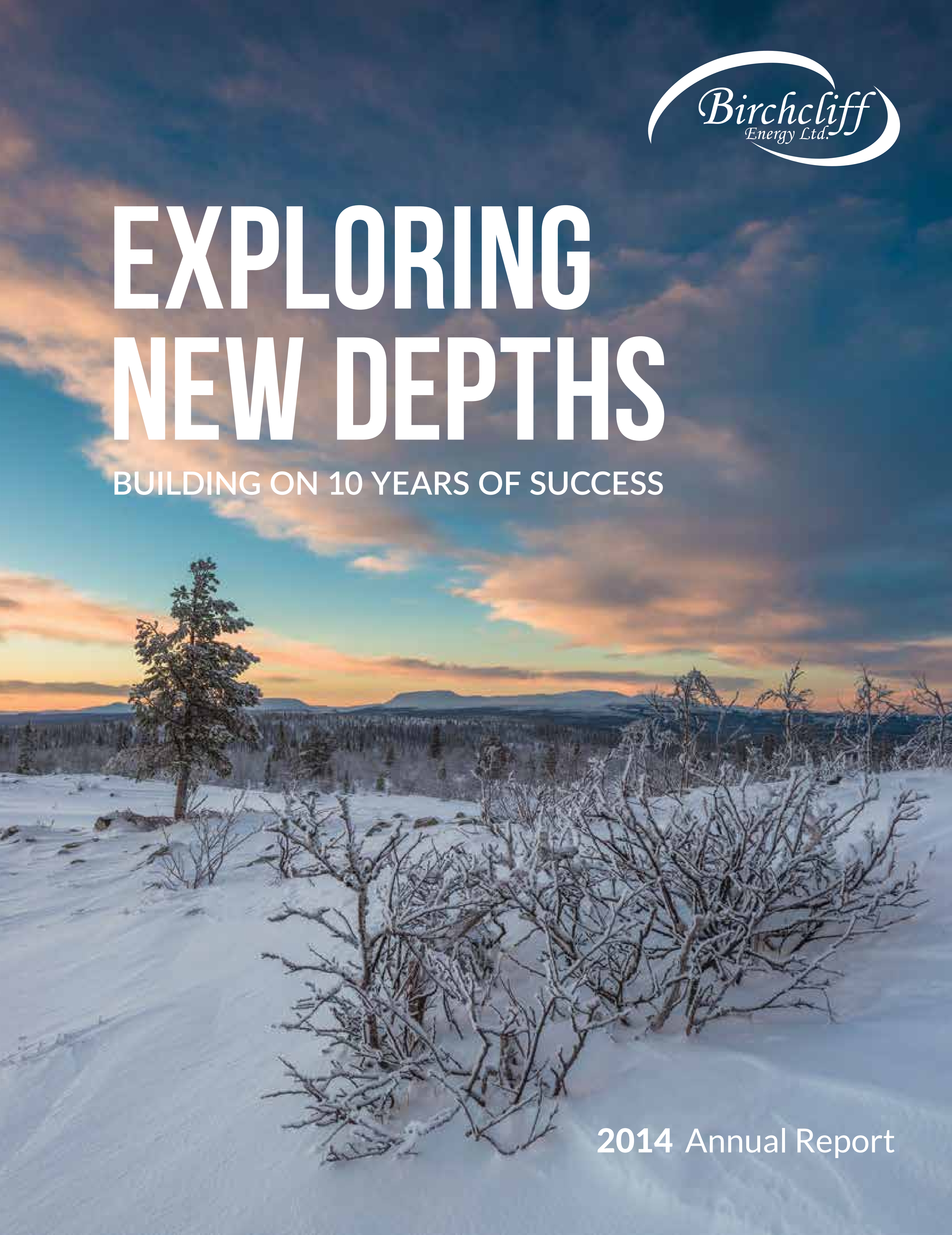
Birchcliff Energy Ltd.

EXPLORING NEW DEPTHS

BUILDING ON 10 YEARS OF SUCCESS



2014 Annual Report

Financial and Operational Highlights

	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	**2014**	2013
OPERATING				
Average daily production				
Light oil – *(barrels)*	3,957	4,227	3,957	4,030
Natural gas – *(thousands of cubic feet)*	192,499	138,132	169,852	125,712
NGLs – *(barrels)*	1,664	1,142	1,469	847
Total – barrels of oil equivalent *(6:1)*(1)	**37,704**	28,391	**33,734**	25,829
Average sales price *($ CDN)*(2)				
Light oil – *(per barrel)*	71.87	81.52	92.39	89.89
Natural gas – *(per thousand cubic feet)*	3.91	3.81	4.74	3.41
NGLs – *(per barrel)*	66.10	85.45	85.13	88.45
Total – barrels of oil equivalent *(6:1)*(1)	**30.43**	34.10	**38.39**	33.52
NETBACK AND COST *($ per barrel of oil equivalent at 6:1)*(1)				
Petroleum and natural gas revenue(2)	30.44	34.11	38.41	33.59
Royalty expense	(1.84)	(2.68)	(2.99)	(2.92)
Operating expense	(5.33)	(5.44)	(5.22)	(5.68)
Transportation and marketing expense	(2.39)	(2.52)	(2.43)	(2.46)
Netback(3)	**20.88**	23.47	**27.77**	22.53
General & administrative expense, net	(2.02)	(2.54)	(1.81)	(2.19)
Interest expense	(1.42)	(1.77)	(1.57)	(2.28)
Other Income	-	-	-	0.44
Realized gain on financial instruments	0.35	-	0.01	-
Funds flow netback(3)	**17.79**	19.16	**24.40**	18.50
Stock-based compensation expense, net	(0.26)	(0.37)	(0.39)	(0.43)
Depletion and depreciation expense	(11.17)	(11.70)	(11.07)	(11.54)
Accretion expense	(0.16)	(0.24)	(0.20)	(0.23)
Amortization of deferred financing fees	(0.06)	(0.10)	(0.08)	(0.09)
Gain on sale of assets	0.91	12.93	0.26	3.58
Unrealized gain (loss) on financial instruments	0.05	(0.15)	0.03	(0.04)
Dividends on Series C preferred shares	(0.25)	(0.33)	(0.28)	(0.20)
Income tax expense	(1.93)	(5.01)	(3.39)	(2.61)
Net income	**4.92**	14.19	**9.28**	6.94
Dividends on Series A preferred shares	(0.29)	(0.38)	(0.32)	(0.43)
Net income to common shareholders	**4.63**	13.81	**8.96**	6.51
FINANCIAL				
Petroleum and natural gas revenue *($000s)*(2)	105,598	89,092	472,888	316,637
Funds flow from operations *($000s)*(3)	61,717	50,060	300,498	174,361
Per common share – basic *($)*(3)	0.41	0.35	2.03	1.22
Per common share – diluted *($)*(3)	0.40	0.34	1.97	1.20
Net income *($000s)*	17,053	37,062	114,304	65,417
Net income to common shareholders *($000s)*	16,053	36,062	110,304	61,417
Per common share – basic *($)*	0.11	0.25	0.75	0.43
Per common share – diluted *($)*	0.10	0.25	0.72	0.42
Common shares outstanding *(000s)*				
End of period – basic	152,214	143,677	152,214	143,677
End of period – diluted	166,302	163,548	166,302	163,548
Weighted average common shares for period – basic	152,183	143,063	147,764	142,422
Weighted average common shares for period – diluted	155,304	145,319	152,243	145,006
Dividends on Series A preferred shares *($000s)*	1,000	1,000	4,000	4,000
Dividends on Series C preferred shares *($000s)*	875	875	3,500	1,913
Capital expenditures, net *($000s)*	109,682	18,188	450,932	215,770
Long-term bank debt *($000s)*	469,033	393,967	469,033	393,967
Adj. working capital deficit *($000s)*(3)	76,712	60,071	76,712	60,071
Total debt *($000s)*(3)	545,745	454,038	545,745	454,038

(1) See "*Advisories*" in this Annual Report.

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

(3) See "*Non-GAAP Measures*" in the Management's Discussion and Analysis and "*Advisories*" in this Annual Report.

Table of Contents

Birchcliff Energy Ltd. is a Calgary, Alberta based intermediate oil and gas company with operations concentrated within one core area, the Peace River Arch of Alberta.

Our strategy is to continue to develop and expand our two existing and very large resource plays in the Peace River Arch, the Montney/Doig Natural Gas Resource Play and the Charlie Lake Light Oil Resource Play, while maintaining low capital costs and operating costs. These resource plays are large enough to provide Birchcliff with a large inventory of repeatable and consistent, low-cost and low-risk profitable drilling opportunities that will provide production and reserves growth for many years.

Birchcliff's common shares are listed on the TSX under the symbol BIR and are included in the S&P/TSX Composite Index. Birchcliff's Series A and Series C Preferred Shares are listed for trading on the TSX under the symbols BIR.PR.A and BIR.PR.C, respectively.

At March 18, 2015, Birchcliff had an enterprise value of approximately $1.75 billion.

BY THE NUMBERS

94% Average working interest in undeveloped land

99% Operated production

99% New drilling initiated and controlled

159 (158.9 NET) Horizontal natural gas wells drilled on the Montney/Doig Natural Gas Resource Play

Message to Shareholders

Dear Fellow Shareholder,

By all measures, 2014 was an exceptional year. Average production in December of 2014 was 40,500 boe/d which exceeded our exit guidance of 40,000 boe/d. Fourth quarter average production was 37,704 boe/d. Average annual production was 33,734 boe/d, a 31% increase from 2013.

Record funds flow was $300.5 million, a 72% increase from 2013 ($2.03 per basic common share). Net income was $114.3 million, a 75% increase from 2013. 2014 operating costs decreased by 8% to $5.22 per boe and our general and administrative costs decreased by 17% to $1.81 per boe, both compared to 2013. In addition, we had four material exploration successes, three on our Montney/Doig Natural Gas Resource Play and one on our Charlie Lake Light Oil Resource Play. We successfully increased the processing capacity of our natural gas plant in the Pouce Coupe South area (the "**PCS Gas Plant**") to 180 MMcf/d, on budget and on time.

Birchcliff achieved drilling and exploration success in the Montney D4 interval of the Montney/Doig Natural Gas Resource Play, adding approximately 1,100 potential future horizontal Montney/Doig Natural Gas drilling locations in our core area where we own and control the infrastructure. In total, Birchcliff has 3,346 potential net future horizontal drilling locations as at December 31, 2014.

The Elmworth area has emerged as a significant future growth area with exploration success in the Montney D4.

In addition, we had recent exploration success in a new interval, the Montney C interval, which is in the heart of our development area in Pouce Coupe. The early results from this well are encouraging.

Further, we have had recent exploration success with the discovery of a new Charlie Lake Light Oil Resource Play in the Progress area, immediately east of Pouce Coupe, where Birchcliff has a material contiguous land block of 25.8 net sections. This has positioned Birchcliff with a significant inventory of potential future light oil drilling locations.

The number of potential future drilling opportunities in the Peace River Arch, where we own and control infrastructure, has materially grown and with that, so has our confidence in the long-term growth and sustainability of Birchcliff.

We achieved these successes while posting recycle ratios of 2.2 times on our proved developed producing reserves in 2014. We have proven our business is profitable and repeatable and our execution has been on budget and on time.

We find and develop energy at a low cost, we produce it for low cost and we can be relied upon to consistently produce these results on a profitable basis in any reasonable commodity price environment.

> "Birchcliff has experienced significant natural gas production growth and reduced costs on a per boe basis, as a result of increased volumes of natural gas being processed through our PCS Gas Plant in 2014."
>
> **JEFF TONKEN,**
> PRESIDENT AND CHIEF EXECUTIVE OFFICER

Birchcliff is well positioned to withstand the recent collapse in commodity prices. Our mature base production decline rate is low. This means that we do not require as much capital to keep our production flat. Further, as a result of low finding and development costs coupled with low operating costs, we can still show annual production growth notwithstanding the most recent weak commodity price cycle.

We have a 2015 capital budget of $266.7 million that we expect will deliver 16% year-over-year average production growth in 2015, result in profitable additions to our reserves in all categories and maintain financial flexibility.

Our capital program for 2015 provides for the drilling of several wells in the Elmworth area to give us the confidence to continue the development of our lands in the area and to construct the pipelines and processing plant needed to economically handle production from the area.

Currently, we have 37% ($281 million) of available credit capacity under our existing bank facilities and we expect that the syndicate of banks will increase our credit facilities as a result of our 37% increase in Birchcliff's proved developed producing reserves. Accordingly, we have the financial flexibility required to execute our business plan, albeit at a slower pace, at a time when commodity prices are low.

As a result of operating essentially all of our production and having virtually 100% working interests and control of our infrastructure, we have the flexibility to speed up or slow down our capital expenditures very quickly. This operational flexibility becomes very important when commodity prices change quickly and as result, we can continue to maintain financial flexibility at all times.

We remain focused on our strategy, growth by the drill bit, in our core area of the Peace River Arch of Alberta. We continue to use the same services, in the same area, directed by the same experienced Birchcliff personnel, which provides consistency, repeatability and reliability in our operations.

We will continue to execute on our long-term business plan, although at a slower pace, notwithstanding the currently difficult commodity price environment.

We thank Mr. Seymour Schulich, our largest shareholder, for his advice, unwavering commitment and his ongoing financial support. Mr. Schulich holds 40 million common shares representing 26.3% of the current issued and outstanding common shares.

On behalf of our Management Team and Directors, I thank all of our staff for their hard work and dedication to the achievement of our corporate goals. Thank you to all of our shareholders for their continued support and trust in all of us at Birchcliff.

We look forward to another excellent year.

A. Jeffery Tonken,

President and Chief Executive Officer

March 18, 2015

Executive Team

Drawing on extensive backgrounds in the energy sector, our executive team brings a rich portfolio of skills and a deep body of experience to Birchcliff's business operations.

MYLES BOSMAN,
VICE-PRESIDENT, EXPLORATION
AND CHIEF OPERATING OFFICER

BRUNO GEREMIA,
VICE-PRESIDENT AND
CHIEF FINANCIAL OFFICER

JEFF TONKEN,
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

This hands-on team collectively drives our day-to-day pursuit of operational excellence while identifying and pursuing responsible growth opportunities to ensure we continue to thrive. Deeply invested in our success and unified by a genuine sense of camaraderie, our team works together seamlessly to provide strategic direction and guidance that ultimately provides long-term value for our shareholders.

The true testament to the cohesiveness of our senior team is the fact that the majority of the team have been together for the 10 years Birchcliff has been operating.

DAVE HUMPHREYS, VICE-PRESIDENT, OPERATIONS

JIM SURBEY, VICE-PRESIDENT, CORPORATE DEVELOPMENT

CHRIS CARLSEN, VICE-PRESIDENT, ENGINEERING

10 Year Highlights

The year 2014 marked Birchcliff's 10th year in the business of finding, developing and producing oil and natural gas in the Peace River Arch. In aggregate, Birchcliff has invested approximately $2.5 billion in capital, primarily in the Montney/Doig Natural Gas Resource Play and the Charlie Lake Light Oil Resource Play. These investments have generated $2.2 billion in revenue, paid $243 million in royalties to Albertans, delivered $1.2 billion in funds flow from operations and generated $268 million in net earnings. As of December 31, 2014, the net present value of Birchcliff's proved plus probable reserves (at a 10% discount rate) is $3.8 billion as estimated by Deloitte, our independent reserves evaluator.

THE FOLLOWING DESCRIBES THE TIMELINE OF MAJOR EVENTS OVER THE LAST 10 YEARS:

JULY 6, 2004
Birchcliff incorporated as a private corporation

JANUARY 18, 2005
Completed equity financing of $60 million

JANUARY 19, 2005
Common shares commenced trading on the TSX Venture Exchange

FEBRUARY 6, 2005
Rig released first Montney/Doig vertical exploration gas well drilled by Birchcliff in the Pouce Coupe area

MAY 31, 2005
Completed acquisition of properties in the Peace River Arch for $242.8 million

JULY 21, 2005
Common shares commenced trading on the TSX

SEPTEMBER 22, 2007
Rig released first Montney/Doig horizontal natural gas well drilled by Birchcliff in the Pouce Coupe area

SEPTEMBER 27, 2007
Completed acquisition of the Worsley Property for $270 million

MARCH 4, 2008
Rig released first Charlie Lake horizontal light oil well drilled by Birchcliff in the Worsley area

MARCH 20, 2010
Phase I of the PCS Gas Plant commenced operations with a processing capacity of 30 MMcf/d

NOVEMBER 2, 2010
Phase II of the PCS Gas Plant commenced operations with a combined processing capacity of 60 MMcf/d

OCTOBER 2, 2012
Phase III of the PCS Gas Plant commenced operations with a combined processing capacity of 150 MMcf/d

SEPTEMBER 1, 2014
Completed construction of Phase IV of the PCS Gas Plant with a combined processing capacity of 180 MMcf/d

DECEMBER 31, 2014
159 (158.9 net) Montney/Doig Horizontal Natural Gas Wells drilled to date

On February 6, 2005, we rig released our first Montney/Doig vertical exploration well. The success of this well was the basis of an aggressive development plan for the Pouce Coupe area.

In May 2005, we acquired a significant land position on the Montney/Doig Natural Gas Resource Play. From 2005 to the end of 2007, we drilled 22 (19.5 net) vertical wells, exploring and delineating the areal extent of the Montney/Doig Natural Gas Resource Play which allowed us to high grade further lands for acquisition and to focus our development plan. In late 2007, we drilled, cased, completed and brought on production our first 100% working interest Montney/Doig horizontal natural gas well utilizing multi-stage fracture stimulation technology in Birchcliff's Pouce Coupe area. In 2008, we began full scale exploration, exploitation and development utilizing horizontal drilling and multi-stage fracture stimulation technology on the Montney/Doig Natural Gas Resource Play.

In 2010, we began executing on what would become our "build & fill" strategy for the next five years. During 2010, we constructed Phase I and Phase II of our PCS Gas Plant with 60 MMcf/d of natural gas processing capacity and we filled it with natural gas from our Montney/Doig horizontal wells. In 2012, processing capacity at the PCS Gas Plant was increased to 150 MMcf/d (Phase III) and to 180 MMcf/d in 2014 (Phase IV). We have been executing on this "build & fill" strategy for five years and the results speak for themselves. With our knowledge and expertise along with our high quality asset base, we are confident we will continue to execute on our long-term business plan of growing to 100,000 boe/d.

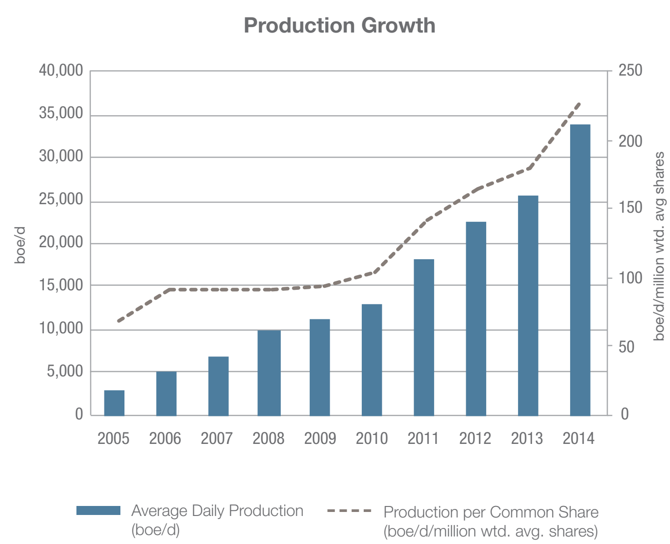
Over our 10 years of focused multi-disciplined efforts on the Montney/Doig Natural Gas Resource Play, we have learned a great deal about this complex reservoir and how to optimally drill, case, complete and produce horizontal wells utilizing multi-stage fracture stimulation technology. We have continued to improve our results by reducing our costs and increasing our production and reserves per well.

As of December 31, 2014, Birchcliff has invested over $1.7 billion in the Montney/Doig Natural Gas Resource Play which has proven to deliver multi-stacked pay zones with significant future drilling opportunities on our extensive land base. As of December 31, 2014, Birchcliff has drilled 159 (158.9 net) Montney/Doig horizontal natural gas wells and has constructed the PCS Gas Plant capable of processing 180 MMcf/d.

In regards to the Charlie Lake Light Oil Resource Play, we entered this resource play through the acquisition of the Worsley Property in September 2007. Birchcliff has been growing the Worsley Property since its acquisition through development and exploitation drilling and expanding the water flood area. Our operations to date have successfully increased both the original oil in place and the reserves for the pool. In March 2008, we drilled our first horizontal well utilizing multi-stage fracture stimulation technology; it was very successful. An important initiative for Birchcliff has been to explore and expand the Charlie Lake Light Oil Resource Play. We drilled our first Charlie Lake exploration horizontal well in the Progress area in the fourth quarter of 2014. The well was drilled, cased and completed utilizing recent advancements in multi-stage fracture stimulation technology and was very successful.

SIGNIFICANT PRODUCTION GROWTH

Birchcliff strives to deliver significant low-cost production growth from our resource plays. The chart below highlights Birchcliff's average annual daily production and production per common share growth for the last 10 years.



In 2014, Birchcliff's average daily production was 33,734 boe/d compared to 2,793 boe/d in 2005, a compounded annual growth rate of 32% per year during those 10 years. Montney/Doig production processed at the PCS Gas Plant was approximately 23,200 boe/d or 69% of corporate production in 2014.

Since Birchcliff began processing natural gas at the PCS Gas Plant in 2010, annual production and production per common share have increased 25% per year and 19% per year, respectively, on average over the last five years.

159 (158.9 NET)

Montney/Doig horizontal natural gas wells drilled since 2007

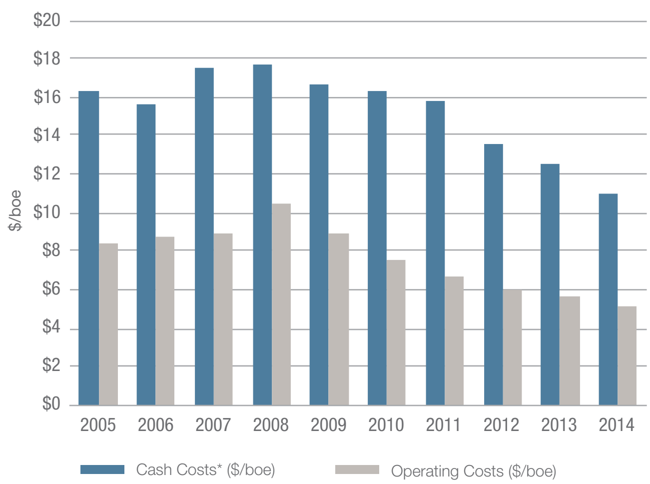
$2.52

per boe is the average operating costs in 2014 for Montney/Doig production processed at the PCS Gas Plant

PROFITABLE LOW-COST NATURAL GAS PRODUCER

Birchcliff's goal is to be one of the most profitable natural gas producers in Western Canada, with a focus on optimizing reserves and driving down cash costs. The chart below highlights operating costs and cash costs, each on a per boe basis, for the last 10 years.

Operating Costs and Cash Costs* per boe



*Includes operating, transportation and marketing, general and administrative and interest.

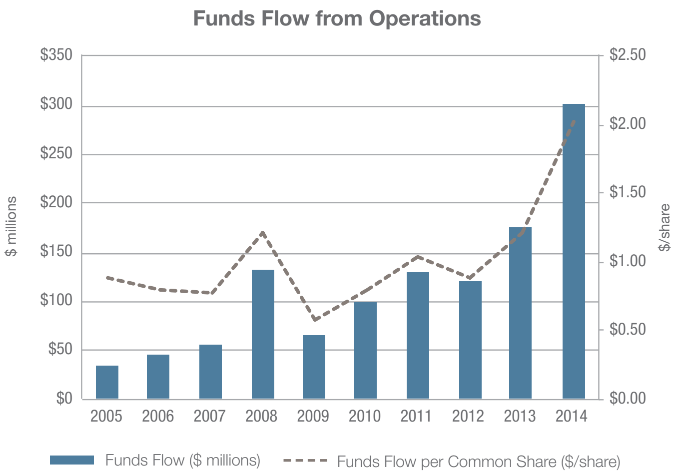
Since 2008, Birchcliff's operating costs per boe and cash costs per boe (comprised of operating, transportation and marketing, general and administrative and interest) have been declining year-over-year largely due to the horizontal drilling success on the Montney/Doig Natural Gas Resource Play (which commenced in late 2007) and the benefits achieved from processing our natural gas at the PCS Gas Plant which began operations in early 2010.

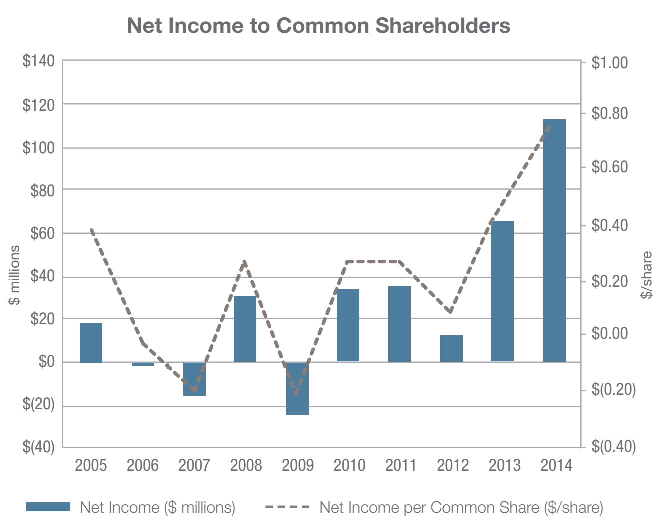
On a per boe basis, operating costs and cash costs have decreased by 50% and 37% to $5.22 and $11.03, respectively, in 2014 compared to $10.41 and $17.62, respectively, in 2008. On average over the last six years, operating costs per boe and cash costs per boe have decreased 11% per year and 8% per year, respectively.

In 2014, operating costs averaged approximately $2.52 per boe for Montney/Doig production processed at the PCS Gas Plant (representing 69% of corporate production) and averaged $5.22 per boe on a corporate basis.

FOCUS ON PROFITABILITY

Birchcliff has focused on delivering profitable production growth to our shareholders. The charts below highlight funds flow from operations and net income to common shareholders for the last 10 years.





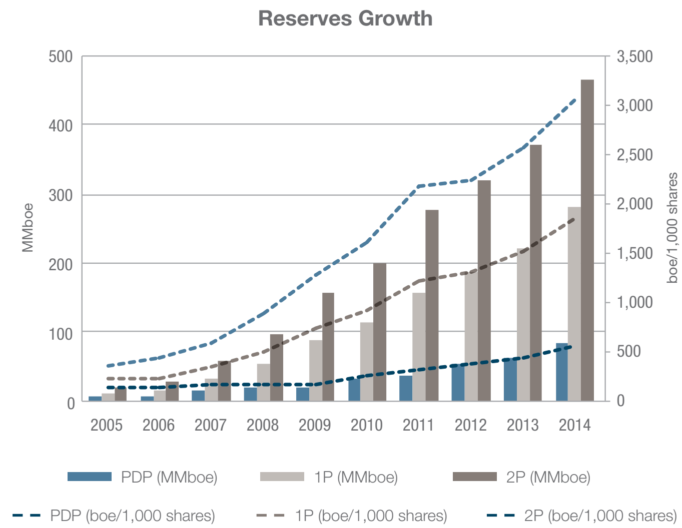
Processing Montney/Doig natural gas at our low-cost PCS Gas Plant has significantly improved Birchcliff's operating margin, resulting in material funds flow and net income to common shareholders. During the last five years, the estimated annual operating margin at the PCS Gas Plant ranged between 76% and 81%, in a period when the annual AECO natural gas spot price averaged between $2.39 per Mcf and $4.50 per Mcf.

On average over the last five years, funds flow and funds flow per common share grew 35% per year and 29% per year, respectively.

2014 marks the fifth consecutive year of net earnings which coincides with the period during which Birchcliff's PCS Gas Plant was operational.

SIGNIFICANT RESERVES GROWTH

Birchcliff has added significant low-cost reserves over the last 10 years of operations. The chart below highlights the growth in reserves and reserves per common share for the last 10 years.



As of December 31, 2014, our independent reserves evaluator estimated that we had 84.7 MMboe of PDP reserves, 282.3 MMboe of 1P reserves and 465.0 MMboe of 2P reserves, representing a compounded annual growth rate of 29%, 41% and 41% per year, respectively, during the 10 year period. PDP reserves made up 18% of 2P reserves at the end of 2014.

On a per common share basis, PDP, 1P and 2P reserves grew 16% per year, 26% per year and 27% per year, respectively, during the last 10 years.

Birchcliff's PDP reserves per common share have increased 27% per year on average over the last five years, coinciding with the period during which the PCS Gas Plant was operational.

TOP–TIER INDUSTRY PERFORMANCE METRICS

Birchcliff has added significant reserves at low finding and development costs and has achieved top-tier industry recycle ratios, reserve replacement ratios and reserve life index indicative of our profitability. The following table highlights Birchcliff's annual performance metrics during the last five years in which the PCS Gas Plant was operational.

	5 Year Avg.	3 Year Avg.	2014	2013	2012	2011	2010
WTI Cushing *($USD/bbl)*	**$91.96**	**$95.06**	**$92.99**	$97.97	$94.21	$95.10	$79.52
AECO – C daily *($/MMbtu)*	**$3.54**	**$3.35**	**$4.50**	$3.15	$2.39	$3.63	$4.01
Proved Developed Producing							
FD&A *($/boe)*(1)	**$13.42**	**$12.64**	**$12.81**	$12.71	$12.33	$16.26	$14.63
Recycle Ratio *(FD&A)*(1)(3)	**1.8**	**1.9**	**2.2**	1.8	1.6	1.6	1.8
Reserve Replacement *(FD&A)*(1)	**255%**	**253%**	**285%**	178%	290%	220%	313%
Reserve Life *(years)*(1)(4)	**5.7**	**5.9**	**6.2**	6.0	5.6	5.4	5.1
Proved							
FD&A *($/boe)*(1)(2)	**$11.19**	**$10.49**	**$11.56**	$8.29	$10.91	$13.47	$11.12
Recycle Ratio *(FD&A)*(1)(3)	**2.2**	**2.3**	**2.4**	2.7	1.8	1.9	2.3
Reserve Replacement *(FD&A)*(1)	**564%**	**519%**	**606%**	462%	457%	737%	602%
Reserve Life *(years)*(1)(4)	**20.3**	**20.3**	**20.5**	21.2	19.1	21.6	19.1
Proved Plus Probable							
FD&A *($/boe)*(1)(2)	**$10.42**	**$10.19**	**$10.45**	$8.60	$11.56	$12.31	$8.34
Recycle Ratio *(FD&A)*(1)(3)	**2.3**	**2.3**	**2.7**	2.6	1.7	2.1	3.1
Reserve Replacement *(FD&A)*(1)	**842%**	**730%**	**871%**	655%	607%	1,222%	1,019%
Reserve Life *(years)*(1)(4)	**34.8**	**34.1**	**33.8**	35.7	32.7	38.1	33.7

(1) See "*Advisories*" in this Annual Report for details regarding calculations of FD&A, recycle ratios, reserve replacement and reserve life.
(2) Includes future development capital additions in the respective year.
(3) Based on average annual operating netback in the respective year.
(4) Based on fourth quarter average production in the respective year.

During the last five years, when the AECO natural gas spot price averaged $3.54 per Mcf, Birchcliff's PDP FD&A costs averaged $2.24 per Mcfe ($13.42 per boe) and 2P FD&A costs (including future development capital) averaged $1.74 per Mcfe ($10.42 per boe).

On average over the last five years, Birchcliff generated an operating netback recycle ratio of 1.8x and 2.3x based on PDP FD&A and 2P FD&A (including future development capital), respectively.

Cumulative PDP FD&A reserve additions in the last five years replaced 255% of production during such period and cumulative 2P FD&A reserve additions in the last five years replaced 842% of production during such period.

OVERALL SUMMARY

We have proven we can execute our business plan in both low and high commodity price environments. Our past performance metrics are over a significant number of years where we have been focused on the Montney/Doig Natural Gas Resource Play. We have an experienced and highly qualified team of professionals that have been working the same high quality asset base for the past 10 years.

Financial Performance

We have delivered profitable production growth to our shareholders since 2010. The following table highlights Birchcliff's annual profitability in the last five years (coinciding with the period during which the PCS Gas Plant was operational) after taking into account the cost to develop our proved producing reserves, total cash costs to produce our oil and natural gas and the cash distribution on preferred shares.

	5 Year Avg.	3 Year Avg.	2014	2013	2012	2011	2010
WTI Cushing *($USD/bbl)*	**$91.96**	**$95.06**	**$92.99**	$97.97	$94.21	$95.10	$79.52
AECO – C Daily *($/MMbtu)*	**$3.54**	**$3.35**	**$4.50**	$3.15	$2.39	$3.63	$4.01
P&NG Revenue[(1)] *($/Mcfe)*	**$6.03**	**$5.80**	**$6.40**	$5.59	$5.13	$6.66	$6.62
PDP FD&A[(2)] *($/Mcfe)*	**($2.24)**	**($2.11)**	**($2.14)**	($2.12)	($2.06)	($2.71)	($2.44)
Total Cash Costs[(3)] *($/Mcfe)*	**($2.75)**	**($2.53)**	**($2.34)**	($2.59)	($2.73)	($3.37)	($3.13)
Dividend Payout[(4)] *($/Mcfe)*	**($0.06)**	**($0.08)**	**($0.10)**	($0.10)	($0.03)	-	-
Profit[(5)] *($/Mcfe)*	**$0.98**	**$1.08**	**$1.82**	$0.78	$0.31	$0.58	$1.05
Profit Margin[(5)] *(%)*	**16%**	**19%**	**28%**	14%	6%	9%	16%

(1) Includes revenue from petroleum and natural gas production.
(2) Cost to develop proved developed producing reserves based on finding, developing and acquisition costs.
(3) Cost to produce is the total cash cost including royalties, operating, transportation and marketing, general and administrative and interest costs.
(4) Cash distribution on Series A and Series C Preferred Shares.
(5) See *"Advisories"* in this Annual Report.

This measure of profitability demonstrates that we can find, develop and produce for less than what we receive in revenue from our production.

In 2014, our profits have increased by 133% to $1.82 per Mcfe from $0.78 per Mcfe in 2013. This increase was primarily a result of higher realized natural gas prices and lower total cash costs in 2014 compared to 2013.

On average over the last five years the PCS Gas Plant was operational, we generated a profit of $0.98 per Mcfe (16% profit margin) when the AECO natural gas spot price averaged $3.54 per Mcf ($3.36 per GJ). In 2012, when the AECO natural gas spot price averaged $2.39 per Mcf ($2.27 per GJ), we were able to generate a profit of $0.31 per Mcfe, highlighting the low-cost nature of our asset base.

"In 2014, Birchcliff generated a profit margin of 28% after taking into account the cost to find, develop and produce our oil and natural gas and pay our preferred share dividends."

BRUNO GEREMIA,
VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER

In 2014, Birchcliff had impressive growth on a per common share basis, adding reserves at low FD&A costs and delivering top tier industry operating recycle ratios as highlighted below.

AVERAGE ANNUAL DAILY PRODUCTION

33,734

⬆ 31% FROM 25,829 BOE/D

PRODUCTION PER COMMON SHARE

⬆ 26%

FROM 2013

FUNDS FLOW PER COMMON SHARE

$2.03

⬆ 66% FROM 2013

NET INCOME PER COMMON SHARE

$0.75

⬆ 74% FROM 2013

PDP RESERVES PER COMMON SHARE

⬆ 29%

FROM 2013

PDP FD&A COSTS PER BOE

$12.81

IN 2014

PDP FD&A OPERATING RECYCLING RATIO

2.2x

⬆ 22% FROM 2013

2P FD&A COSTS PER BOE (INCL. FDC)

$10.45

IN 2014

2P FD&A OPERATING RECYCLING RATIO (INCL. FDC)

2.7x

IN 2014

OPERATING COSTS PER BOE

$5.22

⬇ 8% FROM $5.68 PER BOE IN 2013

G&A COSTS PER BOE

$1.81

⬇ 17% FROM $2.19 PER BOE IN 2013

CASH COSTS PER BOE (EXCL. ROYALTIES)

$11.03

⬇ 13% FROM $12.61 PER BOE IN 2013

Strategy

Our strategy is to continue to develop and expand our two existing and very large resource plays in the Peace River Arch while maintaining low capital costs and operating costs.

These resource plays are large enough to provide Birchcliff with a large inventory of repeatable and consistent, low-cost and low-risk profitable drilling opportunities that will provide production and reserves growth for many years.

To date, our finding costs and operating costs are some of the lowest in the industry and our strategy is to continue to seek opportunities and solutions that reduce our costs further.

