MANAGEMENT'S REPORT

To the Shareholders of Birchcliff Energy Ltd.

The annual financial statements of Birchcliff Energy Ltd. for the year ended December 31, 2022 were prepared by management within the acceptable limits of materiality and are in accordance with International Financial Reporting Standards. Management is responsible for ensuring that the financial and operating information presented in the annual report is consistent with that shown in the financial statements.

The financial statements have been prepared by management in accordance with the accounting policies as described in the notes to the financial statements. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. When necessary, such estimates are based on informed judgments made by management.

Management has designed and maintains an appropriate system of internal controls to provide reasonable assurance that all assets are safeguarded and financial records properly maintained to facilitate the preparation of financial statements for reporting purposes.

KPMG LLP, an independent firm of Chartered Professional Accountants appointed by shareholders, have conducted an examination of the corporate and accounting records in order to express their opinion on the financial statements.

The Audit Committee, consisting of non-management directors, has met with representatives of KPMG LLP and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. The board of directors has approved the financial statements on the recommendation of the Audit Committee.

Respectfully,

(signed) "*Bruno P. Geremia*"
Bruno P. Geremia
Executive Vice President and Chief Financial Officer

(signed) "*A. Jeffery Tonken*"
A. Jeffery Tonken
Chief Executive Officer

Calgary, Canada

March 15, 2023

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Birchcliff Energy Ltd.

Opinion

We have audited the financial statements of Birchcliff Energy Ltd. (the "**Corporation**"), which comprise:

- the statements of financial position as at December 31, 2022 and December 31, 2021
- the statements of net income and comprehensive income for the years then ended
- the statements of changes in shareholders' equity for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "**financial statements**").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2022 and December 31, 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditor's Responsibilities for the Audit of the Financial Statements*" section of our auditor's report.

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of the impact of estimated proved and probable oil and gas reserves on petroleum and natural gas properties and equipment.

Description of the matter

We draw attention to note 3 to the financial statements. The Corporation uses estimated proved and probable oil and gas reserves to deplete petroleum and natural gas properties and equipment ("**PP&E**"), to assess for indicators of impairment on the Corporation's cash generating unit ("**CGU**") and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of the CGU. The Corporation has $2.97 million of PP&E as at December 31, 2022. The Corporation's net carrying value of PP&E, net of estimated residual value, is depleted on an area basis using the unit of production method. This depletion calculation includes actual production in the period and total estimated proved and probable oil and gas reserves attributable to the assets being depleted, taking into account total capitalized costs plus estimated future development costs necessary to bring those reserves into production.

The estimate of proved and probable oil and gas reserves requires the expertise of independent third-party reserve evaluators and includes significant assumptions related to:

- Forecasted oil and gas commodity prices
- Forecasted production
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Corporation engages independent third-party reserve evaluators to evaluate the proved and probable oil and gas reserves.

Why the matter is a key audit matter

We identified the assessment of the impact of estimated proved and probable oil and gas reserves on PP&E as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable oil and gas reserves.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We assessed the depletion expense calculation for compliance with IFRS as issued by the IASB.

With respect to the estimate of proved and probable oil and gas reserves:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Corporation
- We compared forecasted oil and gas commodity prices to those published by independent third-party reserve evaluators
- We compared the 2022 actual production, operating costs, royalty costs and development costs of the Corporation to those estimates used in the prior year's estimate of proved oil and gas reserves to assess the Corporation's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to 2022 historical results. We took into account changes in conditions and events affecting the Corporation to assess the adjustments or lack of adjustments made by the Corporation in arriving at the assumptions.

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document entitled "2022 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and the information, other than financial statements and the auditor's report thereon, included in a document entitled "2022 Annual Report" as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor’s report is Timothy Arthur Richards.

(signed) *“KPMG LLP”*

Chartered Professional Accountants

Calgary, Canada

March 15, 2023

BIRCHCLIFF ENERGY LTD.
STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of Canadian dollars)

As at December 31,	2022	2021
ASSETS		
Current assets:		
Cash	74	63
Accounts receivable	125,005	92,414
Prepaid expenses and deposits	12,140	5,732
Financial instruments *(Note 18)*	17,729	69
	154,948	98,278
Non-current assets:		
Investments *(Note 5)*	10,961	9,457
Petroleum and natural gas properties and equipment *(Note 4)*	2,972,592	2,852,232
Financial instruments *(Note 18)*	30,864	-
	3,014,417	2,861,689
Total assets	**3,169,365**	**2,959,967**
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	143,787	96,736
Financial instruments *(Note 18)*	1,345	16,586
Other liabilities *(Note 14)*	1,914	-
Capital securities *(Note 9)*	-	38,268
	147,046	151,590
Non-current liabilities:		
Revolving term credit facilities *(Note 6)*	131,981	500,870
Decommissioning obligations *(Note 7)*	99,720	140,603
Deferred income taxes *(Note 8)*	355,115	156,695
Other liabilities *(Note 14)*	22,850	25,329
Financial instruments *(Note 18)*	-	67,277
	609,666	890,774
Total liabilities	**756,712**	**1,042,364**
SHAREHOLDERS' EQUITY		
Share capital *(Note 9)*		
Common shares	1,430,944	1,463,424
Preferred shares (perpetual)	-	41,434
Contributed surplus	86,560	90,924
Retained earnings	895,149	321,821
	2,412,653	1,917,603
Total shareholders' equity and liabilities	**3,169,365**	**2,959,967**

Commitments and contingencies (Note 19)

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

Approved by the Board

(signed) "*Debra A. Gerlach*"
Debra A. Gerlach
Independent Director

(signed) "*A. Jeffery Tonken*"
A. Jeffery Tonken
Director

BIRCHCLIFF ENERGY LTD.
STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

(Expressed in thousands of Canadian dollars, except per share information)

Years ended December 31,	2022	2021
REVENUE		
Petroleum and natural gas revenue *(Note 11)*	1,340,180	932,406
Marketing revenue *(Note 11)*	18,806	20,722
Royalties	(161,226)	(76,271)
Realized gain (loss) on financial instruments *(Note 18)*	80,742	(21,451)
Unrealized gain on financial instruments *(Note 18)*	131,042	84,242
Other income	4	2,182
	1,409,548	941,830
EXPENSES		
Operating (*Note* 12)	101,581	91,515
Transportation	155,864	151,263
Marketing purchases *(Note 11)*	17,866	18,034
Administrative, net *(Note 13)*	42,230	30,676
Depletion and depreciation *(Note 4)*	213,808	212,757
Finance *(Note 15)*	19,239	33,238
Dividends on capital securities *(Note 9)*	2,013	2,718
Other gains *(Notes 5 & 7)*	(370)	(7,312)
	552,231	532,889
Net income before taxes	857,317	408,941
Deferred income tax expense *(Note 8)*	(200,486)	(94,265)
NET INCOME AND COMPREHENSIVE INCOME	**656,831**	**314,676**
Net income per common share *(Note 10)*		
Basic	**$2.46**	**$1.17**
Diluted	**$2.38**	**$1.13**

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

BIRCHCLIFF ENERGY LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in thousands of Canadian dollars)

	Share Capital				
	Common Shares	**Preferred Shares**	**Contributed Surplus**	**Retained Earnings**	**Total**
As at December 31, 2020	1,478,294	41,434	89,868	17,971	1,627,567
Issuance of common shares *(Notes 9 & 16)*	16,636	-	(3,995)	-	12,641
Repurchase of common shares *(Note 9)*	(31,506)	-	-	-	(31,506)
Dividends on common shares *(Note 9)*	-	-	-	(6,639)	(6,639)
Dividends on perpetual preferred shares *(Note 9)*	-	-	-	(4,187)	(4,187)
Stock-based compensation *(Notes 13 & 16)*	-	-	5,051	-	5,051
Net income and comprehensive income	-	-	-	314,676	314,676
As at December 31, 2021	**1,463,424**	**41,434**	**90,924**	**321,821**	**1,917,603**
As at December 31, 2021	1,463,424	41,434	90,924	321,821	1,917,603
Issuance of common shares *(Notes 9 & 16)*	32,940	-	(9,935)	-	23,005
Repurchase of common shares *(Note 9)*	(57,207)	-	-	-	(57,207)
Redemption of perpetual preferred shares *(Note 9)*	-	(41,434)	-	(8,566)	(50,000)
Purchase of performance warrants *(Note 16)*	(8,213)	-	(6,293)	-	(14,506)
Dividends on common shares *(Note 9)*	-	-	-	(71,788)	(71,788)
Dividends on perpetual preferred shares *(Note 9)*	-	-	-	(3,149)	(3,149)
Stock-based compensation *(Notes 13 & 16)*	-	-	11,864	-	11,864
Net income and comprehensive income	-	-	-	656,831	656,831
As at December 31, 2022	**1,430,944**	**-**	**86,560**	**895,149**	**2,412,653**

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

BIRCHCLIFF ENERGY LTD.
STATEMENTS OF CASH FLOWS

(Expressed in thousands of Canadian dollars)

