November 9, 2016

Fellow Shareholders,

We are pleased to report the third quarter financial and operational results for Birchcliff Energy Ltd. ("**Birchcliff**") for the three and nine month periods ended September 30, 2016.

## HIGHLIGHTS FOR THE 2016 THIRD QUARTER

The third quarter marked the completion of a transformational transaction for Birchcliff. On July 28, 2016, we completed the acquisition (the "**Gordondale Acquisition**") of significant petroleum and natural gas properties and related assets located in the Gordondale area of Alberta (the "**Gordondale Assets**") for approximately $612 million, after closing adjustments and other related costs. The Gordondale Assets include high working interest operated production and a large contiguous land base which is adjacent to Birchcliff's existing Pouce Coupe properties.

In connection with the Gordondale Acquisition, we completed a bought deal financing and concurrent private placement for aggregate gross proceeds of approximately $690.8 million which closed on July 13, 2016. On the closing of the Gordondale Acquisition, the proceeds were used to complete the Gordondale Acquisition and the balance was used to reduce indebtedness under our credit facilities. As a result, we significantly de-levered our balance sheet, while at the same time adding material low decline production, material reserves and high quality development opportunities.

Other highlights of the third quarter include the following:

- We had record quarterly average production of 54,538 boe/d (81% natural gas, 8% light oil and 11% NGLs). Production was approximately 42% above the quarterly average production in the third quarter of 2015 of 38,433 boe/d. The increase in production from the third quarter of 2015 was largely due to the completion of the Gordondale Acquisition which closed on July 28, 2016. Accordingly, our production for the quarter includes approximately two months of production from the Gordondale Assets.
- We had funds flow of $41.7 million ($0.18 per basic common share), a decrease from $44.6 million ($0.29 per basic common share) in the third quarter of 2015, largely due to lower realized commodity prices during the quarter.
- We recorded a net loss to common shareholders of $2.1 million ($0.01 per basic common share), as compared to the net income to common shareholders of $3.8 million ($0.03 per basic common share) in the third quarter of 2015.
- Our operating costs were $4.65/boe, a 6% increase from $4.39/boe in the third quarter of 2015.
- Our general and administrative expense was $1.07/boe, a 10% decrease from $1.19/boe in the third quarter of 2015.
- Our extendible revolving credit facilities (the "**Credit Facilities**") were amended on July 28, 2016 to increase the borrowing base to $950 million from $750 million.

# FINANCIAL AND OPERATIONAL HIGHLIGHTS

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **OPERATING** | | | | |
| Average daily production | | | | |
| Light oil – *(barrels)* | 4,504 | 3,554 | 3,417 | 3,767 |
| Natural gas – *(thousands of cubic feet)* | 263,652 | 199,746 | 233,198 | 198,146 |
| NGLs – *(barrels)* | 6,092 | 1,588 | 3,086 | 1,655 |
| **Total – barrels of oil equivalent** *(6:1)* | **54,538** | **38,433** | **45,370** | **38,446** |
| Average sales price *($ CDN)*[(1)] | | | | |
| Light oil – *(per barrel)* | 52.12 | 52.91 | 47.13 | 55.04 |
| Natural gas – *(per thousand cubic feet)* | 2.53 | 3.12 | 2.04 | 2.99 |
| NGLs – *(per barrel)* | 25.82 | 49.42 | 32.69 | 51.73 |
| **Total – barrels of oil equivalent** *(6:1)* | **19.40** | **23.17** | **16.25** | **23.03** |
| **NETBACK AND COST** *($ per barrel of oil equivalent at 6:1)* | | | | |
| Petroleum and natural gas revenue[(1)] | 19.41 | 23.19 | 16.26 | 23.04 |
| Royalty expense | (1.45) | (0.86) | (0.86) | (0.77) |
| Operating expense | (4.65) | (4.39) | (4.01) | (4.67) |
| Transportation and marketing expense | (2.50) | (2.44) | (2.38) | (2.50) |
| **Netback** | **10.81** | **15.50** | **9.01** | **15.10** |
| General & administrative expense, net | (1.07) | (1.19) | (1.19) | (1.46) |
| Interest expense | (1.61) | (1.70) | (1.81) | (1.53) |
| Realized gain on financial instruments | 0.18 | - | 0.07 | - |
| **Funds flow netback** | **8.31** | **12.61** | **6.08** | **12.11** |
| Stock-based compensation expense, net | (0.12) | (0.23) | (0.14) | (0.23) |
| Depletion and depreciation expense | (8.08) | (9.82) | (8.54) | (10.60) |
| Accretion expense | (0.12) | (0.16) | (0.14) | (0.16) |
| Amortization of deferred financing fees | (0.06) | (0.07) | (0.06) | (0.07) |
| Gain (loss) on sale of assets | 0.09 | - | (0.84) | 0.06 |
| Unrealized gain on financial instruments | 0.01 | - | 0.01 | - |
| Dividends on Series C preferred shares | (0.17) | (0.25) | (0.21) | (0.25) |
| Income tax recovery (expense) | (0.07) | (0.72) | 0.91 | (1.13) |
| **Net income (loss)** | **(0.21)** | **1.36** | **(2.93)** | **(0.27)** |
| Dividends on Series A preferred shares | (0.20) | (0.28) | (0.24) | (0.29) |
| **Net income (loss) to common shareholders** | **(0.41)** | **1.08** | **(3.17)** | **(0.56)** |
| **FINANCIAL** | | | | |
| Petroleum and natural gas revenue *($000s)*[(1)] | 97,365 | 82,011 | 202,129 | 241,828 |
| Funds flow from operations *($000s)* | 41,675 | 44,587 | 75,637 | 127,059 |
| Per common share – basic *($)* | 0.18 | 0.29 | 0.42 | 0.83 |
| Per common share – diluted *($)* | 0.18 | 0.29 | 0.42 | 0.82 |
| Net income (loss) *($000s)* | (1,064) | 4,815 | (36,420) | (2,838) |
| Net income (loss) to common shareholders *($000s)* | (2,064) | 3,815 | (39,420) | (5,838) |
| Per common share – basic *($)* | (0.01) | 0.03 | (0.22) | (0.04) |
| Per common share – diluted *($)* | (0.01) | 0.02 | (0.22) | (0.04) |
| Common shares outstanding *(000s)* | | | | |
| End of period – basic | 263,065 | 152,308 | 263,065 | 152,308 |
| End of period – diluted | 279,826 | 168,112 | 279,826 | 168,112 |
| Weighted average common shares for period – basic | 229,287 | 152,303 | 178,155 | 152,279 |
| Weighted average common shares for period – diluted | 234,295 | 153,916 | 180,681 | 154,265 |
| Dividends on Series A preferred shares *($000s)* | 1,000 | 1,000 | 3,000 | 3,000 |
| Dividends on Series C preferred shares *($000s)* | 875 | 875 | 2,625 | 2,625 |
| Capital expenditures, net *($000s)* | 599,715 | 50,013 | 699,547 | 213,674 |
| Revolving term credit facilities *($000s)* | 634,534 | 626,839 | 634,534 | 626,839 |
| Adj. working capital deficit (surplus) *($000s)* | (22,454) | 13,912 | (22,454) | 13,912 |
| Total debt *($000s)* | 612,080 | 640,751 | 612,080 | 640,751 |

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

*This Third Quarter Report contains forward-looking information within the meaning of applicable securities laws. For further information, please see "Advisories – Forward-Looking Information". In addition, this Third Quarter Report contains references to "funds flow", "funds flow from operations", "funds flow per common share", "free funds flow", "netback", "operating netback", "estimated operating netback", "funds flow netback", "operating margin", "total cash costs", "adjusted working capital deficit (surplus)" and "total debt", which do not have standardized meanings prescribed by GAAP. For further information, please see "Non-GAAP Measures".*

- At September 30, 2016, our long-term bank debt was $634.5 million and total debt, including adjusted working capital surplus, was $612.1 million.