Our strategy is based on our current ownership of large contiguous blocks of high working interest land in our operating areas and our 100% ownership of our major facilities and infrastructure in proximity to our drilling operations. Our land position and infrastructure ownership gives us a competitive advantage over others in our areas of operation and supports our low operating cost structure that helps us maintain profitability in a low commodity price environment.

Since starting to develop these plays in 2005, we have significantly advanced and evolved our technical and operational expertise which has improved the results of our drilling and completion operations and reduced our costs. It is a key component of our strategy that we continue to enhance our knowledge and expertise regarding drilling and completion operations on these plays.

PCS GAS PLANT

Our 100% owned and operated PCS Gas Plant is strategically situated in the heart of our Montney/Doig Natural Gas Resource Play, enabling us to process natural gas at a fraction of the costs borne by others who rely on third-party processing.

The PCS Gas Plant is the cornerstone of our strategy to develop our Montney/Doig Natural Gas Resource Play to control and expand our production and to further reduce our operating costs on a per boe basis.

The PCS Gas Plant is currently licensed to process up to 180 MMcf/d of natural gas. Engineering, procurement and fabrication work is underway for the Phase V expansion of the PCS Gas Plant which will increase processing capacity to 260 MMcf/d.

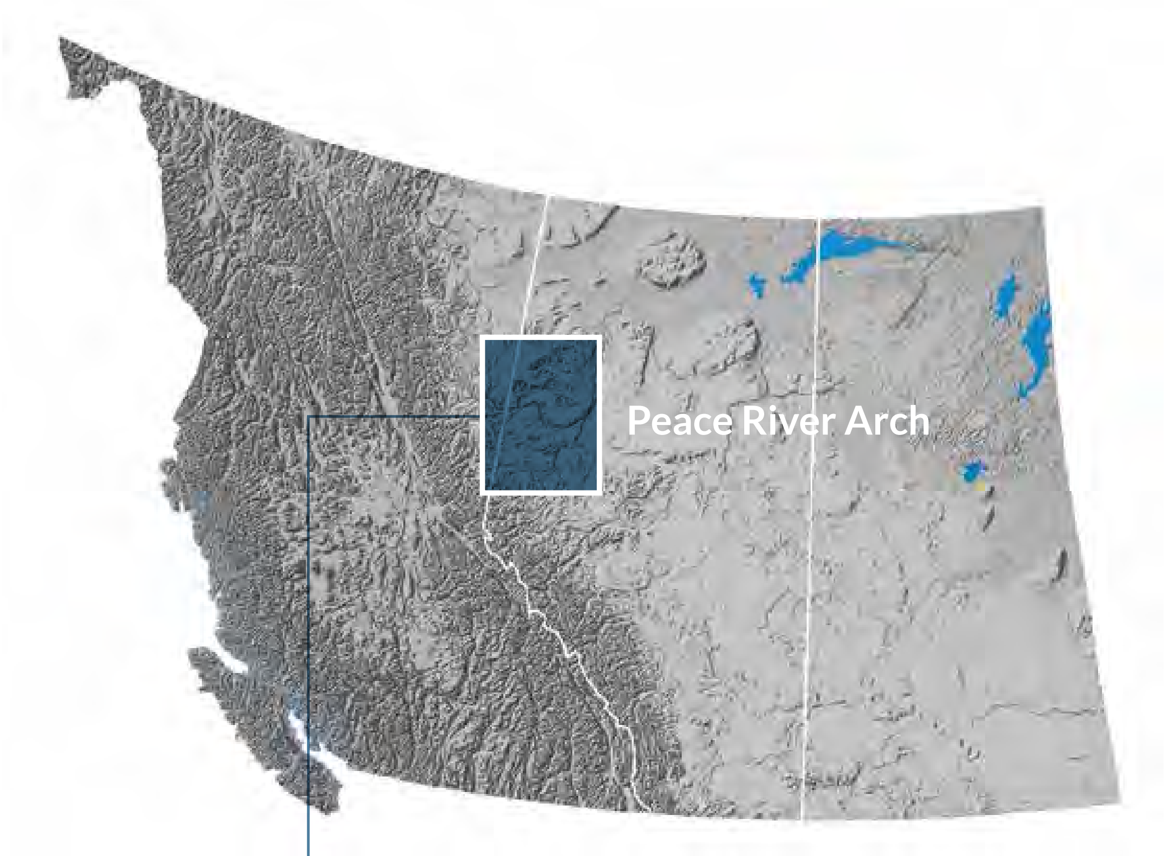
"The current low commodity price environment proves the intrinsic value of our ownership of low-cost processing facilities that maximize our netbacks."

JIM SURBEY,
VICE-PRESIDENT, CORPORATE DEVELOPMENT


Aerial view of PCS Gas Plant.

Peace River Arch

Birchcliff's operations are concentrated within our one core area, the Peace River Arch, which is centred northwest of Grande Prairie, Alberta, adjacent to the Alberta/British Columbia border. The Peace River Arch is considered by us to be one of the most desirable natural gas and light oil drilling areas in North America.



The Peace River Arch is one of the most prolific natural gas and oil producing areas of the Western Canadian Sedimentary Basin and is generally characterized by multiple horizons with a myriad of structural, stratigraphic and hydrodynamic traps. There is an abundance of prolific resource plays, related in part to the proximity of the area to the deep basin, where generation and trapping of hydrocarbons preferentially occurs. The Peace River Arch provides all-season access that allows Birchcliff to drill, equip and tie-in wells on an almost continuous basis.

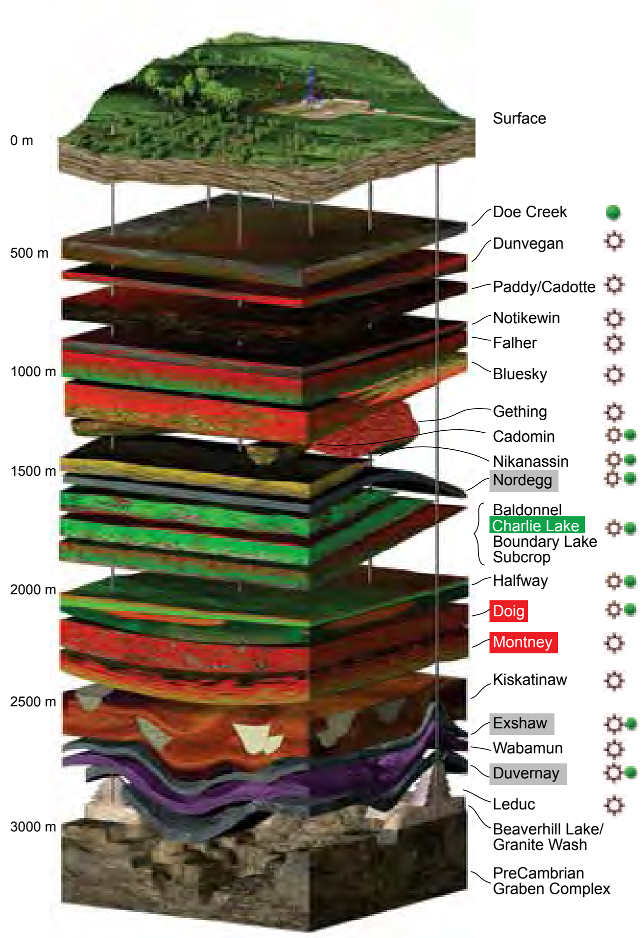
Resource Plays

ESTABLISHED RESOURCE PLAYS

Birchcliff is focused on two established resource plays within the Peace River Arch: the Montney/Doig Natural Gas Resource Play and the Charlie Lake Light Oil Resource Play.

We characterize our resource plays as plays that have regionally pervasive, continuous, low permeability hydrocarbon accumulations or systems that usually require intensive stimulation to produce. The production characteristics of these plays include steep initial declines that rapidly trend to much lower decline rates, yielding long life production and reserves. Resource plays exhibit a statistical distribution of estimated ultimate recoveries and therefore provide a repeatable distribution of drilling opportunities. As more wells are drilled into a resource play, there is a substantial decrease in both the geological and technical risks. These plays are ideally suited for the application of horizontal drilling and multi-stage fracture stimulation technology.

Stratigraphic Column and Production Zones

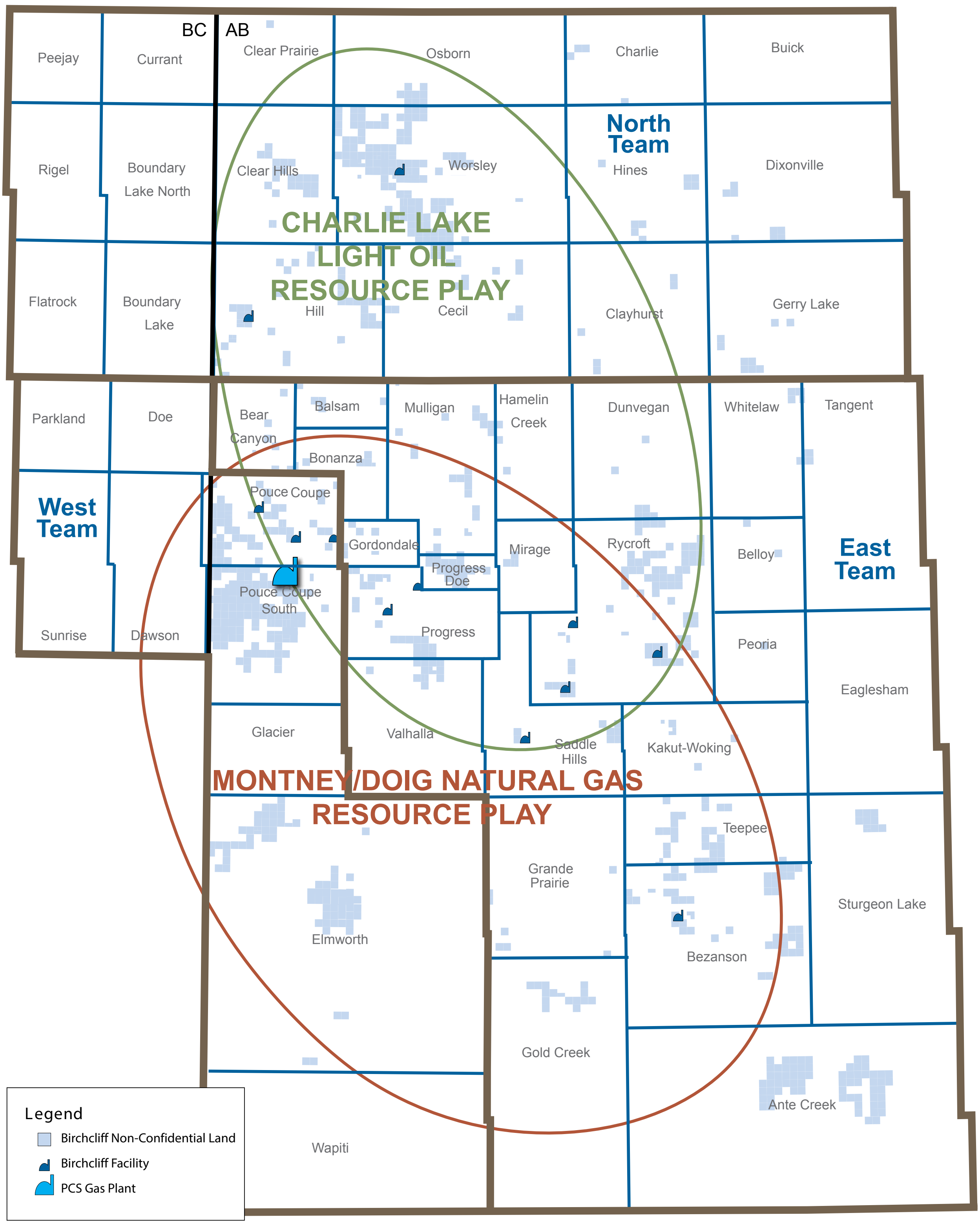


"Over our 10 years of focused multi-disciplined efforts on the Montney/Doig Natural Gas Resource Play, we have learned a great deal about this complex reservoir and how to optimally drill, case, complete and produce horizontal wells utilizing multi-stage fracture stimulation technology. We have continued to improve our results by reducing our costs and increasing our production and reserves per well."

MYLES BOSMAN,
VICE-PRESIDENT, EXPLORATION & CHIEF OPERATING OFFICER

BIRCHCLIFF OPERATIONS IN THE PEACE RIVER ARCH

On Birchcliff's two established resource plays within the Peace River Arch, the Montney/Doig Natural Gas Resource Play and the Charlie Lake Light Oil Resource Play, we utilize the expertise of three technical teams: the North Team, the West Team and the East Team.



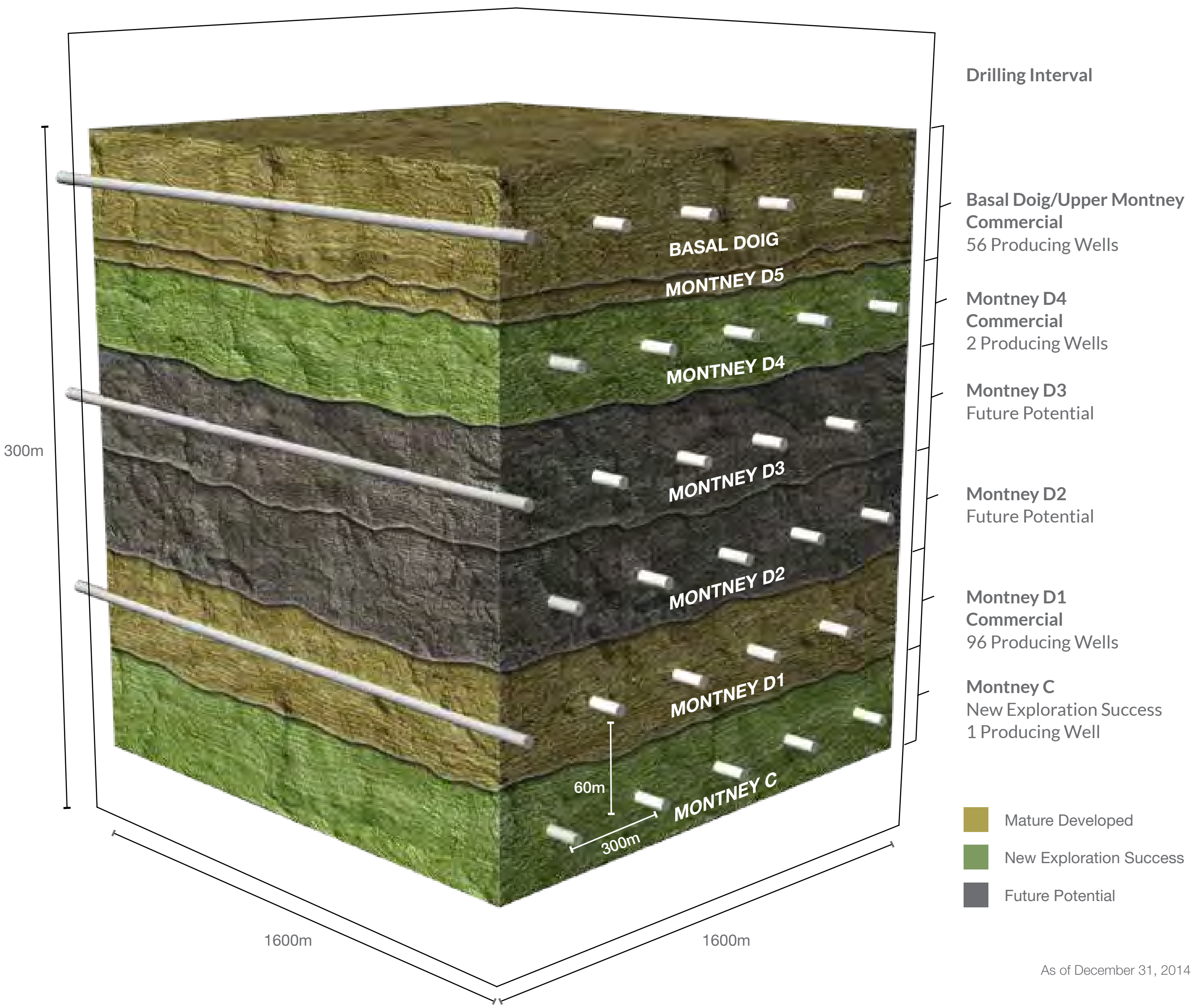
Montney/Doig Natural Gas Resource Play

Birchcliff's Montney/Doig Natural Gas Resource Play is centred approximately 95 kilometres northwest of Grande Prairie and, in the opinion of management, is one of the most sought after natural gas resource plays in North America. The Montney/Doig Natural Gas Resource Play contains six primary producing regions: Pouce Coupe, Pouce Coupe South, Glacier, Progress, Gordondale and Elmworth (which encompasses the Sinclair region and was previously described by Birchcliff as the Elmworth/Sinclair area).

The Montney/Doig Natural Gas Resource Play in the Pouce Coupe area is approximately 300 metres (1,000 feet) thick and is classified by Birchcliff as a hybrid resource play because it is comprised of gas saturated rock with both tight silt and sand reservoir rock interlayered with shale gas source rock.

The Montney/Doig Natural Gas Resource Play exists in two geological formations, the Montney formation and the Doig formation. Due to the complexity of the geology, not all of the same intervals are present in all areas of the play trend. We have divided the geologic column in our area into six drilling intervals from youngest (top) to oldest (bottom): (i) the Basal Doig/Upper Montney; (ii) the Montney D4; (iii) the Montney D3; (iv) the Montney D2; (v) the Montney D1; and (vi) the Montney C.

Birchcliff Montney/Doig Natural Gas Resource Play Full Development Plan: Hexastack



As of December 31, 2014

Prior to 2014, we drilled wells and commercialized the Basal Doig/Upper Montney interval and the Montney D1 interval. During 2014, Birchcliff drilled successful exploration horizontal natural gas wells in both the Montney D4 interval and the Montney C interval.

2014 EXPLORATION SUCCESSES

We were very successful with our exploration program in 2014 with three material discoveries on the Montney/Doig Natural Gas Resource Play, which we continue to delineate both geographically and stratigraphically.

The first exploration success was in our development area of Pouce Coupe where we drilled a successful horizontal well in a new interval of the Montney/Doig Natural Gas Resource Play in which we had not previously drilled horizontal wells. This exploration success was drilled in the Montney D4 interval and the well was brought on production in the third quarter of 2014. This well and associated future drilling locations were attributed reserves at December 31, 2014 by Deloitte. The success of this new well in the Montney D4 interval has added significant potential future drilling locations and is expected to result in follow-up drilling by Birchcliff and significant future reserves additions. The Montney D4 interval is prospective over most of our Pouce Coupe land base where we have existing infrastructure and our scalable PCS Gas Plant. This infrastructure is expected to result in development and operational efficiencies and cost savings as we develop this new Montney D4 interval.

The second exploration success on the Montney/Doig Natural Gas Resource Play was our first horizontal well drilled in our Elmworth area and it was also in the Montney D4 interval. This well was brought on production in the fourth quarter of 2014. This well and associated future drilling locations were attributed reserves at December 31, 2014 by Deloitte. The success of this new well in the Elmworth area has added significant potential future drilling locations and is expected to result in follow-up drilling by Birchcliff and significant future reserves additions. In addition, we had previously drilled three vertical stratigraphic tests in the Elmworth area that has helped delineate the potential of the Montney/Doig Natural Gas Resource Play in this area. As a result of this success in the Elmworth area, we are now planning for significant operations and future growth in this area.

The third exploration success on the Montney/Doig Natural Gas Resource Play was also in our development area of Pouce Coupe, where we drilled a successful horizontal well in a new interval for Birchcliff, the Montney C, which is the lowermost interval of the play in this area. This well and associated future drilling locations were attributed reserves at December 31, 2014 by Deloitte based on completion test data from late December 2014. The results of this new well in the Montney C interval are encouraging and are expected to result in follow-up drilling by Birchcliff and the addition of significant potential future drilling locations and significant future reserves additions. This well was brought on production in the fourth quarter of 2014 and the production profile to date is very encouraging. We hold 316.1 (306.2 net) sections of land that have potential for the Montney C interval.

2014 DRILLING AND OPERATIONAL RESULTS

Well spacing is an important consideration for the Montney/Doig Natural Gas Resource Play. While industry competitors in the Peace River Arch area have drilled up to eight horizontal wells per section, per drilled interval, using 80 acre spacing, reserve assignments by Deloitte to Birchcliff's lands on the Montney/Doig Natural Gas Resource Play are currently based on four wells per section, per drilled interval. Birchcliff's technological analysis supports reducing inter-well spacing and in the future, we expect Deloitte to assign additional future horizontal locations and reserves based on reduced inter-well spacing.

Drilling activities during 2014 on the Montney/Doig Natural Gas Resource Play consisted of 37 (37.0 net) horizontal natural gas wells and 4 (4.0 net) horizontal oil wells. All horizontal wells drilled in 2014 utilized recent advancements in multi-stage fracture stimulation technology.

In 2014, approximately 91% of our natural gas production and 28% of our oil and NGLs production came from the wells drilled on the Montney/Doig Natural Gas Resource Play. In 2014, Montney/Doig Natural Gas Resource Play production averaged 27,384 boe/d and the operating netback for this production was $24.60/boe. Average operating costs on the Montney/Doig Natural Gas Resource Play were $3.83/boe.

In 2014, we invested $11.7 million to expand and maintain our land position on the Montney/Doig Natural Gas Resource Play.

The majority of the production from the Montney/Doig Natural Gas Resource Play is processed at the 100% owned and operated PCS Gas Plant, which currently has a licensed processing capacity of 180 MMcf/d. We also process gas at the Progress gas plant operated by Canadian Natural Resources Northern Alberta Partnership, in which we have a small working interest. Other gas is delivered to the Spectra gathering system, which is processed under firm service contracts at either the Fourth Creek gas plant, the Gordondale East gas plant or the Pouce Coupe gas plant. We also have a firm service contract with AltaGas for a small volume of gas delivered to and processed at the AltaGas Pouce Coupe gas plant. Clean oil from the Progress region is trucked to a terminal located in Gordondale.

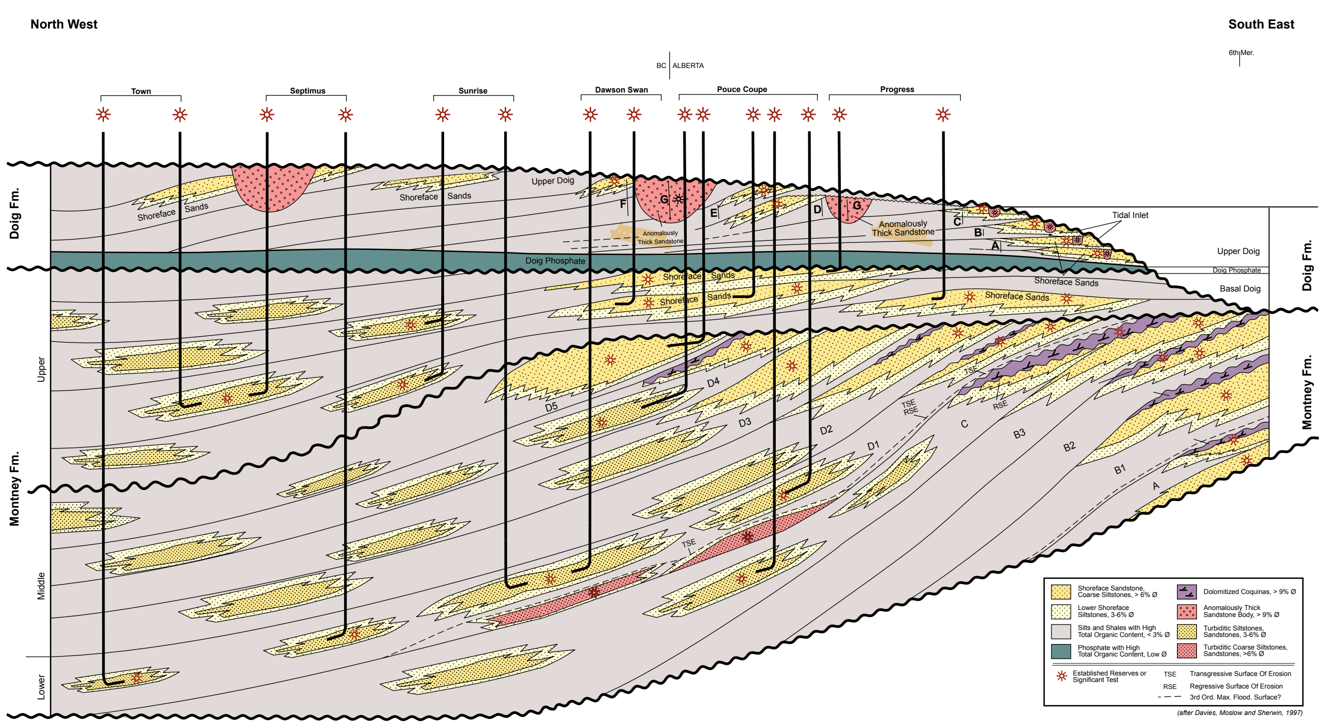
SIGNIFICANT FUTURE DRILLING OPPORTUNITIES

As at December 31, 2014, Birchcliff holds 288.6 (281.7 net) sections of land with potential for the new Montney D4 interval. With a development plan of 4 wells per section per interval, Birchcliff's two exploration successes in the Montney D4 have added 1,126.8 net potential future horizontal drilling locations. In addition, Birchcliff holds 305.1 (288.4 net) sections of land with potential for the Basal Doig/Upper Montney interval and 316.1 (306.2 net) sections which have potential for the Montney D1 interval. Birchcliff's total land holdings on these three intervals as at December 31, 2014 are 909.9 (876.3 net) sections.

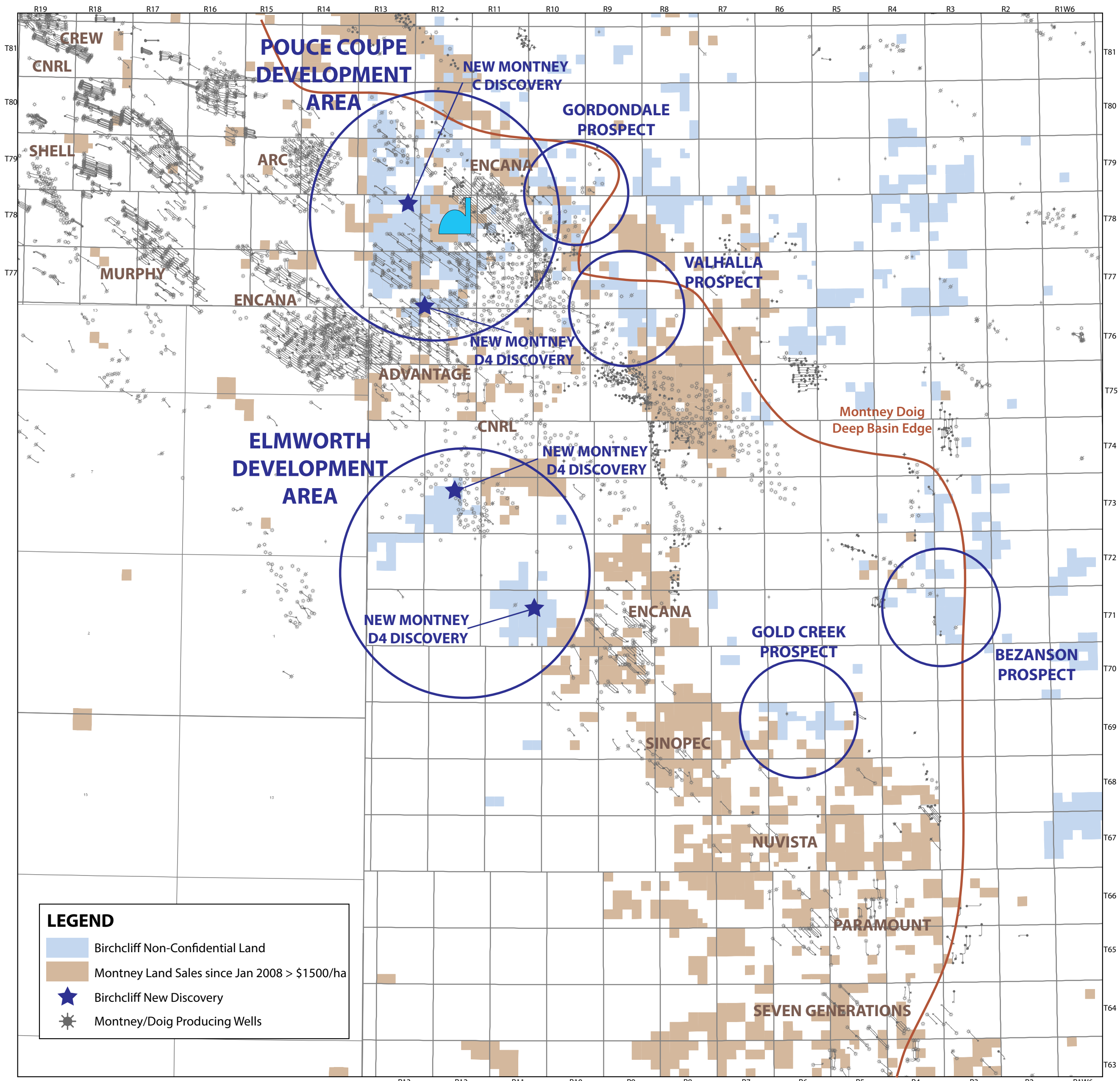
On full development of four horizontal wells per section per interval, we have 3,505.2 net existing horizontal wells and potential net future horizontal drilling locations in respect of our three commercial intervals, the Basal Doig/Upper Montney, the Montney D4 and the Montney D1 intervals. With 159 (158.9) horizontal locations drilled at the end of 2014, there remains 3,346.3 potential net future horizontal drilling locations as at December 31, 2014, up from 2,254.4 net at year-end 2013. This does not include any future horizontal drilling locations for the Montney C interval.

Substantial upside exists with respect to the 3,505.2 net existing horizontal wells and potential future horizontal drilling locations. The 2014 Reserves Evaluation has attributed proved plus probable reserves to 598.8 net existing wells and future horizontal drilling locations (of which 443.9 net wells are potential future locations). The remaining 2,906.4 net potential future horizontal drilling locations have not yet had any reserves attributed to them by Deloitte.

Montney/Doig Schematic Stratigraphic Cross-Section

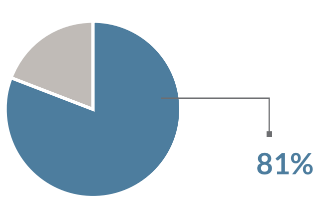


Birchcliff Development Areas and Prospects on the Montney/Doig Natural Gas Resource Play

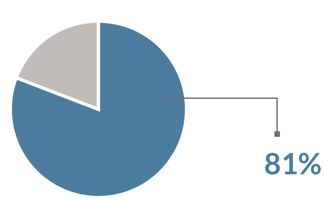


In 2014, the Montney/Doig Natural Gas Resource Play accounted for:

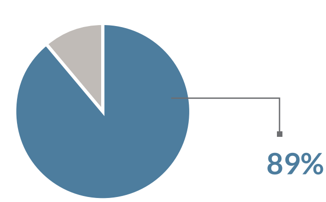
Total Corporate Exploration and Development Expenditures
(including acquisitions and dispositions)



Total Corporate Production Volumes



Total Corporate Proved Plus Probable Reserves



Charlie Lake Light Oil Resource Play

The Charlie Lake Light Oil Resource Play is described by Birchcliff as a regionally extensive variety of restricted to nearshore marine facies. The Charlie Lake reservoirs are heterogeneous and consist of varying quantities of laminated and dolomitic, silty to fine-grained sandstones. The reservoir intervals typically exhibit porosity in the order of 8 to 15 percent and net reservoir thickness of 3 to 30 metres. A critical component of the play is the main trapping mechanism being a regional hydrodynamic trap setting up a large regional hydrocarbon column.

The Charlie Lake reservoirs on the Peace River Arch were historically drilled vertically with reasonable economic results. Subsequently, various companies drilled horizontal wells in the Charlie Lake reservoirs with varying results. Birchcliff was one of the first companies to utilize multi-stage fracture stimulation technology with horizontal wells in the Charlie Lake and we have had very positive results.

Horizontal wells on the Charlie Lake Light Oil Resource Play that utilize multi-stage fracture stimulation technology are drilled to a measured depth of 2,500 to 3,500 metres and deliver initial productivity rates of 100 to 600 boe/d.

CHARLIE LAKE LIGHT OIL RESOURCE PLAY – WORSLEY AREA

We entered the Charlie Lake Light Oil Resource Play through the acquisition of the Worsley Property in September 2007. The Worsley Property is located approximately 150 kilometres north of Grande Prairie, which is in close proximity to Birchcliff's other assets. Production was approximately 3,400 boe/d, consisting of 2,580 bbls/d of 38 degrees light oil and NGLs and 4.9 MMcf/d of natural gas. The Worsley Property is characterized by large contiguous blocks of mainly 100% working interest lands containing a very large Charlie Lake light oil pool. Essentially, all of the production is operated and the related infrastructure is owned.

When Birchcliff acquired the Worsley Property in 2007, the previous operator had started a pilot water flood project. During the years of Birchcliff ownership, the water flood has been significantly expanded as the results have been very positive adding significant reserves by increasing the recovery factor.

Another important initiative of Birchcliff has been to expand and delineate the Worsley pool and we have been very successful. At December 31, 2014, Deloitte estimated that in the Worsley Charlie Lake light oil pool, Birchcliff had 40.2 MMboe proved plus probable reserves and 20.5 MMboe of proved reserves. This continues the growth trend for Birchcliff's Worsley Charlie Lake reserves since July 1, 2007 (being the effective date of the acquisition of the Worsley Property), when reserves were estimated at 15.1 MMboe on a proved plus probable basis and 11.3 MMboe on a proved basis. Both the original oil in place and the estimated reserves continue to grow.

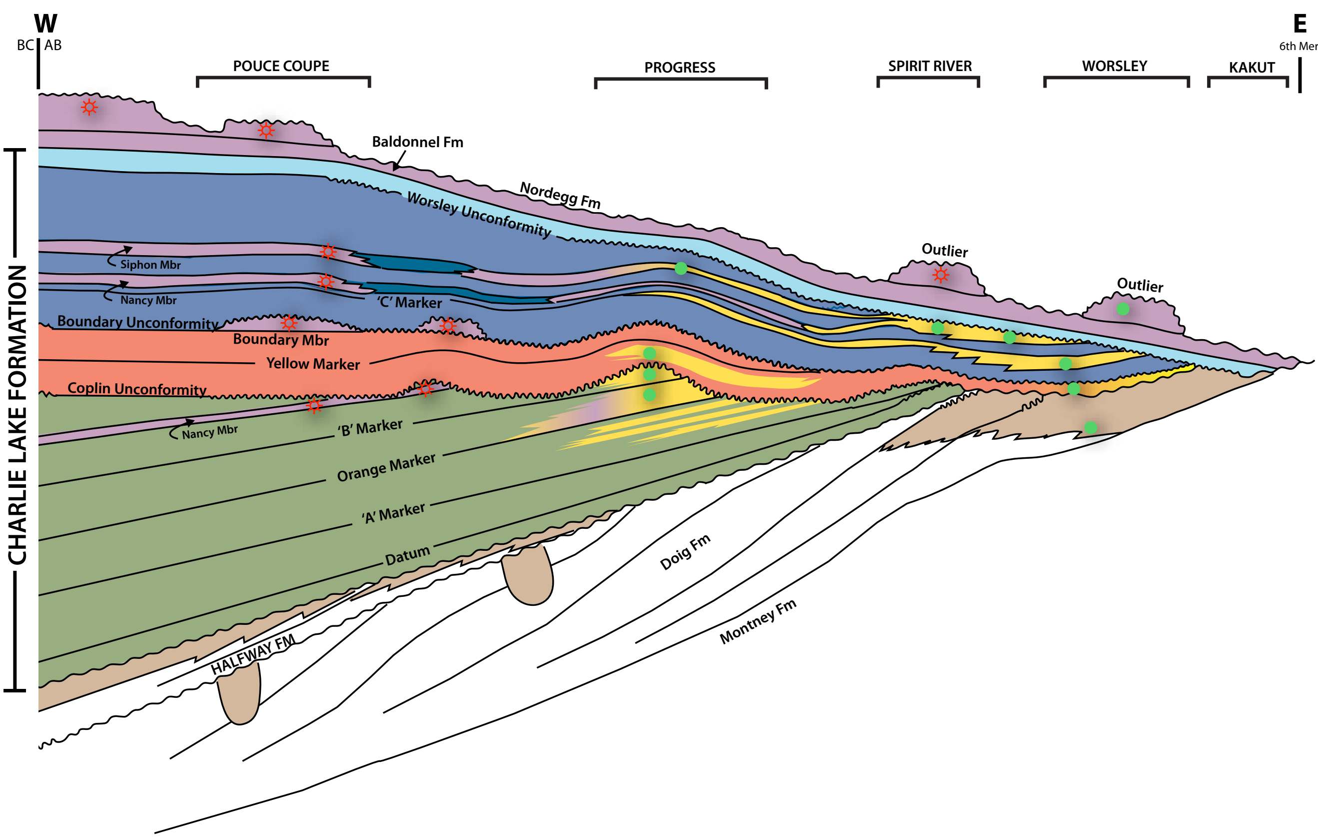
Drilling activities during 2014 on the Worsley Charlie Lake Light Oil Resource Play consisted of 11 (11.0 net) Charlie Lake horizontal oil wells, that utilized the latest advancements in multi-stage fracture stimulation technology, all of which were successful.