Years ended December 31,	2022	2021
Cash provided by (used in):		
OPERATING		
Net income	656,831	314,676
Adjustments for items not affecting operating cash:		
Unrealized (gain) on financial instruments *(Note 18)*	(131,042)	(84,242)
Depletion and depreciation *(Note 4)*	213,808	212,757
Other compensation *(Note 13)*	6,456	2,430
Finance *(Note 15)*	19,239	33,238
Other gains *(Notes 4 & 5)*	(370)	(7,312)
Deferred income tax expense *(Note 8)*	200,486	94,265
Interest paid *(Note 15)*	(13,738)	(28,797)
Dividends on capital securities *(Note 9)*	2,013	2,718
Decommissioning expenditures *(Note 7)*	(2,746)	(3,203)
Changes in non-cash working capital *(Note 20)*	(25,662)	(21,161)
	925,275	515,369
FINANCING		
Issuance of common shares *(Notes 9 & 16)*	23,005	12,641
Repurchase of common shares *(Note 9)*	(57,207)	(31,506)
Redemption of capital securities *(Note 9)*	(38,268)	(1,662)
Redemption of perpetual preferred shares *(Note 9)*	(50,000)	-
Purchase of performance warrants *(Note 16)*	(14,506)	-
Financing fees paid	(1,275)	(3,454)
Lease payments *(Note 14)*	(2,458)	(2,444)
Dividend distributions *(Note 9)*	(76,950)	(13,544)
Net change in revolving term credit facilities *(Note 6)*	(369,066)	(228,015)
	(586,725)	(267,984)
INVESTING		
Exploration and development *(Note 4)*	(364,621)	(230,479)
Acquisitions *(Note 4)*	(2,348)	(283)
Dispositions *(Note 4)*	315	-
Administrative assets *(Note 4)*	(1,576)	(1,718)
Investments *(Note 5)*	(1,956)	(1,252)
Changes in non-cash working capital *(Note 20)*	31,647	(13,650)
	(338,539)	(247,382)
Net change in cash	11	3
Cash, beginning of year	63	60
CASH, END OF YEAR	**74**	**63**

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

BIRCHCLIFF ENERGY LTD.
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Expressed in Canadian dollars, unless otherwise stated)

1. NATURE OF OPERATIONS

Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is domiciled and incorporated in Alberta, Canada. Birchcliff is engaged in the exploration for and the development, production and acquisition of oil and gas reserves in Western Canada. The Corporation's financial year end is December 31. The address of the Corporation's registered office is Suite 1000, 600 – 3rd Avenue S.W., Calgary, Alberta, Canada T2P 0G5. Birchcliff's common shares are listed for trading on the Toronto Stock Exchange (the "**TSX**") under the symbol "BIR".

These financial statements were approved and authorized for issuance by the board of directors (the "**Board**") on March 15, 2023.

2. BASIS OF PREPARATION

These financial statements present Birchcliff's financial results of operations and financial position under International Financial Reporting Standards ("**IFRS**") as at and for the years ended December 31, 2022 and December 31, 2021. The financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Note 3.

Operating and transportation and other expenses in profit or loss are presented as a combination of function and nature in conformity with industry practices. Depletion and depreciation, finance, dividends on capital securities and other gains and losses in profit or loss are presented in a separate line by their nature, while net administrative expenses are presented on a functional basis. Significant expenses such as salaries and benefits and other compensation are presented by their nature in the notes to the financial statements.

Birchcliff's financial statements are prepared on a historical cost basis, except for certain financial and non-financial assets and liabilities which have been measured at fair value. The Corporation's financial statements include the accounts of Birchcliff only and are expressed in Canadian dollars, unless otherwise stated. Birchcliff does not have any subsidiaries.

Current Environment and Estimation Uncertainty

Benchmark oil and natural gas prices remained volatile during 2022 primarily due to supply and demand uncertainty attributed to regional impacts of the ongoing restrictions and lockdowns in China resulting from the novel coronavirus ("**COVID-19**") pandemic, the potential for a global economic slowdown attributed to rising inflation and interest rates, geopolitical tensions arising from the Russian invasion of Ukraine and global commodity supply constraints and labour shortages, which have increased inflationary pressures on global economies. These events and economic conditions remain evolving situations that have had, and may continue to have, a significant impact on Birchcliff's business, results of operations, financial condition and the environment in which it operates. Management cannot reasonably estimate the length or severity of these events and conditions, or the extent to which they will impact the Corporation long-term.

Climate Change and Environmental Reporting Regulations

Regulations relating to climate and climate-related matters continue to evolve and may have additional disclosure requirements in the future. The International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim to develop an environment sustainability disclosure framework that is accepted globally. In addition, the Canadian Securities Administrators have proposed National Instrument 51-107 – *Disclosure of Climate-related Matters*, with additional climate-related disclosure requirements for Canadian Public Companies. If the Corporation is unable to meet future sustainability reporting requirements of regulators or current and future expectations of stakeholders, its business and ability to attract and retain skilled employees, obtain regulatory permits, licenses, registrations, approvals and authorizations from various government authorities, and raise capital may be adversely affected. The cost to comply with these standards, and others that may be developed or evolved over time, has not yet been quantified.

The Corporation has considered the impact of the evolving worldwide demand for energy and the global advancement of alternative sources of energy that are not derived from fossil fuels in its assessment of depletion and indicators of impairment on its PP&E in the preparation of these financial statements. The timeframe for which the global economy can transition from carbon-based sources to alternative energy is unknown, however, it is the Corporation's view that cash flows associated with proved and probable oil and gas reserves at December 31, 2022 will be realized before fossil fuel energy is replaced by alternative sources. The Corporation engaged an independent third-party reserves evaluator to evaluate the proved and probable oil and gas reserves at December 31, 2022. The reserves report includes anticipated impacts from emissions related taxes, most notably the estimated carbon tax related to the Corporation's operations.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue Recognition

Revenue from the sale of crude oil, natural gas and natural gas liquids ("**NGLs**") is measured based on the consideration specified in contracts with marketers and other third parties. Birchcliff recognizes revenue when it transfers control of the product to the contract customer. In making this evaluation, management considers if Birchcliff has the ability to direct the use of, and obtain substantially all of the remaining benefits from the delivery of the product.

Birchcliff evaluates its arrangements with marketers and other third parties to determine if the Corporation acts as the principal or as an agent. In making this evaluation, the Corporation considers if it obtains control of the product delivered or services provided, which is indicated by the Corporation having the primary responsibility for the delivery of the product or rendering of the service, having the ability to establish prices or having inventory risk. If the Corporation acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Corporation from the transaction.

(b) Cash and Cash Equivalents

Cash may consist of cash on hand, deposits and term investments held with a financial institution, with an original maturity of three months or less. Restricted cash is not considered part of cash and cash equivalents.

(c) Jointly Owned Assets

Certain activities of the Corporation are conducted jointly with others where the participants have a direct ownership interest in the related assets. Accordingly, the accounts of Birchcliff reflect only its working interest share of revenues, expenses and capital expenditures related to these jointly owned assets. The relationship with jointly owned asset partners have been referred to as jointly owned assets in the remainder of the financial statements as this is common terminology in the Canadian oil and natural gas industry.

(d) Exploration and Evaluation Assets

Costs incurred prior to obtaining the right to explore a mineral resource are recognized as an expense in the period incurred.

Intangible exploration and evaluation ("**E&E**") expenditures are initially capitalized and may include mineral license acquisitions, geological and geophysical evaluations, technical studies, exploration drilling and testing and other directly attributable administrative costs. Tangible assets acquired which are consumed in developing an intangible exploration asset are recorded as part of the cost of the exploration asset. These costs are accumulated in cost centres by exploration area pending the determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a mineral resource in an exploration area is considered to be determinable when economic quantities of proved reserves are determined to exist. A review of each exploration project by area is carried out at each reporting date to ascertain whether such reserves have been discovered. Upon determination of commercial proved reserves, associated exploration costs are transferred from exploration and evaluation to developed and producing petroleum and natural gas asset category. Exploration and evaluation assets are reviewed for impairment prior to any such transfer. Assets classified as exploration and evaluation are not subject to depletion and depreciation until they are reclassified to developed and producing petroleum and natural gas assets.

(e) Petroleum and Natural Gas Properties and Equipment

(i) Recognition and measurement

Developed and producing petroleum and natural gas assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses, if any. Such assets consist of the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Developed and producing petroleum and natural gas asset interests include mineral lease acquisitions, geological and geophysical costs, facility and production equipment and associated turnarounds, other directly attributable administrative costs and the initial estimate of the costs of dismantling and removing an asset and restoring the site on which it was located.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability are recognized as developed and producing petroleum and natural gas interests when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized developed and producing petroleum and natural gas interests generally represent costs incurred in developed proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on an area basis. The cost of day-to-day servicing of an item of PP&E is expensed in profit or loss as incurred.

PP&E are de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal of an asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

(iii) Asset exchanges

For exchanges or parts of exchanges that involve only exploration and evaluation assets, the exchange is accounted for at carrying value. Exchanges of development and production assets are measured at fair value, unless the exchange transaction lacks commercial substance or the fair value of the assets given up or the assets received cannot be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more reliable. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gain or loss on the de-recognition of the asset given up is recognized in profit and loss.

(iv) Depletion and depreciation

The net carrying value of developed and producing petroleum and natural gas interests, net of estimated residual value, is depleted on an area basis using the unit of production method. This depletion calculation includes actual production in the period and total estimated proved and probable oil and gas reserves attributable to the assets being depleted, taking into account total capitalized costs plus estimated future development costs necessary to bring those reserves into production. Relative volumes of reserves and production (before royalties) are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. These estimates are evaluated by the Corporation's independent third-party reserves evaluator at least annually.

Capitalized plant turnaround costs are depreciated on a straight-line basis over the estimated time until the next turnaround is completed. Corporate assets, which include office furniture and equipment, software, computer equipment and leasehold improvements, are depreciated on a straight-line basis over the estimated useful lives of the assets, which are estimated to be four years.

When significant parts of property and equipment, including petroleum and natural gas interests, have different useful lives, they are accounted for as separate items (major components). Depreciation methods, useful lives and residual values for PP&E are reviewed at each reporting date.

(f) Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive), as a result of a past event, if it is probable that the Corporation will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is significant).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third-party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are not recognized for future operating losses.