## 2021 FIVE YEAR PLAN

We have recently finalized our 2021 Five Year Plan (the "**Five Year Plan**"), the key elements of which include: (i) controlled growth; (ii) maintaining a top tier balance sheet; (iii) the payment of a sustainable quarterly dividend to common shareholders; (iv) a focus on our existing resource plays; (v) ownership and control of our lands and infrastructure; and (vi) a focus on operational excellence.

- ***Controlled Growth***
  - The Five Year Plan targets the following production rates and is based on the commodity prices set forth below[1]:

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Approximate Annual Average Production *(boe/d)* | 72,000[2] | 91,000 | 105,000 | 110,000 | 125,000 |
| Year-over-year Annual Average Production Growth | 45% | 26% | 16% | 4% | 13% |
| Approximate Oil and NGLs – % of Annual Average | 23% | 23% | 23% | 23% | 23% |
| Approximate Exit Production *(boe/d)* | 80,000[2] | 106,000 | 106,000 | 124,000 | 130,000 |
| Light Oil – WTI Cushing *(US$/bbl)* | 55.00 | 55.00 | 55.00 | 55.00 | 55.00 |
| Natural Gas – AECO – C daily *(CDN$/GJ)* | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |

(1) For additional assumptions surrounding the Five Year Plan, please see *"Advisories – Forward-Looking Information"*.

(2) Represents the mid-point of our 2017 guidance. See "*Guidance*".

  - The production growth forecast by the Five Year Plan and the capital expenditures required for such growth are expected to be funded out of our internally generated funds flow, assuming the commodity prices set forth above are achieved during such period.
  - We currently own and control the lands necessary to achieve this production growth profile, allowing us to execute the plan without relying on land, asset or corporate acquisitions.

- ***Maintain a Top Tier Balance Sheet, Financial Self-Sufficiency and Financial Flexibility***
  - We expect to fund the production growth and capital expenditures contemplated by the Five Year Plan primarily using internally generated funds flow.
  - Our objective is financial self-sufficiency, whereby we will first determine the capital expenditures required for controlled growth and to maintain a top tier balance sheet and thereafter set a dividend rate at a prudent and sustainable level.
  - It is forecast that we will generate significant free funds flow over the five year period, assuming the production targets and commodity prices set forth above are achieved during such period.
  - This free funds flow is expected to provide Birchcliff with significant financial flexibility as we may choose to use such free funds flow to reduce our indebtedness, to increase our capital spending and/or to pay dividends. Our current expectation is that we will materially reduce our indebtedness over the five year period.
  - We are committed to a hedging strategy throughout the Five Year Plan to protect our balance sheet.

- ***Pay a Sustainable Quarterly Dividend to Common Shareholders***
  - Our board of directors has approved a quarterly dividend policy whereby cash dividends will be paid to common shareholders. Please see *"Quarterly Common Share Dividend Policy"*.

- The Five Year Plan contemplates that dividends will be set at prudent and sustainable levels and will be funded out of our internally generated funds flow.
  - We do not currently intend to establish a dividend reinvestment plan or stock dividend program.
- ***Focus on Existing Resource Plays***
  - The Five Year Plan contemplates that we will continue to develop and expand our two existing resource plays, the Montney/Doig Resource Play and the Charlie Lake Light Oil Resource Play.
  - These resource plays are large enough to provide us with an extensive inventory of repeatable, consistent, low-cost and low-risk drilling opportunities that we expect will provide production and reserves growth for many years.
  - We have a large inventory of long life resources in the Montney/Doig Resource Play and we have the technical expertise to efficiently and economically extract that resource through horizontal drilling and multi-stage fracture stimulations.
- ***Ownership and Control of Lands and Infrastructure***
  - The Five Year Plan is based on the fact that we operate essentially all of our production, our current ownership of large contiguous blocks of high working interest land in our operating areas and our high working interest or 100% ownership in the significant facilities and infrastructure we rely upon to handle the majority of our production, all of which helps us to control our costs and capital expenditures.
  - We intend to continue to build and own our processing facilities in our areas of operation to provide room for production growth, to help us to continue to reduce our operating costs and to control the pace of our drilling.
- ***Focus on Operational Excellence***
  - We will continue to focus on improving our execution, reducing our costs and increasing our reserves, which is expected to lead to improved capital efficiencies and internal rates of return.
  - We will continue to apply science and technology to further evolve our best practices for all aspects of our business.

## QUARTERLY COMMON SHARE DIVIDEND POLICY

Our board of directors has approved a quarterly dividend policy in respect of our common shares (the "**Dividend Policy**"). The Dividend Policy establishes that until changed by our board of directors, cash dividends will be paid to holders of common shares ("**Shareholders**") on the last day of March, June, September and December in each year (or if such date is not a business day, on the next business day). The record date for determining the Shareholders entitled to receive dividends is expected to be on or about the 15$^{th}$ day of the last month of the applicable quarter.

We currently anticipate that the initial dividend payable under the Dividend Policy will be in respect of the quarter ending March 31, 2017 and will be in the amount of $0.025 per common share. The declaration of dividends and the amount of such dividends is subject to the approval of our board of directors on a quarterly basis, as discussed in further detail herein. It is expected that the total dividends payable to Shareholders during 2017 will be approximately $26 million, with a quarterly dividend of $0.025 per common share and assuming 263 million common shares are issued and outstanding. We currently expect that any dividends declared during 2017 will be funded primarily from internally generated funds flow.

We expect that the dividends declared and paid will be "eligible dividends" for the purposes of the *Income Tax Act* (Canada). However, no assurance can be given that all dividends will be designated as "eligible dividends" or otherwise qualify as "eligible dividends".

We do not currently intend to establish a dividend reinvestment plan or stock dividend program.

