corporation's common shares in November 2016. On March 1, 2017, the Board of Directors declared the first dividend payable under this policy in respect of the quarter ending March 31, 2017 in the amount of \$0.025 per common share. This dividend is payable on March 31, 2017 to shareholders of record on March 15, 2017 and has been designated as an "eligible dividend" for the purposes of the *Income Tax Act* (Canada).

SUMMARY OF QUARTERLY RESULTS

The following are the quarterly results of the Corporation for the eight most recently completed quarters:

Quarter ending,	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015
Average daily production (boe)	60,750	54,538	39,513	41,958	40,445	38,433	38,489	38,416
Realized natural gas price (\$/Mcf) ⁽¹⁾	3.31	2.53	1.48	1.99	2.67	3.12	2.86	2.98
Realized oil price (\$/bbl) ⁽¹⁾	60.75	52.12	51.20	36.93	49.36	52.91	64.93	47.66
Total revenues (\$000s) ⁽¹⁾	135,457	97,365	47,261	57,503	75,476	82,011	82,791	77,026
Operating costs (\$/boe)	4.54	4.65	3.45	3.71	4.16	4.39	4.53	5.11
Capital expenditures, net (\$000s)	62,482	599,716	35,972 ⁽³⁾	63,860	33,533	50,013	65,122	98,539
Funds flow from operations (\$000s)	71,806	41,675	13,267	20,695	33,697	44,587	45,752	36,720
Per common share – basic (\$)	0.27	0.18	0.09	0.14	0.22	0.29	0.30	0.24
Per common share – diluted (\$)	0.27	0.18	0.09	0.13	0.22	0.29	0.30	0.24
Net income (loss) (\$000s)	12,085	(1,064)	(23,321)	(12,035)	(9,322)	4,815	(4,174)	(3,479)
Net income (loss) to common shareholders (\$000s) ⁽²⁾	11,085	(2,064)	(24,321)	(13,035)	(10,322)	3,815	(5,174)	(4,479)
Per common share – basic (\$)	0.04	(0.01)	(0.16)	(0.09)	(0.07)	0.03	(0.03)	(0.03)
Per common share – diluted (\$)	0.04	(0.01)	(0.16)	(0.09)	(0.07)	0.02	(0.03)	(0.03)
Total assets (\$ million)	2,710	2,704	2,059	2,053	2,025	2,022	2,009	1,983
Long-term bank debt (\$000s)	572,517	634,534	709,510	647,359	622,074	626,839	599,998	536,570
Total debt (\$000s)	600,012	612,080	715,651	690,138	643,612	640,751	632,306	610,170
Dividends on pref. shares – Series A (\$000s)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Dividends on pref. shares – Series C (\$000s)	875	875	875	875	875	875	875	875
Pref. shares outstanding – Series A (000s)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Pref. shares outstanding – Series C (000s)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Common shares outstanding (000s)								
Basic	264,042	263,065	152,308	152,308	152,308	152,308	152,294	152,284
Diluted	279,881	279,826	169,089	169,239	167,817	168,112	168,181	168,108
Wtd. average common shares outstanding (000s)								
Basic	263,396	229,287	152,308	152,308	152,308	152,303	152,289	152,243
Diluted	268,974	234,295	154,279	153,418	153,627	153,916	154,650	154,215

(1) Excludes the effect of financial hedges using financial instruments.

(2) Reduced for the Series A Preferred Share dividends paid in the period.

(3) Includes a \$31.25 million deposit paid in connection with the Gordondale Acquisition.

Average daily production volumes in the three month Reporting Period increased from the previous seven quarters largely due to production volumes acquired pursuant to the Gordondale Acquisition and incremental production added from new Montney/Doig horizontal natural gas wells, partially offset by natural production declines from those wells.

Quarterly variances in revenues, funds flow from operations and net income are primarily due to fluctuations in commodity prices and production volumes. Oil and gas revenues and funds flow in the three month Reporting Period are higher than the previous seven quarters largely due to higher average realized oil and natural gas prices and increased production volumes associated with the Gordondale Assets. Net income has increased primarily in response to changes in funds flow from operations offset by other non-cash adjustments including depletion expense, non-recurring tax expenses and gains and losses on the sale of assets recognized in the period.

In general, capital expenditures have fluctuated over the past eight quarters primarily as a result of the timing of the Corporation's development capital expenditures. Capital expenditures are also impacted by commodity prices and market conditions, as well as the timing of acquisitions and dispositions.

During the third quarter of 2016, Birchcliff closed the Gordondale Acquisition which significantly increased capital expenditures compared to the other quarters. The Gordondale Acquisition was funded primarily through the Financings. At the closing of the Gordondale Acquisition, the aggregate gross proceeds of the Financings were released from escrow to pay the balance of the purchase price for the Gordondale Acquisition and the balance of the fees payable to the underwriters of the Public Offering. The remaining

aggregate net proceeds were applied to reduce indebtedness under the Corporation's Credit Facilities, which resulted in a lower total debt balance at the end of the three month Reporting Period compared to the previous seven quarters. In connection with the closing of the Gordondale Acquisition, each Subscription Receipt was exchanged for one common share of the Corporation and a total of 110,520,000 common shares of the Corporation were issued, which increased both the common shares and weighted average common shares outstanding compared to previous quarters.

POTENTIAL TRANSACTIONS

Within its focus area, the Corporation is continually reviewing potential property acquisitions and dispositions and corporate mergers and acquisitions for the purpose of determining whether any such potential transaction is of interest to the Corporation, as well as the terms on which such a potential transaction would be available. As a result, the Corporation may from time to time be involved in discussions or negotiations with other parties or their agents in respect of potential property acquisitions and dispositions and corporate merger and acquisition opportunities. The Corporation is not committed to any such potential transaction and cannot be reasonably confident that it can complete any such potential transaction until appropriate legal documentation has been signed by the relevant parties.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Corporation's Chief Executive Officer and Chief Financial Officer (the "**Certifying Officers**") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("**DC&P**"), as defined in National Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings* ("**NI 52-109**"), to provide reasonable assurance that: (i) material information relating to the Corporation is made known to the Certifying Officers by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by the Corporation under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's DC&P at December 31, 2016 and have concluded that the Corporation's DC&P were effective at December 31, 2016.

While the Certifying Officers believe that the Corporation's DC&P provide a reasonable level of assurance and are effective, they do not expect that the DC&P will prevent all errors and fraud. A control system, no matter how well conceived, maintained and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met.

Internal Control over Financial Reporting

The Certifying Officers have designed, or caused to be designed under their supervision, internal control over financial reporting ("**ICFR**"), as defined in NI 52-109, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the generally accepted accounting principles applicable to the Corporation. The control framework the Certifying Officers used to design the Corporation's ICFR is "*Internal Control – Integrated Framework (May 2013)*" published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's ICFR at December 31, 2016 and have concluded that the Corporation's ICFR was effective at December 31, 2016. There were no changes in the Corporation's ICFR that occurred during the period beginning on October 1, 2016 and ended on December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

While the Certifying Officers believe that the Corporation's ICFR provides a reasonable level of assurance and is effective, they do not expect that the ICFR will prevent all errors and fraud. A control system, no matter how well conceived, maintained and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies, reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical Judgments in Applying Accounting Policies:

The following are the critical judgments that management has made in the process of applying the Corporation's accounting policies and that have the most significant effect on the amounts recognized in these financial statements:

Identification of cash-generating units

Birchcliff's assets are required to be aggregated into CGUs for the purpose of calculating impairment based on their ability to generate largely independent cash inflows. CGUs have been determined based on similar geological structure, shared infrastructure, geographical proximity, operating structure, commodity type and similar exposures to market risks. By their nature, these assumptions are subject to management's judgment and may impact the carrying value of the Corporation's assets in future periods.

Identification of impairment indicators

IFRS requires Birchcliff to assess, at each reporting date, whether there are any indicators that its petroleum and natural gas assets may be impaired. Birchcliff is required to consider information from both external sources (such as a negative downturn in commodity prices or significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in reserves, a significant adverse effect on the financial and operational performance of a CGU or evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgment.

Tax uncertainties

IFRS requires Birchcliff, at each reporting date, to make certain judgments on uncertain tax positions by relevant tax authorities. Judgments include determining whether the Corporation will "more likely than not" be successful in defending its tax positions by considering information from relevant tax interpretations and tax laws in Canada. As such, this recognition threshold is subject to management's judgment and may impact the carrying value of the Corporation's deferred tax assets and liabilities at the end of the reporting period.

Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities within the next financial year:

Reserves

Reported recoverable quantities of proved and probable reserves requires estimation regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Corporation's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from Birchcliff's petroleum and natural gas interests are independently evaluated by reserve engineers at least annually.

The Corporation's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and NGLs which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proved and probable if producibility is supported by either production or conclusive formation tests. Birchcliff's oil and gas reserves are determined in accordance with the standards contained in National Instrument 51-101 – *Standards of Disclosures for Oil and Gas Activities* and the *Canadian Oil and Gas Evaluation Handbook*.

Share-based payments

All equity-settled, share-based awards issued by the Corporation are fair valued 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.

Decommissioning obligations

The Corporation estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires an estimate regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

Impairment of non-financial assets

For the purposes of determining the extent of any impairment or its reversal, estimates must be made regarding future cash flows taking into account key assumptions including future petroleum and natural gas prices, expected forecasted production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Changes in the aforementioned assumptions could affect the carrying amount of the Corporation's assets, and impairment charges and reversal will affect profit or loss.

Income taxes

Birchcliff files corporate income tax, goods and service tax and other tax returns with various provincial and federal taxation authorities in Canada. There can be differing interpretations of applicable tax laws and regulations. The resolution of these tax positions through negotiations or litigation with tax authorities can take several years to complete. The Corporation does not anticipate that there will be any material impact upon the results of its operations, financial position or liquidity as a result of such differing interpretations.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. Estimates of future taxable income are based on forecasted cash flows from operations. To the extent that any interpretation of tax law is challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability of Birchcliff to realize the deferred tax assets recorded at the balance sheet date could be impacted.

FUTURE ACCOUNTING PRONOUNCEMENTS

In January 2016, the IASB issued IFRS 16 *Leases*. The standard will be effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided IFRS 15 *Revenue from Contracts with Customers*, has been applied, or is applied at the same date as IFRS 16. Birchcliff is currently evaluating the impact of adopting IFRS 16 on the financial statements.