(g) Decommissioning Obligations

The Corporation's activities give rise to dismantling, restoration and site disturbance remediation activities. Costs related to abandonment activities are estimated by management in consultation with the Corporation's independent third-party reserves evaluator based on risk-adjusted current costs which take into consideration current technology in accordance with existing legislation and industry practices.

Decommissioning obligations are measured at the present value of the best estimate of expenditures required to settle the future obligations at the reporting date. When the best estimate of the liability is initially measured, the estimated risk-adjusted cost, discounted using a pre-tax risk-free discount rate, is capitalized by increasing the carrying amount of the related PP&E. The increase in the provision due to the passage of time, which is referred to as accretion, is recognized as a finance expense. Actual costs incurred upon settlement of the liability are charged against the obligation to the extent that the obligation was previously established. The carrying amount capitalized in PP&E is depleted in accordance with the Corporation's depletion and depreciation policy. The Corporation reviews the obligation at each reporting date and revisions to the estimated timing of cash flows, discount rates and estimated costs result in an increase or decrease to the obligations and the related PP&E. Any difference between the actual costs incurred upon settlement of the obligation and the recorded liability is recognized as a gain or loss in profit or loss.

(h) Share-Based Payments

Equity-settled share-based awards granted by the Corporation include stock options and performance warrants granted to officers and employees. The fair value determined at the grant date of an award is expensed on a graded basis over the vesting period of each respective tranche of an award with a corresponding increase to contributed surplus. In calculating the expense of share-based awards, the Corporation revises its estimate of the number of equity instruments expected to vest by applying an estimated forfeiture rate for each vesting tranche and subsequently revising this estimate throughout the vesting period, as necessary, with a final adjustment to reflect the actual number of awards that vest. Upon the exercise of share-based awards, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. In the event that vested share-based awards expire without being exercised, previously recognized compensation costs associated with such awards are not reversed. The expense related to share-based awards is included within administrative expenses in profit or loss.

The fair value of equity-settled share-based awards is measured using the Black-Scholes option-pricing model taking into account the terms and conditions upon which the awards were granted. Measurement inputs as at the grant date include: share price, exercise price, expected volatility (based on weighted average historical traded daily volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds) applicable to the term of the award.

A portion of share-based compensation expense directly attributable to the exploration and development of the Corporation's assets are capitalized.

(i) Finance Income and Expenses

Finance expenses include interest expense on borrowings, accretion of the discount on decommissioning, lease and post-employment benefit obligations, amortization of deferred charges and impairment losses (if any) recognized on financial assets. Interest and dividend income is recognized as it is earned and is presented as "other income" in profit and loss.

(j) Borrowing Costs

Borrowing costs incurred for the acquisition, construction or production of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Assets are considered to be qualifying assets when this period of time is substantial. The capitalization rate, used to determine the amount of borrowing costs to be capitalized, is the weighted average interest rate applicable to the Corporation's outstanding borrowings during the period. All other borrowing costs are charged to profit or loss using the effective interest method.

(k) Financial Instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments are comprised of cash, accounts receivable, deposits, investment in securities, accounts payable and accrued liabilities, revolving term credit facilities and capital securities. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured based on their classification. The Corporation has made the following classifications:

- Cash, accounts receivable, and deposits are classified as loans and receivables and are measured at amortized cost using the effective interest method. Typically, the fair value of these balances approximates their carrying value due to their short-term to maturity.
- Investment in securities have been categorized as fair value through profit and loss which requires the securities to be fair valued at the end of each reporting period with any gains or losses recognized in profit and loss. Distributions declared are recorded to profit or loss and presented as an operating activity on the statement of cash flow.
- Accounts payable and accrued liabilities and revolving term credit facilities are measured at amortized cost using the effective interest method. Due to the short-term nature of accounts payable and accrued liabilities, their carrying values approximate their fair values. The Corporation's revolving term credit facilities bear interest at a floating rate and accordingly the fair market value approximates the carrying value before the carrying value is reduced for any remaining unamortized costs. Any interest costs and financing fees associated with the Corporation's credit facilities have been deferred and netted against the amounts drawn, and are being amortized to profit or loss using the effective interest method over the applicable term.
- The proceeds from the issuance of Series C Preferred Shares, which are presented as "capital securities" on the statement of financial position, are measured at amortized cost. The incremental costs directly attributable to the issuance of Series C Preferred Shares are initially recognized as a reduction to capital securities and subsequently amortized to profit and loss, using the effective interest rate method, as a finance expense. Dividend distributions on capital securities are recorded

as an expense directly to profit and loss and presented as a financing activity on the statements of cash flows.

(ii) Derivative financial instruments

Derivatives may be used by the Corporation to manage economic exposure to market risk relating to commodity prices, interest rates and foreign exchange. Birchcliff's policy is not to utilize derivative financial instruments for speculative purposes. The Corporation does not designate its financial derivative contracts as hedges, and as such does not apply hedge accounting. As a result, financial derivatives are classified at fair value through profit or loss and are recorded on the statements of financial position at fair value.

The fair value of risk management contracts is determined by discounting the difference between the contracted prices/rates and published forward price/rates as at the statement of financial position date. The fair value of options and costless collars, if any, is based on option models that use published information with respect to volatility, prices and interest rates.

The Corporation accounts for any forward physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items, in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statements of financial position. Settlements on physical commodity sales contracts are recognized in petroleum and natural gas revenue in profit and loss.

(iii) Share capital

Common shares and perpetual preferred shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a reduction in share capital, net of any tax effects.

(l) Impairment

(i) Impairment of financial assets

Impairment of financial assets is determined by measuring the assets' expected credit loss ("**ECL**"). Birchcliff's financial assets are not considered to have a significant financing component and a lifetime ECL is measured at the date of initial recognition of the financial asset. ECL allowances have not been recognized for cash and cash equivalents due to the virtual certainty associated with their collection. The ECL pertaining to accounts receivable is assessed at initial recognition and this provision is re-assessed at each reporting date. ECLs are a probability-weighted estimate of all possible default events related to the financial asset (over the lifetime or within 12 months after the reporting period, as applicable) and are measured as the difference between the present value of the cash flows due to Birchcliff and the cash flows the Corporation expects to receive, including cash flows expected from collateral and other credit enhancements that are a part of contractual terms. In making an assessment as to whether financial assets are credit-impaired, the Corporation considers historically realized bad debts, evidence of a debtor's present financial condition and whether a debtor has breached certain contracts, the probability that a debtor will enter bankruptcy or other financial reorganization, changes in economic conditions that correlate to increased levels of default, the number of days a debtor is past due in making a contractual payment, and the term to maturity of the specified receivable. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized within general and administrative expense in profit and loss.

Based on contractual terms and conditions, the Corporation considers its financial assets to be in default when the counterparty fails to make contractual payments as required. Once the Corporation has pursued collection activities and it has been determined that the incremental cost of pursuing collection outweighs the benefits, Birchcliff derecognizes the gross carrying amount of the financial asset and the associated allowance from the statement of financial position.

(ii) Impairment of non-financial assets

The Corporation's PP&E are grouped into Cash Generating Units ("**CGUs**") for the purpose of assessing 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.

CGUs are reviewed at each reporting date for internal and external indicators of impairment. Such indicators may include, but are not limited to, changes in the Corporation's business plan, deterioration in forecasted oil and gas commodity prices or a significant downward revision of the estimated recoverable amount from proved and probable oil and gas reserves and the related cash flows. If indicators of impairment exist, an impairment test is performed by comparing a CGUs carrying value to its estimated recoverable amount. A CGUs recoverable amount is the greater of its fair value less cost to sell and its current value in use. The estimated recoverable amount involves significant assumptions including the estimate of proved and probable oil and gas reserves and the related cash flows and the discount rates. The estimate of proved and probable oil and gas reserves and the related cash flows is sensitive to the significant assumptions regarding forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, forecasted royalty costs and forecasted future development costs. Any excess of carrying value over recoverable amount is recognized as impairment loss in profit or loss.

In assessing the value in use, the estimated future cash flows from proved and probable oil and gas reserves are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. The forecasted oil and gas commodity prices used in the impairment test are based on period-end forecasted oil and gas commodity prices estimated by the Corporation's independent third-party reserves evaluator.

Where circumstances change such that an impairment no longer exists or is less than the amount previously recognized, the carrying amount of the CGU is increased to the revised estimate of its recoverable amount as long as the revised estimate does not exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the CGU in prior periods. A reversal of an impairment loss is recognized immediately through profit or loss.

Exploration and evaluation assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability of an exploration area, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to the respective CGUs.

(m) Income Taxes

Birchcliff is a corporation as defined under the *Income Tax Act* (Canada) and is subject to Canadian Federal and provincial taxes. Birchcliff is subject to provincial taxes in Alberta as the Corporation operates in this jurisdiction. The Corporation's income tax expenses include current and/or deferred tax. Income tax expense is recognized through profit or loss except to the extent that it relates to items recognized directly in equity, in which case the related income taxes are also recognized in equity.

Current tax is the expected tax payable on taxable income and Part VI.I dividend tax payable on taxable preferred shares for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is expected to be settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Birchcliff expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(n) Per Common Share

The Corporation calculates per common share amounts using net income available to Birchcliff's shareholders, reduced for perpetual preferred share dividends and divided by the weighted average number of common shares outstanding. Basic per share information is computed using the weighted average number of basic common shares outstanding during the period. Diluted per share information is calculated using the treasury stock method, which assumes that any proceeds from the exercise of "in-the-money" stock options and performance warrants, plus the unamortized stock-based compensation expense amounts, would be used to purchase common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of these calculations is anti-dilutive. The average market value of the Corporation's shares for the purpose of calculating the dilutive effect is based on average quoted market prices for the time that the stock options and performance warrants were outstanding during the period.