The declaration of dividends in any quarter and the amount of such dividends, if any, is subject to the discretion of our board of directors and may vary depending on a variety of factors and conditions existing from time to time. The payment of cash dividends to Shareholders in the future is not assured or guaranteed and dividends may be reduced or suspended. The Dividend Policy will be periodically reviewed by our board of directors and no assurance or guarantee can be given that we will maintain the Dividend Policy in its current form. For further information regarding the risks and assumptions relating to the payment of dividends, please see *"Advisories – Risk Factors – Payment of Dividends"* and *"Advisories – Forward-Looking Information"*.

## UPDATE ON HEDGING

We have been actively implementing a hedging program in order to reduce volatility in our financial results and to protect a portion of our funds flow and capital expenditure programs. Our current strategy for 2017 is to hedge approximately 50% of our estimated annual average natural gas and oil production using a combination of financial derivatives and physical sales contracts, depending on our outlook for commodity prices.

With respect to 2016, we currently have in place financial swaps for 1,500 bbls/d of crude oil at an average price of CDN$64.83/bbl for the period from June 1, 2016 to December 31, 2016.

With respect to 2017, we have entered into hedging contracts for 80,000 GJ/d of natural gas at an average AECO price of CDN$2.99/GJ ($3.40/Mcf) for the period from January 1, 2017 to December 31, 2017. This represents approximately 21% of Birchcliff's estimated annual average natural gas production for 2017. In addition, we have entered into a financial derivative contract for 500 bbls/d of crude oil at a WTI price of CDN$71.00/bbl for the period from January 1, 2017 to December 31, 2017.

For further information regarding our hedges, please see our management's discussion and analysis for the three and nine month periods ended September 30, 2016.

## GUIDANCE

### 2016 Guidance

We are pleased to confirm our previously announced guidance for 2016. The following table sets forth our guidance for 2016:

| | Guidance |
|---|---|
| ***2016 Guidance***[(1)] | |
| Estimated 2016 Q4 Average Production | 62,000 – 63,000 boe/d |
| % Oil and NGLs | 21% |
| Estimated 2016 Annual Average Production | 49,000 – 51,000 boe/d |
| % Oil and NGLs | 17% |
| Estimated 2016 Net Capital Expenditures, excluding the Gordondale Acquisition (millions) | $145 |
| Estimated Total Debt at December 31, 2016 (millions) | $607 |

(1) Please see "*Advisories – Forward-Looking Information*".

As a result of the strong well performance on our Montney/Doig Resource Play in Pouce Coupe, the new wells drilled in 2016 and the reserves acquired pursuant to the Gordondale Acquisition, we expect material reserves additions at year-end 2016.

### 2017 Guidance

We are pleased to announce that our annual average production for 2017 is expected to be 70,000 to 74,000 boe/d. The following table sets forth our guidance for 2017:

| | Guidance |
|---|---|
| ***2017 Guidance***[1] | |
| Estimated 2017 Annual Average Production | 70,000 – 74,000 boe/d |
| % Oil and NGLs | 23% |
| Estimated 2017 Exit Production | 78,000 – 82,000 boe/d |
| % Oil and NGLs | 23% |

(1) Please see "*Advisories – Forward-Looking Information*".

We expect to fund our 2017 capital expenditures and dividends out of internally generated funds flow, based on the assumptions contained in the Five Year Plan.

## UPDATE ON THE GORDONDALE ACQUISITION

The transition and integration of the Gordondale Assets is going very well, the production is meeting our expectations and the opportunity list continues to grow. We have recently moved two drilling rigs onto the Gordondale Assets and we will be drilling six Montney horizontal wells (3 Montney D2 wells and 3 Montney D1 wells) on two pads with three wells on each pad. We expect that we will have these six wells drilled and cased by the end of the year and that we will complete them and bring them on production in the first quarter 2017. We have also identified numerous cost saving initiatives, one of which is water handling. We recently rig released a water disposal well on the asset that is expected to significantly reduce water transportation and disposal costs.

## UPDATE ON THE PCS GAS PLANT

### Phase V and Phase VI

A large portion of the capital spent on infrastructure in the first nine months of 2016 was to progress the Phase V expansion of our 100% owned and operated natural gas plant located in the Pouce Coupe South area of Alberta (the "**PCS Gas Plant**") which will increase the processing capacity to 260 MMcf/d from the current processing capacity of 180 MMcf/d. The fabrication work for the Phase V expansion is essentially complete and the finished components are being stored until field installation commences. The field construction for equipment foundations is currently underway and we expect that Phase V will be fully operational in October 2017. It is currently estimated that approximately $28 million will be required to be spent in 2017 to complete the field installation.

The design and licensing work is complete for the Phase VI expansion of the PCS Gas Plant which will increase the processing capacity to 340 MMcf/d from 260 MMcf/d. We currently expect that Phase VI will be fully operational in October 2018. Our preliminary estimate for the remaining cost of the Phase VI expansion is $45 million for the additional 80 MMcf/d of processing capacity.

The total cost of the Phase V and Phase VI expansions is expected to be approximately $141 million for 160 MMcf/d of additional processing capacity, which equates to a capital efficiency of $880,000 per MMcf/d of processing capacity.

**Phase VII**

We have also commenced the preliminary engineering work for the Phase VII expansion of the PCS Gas Plant which will increase the processing capacity to 420 MMcf/d. Consideration is also being given for deep-cut processing capabilities. We currently expect that Phase VII will be fully operational in the fall of 2020, subject to commodity prices and economic conditions.

### UPDATE ON ELMWORTH

As part of our future growth plans for our Montney/Doig Resource Play, we are continuing to prove up the play in the Elmworth area and we intend to construct and operate a 100% owned and operated natural gas plant in the Elmworth area (the "**Elmworth Gas Plant**"). It is anticipated that the Elmworth Gas Plant will be operational in the fall of 2021 and have a processing capacity of 40 MMcf/d.

We have commenced the preliminary planning for this plant and a critical requirement is a nearby acid gas disposal well which Birchcliff drilled in the first quarter of 2015. In the second and third quarters of 2015, we conducted successful injectivity tests on the well. We received regulatory approval for this acid gas well in August 2016.

### UPDATE ON NATURAL GAS TRANSPORTATION CAPACITY

Virtually all of our natural gas production is transported on TransCanada's NGTL System in Alberta pursuant to both firm and interruptible service agreements. We currently have in place firm service contracts that in the aggregate provide transportation capacity slightly above the processing capacity of our own processing facilities and sufficient transportation capacity to meet our processing commitments at third party processing facilities.

## 2016 THIRD QUARTER FINANCIAL AND OPERATIONAL RESULTS

### PRODUCTION

Third quarter production averaged 54,538 boe/d, a 42% increase from production of 38,433 boe/d in the third quarter of 2015. The increase in production from the third quarter of 2015 was largely due to the production volumes acquired pursuant to the Gordondale Acquisition, partially offset by natural well production declines. Production from the Gordondale Assets averaged approximately 24,058 boe/d in September 2016 which is the first month for which Birchcliff handled the production accounting. The Gordondale Assets increased Birchcliff's average production for the third quarter by approximately 16,379 boe/d as Birchcliff acquired the Gordondale Assets partway through the third quarter.