In April 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* for annual periods beginning on or after January 1, 2017, with earlier application permitted. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Birchcliff is currently evaluating the impact of the amendments on the financial statements.

On May 28, 2014, the IASB issued IFRS 15 *Revenue From Contracts With Customers* replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue* and several revenue-related interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Birchcliff is currently assessing the impact of adopting IFRS 15; however, it anticipates that this standard will not have a material impact on the Corporation's financial statements.

On July 24, 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 aligns hedge accounting more closely with risk management. The new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness. However, under the new standard, more hedging strategies that are used for risk management will qualify for hedge accounting. IFRS 9 is effective for years beginning on or after January 1, 2018. As the Corporation does not currently apply hedge accounting it anticipates that this standard will not have a material impact on the Corporation's financial statements.

RISK FACTORS AND RISK MANAGEMENT

The Corporation's operations are exposed to a number of risks, some that impact the oil and natural gas industry as a whole and others that are unique to the Corporation. The impact of any risk or a combination of risks may adversely affect the Corporation's business, financial condition, results of operations, prospects, cash flows and reputation, which may reduce or restrict the Corporation's ability to pay dividends and may materially affect the market price of the Corporation's securities.

Investors should carefully consider the risk factors set out below and consider all other information contained herein and in the Corporation's other public filings before making an investment decision. The risks set out below are not an exhaustive list and should not be taken as a complete summary or description of all the risks associated with the Corporation's business and the oil and natural gas business generally.

Financial Risks and Risks Relating to Economic Conditions

Commodity Price Volatility

The Corporation's revenues, operating results, financial condition and ability to borrow funds or obtain additional capital depend substantially on prevailing prices for oil and natural gas. Prices for oil and natural gas are subject to wide fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors that are beyond the Corporation's control. These factors include but are not limited to the following:

- global energy supply and demand, production and policies, including (without limitation) the ability of the Organization of the Petroleum Exporting Countries ("OPEC") to set, maintain and reduce production levels in order to influence prices for crude oil;
- political conditions, instability and hostilities;
- domestic and foreign supplies of crude oil, NGLs and natural gas;
- the level of consumer demand, including demand for different qualities and types of crude oil and liquids;
- the production and storage levels of North American natural gas and crude oil and the supply and price of imported oil;
- the ability, considering regulation, taxation, and market demand, to export oil and liquefied natural gas and NGLs from North America;
- the availability, proximity and capacity of gathering, transportation, processing and/or refining facilities in regional or localized areas that may affect the realized price for oil and natural gas;
- weather conditions;
- government regulations, including existing and proposed changes to such regulations;
- the effect of world-wide environmental regulations and energy conservation and greenhouse gas ("GHG") reduction measures;
- the price and availability of alternative energy supplies; and
- global and domestic economic conditions, including currency fluctuations.

Oil and natural gas prices are expected to remain volatile for the near future because of market uncertainties over the supply and demand of these commodities due to the current state of the world economy, OPEC actions, sanctions imposed on certain oil producing nations by other countries and ongoing credit and liquidity concerns. Volatile oil, NGLs and natural gas prices make it difficult to estimate the value of producing properties for acquisitions and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

A material decline in oil and natural gas prices could result in a reduction of the Corporation's net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas. The Corporation might also elect not to produce from certain wells at lower prices. In addition, any prolonged period of low crude oil or natural gas prices could result in a decision by the Corporation to suspend or slow exploration and development activities or the construction or expansion of new or existing facilities or reduce its production levels. Any substantial and prolonged decline in the price of oil and natural gas would have an adverse effect on the carrying value of the Corporation's assets, borrowing capacity, revenues, profitability and funds flows from operations and may have a material adverse effect on the Corporation's business, financial condition, results of operations, prospects, its ability to pay dividends and ultimately on the market prices of the Corporation's securities.

The Corporation's financial performance also depends on revenues from the sale of commodities which differ in quality and location from underlying commodity prices quoted on financial exchanges. Of particular importance are the price differentials between the Corporation's realized prices for light/medium oil and natural gas and quoted market prices. Not only are these discounts influenced by regional supply and demand factors, they are also influenced by other factors such as transportation costs, capacity and interruptions and the quality of the oil and natural gas produced, all of which are beyond the Corporation's control. Oil and natural gas producers in North America currently receive significantly discounted prices for some of their production due to regional constraints on the ability to transport and sell such production to international markets. Additionally, limited natural gas and NGLs processing capacity may result in producers not realizing the full price for liquids associated with their natural gas production. A failure to resolve such constraints may result in continued reduced commodity prices received by oil and natural gas producers such as the Corporation.

The Corporation's reserves at December 31, 2016 are estimated using forecast prices and costs. These prices are above current crude oil and natural gas prices. If crude oil and natural gas prices stay at current levels, the Corporation's reserves may be substantially reduced as economic limits of developed reserves are reached earlier and undeveloped reserves become uneconomic at such prices. Even if some reserves remain economic at lower price levels, sustained low prices may compel the Corporation to re-evaluate its development plans and reduce or eliminate various projects with marginal economics. In addition, lower commodity prices have restricted, and are anticipated to continue to restrict, the Corporation's cash flow. The Corporation's capital expenditure plans are impacted by the Corporation's cash flow. If commodity prices deteriorate and the Corporation reduces its capital expenditures, the Corporation may not be able to replace its production with additional reserves and both its production and reserves could be reduced on a year-over-year basis.

Birchcliff conducts an assessment of the carrying value of its assets to the extent required by IFRS. If forecasted oil or natural gas prices decline, the carrying value of the Corporation's assets could be subject to downward revision, and the Corporation's earnings could be adversely affected by any reduction in such carrying value.

Weakness in the Oil and Gas Industry

Recent market events and conditions, including global excess oil and natural gas supply, recent actions taken by OPEC, slowing growth in China and other emerging economies, market volatility and disruptions in Asia, sovereign debt levels and political upheavals in various countries have caused significant weakness and volatility in commodity prices. These events and conditions have caused a significant decrease in the valuation of oil and gas companies and a decrease in confidence in the oil and gas industry. Recent changes in the Canadian federal government and, in the case of Alberta, at the provincial level have resulted in uncertainty surrounding regulatory, tax, royalty changes and environmental regulation that have been announced or may be implemented. In addition, the difficulty or inability to obtain the necessary approvals and other delays to build pipelines and other facilities to provide better access to markets for the oil and gas industry in western Canada has led to additional downward price pressure on crude oil and natural gas produced in western Canada and uncertainty and reduced confidence in the oil and gas industry in western Canada. Given the current market conditions and the lack of confidence in the Canadian oil and gas industry, the Corporation may have difficulty raising additional funds or if it is able to do so, it may be on unfavourable and/or highly dilutive terms.

Substantial Capital Requirements

The Corporation anticipates that it will make substantial capital expenditures for the acquisition, exploration development and production of oil and natural gas reserves and resources in the future. If the Corporation's future revenues or reserves decline, the Corporation may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. Moreover, future activities may require the Corporation to alter its capitalization significantly. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations or prospects.

Additional Funding Requirements and Access to Credit

Due to the nature of the Corporation's business, it is necessary from time to time for the Corporation to access other sources of capital beyond its internally generated cash flow in order to fund its acquisition, exploration and development activities. The Corporation obtains some of this necessary capital by incurring debt; therefore, the Corporation is dependent to a certain extent on the continued availability to the Corporation of credit. The continued availability of credit to the Corporation is primarily dependent on the state of the economy and the health of the banking industry in Canada and the United States. There is a risk that if the economy and banking industry experienced unexpected or prolonged deterioration, the Corporation's access to credit may contract or disappear altogether. The Corporation tries to mitigate this risk by dealing with reputable lenders and tries to structure its lending agreements to give it the most flexibility possible should these situations arise. However, situations that give rise to credit tightening or disappearing are largely beyond the Corporation's control.

Due to the conditions in the oil and natural gas industry and/or global economic volatility, the Corporation may from time to time have restricted access to capital and increased borrowing costs. The current conditions in the oil and natural gas industry have negatively impacted the ability of oil and natural gas companies to access additional financing. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. Continued depressed oil and natural gas prices have caused decreases, and may cause further decreases, in the Corporation's revenues from its production, which may affect its

ability to expend the necessary capital to replace its reserves or to maintain its production. To the extent that external sources of capital become limited, unavailable or available on onerous terms, the Corporation's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result. In addition, the future development of the Corporation's oil and natural gas properties may require additional financing and there are no assurances that such financing will be available or, if available, will be available upon acceptable terms. Failure to obtain any financing necessary for the Corporation's capital expenditure plans may result in a delay in the development of the Corporation's properties.

The Corporation is also dependent, to a certain extent, on continued access to equity capital markets. The Common Shares are listed on the TSX and management maintains an active investor relations program. In addition to the other factors outlined herein, continued access to capital is dependent on the Corporation's ability to continue to perform at a level that meets market expectations.

Issuance of Debt

From time to time, the Corporation may enter into transactions to acquire assets or shares of other entities. These transactions may be financed in whole or in part with debt, which may increase the Corporation's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, the Corporation may require additional debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness from time to time could impair the Corporation's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Credit Facilities

The amount authorized under the Credit Facilities is dependent on the borrowing base determined by the Corporation's lenders. At December 31, 2016, the borrowing base limit under the Credit Facilities was \$950 million and long-term bank debt was \$572.5 million. The Credit Facilities are subject to a semi-annual review of the borrowing base limit by Birchcliff's syndicate of lenders, which limit is directly impacted by the value of Birchcliff's oil and natural gas reserves. The Corporation's lenders use the Corporation's reserves, commodity prices, applicable discount rate and other factors to determine the Corporation's borrowing base. A material decline in commodity prices could result in a reduction in the Corporation's borrowing base, thereby reducing the funds available to the Corporation under the Credit Facilities. As the borrowing base is determined based on the lender's interpretation of the Corporation's reserves and future commodity prices, there can be no assurance as to the amount of the borrowing base determined at each review. In addition, the lenders are able to request one additional borrowing base redetermination in between scheduled redeterminations and the borrowing base may be reduced in connection with asset dispositions. If, at the time of a borrowing base redetermination, the outstanding borrowings under the Credit Facilities were to exceed the borrowing base as a result of any such redetermination, the Corporation would be required to eliminate this excess. If the Corporation is forced to repay a portion of its indebtedness under the Credit Facilities, it may not have sufficient funds to make such repayments. If it does not have sufficient funds and is otherwise unable to negotiate renewals of its borrowings or arrange new financing, it may have to sell significant assets. Any such sale could have a material adverse effect on the Corporation's business and financial results.