(o) Business Combinations

The purchase method of accounting is used to account for acquisitions of businesses and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. If the consideration given up is less than the fair value of the net assets received, the difference is recognized immediately in the income statement. If the consideration is greater than the fair value of the net assets received, the difference is recognized as goodwill on the statement of financial position. Acquisition costs incurred are expensed.

(p) Post-Employment Benefit Obligations

Birchcliff's post-employment benefits are defined benefit obligations under IFRS. The cost of the post-employment benefit obligations are determined using the projected unit credit method. The obligations are determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related liability. Post-employment benefit obligations are presented on the statements of financial position as other liabilities. Past service cost is the change in the present value of the obligations and can arise from the introduction, amendment or curtailment of a plan. Current service cost is the increase in the present value of the obligations resulting from the service provided by an employee in the current period. Current and past service costs are recognized as post-employment benefit expenses of the Corporation when incurred and presented in profit and loss as an administrative expense. The unwinding of the present value of the post-employment benefit obligations are recorded as accretion (interest) expense and is presented in profit and loss as a finance expense.

Remeasurements of the post-employment benefit obligations will result in gains and losses and will be included in other comprehensive income. Remeasurements result from increases or decreases in the present value of the obligations as a result of changes in assumptions including unexpectedly high or low rates of employee turnover, early retirement, change in expected future salaries and benefits and revision to the discount rate. Settlements will be recorded as a reduction to the obligations in the period incurred. Any difference between the actual costs incurred upon settlement of the obligations and the recorded liability is recognized as a gain or loss in profit or loss.

(q) Lease Obligations

When Birchcliff is a party to a lease arrangement as the lessee, a lease liability, herein referred to as a "lease obligations", and corresponding right-of-use asset, herein referred to as a "lease asset", for each identified lease is recognized under IFRS. The lease obligations are determined by discounting the remaining lease payments using the interest rate implicit in the lease, if available, or the Corporation's incremental borrowing rate. The lease obligations are reduced by actual cash lease payments made during the period. Lease obligations are presented as other liabilities on the statements of financial position. The lease assets are included in PP&E on the statements of financial position. Lease assets are depreciated over the remaining term of the lease and included in depletion and depreciation expense in profit and loss. The unwinding of the present value of the lease obligations are recorded as accretion (interest) and included in finance expense in profit and loss. Cash lease payments are classified as a financing activity and accretion expense classified as an operating activity in the statements of cash flows.

Remeasurements of the lease obligations will result in an adjustment to the right-of-use asset. Remeasurements result from increases or decreases in the present value of the obligations as a result of changes in assumptions including lease term, payment or discount rate.

(r) Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and 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 and other 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:

(i) 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.

(ii) Identification of Impairment Indicators

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

(iii) 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.

(iv) Lease Obligations

IFRS requires Birchcliff to make certain judgements in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

Key and other 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:

(i) Reserves

Reported recoverable quantities of proved and probable oil and gas reserves and the related cash flows requires estimation and are subject to assumptions regarding forecasted production, forecasted oil and gas commodity prices, forecasted operating costs, forecasted royalty costs and forecasted future development costs. 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 proved and probable oil and gas reserves may change from period to period. The Corporation uses estimated proved and probable oil and gas reserves to deplete PP&E to assess for indicators of impairment on the Corporation's CGU and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of a CGU. The Corporation engages an independent third-party reserves evaluator to evaluate its proved and probable oil and gas reserves. The estimated recoverable quantities of proved and probable oil and gas reserves and the related cash flows from Birchcliff's petroleum and natural gas interests are evaluated by an independent third-party reserves evaluator at least annually.

The Corporation's proved and probable oil and 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 proved and probable oil and gas 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 proved and probable oil and gas reserves are determined in accordance with the standards contained in National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* and the *Canadian Oil and Gas Evaluation Handbook*.

(ii) 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.

(iii) 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 risk-free cash flows.

(iv) Post-Employment Benefit Obligations

The Corporation estimates the post-employment benefit obligations at the end of each reporting period. In most instances, the obligations occur many years into the future. The Corporation uses estimates related to the initial measurement of the obligations for eligible employees including expected age of employee retirement, employee turnover, probability of early retirement, discount rate and inflation rate on salary and benefits. From time to time, these estimates may change causing the obligations recorded by the Corporation to change.

(v) Lease Obligations

Lease obligations are estimated using the rate implicit in the lease, unless this rate is not readily determinable, in which case a discount rate equal to the Corporation's incremental borrowing rate is used. This rate represents the rate that the Corporation would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

(vi) Impairment of Non-Financial Assets

For the purposes of determining the extent of any impairment or its reversal, if any, estimates must be made regarding proved and probable oil and gas reserves and the related cash flows considering significant assumptions including forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, forecasted royalty costs and forecasted future development costs. These significant assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the discount rate estimate used to discount the cash flow estimates related to proved and probable oil and gas reserves. Changes in the aforementioned assumptions could affect the carrying amount of the Corporation's assets, and impairment charges and reversal, if any, will affect profit or loss.

(vii) Income Taxes

Birchcliff files corporate income tax, goods and services 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.

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 statement of financial position date could be impacted.

(s) Governments Grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. If a grant is received but reasonable assurance and compliance with conditions is not achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the grant relates to an expense item in nature, it is recognized as "other income" in profit or loss on a systematic basis in the period in which the costs are incurred.

4. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

The continuity for petroleum and natural gas properties and equipment is as follows:

($000s)	Exploration & Evaluation Assets[3]	Developed & Producing Assets	Lease Assets	Corporate Assets	Total
Cost:					
As at December 31, 2020	354	4,147,726	19,931	21,930	4,189,941
Additions	35	228,913	147	1,718	230,813
Acquisitions	-	866	-	-	866
As at December 31, 2021	389	4,377,505	20,078	23,648	4,421,620
Additions	17	330,114	-	1,576	331,707
Acquisitions	-	2,776	-	-	2,776
Dispositions	-	(315)	-	-	(315)
As at December 31, 2022[1]	406	4,710,080	20,078	25,224	4,755,788
Accumulated depletion and depreciation:					
As at December 31, 2020	-	(1,335,122)	(3,946)	(17,563)	(1,356,631)
Depletion and depreciation expense[2]	-	(208,821)	(2,035)	(1,901)	(212,757)
As at December 31, 2021	-	(1,543,943)	(5,981)	(19,464)	(1,569,388)
Depletion and depreciation expense[2]	-	(210,049)	(2,035)	(1,724)	(213,808)
As at December 31, 2022	-	(1,753,992)	(8,016)	(21,188)	(1,783,196)
Net book value:					
As at December 31, 2021	**389**	**2,833,562**	**14,097**	**4,184**	**2,852,232**
As at December 31, 2022	**406**	**2,956,088**	**12,062**	**4,036**	**2,972,592**

(1) The Corporation's PP&E were pledged as security for its revolving term credit facilities. Although the Corporation believes that it has title to its PP&E, it cannot control or completely protect itself against the risk of title disputes and challenges. There were no borrowing costs capitalized to the Corporation's PP&E during 2022 and 2021.

(2) Future development costs required to develop and produce proved and probable oil and gas reserves totalled $4.5 billion at December 31, 2022 (December 31, 2021 – $4.3 billion) and are included in the depletion expense calculation.

(3) E&E assets consist of the Corporation's exploration activities which are pending the determination of economic quantities of commercially producible proved reserves. Additions represent the Corporation's net share of costs incurred on E&E activities during the year. A review of each exploration project by area is carried out at each reporting date to ascertain whether economical quantities of proved reserves have been discovered and whether such costs should be transferred to depletable developing and producing assets. There were no exploration costs reclassified from the E&E category to developing and producing category during 2022 and 2021.

Impairment Assessment

In accordance with IFRS, an impairment test is performed if Birchcliff identifies indicators of impairment at the end of a reporting period. At December 31, 2022 and December 31, 2021, Birchcliff determined there were no impairment indicators present and therefore an impairment test was not required.

5. INVESTMENTS

On August 31, 2017, Birchcliff acquired securities consisting of 4,500,000 Common A LP Units (the "**Common A Units**") in a limited partnership and 10,000,000 Preferred Trust Units (the "**Preferred Trust Units**") in a Trust (collectively, the "**Securities**") at a combined value of $10.0 million. The Securities are not publicly listed and do not constitute a significant investment. Birchcliff recorded a gain on investment of $1.8 million in 2022 as compared to a gain on investment of $6.4 million in 2021.

On September 20, 2022, Birchcliff provided notice to the Trust to tender the Securities for cash redemption. During 2022, Birchcliff redeemed 566,109 Preferred Trust Units and 254,750 Common A Units for aggregate proceeds of $0.6 million. As at December 31, 2022, Birchcliff held a total of 9,433,891 Preferred Trust Units and 4,245,250 Common A Units which collectively had a fair value of $9.4 million (December 31, 2021 – $8.2 million).

The Preferred Trust Units are redeemable on demand by Birchcliff. For each Preferred Trust Unit redeemed by Birchcliff, the redemption price will be equal to the redemption proceeds received by the Trust from the Limited Partnership with respect to a redemption by the Trust of a corresponding unit of the Limited Partnership that was acquired by the Trust with the proceeds the Trust received from the issuance of such Preferred Trust Unit. Payment of the redemption price by the Trust is limited to an aggregate maximum amount of $10,000 in cash in respect of all redemptions per calendar month, unless the trustees of the Trust determine a greater amount.