Production consisted of approximately 81% natural gas, 8% light oil and 11% NGLs in the third quarter of 2016 as compared to 87% natural gas, 9% light oil and 4% NGLs in the third quarter of 2015. The Gordondale Acquisition resulted in the increase in NGLs weighting in the third quarter of 2016.

Approximately 72% of our total corporate natural gas production and 64% of our total corporate production was processed at the PCS Gas Plant in the first nine months of 2016, as compared to 81% and 73%, respectively, during the first nine months of 2015. These decreases are due to the production volumes acquired pursuant to the Gordondale Acquisition.

The following table displays our yearly third quarter production per basic common share each year since 2012:

| | Q3 2012 | Q3 2013 | Q3 2014 | Q3 2015 | Q3 2016 | CAGR[(2)] *(%)* |
|---|---|---|---|---|---|---|
| Quarterly average production *(boe/d)* | 21,426 | 24,662 | 34,235 | 38,433 | 54,538 | 26 |
| **Production per day per million common shares *(boe)*[(1)]** | **151.4** | **173.0** | **228.9** | **252.3** | **237.9** | **12** |

(1) Based on quarterly average daily production and weighted average basic common shares outstanding in the respective quarter.

(2) Represents the compounded annual growth rate.

Production per common share has decreased in the third quarter of 2016 compared to the third quarter of 2015 as a result of the Gordondale Acquisition, which was entirely financed through the issuance of equity and not debt.

## FUNDS FLOW AND NET LOSS

Funds flow was $41.7 million ($0.18 per basic common share), a 7% decrease from $44.6 million ($0.29 per basic common share) in the third quarter of 2015. This decrease from the third quarter of 2015 was largely due to lower realized commodity prices, primarily offset by the production volumes acquired pursuant to the Gordondale Acquisition.

We had a net loss of $1.1 million, as compared to the net income of $4.8 million in the third quarter of 2015. We recorded a net loss to common shareholders of $2.1 million ($0.01 per basic common share) in the third quarter of 2016, as compared to the net income to common shareholders of $3.8 million ($0.03 per basic common share) in the third quarter of 2015. The change to a net loss position in the current quarter from net income in the comparative quarter was largely due to lower funds flow from operations and an increase in aggregate depletion costs in the third quarter of 2016 resulting from the production volumes acquired pursuant to the Gordondale Acquisition.

## OPERATING COSTS AND GENERAL AND ADMINISTRATIVE EXPENSE

We continue to focus on reducing our operating costs and general and administrative expense on a per boe basis.

Operating costs in the third quarter of 2016 were $4.65/boe, a 6% increase from $4.39/boe in the third quarter of 2015. On an aggregate basis, operating costs increased in the third quarter of 2016 as compared to the third quarter of 2015 largely due to additional operating, processing and service costs associated with the production volumes acquired pursuant to the Gordondale Acquisition. On a per unit basis, operating costs during the third quarter of 2016 were reduced by the continued cost benefits achieved from processing incremental volumes of natural gas at the PCS Gas Plant, lower service costs resulting from reduced industry activity and various cost reductions and infrastructure optimization initiatives implemented by Birchcliff, and were increased by the higher operating cost structure associated with the liquids-rich Gordondale Assets.

General and administrative expense in the third quarter of 2016 was $1.07/boe, a 10% decrease from $1.19/boe in the third quarter of 2015.

## PCS GAS PLANT NETBACKS

Since the PCS Gas Plant first became operational in March 2010, we have seen a significant reduction in our corporate operating costs on a per boe basis. During the first nine months of 2016, we processed approximately 72% of our total corporate natural gas production through the PCS Gas Plant with an average plant and field operating cost of $0.25/Mcfe ($1.50/boe). The estimated operating netback at the PCS Gas Plant was $1.57/Mcfe ($9.43/boe), resulting in an operating margin of 72% in the first nine months of 2016.

The following table details our net production and estimated operating netback for wells producing to the PCS Gas Plant on a production month basis:

| | Nine months ended Sept 30, 2016 | | Nine months ended Sept 30, 2015 | | Nine months ended Sept 30, 2014 | | Nine months ended Sept 30, 2013 | | Nine months ended Sept 30, 2012 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Average daily production, net to Birchcliff: | | | | | | | | | | |
| Natural gas *(Mcf)* | | 168,638 | | 159,786 | | 126,450 | | 86,870 | | 51,235 |
| Oil & NGLs *(bbls)* | | 968 | | 1,258 | | 1,007 | | 427 | | 189 |
| **Total boe** *(6:1)* | | **29,074** | | **27,889** | | **22,082** | | **14,905** | | **8,729** |
| *Sales liquids yield (bbls/MMcf)* | | *5.7* | | *7.9* | | *8.0* | | *4.9* | | *3.7* |
| *% of corporate natural gas production* | | *72%* | | *81%* | | *78%* | | *71%* | | *52%* |
| *% of corporate production* | | *64%* | | *73%* | | *68%* | | *60%* | | *41%* |
| **AECO – C daily** *($/Mcf)* | **$1.85** | | **$2.77** | | **$4.81** | | **$3.06** | | **$2.12** | |
| Netback and cost: | *$/Mcfe* | *$/boe* | *$/Mcfe* | *$/boe* | *$/Mcfe* | *$/boe* | *$/Mcfe* | *$/boe* | *$/Mcfe* | *$/boe* |
| Petroleum and natural gas revenue(1) | 2.19 | 13.17 | 3.26 | 19.58 | 5.54 | 33.23 | 3.57 | 21.42 | 2.54 | 15.24 |
| Royalty expense | (0.05) | (0.29) | (0.11) | (0.65) | (0.29) | (1.75) | (0.15) | (0.92) | (0.08) | (0.48) |
| Operating expense(2) | (0.25) | (1.50) | (0.33) | (2.00) | (0.40) | (2.40) | (0.36) | (2.19) | (0.33) | (1.98) |
| Transportation and marketing expense | (0.32) | (1.95) | (0.32) | (1.91) | (0.30) | (1.81) | (0.27) | (1.54) | (0.23) | (1.36) |
| **Estimated operating netback** | **$1.57** | **$9.43** | **$2.50** | **$15.02** | **$4.55** | **$27.27** | **$2.79** | **$16.77** | **$1.90** | **$11.42** |
| **Operating margin** | **72%** | **72%** | **77%** | **77%** | **82%** | **82%** | **78%** | **78%** | **75%** | **75%** |

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

(2) Represents plant and field operating costs.

## TOTAL CASH COSTS AND FUNDS FLOW NETBACK

During the third quarter of 2016, we had total cash costs of $11.28/boe, a 7% increase from $10.58/boe in the third quarter of 2015. The increase in total cash costs per boe in the third quarter of 2016 was primarily driven by higher royalty, operating and transportation and marketing expenses associated with the Gordondale Assets which were offset by lower general and administrative and interest expenses when compared to the third quarter of 2015. For the nine months ended September 30, 2016, total cash costs on a per boe basis were down 6% from the nine months ended September 30, 2015, primarily driven by lower operating, transportation and marketing and general and administrative expenses which were offset by higher royalty and interest expenses.