The maturity date of the Credit Facilities is May 11, 2018. The Corporation may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the

extension request is made. In the event that either of the Credit Facilities is not extended before the maturity date, all outstanding indebtedness under such Credit Facility will be repayable at the maturity date. There is also a risk that the Credit Facilities will not be renewed for the same principal amount or on the same terms. Any of these events could adversely affect the Corporation's ability to fund its ongoing operations and to pay dividends.

The Corporation is required to comply with covenants under the Credit Facilities. In the event that the Corporation does not comply with these covenants, the Corporation's access to capital could be restricted or repayment could be required. Events beyond the Corporation's control may contribute to the failure of the Corporation to comply with such covenants. A failure to comply with covenants could result in default under the Credit Facilities, which could result in the Corporation being required to repay amounts owing thereunder. Even if the Corporation is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to the Corporation. If the Corporation is unable to repay amounts owing under the Credit Facilities, the lenders under the Credit Facilities could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness. The acceleration of the Corporation's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross default or cross-acceleration provisions. In addition, the Credit Facilities impose certain restrictions on the Corporation, including, but not limited to, restrictions on the payment of dividends, incurring of additional indebtedness, dispositions of properties and the entering into of amalgamations, mergers, plans of arrangements, reorganizations or consolidations with any person.

Dividends

The declaration and payment of dividends in any quarter is subject to the discretion of the Board and may vary depending on a variety of factors and conditions existing from time to time, including fluctuations in commodity prices, the financial condition of Birchcliff, production levels, results of operations, capital expenditure requirements, working capital requirements, debt service requirements, operating costs, royalty burdens, foreign exchange rates, interest rates, contractual restrictions, Birchcliff's hedging activities or programs, available investment opportunities, Birchcliff's business plan, strategies and objectives, the satisfaction of the solvency and liquidity tests imposed by the *Business Corporations Act* (Alberta) (the "**ABCA**") for the declaration and payment of dividends and other factors that the Board may deem relevant. Depending on these and various other factors, many of which are beyond the control of Birchcliff, the dividend policy of the Corporation may vary from time to time and, as a result, future cash dividends could be reduced or suspended entirely.

Pursuant to the ABCA, the Corporation may not declare or pay a dividend if there are reasonable grounds for believing that: (i) the Corporation is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realizable value of its assets would thereby be less than the aggregate of its liabilities and stated capital of its outstanding shares. Additionally, pursuant to the agreement governing the Credit Facilities, the Corporation is not permitted to make any distribution (which includes dividends) at any time when an event of default exists or would reasonably be expected to exist upon making such distribution, unless such event of default arose subsequent to the ordinary course declaration of the applicable distribution.

Dividends may be reduced or suspended during periods of lower funds from operations. The timing and amount of Birchcliff's capital expenditures, and the ability of the Corporation to repay or refinance existing debt as it becomes due, directly affects the amount of cash dividends that may be declared by the Board. Future acquisitions, expansions of Birchcliff's assets, and other capital expenditures and the repayment or refinancing of existing debt as it becomes due may be financed from sources such as funds flow from operations, the issuance of additional shares or other securities of Birchcliff, and borrowings. Dividends

may be reduced, or even eliminated, at times when significant capital or other expenditures are made. There can be no assurance that sufficient capital will be available on terms acceptable to Birchcliff, or at all, to make additional investments, fund future expansions or make other required capital expenditures. To the extent that external sources of capital, including the issuance of additional shares or other securities or the availability of additional credit facilities, become limited or unavailable on favourable terms or at all due to credit market conditions or otherwise, the ability of the Corporation to make the necessary capital investments to maintain or expand its operations, to repay outstanding debt and to invest in assets, as the case may be, may be impaired. To the extent Birchcliff is required to use funds flow to finance capital expenditures or acquisitions or to repay existing debt as it becomes due, the level of dividends declared may be reduced.

The market value of the Corporation's securities may deteriorate if dividends are reduced or suspended. Furthermore, the future treatment of dividends for tax purposes will be subject to the nature and composition of dividends paid by Birchcliff and potential legislative and regulatory changes.

See *"Dividend and Distribution Policy"* in the Annual Information Form for the financial year ended December 31, 2016.

Hedging

From time to time, the Corporation may enter into agreements that fix the prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline. However, to the extent that the Corporation engages in fixed price risk management activities to protect it from commodity price declines, the Corporation may also be prevented from realizing the full benefits of commodity price increases above the prices established by the Corporation's hedging contracts. In addition, the Corporation's hedging arrangements may expose it to the risk of financial loss in certain circumstances, including instances in which:

- production falls short of the hedged volumes;
- there is a widening of price-basis differentials between delivery points for production and the delivery point assumed in the hedge arrangement;
- the counterparties to the hedging arrangements or other price risk management contracts fail to perform under those arrangements; or
- a sudden unexpected event materially increases oil and natural gas prices.

Similarly, from time to time the Corporation may enter into agreements to fix the exchange rate of Canadian dollars to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar. However, if the exchange rate is fixed and the Canadian dollar declines in value compared to the United States dollar, the Corporation will not benefit from the declining exchange rate.

Credit Risk

The Corporation may be exposed to third-party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In addition, the Corporation may be exposed to third party credit risk from operators of properties in which the Corporation has a working or royalty interest. In the event such entities fail to meet their contractual obligations to the Corporation, such failures may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may affect a joint venture partner's willingness to

participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner. To the extent that any of such third parties go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in the Corporation being unable to collect all or a portion of any money owing from such parties. Any of these factors could materially adversely affect the Corporation's financial and operational results.

Conversely, the Corporation's counterparties may deem the Corporation to be at risk of defaulting on its contractual obligations. These counterparties may require that the Corporation provide additional credit assurances by prepaying anticipated expenses or posting letters of credit, which would decrease the Corporation's available liquidity.

Variations in Foreign Exchange Rates and Interest Rates

World oil and natural gas prices are quoted in United States dollars. The Canadian/United States dollar exchange rate, which fluctuates over time, consequently affects the price received by Canadian producers of oil and natural gas. Material increases in the value of the Canadian dollar relative to the United States dollar may negatively affect the Corporation's production revenues. Future Canadian/United States exchange rates could also impact the future value of the Corporation's reserves as determined by independent evaluators. Although a low value of the Canadian dollar relative to the United States dollar may positively affect the price the Corporation receives for its oil and natural gas production, it could also result in an increase in the price for certain goods used for the Corporation's operations, which may have a negative impact on the Corporation's financial results.

To the extent that the Corporation engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which the Corporation may contract. The Corporation has not hedged any of its foreign exchange risk at the date hereof. See "*Hedging*".

An increase in interest rates could result in a significant increase in the amount the Corporation pays to service debt, resulting in a reduced amount available to fund its exploration and development activities and the cash available for dividends and could negatively impact the market price of the Corporation's securities.

Business and Operational Risks

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time and the production therefrom, will decline over time as such existing reserves are produced. A future increase in the Corporation's reserves will depend on both the ability of the Corporation to explore and develop its existing properties and its ability to select and acquire suitable producing properties or prospects. There is no assurance that the Corporation will be able to continue to find satisfactory properties to acquire or participate in. Moreover, management of the Corporation may determine that current markets, terms of acquisition, participation or pricing conditions make potential acquisitions or participations uneconomic. There is also no assurance that the Corporation will discover or acquire further commercial quantities of oil and natural gas. In addition, the success of the Corporation's business is highly dependent on its ability to acquire or discover new reserves in a cost efficient manner as substantially all of the Corporation's cash flow is derived from the sale of the petroleum and natural gas

reserves that it accumulates and develops. In order to remain financially viable, the Corporation must be able to replace reserves over time at a lesser cost on a per unit basis than its cash flow on a per unit basis.

Future oil and natural gas exploration may involve unprofitable efforts from dry wells as well as from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, completion, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs.

Drilling hazards, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. Field operating conditions include, but are not limited to, delays in obtaining governmental approvals or consents, shut-ins of wells resulting from extreme weather conditions, insufficient storage or transportation capacity or geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, spills and other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment and personal injury. Particularly, the Corporation may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to the Corporation.

Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. The Corporation also remains subject to the risk that the production rate of a significant well may decrease in an unpredictable and uncontrollable manner, which could result in a decrease in the Corporation's overall production and associated cash flows.

As is standard industry practice, the Corporation is not fully insured against all risks, nor are all risks insurable. Although the Corporation maintains liability insurance in an amount that it considers consistent with industry practice, liabilities associated with certain risks could exceed policy limits or not be covered. In either event, the Corporation could incur significant costs. See *"– Other Risks – Insurance"*.

Project Risks

The Corporation manages a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. The Corporation's ability to execute projects and market oil and natural gas depends upon numerous factors beyond the Corporation's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the availability of, and the ability to acquire, water supplies needed for drilling and hydraulic fracturing at a reasonable cost and in accordance with applicable environmental regulations;

- the Corporation's ability to dispose of water used or removed from strata;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- regulatory changes;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, the Corporation could be unable to execute projects on time, on budget, or at all, and may be unable to effectively market the oil and natural gas that it produces.

Gathering and Processing Facilities and Pipeline Systems

The Corporation primarily delivers its products through gathering and processing facilities and pipeline systems, some of which it does not own. The amount of oil and natural gas that the Corporation can produce and sell is subject to the accessibility, availability, proximity and capacity of these gathering and processing facilities and pipeline systems. A lack of availability of capacity in any of the gathering and processing facilities and pipeline systems could result in the Corporation's inability to realize the full economic potential of its production or in a reduction of the price offered for the Corporation's production. Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and market oil and natural gas production. In addition, the pro-rationing of capacity on pipeline systems within Alberta continues to affect the ability to export oil and natural gas. Unexpected shut downs or curtailment of capacity of pipelines for maintenance or integrity work or because of actions taken by regulators could also affect the Corporation's production, operations and financial results. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays in constructing new infrastructure systems and facilities could harm the Corporation's business and, in turn, the Corporation's financial condition, results of operations and cash flows. The federal government has signaled that it plans to review the National Energy Board approval process for large projects. This may cause the timeframe for project approvals to increase for current and future applications.

The Corporation's production passes through Birchcliff owned or third party infrastructure prior to it being ready for sale. There is a risk that should this infrastructure fail causing a significant portion of the Corporation's production to be shut-in and unable to be sold, this could have a material adverse effect on the Corporation's available cash flow. With respect to facilities owned by third parties and over which the Corporation has no control, these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could have a material adverse effect on the Corporation's ability to process its production and deliver the same for sale.