6. REVOLVING TERM CREDIT FACILITIES

The components of the Corporation's credit facilities include:

As at December 31, *($000s)*	**2022**	**2021**
Syndicated credit facility	109,201	477,958
Working capital facility	26,321	26,630
Drawn revolving term credit facilities	135,522	504,588
Unamortized deferred financing fees	(3,541)	(3,718)
Revolving term credit facilities	**131,981**	**500,870**

At December 31, 2022, the aggregate principal amount of the Corporation's credit facilities was $850.0 million with maturity dates of May 11, 2025 which were comprised of: (i) an extendible revolving syndicated term credit facility (the "**Syndicated Credit Facility**") of $750.0 million; and (ii) an extendible revolving working capital facility (the "**Working Capital Facility**") of $100.0 million (collectively, the "**Credit Facilities**."). Birchcliff has outstanding $0.2 million in letters of credit at December 31, 2022. The letters of credit reduce the amount available under the Working Capital Facility from $100.0 million to approximately $99.8 million.

Effective May 3, 2022, the agreement governing the Credit Facilities was amended to extend the maturity dates of each of the Syndicated Credit Facility and the Working Capital Facility from May 11, 2024 to May 11, 2025. In addition, the lenders confirmed the aggregate borrowing base limit under the Corporation's Credit Facilities at $850.0 million. Birchcliff's Credit Facilities include a provision giving the lenders the right to redetermine the borrowing base if the Corporation's liability management rating ("**LMR**") is less than 2.0. Birchcliff's LMR at December 31, 2022 was 17.3. Upon any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall, Birchcliff must eliminate the borrowing base shortfall amount. In November 2022, Birchcliff's syndicate of lenders completed its semi-annual review and the borrowing base limit was confirmed at $850.0 million.

The maturity date of the Credit Facilities may, at the request of the Corporation and with consent of the lenders, be extended on an annual basis, for an additional period of up to three years from May 3 of the year in which the extension request is made. The Credit Facilities are secured by a fixed and floating charge debenture and pledge charging substantially all of the Corporation's assets. No fixed charges have been granted pursuant to such debenture. The Credit Facilities do not contain any financial maintenance covenants.

The amended agreement governing the Credit Facilities allows for prime rate loans, SOFR term loans, U.S. base rate loans, bankers' acceptances and, in the case of the Working Capital Facility only, letters of credit, plus applicable margins. Effective May 3, 2022, LIBOR loans were no longer available under the amended agreement and were replaced with SOFR term loans. The 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 EBITDA as calculated in accordance with the agreement governing the Credit Facilities. EBITDA is defined as earnings before interest and non-cash items including (if any) deferred income taxes, other compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments, gains and losses on investments, depletion, depreciation and amortization and impairment charges.

7. DECOMMISSIONING OBLIGATIONS

The Corporation estimates the total undiscounted (inflated) amount of cash flow required to settle its decommissioning obligations is approximately $281.0 million at December 31, 2022 (December 31, 2021 – $245.0 million). A reconciliation of the decommissioning obligations is set forth below:

As at December 31, *($000s)*	**2022**	**2021**
Balance, beginning	140,603	146,232
Obligations incurred	4,004	4,907
Obligations acquired	428	582
Obligations divested	(19)	(620)
Changes in estimated future cash flows(1)	(44,996)	(9,611)
Accretion	3,248	2,608
Decommissioning expenditures(2)	(3,548)	(3,495)
Balance, ending(3)	**99,720**	**140,603**

(1) Primarily relates to changes in the nominal risk-free rate and inflation rate used to calculate the present value of the decommissioning obligations.

(2) Includes $0.3 million and $0.8 million of funding from the Alberta Site Rehabilitation Program in 2021 and 2022, respectively.

(3) Birchcliff applied an inflation rate of 2.09% and a discount nominal risk-free rate of 3.28% to calculate the present value of the decommissioning obligations at December 31, 2022 and an inflation rate of 1.82% and a discount nominal risk-free rate of 1.68% at December 31, 2021.

8. INCOME TAXES

Included in deferred income tax expense is a deferred tax expense of $198.4 million in 2022 (2021 – $91.5 million) and a Part VI.I dividend tax totaling $2.1 million in 2022 (2021 – $2.8 million) attributed to preferred share dividends paid during the year. For the purposes of determining the current and deferred income taxes, the Corporation applied a combined Canadian federal and provincial income tax rate of 23% in 2022 (2021 – 23%).

The components of deferred income tax expense are set forth below:

Years ended December 31, *($000s)*	**2022**	**2021**
Net income before taxes	857,317	408,941
Computed expected income tax expense	(197,183)	(94,056)
(Increase) decrease in taxes resulting from:		
Non-deductible stock-based compensation	(1,628)	(822)
Non-deductible dividends on capital securities	(463)	(625)
Non-deductible expenses and other	(1,108)	(234)
Change in deferred tax assets not recognized	(104)	1,472
Deferred income tax expense	**(200,486)**	**(94,265)**

The components of net deferred income tax liabilities are set forth below:

As at December 31, *($000s)*	**2022**	**2021**
Deferred income tax liabilities:		
PP&E	413,127	381,349
Deferred financing fees	815	855
Risk management contracts	10,867	-
Deferred income tax assets:		
Decommissioning obligations	(22,936)	(32,496)
Other obligations	(3,276)	(3,550)
Risk management contracts	-	(19,273)
Bank financing and share issue costs	(988)	(873)
Non-capital losses and other	(42,494)	(169,317)
Deferred income tax liabilities	**355,115**	**156,695**

A continuity of the net deferred income tax liabilities is set forth below:

($000s)	Balance Jan. 1, 2022	Recognized in Profit or Loss	**Balance Dec. 31, 2022**
PP&E	381,349	31,778	413,127
Deferred financing fees	855	(40)	815
Risk management contracts	(19,273)	30,140	10,867
Decommissioning obligations	(32,496)	9,560	(22,936)
Other obligations	(3,550)	274	(3,276)
Bank financing and share issue costs	(873)	(115)	(988)
Non-capital losses and other	(169,317)	126,823	(42,494)
	156,695	198,420	**355,115**

($000s)	Balance Jan. 1, 2021	Recognized in Profit or Loss	**Balance Dec. 31, 2021**
PP&E	372,456	8,893	381,349
Deferred financing fees	283	572	855
Decommissioning obligations	(33,633)	1,137	(32,496)
Other obligations	(3,917)	367	(3,550)
Risk management contracts	(38,648)	19,375	(19,273)
Bank financing and share issue costs	(960)	87	(873)
Non-capital losses and other	(230,389)	61,072	(169,317)
	65,192	91,503	**156,695**

As at December 31, 2022, the Corporation had approximately $1.3 billion (2021 – $1.9 billion) in tax pools available for deduction against future taxable income. Included in this tax basis are estimated non-capital loss carry forwards of approximately $153.5 million that expire between 2030 and 2041 and unrecognized temporary differences on marketable securities of $2.0 million. Discretionary tax deductions, including Canadian Development Expenses, Canadian Oil and Gas Property Expense and Capital Cost Allowance, were maximized in the respective tax years in order to reduce Birchcliff's accounting profits into a loss position for tax purposes.

9. CAPITAL STOCK

Share Capital

(a) Authorized:

Unlimited number of voting common shares, with no par value.

Unlimited number of preferred shares, with no par value.

The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

(b) Number of common shares and perpetual preferred shares issued:

The following table sets forth the number of common shares and perpetual preferred shares issued and outstanding:

As at December 31, *(000s)*	**2022**	**2021**
Common shares:		
Outstanding at beginning of year	264,790	265,943
Issuance of common shares[(1)]	7,597	4,090
Repurchase of common shares[(2)]	(6,340)	(5,243)
Outstanding at end of year	**266,047**	**264,790**
Series A Preferred Shares (perpetual):		
Outstanding at beginning of year	2,000	2,000
Redemption of Series A Preferred Shares[(3)]	(2,000)	-
Outstanding at end of year	**-**	**2,000**

(1) Relates to the exercise of stock options and performance warrants (see Note 16).

(2) On November 17, 2022, Birchcliff announced that the TSX had accepted the Corporation's notice of intention to make a normal course issuer bid (the "**2023 NCIB**"). Pursuant to the 2023 NCIB, Birchcliff may purchase up to 13,295,786 of its outstanding common shares over a period of twelve months commencing on November 25, 2022 and terminating no later than November 24, 2023. Under the NCIB, common shares may be purchased in open market transactions on the TSX and/or alternative Canadian trading systems at the prevailing market price at the time of such transaction. The total number of common shares that Birchcliff is permitted to purchase on the TSX during a trading day is subject to a daily purchase limit of 455,368 common shares. However, Birchcliff may make one block purchase per calendar week which exceeds the daily purchase restriction. All common shares purchased under the 2023 NCIB will be cancelled. The 2023 NCIB effectively renewed the Corporation's previous normal course issuer bid under which the Corporation was permitted to purchase 13,267,554 common shares over the period from November 25, 2021 to November 24, 2022 (the "**2022 NCIB**"). The 2022 NCIB effectively renewed the Corporation's previous normal course issuer bid under which the Corporation was permitted to purchase up to 13,296,936 common shares over the period from November 25, 2020 to November 24, 2021 (the "**2021 NCIB**"). During 2021, the Corporation purchased and cancelled 5,242,700 common shares pursuant to the 2021 NCIB and 2022 NCIB at an average price of $6.00 for an aggregate cost of $31.5 million, before fees. During 2022, the Corporation purchased and cancelled 6,340,192 common shares pursuant to the 2022 NCIB and 2023 NCIB at an average price of $9.01 for an aggregate cost of $57.1 million, before fees.