In 2014, 6% of our natural gas production and 62% of our oil and NGLs production came from the wells drilled on the Worsley Charlie Lake Light Oil Resource Play, with production primarily from the oil rich Charlie Lake formation. In 2014, the Worsley Charlie Lake Light Oil Resource Play production averaged 4,991 boe/d and the operating netback for this production was $45.23/boe.

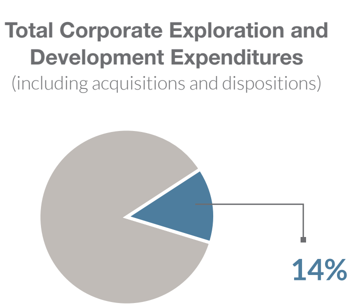
The majority of the production from the Worsley Charlie Lake Light Oil Resource Play flows through our 100% owned and operated Worsley gas plant and oil battery, which is located in the core of the Worsley area. Clean oil is trucked from the Worsley facility to truck terminals located in the towns of High Prairie, Valleyview and Gordondale, Alberta and Taylor, British Columbia, to be transported on the Pembina Peace pipeline to Edmonton.

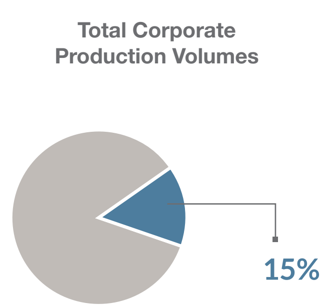
In 2014, we invested $1.0 million to expand and maintain our Worsley Charlie Lake Light Oil Resource Play land position.

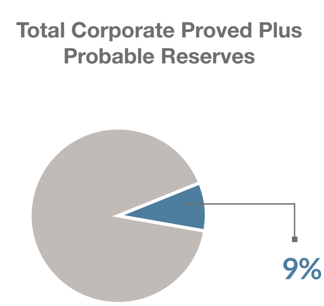
Charlie Lake Schematic Stratigraphic Cross-Section of the Peace River Arch



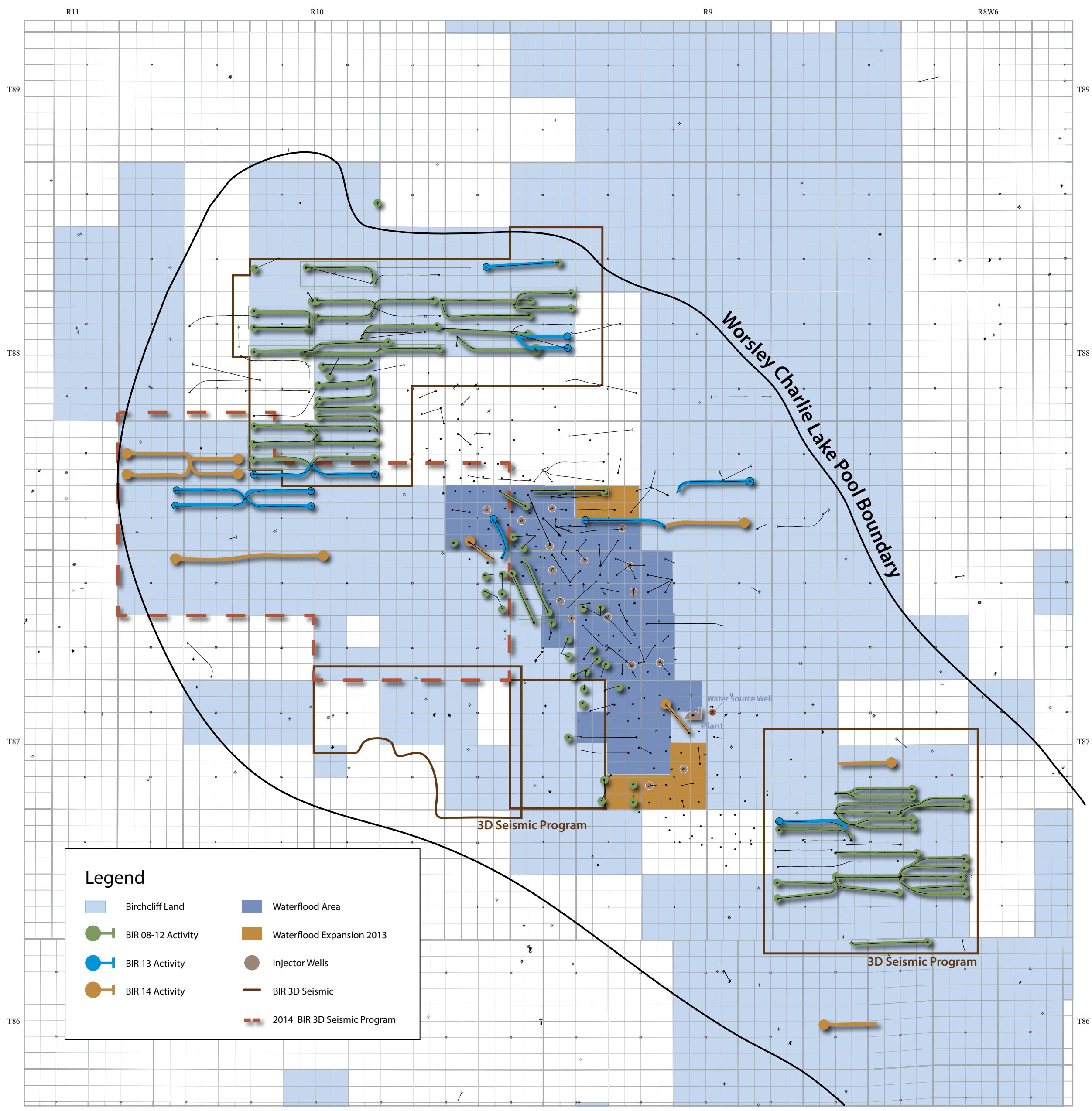
In 2014, the Worsley Charlie Lake Light Oil Resource Play accounted for:







Producing Area of the Worsley Charlie Lake Light Oil Resource Play



CHARLIE LAKE LIGHT OIL RESOURCE PLAY – PROGRESS AREA

We drilled our first Charlie Lake exploration horizontal well in the Progress area in the fourth quarter of 2014. The well was drilled, cased and completed utilizing recent advancements in multi-stage fracture stimulation technology. The well was brought on production in December of 2014 and produced at an average rate of 300 bbls/d and 1.8 MMcf/d for a total of 600 boe/d with a 35% water cut for the first 30 days of production. Birchcliff has acquired a significant contiguous land block on this project totalling 26.5 (25.75 net) sections. With the success of the well, we are currently planning a 3-D geophysical program to be acquired in the first quarter of 2015 to help delineate this exploration success.

Land Holdings

Birchcliff's undeveloped land base at December 31, 2014 was 506,621.5 (478,295.1 net) acres, with a 94% average working interest. During 2014, we added 28,810.2 (28,426.2 net) acres, or 45.0 (44.4 net) sections of undeveloped land, substantially all at 100% working interest, and all in our core area of the Peace River Arch.

Our land base primarily consists of large contiguous blocks of high working interest acreage located near facilities owned and/or operated by Birchcliff or near third-party infrastructure. Substantially all of the new land has been purchased without partners at 100% working interest.

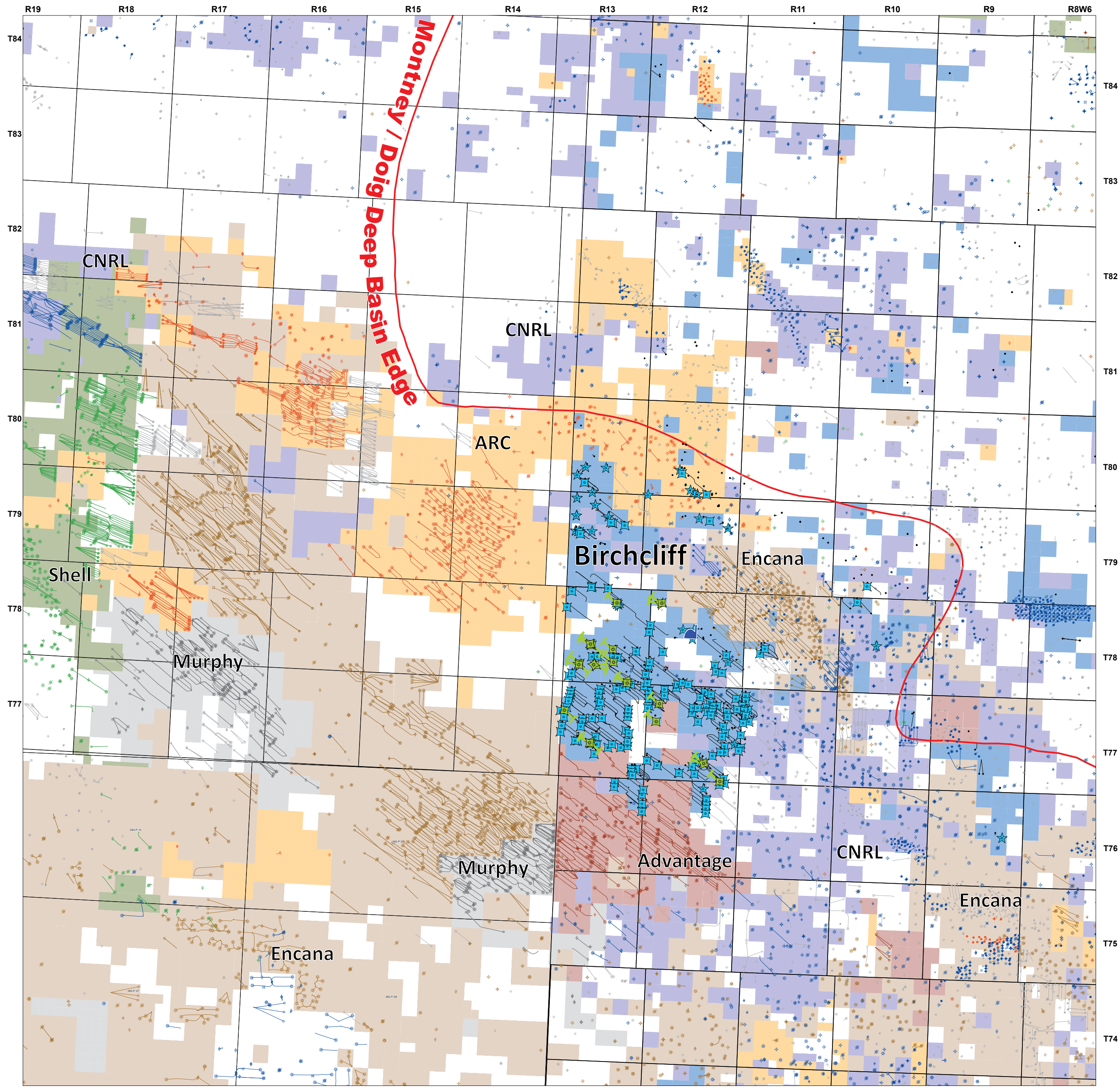
We continued to strategically add lands on our resource plays during 2014. The following table sets out Birchcliff's land holdings on the following resource plays at December 31, 2014.

Resource Play Land Holdings

	December 31, 2014		
Resource Play	*Working Interest*	*Gross (acres)*	*Net (acres)*
Montney/Doig Natural Gas Resource Play			
Basal Doig/Upper Montney Interval	94.5%	195,264	184,579
Montney D4 Interval	97.6%	184,704	180,288
Montney D1 Interval	96.9%	202,304	195,968
Montney C Interval	96.9%	202,304	195,968
Charlie Lake Light Oil Resource Play	93.7%	173,440	162,496
Duvernay Resource Play	100.0%	132,160	132,160
Nordegg Resource Play	86.6%	426,240	368,930
Banff/Exshaw Resource Play	99.3%	364,160	361,744

Our land on the Montney/Doig Natural Gas Resource Play positions us alongside industry giants. This location allows us to compete directly with key oil and gas players. We are constantly evaluating the methods utilized by industry leaders and adopting best practices to increase production growth and reserves, while keeping costs low.

Montney/Doig Natural Gas Resource Play Competitor Activity Map(1)



Montney Producing Wells

- Birchcliff
- Birchcliff 2015
- Montney Producers
- Montney Horizontal Producers
- Encana
- Murphy
- ARC
- Shell
- CNRL
- Advantage

LAND LEGEND

- Birchcliff Non-Confidential
- Encana
- Murphy
- ARC
- Shell
- CNRL
- Advantage

(1) The Birchcliff lands presented in the map above do not include any of the lands at Elmworth.

Drilling Program

Birchcliff's 2014 drilling program was focused on our two proven resource plays, the Montney/Doig Natural Gas Resource Play and the Charlie Lake Light Oil Resource Play. We actively employ the evolving technology utilized by leaders in the industry regarding horizontal well drilling and the related multi-stage fracture stimulation technology.

During 2014, Birchcliff drilled 57 (56.0 net) wells, consisting of 37 (37.0 net) natural gas wells and 20 (19.0 net) oil wells. The natural gas wells are all Montney/Doig horizontal wells. The oil wells included 4 (4.0 net) Montney/Doig horizontal oil wells, 11 (11.0 net) Worsley Charlie Lake horizontal light oil wells, 1 (1.0 net) Progress Charlie Lake horizontal light oil well, 3 (2.0 net) Halfway horizontal light oil wells and 1 (1.0 net) Upper Doig horizontal light oil well. All horizontal wells drilled in 2014 utilized recent advancements in multi-stage fracture stimulation technology.

With respect to our Montney/Doig Natural Gas Resource Play, on full development of four horizontal wells per section per interval, we have 3,505.2 net existing horizontal wells and potential net future horizontal drilling locations in respect of our three commercial intervals, the Basal Doig/Upper Montney, the Montney D4 and the Montney D1 intervals. With 159 (158.9 net) horizontal locations drilled at the end of 2014, there remains 3,346.3 potential net future horizontal drilling locations as at December 31, 2014, up from 2,254.4 net at year-end 2013. This does not include any future horizontal drilling locations for the Montney C interval.

Substantial upside exists with respect to the 3,505.2 net existing horizontal wells and potential future horizontal drilling locations. The 2014 Reserves Evaluation has attributed proved plus probable reserves to 598.8 net existing wells and future horizontal drilling locations (of which 443.9 net wells are potential future locations). The remaining 2,906.4 net potential future horizontal drilling locations have not yet had any reserves attributed to them by Deloitte.

"Birchcliff is successfully improving capital and operating cost efficiencies, through prudent negotiations with our preferred vendors and the implementation of technical optimization initiatives."

DAVE HUMPHREYS,
VICE-PRESIDENT, OPERATIONS

Facilities

Birchcliff has a working interest in 11 gas plants, four of which are wholly-owned and five of which we operate. We have a working interest in two major oil batteries, one of which we operate.

In 2014,

ESTIMATED OPERATING NETBACK AT THE PCS GAS PLANT

$4.21[1]

PER MCFE

PROCESSED AT THE PCS GAS PLANT

78%

OF CORPORATE NATURAL GAS PRODUCTION

OPERATING MARGIN AT THE PCS GAS PLANT

81%[2]

1 Realized revenue of $5.17 per Mcfe at the PCS Gas Plant when AECO natural gas price averaged $4.50 per Mcf.
2 Determined by calculating the percentage of P&NG revenue remaining after the payment of royalties, operating costs and transportation and marketing costs.

Birchcliff's 100% owned and operated PCS Gas Plant is located in the heart of Birchcliff's Montney/Doig Natural Gas Resource Play in the Pouce Coupe South area. The strategically situated site for the PCS Gas Plant enables us to control and operate all essential infrastructure from wellhead to sales point.

100%

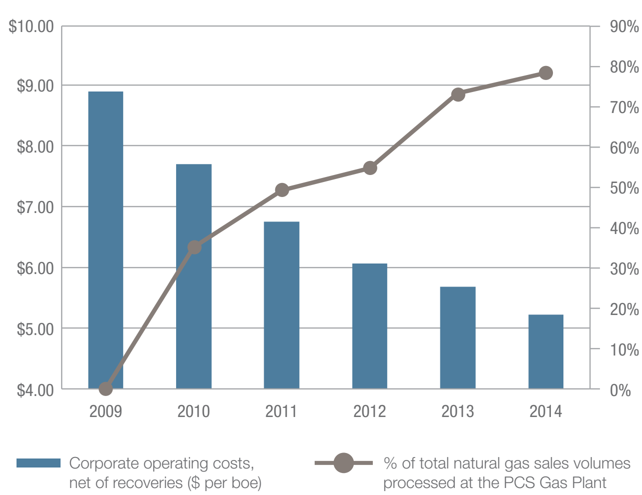
owned and operated PCS Gas Plant in the heart of the Montney/Doig Natural Gas Resource Play

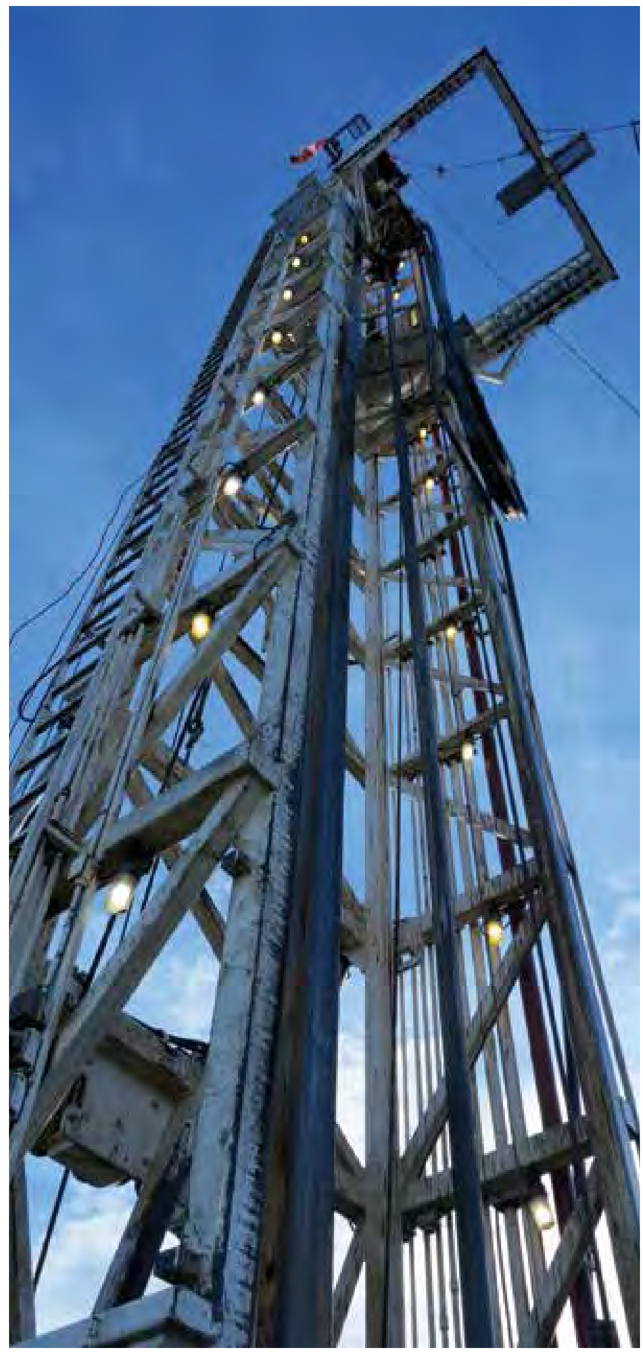
The low per unit operating costs of the PCS Gas Plant and related infrastructure gives us a strong competitive advantage over others paying for third-party natural gas processing. The PCS Gas Plant is a key component in positioning us as a low-cost finder and producer of natural gas on the Montney/Doig Natural Gas Resource Play.

Our PCS Gas Plant is currently licensed to process up to 180 MMcf/d of natural gas. Engineering, procurement and fabrication work is underway for the Phase V expansion of the PCS Gas Plant which will increase processing capacity to 260 MMcf/d.

The PCS Gas Plant is a state-of-the-art facility and meets or exceeds all AER and Alberta Environment requirements. The facility employs energy efficient equipment to optimize performance and keep operating costs low. The PCS Gas Plant uses an amine system to remove sulphur content, and refrigeration to meet dew point specification. Acid gas is injected into a high quality reservoir, via two wells located at and near the site of the PCS Gas Plant.

Corporate Operating Costs per boe vs. % of Total Natural Gas Sales Volumes Processed at the PCS Gas Plant






S.D.

Reserves and Resources

2014 INDEPENDENT RESERVES EVALUATION

Deloitte, independent qualified reserves evaluators of Calgary, Alberta, prepared the 2014 Reserves Evaluation effective December 31, 2014 in respect of Birchcliff's oil and natural gas properties. Deloitte also prepared reserves estimations and economic evaluations effective December 31, 2013 (the "**2013 Reserves Evaluation**") and December 31, 2012. Reserves estimates stated herein as at December 31, 2014, 2013 and 2012 are extracted from the relevant evaluation. The 2014 Reserves Evaluation and the prior reserves evaluations were prepared in accordance with the standards contained in the COGE Handbook and NI 51-101.

At December 31, 2014, Deloitte estimated that Birchcliff had 465.0 MMboe of proved plus probable reserves and 282.3 MMboe of proved reserves. Birchcliff's proved plus probable reserves are comprised of 87.6% natural gas, 7.7% light oil and 4.7% NGLs.

Reserves Summary

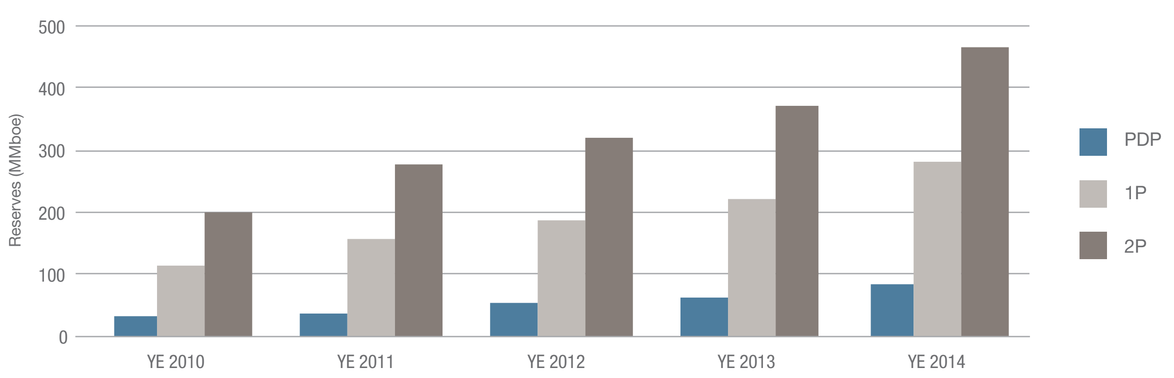
The following table summarizes Deloitte's estimates of Birchcliff's working interest (gross) oil and natural gas reserves at December 31, 2014 and December 31, 2013, using the Deloitte forecast price assumptions in effect at the applicable reserves evaluation date.

Summary of Oil and Natural Gas Reserves[(1)(2)]

Reserves Category	**Dec 31, 2014** *(MMboe)*	**Dec 31, 2013** *(MMboe)*	**Increase from Dec 31, 2013**
Proved Developed Producing	84.7	62.0	36.8%
Total Proved	282.3	220.0	28.3%
Probable	182.7	150.0	21.8%
Total Proved Plus Probable	465.0	370.1	25.7%

(1) See *"Disclosure of Oil and Gas Reserves and Resources"* and *"Advisories"* in this Annual Report.
(2) Numbers may not total due to rounding.

Summary Of Oil And Natural Gas Reserves



Net Present Values of Future Net Revenue

The following table is a summary of the net present values of future net revenue associated with Birchcliff's reserves at December 31, 2014 before deducting future income tax expense, and calculated at various discount rates. The net present values of future net revenue attributable to Birchcliff's reserves is based on Deloitte's December 31, 2014 forecast price assumptions of commodity prices, which can be found at http://www.ajmdeloitte.ca/price-forecasts.html.

Net Present Values of Future Net Revenue Before Income Taxes(1)(2)(3)(4)

	Discounted Rate per Annum					
Reserves Category	0%	5%	8%	10%	15%	20%
	(MM$)	*(MM$)*	*(MM$)*	*(MM$)*	*(MM$)*	*(MM$)*
Proved						
Developed Producing	2,285.7	1,672.5	1,438.3	1,316.1	1,088.6	932.6
Developed Non-Producing	276.3	191.1	157.7	140.1	107.2	84.8
Undeveloped	3,867.9	2,097.4	1,479.6	1,174.4	645.9	321.2
Total Proved	6,429.9	3,961.0	3,075.6	2,630.5	1,841.7	1,338.6
Probable	5,525.7	2,386.4	1,534.7	1,163.6	604.7	320.0
Total Proved Plus Probable	11,955.6	6,347.4	4,610.4	3,794.1	2,446.4	1,658.6

(1) See "*Disclosure of Oil and Gas Reserves and Resources*" in this Annual Report.
(2) Estimates of future net revenue, whether discounted or not, do not represent fair market value.
(3) Future net revenue is after deduction of estimated costs of abandonment and reclamation of existing and future wells and does not include costs of abandonment and reclamation of facilities.
(4) Numbers may not total due to rounding.

The net present value of the proved developed producing reserves (at a 10% discount rate) increased 35% to $1.3 billion as a result of increased reserves volumes recognized in the 2014 Reserves Evaluation, notwithstanding the oil price forecast for the years 2015 through 2019 decreased by 14% and the natural gas price forecast for these years increased by 3%.

Similarly, the net present value of the proved plus probable reserves (at a 10% discount rate) increased 19% to $3.8 billion.

The natural gas price forecast used by Deloitte in the 2014 Reserves Evaluation for the years 2015 through 2019 is approximately $0.11 per MMbtu higher on average than the forecast used by Deloitte for the same period in the 2013 Reserves Evaluation. The Edmonton Par price oil price forecast used by Deloitte in the 2014 Reserves Evaluation for the years 2015 through 2019 is approximately $12.87 per barrel lower than the forecast used by Deloitte for the same period in the 2013 Reserves Evaluation. The pentanes plus price forecast is down by $22.38 per barrel in this time period.

Forecast Prices Used in Estimates

The following table sets out the forecast price assumptions used by Deloitte for the 2014 Reserves Evaluation. The pricing and cost assumptions used were determined by Deloitte based on information available from numerous governmental agencies, industry publications, oil refineries, natural gas marketers and industry trends. These long-term forecasts of prices are subject to the many uncertainties that affect long-term future forecasts.

Deloitte Price Forecast

	Crude Oil		Natural Gas	NGLs				
Year	**WTI Crude Oil** *($US/bbl)*	**Edmonton City Gate** *($CDN/bbl)*	**Natural Gas at AECO** *($CDN/Mcf)*	**Edmonton Propane** *($CDN/bbl)*	**Edmonton Butane** *($CDN/bbl)*	**Edmonton C5+** *($CDN/bbl)*	**Currency Exchange Rate** *($US/$CDN)*	**Inflation Rate** *(%)*
2015	67.00	70.95	3.85	28.40	46.10	70.95	0.86	0.0
2016	71.40	77.10	4.15	30.85	50.15	77.10	0.86	2.0
2017	74.90	82.25	4.45	32.90	53.50	82.25	0.86	2.0
2018	78.55	87.60	4.80	35.00	56.95	87.60	0.86	2.0
2019	82.25	93.15	5.05	37.25	60.55	93.15	0.86	2.0
2020	86.10	97.55	5.35	39.05	63.45	97.55	0.86	2.0
2021	90.10	102.15	5.65	40.90	66.40	102.15	0.86	2.0
2022	91.90	104.20	5.85	41.70	67.70	104.20	0.86	2.0
2023	93.75	106.25	6.20	42.55	69.05	106.25	0.86	2.0
2024	95.60	108.40	6.40	43.40	70.45	108.40	0.86	2.0
Thereafter	Escalate at 2.0% per annum							

Reconciliation of Changes in Reserves

The following table sets forth a reconciliation of Birchcliff's gross reserves at December 31, 2014 set forth in the 2014 Reserves Evaluation, using the Deloitte price forecast at December 31, 2014, to Birchcliff's gross reserves at December 31, 2013 set forth in the 2013 Reserves Evaluation, using the Deloitte price forecast at December 31, 2013.

Reconciliation of Gross Reserves from December 31, 2013 to December 31, 2014
(Forecast Prices and Costs)

Factors	Light and Medium Crude Oil *(Mbbls)*	Natural Gas *(Bcf)*	NGLs *(Mbbls)*	Oil Equivalent *(Mboe)*
GROSS TOTAL PROVED				
Opening balance December 31, 2013	**17,621.0**	**1,164.7**	**8,313.2**	**220,049.4**
Discoveries	128.1	10.5	172.6	2,044.6
Extensions(1) & Improved Recovery	1,703.3	217.7	2,412.5	40,405.6
Technical Revisions(2)	240.5	23.5	1,661.8	5,820.4
Acquisitions	30.5	155.6	781.8	26,737.9
Dispositions	0.0	0.0	0.0	0.0
Economic Factors(3)	(27.6)	(0.6)	(5.5)	(127.2)
Production(4)	(1,512.1)	(63.4)	(538.7)	(12,615.8)
Closing balance December 31, 2014	**18,183.7**	**1,508.0**	**12,797.7**	**282,314.9**
GROSS TOTAL PROBABLE				
Opening balance December 31, 2013	**18,201.3**	**755.9**	**5,813.6**	**150,002.9**
Discoveries	63.4	1.9	32.9	418.4
Extensions(1) & Improved Recovery	567.3	83.8	1,721.2	16,250.4
Technical Revisions(2)	(1,156.9)	14.9	898.0	2,232.5
Acquisitions	89.0	80.8	419.0	13,971.5
Dispositions	0.0	0.0	0.0	0.0
Economic Factors(3)	1.3	(0.9)	(9.2)	(152.6)
Production(4)	0.0	0.0	0.0	0.0
Closing balance December 31, 2014	**17,765.4**	**936.5**	**8,875.5**	**182,723.1**
GROSS TOTAL PROVED PLUS PROBABLE				
Opening balance December 31, 2013	**35,822.3**	**1,920.6**	**14,126.8**	**370,052.2**
Discoveries	191.5	12.4	205.5	2,463.0
Extensions(1) & Improved Recovery	2,270.6	301.5	4,133.7	56,656.0
Technical Revisions(2)	(946.4)	38.4	2,559.5	8,018.6
Acquisitions	119.5	236.3	1,200.8	40,709.4
Dispositions	0.0	0.0	0.0	0.0
Economic Factors(3)	3.7	(1.4)	(14.4)	(245.6)
Production(4)	(1,512.1)	(63.4)	(538.7)	(12,615.8)
Closing balance December 31, 2014	**35,949.1**	**2,444.5**	**21,673.2**	**465,037.9**

(1) The majority of gas and NGLs reserve changes comprising "*Extensions*" were the result of drilling activities on the Montney/Doig Natural Gas Resource Play. Wells were drilled extending the resource play beyond lands to which reserves had previously been attributed. The majority of oil reserve changes comprising "*Extensions*" were the result of drilling activity in the Charlie Lake Light Oil Resource Play in the Progress area. As a result of these successful wells, reserves were attributed to future well locations proximal to these wells.

(2) The majority of the "*Technical Revisions*" in the proved category are a result of better performance of some Charlie Lake oil wells at Worsley and some of the Montney/Doig wells exceeding the type curve in Pouce Coupe south. The negative technical revisions in the probable and proved plus probable category for light and medium crude oil is mainly a result of the removal of Doig reserves from the waterflood at Worsley.

(3) The change in reserves attributed to "*Economic Factors*" results from Deloitte's oil and NGLs price forecasts used in the 2014 Reserves Evaluation being lower than Deloitte's oil and NGLs price forecasts used in the 2013 Reserves Evaluation, increasing the economic limit thereby reducing reserves, or making some future oil locations uneconomic to develop in the total proved category. Some additional oil reserves were added in the probable and proved plus probable categories due to an increased time to payout.

(4) Represents Deloitte's estimate of actual production for the year ended December 31, 2014 before year-end results were available.

Reserves Replacement

From the 2013 Reserves Evaluation to the 2014 Reserves Evaluation, Birchcliff had:

- 285% reserve replacement on a proved developed producing basis, including reserves added through acquisitions. Birchcliff added 2.85 boe of proved developed producing reserves for each boe that was produced during the year (calculated by dividing 2014 proved developed producing reserves additions before production by total production in 2014).
- 606% reserve replacement on a proved basis, including reserves added through acquisitions. Birchcliff added 6.06 boe of proved reserves for each boe that was produced during the year (calculated by dividing 2014 proved reserves additions before production by total production in 2014).
- 871% reserve replacement on a proved plus probable basis, including reserves added through acquisitions. Birchcliff added 8.71 boe of proved plus probable reserves for each boe that was produced during the year (calculated by dividing 2014 proved plus probable reserves additions before production by total production in 2014).

Reserve Life Index

Birchcliff's reserve life index is 6.0 years on a proved developed producing basis, 19.8 years on a proved basis and 32.7 years on a proved plus probable basis, in each case using reserves estimates by Deloitte at December 31, 2014 and assuming an average daily production rate of 39,000 boe/d.

Reserves on the Montney/Doig Natural Gas Resource Play

Deloitte estimated at December 31, 2014, Birchcliff had 412.3 MMboe of proved plus probable reserves attributed to horizontal wells on the Montney/Doig Natural Gas Resource Play. This is an increase of 29% from 319.2 MMboe proved plus probable reserves attributed to horizontal wells on the Montney/Doig Natural Gas Resource Play at December 31, 2013.

The following tables summarize Deloitte's estimates of reserves attributable to Birchcliff's horizontal wells on the Montney/Doig Natural Gas Resource Play, the number of horizontal wells to which reserves were attributed and the future capital associated with such reserves.

Montney/Doig Natural Gas Resource Play Reserves Data[(1)(2)]

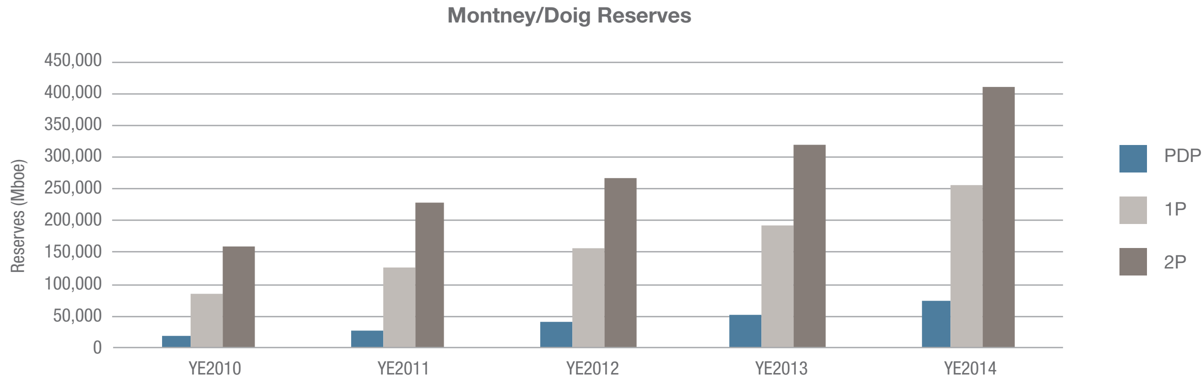
Reserves Category	Natural Gas *(Bcf)*		Light Oil and NGLs *(Mbbls)*		Total *(Mboe)*		Existing Horizontal Wells and Future Horizontal Well Locations				Net Future Capital *(MM$)*	
							Gross		*Net*			
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014[(3)]	2013[(4)]
Proved Developed Producing	413.9	291.6	4,110.0	1,940.6	73,094.8	50,538.1	155	117	154.9	105.2	0.0	1.25
Total Proved	1,453.6	1,113.0	12,933.9	8,202.1	255,208.2	193,704.5	443	384	432.2	330.9	1,712.1	1,306.1
Total Proved Plus Probable	2,343.2	1,828.0	21,798.2	14,550.3	412,336.2	319,214.6	622	549	598.8	470.8	2,769.4	2,146.2

(1) See *"Disclosure of Oil and Gas Reserves and Resources"* and *"Advisories"* in this Annual Report.
(2) Estimates of reserves and future net revenue for reserves relating to individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties due to the effects of aggregation.
(3) Includes approximately $97 million of capital for the Phase V expansion of the PCS Gas Plant to 240 MMcf/d of total throughput, together with the related gathering pipelines, sales pipeline expansion and compression, plus $61 million of capital for the Phase VI expansion of the PCS Gas Plant to 300 MMcf/d of total throughput, plus $56 million of capital for additional pipelines and compression projects during 2016 to 2020, all in the proved category. Also includes approximately $89 million of capital for the Phase VII expansion of the PCS Gas Plant to 360 MMcf/d of total throughput in the probable category. These throughput volumes utilized by Deloitte are less than the design capacities of the proposed expansions of Phase V to 260 MMcf/d and Phase VI to 320 MMcf/d which incorporate recent design efficiencies.
(4) Includes approximately $68.2 million of capital for the expansion of the PCS Gas Plant to 240 MMcf/d of total capacity, together with the related gathering pipelines, sales pipeline expansion and compression, plus $32.2 million of capital for the expansion of the PCS Gas Plant to 270 MMcf/d of total capacity.