Uncertainty of Reserves Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and NGLs reserves and the future net revenue attributed to such reserves, including many factors beyond the control of the Corporation. In general, estimates of economically recoverable oil, natural gas and NGLs reserves and the future net revenue therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, initial production rates, production decline rates, ultimate reserves recovery, the timing and amount of capital expenditures, the success of future development activities, future commodity prices, marketability of oil, natural gas and NGLs, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For those reasons, estimates of the economically recoverable oil, natural gas and NGLs reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenue associated with reserves prepared by different engineers or by the same engineer at different times, may vary substantially. The Corporation's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates with respect to reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas were estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves, which may be substantial.

In accordance with applicable securities laws in Canada, the Corporation's independent qualified reserves evaluators have used forecast prices and costs in estimating the Corporation's reserves and future net revenue. Actual future net revenue will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulations or taxation and the impact of inflation on costs.

Actual production and cash flows derived from the Corporation's reserves will vary from the estimates contained in the evaluations prepared by the Corporation's independent qualified reserves evaluators in respect of the Corporation's oil and gas properties effective December 31, 2016, and such variations could be material. Such evaluations are based in part on the expected success of the Corporation's forecast operations. The reserves and estimated future net revenue to be derived therefrom and contained in the evaluations may be reduced to the extent that such activities do not achieve the expected level of success.

Costs and Availability of Equipment and Services

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties) and skilled personnel trained to use such equipment in the areas where such activities will be conducted. Demand for such limited equipment and skilled personnel, or access restrictions, may affect the availability of such equipment and skilled personnel to the Corporation and may delay exploration and development activities.

During times of high commodity prices for oil and natural gas, there is a risk of substantially increased costs of operations, which impacts both the amount of capital required to perform operations and the netback the Corporation achieves from its production sales. Although the Corporation strives for continuous improvement in its planning, operations and procurement of materials, unexpected changes in

the market for such equipment and services could negatively affect the Corporation's business, financial condition, results of operations and prospects.

Hydraulic Fracturing

Some of the Corporation's operations use hydraulic fracturing. Hydraulic fracturing involves the injection of water, sand and small amounts of additives under pressure into rock formations to stimulate the production of oil and natural gas. Specifically, hydraulic fracturing enables the production of commercial quantities of oil and natural gas from reservoirs that were previously unproductive. While hydraulic fracturing has been in use and improved upon for many years, there has been increased focus on environmental aspects of hydraulic fracturing practices in recent years. Increased regulation and attention given to the hydraulic fracturing process could lead to greater opposition (including litigation) to oil and natural gas production activities using hydraulic fracturing techniques. Any new laws, regulations or permitting requirements regarding hydraulic fracturing could lead to operational delays, increased operating costs, third party or governmental claims, and could increase the Corporation's costs of compliance and doing business as well as delay the development of oil and natural gas resources from certain formations which are not commercial without the use of hydraulic fracturing. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that the Corporation is ultimately able to produce from its reserves.

Potential Future Drilling Locations

The Corporation's identified potential future drilling locations represent a significant part of the Corporation's future growth. The Corporation's ability to drill and develop these locations and the drilling locations on which Birchcliff actually drills wells depends on a number of uncertainties and factors, including, but not limited to, the availability of capital, equipment and personnel, oil and natural gas prices, capital and operating costs, inclement weather, seasonal restrictions, drilling results, additional geological, geophysical and reservoir information that is obtained, production rate recovery, gathering system and transportation constraints, net prices received for commodities produced, regulatory approvals and regulatory changes. As a result of these uncertainties, there can be no assurance that the potential future drilling locations the Corporation has identified will ever be drilled or if the Corporation will be able to produce oil, NGLs or natural gas from these or any other potential future drilling locations. As such, the Corporation's actual drilling activities may differ materially from those presently identified, which could adversely affect the Corporation's business.

Operational Dependence

Other companies operate some of the assets in which the Corporation has an interest. The Corporation has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect the Corporation's business, financial condition, results of operations and prospects. The Corporation's return on assets operated by others depends upon a number of factors that may be outside of the Corporation's control, including, but not limited to, the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

In addition, due to the current low and volatile commodity prices, many companies, including companies that may operate some of the assets in which the Corporation has an interest, may be in financial difficulty, which could impact their ability to fund and pursue capital expenditures, carry out their operations in a safe and effective manner and satisfy regulatory requirements with respect to abandonment and reclamation obligations. If companies that operate some of the assets in which the Corporation has an interest fail to satisfy regulatory requirements with respect to abandonment and

reclamation obligations, the Corporation may be required to satisfy such obligations and to seek recourse from such companies. To the extent that any of such companies go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in such assets being shut-in, the Corporation potentially becoming subject to additional liabilities relating to such assets and the Corporation having difficulty collecting revenue due to it from such operators. Any of these factors could materially adversely affect the Corporation's financial and operational results.

Cost of New Technologies

The oil and natural gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil and natural gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before the Corporation. There can be no assurance that the Corporation will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. If the Corporation implements such technologies, there is no assurance that the Corporation will do so successfully. One or more of the technologies currently utilized by the Corporation or implemented in the future may become obsolete. In such case, the Corporation's business, financial condition, results of operations and prospects could be affected adversely and materially. If the Corporation is unable to utilize the most advanced commercially available technology, its business, financial condition, results of operations and prospects could also be adversely affected in a material way.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas and technological advances in fuel economy and energy generation devices could reduce the demand for oil, natural gas and other liquid hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Health, Safety and Environment

Health, safety and environmental risks influence the workforce, operating costs and the establishment of regulatory standards. These risks include, but are not limited to, encountering unexpected formations or pressures; premature declines of reservoirs; blow-outs; equipment failures; human error or wilful misconduct by field workers; other accidents such as, cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluid spills; adverse weather conditions; pollution; fires; and other environmental risks. The Corporation provides staff with the training and resources they need to complete work safely and effectively; incorporates hazard assessment and risk management as an integral part of everyday operations; monitors performance to ensure its operations comply with legal obligations and internal standards; and identifies and manages environmental liabilities associated with its existing asset base. The Corporation has a site inspection program and a corrosion risk management program designed to ensure compliance with environmental laws and regulations. The Corporation carries insurance to cover a portion of property losses, liability to third parties and business interruption resulting from unusual events.

The Corporation is subject to the risk that the unexpected failure of its equipment used in drilling, completing or producing wells or in transporting production could result in release of fluid substances that pollute or contaminate lands at or near its facilities, which could result in significant liability to the Corporation for costs of clean up, remediation and reclamation of contaminated lands. The Corporation conducts its operations with due regard for the potential impact on the environment. This includes hiring skilled personnel, providing adequate training to all staff involved with operations, and by retaining expert

advice and assistance to deal with environmental remediation and reclamation work where such expertise is needed.

Seasonality

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable and municipalities and provincial transportation departments may enforce road bans that restrict the movement of rigs and other heavy equipment, all of which may result in limited access and a reduction in or cessation of operations. In addition, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. In addition, extreme cold weather and heavy snowfall and rainfall may restrict the Corporation's ability to access its properties and cause operational difficulties. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and also to volatility in commodity prices as the demand for natural gas rises during cold winter months and hot summer months.

Expiration of Licences and Leases

The Corporation's properties are held in the form of licences and leases and working interests in licences and leases held by others. If the Corporation or the holder of the licence or lease fails to meet the specific requirements of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of licences or leases may have a material adverse effect on the business, financial condition, results of operations and prospects of the Corporation. To mitigate this risk, the Corporation carefully monitors its undeveloped land position and plans operations in order to keep key licences and leases from terminating or expiring.

Competition

The oil and natural gas industry is highly competitive in all of its phases. The Corporation competes with numerous other entities for land, acquisitions of reserves, access to drilling and service rigs and other equipment, access to transportation and skilled technical and operating personnel among other things. The Corporation's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Corporation. Some of these companies not only explore for, develop and produce oil and natural gas, but also carry on refining operations and market oil and natural gas on an international basis. As a result of these complementary activities, some of these competitors may have greater and more diverse competitive resources to draw on than the Corporation. The Corporation's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling.

All Assets in One Area

All of the Corporation's producing properties are geographically concentrated in the Peace River Arch area of Alberta. As a result of this concentration, the Corporation may be disproportionately exposed to the impact of delays or interruptions of production from that area caused by significant governmental regulation in Alberta, transportation capacity constraints, curtailment of production, natural disasters, availability of equipment, facilities or services, adverse weather conditions or other events which impact that area. Due to the concentrated nature of the Corporation's portfolio of properties, a number of the Corporation's properties could experience any of the same conditions at the same time, resulting in a relatively greater impact on the Corporation's results of operations than they might have on other

companies that have a more diversified portfolio of properties. Such delays or interruptions could have a material adverse effect on the Corporation's financial condition and results of operations.

Expansion into New Activities

The operations and expertise of the Corporation's management are currently focused primarily on oil and natural gas production, exploration and development in Peace River Arch area of Alberta. In the future, the Corporation may acquire or move into new industry related activities or new geographical areas or may acquire different energy related assets, and as a result may face unexpected risks or alternatively, significantly increase the Corporation's exposure to one or more existing risk factors, which may in turn result in the Corporation's future operational and financial conditions being adversely affected.

Information Security and Cybersecurity

Birchcliff relies heavily on information technology, such as computer hardware and software systems, in order to properly operate its business. In the event the Corporation is unable to regularly deploy software and hardware, effectively upgrade systems and network infrastructure, and take other steps to maintain or improve the efficiency and efficacy of systems, the operation of such systems could be interrupted or result in the loss, corruption, or release of data. In addition, information systems could be damaged or interrupted by natural disasters, force majeure events, telecommunications failures, power loss, acts of war or terrorism, computer viruses, malicious code, physical or electronic security breaches, intentional or inadvertent user misuse or error, or similar events or disruptions. Any of these or other events could cause interruptions, delays, loss of critical and/or sensitive data or similar effects, which could have a material adverse impact on the protection of intellectual property, and confidential and proprietary information, and on Birchcliff's business, financial condition, results of operations and cash flows.

In the ordinary course of business, the Corporation collects, uses and stores sensitive data, including intellectual property, proprietary business information and personal information of Birchcliff's employees and third parties. Despite Birchcliff's security measures, Birchcliff's information systems, technology and infrastructure may be vulnerable to attacks by hackers and/or cyberterrorists or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise information used or stored on the Corporation's systems and/or networks and, as a result, the information could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties or other negative consequences, including disruption to Birchcliff's operations and damage to Birchcliff's reputation, which could have a material adverse effect on Birchcliff's business, financial condition, results of operations and cash flows.