(3) On September 30, 2022, Birchcliff redeemed 2,000,000 issued and outstanding cumulative redeemable, preferred shares Series A (the "**Series A Preferred Shares**") for a redemption price equal to $25.00 per share for a total redemption amount of $50.0 million. In addition, a final quarterly cash dividend of $0.527677 per Series A Preferred Share was paid on October 3, 2022 to the holders of record at the close of business on September 15, 2022. The aggregate redemption amount of the Series A Preferred Shares, including all accrued and unpaid dividends, totalled approximately $51.1 million and was funded using the Corporation's Credit Facilities.

Capital Securities

The following table sets forth the number and amount of capital securities outstanding:

As at December 31,		**2022**		**2021**
	Number *(000s)*	**Amount** *($000s)*	**Number** *(000s)*	**Amount** *($000s)*
Outstanding at beginning of year	1,531	38,268	1,597	39,930
Redemption of Series C Preferred Shares[(1)]	(1,531)	(38,268)	(66)	(1,662)
Outstanding at end of year	**-**	**-**	**1,531**	**38,268**

(1) On September 30, 2022, Birchcliff redeemed 1,528,219 issued and outstanding cumulative redeemable, preferred shares Series C (the "**Series C Preferred Shares**") for a redemption price equal to $25.00 per share for a total redemption amount of $38.2 million. In addition, a final quarterly cash dividend of $0.441096 per Series C Preferred Share was paid on October 3, 2022 to the holders of record at the close of business on September 15, 2022. The aggregate redemption amount of the Series C Preferred Shares, including all accrued and unpaid dividends, totalled approximately $38.9 million and was funded using the Corporation's Credit Facilities.

Dividends

The following table sets forth the dividend distributions by the Corporation for each class of shares:

Years ended December 31,	**2022**	**2021**
Common Shares:		
Dividend distribution *($000s)*	71,788	6,639
Per common share *($)*	0.2700	0.0250
Series A Preferred Shares:		
Series A dividend distribution *($000s)*	3,149	4,187
Per Series A Preferred Share *($)*	1.5744	2.0935
Series C Preferred Shares:		
Series C dividend distribution *($000s)*	2,013	2,718
Per Series C Preferred Share ($)	1.3161	1.7500

On January 18, 2023, the Board declared a quarterly common share base dividend of $0.20 per common share for the quarter ending March 31, 2023. The dividend will be payable on March 31, 2023 to shareholders of record at the close of business on March 15, 2023. The ex-dividend date is March 14, 2023. The dividend has been designated as an eligible dividend for the purposes of the *Income Tax Act* (Canada).

10. EARNINGS PER SHARE

The following table sets forth the computation of net income per common share:

Years ended December 31, *($000s, except for per share information)*	**2022**	**2021**
Net income	656,831	314,676
Dividends on Series A Preferred Shares	(3,149)	(4,187)
Net income to common shareholders	653,682	310,489
Weighted average common shares (000s):		
Weighted average basic common shares outstanding	265,548	265,990
Dilutive securities	9,671	8,369
Weighted average diluted common shares outstanding(1)	275,219	274,359
Net income per common share:		
Basic	**$2.46**	**$1.17**
Diluted	**$2.38**	**$1.13**

(1) The weighted average diluted common shares outstanding excludes 5,971,300 stock options that were anti-dilutive as at December 31, 2022 (December 31, 2021 – 7,709,600).

11. REVENUE

The following table sets forth Birchcliff's petroleum and natural gas ("**P&NG**") sales and revenue by source:

Years ended December 31, *($000s)*	**2022**	**2021**
Light oil sales	97,185	83,836
Condensate(1)	208,828	178,651
NGLs sales(2)	112,049	85,891
Natural gas sales	922,060	583,991
P&NG sales(3)(4)	1,340,122	932,369
Royalty income	58	37
P&NG revenue	1,340,180	932,406
Marketing revenue(5)	18,806	20,722
Revenue from contracts with customers	**1,358,986**	**953,128**

(1) Includes pentanes plus.

(2) Includes ethane, propane and butane.

(3) Excludes the effects of financial instruments but includes the effects of any physical delivery contracts outstanding during the year.

(4) Included in accounts receivable at December 31, 2022 was $118.0 million (December 31, 2021 – $88.8 million) in P&NG sales to be received from its marketers in respect of December 2022 production, which was subsequently received in January 2023.

(5) Marketing revenue primarily represents the sale of commodities purchased from third parties less applicable fees. Birchcliff enters into certain marketing purchase and sales arrangements to reduce its take-or-pay fractionation fees associated with third-party commitments. For the year ended December 31, 2022, the Corporation had marketing purchases from third parties of $17.9 million (2021 – $18.0 million).

12. OPERATING EXPENSE

The Corporation's operating expenses include all costs with respect to day-to-day production operations. The components of operating expenses are set forth below:

Years ended December 31, *($000s)*	**2022**	**2021**
Field operating costs	106,203	96,533
Recoveries	(4,622)	(5,018)
Operating expense	**101,581**	**91,515**

13. ADMINISTRATIVE EXPENSE

The components of administrative expenses are set forth below:

Years ended December 31, *($000s)*	**2022**	**2021**
Cash:		
Salaries and benefits[1]	38,049	35,504
Other[2]	17,831	12,426
General and administrative, gross	55,880	47,930
Operating overhead recoveries	(139)	(144)
Capitalized overhead[3]	(19,967)	(19,540)
General and administrative, net	35,774	28,246
Non-cash:		
Other compensation[4]	12,956	5,605
Capitalized compensation[3]	(6,500)	(3,175)
Other compensation, net	6,456	2,430
Administrative expense, net	**42,230**	**30,676**

(1) Includes salaries, benefits and incentives paid to officers and employees of the Corporation and retainer fees, meeting fees and benefits paid to directors of the Corporation.

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

(3) Includes a portion of gross general and administrative expenses and other compensation directly attributable to the exploration and development activities of the Corporation, which have been capitalized.

(4) Includes stock-based compensation expense of $11.9 million and post-employment benefit expense of $1.1 million in 2022 (2021 - $5.1 million and $0.5 million, respectively) (*Notes 14 & 16*).

Total compensation for the Corporation's executive officers and directors are comprised of the following:

Years ended December 31, *($000s)*	**2022**	**2021**
Salaries and benefits[1]	9,214	7,325
Stock-based compensation[2]	3,414	1,237
Post-employment benefit[3]	1,091	554
Executive officer's and director's compensation	**13,719**	**9,116**

(1) Includes salaries, benefits and other incentives paid to officers of the Corporation and directors' fees and benefits paid to the directors of the Corporation.

(2) Represents stock-based compensation expense associated with options granted to the executive officers.

(3) Represents service costs associated with post-employment benefits of the Corporation's executive officers (*Note 14*).

14. OTHER LIABILITIES

Post-Employment Benefit Obligations

The Corporation has established a post-employment benefit plan for eligible participants, which provides for post-employment benefits based upon the age at retirement and their period of service with Birchcliff (the "**Retirement Plan**"). The Retirement Plan is not funded and as such no plan assets exist. The post-employment benefit obligations arising from the Retirement Plan is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related liability. The expenses associated with the Retirement Plan are comprised of current and past service costs and the interest (accretion) on the unwinding of the present value of the post-employment benefit obligations.

The Corporation estimates the total undiscounted (inflated) amount of cash flow required to settle its obligations for all participants meeting the eligibility requirements under the post-employment benefit plan is approximately $15.3 million at December 31, 2022 (December 31, 2021 – $14.8 million).

A reconciliation of the discounted post-employment benefit obligations is set forth below:

As at December 31, *($000s)*	**2022**	**2021**
Balance, beginning	9,895	9,177
Obligations incurred[1]	1,091	554
Accretion	184	164
Balance, ending[2]	**11,170**	**9,895**
Current portion	-	-
Long-term portion	11,170	9,895

(1) Represents the service costs associated with post-employment benefits.

(2) Birchcliff applied a discount rate of 2.8% and an inflation rate of 3.0% to calculate the present value of the post-employment benefit obligations at December 31, 2022 and December 31, 2021.

Lease Obligations

The Corporation's total undiscounted (inflated) amount of cash flow required to settle its lease obligations is approximately $15.3 million at December 31, 2022 (December 31, 2021 – $17.7 million) and is expected to be settled by 2029. A reconciliation of the discounted lease obligations is set forth below:

As at December 31, *($000s)*	**2022**	**2021**
Balance, beginning	15,434	17,030
Lease payments	(2,458)	(2,444)
Change in estimate	-	147
Accretion	618	701
Balance, ending[1]	**13,594**	**15,434**
Current portion	1,914	1,841
Long-term portion	11,680	13,593

(1) Birchcliff applied a discount rate of 4.7% to calculate the discounted value of the lease obligations at December 31, 2022 and December 31, 2021.

15. FINANCE EXPENSE

The components of finance expenses are set forth below:

Years ended December 31, *($000s)*	**2022**	**2021**
Cash:		
Interest on credit facilities	13,738	28,797
Non-cash:		
Accretion[1]	4,050	3,473
Amortization of deferred financing fees	1,451	968
Finance expense	**19,239**	**33,238**

(1) Includes accretion on decommissioning obligations, post-employment benefit obligations and lease obligations.

16. SHARE-BASED PAYMENT

Stock Options

At December 31, 2022, the Corporation's stock option plan (the "**Option Plan**") permitted the grant of options in respect of a maximum of 26,604,681 (December 31, 2021 – 26,479,040) common shares. At December 31, 2022, there remained 6,281,897 (December 31, 2021 – 3,362,121) stock options available for issuance. For the stock options exercised during 2022, the weighted average common share trading price on the TSX was $9.24 (2021 – $4.67) per common share.