Montney/Doig Land and Horizontal Natural Gas Well Data

	Dec 31, 2014		Dec 31, 2013		Dec 31, 2012	
	Gross	*Net*	*Gross*	*Net*	*Gross*	*Net*
Number of sections to which Deloitte attributed proved plus probable reserves	139.6	133.7	129.6	114.9	114.3	98.3
For existing and future horizontal wells, number of well locations to which Deloitte attributed proved plus probable reserves	622	598.8	549	470.8	472	397.5
For existing and future horizontal wells, average number of net well locations per net section to which Deloitte attributed proved plus probable reserves	4.5[(1)]		4.1[(2)]		4.1[(3)]	
For existing horizontal wells, average remaining recoverable proved plus probable reserves attributed by Deloitte, plus cumulative production	4.9 Bcfe[(4)]		4.9 Bcfe		4.8 Bcfe	
For future horizontal wells, average remaining recoverable proved plus probable reserves attributed by Deloitte	4.3 Bcfe		4.2 Bcfe		4.1 Bcfe	
Average cost per well, forecast by Deloitte	$5.3 million		$5.2 million		$5.2 million	

(1) For existing and future horizontal wells, the average number of net well locations per net section to which Deloitte attributed proved plus probable reserves is 3.1 for the Basal Doig/Upper Montney interval and 2.9 for the Montney D1 interval.
(2) For existing and future horizontal wells, the average number of net well locations per net section to which Deloitte attributed proved plus probable reserves is 3.2 for the Basal Doig/Upper Montney interval and 2.9 for the Montney D1 interval.
(3) For existing and future horizontal wells, the average number of net well locations per net section to which Deloitte attributed proved plus probable reserves is 3.2 for the Basal Doig/Upper Montney interval and 2.9 for the Montney D1 interval.
(4) Does not include the four Montney horizontal light oil wells in Section 17-078-11W6M.



Deloitte has attributed Montney/Doig proved plus probable reserves to 139.6 (133.7 net) sections of land. Drilling success during 2014 and the acquisition of a partner's 30% working interest completed in January of 2014 added material reserve assignments. Deloitte has attributed reserves in the Montney D1 interval to 118.6 (115.2 net) sections of land, an increase of 22.7 net sections of land from 2013. Deloitte has attributed reserves in the Montney D4 interval to 7 (7.0 net) sections of land and in the Montney C interval to 2 (2.0 net) sections of land. Deloitte has attributed reserves in the Basal Doig/Upper Montney interval to 84.1 (80.0 net) sections of land. There are now 65.1 (63.5 net) sections to which Deloitte has attributed reserves to both the Basal Doig/Upper Montney interval and the Montney D1 interval.

Management believes that the ultimate recovery from Birchcliff's Montney/Doig horizontal natural gas wells will continue to improve year-over-year as production declines continue to flatten. In addition, as drilling and completion technologies continue to improve, recovery factors and production rates in this unconventional reservoir should also improve.

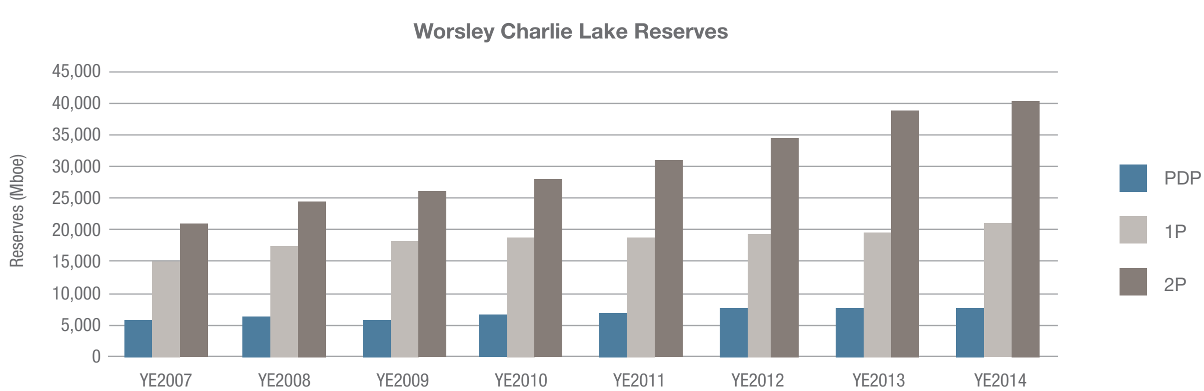
Reserves on the Charlie Lake Light Oil Resource Play — Worsley Area

At December 31, 2014, Deloitte estimated that in the Worsley Charlie Lake light oil pool, Birchcliff had 40.2 MMboe proved plus probable reserves and 20.5 MMboe of proved reserves. This continues the growth trend for Birchcliff's Worsley Charlie Lake reserves since July 1, 2007 (being the effective date of the acquisition of this property), when reserves were estimated at 15.1 MMboe on a proved plus probable basis and 11.3 MMboe on a proved basis. Both the original oil in place and the estimated reserves continue to grow and Birchcliff is pleased to report that the Worsley Charlie Lake light oil pool continues to be a top quality asset.

History of Reserves Estimated for the Worsley Charlie Lake Light Oil Pool *(MMboe)*[(1)(2)]

Reserves Category	Dec 31, 2014	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007	July 1, 2007
Proved	20.5	19.6	19.6	18.8	18.8	18.3	17.5	15.0	11.3
Proved Plus Probable	40.2	38.9	34.7	31.3	28.2	26.3	24.6	21.2	15.1

(1) See *"Disclosure of Oil and Gas Reserves and Resources"* and *"Advisories"* in this Annual Report.
(2) Estimates of reserves relating to individual properties may not reflect the same confidence level as estimates of reserves for all properties due to the effects of aggregation.



2014 FINDING AND DEVELOPMENT COSTS

During 2014, Birchcliff's F&D costs were $396.6 million and our FD&A costs were $449.4 million. The following table sets forth Birchcliff's estimates of our F&D costs per boe and FD&A costs per boe, excluding future development capital and including future development capital, on a proved developed producing, proved and proved plus probable basis.

Finding and Development Costs *($/boe)*[1]

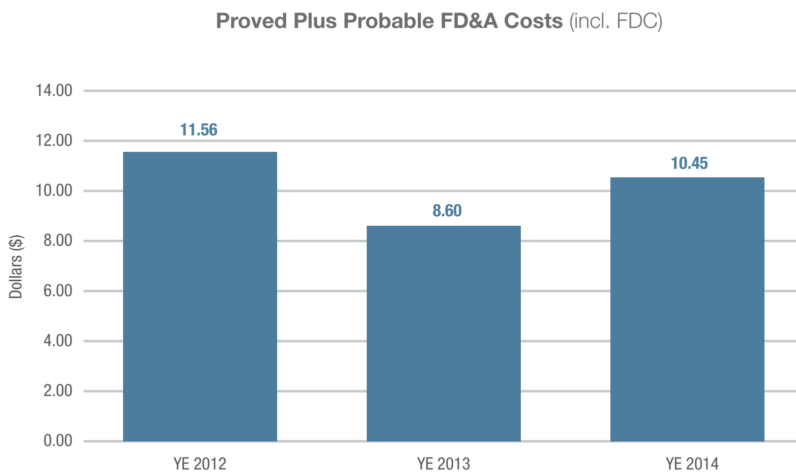
Excluding Future Development Capital	2014	2013	2012	Three Year Average
F&D – Proved Developed Producing	$13.40	$14.94	$12.34	$13.43
F&D – Proved	$8.29	$5.85	$7.77	$7.29
F&D – Proved Plus Probable	$5.96	$4.11	$6.09	$5.33
Total FD&A – Proved Developed Producing[2]	$12.81	$12.71	$12.33	$12.64
Total FD&A – Proved[2]	$6.03	$4.91	$7.83	$6.16
Total FD&A – Proved Plus Probable[2]	$4.19	$3.46	$5.89	$4.38
Including Future Development Capital[3][4][5]				
F&D – Proved	$13.51	$9.39	$11.10	$11.38
F&D – Proved Plus Probable	$12.57	$9.03	$11.99	$11.14
Total FD&A – Proved[2]	$11.56	$8.29	$10.91	$10.49
Total FD&A – Proved Plus Probable[2]	$10.45	$8.60	$11.56	$10.19

(1) See "*Advisories – Finding and Development Costs*" in this Annual Report for an explanation of the methodology used to calculate F&D costs.
(2) Based upon FD&A costs, net of acquisition costs and disposition proceeds, and reserve additions, net of reserves disposed of.
(3) Includes the increase in future development capital for 2014 over 2013 of $413.0 million on a proved basis and $671.9 million on a proved plus probable basis.
(4) Includes the increase in future development capital for 2013 over 2012 of $147.1 million on a proved basis and $316.7 million on a proved plus probable basis.
(5) Includes the increase in future development capital for 2012 over 2011 of $117.4 million on a proved basis and $287.5 million on a proved plus probable basis.

"Over the last three years, our proved developed producing FD&A averaged $12.64 per boe and our operating recycle ratio averaged 1.9x, highlighting that we can find, develop and produce at very low costs."

CHRIS CARLSEN, VICE-PRESIDENT, ENGINEERING

$10.19 3 Year Average Proved Plus Probable FD&A Costs (incl. FDC)



Deloitte's estimates of future development costs are $1.87 billion on a proved basis and $3.18 billion on a proved plus probable basis which are primarily the capital costs required to drill undeveloped locations. The estimates also include approximately $303 million for the expansion of the PCS Gas Plant to 360 MMcf/d of total throughput, together with the related gathering pipelines, sales pipeline expansion and compression and approximately $228 million on future drilling capital related to the acquisition of a partner's working interest in land and production in the Pouce Coupe area in 2014 on a proved plus probable basis.

For each future Montney/Doig horizontal natural gas well to which reserves were assigned in the 2014 Reserves Evaluation, an average of $5.3 million of drill, case, complete and tie-in costs were included as compared to an average of $5.2 million included in the 2013 Reserves Evaluation.

2014 RECYCLE RATIOS

The following table shows Birchcliff's recycle ratio for operating and funds flow netback, which are calculated in each case by dividing the average operating netback per boe or funds flow netback per boe, as the case may be, by each of the F&D costs and the FD&A costs.

Recycle Ratios(1)

	Operating Netback(2) Recycle Ratio		Funds Flow Netback(2) Recycle Ratio	
	2014	**2013**	**2014**	**2013**
Excluding Future Development Capital				
F&D – Proved Developed Producing	**2.1**	**1.5**	**1.8**	**1.2**
FD&A – Proved Developed Producing	**2.2**	**1.8**	**1.9**	**1.5**
F&D – Proved	3.3	3.8	2.9	3.2
FD&A – Proved	4.6	4.6	4.0	3.8
F&D – Proved Plus Probable	4.7	5.5	4.1	4.5
FD&A – Proved Plus Probable	6.6	6.5	5.8	5.3
Including Future Development Capital				
F&D – Proved	2.1	2.4	1.8	2.0
FD&A – Proved	2.4	2.7	2.1	2.2
F&D – Proved Plus Probable	2.2	2.5	1.9	2.0
FD&A – Proved Plus Probable	2.7	2.6	2.3	2.2

(1) See *"Advisories – Finding and Development Costs"* in this Annual Report for the methodology used in the calculation of F&D costs used in these recycle ratios. See also *"Advisories – Reserve Life Index, Recycle Ratios and Reserve Replacement"*.
(2) See *"Non-GAAP Measures"* in the Management's Discussion and Analysis and *"Advisories"* in this Annual Report.

During 2014, the average WTI price of crude oil was US$92.99 per barrel and the average price of natural gas at AECO was CDN$4.50 per Mcf. Operating netback per boe was $27.77 in 2014 and $22.53 in 2013. Funds flow netback per boe was $24.40 in 2014 and $18.50 in 2013.

2014 INDEPENDENT MONTNEY/DOIG NATURAL GAS RESOURCE ASSESSMENT

Deloitte conducted an independent review and audit of resources effective December 31, 2014, in respect of Birchcliff lands that have potential for the Montney/Doig Natural Gas Resource Play, which is contained in a report dated January 30, 2015 (the "**2014 Resource Assessment**"). Deloitte also prepared a resource assessment effective December 31, 2013 (the "**2013 Resource Assessment**"). The 2014 Resource Assessment and 2013 Resource Assessment were prepared in accordance with the standards contained in the COGE Handbook and NI 51-101.

Resource estimates stated herein as at December 31, 2014 and 2013 are extracted from the relevant assessment and reflect only Birchcliff's working interest share of resources for our lands in the area covered by the resource assessment (the "**Study Area**"). The resource assessments do not include Birchcliff's Charlie Lake Light Oil Resource Play or any of Birchcliff's other properties.

Montney/Doig Natural Gas Resource Assessment Summary

The following table summarizes Deloitte's estimates of Birchcliff's working interest share of gross volumes of our natural gas resources on the Montney/Doig Natural Gas Resource Play at December 31, 2014 and December 31, 2013, on a best estimate case.

Summary of Montney/Doig Natural Gas Resources(1)

	Best Estimate Case		
	Dec 31, 2014 *(Bcfe)*	**Dec 31, 2013** *(Bcfe)*	**Change from Dec 31, 2013**
Total PIIP	**50,132.6**	52,036.4	(3.7%)
Total Undiscovered PIIP	**29,406.1**	34,443.3	(14.6%)
Prospective Resources	**13,707.2**	15,809.9	(13.3%)
Total Discovered PIIP	**20,726.4**	17,593.2	17.8%
Contingent Resources	**7,851.7**	6,547.8	20.0%

(1) See *"Disclosure of Oil and Gas Reserves and Resources"*, *"Advisories – Discovered Resources"* and *"Advisories – Undiscovered Resources"* in this Annual Report.

As a result of Birchcliff's 2014 exploration successes and the drilling by offsetting competitors, a significant amount of resources that were categorized as prospective resources at the end of 2013 have been categorized by Deloitte as contingent resources. Comparing the 2014 Resource Assessment to the 2013 Resource Assessment, contingent resources increased from 6.5 Tcfe to 7.9 Tcfe (a 20.0% increase), accompanied by a 13.3% decrease of prospective resources. Similarly, total discovered PIIP increased from 17.6 Tcfe to 20.7 Tcfe (a 17.8% increase), accompanied by a 14.6% decrease in total undiscovered PIIP.

Background to the Montney/Doig Natural Gas Resource Assessment

Birchcliff holds significant high working interest acreage in large contiguous blocks on the Montney/Doig Natural Gas Resource Play in the Peace River Arch area of Alberta. Birchcliff's lands are proximal to the PCS Gas Plant and to third-party gathering and processing infrastructure.

The Study Area assessed by Deloitte is comprised of the Doig Phosphate, Basal Doig, and Montney formations in the Montney/Doig Deep Basin Area of Northwest Alberta ranging from Townships 69 to 81, Ranges 2 to 13W6. The Study Area is further bounded in a northwest – southeast direction by the Montney/Doig deep basin edges and covered a total of 332.6 gross sections of land held by Birchcliff at December 31, 2014, which includes:

- 305.1 (288.4 net) sections, with a 94.5% working interest, which have potential for the Basal Doig/Upper Montney interval;
- 316.1 (306.2 net) sections, with a 96.9% working interest, which have potential for the Montney D1 interval; and
- 288.6 (281.7 net) sections, with a 97.6% working interest, which have potential for the Montney D4 interval.

As at December 31, 2014, Birchcliff's total land holdings on the three intervals described above are 909.9 (876.3 net) sections. On full development of four horizontal wells per section per interval, Birchcliff has 3,505.2 net existing horizontal wells and potential future drilling locations. With 159 (158.9 net) horizontal locations drilled at the end of 2014, there remains 3,346.3 potential net future horizontal drilling locations. See "*Drilling Program*" in this Annual Report.

Deloitte utilized probabilistic methods to generate high, best, and low estimates of reserves and resources volumes. Results from the 2014 Resource Assessment are presented in the following table for Birchcliff's working interest share of gross volumes. Proved, proved plus probable and proved plus probable plus possible reserves determined by the 2014 Reserves Evaluation are included in this table for completeness; however, reserves were not the focus of the 2014 Resource Assessment.

Summary of Birchcliff Reserves and Resources(1)(2)(3)

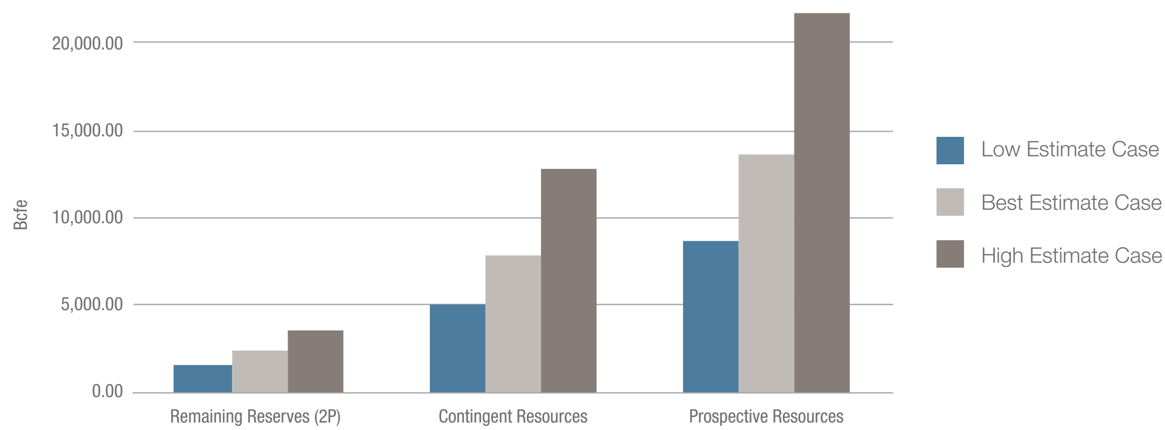
Resource Class				Reserves and Resource Volumes *(Bcfe)*		
				Low Estimate Case	**Best Estimate Case**	**High Estimate Case**
Discovered			Cumulative Production(4)	216.3	216.3	216.3
			Remaining Reserves(4)(5)	1,535.7	2,481.1	3,573.0
			Surface Loss/Shrinkage	52.8	82.3	117.8
		Total Commercial		1,804.9	2,779.8	3,907.1
			Contingent Resources(4)	5,080.2	7,851.7	12,790.2
			Unrecoverable(6)	8,453.4	10,095.0	10,811.0
		Total Sub-commercial		13,533.6	17,946.7	23,601.2
	Total Discovered PIIP			15,338.4	20,726.4	27,508.2
Undiscovered			Prospective Resources(4)	8,645.5	13,707.2	21,665.9
			Unrecoverable(6)	12,348.3	15,698.9	18,798.5
	Total Undiscovered PIIP			20,993.8	29,406.1	40,464.4
Total PIIP				36,332.2	50,132.6	67,972.7

(1) See "*Disclosure of Oil and Gas Reserves and Resources*" and "*Advisories*" in this Annual Report.
(2) All reserves and resources are gross volumes at December 31, 2014, which are equal to Birchcliff's working interest share before deduction of royalties and without including any royalties held by Birchcliff.
(3) Numbers may not total due to rounding.
(4) NGLs and sales gas volumes combined at a ratio of 1 barrel equals 6 Mcfe.
(5) Includes reserves assigned to both vertical and horizontal Montney/Doig wells. The low estimate reflects the estimate of proved reserves contained in the 2014 Reserves Evaluation. The best estimate reflects the estimate of proved plus probable reserves contained in the 2014 Reserves Evaluation. The high estimate reflects the estimate of proved plus probable plus possible reserves contained in the 2014 Reserves Evaluation.
(6) Unrecoverable includes surface loss/shrinkage on volumes of contingent resources and prospective resources.

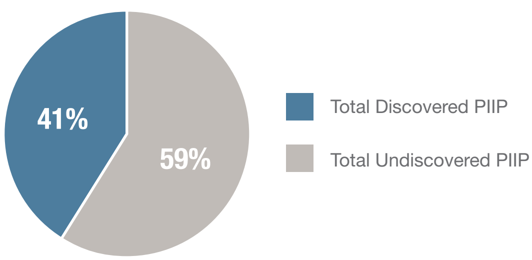
For a description of the specific contingencies which prevent the contingent resources from being classified as reserves and the significant positive and negative factors relevant to the estimates of Birchcliff's resources, please see "*Disclosure of Oil and Gas Reserves and Resources – Contingencies and Positive and Negative Factors*" in this Annual Report.

The sum of Birchcliff's 2P Reserves plus Best Estimate Contingent Resources has the ability to fill a 1 Bcf/d LNG train for more than 25 years.

Resources



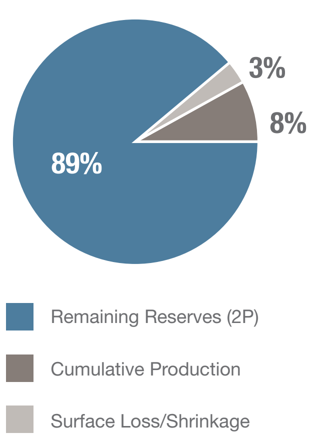
Total PIIP – Discovered Vs. Undiscovered[1]



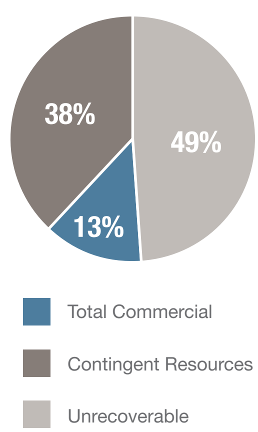
CONTINGENT RESOURCES

7.9 TCFE ON A BEST ESTIMATE CASE

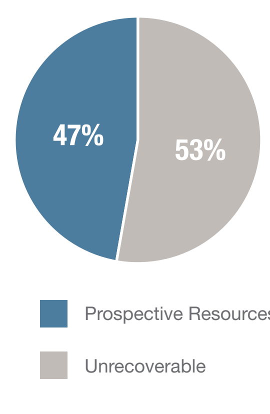
Total Commercial[1]



Total Discovered PIIP[1]



Total Undiscovered PIIP[1]



(1) On a best estimate case basis.

Responsibility

HEALTH, SAFETY AND ENVIRONMENT

Birchcliff is committed to constantly evolving and improving our Health, Safety and Environmental Management Program and conducting our activities in a manner that safeguards our employees, contractors, representatives, the environment and the public at large.

As part of our fundamental values, we recognize the importance of our responsibility for environmental stewardship.

We endeavor to maintain excellence in environmental reporting and response, and to take proactive steps to eliminate or reduce our environmental impact.

As an organization which strives for continuous improvement, we continue to look for and develop new technology, systems and processes that will help improve efficiency, reduce our environmental footprint and create a safer work environment.

Fostering a strong relationship with the community and our stakeholders is as integral to the success of our projects as obtaining the required regulatory approvals. At Birchcliff, we believe cooperative, sincere and responsive consultation efforts with stakeholders in the areas in which we operate creates a solid foundation for our business. Birchcliff has an experienced team working with local stakeholders to learn their values and priorities and to resolve any issues or concerns that arise in the course of our field operations.

COMMUNITY SUPPORT

Birchcliff recognizes the role that communities play in our success and looks for opportunities to "give back". We are a staunch supporter of the community and the business and educational initiatives of the First Nations who live in areas in which we operate. Every year, we participate in a number of community support endeavours in the areas surrounding our field operations and in Calgary.

In 2014, we contributed to a number of local community initiatives that elevate and enhance quality of life at the local level – including minor hockey, amateur sports, agricultural societies and fire departments.

STARS Air Ambulance is an important partner in trauma care for the Grande Prairie region of Alberta. Birchcliff has raised more than $650,000 to support STARS Air Ambulance in the Grande Prairie area.

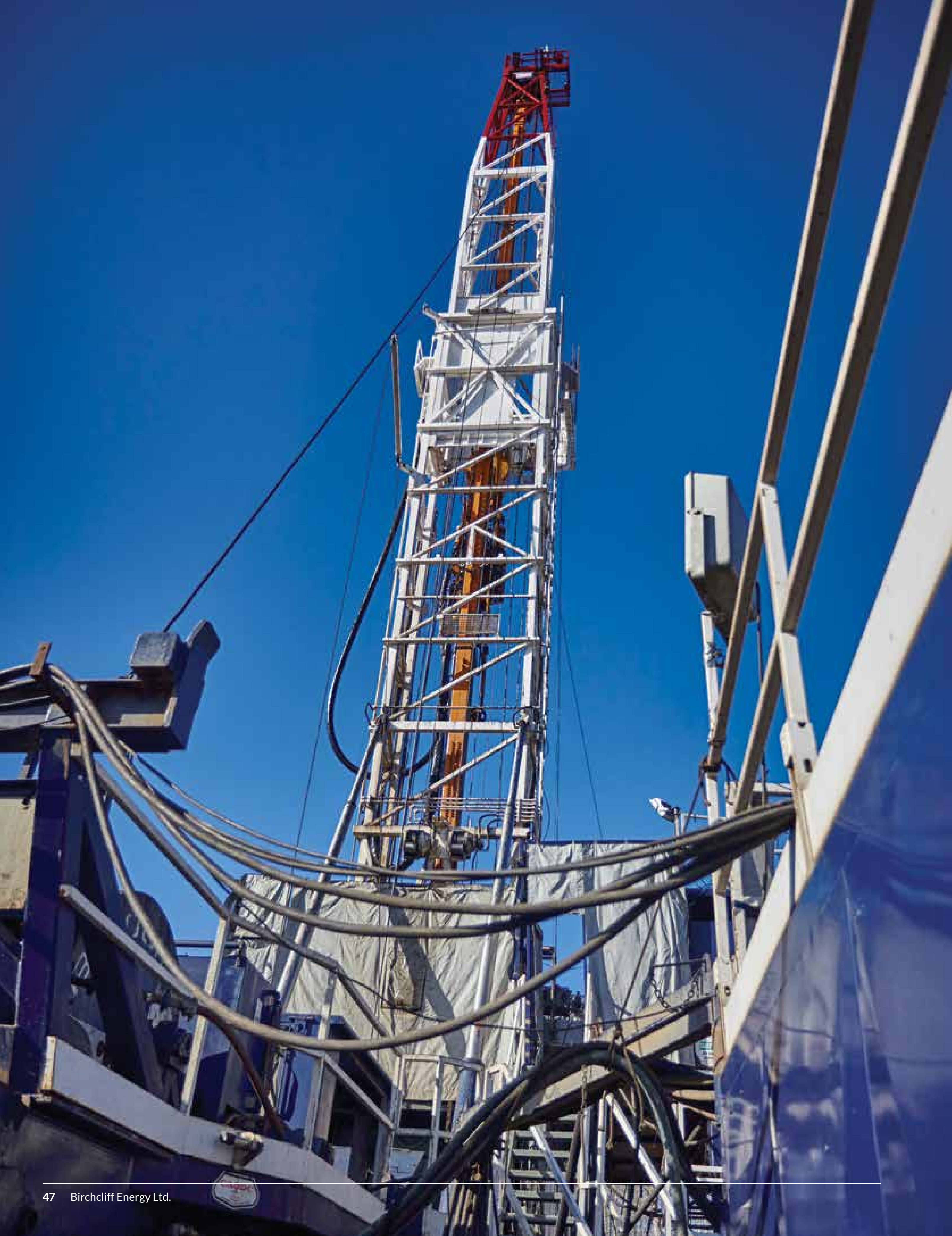
Over $650,000

raised to support STARS Air Ambulance in the Grande Prairie region.

Each year, we raise funds for the United Way and the YMCA. We make an annual contribution to Home Front Calgary, a community-justice response team dedicated to helping families experiencing domestic violence. We support the Children's Hospital Foundation and Big Brothers, Big Sisters. Through our support of Momentum, Calgarians living in poverty learn how to achieve a sustainable livelihood.

We donate to the OneSight program and support the Canadian Cancer Society daffodil campaign. We volunteer with Feed the Hungry, providing healthy meals in an atmosphere of dignity and respect. During the holiday season, our employees "adopt" a number of families in need and donate gifts, food and decorations to help make the holidays special. We also fill backpacks with living essentials and gifts for the Mustard Seed as part of their Christmas campaign.

Through these activities and numerous others, Birchcliff creates and maintains long-term, positive partnerships and relationships, while promoting employee engagement in the communities where we live and work.



Management's Discussion and Analysis

GENERAL

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

The following Management's Discussion and Analysis ("**MD&A**") is dated March 18, 2015. The annual financial information with respect to the three and twelve months ended December 31, 2014 (the "**Reporting Periods**") as compared to the three and twelve months ended December 31, 2013 (the "**Comparable Prior Periods**") and this MD&A have been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the audited financial statements of the Corporation and related notes for the year ended December 31, 2014. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

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

This MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. For further information, see "*Advisories*" in this MD&A.

All barrel of oil equivalent ("**boe**") amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel of oil (1 bbl). For further information, see "*Advisories*" in this MD&A.

2015 OUTLOOK

Birchcliff's 2015 capital budget is $266.7 million (including $59.0 million for infrastructure), with plans to drill 25 (24.5 net) wells. Birchcliff will adjust its 2015 capital budget to respond to changes in commodity prices and other material changes in the assumptions underlying its 2015 budget.

Birchcliff expects average annual production in 2015 to be between 38,000 and 40,000 boe per day and that it expects average production for the first quarter of 2015 to be approximately 37,000 to 38,000 boe per day.

The Elmworth area has emerged as a significant future growth area with exploration success in the Montney D4 interval on the Corporation's Montney/Doig Natural Gas Resource Play.

Birchcliff's production remains very strong while its cost structure continues to improve. With low base production declines, financial flexibility and a clearly focused asset base, the Corporation is well positioned to show annual production growth notwithstanding the most recent weak commodity price cycle. The Corporation's strategy of growth by the drill bit with repeatable, low-cost drilling opportunities provides for low-cost production and reserve additions, on a consistent year-over-year basis, giving Birchcliff the confidence that it can grow in these difficult times. Birchcliff expects its average annual production in 2015 will grow approximately 16% from 2014.

SELECTED ANNUAL INFORMATION

	2014	2013	2012
Average daily production *(boe at 6 Mcf:1 bbl)*	33,734	25,829	22,802
Petroleum and natural gas revenue *($000s)*[(1)]	472,888	316,637	257,206
Average sales price *($ CDN)*[(1)]			
Light oil – *(per barrel)*	92.39	89.89	84.45
Natural gas – *(per thousand cubic feet)*	4.74	3.41	2.63
NGLs – *(per barrel)*	85.13	88.45	83.78
Total – barrels of oil equivalent *(6:1)*	38.39	33.52	30.80
Funds flow from operations *($000s)*	300,498	174,361	120,259
Per common share – basic *($)*	2.03	1.22	0.88
Per common share – diluted *($)*	1.97	1.20	0.86
Net income *($000s)*	114,304	65,417	13,196
Net income to common shareholders *($000s)*	110,304	61,417	11,617
Per common share – basic *($)*	0.75	0.43	0.08
Per common share – diluted *($)*	0.72	0.42	0.08
Capital expenditures, net *($000s)*	450,932	215,770	298,903
Total assets *($000s)*	1,918,680	1,586,531	1,430,324
Adj. working capital deficit *($000s)*	76,712	60,071	29,567
Non-revolving term credit facilities *($000s)*	129,476	127,144	68,250
Revolving term credit facilities *($000s)*	339,557	266,823	364,313
Total debt *($000s)*	545,745	454,038	462,130
Common shares outstanding *(000s)*:			
End of period – basic	152,214	143,677	141,596
End of period – diluted	166,302	163,548	162,997
Weighted average common shares for period – basic	147,764	142,422	137,084
Weighted average common shares for period – diluted	152,243	145,006	139,904
Series A preferred shares outstanding – end of period *(000s)*	2,000	2,000	2,000
Series A – dividend distribution *($000s)*	4,000	4,000	1,579
Per Series A preferred share *($)*	2.00	2.00	0.79
Series C preferred shares outstanding – end of period *(000s)*	2,000	2,000	-
Series C – dividend distribution *($000s)*	3,500	1,913	-
Per Series C preferred share *($)*	1.75	0.96	-

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

In 2014, average production was 33,734 boe per day, up 31% from 2013 and up 48% from 2012. These production increases were largely attributed to the success of Birchcliff's capital drilling program, resulting in increased incremental production from new Montney/Doig horizontal natural gas wells producing to our 100% owned and operated Pouce Coupe South Natural Gas Plant (the "**PCS Gas Plant**") and the strategic acquisition of approximately 1,600 boe per day of production from a partner's 30% working interest in joint lands in January 2014.

Birchcliff generated higher funds flow and net income for its common shareholders in 2014 as compared to the prior two years. These results were largely due to the AECO natural gas spot price averaging $4.50 per Mcf in 2014, up 42% from 2013 and up 88% from 2012, increased natural gas production and the continued reduction of total cash costs per boe over the last three years. Birchcliff reduced its total cash costs (comprised of royalty, operating, transportation and marketing, general and administrative and interest costs) in 2014 to $14.02 per boe, down 10% from 2013 and down 15% from 2012.

Net income to common shareholders increased to $110.3 million ($0.75 per basic common share) in 2014 as compared to $61.4 million ($0.43 per basic common share) in 2013 and $11.6 million ($0.08 per basic common share) in 2012. This represents an 80% and 850% increase in net income to common shareholders from 2013 and 2012, respectively, and is mainly due to increased natural gas production processed at our PCS Gas Plant and higher realized natural gas prices. This is Birchcliff's fifth consecutive year of earnings, which demonstrates that the Corporation's repeatable, low-cost business continues to be successful and continues to generate positive returns for its shareholders.

Capital expenditures in the last three years were largely directed towards the expansion of the PCS Gas Plant (including related facilities and gathering systems) to a licenced processing capacity of 180 MMcf per day and the drilling and completion of new Montney/Doig horizontal natural gas wells that have been tied into the PCS Gas Plant.

FUNDS FLOW AND NET INCOME

Funds Flow from Operations

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2014**	**2013**	**2014**	**2013**
Funds flow from operations	**61,717**	50,060	**300,498**	174,361
Per common share – basic *($)*	**0.41**	0.35	**2.03**	1.22
Per common share – diluted *($)*	**0.40**	0.34	**1.97**	1.20

Aggregate funds flow increased by 23% and 72% as compared to the three and twelve month Comparable Prior Periods, respectively. When compared on an annual basis to 2013, the increase in aggregate funds flow was largely due to a 39% increase in realized natural gas wellhead prices and a 35% increase in natural gas production. Funds flow as compared to 2013 was also positively impacted by a decrease in interest costs and negatively impacted by higher royalties, operating, transportation and general and administrative (**"G&A"**) costs resulting from increased production in 2014. Primarily as a result of lower than expected commodity prices in the fourth quarter of 2014, funds flow in 2014 was less than our previously announced guidance of $331 million ($2.24 per basic common share) which was based, in part, on an AECO natural gas price of $4.50 per GJ ($4.75 per Mcf) and the US benchmark West Texas Intermediate at Cushing, Oklahoma ("**WTI**") oil price of US$99.50 per bbl (Edmonton Par CDN$101.00 per bbl).

Total cash costs per boe decreased by 10% to $14.02 in 2014 compared to $15.53 in 2013. On a per unit basis, interest costs decreased 31%, G&A costs decreased 17%, operating costs decreased 8%, transportation and marketing costs decreased 1% and royalties increased 2% from 2013. Excluding royalties, cash costs per boe were $11.03 in 2014 compared to $12.61 in 2013.