Although to date the Corporation has not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that the Corporation will not incur such losses in the future.

Environmental, Regulatory and Political Risks

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil and natural gas industry operations. In addition, such legislation sets out the requirements with respect to oilfield waste handling

and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites.

Compliance with environmental legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it will be in material compliance with current applicable environmental legislation, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Political and economic events may significantly affect the scope and timing of climate change measures that are put in place. Some of the Corporation's facilities may be subject to existing or future provincial or federal climate change regulations to manage emissions and there can be no assurance that the compliance costs will be immaterial. 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 oil and natural gas and increase costs. See also "*Climate Change Regulation*".

Regulatory

Various levels of governments impose extensive controls and regulations on oil and natural gas operations (including exploration, development, production, pricing, marketing and transportation). Governments may regulate or intervene with respect to exploration and production activities, prices, taxes, royalties and the exportation of oil and natural gas. Amendments to these controls and regulations may occur from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for crude oil and natural gas and increase the Corporation's costs, either of which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In order to conduct oil and natural gas operations, the Corporation will require regulatory permits, licences, registrations, approvals and authorizations from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all of the permits, licences, registrations, approvals and authorizations that may be required to conduct operations that it may wish to undertake. In addition, the Corporation may have to comply with the requirements of certain federal legislation such as the *Competition Act* (Canada) and the *Investment Canada Act* (Canada), which may adversely affect its business and financial condition and the market value of its securities or assets, particularly when undertaking or attempting to undertake an acquisition or disposition.

Royalty Regimes

The Corporation's cash flows are directly affected by changes to royalty regimes. The Government of Alberta receives royalties on the production of hydrocarbons from lands in which they own the mineral rights. On January 29, 2016, the Government of Alberta announced the MRF based on recommendations of the Royalty Review Advisory Panel. The MRF will apply to all conventional wells spud on or after January 1, 2017. Wells spud prior to January 1, 2017 will continue to operate under the Previous Framework. Wells spud between July 13, 2016 and December 31, 2016 may elect to opt-in to the MRF if certain criteria are met. After December 31, 2026, all wells will be subject to the MRF.

Under the MRF, royalties are determined on a “revenue-minus-costs” basis, with the cost component based on a drilling and completion cost allowance formula for each well, which is dependent on the true vertical depth of the well, total lateral length of the well and the total proppant placed. The formula is based on the industry’s average drilling and completion costs as determined by the Alberta Department of Energy (the “**ADOE**”) on an annual basis. Producers pay a flat royalty rate of 5% of gross revenue from each well that is subject to the MRF until the well reaches payout. Payout for a well is the point at which cumulative revenues from the well equals the drilling and completion cost allowance for the well set by the ADOE. After payout, producers pay an increased post-payout royalty on revenues determined by reference to the then current commodity prices of the various hydrocarbons. Once production in a mature well drops below a threshold level where the rate of production is too low to sustain the full royalty burden, its royalty rate will move to a sliding scale (based on volume and commodity prices) with a minimum royalty rate of 5%.

There can be no assurance that the Government of Alberta will not adopt a new royalty regime or modify the existing royalty regime, which may have an impact on the economics of the Corporation’s projects. Further changes to the royalty regime in Alberta, changes to how the existing royalty regime is interpreted and applied by the Government of Alberta or an increase in disclosure obligations for the Corporation could have a significant impact on the Corporation’s financial condition, results of operations, prospects and cash flows. An increase in the royalty rates in Alberta would reduce the Corporation’s earnings and could make future capital expenditures or existing operations less economic or uneconomic.

Climate Change Regulation

The Corporation’s exploration and production facilities and other operations and activities emit GHG. Various federal and provincial governments have announced intentions to regulate GHG emissions and other air pollutants. Some of these regulations are in effect while others remain in various phases of review, discussion or implementation, as discussed in further detail below. Uncertainties exist relating to the timing and effects of these regulations. Additionally, lack of certainty regarding how any future federal legislation will harmonize with provincial regulations makes it difficult to accurately determine the cost estimate of climate change legislation compliance with certainty.

Alberta

As part of its efforts to reduce GHG emissions, the Government of Alberta introduced legislation to address GHG emissions: the *Climate Change and Emissions Management Act* (Alberta) enacted on December 4, 2003 and amended through the *Climate Change and Emissions Management Amendment Act* (Alberta), which received royal assent on November 4, 2008. The accompanying regulations include the *Specified Gas Emitters Regulation* (“**SGER**”), which imposes GHG limits, and the *Specified Gas Reporting Regulation*, which imposes GHG emissions reporting requirements. SGER applies to facilities emitting more than 100,000 tonnes of GHG emissions in 2003 or any subsequent year (“**Regulated Emitters**”) and requires reductions in GHG emissions intensity (e.g. the quantity of GHG emissions per unit of production) from emissions intensity baselines established in accordance with SGER.

On June 25, 2015, the Government of Alberta renewed SGER for a period of two years with significant amendments while Alberta’s newly formed Climate Advisory Panel conducted a comprehensive review of the province’s climate change policy. Regulated Emitters are required to reduce their emissions intensity by 2% from their baseline in the fourth year of commercial operation, 4% of their baseline in the fifth year, 6% of their baseline in the sixth year, 8% of their baseline in the seventh year, 10% of their baseline in the eighth year, and, as of January 1, 2017, 20% of their baseline in the ninth or subsequent years.

A Regulated Emitter can meet its emissions intensity targets through a combination of the following: (i) producing its products with lower carbon inputs; (ii) purchasing emissions offset credits from non-

regulated emitters (generated through activities that result in emissions reductions in accordance with established protocols); (iii) purchasing emissions performance credits from other Regulated Emitters that earned credits through the reduction of their emissions below the 100,000 tonne threshold; (iv) cogeneration compliance adjustments; and (v) by contributing to the Climate Change and Emissions Management Fund at a rate of \$30 per tonne of GHG emissions.

On November 22, 2015, as a result of the Climate Advisory Panel's Climate Leadership report, the Government of Alberta announced its Climate Leadership Plan. The Climate Leadership Plan includes certain initiatives that the Government will implement to address climate change, including: (i) the complete phase-out of coal-fired sources of electricity by 2030; (ii) implementing an Alberta economy-wide price on GHG emissions of \$30 per tonne; (iii) reducing oil sands emissions to a province-wide total of 100 megatonnes per year, with certain exceptions for cogeneration power sources and new upgrading capacity; and (iv) reducing methane emissions from oil and gas activities by 45% by 2025. On June 7, 2016, the *Climate Leadership Implementation Act* (Alberta) (the "**CLIA**") was passed into law. The CLIA enacted the *Climate Leadership Act* (Alberta) (the "**CLA**") introducing a carbon tax on all sources of GHG emissions, subject to certain exemptions. The CLA received royal assent on June 13, 2016 and came into force on January 1, 2017. The Climate Leadership Regulation ("**CL Regulation**"), which provides further detail in respect of the carbon levy regime set out in the CLA, was released on November 3, 2016, and also came into force on January 1, 2017.

The CLA and the CL Regulation impose registration, payment, remittance, reporting and administrative obligations on applicable persons throughout the fuel supply chain. Pursuant to the CLA, an initial economy-wide carbon levy of \$20 per tonne of GHG emissions was implemented on January 1, 2017, increasing to \$30 per tonne in January of 2018. The application of the carbon levy depends on the type and quantity of fuel purchased and how such fuel is used by the purchaser. With certain exemptions, all fuel consumption, including gasoline and natural gas, will be subject to the carbon levy. Activities integral to oil and gas production processes are exempt until 2023. The Corporation currently expects that its operations will have minimal direct carbon levy exposure until 2023. It is not known what will occur in 2023 when the current exemptions are expected to end. In addition, under the CLA and the CL Regulation, facilities subject to SGER are exempt from the carbon levy. Regulated Emitters will remain subject to the SGER framework until the end of 2017 and are exempt from paying the carbon levy on fuels used in operations until this time. Upon the expiry of SGER, the Government of Alberta intends to transition to a proposed Carbon Competitiveness Regulation, in which sector specific output-based carbon allocations will be used to ensure competitiveness. Details of such proposed regulation have not yet been released.

Federal

As a signatory to the United Nations Framework Convention on Climate Change (the "**UNFCCC**") and a participant to the Copenhagen Agreement (a non-binding agreement created by the UNFCCC), the Government of Canada announced on January 29, 2010 that it would seek a 17% reduction in GHG emissions from 2005 levels by 2020; however, these GHG emission reduction targets were not binding. Canada and 193 other countries that are members of the UNFCCC met in Paris, France in December, 2015, and signed the Paris Agreement on climate change. The stated objective of the Paris Agreement is to hold "the increase in global average temperature to well below 2 degrees Celcius above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 degrees Celcius". Signatory countries agreed to meet every five years to review their individual progress on GHG emissions reductions and to consider amendments to individual country targets, which are not legally binding. Canada is required to report and monitor its GHG emissions, though details of how such reporting and monitoring will take place have yet to be determined. Additionally, the Paris Agreement contemplates that, by 2020, the parties will develop a new market-based mechanism related to carbon trading. As a result of the UNFCCC adopting the Paris

Agreement on December 12, 2015, which Canada ratified on October 3, 2016, the Government of Canada implemented new GHG emission reduction targets of a 30% reduction from 2005 levels by 2030.

In addition, on December 9, 2016, the Government of Canada formally announced the Pan-Canadian Framework on Clean Growth and Climate Change. As a result, the federal government will implement a Canada-wide carbon pricing scheme beginning in 2018. This may be implemented through either a cap and trade system or a carbon tax regime at the option of each province or territory. The federal government will impose a price on carbon of \$10 per tonne on any province or territory which fails to implement its own system by 2018. This amount will increase by \$10 annually until it reaches \$50 per tonne in 2022 at which time the program will be reviewed. For those provinces, including Alberta, which have already established a carbon tax or a cap and trade regime, or both, the national price on carbon will likely have little additional impact in the short-term.

Impact on the Corporation

Adverse impacts to the Corporation's business as a result of comprehensive GHG legislation or regulations may include, but are not limited to: increased compliance costs; permitting delays; increased operating costs and capital expenditures; and reduced demand for the oil, natural gas and NGLs that the Corporation produces.