A summary of the outstanding stock options is set forth below:

Years ended December 31,	2022 Number	2022 Price (\$)[1]	2021 Number	2021 Price (\$)[1]
Outstanding, beginning	23,116,919	3.96	26,134,201	3.56
Granted[2]	5,995,300	9.34	5,689,100	6.45
Exercised	(6,786,665)	(3.03)	(4,090,375)	(3.09)
Forfeited	(359,670)	(4.50)	(2,082,940)	(7.53)
Expired	(1,643,100)	(7.84)	(2,533,067)	(3.90)
Outstanding, ending	**20,322,784**	**5.53**	**23,116,919**	**3.96**

(1) Calculated on a weighted average basis.

(2) Each stock option granted entitles the holder to purchase one common share at the exercise price.

The weighted average fair value per option granted during 2022 was \$4.42 (2021 – \$3.03). In determining the stock-based compensation expense for options issued during 2022, the Corporation applied a weighted average estimated forfeiture rate of 7.5% (2021 – 7.8%).

The weighted average assumptions used in calculating the Black-Scholes fair values are set forth below:

Years ended December 31,	2022	2021
Risk-free interest rate	3.1%	1.2%
Expected life *(years)*	4.0	4.2
Expected volatility	62.5%	61.4%
Dividend yield	0.8%	0.3%

A summary of the stock options outstanding and exercisable under the Option Plan at December 31, 2022 is set forth below:

Grant Price *(\$)*		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life *(years)*	Weighted Average Exercise Price *(\$)*	Quantity	Weighted Average Remaining Contractual Life *(years)*	Weighted Average Exercise Price *(\$)*
0.78	3.00	6,703,972	2.49	2.03	5,101,729	2.35	2.10
3.01	6.00	2,379,612	1.15	3.56	2,259,277	1.03	3.54
6.01	9.00	5,412,900	3.95	6.59	1,763,022	3.93	6.54
9.01	11.65	5,826,300	4.94	9.38	-	-	-
		20,322,784	**3.42**	**5.53**	**9,124,028**	**2.33**	**3.31**

Performance Warrants

On January 18, 2005, Birchcliff issued 4,049,665 performance warrants as part of its initial restructuring to become a public entity. Each performance warrant is exercisable at a price of \$3.00 to purchase one common share of Birchcliff.

During 2022, there were 809,933 performance warrants exercised at a price of \$3.00 per common share. On May 26, 2022, there were 1,724,832 performance warrants purchased by the Corporation for a total cash cost of \$14.5 million. As at December 31, 2022, there remained 404,967 performance warrants (December 31, 2021 – 2,939,732) outstanding with an expiry date of January 31, 2025.

17. CAPITAL MANAGEMENT

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations, to maintain a capital structure that allows Birchcliff to finance its business strategy using primarily internally-generated cash flow and its available debt capacity and to optimize the use of its capital to provide an appropriate investment return to its shareholders. There were no changes in the Corporation's approach to capital management during the year ended December 31, 2022.

The following table sets forth the Corporation's total available credit:

As at December 31, *($000s)*	**2022**	**2021**
Maximum borrowing base limit[1]:		
Revolving term credit facilities	850,000	850,000
Principal amount utilized:		
Revolving term credit facilities	(131,981)	(500,870)
Unamortized deferred financing fees	(3,541)	(3,718)
Outstanding letters of credit[2]	(185)	(4,185)
	(135,707)	(508,773)
Unused credit	**714,293**	**341,227**

(1) The Credit Facilities are subject to a semi-annual review of the borrowing base limit, which is directly impacted by the value of Birchcliff's oil and gas reserves. In connection with the most recent semi-annual review of the borrowing base limit under the Credit Facilities, which was completed by the Corporation's syndicate of lenders in November 2022, the borrowing base limit was confirmed at $850.0 million and the maturity date was extended to May 11, 2025.

(2) Letters of credit are issued to various service providers. The letters of credit reduce the amount available under the Corporation's Working Capital Facility.

The capital structure of the Corporation is as follows:

As at December 31, *($000s)*	**2022**	**2021**	**% Change**
Shareholders' equity[1]	2,412,653	1,917,603	
Capital securities[2]	-	38,268	
Shareholders' equity & capital securities	**2,412,653**	**1,955,871**	**23**
Shareholders' equity & capital securities as a % of total capital	95%	80%	
Revolving term credit facilities	131,981	500,870	
Working capital deficit (surplus)[3]	(7,902)	53,312	
Fair value of financial instruments - asset[4]	17,729	69	
Fair value of financial instruments - liability[4]	(1,345)	(16,586)	
Other liabilities[4]	(1,914)	-	
Capital securities[2]	-	(38,268)	
Adjusted working capital deficit (surplus)[5]	6,568	(1,473)	
Total debt	**138,549**	**499,397**	**(72)**
Total debt as a % of total capital	5%	20%	
Total capital	**2,551,202**	**2,455,268**	**4**

(1) Shareholders' equity is defined as share capital plus contributed surplus plus retained earnings, less any deficit.

(2) Fully redeemed on September 30, 2022 (*Note 9*).

(3) Current liabilities less current assets.

(4) Reflects the current portion only.

(5) Represents items related to the day-to-day operations of Birchcliff and excludes the current portion of financial instruments, other liabilities and capital securities (if any) where the benefit or obligation has not been realized by the Corporation.

18. RISK MANAGEMENT

Birchcliff is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Board has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and periodically reviews the results of all risk management activities and all outstanding positions.

Credit Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial asset fails to meet its contractual obligation, and arises principally from Birchcliff's receivables from its oil and natural gas marketers. Cash is comprised of bank balances. Historically, the Corporation has not carried short-term investments. Should this change in the future, counterparties will be selected based on credit ratings, management will monitor all investments to ensure a stable return and complex investment vehicles with higher risk will be avoided. The Corporation's exposure to cash credit risk at the statement of financial position date is low.

The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers. The following table illustrates the Corporation's maximum exposure for accounts receivable:

As at December 31, *($000s)*	**2022**	**2021**
Marketers(1)	117,996	88,843
Jointly owned assets	5,440	2,143
Other	1,569	1,428
Accounts receivable	**125,005**	**92,414**

(1) At December 31, 2022, approximately 14% was due from one marketer (2021 – 23%, one marketer). During 2022, the Corporation received 21%, 11% and 10% of its revenue, respectively, from three marketers (2021 – 23%, 13% and 10% of its revenue, respectively, from three marketers).

Typically, Birchcliff's maximum credit exposure from its marketers is revenue from its commodity sales. Receivables from marketers are normally collected on the 25th day of the month following production. Birchcliff mitigates the credit risk associated with these receivables by establishing marketing relationships with credit worthy purchasers, obtaining guarantees from their ultimate parent companies and obtaining letters of credit, if and when appropriate. The Corporation historically has not experienced any material collection issues with its marketers.

Birchcliff's accounts receivables are aged as follows:

As at December 31, *($000s)*	**2022**	**2021**
Current (less than 30 days)	118,040	88,062
30 to 60 days	2,553	2,315
61 to 90 days	3,587	1,505
Over 90 days	825	532
Accounts receivable	**125,005**	**92,414**

At December 31, 2022, approximately $0.8 million or 0.7% (2021 – $0.5 million or 0.6%) of Birchcliff's total accounts receivable are aged over 90 days. The majority of these accounts are due from various partners of jointly owned assets. Birchcliff attempts to mitigate the credit risk of receivables from jointly owned assets by obtaining pre-approval of significant capital expenditures. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with partners of jointly owned assets as disagreements occasionally arise that increases the potential for non-collection. The Corporation does not typically obtain collateral from partners of jointly owned assets; however, the Corporation does have the ability to withhold production or proceeds from the eventual sale of jointly owned assets in the event of non-payment. Birchcliff determined that the ultimate collection of accounts receivable were not in doubt and therefore no allowance to profit or loss was recorded in 2022 and 2021.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations associated with financial liabilities that are settled by cash as they become due. Birchcliff's approach to managing liquidity is to ensure, as much as possible, that it will have sufficient liquidity to meet its short-term and long-term financial obligations when due, under both normal and unusual conditions without incurring unacceptable losses or risking harm to the Corporation's reputation. Birchcliff actively manages its liquidity using cash and debt management programs. Strategies include monitoring forecast and actual cash flows from operating, financing, and investing activities and managing available credit and working capital under its Credit Facilities.

All of the Corporation's contractual financial liabilities can be settled in cash. Typically, the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations. To achieve this objective, the Corporation prepares annual capital expenditure budgets, which are approved by the Board and are regularly reviewed and updated as considered necessary. P&NG production is monitored daily and is used to provide monthly cash flow estimates. Further, the Corporation utilizes authorizations for expenditures on both operated and non-operated projects to manage capital expenditure. The Corporation also attempts to match its payment cycle with collection of P&NG revenue on the 25th of each month. Should commodity prices deteriorate materially, Birchcliff may adjust its capital spending accordingly to ensure that it is able to service its short-term financial obligations.

To facilitate the capital expenditure program, the Corporation has an aggregate $850.0 million reserve-based bank credit facilities at the end of 2022 and 2021 which are reviewed semi-annually by its lenders. The principal amount drawn under the Corporation’s total credit facilities including letters of credit at December 31, 2022 was $135.7 million (2021 – $508.8 million) and $714.3 million in unused credit was available at the end of 2022 (2021 – $341.2 million) to fund future obligations.