Funds flow, when compared to the fourth quarter of 2013, increased largely due to a 39% increase in natural gas production and a 3% increase in realized natural gas wellhead prices, offset by a 6% decrease in oil production and 12% decrease in realized oil prices in the fourth quarter of 2014. Funds flow was also positively impacted by lower royalty costs and a $1.2 million realized gain on oil hedge settlements and negatively impacted by slightly higher G&A and interest costs and increased operating and transportation expenses resulting from higher average daily production in the fourth quarter of 2014.

Net Income to Common Shareholders

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2014**	**2013**	**2014**	**2013**
Net income	17,053	37,062	114,304	65,417
Net income to common shareholders[(1)]	**16,053**	36,062	**110,304**	61,417
Per common share – basic *($)*[(1)]	**0.11**	0.25	**0.75**	0.43
Per common share – diluted *($)*[(1)]	**0.10**	0.25	**0.72**	0.42

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

Net income to common shareholders increased by 80% to a record $110.3 million in 2014 compared to $61.4 million in 2013. The significant increase in net income to common shareholders from 2013 was largely due to higher funds flow from operations, offset by a decrease in gain on sale of assets, an increase in income taxes and higher depletion costs resulting from increased production in 2014. Included in net income in 2014 was a $3.2 million ($2.4 million, net of tax) gain on the sale of assets compared to $33.8 million ($25.3 million, net of tax) gain in 2013.

Birchcliff recorded net income to common shareholders of $16.1 million in the fourth quarter of 2014, a decrease of 55% from $36.1 million in the fourth quarter of 2013. The decrease from the comparative quarter was mainly attributable to a decrease in gain on sale of assets and higher depletion expense resulting from increased production, offset by higher funds flow and lower income taxes in the fourth quarter of 2014.

PCS GAS PLANT NETBACKS

Processing natural gas at the PCS Gas Plant has materially improved Birchcliff's funds flow and net earnings since it first became operational in March 2010. The following table details Birchcliff's annual net production and estimated operating netback for wells producing to the PCS Gas Plant, on a production month basis:

Production Processed through the PCS Gas Plant

	Three months ended December 31, 2014		Twelve months ended December 31, 2013	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		132,808		91,666
Oil & NGLs *(bbls)*		1,065		527
Total boe *(6:1)*		**23,200**		15,805
Sales liquids yield (bbls/MMcf)		*8.0*		*5.7*
% of corporate natural gas production		*78%*		*73%*
% of corporate production		*69%*		*61%*
AECO – C daily *($/Mcf)*	**$4.50**		$3.17	
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue	5.17	31.02	3.77	22.64
Royalty expense	(0.24)	(1.42)	(0.16)	(0.93)
Operating expense	(0.42)	(2.52)	(0.37)	(2.24)
Transportation and marketing expense	(0.30)	(1.81)	(0.25)	(1.55)
Estimated operating netback	**$4.21**	**$25.27**	$2.99	$17.92
Operating margin	**81%**	**81%**	79%	79%

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

Asset Acquisition

Effective January 1, 2014, Birchcliff acquired a partner's 30% working interest in land and production on the Montney/Doig Natural Gas Resource Play for approximately $56.0 million, giving Birchcliff a 100% working interest in 38 sections of land. Approximately 9.6 MMcfe (1,600 boe per day) of production was acquired, the majority of which goes to Birchcliff's PCS Gas Plant. The acquisition was funded through the Corporation's credit facilities.

Credit Facilities

On May 9, 2014, Birchcliff's bank credit facilities limit increased to an aggregate of $750 million from the previous credit limit of $600 million.

Birchcliff's bank syndicate approved an increase of the revolving credit facilities to an aggregate limit of $620 million from $470 million. The revolving credit facilities were converted to a three-year term with a maturity date of May 9, 2017 (the "**revolving term credit facilities**"). The revolving term credit facilities include an increased credit limit for the extendible revolving syndicated term credit facility (the "**syndicated credit facility**") of $580 million from $440 million and an increased credit limit for the extendible revolving working capital facility (the "**working capital facility**") of $40 million from $30 million. Birchcliff may each year, at its option, request an extension to the maturity date of the syndicated credit facility and the working capital facility for an additional period of up to three years from May 9 of the year in which the extension request is made.

The terms of the other credit facilities, a $70 million non-revolving five-year term credit facility maturing on May 25, 2016 and a $60 million non-revolving five-year term credit facility maturing on May 25, 2018 (collectively, the "**non-revolving term credit facilities**"), remain essentially unchanged.

Exercise of Preferred Warrants

In 2014, there were 5,986,699 preferred warrants exercised at $8.30 for total proceeds of approximately $49.7 million. Of the 6,000,000 preferred warrants issued, there were 13,301 preferred warrants that were not exercised prior to expiring on August 8, 2014. The proceeds were used to reduce outstanding indebtedness under the revolving term credit facilities.

DISCUSSION OF OPERATIONS

Petroleum and Natural Gas Revenues

The following table details Birchcliff's petroleum and natural gas ("**P&NG**") revenues, production and percentage of production and sales price by category:

	Three months ended December 31, 2014				Three months ended December 31, 2013			
	Total Revenue(1) *($000s)*	**Average Daily Production**	***(%)***	**Average(1) *($/unit)***	Total Revenue (1) *($000s)*	Average Daily Production	*(%)*	Average (1) *($/unit)*
Light oil *(bbls)*	26,167	3,957	11	71.87	31,702	4,227	15	81.52
Natural gas *(Mcf)*	69,287	192,499	85	3.91	48,385	138,132	81	3.81
Natural gas liquids *(bbls)*	10,118	1,664	4	66.10	8,981	1,142	4	85.45
Total P&NG sales *(boe)*	105,572	**37,704**	100	30.43	89,068	28,391	100	34.10
Royalty revenue	26			0.01	24			0.01
P&NG revenues	**105,598**			**30.44**	89,092			34.11

	Twelve months ended December 31, 2014				Twelve months ended December 31, 2013			
	Total Revenue(1) *($000s)*	**Average Daily Production**	***(%)***	**Average (1) *($/unit)***	Total Revenue (1) *($000s)*	Average Daily Production	*(%)*	Average (1) *($/unit)*
Light oil *(bbls)*	133,431	3,957	12	92.39	132,219	4,030	16	89.89
Natural gas *(Mcf)*	293,660	169,852	84	4.74	156,433	125,712	81	3.41
Natural gas liquids *(bbls)*	45,638	1,469	4	85.13	27,344	847	3	88.45
Total P&NG sales *(boe)*	472,729	**33,734**	100	38.39	315,996	25,829	100	33.52
Royalty revenue	159			0.02	641			0.07
P&NG revenues	**472,888**			**38.41**	316,637			33.59

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

Production

Production averaged 37,704 boe per day in the three month Reporting Period and 33,734 boe per day in the twelve month Reporting Period, as compared to 28,391 boe per day and 25,829 boe per day in the Comparable Prior Periods.

The 31% increase in production from the twelve month Comparable Prior Period was largely due to incremental production added from new Montney/Doig horizontal natural gas wells that were drilled, completed and tied into the PCS Gas Plant throughout 2014 and the acquisition of approximately 1,600 boe per day of production from a partner's 30% working interest in joint lands in January 2014, offset by natural production declines. The PCS Gas Plant processed approximately 78% of Birchcliff's total natural gas production and 69% of total corporate production in 2014.

The 33% increase in production from the three month Comparable Prior Period was mainly due to incremental production added from new Montney/Doig horizontal natural gas wells, which were tied into the PCS Gas Plant during the fourth quarter of 2014.

Production consisted of approximately 85% natural gas and 15% crude oil and natural gas liquids in the fourth quarter of 2014 as compared to 81% natural gas and 19% crude oil and natural gas liquids in the fourth quarter of 2013.

Commodity prices

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

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

	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
Average benchmark prices:				
Light oil – WTI Cushing *($USD/bbl)*	73.15	97.46	92.99	97.97
Light oil – Edmonton Par *($/bbl)*	73.16	86.28	93.38	92.92
Natural gas – AECO – C daily *($/MMbtu)*(1)	3.60	3.52	4.50	3.17
Exchange rate – *(USD$/CDN$)*	1.14	1.05	1.11	1.03
Birchcliff's average realized sales price(2):				
Light oil *($/bbl)*	71.87	81.52	92.39	89.89
Natural gas *($/Mcf)*	3.91	3.81	4.74	3.41
NGLs *($/bbl)*	66.10	85.45	85.13	88.45
Barrels of oil equivalent *($/boe) (6:1)*	30.43	34.10	38.39	33.52

(1) $1.00/MMbtu = $1.00/Mcf based on a standard heat value Mcf.
(2) Excludes the effect of hedges using financial instruments.

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

Natural gas prices are mainly driven by North American supply and demand fundamentals which can be impacted by a number of factors including weather-related conditions, changing demographics, economic growth, natural gas storage levels, pipeline takeaway capacity, drilling and completion rates and efficiencies in extracting natural gas from North American natural gas basins.

The AECO natural gas spot price averaged $3.60 per Mcf and $4.50 per Mcf for the three and twelve month Reporting Periods, a 2% increase from the three month Comparable Prior Period and a 42% increase from the twelve month Comparable Prior Period. Birchcliff's realized natural gas sales price at the wellhead averaged $3.91 per Mcf and $4.74 per Mcf in the three and twelve month Reporting Periods which are higher than the posted benchmark prices for those periods. Birchcliff receives premium pricing for its natural gas production due to its high heat content.

The following table details Birchcliff's average realized sales price, heat content premium and other price differentials from its natural gas production during the three and twelve month Reporting Periods:

	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
AECO – C daily *($/MMbtu)*(1)	3.60	3.52	4.50	3.17
Heat content premium	0.35	0.29	0.44	0.24
Price differential between physical sales contracts and AECO – C daily	(0.04)	-	(0.20)	-
Average realized natural gas sales price *($/Mcf)*	**3.91**	3.81	**4.74**	3.41

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

Risk Management Contracts

In 2014, the Corporation had certain commodity price risk management contracts in place to reduce volatility in its financial results and protect its funds flow and capital expenditure program. As at December 31, 2014, the Corporation had no outstanding financial derivatives in place. The Corporation actively monitors the market to determine whether any additional commodity price risk management contracts are warranted.

Financial derivative contracts

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

	Three months ended December 31,				Twelve months ended December 31,			
	2014		2013		2014		2013	
	($000s)	($/boe)	($000s)	($/boe)	($000s)	($/boe)	($000s)	($/boe)
Realized gain on derivatives	1,222	0.35	-	-	291	0.01	-	-
Unrealized gain (loss) on derivatives	172	0.05	(379)	(0.15)	379	0.03	(379)	(0.04)

There were no financial derivative contracts entered into subsequent to December 31, 2014.

Physical sales contracts

Birchcliff had also entered into physical delivery sales contracts during 2014 to manage commodity risk. These contracts were considered normal executory sales contracts and were not recorded at fair value in the financial statements. As at December 31, 2014, the Corporation had no outstanding physical delivery sales contracts in place. There were no physical sales contracts entered into subsequent to December 31, 2014.

Royalties

The following table details the Corporation's royalty expense:

	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
Oil & natural gas royalties *($000s)*(1)	6,376	6,988	36,803	27,567
Oil & natural gas royalties *($/boe)*	1.84	2.68	2.99	2.92
Effective royalty rate *(%)*(2)	6%	8%	8%	9%

(1) Royalties are paid primarily to the Alberta Government.
(2) The effective royalty rate is calculated by dividing the aggregate royalties into petroleum and natural gas sales for the period.

The decrease in the effective royalty rate from the Comparable Prior Periods was mainly due to production royalty incentives for a number of Montney/Doig horizontal natural gas wells that are receiving a 5% royalty rate, offset by higher average natural gas wellhead prices received for Birchcliff's production during the Reporting Periods and the effect these higher natural gas prices have on the sliding scale royalty calculation.

Operating Costs

The following table provides a breakdown of operating costs:

	Three months ended December 31,				Twelve months ended December 31,			
	2014		2013		2014		2013	
	($000s)	($/boe)	($000s)	($/boe)	($000s)	($/boe)	($000s)	($/boe)
Field operating costs	18,737	5.40	15,703	6.01	65,331	5.31	59,850	6.35
Recoveries	(340)	(0.10)	(1,474)	(0.56)	(1,284)	(0.10)	(6,779)	(0.72)
Field operating costs, net	18,397	5.30	14,229	5.45	64,047	5.21	53,071	5.63
Expensed workovers and other	89	0.03	(26)	(0.01)	170	0.01	450	0.05
Operating costs	**18,486**	**5.33**	14,203	5.44	**64,217**	**5.22**	53,521	5.68

Birchcliff continues to focus on controlling the infrastructure it uses to produce its oil and natural gas and on reducing operating costs on a per boe basis.

Corporate operating costs per boe decreased from the Comparable Prior Periods largely due to the continued cost benefits achieved from processing incremental volumes of natural gas through the PCS Gas Plant and the implementation of various optimization initiatives, offset by reduced third-party natural gas processing recoveries as a result of the acquisition of a partner's 30% working interest in land and production in the Pouce Coupe area in January 2014.

On a production month basis, operating costs averaged $2.52 per boe at the PCS Gas Plant during 2014, where Birchcliff processed 69% of its total production.

Transportation and Marketing Expenses

Transportation and marketing expenses were $8.3 million ($2.39 per boe) for the three month Reporting Period and $30.0 million ($2.43 per boe) for the twelve month Reporting Period compared to $6.6 million ($2.52 per boe) and $23.2 million ($2.46 per boe) for the Comparable Prior Periods. The increased aggregate costs are primarily due to higher transportation expenses resulting from increased condensate trucking from the PCS Gas Plant due to liquids yields improving and higher production in the Reporting Periods as compared to the Comparable Prior Periods.

Operating Netbacks

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

	Three months ended December 31,		Twelve months ended December 31,	
	2014	**2013**	**2014**	**2013**
Montney/Doig Natural Gas Resource Play(1)				
Average daily production, net:				
Natural gas *(Mcf)*	177,075	124,426	155,149	111,813
Oil & NGLs *(bbls)*	1,804	972	1,526	676
Total boe *(6:1)*	**31,316**	21,709	**27,384**	19,311
% of corporate production(2)	**83%**	76%	**81%**	*75%*
Netback and cost *($/boe)*:				
Petroleum and natural gas revenue	25.96	25.68	31.63	22.92
Royalty expense	(0.61)	(0.90)	(1.39)	(0.72)
Operating expense, net of recoveries	(4.08)	(3.66)	(3.83)	(3.78)
Transportation and marketing expense	(1.81)	(1.56)	(1.81)	(1.56)
Operating netback	**19.46**	19.56	**24.60**	16.86
Worsley Charlie Lake Light Oil Resource Play(1)				
Average daily production, net:				
Natural gas *(Mcf)*	10,176	8,627	9,684	8,097
Oil & NGLs *(bbls)*	3,280	3,645	3,377	3,324
Total boe *(6:1)*	**4,976**	5,083	**4,991**	4,673
% of corporate production(2)	**13%**	18%	**15%**	*18%*
Netback and cost *($/boe)*:				
Petroleum and natural gas revenue	55.58	64.47	71.73	69.96
Royalty expense	(8.67)	(8.85)	(10.68)	(10.02)
Operating expense, net of recoveries	(10.97)	(9.22)	(10.13)	(9.32)
Transportation and marketing expense	(5.65)	(6.75)	(5.69)	(6.37)
Operating netback	**30.29**	39.65	**45.23**	44.25
Total Corporate				
Average daily production, net:				
Natural gas *(Mcf)*	192,499	138,132	169,852	125,712
Oil & NGLs *(bbls)*	5,621	5,369	5,426	4,877
Total boe *(6:1)*	**37,704**	28,391	**33,734**	25,829
Netback and cost *($/boe)*				
Petroleum and natural gas revenue	30.44	34.11	38.41	33.59
Royalty expense	(1.84)	(2.68)	(2.99)	(2.92)
Operating expense, net of recoveries	(5.33)	(5.44)	(5.22)	(5.68)
Transportation and marketing expense	(2.39)	(2.52)	(2.43)	(2.46)
Operating netback	**20.88**	23.47	**27.77**	22.53

(1) Most resource plays produce both oil and natural gas, however a resource play is categorized as either a natural gas resource play or an oil resource play based upon the predominate production or play type in that area.
(2) Production from Birchcliff's other conventional oil and natural gas properties were not individually significant during the Reporting Periods and Comparable Prior Periods.

Montney/Doig Natural Gas Resource Play

Birchcliff's production from the Montney/Doig Natural Gas Resource Play was 31,316 boe per day in the three month Reporting Period and 27,384 boe per day in the twelve month Reporting Period, a 44% and a 42% increase from the same periods in 2013. These increases were largely due to higher production of natural gas and liquids from new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant.

Birchcliff's recoveries of liquids from its Montney/Doig natural gas production increased to 10.2 bbls per MMcf in the three month Reporting Period and 9.8 bbls per MMcf in the twelve month Reporting Period, which is an increase of 30% and 63% from the Comparable Prior Periods. Of the 10.2 bbls per MMcf of liquids produced in the three month reporting period, approximately 9.9 bbls per MMcf (97%) is oil and condensate (C5+). Of the 9.8 bbls per MMcf of liquids produced in the twelve month reporting period, approximately 9.5 bbls per MMcf (97%) is oil and condensate (C5+). Any natural gas liquids not recovered from the raw natural gas stream increases the heating value of our sales gas and the resulting realized sales price.

Birchcliff's operating netback from the Montney/Doig Natural Gas Resource Play was $19.46 per boe ($3.24 per Mcfe) in the three month Reporting Period and $24.60 per boe ($4.10 per Mcfe) for the twelve month Reporting Period, a 1% decrease and a 46% increase from the same periods in 2013. The increase in the twelve month Reporting Period was largely due to higher realized prices received for Birchcliff's natural gas and liquids production in the Reporting Period as compared to the Comparable Prior Period.

Worsley Charlie Lake Light Oil Resource Play

Birchcliff's production from the Worsley Charlie Lake Light Oil Resource Play was 4,976 boe per day in the three month Reporting Period and 4,991 boe per day in the twelve month Reporting Period, a 2% decrease and a 7% increase from the Comparable Prior Periods.

Operating netback from the Worsley Charlie Lake Light Oil Resource Play was $30.29 per boe in the three month Reporting Period and $45.23 per boe in the twelve month Reporting Period, a 24% decrease and 2% increase from the Comparable Prior Periods. The decrease from the three month Comparable prior period was largely due to lower realized oil prices received in the three month Reporting Period.

Administrative Expenses

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

	Three months ended December 31,				Twelve months ended December 31,			
	2014		2013		2014		2013	
	($000s)	(%)	($000s)	(%)	($000s)	(%)	($000s)	(%)
Cash:								
Salaries and benefits[1]	11,065	80	9,492	76	24,298	66	21,100	63
Other[2]	2,833	20	3,068	24	12,644	34	12,308	37
	13,898	100	12,560	100	36,942	100	33,408	100
Operating overhead recoveries	(55)	(1)	(248)	(2)	(247)	(1)	(968)	(3)
Capitalized overhead[3]	(6,845)	(49)	(5,670)	(45)	(14,355)	(39)	(11,763)	(35)
General & administrative, net	6,998	50	6,642	53	22,340	60	20,677	62
General & administrative, net per boe	$2.02		$2.54		$1.81		$2.19	
Non-cash:								
Stock-based compensation	2,046	100	2,012	100	9,977[4]	100	7,582	100
Capitalized stock-based compensation[3]	(1,136)	(56)	(1,050)	(52)	(5,181)	(52)	(3,508)	(46)
Stock-based compensation, net	910	44	962	48	4,796	48	4,074	54
Stock-based compensation, net per boe	$0.26		$0.37		$0.39		$0.43	
Administrative expenses, net	**7,908**		7,604		**27,136**		24,751	
Administrative expenses, net per boe	**$2.28**		$2.91		**$2.20**		$2.62	

(1) Includes salaries, benefits and bonuses paid to all Officers and employees of the Corporation.
(2) Includes costs such as rent, legal, tax, insurance, minor computer hardware and software and other general business expenses incurred by the Corporation.
(3) Includes a portion of salaries, benefits and stock-based compensation directly attributable to the exploration and development activities of the Corporation which have been capitalized.
(4) On May 15, 2014, the Corporation's outstanding performance warrants were amended to extend the ultimate expiration date to January 31, 2020 from January 31, 2015. The Corporation recorded a non-cash stock-based compensation expense of approximately $1.7 million relating to the extension of the performance warrants in the twelve month Reporting Period.

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

	Twelve months ended December 31, 2014		Twelve months ended December 31, 2013	
	Number	Exercise price[1]	Number	Exercise price[1]
Outstanding at beginning of period	10,931,520	$8.31	12,463,872	$8.06
Granted	3,112,500	$9.08	3,137,700	$7.50
Exercised	(2,550,846)	($8.55)	(2,080,382)	($5.40)
Forfeited	(345,502)	($8.96)	(1,473,070)	($8.71)
Expired	-	-	(1,116,600)	($8.15)
Outstanding, End of Period	**11,147,672**	**$8.45**	10,931,520	$8.31

(1) Determined on a weighted average basis.

At December 31, 2014 there were 2,939,732 performance warrants outstanding with an exercise price of $3.00. In May 2014, the Corporation's outstanding performance warrants were amended to extend the expiration date to January 31, 2020 from January 31, 2015.

During the twelve month Reporting Period there were 5,986,699 preferred warrants exercised at $8.30 for total proceeds of approximately $49.7 million. Of the 6,000,000 preferred warrants issued, there were 13,301 preferred warrants that were not exercised prior to expiring on August 8, 2014.

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

Depletion and Depreciation Expenses

Depletion and depreciation ("**D&D**") expenses were $38.8 million ($11.17 per boe) for the three month Reporting Period and $136.3 million ($11.07 per boe) for the twelve month Reporting Period as compared to $30.6 million ($11.70 per boe) and $108.8 million ($11.54 per boe) for the Comparable Prior Periods. D&D expenses were higher on an aggregate basis mainly due to a 33% and 31% increase in production from the three and twelve month Comparable Prior Periods, respectively.

D&D is a function of the estimated proved plus probable reserve additions, the finding and development costs attributable to those reserves, the associated future development capital required to recover those reserves and production in the period. Included in the depletion calculation for 2014 were 465.0 MMboe of proved plus probable reserves and $3.2 billion of future development capital required to recover those reserves. The Corporation determines its D&D expenses on an area basis.

Asset Impairment Assessment

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

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

In light of the current low commodity price environment, Birchcliff performed an impairment test for its petroleum and natural gas assets on a CGU basis to assess for recoverability at December 31, 2014. Management has determined that the recoverable amount of Birchcliff's CGU exceeds the carrying amount at December 31, 2014 and therefore no impairment exists. At December 31, 2013, Birchcliff performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined there were no impairment triggers identified. As a result, an impairment test was not required at December 31, 2013.

Management has determined that the calculation of the recoverable amount is most sensitive to key assumptions regarding discount rates, commodity prices and estimated quantities of proved plus probable reserves and future production profile of those reserves. Each of these underlying key assumptions are reviewed by management and corroborated independently to assess for reasonableness. In determining the recoverable amount, Birchcliff applied a pre-tax discount rate of 10% on cash flows from proved plus probable reserves. The petroleum and natural gas future prices are based on period-end commodity price forecast assumptions determined by the Corporation's independent reserves evaluator.

Finance Expenses

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

	Three months ended December 31,				Twelve months ended December 31,			
	2014		2013		2014		2013	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Cash:								
Interest on credit facilities	4,924	1.42	4,608	1.77	19,332	1.57	21,501	2.28
Non-cash:								
Accretion on decommissioning obligations	547	0.16	619	0.24	2,424	0.20	2,175	0.23
Amortization of deferred financing fees	219	0.06	258	0.10	932	0.08	888	0.09
Finance expenses	**5,690**	**1.64**	5,485	2.11	**22,688**	**1.85**	24,564	2.60

The aggregate interest expense is impacted by pricing margins established under Birchcliff's bank credit agreements which are used to determine Birchcliff's average effective interest rate and the average balance outstanding under its bank credit facilities during the period.

The effective interest rate applicable to the working capital facility was 4.5% at the end of 2014 as compared to 4.8% at the end of 2013. The effective interest rates applicable to the bankers' acceptances issued under the syndicated credit facility were 4.4% in the three month Reporting Period and 4.2% in the twelve month Reporting Period, respectively, as compared to 4.1% and 4.9% in the Comparable Prior Periods. The effective interest rates applicable to the bankers' acceptances issued under the non-revolving term credit facilities were 4.3% in the three month Reporting Period and 4.5% in the twelve month Reporting Period as compared to 4.7% and 5.2%, respectively, in the Comparable Prior Periods.

Birchcliff's average outstanding total credit facilities balance was approximately $447 million and $445 million in the three and twelve month Reporting Periods, respectively, as compared to $423 million and $433 million in the Comparable Prior Periods, calculated as the simple average of the month end amounts.

Gain on Sale of Assets

During the three month Reporting Period, Birchcliff completed transactions whereby it disposed of minor assets in the Mulligan and Gold Creek areas of Alberta in exchange for cash and assets acquired in the Progress area of Alberta. As a result of these dispositions, Birchcliff recorded a gain on sale of assets of approximately $3.2 million ($2.4 million, net of tax) or $0.91 per boe in the three month Reporting Period.

In the fourth quarter of 2013, Birchcliff completed the sale of non-core assets in the Progress Doe Creek area for net proceeds of approximately $54.7 million. The sale encompassed approximately 520 boe per day of Doe Creek light oil production. Birchcliff recorded a gain on sale of assets totalling $33.8 million ($25.3 million, net of tax) or $12.93 per boe in the fourth quarter of 2013.

The sale of assets in the Mulligan, Gold Creek and Progress areas are not significant to the Corporation's financial results and operational performance and, as such, are considered non-core assets to Birchcliff.

Income Taxes

The components of income tax expense are shown in the table below:

($000s)	Three months ended December 31, 2014	Three months ended December 31, 2013	Twelve months ended December 31, 2014	Twelve months ended December 31, 2013
Deferred income tax expense	5,941	12,364	38,814	22,126
Dividend tax expense on preferred shares	750	750	3,000	2,364
Income tax expenses	**6,691**	13,114	**41,814**	24,490

The increase in income tax expense from the twelve month Comparable Prior Period was largely due to higher recorded net income before taxes which resulted in increased deferred income tax expense during the twelve month Reporting Period.

The decrease in income tax expense from the three month Comparable Prior Period was largely due to lower recorded net income before taxes which resulted in decreased deferred income tax expense during the three month Reporting Period.

The Corporation's estimated income tax pools were $1.4 billion at December 31, 2014. Management expects that future taxable income will be available to utilize the accumulated tax pools. The components of the Corporation's estimated income tax pools are shown in the table below:

($000s)	Tax pools as at December 31, 2014
Canadian oil and gas property expense	259,001
Canadian development expense	350,836
Canadian exploration expense	270,810
Undepreciated capital costs	240,423
Non-capital losses	272,775
Financing costs	3,542
Estimated income tax pools	**1,397,387**

The Corporation's 2006 and 2007 income tax filings were reassessed by the Canada Revenue Agency ("**CRA**") in 2011. The reassessments are based on the CRA's determination that the tax pools available to Veracel Inc. ("**Veracel**"), prior to its amalgamation with Birchcliff, ceased to be available to the Corporation after the amalgamation.

The Veracel tax pools in dispute totaled $39.3 million and includes approximately $16.2 million in non-capital losses, $15.6 million in scientific research and experimental development expenditures and $7.5 million in investment tax credits. The disputed assessments are outstanding at December 31, 2014. A trial of the matter was held in the Federal Court of Canada in November 2013 and Birchcliff is now awaiting the Court's decision.

The resolution of the disputed assessments may impact future income tax expense but will not impact cash taxes payable by the Corporation. Management believes that it will be successful in defending its tax position respecting the Veracel transaction, and as such, the Corporation has not recognized a related provision for the deferred income tax liability at December 31, 2014.

CAPITAL EXPENDITURES

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

($000s)	Three months ended December 31, 2014	Three months ended December 31, 2013	Twelve months ended December 31, 2014	Twelve months ended December 31, 2013
Land	4,650	1,789	17,694	36,782
Seismic	814	233	7,176	807
Workovers	1,321	1,759	7,889	7,619
Drilling and completions	80,097	57,261	271,455	177,904
Well equipment and facilities	25,761	11,631	92,342	45,006
Finding and development capital	112,643	72,673	396,556	268,118
Acquisitions	-	-	56,677	451
Dispositions	(3,692)	(54,774)	(3,823)	(54,778)
Finding, development and acquisition capital	108,951	17,899	449,410	213,791
Administrative assets	731	289	1,522	1,979
Capital expenditures, net	**109,682**	18,188	**450,932**	215,770

During 2014, Birchcliff spent approximately $56.0 million to acquire a partner's 30% working interest in lands and production on the Montney/Doig Natural Gas Resource Play. The Corporation also spent approximately $11.6 million on the Phase IV expansion of the PCS Gas Plant which increased processing capacity at the plant to 180 MMcf per day from 150 MMcf per day. Birchcliff drilled 57 (56.0 net) wells in 2014, consisting of 37 (37.0 net) natural gas wells and 20 (19.0 net) oil wells. The natural gas wells are all Montney/Doig horizontal wells and included 3 (3.0 net) exploration successes. The oil wells included 4 (4.0 net) Montney/Doig horizontal oil wells, 11 (11.0 net) Worsley Charlie Lake horizontal light oil wells, 1 (1.0 net) Progress Charlie Lake light oil well, 3 (2.0 net) Halfway horizontal light oil wells and 1 (1.0 net) Upper Doig horizontal light oil well.

Drilling activities during the fourth quarter of 2014 resulted in 15 (14.5 net) wells, comprised of 11 (11.0 net) natural gas wells and 4 (3.5 net) oil wells. The 11 (11.0 net) natural gas wells were all Montney/Doig horizontal natural gas wells. The oil wells included 2 (2.0 net) Montney/Doig horizontal light oil wells, 1 (1.0 net) Charlie Lake horizontal light oil well and 1 (0.5 net) Halfway horizontal light oil well.

CAPITAL RESOURCES AND LIQUIDITY

In response to the current commodity price environment, the Corporation initiated proactive measures for 2015 with a view to ensuring financial flexibility and long-term sustainability in a low commodity price environment including establishing a capital budget of $266.7 million well below the Corporation's original expectation for 2015 and negotiating reductions in various service costs. The Corporation expects to fund its 2015 capital program primarily using internally generated funds flow and available credit facilities. Birchcliff will adjust its 2015 capital budget to respond to changes in commodity prices and other material changes in the assumptions underlying its 2015 budget. The Corporation believes that its internally generated funds flow, supplemented by its existing undrawn credit facilities, will provide sufficient liquidity to sustain its operations, its dividends on preferred shares and its planned capital expenditures in the short and long-term.

Capital Resources

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

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2014**	**2013**	**2014**	**2013**
Funds flow from operations	61,717	50,060	300,498	174,361
Changes in non-cash working capital from operations	16,059	2,221	11,066	(3,448)
Decommissioning expenditures	(263)	(72)	(1,663)	(557)
Exercise of stock options	558	4,680	21,820	11,240
Exercise of preferred warrants	-	-	49,690	-
Issue of capital securities	-	-	-	50,000
Share issue costs	-	-	-	(2,169)
Financing fees paid on credit facilities	-	-	(1,018)	(945)
Dividends paid on preferred shares	(1,875)	(1,875)	(7,500)	(5,913)
Net change in non-revolving term credit facilities	(30)	(383)	703	59,843
Net change in revolving term credit facilities	33,378	(50,550)	73,362	(97,529)
Changes in non-cash working capital from investing	138	14,107	3,932	30,937
Capital resources	**109,682**	18,188	**450,890**	215,820

Working Capital

The Corporation's adjusted working capital deficit increased to $76.7 million at December 31, 2014 from $60.1 million at December 31, 2013. The deficit at the end of the Reporting Period is largely comprised of costs incurred from the drilling and completion of new wells.

At December 31, 2014, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of December 2014 production (82%), which was subsequently received in January 2015. In contrast, current liabilities largely consisted of trade and joint venture payables (70%) and accrued capital and operating costs (29%). Birchcliff routinely assesses the financial strength of its marketers and joint venture partners in accordance with the Corporation's credit risk guidelines. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations.

Birchcliff manages its working capital deficit using funds flow from operations and advances under its bank credit facilities. The Corporation's working capital deficit does not reduce the amount available under its bank credit facilities. The Corporation did not identify any liquidity issues with respect to the operation of its petroleum and natural gas business during the Reporting Periods.

Bank Debt

Total debt, including the adjusted working capital deficit, was $545.7 million at December 31, 2014 as compared to $454.0 million at December 31, 2013. Total debt from the end of 2013 increased by $91.7 million, largely due to capital spent in excess of funds flow offset by proceeds from the exercise of preferred warrants and stock options in 2014.

A significant portion of the funds drawn under Birchcliff's bank credit facilities in 2014 was to pay costs relating to the drilling and completion of new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant, the Phase IV expansion of the PCS Gas Plant and on the exploration and development of the Montney/Doig Resource Natural Gas Play and the Worsley Charlie Lake Light Oil Resource Play.

Birchcliff's available bank credit facilities limit aggregate to approximately $750 million at December 31, 2014, leaving $277 million (37%) of the Corporation's credit facilities unutilized for substantial financial flexibility. The following table shows the Corporation's unused bank credit facilities:

As at, *($000s)*	**December 31, 2014**	**December 31, 2013**
Maximum borrowing base limit(1)(2):		
Non-revolving term credit facilities	130,000	129,300
Revolving term credit facilities	620,000	470,000
	750,000	599,300
Principal amount utilized:		
Drawn non-revolving term credit facilities(3)	(130,000)	(129,300)
Drawn revolving term credit facilities(3)	(342,433)	(268,411)
Outstanding letters of credit(4)	(184)	(184)
	(472,617)	(397,895)
Unused credit	**277,383**	201,405
% unused credit	**37%**	34%

(1) The Corporation's credit facilities are subject to an annual review of the borrowing base limit, which is directly impacted by the value of Birchcliff's petroleum and natural gas reserves.

(2) The quarterly financial covenants applicable to the Corporation's credit facilities include (i) an interest coverage ratio, which is calculated on a historical rolling four quarter basis, as earnings before interest and non-cash items including income taxes, stock-based compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments and depletion, depreciation and amortization ("**EBITDA**") divided by interest expense; and (ii) a debt to EBITDA ratio. "Interest expense" for this purpose means total interest charges on borrowings with respect to all outstanding indebtedness and all preferred share dividends declared and paid in the period. "Debt" for this purpose means indebtedness for borrowed money, as determined at the end of the reporting period, and includes outstanding debt under the Corporation's credit facilities as shown on the statements of financial position before unamortized deferred financing fees and including outstanding letters of credit, but does not include working capital deficiency and capital securities.
The Corporation is required to ensure that on the last day of each quarter, the ratio of EBITDA to interest expense, determined on a historical rolling four quarter basis equals or exceeds 3.5:1.0 and the ratio of debt to EBITDA, determined on a historical rolling four quarter basis does not exceed 4.0:1.0. At December 31, 2014, Birchcliff's EBITDA to interest expense was 11.9:1.0 and debt to EBITDA was 1.4:1.0. The Corporation was compliant with all financial covenants under its credit facilities as at December 31, 2014 and December 31, 2013.

(3) The drawn amounts are not reduced for unamortized costs and fees associated with each credit facility.

(4) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit during the periods ended December 31, 2014 and December 31, 2013.

Contractual Obligations

The Corporation enters into contractual obligations in the ordinary course of conducting its day-to-day business. The following table lists Birchcliff's estimated material contractual obligations at December 31, 2014:

($000s)	**2015**	**2016**	**2017 - 2019**	**Thereafter**
Accounts payable and accrued liabilities	113,309	-	-	-
Drawn non-revolving term credit facilities	-	70,000	60,000	-
Drawn revolving term credit facilities	-	-	342,433	-
Office lease(1)	3,619	3,619	3,318	-
Purchase obligations(2)	30,716	15,145	-	-
Transportation and processing	19,108	20,581	53,969	59,287
Estimated contractual obligations(3)	**166,752**	**109,345**	**459,720**	**59,287**

(1) The Corporation is committed under an operating lease relating to its office premises, beginning December 1, 2007 and expiring on November 30, 2017. Effective December 1, 2012, Birchcliff is committed to the entire leased premise and has not sublet any excess space to an arm's length party.

(2) The Corporation is committed to spend approximately $45.9 million in 2015 and 2016 under a purchasing agreement relating to the construction of Phase V of the PCS Gas Plant.