During the third quarter of 2016, we had funds flow netback of $8.31/boe, a 34% decrease from $12.61/boe in the third quarter of 2015.

## DEBT

At September 30, 2016, our long-term bank debt was $634.5 million from available credit facilities aggregating $950 million, leaving $294.1 million of unutilized credit capacity after adjusting for outstanding letters of credit and unamortized interest and fees. Total debt at September 30, 2016, including adjusted working capital surplus, was $612.1 million. For further details, please see our management's discussion and analysis for the three and nine month periods ended September 30, 2016.

## CAPITAL EXPENDITURES

During the third quarter of 2016, we had finding and development capital expenditures of $18.1 million ($599.7 million net of acquisitions and dispositions and administrative assets), including approximately $7.8 million on drilling and completions and $7.7 million on well equipment and facilities (which includes the costs for a turnaround conducted at the PCS Gas Plant during the quarter).

For further details regarding the breakdown of our capital expenditures, please see our management's discussion and analysis for the three and nine month periods ended September 30, 2016.

## DRILLING AND COMPLETIONS

We successfully completed four Montney/Doig horizontal natural gas wells off of one multi-well pad site in the third quarter of 2016. Of the four wells that were completed, two were Montney D1 interval wells and two were Montney D4 interval wells. The two Montney D1 interval wells were placed on production in September 2016. It is expected that the two Montney D4 wells will be equipped and brought on production in the first quarter of 2017, when it is expected that there will be processing capacity at the PCS Gas Plant.

We were also busy integrating the Gordondale Assets, as well as preparing for an active drilling program in the fourth quarter of 2016 and during 2017.

During the nine months ended September 30, 2016, we drilled 13 (13.0 net) wells, consisting of 12 (12.0 net) Montney/Doig horizontal natural gas wells and 1 (1.0 net) Charlie Lake horizontal light oil well. The Montney/Doig horizontal natural gas wells consisted of 8 (8.0 net) wells drilled in the Montney D1 interval, 2 (2.0 net) wells drilled in the Basal Doig/Upper Montney interval and 2 (2.0 net) wells drilled in the Montney D4 interval. For further details, please see *"Operations Update".*

From inception to September 30, 2016, we have successfully drilled and cased 200 (199.9 net) Montney/Doig horizontal wells and 60 (60.0 net) Charlie Lake horizontal light oil wells utilizing multi-stage fracture stimulation technology.

We continue to see the benefits of our technical focus to evaluate and utilize innovative technologies in our drilling and completions. Our completions strategy on our Montney/Doig Resource Play continues to build off our success in 2015. We continue to use multi-stage openhole packers with high rate slickwater completions with varied horizontal lateral lengths, number of stages and tonnages, based on our engineered completions mandate, taking into account the area and the Montney/Doig interval being completed.

### LAND ACTIVITIES

Our land activities in the third quarter of 2016 included the acquisition of 143.5 (84.7 net) sections of land (of which 72.3 (64.0 net) sections are core Montney lands) pursuant to the Gordondale Acquisition, as well as an additional 39.75 (39.75 net) sections of crown land (at 100% working interest).

As at September 30, 2016, we held 429.4 sections of land that have potential for the Montney/Doig Resource Play. Of these lands, 408.4 (383.7 net) sections have potential for the Basal Doig/Upper Montney interval, 409.4 (395.0 net) sections have potential for the Montney D1 interval, 60.5 (60.5 net) sections have potential for the Montney D2 interval and 388.4 (378.5 net) sections have potential for the Montney D4 interval. As at September 30, 2016, our total land holdings on these four intervals were 1,266.8 (1,217.6 net) sections. We have 4,870.5 net existing horizontal wells and potential net future horizontal drilling locations in respect of the Basal Doig/Upper Montney, Montney D1, Montney D2 and Montney D4 intervals as at September 30, 2016, assuming full development of four horizontal wells per section per interval. With 287 (282.4 net) horizontal wells drilled as at September 30, 2016, there remain 4,588.1 potential net future horizontal drilling locations. For further information regarding these potential net future horizontal drilling locations, please see *"Advisories – Drilling Locations".*

As at September 30, 2016, our undeveloped land holdings were 428,722 (396,284 net) acres.

## OPERATIONS UPDATE

Our 2016 Capital Program is focused on our two proven resource plays, the Montney/Doig Resource Play and the Charlie Lake Light Oil Resource Play. The 2016 Capital Program contemplates the drilling of a total of 23 (23.0 net) wells, consisting of 15 (15.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area, 6 (6.0 net) Montney horizontal oil and natural gas wells and 1 (1.0 net) water disposal well in the Gordondale area and 1 (1.0 net) Charlie Lake horizontal light oil well in the Worsley area. The water disposal well in Gordondale replaces a Montney/Doig horizontal well that we had originally planned on drilling in 2016.

We have drilled 14 (14.0 net) wells year to date, consisting of 12 (12.0 net) Montney/Doig horizontal natural gas wells, the 1 (1.0 net) Charlie Lake horizontal light oil well in the Worsley area and the 1 (1.0 net) water disposal well in Gordondale. Of the 14 wells drilled to date, 11 (11.0 net) wells have been completed and brought on production and the water disposal well was recently rig released and is expected to be brought into service later in the fourth quarter of 2016. The last two wells are expected to be equipped and tied-in in the first quarter of 2017.

We have three rigs currently drilling, two of which are drilling at Gordondale and one of which is drilling at Pouce Coupe. For the remainder of 2016, we plan to drill 9 (9.0 net) wells, consisting of 6 (6.0 net) wells in the Gordondale area (3 Montney D2 horizontal wells and 3 Montney D1 horizontal wells) and 3 (3.0 net) wells in the Pouce Coupe area (all of which will be Montney D1 horizontal natural gas wells). All nine of these wells are expected to be completed and brought on production in the first quarter of 2017.

In the current economic environment, we are focused on maximizing our capital efficiencies and reducing our drilling, casing, completion, equipping and tie-in costs. As a part of this effort, the 21 Montney/Doig horizontal wells are being drilled from multi-well pads ranging from 2-well pads to a 6-well pad. Multi-well pad drilling allows us to drill continuously through spring break-up, improve our drilling and completion capital efficiencies and reduce our per well costs and environmental footprint. The majority of the pads are already tied-in to our infrastructure system, minimizing the equipping and tie-in costs of the wells.

We have continued to realize increased Montney/Doig well performance in 2016 through designing and engineering our completions by Montney/Doig stratigraphic interval and area within the Pouce Coupe field. Our completion optimization continues to utilize open-hole packer systems and high rate clean slickwater fracture treatments with varying fracture stage spacing and sand tonnages per stage along the horizontal wellbore.

As a result of the strong well performance on our Montney/Doig Resource Play in Pouce Coupe, we anticipate material positive technical revisions to our reserves at year-end 2016.