The Corporation is not currently considered a Regulated Emitter under SGER in respect of any of its facilities. However, should any of the Corporation's facilities emit 100,000 tonnes or more of GHG per year, such facilities will be subject to the GHG reduction targets and reporting requirements under SGER. It is likely that the PC Gas Plant will become a Regulated Emitter later in 2017 upon completion of the Phase V expansion, which is currently scheduled to be completed in October 2017. The Corporation currently expects that the costs will not be material to the Corporation.

Beyond existing legal requirements, the extent and magnitude of any adverse impacts of any additional programs or additional regulations cannot be reliably or accurately estimated at this time because specific legislative and regulatory requirements have not been finalized and uncertainty exists with respect to the additional measures being considered and the time frames for compliance. Additional changes to climate change legislation may adversely affect the Corporation's business, financial condition, results of operations and cash flows which cannot be reliably or accurately estimated at this time.

Liability Management Programs

In Alberta, the AER administers the Licensee Liability Rating Program (the "**LLR Program**") which is a liability management program governing most conventional upstream oil and gas wells, facilities and pipelines. The *Oil and Gas Conservation Act* (Alberta) (the "**OGCA**") establishes an orphan fund (the "**Orphan Fund**") to pay the costs to suspend, abandon, remediate and reclaim a well, facility or pipeline included in the LLR Program if a licensee or working interest participant becomes defunct or is unable to meet its obligations. The Orphan Fund is administered by the Orphan Well Association (the "**OWA**") and is funded by licensees in the LLR Program (including Birchcliff) through a levy administered by the AER. The LLR Program is designed to minimize the risk to the Orphan Fund posed by unfunded liability of licensees and to prevent the taxpayers of Alberta from incurring costs to suspend, abandon, remediate and reclaim wells, facilities or pipelines.

The LLR Program requires a licensee whose deemed liabilities exceed its deemed assets to provide the AER with a security deposit. The ratio of deemed liabilities to deemed assets is assessed once each month and failure to post the required security deposit may result in the initiation of enforcement action by the AER. Although the Corporation does not have to currently post security under the existing LLR Program, changes to the ratio of the Corporation's deemed assets to deemed liabilities or changes to the requirements of the LLR Program may result in the requirement for security to be posted in the future.

In May 2016, the Alberta Court of Queen's Bench issued a decision in the case of *Redwater Energy Corporation (Re)*, 2016 ABQB 278 ("**Redwater**"). The Court found that there was an operational conflict between the abandonment and reclamation provisions of the OGCA and the *Bankruptcy and Insolvency Act* (Canada) and that receivers and trustees of insolvent parties have the right to disclaim or renounce uneconomic oil and gas assets within insolvency proceedings. Accordingly, these wells and facilities become "orphans" to be remediated by the OWA. The Alberta Court of Appeal heard the appeal of the Redwater decision on October 11, 2016, with the Court reserving its decision.

In response to the Redwater decision, the AER issued Bulletin 2016-16: *Licensee Eligibility—Alberta Energy Regulator Measures to Limit Environmental Impacts Pending Regulatory Changes to Address the Redwater Decision* ("**Bulletin 16**") on June 20, 2016, which provided that the following interim measures will govern pending the earlier of the outcome of Redwater or the implementation of appropriate regulatory measures:

- (i) The AER will consider and process all applications for licence eligibility under Directive 067: *Applying for Approval to Hold EUB Licences* as non-routine and may exercise its discretion to refuse an application or impose terms and conditions on a licensee eligibility approval if appropriate in the circumstances.
- (ii) For holders of existing but previously unused licence eligibility approvals, prior to approval of any application (including licence transfer applications), the AER may require evidence that there have been no material changes since approving the licence eligibility. This may include evidence that the holder continues to maintain adequate insurance and that the directors, officers, and/or shareholders are substantially the same as when licence eligibility was originally granted.
- (iii) As a condition of transferring existing AER licences, approvals, and permits, the AER will require all transferees to demonstrate that they have a liability management rating ("**LMR**"), being the ratio of a licensee's deemed assets to deemed liabilities, of 2.0 or higher immediately following the transfer.

The AER subsequently issued Bulletin 2016-21: *Revision and Clarification on Alberta Energy Regulator's Measures to Limit Environmental Impacts Pending Regulatory Changes to Address the Redwater Decision* ("**Bulletin 21**") on July 8, 2016. In Bulletin 21, the AER stated that an LMR of 1.0 is not sufficient to ensure that licensees will be able to address their obligations throughout the life cycle of energy development; therefore transferees must either demonstrate an LMR of 2.0 or higher or provide other evidence that the transferee will be able to meet with obligations with an LMR of less than 2.0. Bulletin 21 did provide the AER with additional flexibility to permit licensees to acquire additional AER-licensed assets if:

- (i) the licensee already has an LMR of 2.0 or higher;
- (ii) the acquisition will improve the licensee's LMR to 2.0 or higher; or
- (iii) the licensee is able to satisfy the AER by other means that they will be able to meet their obligations throughout the life cycle of energy development with an LMR of less than 2.0.

The LLR Program may prevent or interfere with the Corporation's ability to acquire or dispose of assets as both the vendor and the purchaser of oil and gas assets must be in compliance with the LLR Program (both before and after the transfer of the assets) for the applicable regulatory agency to allow for the transfer of such assets. While the impact on Birchcliff of any legislative, regulatory or policy decisions as a result of the Redwater decision and its pending appeal cannot be reliably or accurately estimated, any cost recovery or other measures taken by applicable regulatory bodies may impact Birchcliff and materially and adversely affect, among other things, Birchcliff's business, financial condition, results of operations and cash flows. There remains a great deal of uncertainty as to what new regulatory measures will be developed.

In addition, because of the current economic environment, the number of orphaned wells in Alberta has increased significantly and, accordingly, the aggregate value of the abandonment and reclamation liabilities assumed by the OWA has increased and may continue to increase. The OWA may seek funding for such liabilities from industry participants, including the Corporation, through an increase in its annual levy, further changes to regulations or other means.

Political Uncertainty

Political events throughout the world that cause disruptions in the supply of oil continuously affect the marketability and price of oil and natural gas acquired or discovered by the Corporation. Conflicts, or conversely peaceful developments, arising outside of Canada, including changes in political regimes or the parties in power, have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and result in a reduction of the Corporation's net production revenue.

In the last several years, the United States and certain European countries have experienced significant political events that have cast uncertainty on global financial and economic markets. During the recent presidential campaign in the United States a number of election promises were made and the new American administration has begun taking steps to implement certain of these promises. Included in the actions that the administration has discussed are the renegotiation of the terms of the North American Free Trade Agreement, withdrawal of the United States from the Trans-Pacific Partnership, imposition of a tax on the importation of goods into the United States, reduction of regulation and taxation in the United States, and introduction of laws to reduce immigration and restrict access into the United States for citizens of certain countries. It is presently unclear exactly what actions the new administration in the United States will implement, and if implemented, how these actions may impact Canada and in particular the oil and gas industry. Any actions taken by the new United States administration may have a negative impact on the Canadian economy and on the businesses, financial conditions, results of operations and the valuation of Canadian oil and gas companies, including the Corporation.

In addition to the political disruption in the United States, in 2016 the citizens of the United Kingdom voted to withdraw from the European Union and the Government of the United Kingdom has begun taken steps to implement such withdrawal. Some European countries have also experienced the rise of anti-establishment political parties and public protests held against open-door immigration policies, trade and globalization. To the extent that certain political actions taken in North America, Europe and elsewhere in the world result in a marked decrease in free trade, access to personnel and freedom of movement it could have an adverse effect on the Corporation's ability to market its products internationally, increase costs for goods and services required for the Corporation's operations, reduce access to skilled labour and negatively impact the Corporation's business, operations, financial conditions and ultimately the market value of the Corporation's securities.

Other Risks

Volatility of Market Price of Securities

The trading price of securities of oil and natural gas issuers is subject to substantial volatility often based on factors related and unrelated to the financial performance or prospects of the issuers involved. The market price of the Corporation's securities may be volatile, which may affect the ability of holders to sell such securities at an advantageous price. Market price fluctuations in the Corporation's securities may be due to the Corporation's operating results failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends or acquisitions, dispositions or other material public announcements by the Corporation or its competitors, along with a variety of additional factors, including, without limitation, those set forth under "*Advisories – Forward-Looking Information*". In addition, the market price for securities in the stock markets, including the TSX, has

recently experienced significant price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that are often unrelated or disproportionate to changes in operating performance. Factors unrelated to the Corporation's performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices or current perceptions of the oil and natural gas market. These broad market fluctuations may adversely affect the market prices of the Corporation's securities, and, as such, the price at which the Corporation's securities will trade cannot be accurately predicted.

Reliance on Key Personnel

The Corporation's success depends, in large measure, on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on the Corporation. The Corporation does not have "key person" insurance in effect for the Corporation. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Shareholders must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the Corporation's management.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Corporation makes acquisitions and dispositions of properties and other assets in the ordinary course of business. Typically, once an opportunity is identified, a review of available information relating to the assets is conducted. There is a risk that even a detailed review of records and assets may not necessarily reveal every existing or potential problem, nor will it permit the Corporation to become sufficiently familiar with the assets to fully assess their deficiencies and potential. There is no guarantee that unforeseen defects in the chain of title will not arise to defeat the Corporation's title to certain assets or that environmental defects, liabilities or deficiencies do not exist or are greater than anticipated. Inspections may not always be performed on every well, and environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, the Corporation may assume certain environmental and other risk liabilities in connection with acquired assets.

In addition, acquisitions of oil and gas properties or companies are based in large part on engineering, environmental and economic assessments. These assessments include a series of assumptions regarding such factors as recoverability and marketability of oil and natural gas, environmental restrictions and prohibitions regarding releases and emissions of various substances, future prices of oil and gas, future operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of the Corporation. All such assessments involve a measure of geologic, engineering, environmental and regulatory uncertainty that could result in lower production and reserves or higher operating or capital expenditures than anticipated.

Achieving the benefits of acquisitions depends on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner and the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation. The integration of acquired businesses may require substantial management effort, time and resources, diverting management's focus from other strategic opportunities and operational matters.

Management continually assesses the value of the Corporation's assets and may dispose of non-core assets so that the Corporation can focus its efforts and resources more efficiently. Depending on the state of the market, there is a risk that certain non-core assets could realize less than their carrying value in the Corporation's financial statements.