(3) Contractual commitments that are routine in nature and form part of the normal course of operations for Birchcliff are not included. The Corporation's decommissioning obligations are excluded from the table as these obligations arose from a regulatory requirement rather than from a contractual arrangement. Birchcliff estimates the total undiscounted cash flow to settle its decommissioning obligations on its wells and facilities at December 31, 2014 to be approximately $155.8 million and will be incurred as follows: 2016 - $4.8 million, 2017-$2.4 million and $148.6 million thereafter. The estimate for determining the undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.
Birchcliff's Series C Preferred Shares, which are redeemable by their holders after June 30, 2020, have not been included in this table as they are not contractual obligations of the Corporation at the end of the Reporting Periods. Upon receipt of a notice of redemption, the Corporation has an obligation to redeem the Series C Preferred Shares, at its option, in cash or common shares.

Off-Balance Sheet Transactions

Birchcliff was not involved in any off-balance sheet transactions that would result in a material change to its financial position, performance or cash flows during the Reporting Periods and Comparable Prior Periods.

OUTSTANDING SHARE INFORMATION

At December 31, 2014, Birchcliff had outstanding common shares, Series A Preferred Shares and Series C Preferred Shares. Birchcliff's common shares began trading on the TSX on July 21, 2005 under the symbol "**BIR**" and were at the same time de-listed from the TSX Venture Exchange where they were trading under the same symbol prior to such time. Birchcliff's common shares are included in the S&P/TSX Composite Index. Birchcliff's Series A Preferred Shares and Series C Preferred Shares are individually listed on the TSX under the symbols "**BIR.PR.A**"and "**BIR.PR.C**", respectively.

The following table summarizes the common shares issued:

	Common shares
Balance at December 31, 2012	141,596,279
Exercise of options	2,080,382
Balance at December 31, 2013	143,676,661
Exercise of options	2,550,846
Exercise of preferred warrants	5,986,699
Balance at December 31, 2014	**152,214,206**

As of March 13, 2015, the Corporation had outstanding: 152,277,539 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 12,891,871 stock options to purchase an equivalent number of common shares; and 2,939,732 performance warrants to purchase an equivalent number of common shares.

On December 3, 2014, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A Preferred Share and $0.875 million or $0.4375 per Series C Preferred Share for the calendar quarter ending December 31, 2014. Both dividends are designated as an eligible dividend for purposes of the *Income Tax Act* (Canada).

In 2014, cash dividends totalled $4.0 million or $2.00 per Series A Preferred Share (2013 - $4.0 million or $2.00 per Series A) and $3.5 million or $1.75 per Series C Preferred Share (2013 - $1.9 million or $0.96 per Series C).

SUMMARY OF QUARTERLY RESULTS

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

Quarter ending,	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Sep. 30, 2013	Jun. 30, 2013	Mar. 31, 2013
Average daily production *(boe 6:1)*	**37,704**	34,235	31,178	31,749	28,391	24,662	24,141	26,108
Realized natural gas price *($/Mcf)*	**3.91**	4.37	4.81	6.10	3.81	2.60	3.78	3.40
Realized oil price *($/bbl)*[(1)]	**71.87**	95.94	104.72	97.30	81.52	102.82	91.19	84.82
Total revenues *($000s)*[(1)]	**105,598**	116,424	117,308	133,558	89,092	72,762	79,065	75,718
Operating costs *($/boe)*	**5.33**	5.06	5.25	5.21	5.44	5.66	5.89	5.77
Capital expenditures, net *($000s)*	**109,682**	104,363	75,484	161,403	18,188	76,186	40,386	81,010
Funds flow from operations *($000s)*	**61,717**	75,030	75,382	88,369	50,060	43,053	41,804	39,444
Per common share – basic *($)*	**0.41**	0.50	0.52	0.61	0.35	0.30	0.29	0.28
Per common share – diluted *($)*	**0.40**	0.48	0.49	0.60	0.34	0.30	0.29	0.27
Net income *($000s)*	**17,053**	29,665	28,087	39,499	37,062	10,156	10,775	7,424
Net income to common shareholders *($000s)*[(2)]	**16,053**	28,665	27,087	38,499	36,062	9,156	9,775	6,424
Per common share – basic *($)*	**0.11**	0.19	0.19	0.27	0.25	0.06	0.07	0.05
Per common share – diluted *($)*	**0.10**	0.19	0.18	0.26	0.25	0.06	0.07	0.04
Total assets *($ million)*	**1,919**	1,846	1,771	1,730	1,587	1,558	1,514	1,499
Long-term bank debt *($000s)*	**469,033**	435,545	452,183	453,772	393,967	444,719	409,091	451,371
Total debt *($000s)*	**545,745**	495,307	514,637	524,720	454,038	487,707	453,123	502,291
Dividends on pref. shares - Series A *($000s)*	**1,000**	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Dividends on pref. shares - Series C *($000s)*	**875**	875	875	875	875	1,038	-	-
Pref. shares outstanding - Series A *(000s)*	**2,000**	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Pref. shares outstanding - Series C *(000s)*	**2,000**	2,000	2,000	2,000	2,000	2,000	2,000	-
Common shares outstanding *(000s)*								
Basic	**152,214**	152,154	145,912	144,504	143,677	142,752	142,390	142,096
Diluted	**166,302**	166,190	166,285	166,085	163,548	163,396	164,110	164,107
Wtd. average common shares outstanding *(000s)*								
Basic	**152,183**	149,594	145,145	144,026	143,063	142,549	142,240	141,821
Diluted	**155,304**	154,800	152,623	147,090	145,319	145,087	145,165	144,366

(1) Excludes the effect of hedges using financial instruments.
(2) Reduced for Series A Preferred Share dividends paid in the period.

Over the past eight quarters, the Corporation's oil and gas revenues have generally increased due to a successful drilling program. Fluctuations in production and commodity prices have also contributed to the fluctuations in oil and gas revenues.

Production was higher compared to the third quarter of 2014 and the fourth quarter of 2013 mainly due to incremental production added from new Montney/Doig horizontal natural gas wells that were drilled, completed and tied into the PCS Gas Plant, offset by natural production declines. Year-over-year fourth quarter production was also higher due to the acquisition of approximately 1,600 boe per day of production from a partner's 30% working interest in joint lands in January 2014.

Funds flow decreased compared to the third quarter of 2014 and was largely impacted by an 11% decrease in realized natural gas prices and a 25% decrease in realized oil prices offset by an 11% increase in natural gas production in the fourth quarter of 2014. Compared to the fourth quarter of 2013, funds flow was higher primarily due to an increase in both realized natural gas prices and natural gas production and offset by lower realized oil prices and oil production.

Birchcliff generated net income to common shareholders of $16.1 million in the fourth quarter of 2014, a decrease of 44% from $28.7 million recorded in the third quarter of 2014 and a decrease of 55% from $36.1 million recorded in the fourth quarter of 2013. The decrease from the third quarter of 2014 was largely driven by lower funds flow (attributed to the decrease in oil and natural gas spot prices) and higher depletion costs resulting for increased natural gas production and offset by lower income tax expense in the fourth quarter of 2014. The decrease from the fourth quarter of 2013 was mainly attributable to a decrease in gain on sale of assets and higher depletion costs resulting from increased production in the fourth quarter of 2014. This decrease was offset by higher funds flow from operations and lower income taxes in the fourth quarter of 2014. Included in net income in the fourth quarter of 2014 was a $3.2 million ($2.4 million, net of tax) gain on the sale of assets compared to $33.8 million ($25.3 million, net of tax) gain in the fourth quarter of 2013.

Total debt year-over-year increased by $91.7 million largely due to capital spent in excess of funds flow, offset by proceeds from the exercise of preferred warrants and stock options in 2014.

At December 31, 2014, Birchcliff had 152,214,206 common shares outstanding compared to 143,676,661 at the end of 2013. During 2014, Birchcliff issued approximately 2,550,846 common shares resulting from stock option exercises and approximately 5,986,699 common shares resulting from preferred warrant exercises.

POTENTIAL TRANSACTIONS

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Corporation's Chief Executive Officer and Chief Financial Officer (the "**Certifying Officers**") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("**DC&P**"), as defined in National Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings* ("**NI 52-109**"), to provide reasonable assurance that: (i) material information relating to the Corporation is made known to the Certifying Officers by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by the Corporation under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's DC&P at December 31, 2014 and have concluded that the Corporation's DC&P were effective at December 31, 2014.

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

Internal Controls over Financial Reporting

The Certifying Officers have designed, or caused to be designed under their supervision, internal controls over financial reporting ("**ICFR**"), as defined in NI 52-109, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the generally accepted accounting principles applicable to the Corporation. The control framework the Certifying Officers used to design the Corporation's ICFR is "*Internal Control-Integrated Framework (May 2013)*" published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's ICFR at December 31, 2014 and have concluded that the Corporation's ICFR were effective at December 31, 2014. There were no changes in the Corporation's ICFR that occurred during the period beginning on October 1, 2014 and ended on December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

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

CRITICAL ACCOUNTING ESTIMATES

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

Critical Judgments in Applying Accounting Policies

The following are critical judgments that management has made in the process of applying the Corporation's IFRS accounting policies and that have the most significant effect on the amounts recognized in the audited financial statements for the Reporting Periods.

Identification of cash-generating units

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

Identification of impairment indicators

IFRS requires Birchcliff to assess, at each reporting date, whether there are any indicators that its assets may be impaired. Birchcliff is required to consider information from both external sources (such as negative downturn in 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 reserves, 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 and may impact the carrying value of the Corporation's assets in future periods.

Tax uncertainties

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

Key Sources of Estimation Uncertainty

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

Reserves

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

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

Share-based payments

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

Decommissioning obligations

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

Impairment of non-financial assets

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

Income taxes

Birchcliff files corporate income tax, goods and 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 balance sheet date could be impacted.

ADOPTION OF NEW ACCOUNTING STANDARD

Effective January 1, 2014, the Corporation adopted IFRIC 21 *Levies*, which addresses payments made to government bodies. There was no impact to the Corporation's financial statements as a result of adopting this new standard.

FUTURE ACCOUNTING PRONOUNCEMENTS

On May 28, 2014, the IASB issued IFRS 15 *Revenue From Contracts With Customers* replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue* and several revenue-related interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. Birchcliff is currently assessing the impact of adopting IFRS 15, however, it anticipates that this standard will not have a material impact on the Corporation's financial statements.

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

RISK FACTORS AND RISK MANAGEMENT

Financial Risks and Risks Relating to Economic Conditions

Commodity Price Volatility

The Corporation's revenues, operating results and financial condition are substantially dependent upon the prices that it receives for oil, natural gas and NGLs and the prices that it receives for such products is closely correlated to the price of crude oil and natural gas. Since the latter half of 2014, crude oil prices have declined substantially. Historically, crude oil and natural gas markets have been volatile and are likely to continue to be volatile in the future. Crude oil and natural gas prices have fluctuated widely during recent years and, in particular, in recent months, and are subject to fluctuations in response to changes in supply, demand, market uncertainty and other factors that are beyond the Corporation's control. These factors include, but are not limited to:

- global energy policy, including (without limitation) the ability of the Organization of the Petroleum Exporting Countries ("**OPEC**") to set and maintain production levels and influence prices for crude oil;
- political instability and hostilities;
- domestic and foreign supplies of crude oil;
- the overall level of energy demand;
- weather conditions;
- government regulations;
- taxes;
- currency exchange rates;
- the availability of refining capacity and transportation infrastructure;
- the effect of worldwide environmental and/or energy conservation measures;
- the price and availability of alternative energy supplies; and
- the overall economic environment.

The price for crude oil declined significantly in the latter half of 2014 and into 2015. Any prolonged period of low crude oil or natural gas prices could result in a decision by the Corporation to suspend or slow exploration and development activities, the construction or expansion of new or existing facilities or reduce production levels. Any of such actions could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects and ultimately on the market price of the Corporation's securities, the Corporation's ability to pay dividends on its preferred shares and on the value of the Corporation's reserves.

Volatility in oil and natural gas prices makes it difficult to estimate the value of producing properties for acquisitions and often causes disruption in the market for oil and natural gas producing properties, as buyers and sellers may have difficultly agreeing on the value of such properties. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

The Corporation's reserves as at December 31, 2014 are estimated using forecast prices and costs. These prices are substantially above current crude oil and natural gas prices. If crude oil and natural gas prices stay at current levels, the Corporation's reserves may be substantially reduced as economic limits of developed reserves are reached earlier and undeveloped reserves become uneconomic at such prices. Even if some reserves remain economic at lower price levels, sustained low prices may compel the Corporation to re-evaluate its development plans and reduce or eliminate various projects with marginal economics.

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

Additional Funding Requirements and Access to Credit Markets

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

Because of global economic volatility, the Corporation may from time to time have restricted access to capital and increased borrowing costs. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its reserves or to maintain its production. To the extent that external sources of capital become limited, unavailable or available on onerous terms, the Corporation's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result. In addition, the future development of the Corporation's petroleum properties may require additional financing and there are no assurances that such financing will be available or, if available, will be available upon acceptable terms. Failure to obtain any financing necessary for the Corporation's capital expenditure plans may result in a delay in development or production on the Corporation's properties.

The Corporation is also dependent, to a certain extent, on continued access to equity capital markets. The common shares are listed on the TSX and management maintains an active investor relations program. Continued access to capital is dependent on the Corporation's ability to continue to perform at a level that meets market expectations.

Issuance of Debt

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

Global Financial Markets

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the American and European sovereign debt levels, have caused significant volatility in commodity prices. These events and conditions have caused a decrease in confidence in the broader United States and global credit and financial markets and have created a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. While there are signs of economic recovery, these factors have negatively impacted Corporation valuations and are likely to continue to impact the performance of the global economy going forward. Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, actions taken by OPEC and the ongoing global credit and liquidity concerns. This volatility may in the future affect the Corporation's ability to obtain equity or debt financing on acceptable terms.

Ability to Pay Dividends on Preferred Shares

Dividends on the Corporation's outstanding preferred shares, being the Series A Preferred Shares and Series C Preferred Shares, are payable at the discretion of the Board. The Corporation may not declare or pay a dividend if there are reasonable grounds for believing that: (i) the Corporation is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realizable value of the Corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of its outstanding shares. Additionally, the Corporation may only declare and pay cash dividends on the outstanding preferred shares if no default or event of default shall have occurred or shall occur under the Corporation's credit facilities as a result of declaring such dividend.

Credit Facilities

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

The Corporation's lenders use the Corporation's reserves, commodity prices, applicable discount rate and other factors to periodically determine the Corporation's borrowing base. A material decline in commodity prices could reduce the Corporation's borrowing base, reducing the funds available to the Corporation under the credit facilities. This could result in the requirement to repay a portion, or all, of the Corporation's bank indebtedness.

Hedging

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

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

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

In 2014, the Corporation initiated a hedging program with contracts for forward physical sales of natural gas during the summer months of April 1 to October 31, 2014 and WTI put options (financial derivatives) for crude oil throughout the year. As at December 31, 2014, the Corporation had no financial derivatives in place as all 2014 contracts expired on December 31, 2014.

Counterparty Credit Risk

The Corporation may be exposed to third-party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may affect a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner.

Variations in Foreign Exchange Rates and Interest Rates

World oil and natural gas prices are quoted in United States dollars. The Canadian/United States dollar exchange rate, which fluctuates over time, consequently affects the price received by Canadian producers of oil and natural gas. Material increases in the value of the Canadian dollar relative to the United States dollar may negatively affect the Corporation's production revenues. Future Canadian/United States exchange rates could also impact the future value of the Corporation's reserves as determined by independent evaluators.

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

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

Business and Operational Risks

Exploration, Development and Production

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

The Corporation remains subject to the risk that the production rate of a significant well may decrease in an unpredictable and uncontrollable manner, which could result in a decrease in the Corporation's overall production and associated cash flows. The Corporation mitigates this risk by having a large number of wells on production, reducing the ability of any one well to materially affect overall production and associated cash flow.

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

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

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

Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

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

Project Risks

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

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;

- the availability of storage capacity;
- the availability of, and the ability to acquire, water supplies needed for drilling and hydraulic fracturing, or the Corporation's ability to dispose of water used or removed from strata at a reasonable cost and in accordance with applicable environmental regulations;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- regulatory changes;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

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

Availability of Processing and Pipeline Capacity

The Corporation is subject to deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and the possible inability to secure space on gathering systems that deliver production to processing facilities and on pipelines which deliver oil and natural gas to commercial markets. The majority of the Corporation's production passes through Birchcliff owned or third-party infrastructure prior to it being ready for transfer at designated commodity sales points. There is a risk that should this infrastructure fail and cause a significant portion of the Corporation's production to be shut-in and be unable to be sold, this could have a material adverse effect on the Corporation's available cash flow. The Corporation mitigates this risk by purchasing business interruption and property insurance policies for Birchcliff owned infrastructure and contingent business interruption insurance policies for its significant third-party infrastructure.

Hydraulic Fracturing

Hydraulic fracturing involves the injection of water, sand and small amounts of additives under pressure into rock formations to stimulate hydrocarbon production. The use of hydraulic fracturing is necessary to produce commercial quantities of natural gas and oil from many reservoirs. The Corporation anticipates that federal, provincial and state regulatory frameworks to address concerns related to hydraulic fracturing will continue to emerge. The implementation of new regulations with respect to hydraulic fracturing could lead to operational delays, as well as increase the Corporation's costs of compliance and its operating costs and may negatively impact the Corporation's prospects, any of which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that the Corporation is ultimately able to produce from its reserves. The Corporation conducts its fracturing operations with reputable service providers, with due regard for potential impact on the environment and closely monitors and complies with the regulatory regime.

Uncertainty of Reserve Estimates

There are a number of uncertainties inherent in estimating the quantities of reserves and resources and the future cash flows attributed to such reserves, including many factors beyond the control of the Corporation. In general, estimates of oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as: (i) historical production from the properties; (ii) initial production rates; (iii) production decline rates; (iv) ultimate recovery of reserves; (v) the success of future development activities; (vi) the timing and amount of capital expenditures; (vii) marketability of production; (viii) future operating costs; and (ix) the assumed effects of regulation by governmental agencies and government levies imposed over the life of the reserves, all of which may vary considerably from actual results. For these reasons, estimates of oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom, prepared by different engineers or by the same engineer at different times, may vary substantially. The actual production, revenues, taxes and development and operating expenditures of the Corporation with respect to these reserves will vary from such estimates and such variances could be material.

Estimates with respect to proved plus probable reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be substantial, in the estimated reserves.

Consistent with Canadian securities disclosure legislation and policies, the Corporation has used forecast prices and costs in calculating reserve quantities. Actual future net cash flows also will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulations or taxation and the impact of inflation on costs. NI 51-101 requires the inclusion of the following statement in estimates of future net revenues based on reserves estimates, "estimates of future net revenues, whether discounted or not, do not represent fair market value".

Actual production and cash flows derived from the Corporation's reserves will vary from the estimates contained in the 2014 Reserves Evaluation, and such variations could be material. The 2014 Reserves Evaluation is based in part on the assumed success of activities the Corporation intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom and contained in the 2014 Reserves Evaluation may be reduced to the extent that such activities do not achieve the level of success assumed in the evaluation. The 2014 Reserves Evaluation is effective as of December 31, 2014 and has not been updated and therefore does not reflect changes in the Corporation's reserves since that date.

Costs and Availability of Equipment and Services

During times of high commodity prices for oil and natural gas, there is a risk of substantially increased cost of operation, which impacts both the amount of capital required to perform operations and the netback the Corporation achieves from its production sales. Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities. Although the Corporation strives for continuous improvement in its planning, operations and procurement of materials, unexpected changes in the market for such equipment and services could negatively affect the Corporation's business, financial condition, results of operations and prospects.

Operational Dependence

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

Cost of New Technologies

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

Alternatives to and Changing Demand for Petroleum Products

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

Health, Safety and Environment

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

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

Reserve Replacement

Oil and natural gas reserves naturally deplete as they are produced over time. The success of the Corporation's business is highly dependent on its ability to acquire or discover new reserves in a cost efficient manner. Substantially all of the Corporation's cash flow is derived from the sale of the petroleum and natural gas reserves it accumulates and develops. In order to remain financially viable, the Corporation must be able to replace reserves over time at a lesser cost on a per unit basis than its cash flow on a per unit basis. The reserves and costs used in this determination are estimated each year based on numerous assumptions and these estimates and costs may vary materially from the actual reserves produced or from the costs required to produce those reserves. In order to mitigate this risk, the Corporation employs a competent and experienced team of petroleum and natural gas professionals and closely monitors the capital expenditures made for the purposes of increasing its petroleum and natural gas reserves. Historically, the Corporation's finding, development and acquisition costs and reserves replacement on a proved plus probable basis have remained competitive compared to industry peers.

Seasonality

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. A mild winter or wet spring may result in limited access and, as a result, reduced operations or a cessation of operations. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consist of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of the Corporation.

Expiration of Licences and Leases

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

Competition

The oil and natural gas industry is highly competitive, particularly as it pertains to the exploration for and development of new sources of oil and natural gas reserves. The industry also competes with other industries in supplying non-petroleum energy products. The Corporation actively competes for land, production and reserve acquisitions, exploration leases, licences and concessions and skilled technical and operating personnel with a substantial number of other oil and natural gas companies, many of which have greater financial resources, staff and facilities than the Corporation. Competitive factors in the distribution and marketing of oil and natural gas include price, methods, and reliability of delivery and storage. Competition may also be presented by alternate fuel sources.

Environmental and Regulatory Risks

Environmental Regulation

The oil and gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. Environmental legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. Compliance with such legislation can require significant expenditures and a breach of any such legislation may result in the imposition of fines or other penalties, as well as the responsibility to remedy environmental problems caused by the Corporation's operations. A serious breach could result in the Corporation being required to suspend operations or enter into an interim compliance measure which may restrict the Corporation's ability to conduct operations.

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

Political and economic events may significantly affect the scope and timing of climate change measures that are put in place. Some of the Corporation's facilities may be subject to future provincial or federal climate change regulations to manage emissions and there can be no assurance that the compliance costs will be immaterial. The implementation of new environmental regulations or the modification of existing environmental regulations affecting the crude oil and natural gas industry generally could reduce demand for crude oil and natural gas and increase costs.

Changes in Legislation

Government royalties, income tax laws, environmental laws and regulatory requirements can have a significant financial and operational impact on the Corporation. As an oil and natural gas producer, the Corporation is subject to a broad range of regulatory requirements. Negative consequences which could arise as a result of changes to the current regulatory environment include, but are not limited to, extraordinary environmental and emissions regulation of current and future projects by governmental authorities, which could result in changes to facility design and operating requirements, thereby potentially increasing the cost of construction, operation and abandonment. There can be no assurance that the federal government and the provincial governments of the western provinces will not adopt new royalty regimes or modify the existing royalty regimes which may have an impact on the economics of the Corporation's projects. An increase in royalties would reduce the Corporation's earnings and could make future capital investments, or the Corporation's operations, less economic. In addition, legislation or policies that limit the purchase of crude oil or bitumen produced from the oil sands may be adopted in domestic and/or foreign jurisdictions, which, in turn, may limit the world market for this crude oil and reduce its price. The Corporation hires and retains skilled personnel that are knowledgeable regarding changes to the regulatory regime under which it operates.

Other Risks

Volatility of Market Price of Securities

The trading price of the Corporation's securities is subject to volatility as a result of factors both related and unrelated to the financial performance of the Corporation. The market price of the Corporation's securities may respond to variations in the Corporation's operating results, financial condition, liquidity and other internal factors. The market price of the Corporation's securities may also respond to factors unrelated to the Corporation's performance such as commodity prices and the market perception of the attractiveness of the oil and gas industry.

Insurance

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

Management of Growth

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. An inability of the Corporation to effectively deal with this growth could have a material adverse impact on its business, financial condition, results of operations and prospects. Management mitigates this risk by continually implementing appropriate procedures and policies for its size, upgrading its systems, training its employees and providing effective supervision and management of its staff.

Reliance on Key Personnel

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

Litigation

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

Title to Assets

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the Corporation's ownership claims. If a title defect does exist, this could result in the Corporation losing all or a portion of its right title and interest in and to the properties to which the title defects relate which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights in portions of Western Canada. The Corporation is not aware that any claims have been made in respect of its properties or assets; however, the legal basis of an aboriginal land claim and aboriginal rights is a matter of considerable legal complexity and the impact of the assertion of such a claim, or the possible effect of a settlement of such claim upon the Corporation, cannot be predicted with any degree of certainty at this time. In addition, no assurance can be given that any recognition of aboriginal rights or claims whether by way of a negotiated settlement or by judicial pronouncement (or through the grant of an injunction prohibiting exploration or development pending resolution of any such claim) would not delay or even prevent the Corporation's exploration and development activities. If a claim arose and was successful, such claim may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Corporation makes acquisitions and dispositions of properties and other assets in the ordinary course of business. Typically, once an opportunity is identified, a review of available information relating to the assets is conducted with most of the review effort being focused on the most significant assets. There is a risk that even a detailed review of records and assets may not necessarily reveal every existing or potential problem, nor will it permit the Corporation to become sufficiently familiar with the assets to fully assess their deficiencies and potential. Inspections may not always be performed on every well, and environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, the Corporation may assume certain environmental and other risk liabilities in connection with acquired assets. There are numerous uncertainties inherent in estimating quantities of oil and gas reserves and actual future production rates and associated costs with respect to acquired properties, and actual results may vary substantially from those assumed in estimates.

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

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

Income Taxes

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

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

Breaches of Confidentiality

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

Dilution

The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive.

Forward-Looking Information May Prove Inaccurate

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

NON-GAAP MEASURES

This MD&A uses "funds flow", "funds flow from operations", "funds flow per common share", "netback", "operating netback", "estimated operating netback", "funds flow netback", "operating margin", "total cash costs", "cash costs", "adjusted working capital deficit" and "total debt" which do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Management utilizes funds flow, funds flow from operations, funds flow per common share, netback, operating netback, estimated operating netback, funds flow netback, operating margin, total cash costs and cash costs as key measures to assess the Corporation's efficiency and its ability to generate the cash necessary to fund future growth through capital investments, pay dividends on preferred shares and repay debt. Management uses adjusted working capital deficit and total debt as key measures to assess the liquidity of the Corporation.

"Funds flow" and "funds flow from operations" denote cash flow from operating activities before the effects of decommissioning expenditures and changes in non-cash working capital. "Funds flow per common share" denotes funds flow divided by the basic or diluted weighted average number of common shares outstanding for the period. The following table sets out the reconciliation of cash flow from operating activities, as determined in accordance with IFRS, to funds flow from operations:

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2014**	**2013**	**2014**	**2013**
Cash flow from operating activities	77,513	52,209	309,901	170,356
Adjustments:				
Decommissioning expenditures	263	72	1,663	557
Changes in non-cash working capital	(16,059)	(2,221)	(11,066)	3,448
Funds flow from operations	**61,717**	50,060	**300,498**	174,361

"Netback" and "operating netback" denote petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. "Estimated operating netback" of the PCS Gas Plant (and the components thereof) is based upon certain cost allocations and accruals directly related to the PCS Gas Plant and related wells and infrastructure on a production month basis. "Funds flow netback" denotes petroleum and natural gas revenue less royalties, less operating expenses, less transportation and marketing expenses, less net general and administrative expenses, less interest expenses and less any realized losses (plus realized gains) on financial instruments and plus other cash income sources.

"Operating margin" for the PCS Gas Plant is calculated by dividing the estimated operating netback for the period by the petroleum and natural gas revenue for the period.

"Total cash costs" are comprised of royalty, operating, transportation and marketing, general and administrative and interest costs.

"Cash costs" are comprised of operating, transportation and marketing, general and administrative and interest costs.

"Adjusted working capital deficit" is calculated as current assets minus current liabilities excluding the effects of financial instruments. The following table reconciles current assets minus current liabilities to adjusted working capital deficit.

As at, *($000s)*	**December 31, 2014**	**December 31, 2013**
Working capital deficit	76,712	60,450
Fair value of financial instruments	-	826
Deferred premium on financial instruments	-	(1,205)
Adjusted working capital deficit	**76,712**	60,071

"Total debt" is calculated as the revolving term credit facilities plus non-revolving term credit facilities as they appear on the Corporation's statements of financial position plus adjusted working capital deficit. The following table reconciles the non-revolving term credit facilities plus the revolving credit facilities to total debt.

As at, *($000s)*	**December 31, 2014**	**December 31, 2013**
Non-revolving term credit facilities	129,476	127,144
Revolving term credit facilities	339,557	266,823
Long-term bank debt	469,033	393,967
Adjusted working capital deficit	76,712	60,071
Total debt	**545,745**	454,038

DISCLOSURE OF OIL AND GAS RESERVES

Deloitte LLP ("**Deloitte**"), independent qualified reserves evaluators of Calgary, Alberta, prepared a reserves estimation and economic evaluation effective December 31, 2014 in respect of Birchcliff's oil and natural gas properties, which is contained in a report dated January 30, 2015 (the "**2014 Reserves Evaluation**"). Reserves estimates stated herein are extracted from the 2014 Reserves Evaluation. The 2014 Reserves Evaluation was prepared in accordance with the standards contained in the COGE Handbook and NI 51-101.

Reserve Categories

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on the analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable.

Reserves are classified according to the degree of certainty associated with the estimates:

- Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

Development and Production Status of Reserves

Each of the reserves categories (proved, probable and possible) may be divided into developed and undeveloped categories:

- Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g., when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.
    - Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
    - Developed non-producing reserves are those reserves that either have not been on production, or have previously been on production but are shut-in and the date of resumption of production is unknown.
- Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g., when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves category (proved, probable, possible) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities, and completion intervals in the pool and their respective development and production status.

ADVISORIES

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

Mcfe and MMcfe Conversions: Thousands of cubic feet of gas equivalent ("**Mcfe**") and millions of cubic feet of gas equivalent ("**MMcfe**") amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. Mcfe and MMcfe amounts may be misleading, particularly if used in isolation. A conversion ratio of 1 bbl to 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

MMbtu Pricing Conversions: $1.00 per MMbtu equals $1.00 per Mcf based on a standard heat value Mcf.

Finding and Development Costs: With respect to disclosure of finding and development costs disclosed in this MD&A:

- The amounts of finding and development and/or acquisition costs contained in the table and the disclosure set forth above for each of the years 2014, 2013 and 2012 are calculated by dividing the total of the net amount of the particular costs noted in each line incurred during such year by the amounts of additions to proved developed producing reserves, total proved reserves and total proved plus probable reserves during such year that resulted from the expenditure of such costs.
- In calculating the amounts of finding and development and/or acquisition costs for a year, the changes during the year in estimated future development costs and in estimated reserves are based upon the evaluations of Birchcliff's reserves prepared by Deloitte effective December 31 of such year.
- The aggregate of the exploration and development costs incurred in the most recent financial year and any change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.
- Finding and development costs both including and excluding acquisitions and dispositions have been presented in this MD&A. While NI 51-101 requires that the effects of acquisitions and dispositions be excluded, FD&A costs have been presented because acquisitions and dispositions can have a significant impact on the Corporation's ongoing reserve replacement costs and excluding these amounts could result in an inaccurate portrayal of the Corporation's cost structure.

Operating Costs: References in this MD&A to "operating costs" excludes transportation and marketing costs.

Forward-Looking Information: This MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking information relates to future events or future performance and is based upon the Corporation's current internal expectations, estimates, projections, assumptions and beliefs. All information other than historical fact is forward-looking information. Information relating to reserves and resources is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves and resources exist in the quantities estimated and that they will be commercially viable to produce in the future. Words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "estimated", "forecast", "may", "will", "potential", "proposed" and other similar words that convey certain events or conditions "may" or "will" occur are intended to identify forward-looking information.

In particular, this MD&A contains forward-looking information relating to: the Corporation's plans and other aspects of its anticipated future operations, management focus, strategies and priorities; the emergence of Elmworth as a future growth area; the flexibility and sustainability of the Corporation; estimates of reserves volumes; decline rates; exploration and development activities including wells to be drilled, completed, equipped and tied-in; the Corporation's forecast average production for the first quarter of 2015 and the Corporation's forecast average annual production for 2015; the Corporation's expectation of average annual production growth in 2015; the Corporation's 2015 capital budget including planned 2015 capital spending, the Corporation's plans to drill 25 (24.5 net) wells and the anticipated sources of funding for the Corporation's 2015 capital budget; the Corporation's expectation that it will adjust its capital expenditure program to respond to changes in commodity prices and other material changes in the assumptions underlying its 2015 budget; the Corporation's liquidity and the Corporation's belief that the Corporation's internally generated funds flow, supplemented by its existing undrawn credit facilities, will provide sufficient liquidity in the short and long-term; proposed expansions of the PCS Gas Plant; the Corporation's future taxable income and tax pools; and management's expectation that the Corporation will be successful in defending its tax position respecting the Veracel transaction.

The forward-looking information contained in this MD&A is based upon certain expectations and assumptions including: prevailing and future commodity prices, currency exchange rates, interest rates, inflation rates and applicable royalty rates and tax laws; the state of the economy and the exploration and production business; reserve and resource volumes; anticipated timing and results of capital expenditures; the sufficiency of budgeted capital expenditures to carry out planned expenditures; results of operations; operating and general and administrative costs; the performance of existing and future wells and well production rates; well drainage areas; success rates for future drilling; the impact of competition; the availability and demand for labour, services and materials; the Corporation's ability to access capital; and the Corporation's ability to market oil and gas. In addition, the Corporation has made the following key assumptions with respect to certain forward-looking information contained in this MD&A:

- With respect to estimates of reserves volumes, the key assumption is the validity of the data used by Deloitte in their independent reserves evaluations.
- With respect to statements of future wells to be drilled, completed, equipped and tied-in, statements as to decline rates of the Corporation's wells and statements as to future growth in the Elmworth area, the key assumption is the validity of the geological and other technical interpretations performed by the Corporation's technical staff, which indicate that commercially economic volumes can be recovered from the Corporation's lands as a result of drilling future wells.

- With respect to estimates as to average production for the first quarter of 2015 and the average annual production in 2015, the key assumptions are that: no unexpected outages occur in the infrastructure that the Corporation relies on to produce its wells; the construction of new infrastructure meets timing expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing and production expectations.
- With respect to estimates as to future capital spending and sources of funding for the 2015 capital budget, the key assumption is that the Corporation realizes the average annual production target of 38,000 to 40,000 boe/d and the commodity prices upon which the Corporation's 2015 capital budget is based, being a forecast average WTI price of US$60.00 per barrel of oil and an AECO price of CDN$3.00 per GJ of natural gas during 2015.
- With respect to statements regarding proposed expansions of the PCS Gas Plant, the key assumptions are that: future drilling is successful; there is an availability of sufficient labour, services and equipment; the Corporation will have access to sufficient capital to fund those projects; and commodity prices warrant proceeding with the construction of such facilities and the drilling of associated wells.
- With respect to statements regarding management's expectation that the Corporation will be successful in defending its tax position respecting the Veracel transaction, the key assumption is the validity of the Corporation's interpretation of how the *Income Tax Act* (Canada) applies to the Veracel transaction.

Undue reliance should not be placed on forward-looking information, as there can be no assurance that the plans, intentions, expectations or assumptions upon which they are based will occur. Although the Corporation believes that the expectations and assumptions reflected in the forward-looking information are reasonable, there can be no assurance that such expectations will prove to be correct. As a consequence, actual results may differ materially from those anticipated.

Forward-looking information necessarily involves both known and unknown risks and uncertainties that could cause actual results to differ materially from those anticipated including risks associated with oil and gas exploration, production, transportation and marketing such as uncertainty of geological and technical data, imprecision of reserves and resource estimates, operational risks, environmental risks, loss of market demand, general economic conditions affecting ability to access sufficient capital, commodity price fluctuations, changes in governmental regulation of the oil and gas industry, competition from others for scarce resources and the other factors set forth under the heading "*Risk Factors and Risk Management*" in this MD&A.

The foregoing list of risk factors is not exhaustive. Additional information on these and other risk factors that could affect operations or financial results are included in the Corporation's most recent Annual Information Form and in other reports filed with Canadian securities regulatory authorities. Forward-looking information is based on estimates and opinions of management at the time the information is presented. The Corporation is not under any duty to update the forward-looking information after the date of this MD&A to conform such information to actual results or to changes in the Corporation's plans or expectations, except as otherwise required by applicable securities laws.

The Corporation is required to disclose events and circumstances that occurred during the period to which this MD&A relates that are reasonably likely to cause actual results to differ materially from material forward-looking statements for a period that is not yet complete that the Corporation has previously disclosed to the public and the expected differences thereto. Such disclosure can be found in the Corporation's press releases dated February 11, 2015 and March 18, 2015, which are available on the Corporation's website at **www.birchcliffenergy.com** and on SEDAR at **www.sedar.com**.