### MONTNEY/DOIG RESOURCE PLAY

Part of our long-term strategy is to continue to explore the Montney/Doig Resource Play, both geographically and stratigraphically. The Montney/Doig Resource Play exists in two geological formations, the Montney and the Doig, and we have divided the geologic column in our area into six drilling intervals from the youngest (top) to the 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.

In Gordondale, we have commenced the drilling of 3 (3.0 net) Montney D2 horizontal oil wells. In preparation for the drilling of these Montney D2 wells, we have established a new technical team to manage the Gordondale Assets, as well as continued our detailed reservoir and geoscience analysis.

From inception to September 30, 2016, we have successfully drilled and cased 200 (199.9 net) Montney/Doig horizontal wells. The Gordondale Assets included 87 (82.5 net) Montney/Doig horizontal oil and natural gas producing wells. In total, Birchcliff now owns 287 (282.4 net) Montney/Doig horizontal wells that have been drilled and cased for the Montney/Doig Resource Play.

### CHARLIE LAKE LIGHT OIL RESOURCE PLAY

We continue to develop our Charlie Lake Light Oil Resource Play. However, in light of the current commodity price environment and our focus on the Montney/Doig Resource Play, we have limited our 2016 capital expenditures on this resource play.

In addition, we experienced unplanned downtime at our Worsley property during the third quarter of 2016, which impacted our quarterly average production by approximately 701 boe/d (oil: 350 bbls/d; natural gas: 2,108 Mcf/d). During the fourth quarter of 2016, we expect that this production will continue to be impacted by approximately 1,486 boe/d (oil: 917 bbls/d; natural gas: 3,418 Mcf/d). It is anticipated that the majority of the impacted production will be back on stream early in the first quarter of 2017.

## SHAREHOLDER SUPPORT

We thank Mr. Seymour Schulich, our largest shareholder, for his leadership, unwavering commitment and his ongoing support. It is this kind of leadership that keeps our staff motivated and focused on the execution of our business plan.

Mr. Schulich currently holds 35 million common shares representing 13% of the current issued and outstanding common shares.

## OUTLOOK

We believe that Birchcliff is in its best operating and financial position since its inception and as a result, we are extremely excited about Birchcliff's future. We have increased our future drilling opportunities and materially improved our financial strength, but we have not left the map sheet.

We remain focused on our strategy – growth by the drill bit in our core area of the Peace River Arch of Alberta. Our strategy is to continue to develop and expand our two very large resource plays, the Montney/Doig 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 us with an extensive inventory of repeatable, consistent, low-cost and low-risk drilling opportunities that we expect will provide production and reserves growth for many years. Our strategy is based on the fact that we operate essentially all of our production, our current ownership of large contiguous blocks of high working interest land in our operating areas and our high working interest or 100% ownership in the significant facilities and infrastructure that handle the majority of our production. We continue to reduce our costs and control our capital expenditures primarily because we control the infrastructure that handles the majority of our production. We continue to focus on improving our execution, reducing our costs and increasing our reserves, all leading to improved capital efficiencies and internal rates of return. Due to the combination of industry conditions, the hard work of our people, various cost reduction initiatives and efficient project execution, we have seen a material reduction in our drilling and completion costs.

Our current production is approximately 61,000 boe/d.

Our 2016 fourth quarter average production is estimated to be 62,000 to 63,000 boe/d and our 2016 annual average production is estimated to be 49,000 to 51,000 boe/d. We are excited about our fall drilling program where we plan to drill 6 wells in Gordondale and 3 wells in Pouce Coupe.

As a result of the strong well performance on our Montney/Doig Resource Play in Pouce Coupe, the new wells drilled in 2016 and the reserves acquired pursuant to the Gordondale Acquisition, we expect material reserves additions at year-end 2016.

Our 2017 annual average production is estimated to be 70,000 to 74,000 boe/d and our exit production is expected to be 78,000 to 82,000 boe/d. We expect to fund our 2017 capital expenditures and dividends out of internally generated funds flow. We expect to announce the details of our 2017 capital expenditure program, our 2016 unaudited financial results and 2016 reserves and finding costs on February 8, 2017.

We have implemented a hedging program which we believe will remove some of the volatility of commodity prices and allow us to execute our business plan. Moving forward, it is our expectation that we will hedge up to 50% of our oil and natural gas production in 2017 and continue to hedge in the future.

Our board of directors has approved the Dividend Policy which establishes that until changed by our board of directors, cash dividends will be paid to Shareholders for the quarters ending March 31, June 30, September 30 and December 31. We currently anticipate that the initial dividend payable under the Dividend Policy will be in respect of the quarter ending March 31, 2017 and will be in the amount of $0.025 per common share. It is expected that the total dividends payable to Shareholders during 2017 will be approximately $26 million, with a quarterly dividend of $0.025 per common share and assuming 263 million common shares are issued and outstanding.

Our Five Year Plan contemplates controlled production growth and maintaining a top tier balance sheet, while paying a sustainable quarterly dividend to our common shareholders. We anticipate that we will generate significant free funds flow over the five year period and that we will materially reduce our indebtedness. We are confident in our ability to successfully execute our Five Year Plan as a result of our low decline production, repeatable low cost drilling opportunities, low cost operations and our proven execution.

The goal of doubling our production over the next five years while materially reducing our debt is very achievable by development of our extensive existing asset base. We believe that the less debt you have removes the downside risk of any potential decreases in commodity prices.

Thank you to all of our shareholders for your support and to our staff who continue to go that extra mile for the benefit of all of us.

With Respect,

(signed) "*A. Jeffery Tonken*"

President and Chief Executive Officer
Birchcliff Energy Ltd.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## GENERAL

This Management's Discussion and Analysis ("**MD&A**") for Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is dated November 9, 2016. This MD&A and the unaudited interim condensed financial statements with respect to the three and nine months ended September 30, 2016 (the "**Reporting Periods**") as compared to the three and nine months ended September 30, 2015 (the "**Comparable Prior Periods**") have been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the interim condensed financial statements of the Corporation and related notes for the Reporting Periods, as well as the audited financial statements of the Corporation and related notes and MD&A for the year ended December 31, 2015. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

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

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

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

## ABOUT BIRCHCLIFF

Birchcliff is a Calgary, Alberta based intermediate oil and natural gas company with operations concentrated in its one core area, the Peace River Arch of Alberta, which is centred northwest of Grande Prairie, Alberta. Birchcliff's common shares are listed for trading on the Toronto Stock Exchange (the "**TSX**") under the symbol "BIR" and are included in the S&P/TSX Composite Index. Additional information relating to the Corporation, including its Annual Information Form for the financial year ended December 31, 2015, is available on the SEDAR website at www.sedar.com and on the Corporation's website at www.birchcliffenergy.com.