Title to Assets

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the Corporation's ownership claim. The actual interest of the Corporation in properties may accordingly vary from the Corporation's records. If a title defect does exist, it is possible that the Corporation may lose all or a portion of the properties to which the title defect relates, which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. There may be valid challenges to title or legislative changes, which affect the Corporation's title to the oil and natural gas properties the Corporation controls that could impair the Corporation's activities on them and result in a reduction of the revenue received by the Corporation.

Management of Growth and Integration

The Corporation may be subject to both integration and growth-related risks, including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to effectively manage growth and the integration of additional assets will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. An inability of the Corporation to effectively deal with this growth could have a material adverse impact on its business, financial condition, results of operations and prospects.

Insurance

The Corporation obtains insurance in accordance with industry standards to address business risks. However, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, certain risks may not in all circumstances be insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on its business, financial condition, results of operations or prospects.

Litigation

In the normal course of the Corporation's operations, it may become involved in, be named as a party to, or be the subject of various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to personal injuries, property damage, property tax, land rights, access rights, the environment and lease and contractual disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Corporation and, as a result, could have a material adverse effect on the Corporation's assets, liabilities, business, financial condition and results of operations. Even if the Corporation prevails in any such legal proceeding, the proceeding could be costly and time-consuming and may divert the attention of management and key personnel from the Corporation's business operations, which may adversely affect the Corporation.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights in portions of Western Canada. The Corporation is not aware that any claims have been made in respect of its properties or assets; however, the legal basis of an aboriginal land claim and aboriginal rights is a matter of considerable legal complexity and the impact of the assertion of such a claim, or the possible effect of a settlement of such claim, upon the Corporation cannot be predicted with any degree of certainty at this time. In addition, no assurance can be given that any recognition of aboriginal rights or claims whether by way of a negotiated settlement or by judicial pronouncement (or through the grant of an injunction prohibiting exploration or development

activities pending resolution of any such claim) would not delay or even prevent the Corporation's exploration and development activities. If a claim arose and was successful, such claim may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Internal Controls

Effective internal controls are necessary for the Corporation to provide reliable financial reports and to help prevent fraud. Although the Corporation undertakes a number of procedures in order to help ensure the reliability of its financial reports, including those imposed on it under Canadian securities laws, the Corporation cannot be certain that such measures will ensure that the Corporation will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Corporation's results of operations or cause it to fail to meet its reporting obligations. If the Corporation or its independent auditor discovers a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Corporation's financial statements and harm the trading prices of the Corporation's securities.

Income Taxes

The Corporation files all required income tax returns and believes that it is in full compliance with the provisions of the *Income Tax Act* (Canada) and all other applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Corporation, whether by re-characterization of exploration and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

Income tax laws relating to the oil and natural gas industry, such as the treatment of resource taxation or dividends, may in the future be changed or interpreted in a manner that adversely affects the Corporation. Furthermore, tax authorities having jurisdiction over the Corporation may disagree with how the Corporation calculates its income for tax purposes or could change administrative practices to the Corporation's detriment.

Breaches of Confidentiality

While discussing potential business relationships or other transactions with third parties, the Corporation may disclose confidential information relating to the business, operations or affairs of the Corporation. Although confidentiality agreements are generally signed by third parties prior to the disclosure of any confidential information, a breach could put the Corporation at competitive risk and may cause significant damage to its business. The harm to the Corporation's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, the Corporation will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

Negative Impact of Additional Sales or Issuances of Securities

The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive. If the Corporation issues additional securities, the percentage ownership of existing shareholders will be reduced and diluted and the price of the Corporation's securities could decrease.

Additional Taxation Applicable to Non-Residents

Tax legislation in Canada may impose withholding or other taxes on the cash dividends, stock dividends or other property transferred by the Corporation to non-resident shareholders. These taxes may be reduced

pursuant to tax treaties between Canada and the non-resident shareholder's jurisdiction of residence. Evidence of eligibility for a reduced withholding rate must be filed by the non-resident shareholder in prescribed form with their broker (or in the case of registered shareholders, with the transfer agent). In addition, the country in which the non-resident shareholder is resident may impose additional taxes on such dividends. Any of these taxes may change from time to time.

Foreign Exchange Risk for Non-Resident Shareholders

Any dividends will be declared in Canadian dollars and converted to foreign denominated currencies at the spot exchange rate at the time of payment. As a consequence, investors may be subject to foreign exchange risk. To the extent that the Canadian dollar strengthens with respect to their currency, the amount of any dividend will be reduced when converted to their home currency.

Forward-Looking Information May Prove Inaccurate

Shareholders and prospective investors are cautioned not to place undue reliance on the Corporation's forward-looking information. By its nature, forward-looking information involves numerous assumptions and known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties relating to forward-looking information are found under the heading "Advisories – Forward-Looking Information" in this MD&A.

ABBREVIATIONS

AECO	physical storage and trading hub for natural gas on the TransCanada Alberta transmission system which is the delivery point for various benchmark Alberta index prices
bbl	barrel
bbls/d	barrels per day
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
GJ	gigajoule
GJ/d	gigajoules per day
m ³	cubic metres
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mcfe	thousand cubic feet of gas equivalent
MJ	megajoules
MMboe	million barrels of oil equivalent
MMbtu	million British thermal units
MMcf	million cubic feet
MMcf/d	million cubic feet per day
NGLs	natural gas liquids
P&NG	petroleum and natural gas
WTI	West Texas Intermediate oil at Cushing, Oklahoma, the benchmark for North America crude oil pricing
000s	thousands
\$000s	thousands of dollars

NON-GAAP MEASURES

This MD&A uses “funds flow”, “funds flow from operations”, “funds flow per common share”, “netback”, “operating netback”, “estimated operating netback”, “operating margin”, “total cash costs”, “adjusted working capital deficit” and “total debt”. These measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Management believes that these non-GAAP measures assist management and investors in assessing Birchcliff’s profitability, efficiency, liquidity and overall performance. Each of these measures is discussed in further detail below.

“Funds flow” and “funds flow from operations” denote cash flow from operating activities before the effects of decommissioning expenditures and changes in non-cash working capital. “Funds flow per common share” denotes funds flow divided by the basic or diluted weighted average number of common shares outstanding for the period. Management believes that funds flow, funds flow from operations and funds flow per common share assist management and investors in assessing Birchcliff’s profitability, as well as its ability to generate the cash necessary to fund future growth through capital investments, pay dividends on preferred shares and repay debt. The following table provides a reconciliation of cash flow from operating activities, as determined in accordance with IFRS, to funds flow from operations:

	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015
(\$000s)				
Cash flow from operating activities	90,574	44,786	140,514	148,797
Adjustments:				
Decommissioning expenditures	480	247	1,343	893
Change in non-cash working capital	(19,248)	(11,336)	5,586	11,066
Funds flow from operations	71,806	33,697	147,443	160,756

“Netback” and “operating netback” denote petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. “Estimated operating netback” of the PC Gas Plant (and the components thereof) is based upon certain cost allocations and accruals directly attributable to the PC Gas Plant and related wells and infrastructure on a production month basis. All netbacks are calculated on a per boe basis, unless otherwise indicated. Management believes that netback, operating netback and estimated operating netback assist management and investors in assessing Birchcliff’s profitability and its operating results on a per unit basis to better analyze its performance against prior periods on a comparable basis.

The following table provides a breakdown of operating netback for the Reporting Periods and Comparable Prior Periods:

	Three months ended December 31, 2016		Three months ended December 31, 2015	
	(\$000s)	(\$/boe) ⁽¹⁾	(\$000s)	(\$/boe) ⁽¹⁾
Petroleum and natural gas revenue	135,457	24.24	75,476	20.28
Royalty expense	(10,177)	(1.82)	(3,499)	(0.94)
Operating expense	(25,385)	(4.54)	(15,469)	(4.16)
Transportation and marketing expense	(13,489)	(2.42)	(8,603)	(2.31)
Operating Netback	86,406	15.46	47,905	12.87

(1) All per boe figures are calculated by dividing each aggregate financial amount by the production (boe) in the respective period.

	Twelve months ended December 31, 2016		Twelve months ended December 31, 2015	
	(\$000s)	(\$/boe) ⁽¹⁾	(\$000s)	(\$/boe) ⁽¹⁾
Petroleum and natural gas revenue	337,586	18.73	317,304	22.32
Royalty expense	(20,911)	(1.16)	(11,548)	(0.81)
Operating expense	(75,251)	(4.18)	(64,511)	(4.54)
Transportation and marketing expense	(42,989)	(2.38)	(34,804)	(2.45)
Operating Netback	198,435	11.01	206,441	14.52

(1) All per boe figures are calculated by dividing each aggregate financial amount by the production (boe) in the respective period.

“Operating margin” for the PC Gas Plant is calculated by dividing the estimated operating netback for the period by the petroleum and natural gas revenue for the period. Management believes that operating margin assists management and investors in assessing the profitability and efficiency of the PC Gas Plant and Birchcliff’s ability to generate operating cash flows (equal to petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses).

“Total cash costs” are comprised of royalty, operating, transportation and marketing, general and administrative and interest expenses. Total cash costs are calculated on a per boe basis. Management believes that total cash costs assists management and investors in assessing Birchcliff’s efficiency and overall cash cost structure.

“Adjusted working capital deficit” is calculated as current assets minus current liabilities excluding the effects of financial instruments. Management believes that adjusted working capital deficit assists management and investors in assessing Birchcliff’s liquidity. The following table reconciles working capital deficit (current assets minus current liabilities), as determined in accordance with IFRS, to adjusted working capital deficit:

As at, (\$000s)	December 31, 2016	December 31, 2015
Working capital deficit	36,928	21,538
Fair value of financial instruments	(9,433)	-
Adjusted working capital deficit	27,495	21,538

“Total debt” is calculated as the revolving term credit facilities plus adjusted working capital deficit. Management believes that total debt assists management and investors in assessing Birchcliff’s liquidity. The following table provides a reconciliation of the revolving term credit facilities, as determined in accordance with IFRS, to total debt:

As at, (\$000s)	December 31, 2016	December 31, 2015
Revolving term credit facilities	572,517	622,074
Adjusted working capital deficit	27,495	21,538
Total debt	600,012	643,612

ADVISORIES

Boe and Mcfe Conversions

Boe amounts have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil and Mcfe amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. Boe and Mcfe amounts may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf to 1 bbl and an Mcfe conversion ratio of 1 bbl to 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. 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 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Conversion from GJ to Mcf – Wellhead Price

Birchcliff receives premium pricing for its natural gas production due to its high heat content from its properties. With respect to Birchcliff's natural gas hedging contracts in 2017, the prices have been presented in both AECO CDN \$/GJ and \$/Mcf, with the latter representing the average expected natural gas wellhead price under contract. The conversion from GJ to Mcf is based on an expected corporate average natural gas heat content value of 40.69 MJ/m³ in 2017.