Any "financial outlook" contained in this MD&A, as such term is defined by applicable securities laws, is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes.

Management's Report

To the Shareholders of Birchcliff Energy Ltd.

The annual financial statements of Birchcliff Energy Ltd. for the year ended December 31, 2014 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 Public 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,

Vice-President and Chief Financial Officer

(signed) "A. Jeffery Tonken"

A. Jeffery Tonken,

President and Chief Executive Officer

Calgary, Canada
March 18, 2015

Independent Auditors' Report

To the Shareholders of Birchcliff Energy Ltd.

We have audited the accompanying financial statements of Birchcliff Energy Ltd., which comprise the statements of financial position as at December 31, 2014 and December 31, 2013, the statements of net income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Birchcliff Energy Ltd. as at December 31, 2014 and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) "KPMG LLP"

Chartered Accountants

KPMG LLP
Calgary, Canada
March 18, 2015

Birchcliff Energy Ltd.
Statements of Financial Position

(Expressed in thousands of Canadian dollars)

As at December 31,	2014	2013
ASSETS		
Current assets:		
Cash	**54**	96
Accounts receivable *(Note 17)*	**34,931**	37,022
Prepaid expenses and deposits	**1,612**	1,138
Fair value of financial instruments *(Note 17)*	**-**	826
	36,597	39,082
Non-current assets:		
Exploration and evaluation *(Note 5)*	**2,235**	2,264
Petroleum and natural gas properties and equipment *(Note 6)*	**1,879,848**	1,545,185
	1,882,083	1,547,449
Total assets	**1,918,680**	1,586,531
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities *(Note 17)*	**113,309**	96,927
Non-revolving term credit facilities *(Note 7)*	**-**	1,400
Deferred premium on financial instruments *(Note 17)*	**-**	1,205
	113,309	99,532
Non-current liabilities:		
Non-revolving term credit facilities *(Note 7)*	**129,476**	127,144
Revolving term credit facilities *(Note 8)*	**339,557**	266,823
Decommissioning obligations *(Note 9)*	**85,824**	73,433
Deferred income taxes *(Note 10)*	**95,941**	57,127
Capital securities *(Note 11)*	**48,296**	47,986
	699,094	572,513
Total liabilities	**812,403**	672,045
SHAREHOLDERS' EQUITY		
Share capital *(Note 11)*		
Common shares	**782,671**	694,183
Preferred shares (perpetual)	**41,434**	41,434
Contributed surplus	**53,118**	60,119
Retained earnings	**229,054**	118,750
	1,106,277	914,486
Total shareholders' equity and liabilities	**1,918,680**	1,586,531

Commitments *(Note 18)*

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

Approved by the Board

(signed) "Larry A. Shaw"	*(signed) "A. Jeffery Tonken"*
Larry A. Shaw	A. Jeffery Tonken
Director	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,	2014	2013
REVENUE		
Petroleum and natural gas sales	**472,888**	316,637
Royalties	**(36,803)**	(27,567)
Net revenue from oil and natural gas sales	**436,085**	289,070
Realized gain on financial instruments *(Note 17)*	**291**	-
Unrealized gain (loss) on financial instruments *(Note 17)*	**379**	(379)
Other income	**-**	4,157
	436,755	292,848
EXPENSES		
Operating *(Note 12)*	**64,217**	53,521
Transportation and marketing	**29,989**	23,167
Administrative, net *(Note 13)*	**27,136**	24,751
Depletion and depreciation *(Note 6)*	**136,278**	108,801
Finance *(Note 14)*	**22,688**	24,564
Dividends on capital securities *(Note 11)*	**3,500**	1,913
(Gain) on sale of assets *(Note 6)*	**(3,171)**	(33,776)
	280,637	202,941
INCOME BEFORE TAXES	**156,118**	89,907
Income tax expense *(Note 10)*	**41,814**	24,490
NET INCOME AND COMPREHENSIVE INCOME	**114,304**	65,417
Net income per common share *(Note 11)*		
Basic	**$0.75**	$0.43
Diluted	**$0.72**	$0.42

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, 2012	677,802	41,434	57,678	57,333	834,247
Dividends on perpetual preferred shares	-	-	-	(4,000)	(4,000)
Exercise of stock options	16,381	-	(5,141)	-	11,240
Stock-based compensation	-	-	7,582	-	7,582
Net income and comprehensive income	-	-	-	65,417	65,417
As at December 31, 2013	694,183	41,434	60,119	118,750	914,486
Dividends on perpetual preferred shares *(Note 11)*	-	-	-	(4,000)	(4,000)
Exercise of stock options *(Notes 11 and 15)*	31,705	-	(9,885)	-	21,820
Exercise of preferred warrants *(Note 11)*	56,783	-	(7,093)	-	49,690
Stock-based compensation *(Notes 13 and 15)*	-	-	9,977	-	9,977
Net income and comprehensive income	-	-	-	114,304	114,304
As at December 31, 2014	**782,671**	**41,434**	**53,118**	**229,054**	**1,106,277**

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,	**2014**	**2013**
Cash provided by (used in):		
OPERATING		
Net income and comprehensive income	**114,304**	65,417
Adjustments for items not affecting operating cash:		
Unrealized (gain) loss on financial instruments	**(379)**	379
Depletion and depreciation	**136,278**	108,801
Stock-based compensation	**4,796**	4,074
Finance	**22,688**	24,564
(Gain) on sale of assets	**(3,171)**	(33,776)
Income taxes	**41,814**	24,490
Interest paid *(Note 14)*	**(19,332)**	(21,501)
Dividends on capital securities	**3,500**	1,913
Decommissioning expenditures *(Note 9)*	**(1,663)**	(557)
Changes in non-cash working capital *(Note 19)*	**11,066**	(3,448)
	309,901	170,356
FINANCING		
Exercise of stock options	**21,820**	11,240
Exercise of preferred warrants	**49,690**	-
Issue of capital securities	**-**	50,000
Share issue costs	**-**	(2,169)
Financing fees paid on credit facilities	**(1,018)**	(945)
Dividends on perpetual preferred shares *(Note 11)*	**(4,000)**	(4,000)
Dividends on capital securities *(Note 11)*	**(3,500)**	(1,913)
Net change in non-revolving term credit facilities	**703**	59,843
Net change in revolving term credit facilities	**73,362**	(97,529)
	137,057	14,527
INVESTING		
Petroleum and natural gas properties and equipment	**(397,976)**	(269,941)
Exploration and evaluation assets	**(102)**	(156)
Acquisition of petroleum and natural gas properties	**(56,677)**	(451)
Sale of petroleum and natural gas properties and equipment	**3,692**	54,778
Sale of exploration and evaluation assets	**131**	-
Changes in non-cash working capital *(Note 19)*	**3,932**	30,937
	(447,000)	(184,833)
NET CHANGE IN CASH	**(42)**	50
CASH, BEGINNING OF YEAR	**96**	46
CASH, END OF YEAR	**54**	96

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, 2014 and 2013

(Expressed In Thousands Of Canadian Dollars, Unless Otherwise Stated)

1. NATURE OF OPERATIONS

Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is domiciled and incorporated in Canada. Birchcliff is engaged in the exploration for and the development, production and acquisition of petroleum and natural gas reserves in Western Canada. The Corporation's financial year end is December 31. The address of the Corporation's registered office is 500, 630 – 4th Avenue SW, Calgary, Alberta, Canada T2P 0J9. Birchcliff's common shares, Series A Preferred Shares and Series C Preferred Shares are listed for trading on the Toronto Stock Exchange under the symbols "**BIR**", "**BIR.PR.A**" and "**BIR.PR.C**", respectively.

These financial statements were approved and authorized for issuance by the Board of Directors on March 18, 2015.

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, 2014 and December 31, 2013. The financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Note 3.

Operating, transportation and marketing expenses in profit or loss are presented as a combination of function and nature in conformity with industry practices. Depletion and depreciation, finance expenses, dividends on capital securities and gain on sale of assets 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 stock-based 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. There are no subsidiary companies.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue Recognition

Revenue from the sale of petroleum and natural gas is recognized when volumes are delivered and title passes to an external party at contractual delivery points and are recorded gross of transportation charges incurred by the Corporation. The costs associated with the delivery, including transportation and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

(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 joint venture in the remainder of the financial statements as this is common terminology in the Canadian oil and 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 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 proven 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 proven reserves, associated exploration costs are transferred from exploration and evaluation to developing and producing petroleum and natural gas properties and equipment as reported on the statements of financial position. 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 petroleum and natural gas properties and equipment.

(e) Petroleum and Natural Gas Properties and Equipment

(i) Recognition and measurement

Petroleum and natural gas properties and equipment are measured at cost less accumulated depletion and depreciation and accumulated impairment losses, if any.

Petroleum and natural gas properties and equipment consists of the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Petroleum and natural gas assets include developing and producing interests such as 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 developing 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 petroleum and natural gas interests generally represent costs incurred in developing 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 petroleum and natural gas properties and equipment is expensed in profit or loss as incurred.

Petroleum and natural gas properties and equipment 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 developing and producing petroleum and natural gas assets, 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 plus probable reserves attributable to the assets being depreciated, 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 reviewed by the Corporation's independent 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 petroleum and natural gas properties and equipment 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 reserves evaluators 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 present obligations at the reporting date. When the fair value of the liability is initially measured, the estimated cost, discounted using a pre-tax risk-free discount rate, is capitalized by increasing the carrying amount of the related petroleum and natural gas properties and equipment. 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 petroleum and natural gas properties and equipment 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 petroleum and natural gas properties and equipment. 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, directors 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 obligations, amortization of deferred charges and impairment losses (if any) recognized on financial assets. Interest income is recognized as it is earned.

(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, accounts payable and accrued liabilities, outstanding 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 and accounts receivable 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.
- Accounts payable and accrued liabilities and outstanding credit facilities are classified as other liabilities and 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 outstanding 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. The 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 classified as "other financial liabilities" under IFRS. 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. 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 commodity price risk management contracts is determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options and costless collars 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 sales contracts are recognized in petroleum and natural gas sales 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

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. Impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(ii) Impairment of non-financial assets

The Corporation's petroleum and natural gas properties and equipment are grouped into Cash Generating Units ("**CGU**") 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.

CGU's are reviewed at each reporting date for indicators of potential impairment. Such indicators may include, but are not limited to, changes in the Corporation's business plan, deterioration in commodity prices or a significant downward revision of estimated recoverable reserves. If indicators of asset impairment exist, an impairment test is performed by comparing a CGU's carrying value to its recoverable amount. A CGU's recoverable amount is the greater of its fair value less cost to sell and its current value in use. The calculation of the recoverable amount is sensitive to the assumptions regarding production volumes, discount rates and commodity prices. 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 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 petroleum and natural gas future prices used in the impairment test are based on period-end commodity price forecasts estimated by the Corporation's independent reserves evaluator and are adjusted for petroleum and natural gas differentials and transportation and marketing costs specific to the Corporation.

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 CGU's.

(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) Flow-Through Shares

The Corporation may issue flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. The difference between the value ascribed to flow-through shares issued and the value that would have been received for common shares at the date of announcements of the flow-through shares is initially recognized as a liability on the statements of financial position. When the expenditures are incurred, the liability is drawn down, a deferred tax liability is recorded equal to the estimated amount of deferred income tax payable by the Corporation as a result of the renunciation and the difference is recognized as a deferred tax expense.

(o) 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, performance warrants or warrants (the "**Securities**"), 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 Securities were outstanding during the period.

(p) 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 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 CGU's for the purpose of calculating impairment based on their ability to generate largely independent cash inflows. CGU's 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 indicators that its petroleum and natural gas assets may be impaired. Birchcliff is required to consider information from both external sources (such as negative downturn in 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 reserves, 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.

Key sources of estimation uncertainty:

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

(i) Reserves

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

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

(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 cash flows.

(iv) Impairment of non-financial assets

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

(v) Income taxes

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

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

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

4. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2014, the Corporation adopted IFRIC 21 Levies, which addresses payments made to government bodies. There was no impact to the Corporation's financial statements as a result of adopting this new standard.

Future Accounting Pronouncements

On May 28, 2014, the IASB issued IFRS 15 *Revenue From Contracts With Customers* replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue* and several revenue-related interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. Birchcliff is currently assessing the impact of adopting IFRS 15, however, it anticipates that this standard will not have a material impact on the Corporation's financial statements.

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

5. EXPLORATION AND EVALUATION ASSETS

The continuity for Exploration and Evaluation ("**E&E**") assets are as follows:

($000s)	**E&E**(1)
As at December 31, 2012	2,106
Additions	158
As at December 31, 2013	2,264
Additions	102
Disposals	(131)
As at December 31, 2014(2)	**2,235**

(1) E&E assets consist of the Corporation's exploration activities which are pending the determination of economic quantities of commercially producible proven reserves. Additions represent the Corporation's net share of costs incurred on E&E activities during the period. A review of each exploration project by area is carried out at each reporting date to ascertain whether economical quantities of proven reserves have been discovered and whether such costs should be transferred to depletable petroleum and natural gas components. There were no exploration costs reclassified from the E&E category to petroleum and natural gas properties and equipment category during 2014 and 2013.

(2) The Corporation performed an impairment assessment of its E&E assets and determined there were no impairment triggers identified at the end of the reporting period. As a result, no impairment test was required at December 31, 2014.

6. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

The continuity for Petroleum and Natural Gas ("**P&NG**") Properties and Equipment are as follows:

($000s)	**P&NG Assets**	**Corporate Assets**	**Total**
Cost:			
As at December 31, 2012	1,609,760	6,848	1,616,608
Additions	280,899	1,954	282,853
Dispositions(1)	(34,667)	-	(34,667)
As at December 31, 2013	1,855,992	8,802	1,864,794
Additions	411,579	1,418	412,997
Acquisitions(2)	58,465	-	58,465
Dispositions(3)	(535)	-	(535)
As at December 31, 2014(4)	2,325,501	10,220	2,335,721
Accumulated depletion and depreciation:			
As at December 31, 2012	(214,030)	(4,339)	(218,369)
Depletion and depreciation expense(5)	(107,856)	(945)	(108,801)
Dispositions(1)	7,561	-	7,561
As at December 31, 2013	(314,325)	(5,284)	(319,609)
Depletion and depreciation expense(5)	(135,098)	(1,180)	(136,278)
Dispositions(3)	14		14
As at December 31, 2014	(449,409)	(6,464)	(455,873)
Net book value:			
As at December 31, 2013	1,541,667	3,518	1,545,185
As at December 31, 2014(6)	**1,876,092**	**3,756**	**1,879,848**

(1) Mainly consists of an asset disposition in the Progress area with a net book value of $27.0 million for net proceeds of $54.7 million.
(2) Mainly consists of Birchcliff acquiring a partner's 30% working interest in land and production for cash proceeds of approximately $56.0 million.
(3) Mainly consists of asset dispositions in the Mulligan and Gold Creek areas with a net book value of $0.5 million for net proceeds of $3.7 million.
(4) The Corporation's P&NG properties and equipment were pledged as security for its credit facilities. Although the Corporation believes that it has title to its petroleum and natural gas properties, it cannot control or completely protect itself against the risk of title disputes and challenges. There were no borrowing costs capitalized to P&NG properties and equipment.
(5) Future capital costs required to develop and produce proved plus probable reserves totalled $3.2 billion at the end of 2014 (2013 – $2.5 billion) and are included in the depletion expense calculation.
(6) In light of low commodity prices, the Corporation performed an asset impairment test to ensure that the carrying value of its P&NG properties and equipment was recoverable at the end of the reporting period. Birchcliff's P&NG properties and equipment were not impaired at December 31, 2014. In determining the recoverable amount, Birchcliff applied a pre-tax discount rate of 10% on cash flows from proved plus probable reserves. The petroleum and natural gas future prices are based on period-end commodity price forecasts determined by the Corporation's independent reserves evaluator. At December 31, 2013, Birchcliff performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined there were no impairment triggers identified. As a result, no impairment test was required at December 31, 2013.

7. NON-REVOLVING TERM CREDIT FACILITIES

The components of the Corporation's non-revolving term credit facilities include:

As at December 31, *($000s)*	**2014**	**2013**
Current portion of non-revolving term credit facilities	-	1,400
Non-current portion of non-revolving term credit facilities	130,000	127,900
Drawn non-revolving term credit facilities	130,000	129,300
Unamortized prepaid interest on bankers' acceptances	(30)	(33)
Unamortized deferred financing fees	(494)	(723)
Non-revolving term credit facilities(1)	**129,476**	128,544

(1) The debt covenants applicable to the Corporation's credit facilities are disclosed in Note 16 to these financial statements.

The Corporation has a $60 million non-revolving five-year term credit facility with a maturity date of May 25, 2018. This facility is provided by a syndicate of banks and is fully drawn at December 31, 2014.

The Corporation also has a $70 million non-revolving five-year term credit facility with a maturity date of May 25, 2016 and is fully drawn at December 31, 2014. After May 9, 2014, Birchcliff was no longer required to make quarterly repayments of $350,000 under this facility.

The overall effective interest rate applicable to the bankers' acceptances issued under the non-revolving term credit facilities was 4.5% for the year ended December 31, 2014 (2013 – 5.2%).

The non-revolving term credit facilities allows for prime rate loans and bankers' acceptances. The interest rates applicable to the drawn loans are based on a pricing grid and will change as a result of the ratio of outstanding indebtedness to earnings before interest, taxes, depreciation and amortization. The non-revolving term credit facilities are secured by a fixed and floating charge debenture, an instrument of pledge and a general security agreement encompassing all of the Corporation's assets.

8. REVOLVING TERM CREDIT FACILITIES

The components of the Corporation's revolving credit facilities include:

As at December 31, *($000s)*	**2014**	**2013**
Syndicated credit facility	319,000	251,000
Working capital facility	23,433	17,411
Drawn revolving term credit facilities	342,433	268,411
Unamortized prepaid interest on bankers' acceptances	(2,084)	(1,424)
Unamortized deferred financing fees	(792)	(164)
Revolving term credit facilities(1)	**339,557**	266,823

(1) The debt covenants applicable to the Corporation's credit facilities are disclosed in Note 16 to these financial statements.

On May 9, 2014, Birchcliff's bank syndicate approved an increase of the revolving credit facilities to an aggregate limit of $620 million from $470 million. The revolving credit facilities were converted to a three year term with a maturity date of May 9, 2017 (the "**revolving term credit facilities**"). The revolving term credit facilities include an increased credit limit for the extendible revolving syndicated term credit facility (the "**syndicated credit facility**") of $580 million from $440 million and an increased credit limit for the extendible revolving working capital facility (the "**working capital facility**") of $40 million from $30 million.

At December 31, 2014, the effective interest rate applicable to the working capital facility was 4.5% (2013 – 4.8%). The overall effective interest rate applicable to the bankers' acceptances issued under the syndicated credit facility was 4.2% for the year ended December 31, 2014 (2013 – 4.9%).

The revolving term credit facilities were converted to a three-year term with a maturity date of May 9, 2017. Birchcliff may each year, at its option, request an extension to the maturity date of the revolving term credit facilities for an additional period of up to three years from May 9 of the year in which the extension request is made. The revolving term credit facilities allow for prime rate loans, US base rate loans, bankers' acceptances, letters of credit and LIBOR loans. The interest rates applicable to the drawn loans are based on a pricing grid and will change as a result of the ratio of outstanding indebtedness to EBITDA as defined in Note 16 to these financial statements. The debt covenants applicable to the Corporation's revolving term credit facilities are disclosed in Note 16 to these financial statements. The revolving term credit facilities are subject to the Syndicate's redetermination of the borrowing base once each year as of November 15. 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. The revolving term credit facilities are secured by a fixed and floating charge debenture, an instrument of pledge and a general security agreement encompassing all of the Corporation's assets.

9. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning obligations result from net ownership interests in its petroleum and natural gas properties and equipment including well sites, processing facilities and gathering systems. The total estimated undiscounted cash flows required to settle the Corporation's decommissioning obligations at December 31, 2014 was $155.8 million (2013 – $146.4 million) and is expected to be incurred between 2016 and 2062.

A reconciliation of the decommissioning obligations is provided below:

As at December 31, *($000s)*	**2014**	**2013**
Balance, beginning	73,433	68,967
Obligations incurred	5,751	3,260
Obligations acquired	1,788	90
Obligations divested	-	(6,104)
Changes in estimated future cash flows(1)	4,091	5,602
Accretion expense	2,424	2,175
Actual expenditures	(1,663)	(557)
Balance, ending	**85,824**	73,433

(1) Changes in estimated future cash flows largely due to the revision in both the risk-free discount rate and abandonment and reclamation cost estimates for Birchcliff's oil and natural gas wells and facilities. A risk-free rate of 2.4% and an inflation rate of 2.0% were used to calculate the discounted fair value of decommissioning liabilities at December 31, 2014 (December 31, 2013 – 3.2% and 2.0%, respectively).

10. INCOME TAXES

Included in income tax expense for the year ended December 31, 2014 is a provision for deferred income tax expense totalling $38.8 million (2013 – $22.1 million) and a Part VI.I dividend tax totalling $3.0 million (2013 – $2.4 million) resulting from preferred share dividends paid during the period. The provision for deferred income taxes differs from the result that would be obtained by applying the combined Canadian federal and provincial income tax rate of 25% in 2014 (2013 – 25%).

The components of income tax expense include:

Years ended December 31, *($000s)*	**2014**	**2013**
Net income before taxes	156,118	89,907
Computed expected income tax expense	39,030	22,477
Increase (decrease) in taxes resulting from:		
Non-deductible stock-based compensation	1,360	1,139
Non-deductible expenses	122	130
Non-deductible dividends on capital securities	875	478
Other	427	266
Income tax expense	**41,814**	24,490

The components of deferred income tax liabilities include:

As at December 31, *($000s)*	**2014**	**2013**
Deferred income tax liabilities:		
P&NG properties and equipment and E&E assets	185,007	155,022
Deferred financing fees	321	222
Risk management contracts - asset	-	207
Capital securities	426	503
Deferred income tax assets:		
Decommissioning obligations	(21,456)	(18,358)
Risk management contracts - liability	-	(301)
Share issue costs	(885)	(1,300)
Non-capital losses	(67,472)	(78,868)
Deferred income tax liabilities	**95,941**	57,127

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

($000s)	Balance Jan. 1, 2014	Recognized in Profit or Loss	Balance Dec. 31, 2014
P&NG and E&E assets	155,022	29,985	185,007
Deferred financing fees	222	99	321
Risk management contracts - asset	207	(207)	-
Capital securities	503	(77)	426
Decommissioning obligations	(18,358)	(3,098)	(21,456)
Risk management contracts - liability	(301)	301	-
Share issue costs	(1,300)	415	(885)
Non-capital losses	(78,868)	11,396	(67,472)
	57,127	38,814	**95,941**

($000s)	Balance Jan. 1, 2013	Recognized in Profit or Loss	Balance Dec. 31, 2013
P&NG and E&E assets	119,573	35,449	155,022
Deferred financing fees	169	53	222
Risk management contracts - asset	-	207	207
Capital securities	-	503	503
Decommissioning obligations	(17,242)	(1,116)	(18,358)
Risk management contracts - liability	-	(301)	(301)
Share issue costs	(1,054)	(246)	(1,300)
Non-capital losses	(66,445)	(12,423)	(78,868)
	35,001	22,126	57,127

As at December 31, 2014, the Corporation had approximately $1.4 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 $272.5 million that expire between 2026 and 2034. 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.

11. 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:

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

As at December 31,	2014	2013
Common Shares:		
Outstanding at beginning of period - Jan 1	143,676,661	141,596,279
Exercise of stock options	2,550,846	2,080,382
Exercise of preferred warrants	5,986,699	-
Outstanding at end of period	**152,214,206**	143,676,661
Series A Preferred Shares (perpetual)(1):		
Outstanding at beginning of period - Jan 1	2,000,000	2,000,000
Outstanding at end of period	**2,000,000**	2,000,000

(1) In August 2012, Birchcliff completed a bought deal equity financing for gross proceeds of $50 million. The Corporation issued 2,000,000 preferred units at a price of $25.00 per preferred unit for gross proceeds of $50 million. Each preferred unit was comprised of one cumulative redeemable five year rate reset Series A Preferred Share of Birchcliff, to yield initially 8% per annum; and three common share purchase warrants of Birchcliff. Each warrant provided the right to purchase one common share until August 8, 2014, at an exercise price of $8.30 per common share. A total aggregate of two million Series A Preferred Shares and six million warrants were issued.
Of the $50 million raised, Birchcliff allocated $7.1 million to the warrants ($1.18 per warrant) using the Black-Scholes fair value model and recorded this amount to contributed surplus. The remaining difference of $42.9 million was allocated to preferred share capital. The Black-Scholes assumptions used in calculating the fair value of each warrant includes; share price of $6.77 per common share, exercise price of $8.30 per common share, risk-free rate of 1.2%, volatility of 43.1% and expected life of 2 years. Birchcliff recognized a deferred income tax benefit of $0.5 million in respect of share issue costs related to the financing totalling approximately $1.9 million. The aggregate net proceeds of the financing totalled approximately $48.1 million.
The Series A Preferred Shares pay cumulative dividends of $2.00 per Series A Preferred Share per annum, payable quarterly if, as and when declared by Birchcliff's Board of Directors, with the first quarterly dividend paid on September 30, 2012, for the initial five year period ending September 30, 2017. Thereafter, the dividend rate will be reset every five years at a rate equal to the then current five year Government of Canada bond yield plus 6.83%. The Series A Preferred Shares are redeemable at $25.00 per preferred share at the option of the Corporation on or after September 30, 2017, and on September 30 in every fifth year thereafter. Holders of the Series A Preferred Shares have the right, at their option, to convert their Series A Preferred Shares into cumulative redeemable floating rate Series B Preferred Shares, subject to certain conditions, on September 30, 2017 and on September 30 in every fifth year thereafter. The holders of the Series B Preferred Shares will be entitled to receive quarterly floating rate cumulative preferential cash dividends, if declared by Birchcliff's Board of Directors, at a rate equal to the sum of the then current 90 day Government of Canada Treasury Bill rate plus 6.83%. In the event of liquidation, dissolution or winding-up of Birchcliff, the holders of the Series A Preferred Shares and Series B Preferred Shares will be entitled to receive $25.00 per share as well as all accrued unpaid dividends before any amounts will be paid or any assets will be distributed to the holders of any other shares ranking junior to the Series A Preferred Shares and the Series B Preferred Shares. The holders of the Series A Preferred Shares and the Series B Preferred Shares will not be entitled to share in any further distribution of the assets of the Corporation.

Capital Securities

The issuance of Series C Preferred Shares, which are presented as "capital securities" on the statements of financial position, are classified as "other financial liabilities" under IFRS. 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.

The Series C Preferred Shares are not redeemable by the Corporation prior to June 30, 2018. On and after June 30, 2018, the Corporation may, at its option, redeem for cash, all or any number of the outstanding Series C Preferred Shares at $25.75 per share if redeemed before June 30, 2019, at $25.50 per share if redeemed on or after June 30, 2019 but before June 30, 2020 and at $25.00 per share if redeemed on or after June 30, 2020 in each case together with all accrued and unpaid dividends to but excluding the date fixed for redemption.

The Series C Preferred Shares are not redeemable by the holders of the preferred shares prior to June 30, 2020. On and after June 30, 2020, a holder of Series C Preferred Shares may, at its option, redeem for cash, all or any number of Series C Preferred Shares held by such holder on the last day of March, June, September and December of each year at $25.00 per share, together with all accrued and unpaid dividends to but excluding the date fixed for redemption. Upon receipt of the Notice of Redemption, the Corporation may, at its option elect to convert such Series C Preferred Shares into common shares of the Corporation.

On and after June 30, 2018, the Corporation may, at its option, convert all or any number of the outstanding Series C Preferred Shares into common shares.

The Corporation has outstanding 2,000,000 Series C Preferred Shares at December 31, 2014 (2013 – 2,000,000).

Dividends

On December 3, 2014, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A Preferred Share and $0.875 million or $0.4375 per Series C Preferred Share for the calendar quarter ending December 31, 2014. Both dividends are designated as an eligible dividend for purposes of the *Income Tax Act* (Canada).

In 2014, cash dividends totalled $4.0 million or $2.00 per Series A Preferred Share (2013 - $4.0 million or $2.00 per Series A) and $3.5 million or $1.75 per Series C Preferred Share (2013 - $1.9 million or $0.96 per Series C).

Preferred Warrants

Birchcliff issued 6,000,000 warrants in conjunction with the offering of Series A Preferred Shares in August 2012 (the "**preferred warrants**"). Each preferred warrant was exercisable until August 8, 2014 at a price of $8.30 to purchase one common share of Birchcliff. During 2014 there were 5,986,699 preferred warrants exercised for total proceeds of approximately $49.7 million. The remaining 13,301 preferred warrants that were not exercised expired on August 8, 2014.

Per Common Share

The Corporation calculates basic and diluted per common share amounts by dividing net income, which has been reduced for any dividends paid on perpetual preferred shares (Series A), by the weighted average number of basic or diluted common shares outstanding. The following table presents the computation of net income per common share:

Years ended December 31,	**2014**	**2013**
Net income and comprehensive income *($000s)*	114,304	65,417
Dividends on Series A Preferred Shares *($000s)*	(4,000)	(4,000)
Net income to common shareholders *($000s)*	110,304	61,417
Weighted average common shares *(000s)*:		
Weighted average basic common shares outstanding	147,764	142,422
Effects of dilutive securities	4,479	2,584
Weighted average diluted common shares outstanding[(1)]	152,243	145,006
Net income per common share *($/share)*		
Basic	**$0.75**	$0.43
Diluted	**$0.72**	$0.42

(1) The weighted average diluted common shares outstanding excludes 2,273,700 (December 31, 2013 – 7,937,235) stock options and NIL (December 31, 2013 – 6,000,000) warrants that are anti-dilutive in the twelve month reporting period.

12. OPERATING EXPENSES

The Corporation's operating expenses include all costs with respect to day-to-day well and facility operations. Processing recoveries related to joint venture and third party natural gas reduces operating expenses. The components of operating expenses are as follows:

Years ended December 31, *($000s)*	**2014**	**2013**
Field operating costs	65,331	59,850
Recoveries	(1,284)	(6,779)
Field operating costs, net	64,047	53,071
Expensed workovers and other	170	450
Operating expenses	**64,217**	53,521

13. ADMINISTRATIVE EXPENSES

The components of administrative expenses are as follows:

Years ended December 31, *($000s)*	**2014**	**2013**
Cash:		
Salaries and benefits[1]	24,298	21,100
Other[2]	12,644	12,308
	36,942	33,408
Operating overhead recoveries	(247)	(968)
Capitalized overhead[3]	(14,355)	(11,763)
General and administrative, net	22,340	20,677
Non-cash:		
Stock-based compensation	9,977	7,582
Capitalized stock-based compensation[3]	(5,181)	(3,508)
Stock-based compensation, net	4,796	4,074
Administrative expenses, net	**27,136**	24,751

(1) Includes salaries, benefits and bonuses paid to all Officers and employees of the Corporation.
(2) Includes costs such as rent, legal, tax, insurance, minor computer hardware and software and other business expenses incurred by the Corporation.
(3) Includes a portion of salaries, benefits and stock-based compensation directly attributable to the exploration and development activities of the Corporation which have been capitalized.

Compensation for Executive Officers and Directors are comprised of the following:

Years ended December 31, *($000s)*	**2014**	**2013**
Salaries and benefits[1]	5,468	4,986
Stock-based compensation[2]	2,534	2,301
Executive Officers and Directors compensation	**8,002**	7,287

(1) Includes salaries, benefits and bonuses earned by Executive Officers and Directors comprising of: Chairman of the Board, President & Chief Executive Officer, Vice-President of Exploration & Chief Operating Officer, Vice-President & Chief Financial Officer, Vice-President of Operations, Vice-President of Engineering, Vice-President of Corporate Development and other independent Directors.
(2) Represents the amortization of stock-based compensation expense in the year associated with options granted to Executive Officers and Directors participating in the Corporation's Amended and Restated Stock Option Plan.

14. FINANCE EXPENSES

The components of finance expenses are as follows:

Years ended December 31, *($000s)*	**2014**	**2013**
Cash:		
Interest on non-revolving term credit facilities	5,777	5,409
Interest on revolving credit facilities	13,555	16,092
	19,332	21,501
Non-cash:		
Accretion on decommissioning obligations	2,424	2,175
Amortization of deferred financing fees	932	888
Finance expenses	**22,688**	24,564

15. SHARE-BASED PAYMENTS

Stock Options

At December 31, 2014, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of a maximum of 15,221,421 (December 31, 2013 – 14,367,666) common shares. At December 31, 2014, there remained available for issuance options in respect of 4,073,749 (December 31, 2013 – 3,436,146) common shares. For stock options exercised during 2014, the weighted average share trading price was $10.69 (December 31, 2013 – $7.70) per common share.

A summary of the outstanding stock options is presented below:

	Number	Weighted Average Exercise Price *($)*
Outstanding, December 31, 2012	12,463,872	8.06
Granted	3,137,700	7.50
Exercised	(2,080,382)	(5.40)
Forfeited	(1,473,070)	(8.71)
Expired	(1,116,600)	(8.15)
Outstanding, December 31, 2013	10,931,520	8.31
Granted	3,112,500	9.08
Exercised	(2,550,846)	(8.55)
Forfeited	(345,502)	(8.96)
Outstanding, December 31, 2014	**11,147,672**	**8.45**

The weighted average fair value per option granted during 2014 was $2.92 (December 31, 2013 – $2.75). In determining the stock-based compensation expense for options issued during 2014, the Corporation applied a weighted average estimated forfeiture rate of 14% (December 31, 2013– 14%). The weighted average assumptions used in calculating the Black-Scholes fair values are set forth below:

Years ended December 31,	2014	2013
Risk-free interest rate	1.4%	1.3%
Expected life *(years)*	3.9	3.9
Expected volatility	39.3%	45.9%

A summary of the stock options outstanding and exercisable under the plan at December 31, 2014 is presented below:

Exercise Price		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$5.96	$6.00	2,246,735	2.31	$5.96	1,425,555	2.31	$5.96
$6.01	$9.00	5,495,837	3.62	$8.01	1,010,894	3.16	$7.49
$9.01	$12.00	3,134,100	0.99	$10.61	2,874,100	0.67	$10.64
$12.01	$14.56	271,000	3.20	$13.05	112,000	1.40	$12.80
		11,147,672	**2.61**	**$8.45**	**5,422,549**	**1.58**	**$8.87**

Performance Warrants

On January 14, 2005, Birchcliff issued 4,049,665 performance warrants as part of the Corporation's 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. There are 2,939,732 performance warrants outstanding and exercisable at December 31, 2014 (December 31, 2013 – 2,939,732).

In May 2014, the Corporation's outstanding performance warrants were amended to extend the ultimate expiration date of January 31, 2015 to January 31, 2020 (the "**Extension**"). The Corporation recorded non-cash stock-based compensation expense of approximately $1.7 million relating to the Extension of the performance warrants in 2014. This amount represents the fair value of the Extension determined by the difference between the fair value of the outstanding performance warrants with the expiration date of January 31, 2020 (the "**extended term**") and the fair value of the outstanding performance warrants with the expiration date of January 31, 2015 (the "**original term**"). The fair value in each case was estimated as at May 15, 2014 using the Black-Scholes option-pricing model that takes into account: exercise price, expected life, current price, expected volatility, expected dividends, and risk-free interest rates. The assumptions used in calculating the fair value of the extended and original term performance warrants at May 15, 2014 are set forth below:

	Extended Term	Original Term
Risk-free interest rate	1.7%	1.0%
Expected life *(years)*	5.7	0.7
Expected volatility	51.5%	27.0%

Using the Black-Scholes option-pricing model, the fair value of each extended term and original term performance warrant was $9.75 and $9.15, respectively.

16. 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, including potential obligations arising from additional acquisitions; to maintain a capital structure that allows Birchcliff to finance its growth 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 in 2014.