## THIRD QUARTER FINANCIAL AND OPERATIONAL HIGHLIGHTS

- On July 28, 2016, Birchcliff closed its previously announced acquisition of significant petroleum and natural gas properties and related assets located in the Gordondale area of Alberta (the "**Gordondale Assets**") from Encana Corporation (the "**Gordondale Acquisition**"). The Gordondale Assets include high working interest operated production and a large contiguous land base which is adjacent to Birchcliff's existing Pouce Coupe properties. The purchase price for the Gordondale Acquisition was approximately $612.3 million, after closing adjustments and other related costs.

- The Gordondale Acquisition was funded through a bought deal financing of 107,520,000 subscription receipts of the Corporation ("**Subscription Receipts**") at a price of $6.25 per Subscription Receipt (the "**Offering**") and a private placement of 3,000,000 Subscription Receipts at a price of $6.25 per Subscription Receipt (the "**Concurrent Private Placement**"). The Offering and the Concurrent Private Placement (collectively, the "**Financings**") closed concurrently on July 13, 2016 and the aggregate gross proceeds of $690.8 million were held in escrow pending completion of the Gordondale Acquisition. On July 28, 2016, Birchcliff closed the Gordondale Acquisition and each Subscription Receipt was exchanged for one common share of the Corporation for no additional consideration. The aggregate gross proceeds of the Financings were released from escrow to pay the balance of the purchase price for the Gordondale Acquisition and the balance of the fees payable to the underwriters of the Offering, with the remaining aggregate net proceeds applied to reduce indebtedness under the Corporation's extendible revolving credit facilities (the "**Credit Facilities**").
- In connection with the closing of the Gordondale Acquisition, the Corporation's Credit Facilities were amended to increase the borrowing base to $950 million from $750 million.
- Birchcliff had record quarterly average production of 54,538 boe/d, a 42% increase from 38,433 boe/d in the three month Comparable Prior Period.
- Birchcliff had funds flow of $41.7 million ($0.18 per basic common share), a decrease from $44.6 million ($0.29 per basic common share) in the three month Comparable Prior Period.
- Birchcliff recorded a net loss to common shareholders of $2.1 million ($0.01 per basic common share), as compared to the net income to common shareholders of $3.8 million ($0.03 per basic common share) in the three month Comparable Prior Period.
- Birchcliff had operating costs of $4.65/boe, 6% increase from $4.39/boe in the three month Comparable Prior Period.
- Birchcliff had general and administrative expense of $1.07/boe, 10% decrease from $1.19/boe in the three month Comparable Prior Period.

See *"Funds Flow from Operations", "Net Income (Loss) to Common Shareholders", "PCS Gas Plant Netbacks"*, "*Discussion of Operations",* "*Capital Expenditures*" and "*Capital Resources and Liquidity*" in this MD&A for further information on the impact of the Gordondale Acquisition and the proceeds from the Financings on Birchcliff's financial and operational results for the Reporting Periods.

## OUTLOOK

Birchcliff's 2016 fourth quarter average production is estimated to be 62,000 to 63,000 boe/d and its 2016 annual average production is estimated to be 49,000 to 51,000 boe/d.

As a result of the closing of the Gordondale Acquisition, the Corporation's Board of Directors approved a revised capital program for 2016 of $163.7 million (the "**2016 Capital Program**"). The 2016 Capital Program contemplates the drilling of a total of 23 (23.0 net) wells. The Corporation's estimated net capital expenditures for 2016 (net of acquisitions and dispositions, but excluding the Gordondale Acquisition) are approximately $145 million.

As a result of the strong well performance on its Montney/Doig Resource Play in Pouce Coupe, the new wells drilled in 2016 and the reserves acquired pursuant to the Gordondale Acquisition, Birchcliff expects material reserves additions at year-end 2016.

Birchcliff's 2017 annual average production is estimated to be 70,000 to 74,000 boe/d and its exit production is expected to be 78,000 to 82,000 boe/d. Birchcliff expects to fund its 2017 capital expenditures and dividends out of internally generated funds flow.

Birchcliff's Board of Directors has approved a quarterly dividend policy for its common shares (the "**Dividend Policy**") which establishes that, until changed by the Board of Directors, a quarterly dividend will be paid for the quarters ending March 31, June 30, September 30 and December 31. It is anticipated that the first dividend under this policy will be paid for the quarter ending March 31, 2017 and will be in the amount of $0.025 per common share.

The Corporation has certain commodity price risk management contracts outstanding for 2016 and 2017 in order to reduce volatility in its financial results and to protect a portion of its funds flow and capital expenditure programs. Birchcliff's current strategy for 2017 is to hedge approximately 50% of its estimated annual average natural gas and oil production using a combination of financial derivatives and physical sales contracts, depending on its outlook for commodity prices.

## FUNDS FLOW FROM OPERATIONS

| | Three months ended Sept 30, | | Nine months ended Sept 30, | |
|---|---|---|---|---|
| *($000s)* | **2016** | **2015** | **2016** | **2015** |
| **Funds flow from operations** | **41,675** | **44,587** | **75,637** | **127,059** |
| Per common share – basic *($)* | 0.18 | 0.29 | 0.42 | 0.83 |
| Per common share – diluted *($)* | 0.18 | 0.29 | 0.42 | 0.82 |

Funds flow decreased from the Comparable Prior Periods largely due to lower realized commodity prices, primarily offset by the production volumes acquired pursuant to the Gordondale Acquisition. During the three and nine month Reporting Periods, realized oil prices were down 1% and 14%, respectively, and realized natural gas prices were down 19% and 32%, respectively, from the Comparable Prior Periods. Notwithstanding lower realized commodity prices, Birchcliff's production in the three and nine month Reporting Periods increased by 42% and 18%, respectively, from the Comparable Prior Periods mainly as a result of the production volumes acquired pursuant to the Gordondale Acquisition. Production from the Gordondale Assets averaged approximately 24,058 boe/d in September 2016 which is the first month for which Birchcliff handled the production accounting. Birchcliff's production for the three month Reporting Period averaged 54,538 boe/d, an increase of 42% from the three month Comparable Prior Period. The Gordondale Assets increased Birchcliff's average production for the three month Reporting Period by approximately 16,379 boe/d as Birchcliff acquired the Gordondale Assets partway through the three month Reporting Period.

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

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| *($/boe)* | **2016** | **2015** | ***% Change*** | **2016** | **2015** | ***% Change*** |
| Royalty expense | 1.45 | 0.86 | 69% | 0.86 | 0.77 | 12% |
| Operating expense | 4.65 | 4.39 | 6% | 4.01 | 4.67 | (14%) |
| Transportation and marketing expense | 2.50 | 2.44 | 2% | 2.38 | 2.50 | (5%) |
| General & administrative expense, net | 1.07 | 1.19 | (10%) | 1.19 | 1.46 | (18%) |
| Interest expense | 1.61 | 1.70 | (5%) | 1.81 | 1.53 | 18% |
| **Total cash costs** | **11.28** | **10.58** | **7%** | **10.25** | **10.93** | **(6%)** |

On a per boe basis, total cash costs for the three month Reporting Period increased 7% compared to the three month Comparable Prior Period, primarily driven by higher royalty, operating and transportation and marketing expenses associated with the Gordondale Assets which were offset by lower general and administrative and interest expenses when compared to the three month Comparable Prior Period.