The following table details the undiscounted cash flows of the Corporation’s significant contractual financial liabilities at December 31, 2022 in the period they are due:

($000s)	**2023**	**2024**	**2025-2027**	**Thereafter**
Accounts payable and accrued liabilities	143,787	-	-	-
Drawn revolving credit facilities	-	-	135,522	-
Lease payments	3,174	3,174	8,456	484
Financial liabilities	**146,961**	**3,174**	**143,978**	**484**

Market Risk

Market risk is the risk that changes in market conditions, such as commodity prices, exchange rates and interest rates, will affect the Corporation’s net income or the value of its financial instruments, if any. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. These risks are consistent with prior years. All risk management transactions are conducted within risk management tolerances that are reviewed by the Board.

Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can materially impact cash flows and the Corporation’s borrowing base limit. Lower commodity prices can also reduce the Corporation’s ability to raise capital. Commodity prices for P&NG are not only influenced by Canadian (“**CDN**”) and the United States (“**US**”) demand, but also by world events that dictate the levels of supply and demand globally.

Financial Derivative Contracts

At December 31, 2022, Birchcliff had certain financial derivative contracts outstanding in order to manage commodity price risk. These instruments are not used for trading or speculative purposes. Birchcliff has not designated its financial instruments as effective accounting hedges, even though the Corporation considers all commodity contracts to be effective economic hedges. As a result, all such financial instruments are recorded on the statements of financial position at fair value, with the changes in fair value being recognized as an unrealized gain or loss in profit or loss and realized upon settlement.

At December 31, 2022, Birchcliff had the following financial derivative contracts in place in order to manage commodity price risk:

Product	Type of Contract	Notional Quantity	Remaining Term(1)	Contract Price	Asset (Liability) ($000s)
Natural gas	AECO 7A basis swap(2)	30,000 MMBtu/d	Jan. 1, 2023 – Dec. 31, 2023	NYMEX HH less US$1.298/MMBtu	1,389
Natural gas	AECO 7A basis swap(2)	10,000 MMBtu/d	Jan. 1, 2023 – Dec. 31, 2023	NYMEX HH less US$1.320/MMBtu	(1,106)
Natural gas	AECO 7A basis swap(2)	30,000 MMBtu/d	Jan. 1, 2023 – Dec. 31, 2023	NYMEX HH less US$1.330/MMBtu	577
Natural gas	AECO 7A basis swap(2)	15,000 MMBtu/d	Jan. 1, 2023 – Dec. 31, 2024	NYMEX HH less US$1.185/MMBtu	2,930
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Jan. 1, 2023 – Dec. 31, 2024	NYMEX HH less US$1.200/MMBtu	909
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Jan. 1, 2023 – Dec. 31, 2024	NYMEX HH less US$1.200/MMBtu	835
Natural gas	AECO 7A basis swap(2)	12,500 MMBtu/d	Jan. 1, 2023 – Dec. 31, 2025	NYMEX HH less US$1.108/MMBtu	4,027
Natural gas	AECO 7A basis swap(2)	10,000 MMBtu/d	Jan. 1, 2023 – Dec. 31, 2025	NYMEX HH less US$1.115/MMBtu	2,971
Natural gas	AECO 7A basis swap(2)	10,000 MMBtu/d	Jan. 1, 2023 – Dec. 31, 2025	NYMEX HH less US$1.050/MMBtu	2,461
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Jan. 1, 2023 – Dec. 31, 2025	NYMEX HH less US$1.178/MMBtu	370
Natural gas	AECO 7A basis swap(2)	10,000 MMBtu/d	Jan. 1, 2023 – Dec. 31, 2025	NYMEX HH less US$1.175/MMBtu	2,293
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Jan. 1, 2023 – Dec. 31, 2025	NYMEX HH less US$1.190/MMBtu	963
Natural gas	AECO 7A basis swap(2)	30,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.114/MMBtu	5,239
Natural gas	AECO 7A basis swap(2)	35,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.081/MMBtu	7,317
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.013/MMBtu	1,475
Natural gas	AECO 7A basis swap(2)	20,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US$1.005/MMBtu	1,972
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US$0.990/MMBtu	531
Natural gas	AECO 7A basis swap(2)	10,000 MMBtu/d	Jan. 1, 2026 – Dec. 31, 2026	NYMEX HH less US$0.895/MMBtu	591
Natural gas	AECO 7A basis swap(2)	25,000 MMBtu/d	Jan. 1, 2027 – Dec. 31, 2027	NYMEX HH less US$0.788/MMBtu	1,427
				Fair value	**37,171**

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

(2) Birchcliff sold AECO basis swap.

At December 31, 2022, if the future AECO/NYMEX basis changed by US$0.10/MMBtu, with all other variables held constant, after-tax net income in 2022 would have changed by approximately $18.2 million.

The following financial derivative contracts were entered into subsequent to December 31, 2022 to manage commodity price risk:

Product	Type of Contract	Quantity	Remaining Term(1)	Contract Price
Natural gas	AECO 7A basis swap(2)	30,000	Jan. 1, 2026 – Dec. 31, 2026	NYMEX HH less US$0.992/MMBtu
Natural gas	AECO 7A basis swap(2)	10,000	Jan. 1, 2026 – Dec. 31, 2026	NYMEX HH less US$0.980/MMBtu

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

(2) Birchcliff sold AECO basis swap.

Physical Delivery Contracts

Birchcliff also enters into physical delivery contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value through profit or loss.

At December 31, 2022 the Corporation had the following physical delivery contract in place:

Product	Type of Contract	Quantity	Remaining Term	Contract Price
Natural gas	AECO 7A basis swap(1)	5,000 MMBtu/d	Jan. 1, 2023 – Dec. 31, 2023	NYMEX HH less US$1.205/MMBtu

(1) Birchcliff sold AECO basis swap.

There were no physical delivery contracts entered into subsequent to December 31, 2022.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation's Credit Facilities are exposed to interest rate risk. The remainder of Birchcliff's financial assets and liabilities are not directly exposed to interest rate risk.

At December 31, 2022, Birchcliff had the following financial derivative contracts in place in order to manage interest rate risk:

Type of Contract	Index	Remaining Term[1]	Notional Amount ($million)	Fixed Rate (%)	Fair Value Asset ($000s)
Interest rate swap	One-month banker's acceptance – CDOR[2]	Jan. 1, 2023 – Mar. 1, 2024	350	2.215	10,077

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

(2) Canadian Dollar Offered Rate ("**CDOR**").

At December 31, 2022, if the one-month banker's acceptance CDOR index changed by 0.10%, with all other variables held constant, after-tax net income in 2022 would have changed by approximately $0.3 million. There were no financial derivative contracts entered into subsequent to December 31, 2022 to manage interest rate risk.

Foreign Currency Risk

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The exchange rate effect cannot be quantified but generally an increase in the value of the CDN dollar as compared to the US dollar will reduce the CDN dollar prices received by Birchcliff for its P&NG sales. The Corporation had no long-term forward exchange rate contracts in place as at or during the year ended December 31, 2022.

Realized and Unrealized Gains and Losses on Financial Instruments

The following table provides a summary of the realized and unrealized gains and losses on financial instruments:

Years ended December 31, *($000s)*	**2022**	**2021**
Realized gain (loss)	80,742	(21,451)
Unrealized gain	131,042	84,242

The fair value asset of the Corporation's financial instruments at December 31, 2022 was $47.2 million as compared to a fair value liability of $83.8 million at December 31, 2021.

Fair Value of Financial Instruments

Birchcliff's financial instruments include cash, accounts receivable, deposits, investment in securities, accounts payable and accrued liabilities, financial derivative contracts, outstanding revolving term credit facilities and capital securities. Substantially all of Birchcliff's financial instruments are transacted in active markets. Financial instruments carried at fair value are assessed using the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The carrying value and fair value of the Corporation's financial assets and liabilities at December 31, 2022 are set forth below:

($000s)	Carrying Value	Fair Value
Loans and receivables:		
Cash	74	74
Accounts receivable	125,005	125,005
Deposits	8,874	8,874
Investments(1)	10,961	10,961
Financial derivatives(2)	47,248	47,248
Other liabilities:		
Accounts payable and accrued liabilities	143,787	143,787
Drawn revolving term credit facilities	135,522	135,522

(1) Investments are fair valued based on level 3.

(2) Financial derivative contracts are fair valued based on level 2.

19. COMMITMENTS AND CONTINGENCIES

The Corporation enters into contracts and commitments in the normal course of operations. The following table lists Birchcliff's commitments at December 31, 2022:

($000s)	2023	2024	2025 - 2027	Thereafter
Operating commitments(1)	2,078	2,078	6,234	173
Capital commitments(2)	1,448	-	-	-
Firm transportation and fractionation(3)	155,901	151,929	336,324	85,754
Natural gas processing(4)	19,327	19,380	55,625	85,869
Commitments	**178,754**	**173,387**	**398,183**	**171,796**

(1) Includes variable operating components associated with Birchcliff's head office premises.

(2) Includes drilling commitments.

(3) Includes firm transportation service arrangements and fractionation commitments with third parties.

(4) Includes natural gas processing commitments at third-party facilities.

The Corporation may be involved in litigation and disputes arising in the normal course of operations. Management is of the opinion that any potential litigation will not have a material adverse impact on the Corporation's financial position or results of operations at December 31, 2022.

20. SUPPLEMENTARY CASH FLOW INFORMATION

Years ended December 31, *($000s)*	2022	2021
Provided by (used in):		
Accounts receivable	(32,591)	(27,723)
Prepaid expenses and deposits	(6,408)	(3,555)
Accounts payable and accrued liabilities	47,051	(771)
Dividend tax	(2,067)	(2,762)
	5,985	**(34,811)**
Provided by (used in):		
Operating	(25,662)	(21,161)
Investing	31,647	(13,650)
	5,985	**(34,811)**