The following table shows the Corporation's total available credit:

As at December 31, *($000s)*	2014	2013
Maximum borrowing base limit(1)(2):		
Non-revolving term credit facilities	130,000	129,300
Revolving term credit facilities	620,000	470,000
	750,000	599,300
Principal amount utilized:		
Drawn non-revolving term credit facilities	(130,000)	(129,300)
Drawn revolving term credit facilities	(342,433)	(268,411)
Outstanding letters of credit(3)	(184)	(184)
	(472,617)	(397,895)
Unused credit(2)	**277,383**	201,405

(1) The Corporation's credit facilities are subject to an annual review of the borrowing base limit, which is directly impacted by the value of Birchcliff's petroleum and natural gas reserves.
(2) The quarterly financial covenants applicable to the Corporation's credit facilities include (i) an interest coverage ratio, which is calculated on a historical rolling four quarter basis, as earnings before interest and non-cash items including income taxes, stock-based compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments and depletion, depreciation and amortization ("**EBITDA**") divided by interest expense; and (ii) a debt to EBITDA ratio. "Interest expense" for this purpose means total interest charges on borrowings with respect to all outstanding indebtedness and all preferred share dividends declared and paid in the period. "Debt" for this purpose means indebtedness for borrowed money, as determined at the end of the reporting period, and includes outstanding debt under the Corporation's credit facilities as shown on the statements of financial position before unamortized deferred financing fees and including outstanding letters of credit, but does not include working capital deficiency and capital securities. The Corporation is required to ensure that on the last day of each quarter, the ratio of EBITDA to interest expense, determined on a historical rolling four quarter basis equals or exceeds 3.5:1.0 and the ratio of debt to EBITDA, determined on a historical rolling four quarter basis does not exceed 4.0:1.0. At December 31, 2014, Birchcliff's EBITDA to interest expense was 11.9:1.0 and debt to EBITDA was 1.4:1.0. The Corporation was compliant with all financial covenants under its credit facilities as at December 31, 2014 and December 31, 2013.
(3) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit during 2014 and 2013.

The capital structure of the Corporation is as follows:

As at December 31, *($000s)*	**2014**	**2013**	**Change**
Shareholders' equity(1)	1,106,277	914,486	
Capital securities	48,296	47,986	
Shareholders' equity & capital securities	1,154,573	962,472	20%
Shareholders' equity & capital securities as a % of total capital(2)	68%	68%	
Working capital deficit	76,712	60,450	
Drawn non-revolving term credit facilities	130,000	127,900	
Drawn revolving term credit facilities	342,433	268,411	
Drawn debt	549,145	456,761	20%
Drawn debt as a % of total capital	32%	32%	
Capital	**1,703,718**	1,419,233	20%

(1) Shareholders' equity is defined as share capital plus contributed surplus plus retained earnings, less any deficit.
(2) Of the 68%, approximately 63% relates to common capital stock and 5% relates to preferred capital stock.

17. FINANCIAL RISK MANAGEMENT

Birchcliff is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Board of Directors 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. Management has implemented and monitors compliance with risk management guidelines as outlined by the Board of Directors. The Corporation's risk management guidelines are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls and to monitor risks and adherence to market conditions and the Corporation's activities.

Credit Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from Birchcliff's receivables from joint venture partners and 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 balance sheet date is very 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)*	**2014**	**2013**
Marketers(1)	29,943	30,246
Joint venture partners and other	4,988	6,776
Accounts receivable	**34,931**	37,022

(1) At December 31, 2014, approximately 26% was due from one marketer (2013 – 37%, one marketer). During 2014, the Corporation received 31%, 18%, 17%, 15% and 13% of its revenue, respectively, from five core marketers. The Corporation received the majority of its revenue in 2013 from five marketers, who individually accounted for 41%, 16%, 15%, 14% and 13%, respectively.

Typically, Birchcliff's maximum credit exposure from its marketers is revenue from two months of 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 as 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)*	**2014**	**2013**
Current (less than 30 days)	33,762	32,215
30 to 60 days	570	1,597
61 to 90 days	237	1,872
91 to 120 days	103	871
Over 120 days	259	467
Accounts receivable	**34,931**	37,022

At December 31, 2014, approximately $0.3 million or 1% (2013 – $0.5 million or 1%) of Birchcliff's total accounts receivable are aged over 120 days and considered past due. The majority of these accounts are due from various joint venture partners. Birchcliff attempts to mitigate the credit risk from joint venture receivables 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 joint venture partners as disagreements occasionally arise that increases the potential for non-collection. The Corporation does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however, the Corporation does have the ability to withhold production from joint venture partners in the event of non-payment.

Commodity price risk management contracts are used by the Corporation to manage economic exposure to market risk relating to commodity prices. The company manages credit risk exposure related to derivative assets by selecting investment grade counterparties and by not entering into contracts for trading or speculative purposes.

The carrying amount of accounts receivable, cash and cash equivalents and commodity price risk management contracts represents the maximum credit exposure. Should Birchcliff determine that the ultimate collection of a financial instrument is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to profit or loss. If the Corporation subsequently determines an account is uncollectible, the account is written off with a corresponding charge to the allowance for doubtful accounts. Birchcliff did not have an allowance for doubtful accounts balance at December 31, 2014 and December 31, 2013.

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.

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 of Directors and are regularly reviewed and updated as considered necessary. Petroleum and natural gas 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 petroleum and natural gas 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 $750 million reserve-based bank credit facilities at the end of 2014 (2013 - $600 million) which are reviewed annually by its lenders. The principal amount utilized under the Corporation's total credit facilities at December 31, 2014 was $472.6 million (2013 – $397.9 million) and $277.4 million in unused credit was available at the end of 2014 (2013 – $201.4 million) to fund future obligations.

The following table lists the contractual obligations of the Corporation's financial liabilities at December 31, 2014:

($000s)	2015	2016	2017 - 2019
Non-derivative financial liabilities:			
Accounts payable and accrued liabilities	113,309	-	-
Drawn revolving credit facilities	-	-	342,433
Drawn non-revolving term credit facilities	-	70,000	60,000
Financial liabilities	**113,309**	**70,000**	**402,433**

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 of Directors.

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 petroleum and natural gas are not only influenced by Canadian ("**CDN**") and United States ("**US**") demand, but also by world events that dictate the levels of supply and demand.

In 2014 the Corporation had certain commodity price risk management contracts in place to reduce volatility in its financial results and protect its funds flow and capital expenditure program. When entered into by the Corporation these instruments are not used for trading or speculative purposes. Birchcliff does not designate financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity contracts to be effective economic hedges. As a result, all such financial derivative contracts are recorded on the statement of financial position at fair value, with the changes in fair value being recognized as an unrealized gain or loss in profit or loss.

As at December 31, 2014, the Corporation had no financial derivatives in place as all 2014 contracts expired on December 31, 2014. The Corporation actively monitors the market to determine whether any additional commodity price risk management contracts are warranted.

Financial derivatives

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

Years ended December 31, *($000s)*	2014	2013
Realized gain on financial instruments	291	-
Unrealized gain (loss) on financial instruments	379	(379)

There were no financial derivative contracts entered into subsequent to December 31, 2014.

Physical sales contracts

The Corporation had also entered into physical delivery sales contracts during 2014 to manage commodity risk. These contracts were considered normal executory sales contracts and were not recorded at fair value in the financial statements. As at December 31, 2014, the Corporation had no physical delivery sales contracts in place as all 2014 sales contracts expired on October 31, 2014. There were no physical sales contracts entered into subsequent to December 31, 2014.

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 prices received by Birchcliff for its petroleum and natural gas sales. The Corporation had no forward exchange rate contracts in place as at or during the years ended December 31, 2014 and 2013.

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 cash flow risk on a floating interest rate due to fluctuations in market interest rates. The remainder of Birchcliff's financial assets and liabilities are not exposed directly to interest rate risk.

A 1% change in the CDN prime interest rate in 2014 would have changed after-tax net income by approximately $3.3 million, assuming that all other variables remain constant. A sensitivity of 1% is considered reasonable given the current level of the bank prime rate and market expectations for future movements. The Corporation considers this risk to be limited and thus does not enter into contracts to mitigate its interest rate risk. The Corporation had no interest rate swap contracts in place as at or during the years ended December 31, 2014 and 2013.

Fair Value of Financial Instruments

Birchcliff's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, outstanding credit facilities and capital securities. 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, 2014 are disclosed below.

($000s)	Carrying Value	Fair Value
Loans and receivables:		
Cash	54	54
Accounts receivable	34,931	34,931
Other liabilities:		
Accounts payable and accrued liabilities	113,309	113,309
Capital Securities	48,296	49,000
Drawn non-revolving term credit facility	130,000	130,000
Drawn revolving credit facilities	342,433	342,433

18. COMMITMENTS

The Corporation enters into contracts and commitments in the ordinary course of conducting its day to day business. The following table lists Birchcliff's commitments at December 31, 2014:

($000s)	2015	2016	2017 - 2019	Thereafter
Office lease(1)	3,619	3,619	3,318	-
Purchase obligations(2)	30,716	15,145	-	-
Transportation and processing	19,108	20,581	53,969	59,287
Commitments	**53,443**	**39,345**	**57,287**	**59,287**

(1) The Corporation is committed under an operating lease relating to its office premises beginning December 1, 2007 which expires on November 30, 2017.
(2) The Corporation is committed to spend approximately $45.9 million in 2015 and 2016 under a purchasing agreement relating to the construction of Phase V of the PCS Gas Plant.

19. SUPPLEMENTARY CASH FLOW INFORMATION

Years ended December 31, *($000s)*	**2014**	**2013**
Provided by (used in):		
Accounts receivable	2,091	(9,295)
Prepaid expenses and deposits	(474)	1,067
Accounts payable and accrued liabilities	17,165	37,264
Dividend tax	(3,784)	(1,547)
	14,998	27,489
Provided by (used in):		
Operating	11,066	(3,448)
Investing	3,932	30,937
	14,998	27,489

20. CONTINGENT LIABILITY

The Corporation's 2006 and 2007 income tax filings were reassessed by the Canada Revenue Agency ("**CRA**") in 2011. The reassessments are based on the CRA's determination that the tax pools available to Veracel Inc. ("**Veracel**"), prior to its amalgamation with Birchcliff, ceased to be available to the Corporation after the amalgamation. The Veracel tax pools in dispute totaled $39.3 million and includes approximately $16.2 million in non-capital losses, $15.6 million in scientific research and experimental development expenditures and $7.5 million in investment tax credits. The disputed assessments are outstanding at December 31, 2014. The resolution of the disputed assessments may impact future income tax expense but will not impact cash taxes payable by the Corporation. Management believes that it will be successful in defending its tax position respecting the Veracel transaction, and as such, the Corporation has not recognized a related provision for deferred income tax liability at December 31, 2014.

Glossary

DEFINITIONS

Capitalized terms not otherwise defined in this Annual Report shall have the following meanings:

"1P"	means proved reserves.
"2P"	means proved plus probable reserves.
"2014 Reserves Evaluation"	means the reserves estimation and economic evaluation effective December 31, 2014 in respect of Birchcliff's oil and natural gas properties, which is contained in a report dated January 30, 2015.
"AER"	means the Alberta Energy Regulator.
"Birchcliff" or the "Corporation"	means Birchcliff Energy Ltd.
"Charlie Lake Light Oil Resource Play"	means Birchcliff's Charlie Lake formation light oil resource play located northwest of Grande Prairie, Alberta.
"COGE Handbook"	means the Canadian Oil and Gas Evaluation Handbook.
"Deloitte"	means Deloitte LLP, independent qualified reserves evaluators of Calgary, Alberta.
"F&D"	means finding and development.
"FD&A"	means finding, development and acquisition.
"FDC"	means future development capital.
"GAAP"	means generally accepted accounting principles.
"Montney/Doig Natural Gas Resource Play"	means Birchcliff's Montney and Doig formations natural gas resource play located northwest of Grande Prairie, Alberta.
"NI 51-101"	means National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities*.
"P&NG"	means petroleum and natural gas.
"PDP"	means proved developed producing reserves.
"Peace River Arch"	means the Peace River Arch area of Alberta, a geological area centred northwest of Grande Prairie, Alberta, adjacent to the British Columbia border.
"PIIP"	means petroleum-initially-in-place.
"TSX"	means the Toronto Stock Exchange.
"Western Canadian Sedimentary Basin"	means the vast sedimentary basin underlying Western Canada that is the source of most of Western Canada's current oil and gas production.
"working interest"	means the percentage of ownership in an oil and gas property.
"Worsley Charlie Lake Light Oil Resource Play"	means Birchcliff's Charlie Lake Light Oil Resource Play located near Worsley, Alberta.
"Worsley Property"	means the oil and natural gas assets in the Peace River Arch acquired by Birchcliff in September 2007.

ABBREVIATIONS

Oil and Natural Gas Liquids	
bbl	barrel
bbls	barrels
bbls/d	barrels per day
Mbbls	thousand barrels
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day
Mboe	thousand barrels of oil equivalent
MMboe	million barrels of oil equivalent
NGLs	natural gas liquids
LNG	liquefied natural gas

Natural Gas	
Mcf	thousand cubic feet
Mcfe	thousand cubic feet of gas equivalent
MMbtu	million British Thermal Units
MMcf	million cubic feet
MMcf/d	million cubic feet per day
Bcf	billion cubic feet
Bcf/d	billion cubic feet per day
Bcfe	billion cubic feet of gas equivalent
Tcfe	trillion cubic feet of gas equivalent
m^3	cubic metres
GJ	gigajoule

Other	
AECO	benchmark natural gas price determined at the AECO 'C' hub in southeast Alberta
WTI	West Texas Intermediate crude oil, a benchmark oil price determined at Cushing, Oklahoma
000s	thousands
$000s	thousands of dollars
MM$	millions of dollars

CONVERSIONS

The following table sets forth certain Standard Imperial Units and International System of Units conversions:

From	To	Multiply By
Mcf	m^3	28.174
Mcf	GJ	1.055
GJ	MMbtu	0.950
m^3	cubic feet	35.494
bbls	m^3	0.159
feet	metres	0.305
miles	kilometres	1.609
acres	hectares	0.405
sections	acres	640
sections	hectares	256

CONVENTIONS

Unless otherwise indicated, references herein to "$" or "dollars" are to Canadian dollars.

Disclosure of Oil and Gas Reserves and Resources

RESERVE CATEGORIES

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on the analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable.

Reserves are classified according to the degree of certainty associated with the estimates:

- **Proved reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- **Probable reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- **Possible reserves** are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

DEVELOPMENT AND PRODUCTION STATUS OF RESERVES

Each of the reserves categories (proved, probable and possible) may be divided into developed and undeveloped categories:

- **Developed reserves** are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g., when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.
  - **Developed producing reserves** are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
  - **Developed non-producing reserves** are those reserves that either have not been on production, or have previously been on production but are shut-in and the date of resumption of production is unknown.
- **Undeveloped reserves** are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g., when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves category (proved, probable, possible) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities, and completion intervals in the pool and their respective development and production status.

RESOURCES AND PRODUCTION

Resources encompasses all petroleum quantities that originally existed on or within the earth's crust in naturally occurring accumulations, including discovered and undiscovered (recoverable and unrecoverable) plus quantities already produced. "Total resources" is equivalent to "total PIIP". Resources are classified in the following categories:

- **Total PIIP** is that quantity of petroleum that is estimated to exist originally in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations, prior to production, plus those estimated quantities in accumulations yet to be discovered.
- **Discovered PIIP** is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of discovered PIIP includes production, reserves and contingent resources; the remainder is unrecoverable.
- **Contingent resources** are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies.
- **Undiscovered PIIP** is that quantity of petroleum that is estimated, on a given date, to be contained in accumulations yet to be discovered. The recoverable portion of undiscovered PIIP is referred to as prospective resources; the remainder is unrecoverable.

- **Undiscovered unrecoverable PIIP** is that portion of undiscovered PIIP which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur; the remaining portion may never be recovered due to the physical/chemical constraints represented by subsurface interaction of fluids and reservoir rock.
- **Prospective resources** are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects.
- **Unrecoverable** is that portion of discovered and undiscovered PIIP quantities which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur; the remaining portion may never be recovered due to the physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks.
- **Production** is the cumulative quantity of petroleum that has been recovered at a given date.

UNCERTAINTY RANGES

Uncertainty Ranges are described by the COGE Handbook as low, best, and high estimates for reserves and resources as follows:

- **Low Estimate:** This is considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the low estimate.
- **Best Estimate:** This is considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the best estimate.
- **High Estimate:** This is considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the high estimate.

CONTINGENCIES AND POSITIVE AND NEGATIVE FACTORS

The specific contingencies which prevent the classification of Birchcliff's contingent resources as reserves are as follows:

- While there is substantial development in certain stratigraphic units in certain geographic regions within the Study Area, this is not the case for all stratigraphic units or all geographic regions over the entire Study Area and, as a result, most stratigraphic units in some geographic regions of the Study Area are considered to be in the early stages of development.
- Deloitte has utilized a four mile radius from existing production or a confirmed test as well as interpreted geological continuity to assign discovered PIIP and contingent resources for each stratigraphic unit, while reserves (up to and including proved plus probable plus possible) are generally assigned to lands that are no more than one mile from the confirmed production or test. In these cases, the contingency is described as the self-imposed limitations of Birchcliff, its partners, and other operators to develop the resources in a timely manner as a result of other priorities and strategic opportunities that may limit capital deployment.
- The lack of access to markets resulting from a general lack of infrastructure capacity in certain geographic areas within the Study Area.
- Manpower, both internal and third-party, required to develop and produce a resource of this size is limited and there is a finite amount of exploitation and/or development that can take place each year.
- Regulatory approvals, particularly related to downspacing in the Montney, will be required prior to development proceeding beyond 4 wells per section. It is not expected that the AER will withhold this approval.

Significant positive factors relevant to the estimate of Birchcliff's resources include: (i) the relatively dense well control on and around Birchcliff's lands, the associated evaluation data, and Birchcliff's well calibrated and evidenced models of stratigraphy, petrophysics and hydrodynamics used in the resource assessment model; and (ii) Birchcliff's six year history of generating technical resource assessment models annually, with reasonably consistent best estimates of resources and petroleum in place over respective lands. These models are directly used internally by Birchcliff in support of exploration, land evaluation and well approval processes.

Significant possible positive and negative variations in all relevant reservoir properties and parameters considered, between and away from well control, are directly incorporated in the probabilistic assessment methods used, and reflected in the high(p10) and low(p90) estimates.

A potentially significant negative factor relevant to the estimate is the uncertainty associated with Birchcliff's assumptions about the geometry (i.e. height and width) of hydraulic fracture stimulations and the associated recovery factors. While these assumptions are consistent with Birchcliff's investigations to date and with the production profiles of producing wells with significant production histories, these geometries and associated recovery factors are not necessarily known with certainty.

RESERVES ESTIMATES

Deloitte prepared the 2014 Reserves Evaluation, the 2013 Reserves Evaluation and reserves estimations and economic evaluations effective December 31, 2012. In addition, Deloitte's predecessors, AJM Deloitte and AJM Petroleum Consultants, prepared reserves evaluations in respect of Birchcliff's oil and natural gas properties effective December 31, 2011, 2010, 2009, 2008, 2007, 2006 and 2005. Reserves estimates stated herein are extracted from the relevant evaluation.

Advisories

NON-GAAP MEASURES

This Annual Report uses "funds flow", "funds flow from operations", "funds flow per common share", "netback", "operating netback", "estimated operating netback", "funds flow netback", "operating margin", "total cash costs", "cash costs", "adjusted working capital deficit" and "total debt", which do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. For further details on these Non-GAAP measures, please see "*Non-GAAP Measures*" in the MD&A.

In addition, this Annual Report uses "profit" and "profit margin". "Profit" denotes petroleum and natural gas revenue less PDP FD&A costs, less total cash costs, and less dividend distributions on preferred shares. "Profit margin" is calculated by dividing profit for the period by petroleum and natural gas revenue for the period. Profit is not intended to represent net income or net income to common shareholders calculated in accordance with International Financial Reporting Standards. Management uses profit and profit margin as key measures to assess the Corporation's efficiency.

BOE CONVERSIONS

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

MCFE, BCFE AND TCFE CONVERSIONS

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

MMBTU PRICING CONVERSION

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

GROSS COMPANY RESERVES

In this Annual Report, all references to "reserves" are to Birchcliff's gross company reserves, meaning Birchcliff's working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of Birchcliff.

POSSIBLE RESERVES

Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

RESERVES FOR PORTION OF PROPERTIES

With respect to the disclosure of reserves contained herein relating to portions of Birchcliff's properties, the estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties due to the effects of aggregation.

FINDING AND DEVELOPMENT COSTS

With respect to disclosure of finding and development costs disclosed in this Annual Report:

- The amounts of finding and development and/or acquisition costs contained in the tables and the disclosures set forth in this Annual Report for each of the years 2014, 2013 and 2012 are calculated by dividing the total of the net amount of the particular costs noted in each line incurred during such year by the amounts of additions to proved developed producing reserves, total proved reserves and total proved plus probable reserves during such year that resulted from the expenditure of such costs.

- In calculating the amounts of finding and development and/or acquisition costs for a year, the changes during the year in estimated future development costs and in estimated reserves are based upon the evaluations of Birchcliff's reserves prepared by Deloitte effective December 31 of such year.
- The aggregate of the exploration and development costs incurred in the most recent financial year and any change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.
- Finding and development costs both including and excluding acquisitions and dispositions have been presented in this Annual Report. While NI 51-101 requires that the effects of acquisitions and dispositions be excluded, FD&A costs have been presented because acquisitions and dispositions can have a significant impact on Birchcliff's ongoing reserve replacement costs and excluding these amounts could result in an inaccurate portrayal of Birchcliff's cost structure.

RESERVE LIFE INDEX, RECYCLE RATIOS AND RESERVE REPLACEMENT

Reserve life index is calculated by dividing reserves estimated by Deloitte at December 31, 2014 by the average production in the applicable period. Recycle ratios are calculated by dividing the average operating netback per boe or funds flow netback per boe, as the case may be, by F&D costs and FD&A costs, as the case may be. Reserve replacement is calculated by dividing proved developed producing reserves, proved reserves or proved plus probable reserves additions, as the case may be, before production by total production in the applicable period.

DISCOVERED RESOURCES

With respect to the discovered resources (including contingent resources) described in this Annual Report, there is no certainty that it will be commercially viable to produce any portion of the resources.

UNDISCOVERED RESOURCES

With respect to the undiscovered resources (including prospective resources) described in this Annual Report, there is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

OPERATING COSTS

References in this Annual Report to "operating costs" excludes transportation and marketing costs.

INITIAL PRODUCTION RATES

Any disclosure in this Annual Report of an initial production rate for any well is not indicative of the long-term performance of such well or the rate at which such well will continue production thereafter.

FORWARD-LOOKING INFORMATION

This Annual Report contains forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking information relates to future events or future performance and is based upon Birchcliff's current internal expectations, estimates, projections, assumptions and beliefs. All information other than historical fact is forward-looking information. Information relating to reserves and resources is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves and resources exist in the quantities estimated and that they will be commercially viable to produce in the future. Words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "estimated", "forecast", "may", "will", "potential", "proposed" and other similar words that convey certain events or conditions "may" or "will" occur are intended to identify forward-looking information.

In particular, this Annual Report contains forward-looking information relating to: Birchcliff's plans and other aspects of its anticipated future operations, management focus, strategies and priorities; expected results from the Corporation's portfolio of oil and gas assets and results of operations; estimates of reserves and resource volumes; the net present values of future net revenue associated with Birchcliff's reserves; price forecasts; future development costs; Birchcliff's expectation that its independent qualified reserves evaluator will assign additional future horizontal locations and reserves based on reduced inter-well spacing; production rates and recovery factors; decline rates; estimates of future drilling locations and opportunities; exploration and development activities including wells to be drilled; production and reserves growth; Birchcliff's 2015 capital budget including the production growth, reserves additions and financial flexibility anticipated to result from Birchcliff's capital program; the financial and operational flexibility of the Corporation; the Corporation's long-term business plan of growing to 100,000 boe/d; proposed expansions of the PCS Gas Plant including the anticipated processing capacities of the PCS Gas Plant after such expansions and the anticipated costs of such expansions; Birchcliff's plans for significant operations and growth in the Elmworth area including the construction of pipelines and a processing plant in the area; the success of new wells in the Montney

D4 and C intervals are expected to result in follow-up drilling by Birchcliff and significant future reserves additions and, with respect to the Montney C interval, the addition of potential future drilling locations; the expectation that infrastructure in the Pouce Coupe area will result in development and operational efficiencies and cost savings with respect to the development of the Montney D4 interval; and the Corporation's expectation that the Corporation's bank credit facilities will be increased. In addition, forward-looking information in this Annual Report includes the forward-looking information identified in the Management's Discussion and Analysis under the heading "*Advisories – Forward-Looking Information*".

The forward-looking information contained in this Annual Report is based upon certain expectations and assumptions including: prevailing and future commodity prices, currency exchange rates, interest rates, inflation rates and applicable royalty rates and tax laws; the state of the economy and the exploration and production business; reserve and resource volumes; anticipated timing and results of capital expenditures; the sufficiency of budgeted capital expenditures to carry out planned expenditures; results of operations; operating and general and administrative costs; the performance of existing and future wells and well production rates; well drainage areas; success rates for future drilling; the impact of competition; the availability and demand for labour, services and materials; Birchcliff's ability to access capital; and Birchcliff's ability to market oil and gas. In addition, Birchcliff has made the following key assumptions with respect to certain forward-looking information contained in this Annual Report:

- With respect to estimates of reserves and resource volumes and the net present values of future net revenue associated with Birchcliff's reserves, the key assumption is the validity of the data used by Deloitte in their independent reserves evaluations and resource assessments.
- With respect to statements of future wells to be drilled, estimates of future drilling locations and opportunities, statements as to decline rates of Birchcliff's wells and statements as to future growth in the Elmworth area, the key assumption is the validity of the geological and other technical interpretations performed by Birchcliff's technical staff, which indicate that commercially economic volumes can be recovered from Birchcliff's lands as a result of drilling future wells.
- With respect to statements regarding the Corporation's capital budget, the key assumption is that Birchcliff realizes the average annual production target of 38,000 to 40,000 boe/d and the commodity prices upon which the Corporation's 2015 capital budget is based, being a forecast average WTI price of US$60.00 per barrel of oil and an AECO price of CDN$3.00 per GJ of natural gas during 2015. Birchcliff will adjust its 2015 capital budget to respond to changes in commodity prices and other material changes in the assumptions underlying its 2015 budget.
- With respect to statements regarding proposed expansions of the PCS Gas Plant and the construction of pipelines and a processing plant in the Elmworth area, the anticipated processing capacities of the PCS Gas Plant after such expansions and the anticipated costs of such expansions, the key assumptions are that: future drilling is successful; there is an availability of sufficient labour, services and equipment; Birchcliff will have access to sufficient capital to fund those projects; and commodity prices warrant proceeding with the construction of such facilities and infrastructure and the drilling of associated wells.
- With respect to statements that the success of new wells in the Montney D4 and C intervals are expected to result in follow-up drilling by Birchcliff and significant future reserves additions and, with respect to the Montney C interval, the addition of potential future drilling locations, the key assumptions are that: there is an availability of sufficient labour, services and equipment; Birchcliff will have access to sufficient capital to fund such future drilling; commodity prices warrant proceeding with such future drilling; and future drilling is successful. In addition, statements regarding future reserve additions assume that in conducting its reserves evaluation, Birchcliff's independent reserves evaluator will concur with Birchcliff's internal technical interpretations.
- With respect to Birchcliff's expectation that infrastructure in the Pouce Coupe area will result in development and operational efficiencies and cost savings with respect to the development of the Montney D4 interval, the key assumption is that such infrastructure will be in proximity to the wells proposed to be drilled in that area.
- With respect to the Corporation's expectation that its bank credit facilities will be increased, the key assumption is that the criteria applied by the Corporation's syndicate of bank lenders remains consistent with historical practice and the bank syndicate's forecast of commodity prices are consistent with the forecast used by Deloitte in the preparation of the 2014 Reserves Evaluation.
- With respect to the Corporation's long-term business plan of growing to 100,000 boe/d, the key assumptions utilized in the Corporation's current five year plan are set out in the following table:

	2015	2016	2017	2018	2019
Annual exit production *(boe/d)*	49,000	64,000	72,000	82,000	100,000
Light oil – WTI Cushing *(US$/bbl)*	90.00	90.00	90.00	90.00	90.00
Light oil – Edmonton Par *(CDN$/bbl)*	91.00	91.00	91.00	91.00	91.00
Natural gas – AECO – C daily *(CDN$/GJ)*	4.00	4.00	4.00	4.00	4.00

With respect to the estimated production targets contained in the five year plan, the key assumptions are that: no unexpected outages occur in the infrastructure that the Corporation relies on to produce its wells; the construction of new infrastructure meets timing expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing and production expectations.

In view of current commodity prices, Birchcliff now expects that some of the capital expenditures and growth contemplated in its five year plan will be delayed unless commodity prices significantly improve. Birchcliff will continue to adjust its capital expenditure program to respond to changes in commodity prices and other material changes in the assumptions underlying its five year plan.

Undue reliance should not be placed on forward-looking information, as there can be no assurance that the plans, intentions, expectations or assumptions upon which they are based will occur. Although Birchcliff believes that the expectations and assumptions reflected in the forward-looking information are reasonable, there can be no assurance that such expectations will prove to be correct. As a consequence, actual results may differ materially from those anticipated.

Forward-looking information necessarily involves both known and unknown risks and uncertainties that could cause actual results to differ materially from those anticipated including risks associated with oil and gas exploration, production, transportation and marketing such as uncertainty of geological and technical data, imprecision of reserves and resource estimates, operational risks, environmental risks, loss of market demand, general economic conditions affecting ability to access sufficient capital, commodity price fluctuations, changes in governmental regulation of the oil and gas industry and competition from others for scarce resources.

The foregoing list of risk factors is not exhaustive. Additional information on these and other risk factors that could affect operations or financial results are included in Birchcliff's most recent Annual Information Form and in other reports filed with Canadian securities regulatory authorities. Forward-looking information is based on estimates and opinions of management at the time the information is presented. Birchcliff is not under any duty to update the forward-looking information after the date of this Annual Report to conform such information to actual results or to changes in Birchcliff's plans or expectations, except as otherwise required by applicable securities laws.

Any "financial outlook" contained in this Annual Report, as such term is defined by applicable securities laws, is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes.

IN MEMORIAM

Werner (Vern) A. Siemens (1936 – 2015)

Founding Shareholder and Director of Birchcliff Energy

Vern was an important member of the Birchcliff family and he will be sadly missed. Vern was an experienced oilman, a dedicated and diligent director whose strong leadership has been invaluable to Birchcliff. Prior to his involvement with Birchcliff, Vern was a founding shareholder and Director of each of Stampeder Exploration Ltd., Big Bear Exploration Ltd. and Case Resources Ltd. Vern was a team player and extremely knowledgeable about matters surrounding a well-run business. Vern's insight, character and warmth, will be dearly missed by his many friends at Birchcliff, as well as his friends and colleagues throughout the industry and our community.

Vern's long and varied business career included many Executive roles over three decades with Agra Industries Ltd., where he established himself as a very successful businessman. Vern also served as a volunteer, Director, President and General Manager of the Calgary Stampeder Football Club during its rebuilding years from 1985 to 1990.

We grieve the loss of a valued business associate and a wonderful friend, who through his life's work, left this world a better place.

Thank you Team Birchcliff

Jeffrey Akeroyd, Karen Allen, Camille Ashton, Rainer Augsten, Gates Aurigemma, Al Basnett, Angela Belbeck, Charmaine Belley, Tyrus Bender, Tim Berg, Perry Billard, Myles Bosman, Jeff Boswell, Robyn Bourgeois, David Boyle, Wayne Brown, Nicola Buckner, James Burke, Madison Burns, Chris Carlsen, Alex Carlson, Caitlin Carrigy, Robert Charchuk, David Christensen, Bob Clark, Wendy Clay, Laura Conroy, Mike Cordingley, Ken Cullen, Krystal Dafoe, Cindy Desmarais, Allan Dixon, Jesse Doenz, Joe Doenz, Keifer Dolen, Kelly Dolen, Tim Etcheverry, Laura Ferguson, Rhonda Ferguson, Grant Friesen, Marshall Fritz, George Fukushima, Andy Fulford, Carrie Fyfe, Alexandra Gatza, Bruno Geremia, Melina Geremia, Melodie Gilker, Chad Goddard, Jolanda Goertzen, David Graham, Bob Grisack, Tania Haberlack-Dolan, Sam Hampton, Theresa Hannouche, Richard Harris, Lorna Hildebrand, Paul Hirsekorn, Janet Hogan, Jasen Holmstrom, Daryl Hudak, Dave Humphreys, Derek Jamieson, Dave Johnson, Stacy Johnson, Anna Johnson, Brandon Kapler, Dustin Kelm, Sherry Kent, Julia Kent, Diane Knoblauch, Heather Kwiatkowski, Dani Laird, Kathie Le, Michael Lillejord, Thomas Lundquist, Joe Lyste, Scott MacDermott, John MacGillivray, Dallas MacLean, Darcy MacLeod, Mary MacNeill, Janice Malainey, Maggie Malapad, Valerie Martin, Dan Masuch, Deb McFee, Angie McGonigal, Marc McIntosh, Ryan McIntosh, Sean McKenzie, Anna McKilligan, Darin McLarty, Jerilyn McLeod, Danielle McPhee, Melissa Meyers-Frasz, Al Michetti, Emelyia Moghaddami, Tyler Montpellier, Ron Morgan, Stephen Morton, Shaun Moskalyk, Steve Mueller, Mckenzie Murdoch, Ed Murphy, Tyler Murray, Sarah Nance, Michael Ng, Marcel Njongwe, Philomena Paisley, Bruce Palmer, Bill Partridge, Dean Paterson, Brenda Pearson, Allan Pickel, Landon Poffenroth, Lindsay Postma, Shoni Proctor, Aidan Richardson, Dale Richardson, Brian Ritchie, Michelle Rodgerson, Jeff Rogers, Danielle Rosia, Sherri Rosia, Randy Rousson, Todd Sajtovich, Lee Sallenbach, Victor Sandhawalia, Andreas Scheel, Seymour Schulich, Wade Schultz, Daniel Sharp, Larry Shaw, Amy Short, Nick Sizer, Ryan Sloan, Rachel Smith, Dwayne Spelay, Ben Stevenson, Darby Stolk, Lindsay Sturrock, Tracey Suchlandt, Jim Surbey, Jeff Tonken, Gillian Topping, Hue Tran, Tammy Tran, Trevor Trudeau, Becky Van De Reit, Theo van der Werken, Kara Vance, Greg Vreim, Linda Wang, Matthew Weiss, David Wetta, Jonathan White, Chris Wurz, John Yeo, Deirdre Yuzwa, Steve Zylinski

Corporate Information

OFFICERS

A. Jeffery Tonken
President & Chief Executive Officer

Myles R. Bosman
Vice-President, Exploration &
Chief Operating Officer

Chris A. Carlsen
Vice-President, Engineering

Bruno P. Geremia
Vice-President &
Chief Financial Officer

David M. Humphreys
Vice-President, Operations

James W. Surbey
Vice-President,
Corporate Development

DIRECTORS

Larry A. Shaw (Chairman)
Calgary, Alberta

Kenneth N. Cullen
Calgary, Alberta

A. Jeffery Tonken
President & Chief Executive Officer
Calgary, Alberta

MANAGEMENT TEAM

Gates Aurigemma
Manager, General Accounting

Perry Billard
Asset Team Lead – North

Robyn Bourgeois
General Counsel

Wayne Brown
Production Manager

Jesse Doenz
Controller

George Fukushima
Manager of Engineering

Andrew Fulford
Surface Land Manager

MANAGEMENT TEAM (con't)

Robert (Bob) Grisack
Land Manager

Bruce Palmer
Manager of Geology

Bill Partridge
Asset Team Lead – East

Michelle Rodgerson
Office Manager

Jeff Rogers
Facilities Manager

Randy Rousson
Drilling & Completions Manager

Theo van der Werken
Asset Team Lead – West

SOLICITORS

Borden Ladner Gervais LLP
Calgary, Alberta

AUDITORS

KPMG LLP, Chartered Accountants
Calgary, Alberta

RESERVES EVALUATOR

Deloitte LLP
Calgary, Alberta

BANK SYNDICATE

The Bank of Nova Scotia

HSBC Bank Canada

Alberta Treasury Branches

Union Bank, Canada Branch

The Toronto-Dominion Bank

Business Development Bank of Canada

United Overseas Bank Limited

National Bank of Canada

ICICI Bank Canada

Canadian Imperial Bank of Commerce

HEAD OFFICE

500, 630 – 4th Avenue S.W.
Calgary, Alberta T2P 0J9
Phone: 403-261-6401
Fax: 403-261-6424
Email: info@birchcliffenergy.com

SPIRIT RIVER OFFICE

5604 – 49th Avenue
Spirit River, Alberta T0H 3G0
Phone: 780-864-4624
Fax: 780-864-4628

ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders will be held at **3:00 p.m.** on **Thursday, May 14, 2015**, in the McMurray Room of the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta

TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta and Toronto, Ontario
TSX: BIR, BIR.PR.A, BIR.PR.C

www.birchcliffenergy.com

BIRCHCLIFF ENERGY LTD.
500, 630 – 4th Avenue S.W.
Calgary, Alberta T2P 0J9
Phone: 403-261-6401

TSX: BIR
www.birchcliffenergy.com