MMbtu Pricing Conversions

\$1.00 per MMBtu equals \$1.00 per Mcf based on a standard heat value Mcf.

Operating Costs

References in this MD&A to "operating costs" exclude transportation and marketing costs.

Capital Expenditures

"Total capital expenditures" denotes finding and development costs (which includes land, seismic, workovers, drilling and completions and well equipment and facilities) plus administrative expenses. Unless otherwise stated, "net capital expenditures" denotes finding and development costs plus administrative expenses plus acquisition costs, less any dispositions.

Reserves

Birchcliff retained two independent qualified reserves evaluators, Deloitte LLP and McDaniel & Associates Consultants Ltd., to evaluate and prepare reports on 100% of Birchcliff's light crude oil and medium crude oil (combined), conventional natural gas, shale gas and NGLs reserves effective December 31, 2016. Such evaluations were prepared in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") and National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**"). Further information regarding the Corporation's reserves can be found in the Corporation's Annual Information Form for the financial year ended December 31, 2016.

Certain terms used herein are defined in NI 51-101 and the COGE Handbook and, unless the context otherwise requires, shall have the same meanings in this MD&A as in NI 51-101 or the COGE Handbook, as the case may be.

Forward-Looking Information

Certain statements contained in this MD&A constitute forward-looking statements and information (collectively referred to as "**forward-looking information**") within the meaning of applicable Canadian securities laws. Such forward-looking information relates to future events or Birchcliff's future performance. All information other than historical fact may be forward-looking information. Such forward-looking information is often, but not always, identified by the use of words such as "seek", "plan",

“expect”, “project”, “intend”, “believe”, “anticipate”, “estimate”, “estimated”, “forecast”, “potential”, “proposed”, “predict”, “budget”, “continue”, “targeting”, “may”, “will”, “could”, “might”, “should” and other similar words and expressions. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Birchcliff believes that the expectations reflected in the forward-looking information are reasonable in the current circumstances but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this MD&A should not be unduly relied upon.

In particular, this MD&A contains forward-looking information relating to the following: Birchcliff’s plans and other aspects of its anticipated future operations, focus, objectives, strategies, opportunities, priorities and goals; the 2017 Capital Program, including planned capital expenditures and capital allocation, Birchcliff’s plan to drill a total of 46 (46.0 net) wells and Birchcliff’s expectation that it will fully fund the 2017 Capital Program out of funds flow; Birchcliff’s proposed exploration and development activities and the timing thereof, including wells to be drilled and brought on production; Birchcliff’s production guidance, including estimates of its annual average production and fourth quarter average production rates for 2017 and its goal of producing in excess of 100,000 boe/d by the end of 2018; the performance characteristics of Birchcliff’s oil and natural gas properties and expected results from its assets; proposed expansions of the PC Gas Plant, including the anticipated processing capacities of the PC Gas Plant after such expansions and the anticipated timing thereof; Birchcliff’s hedging strategy and the use of risk management techniques; estimates of reserves and future development costs; the Corporation’s estimated income tax pools and management’s expectation that future taxable income will be available to utilize the accumulated tax pools; the Corporation’s liquidity, including statements that the Corporation may seek additional capital in the form of debt and/or equity or dispose of non-core properties to fund its on-going capital expenditure programs and protect its balance sheet, that should commodity prices deteriorate materially, the Corporation may adjust the 2017 Capital Program and/or consider the potential sale of non-core assets, management’s expectation that the Corporation will be able to meet its future obligations as they become due, management’s belief that its funds flow from operations and available credit facilities will be sufficient to fund the Corporation’s planned growth and to meet its working capital requirements in 2017 and the Corporation’s expectation that counterparties will be able to meet their financial obligations; Birchcliff’s financial flexibility; estimates of contractual and decommissioning obligations; projections of commodity prices and costs and supply and demand for crude oil and natural gas; treatment under governmental regulatory regimes and tax laws and the future impact of regulatory measures, including under SGER and climate change legislation; and expectations regarding the Corporation’s ability to raise capital and to continually add to reserves through acquisitions and development. Information relating to reserves is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves exist in the quantities predicted or estimated and that the reserves can profitably be produced in the future.

With respect to forward-looking information contained in this MD&A, assumptions have been made regarding, among other things: Birchcliff’s ability to continue to develop the Gordondale Assets and obtain the anticipated benefits therefrom; prevailing and future commodity prices and differentials, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; expected funds flow from operations; Birchcliff’s future debt levels; the state of the economy and the exploration and production business; the economic and political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes and environmental laws; the sources of funding for Birchcliff’s capital expenditure programs and other activities; anticipated timing and results of capital expenditures; the sufficiency of budgeted capital expenditures to carry out planned operations; future operating, transportation, marketing and general and administrative costs; the performance of existing and future wells, well production rates and well decline rates; well drainage areas; success rates for future drilling;

reserves and resource volumes and Birchcliff's ability to replace and expand oil and gas reserves through acquisition, development or exploration; the impact of competition on Birchcliff; the availability of, demand for and cost of labour, services and materials; Birchcliff's ability to access capital; the ability to obtain financing on acceptable terms; the ability to obtain any necessary regulatory approvals in a timely manner; the ability of Birchcliff to secure adequate transportation for its products; Birchcliff's ability to market oil and gas; and the availability of hedges on terms acceptable to Birchcliff.

In addition to the foregoing assumptions, Birchcliff has made the following assumptions with respect to certain forward-looking information contained in this MD&A:

- With respect to statements regarding the 2017 Capital Program, such program is based on the following commodity price and exchange rate assumptions during 2017: an annual average WTI price of US\$55.00 per barrel of oil; an AECO price of CDN\$3.00 per GJ of natural gas; and an exchange rate of CDN\$/US\$ of 1.29. With respect to statements that the 2017 Capital Program is expected to be fully funded out of internally generated funds, such statements assume that: the 2017 Capital Program will be carried out as currently contemplated; the production targets and commodity price assumptions set forth herein are achieved; and Birchcliff's forecast commodity mix is achieved.
- With respect to statements regarding future wells to be drilled and brought on production, the key assumptions are: the continuing validity of the geological and other technical interpretations performed by Birchcliff's technical staff, which indicate that commercially economic volumes can be recovered from Birchcliff's lands as a result of drilling future wells; and that commodity prices and general economic conditions will warrant proceeding with the drilling of such wells.
- With respect to Birchcliff's production guidance, the key assumptions are that: the Corporation's capital expenditure programs will be carried out as currently contemplated; no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that any transportation service curtailments or unplanned outages that occur will be short in duration or otherwise insignificant; the construction of new infrastructure meets timing and operational expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations.
- With respect to statements regarding proposed expansions of the PC Gas Plant, including the anticipated processing capacities of the PC Gas Plant after such expansions and the anticipated timing of such expansions, the key assumptions are that: future drilling is successful; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund those projects; the key components of the plant will operate as designed; and commodity prices and general economic conditions will warrant proceeding with the construction of such facilities and the drilling of associated wells.
- With respect to estimates of reserves volumes, the key assumption is the validity of the data used by the Corporation's independent qualified reserves evaluators in their reserves evaluations.

Birchcliff's actual results, performance or achievements could differ materially from those anticipated in the forward-looking information as a result of both known and unknown risks and uncertainties including, but not limited to: the failure to realize the anticipated benefits of acquisitions and dispositions, including the Gordondale Acquisition; unforeseen difficulties in integrating acquired assets into Birchcliff's operations; variances in Birchcliff's actual capital costs, operating costs and economic returns from those anticipated; general economic, market and business conditions which will, among other things, impact the demand for and market prices of Birchcliff's products and Birchcliff's access to capital; volatility of crude oil

and natural gas prices; fluctuations in currency and interest rates; operational risks and liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves and resources; the accuracy of oil and natural gas reserves estimates and estimated production levels as they are affected by exploration and development drilling and estimated decline rates; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; uncertainties related to Birchcliff's future potential drilling locations; fluctuations in the costs of borrowing; changes in tax laws, crown royalty rates, environmental laws and incentive programs relating to the oil and natural gas industry and other actions by government authorities, including changes to the royalty and carbon tax regimes and the imposition or reassessment of taxes; the cost of compliance with current and future environmental laws; political uncertainty and uncertainty associated with government policy changes; uncertainties and risks associated with pipeline restrictions and outages to third-party infrastructure that could cause disruptions to production; the ability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements; the inability to secure adequate production transportation for Birchcliff's products; the occurrence of unexpected events such as fires, equipment failures and other similar events affecting Birchcliff or other parties whose operations or assets directly or indirectly affect Birchcliff; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; stock market volatility; loss of market demand; environmental risks, claims and liabilities; incorrect assessments of the value of acquisitions and exploration and development programs; shortages in equipment and skilled personnel; the absence or loss of key employees; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainty that development activities in connection with its assets will be economical; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; uncertainties associated with credit facilities; counterparty credit risk; risks associated with Birchcliff's hedging program and the risk that hedges on terms acceptable to Birchcliff may not be available; and risks associated with the declaration and payment of dividends, including the discretion of the Board to declare dividends.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other risk factors that could affect results of operations, financial performance or financial results are included under the heading *"Risk Factors and Risk Management"* in this MD&A and in other reports filed with Canadian securities regulatory authorities from time to time.

Any future-orientated financial information and financial outlook information (collectively, **"FOFI"**) contained in this MD&A, as such terms are defined by applicable securities laws, is provided for the purpose of providing information about management's current expectations and plans relating to the future and is subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs. FOFI contained in this MD&A was made as of the date of this MD&A and Birchcliff disclaims any intention or obligation to update or revise any FOFI contained in this MD&A, whether as a result of new information, future events or otherwise, unless required by applicable law. Readers are cautioned that any FOFI contained herein should not be used for purposes other than those for which it has been disclosed herein.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide readers with a more complete perspective on Birchcliff's future operations. Readers are cautioned that this information may not be appropriate for other purposes.

The forward-looking information contained in this MD&A is expressly qualified by the foregoing cautionary statements. The forward-looking information contained in this MD&A is made as of the date of this MD&A. Birchcliff is not under any duty to update or revise any of the forward-looking information except as expressly required by applicable securities laws.