On a per boe basis, total cash costs for the nine month Reporting Period were down 6% from the nine month Comparable Prior Period, primarily driven by lower operating, transportation and marketing and general and administrative expenses which were offset by higher royalty and interest expenses. See "*Discussion of Operations*" in this MD&A for further information regarding the aforementioned cash costs.

## NET INCOME (LOSS) TO COMMON SHAREHOLDERS

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *($000s)* | **2016** | **2015** | **2016** | **2015** |
| Net income (loss) | (1,064) | 4,815 | (36,420) | (2,838) |
| **Net income (loss) to common shareholders**[1] | **(2,064)** | **3,815** | **(39,420)** | **(5,838)** |
| Per common share – basic *($)* | (0.01) | 0.03 | (0.22) | (0.04) |
| Per common share – diluted *($)* | (0.01) | 0.02 | (0.22) | (0.04) |

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

The increase in net loss to common shareholders from the Comparable Prior Periods was largely due to lower funds flow from operations, a loss on sale of assets of $10.4 million ($7.6 million, net of tax) recorded in the nine month Reporting Period and an increase in aggregate depletion costs in the three month Reporting Period resulting from the production volumes acquired pursuant to the Gordondale Acquisition.

## PCS GAS PLANT NETBACKS

The following table sets forth Birchcliff's net production and estimated operating netback for wells producing to the Corporation's 100% owned and operated natural gas plant located in the Pouce Coupe South area of Alberta (the "**PCS Gas Plant**") on a production month basis:

| | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 | |
|---|---|---|---|---|
| Average daily production, net to Birchcliff: | | | | |
| Natural gas *(Mcf)* | | 168,638 | | 159,786 |
| Oil & NGLs *(bbls)* | | 968 | | 1,258 |
| **Total boe** *(6:1)* | | **29,074** | | **27,889** |
| *Sales liquids yield (bbls/MMcf)* | | *5.7* | | *7.9* |
| *% of corporate natural gas production* | | *72%* | | *81%* |
| *% of corporate production* | | *64%* | | *73%* |
| **AECO – C daily** *($/Mcf)* | **$1.85** | | **$2.77** | |
| Netback and cost: | *$/Mcfe* | *$/boe* | *$/Mcfe* | *$/boe* |
| Petroleum and natural gas revenue[1] | 2.19 | 13.17 | 3.26 | 19.58 |
| Royalty expense | (0.05) | (0.29) | (0.11) | (0.65) |
| Operating expense[2] | (0.25) | (1.50) | (0.33) | (2.00) |
| Transportation and marketing expense | (0.32) | (1.95) | (0.32) | (1.91) |
| **Estimated operating netback** | **$1.57** | **$9.43** | **$2.50** | **$15.02** |
| **Operating margin** | **72%** | **72%** | **77%** | **77%** |

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

(2) Represents plant and field operating costs.

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

## DISCUSSION OF OPERATIONS

### Petroleum and Natural Gas Revenues

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

| | Three months ended September 30, 2016 | | | | Three months ended September 30, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total Revenue[(1)] *($000s)* | Average Daily Production | *(%)* | Average *($/unit)* | Total Revenue *($000s)* | Average Daily Production | *(%)* | Average *($/unit)* |
| Light oil *(bbls)* | 21,599 | 4,504 | 8 | 52.12 | 17,300 | 3,554 | 9 | 52.91 |
| Natural gas *(Mcf)* | 61,278 | 263,652 | 81 | 2.53 | 57,420 | 199,746 | 87 | 3.12 |
| NGLs *(bbls)*[(2)] | 14,473 | 6,092 | 11 | 25.82 | 7,222 | 1,588 | 4 | 49.42 |
| Total P&NG sales *(boe)* | 97,350 | 54,538 | 100 | 19.40 | 81,942 | 38,433 | 100 | 23.17 |
| Royalty revenue | 15 | | | 0.01 | 69 | | | 0.02 |
| **P&NG revenues** | **97,365** | | | **19.41** | **82,011** | | | **23.19** |

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

(2) NGLs prices are Birchcliff's realized prices adjusted for fractionation costs associated with the Gordondale Assets.

| | Nine months ended September 30, 2016 | | | | Nine months ended September 30, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total Revenue[(1)] *($000s)* | Average Daily Production | *(%)* | Average *($/unit)* | Total Revenue *($000s)* | Average Daily Production | *(%)* | Average *($/unit)* |
| Light oil *(bbls)* | 44,126 | 3,417 | 8 | 47.13 | 56,604 | 3,767 | 10 | 55.04 |
| Natural gas *(Mcf)* | 130,297 | 233,198 | 86 | 2.04 | 161,702 | 198,146 | 86 | 2.99 |
| NGLs *(bbls)*[(2)] | 27,647 | 3,086 | 6 | 32.69 | 23,367 | 1,655 | 4 | 51.73 |
| Total P&NG sales *(boe)* | 202,070 | 45,370 | 100 | 16.25 | 241,673 | 38,446 | 100 | 23.03 |
| Royalty revenue | 59 | | | 0.01 | 155 | | | 0.01 |
| **P&NG revenues** | **202,129** | | | **16.26** | **241,828** | | | **23.04** |

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

(2) NGLs prices are Birchcliff's realized prices adjusted for fractionation costs associated with the Gordondale Assets.

The increase in P&NG revenues from the three month Comparable Prior Period was largely attributable to higher average daily production in the three month Reporting Period, offset by a decrease in both the average realized oil and natural gas wellhead prices.

The decrease in P&NG revenues from the nine month Comparable Prior Period was largely attributable to a decrease in both the average realized oil and natural gas wellhead prices, offset by higher average daily production in the nine month Reporting Period.

*Production*

Production averaged 54,538 boe/d in the three month Reporting Period and 45,370 boe/d in the nine month Reporting Period, a 42% and 18% increase, respectively, from the Comparable Prior Periods. The increase in production from the Comparable Prior Periods was largely due to production volumes acquired pursuant to the Gordondale Acquisition partially offset by natural production declines from the producing Montney/Doig horizontal wells. Production from the Gordondale Assets averaged approximately 24,058 boe/d in September 2016, which is the first month for which Birchcliff handled the production accounting. The Gordondale Assets increased Birchcliff's average production for the three month Reporting Period by approximately 16,379 boe/d as Birchcliff acquired the Gordondale Assets partway through the three month Reporting Period.

Production consisted of approximately 81% natural gas, 8% light oil and 11% natural gas liquids ("**NGLs**") in the three month Reporting Period as compared to 87% natural gas, 9% light oil and 4% NGLs in the three month Comparable Prior Period. The Gordondale Acquisition resulted in the increase in the corporate NGLs weighting in the three month Reporting Period. Production from the Gordondale Assets during the three month Reporting Period consisted of approximately 59% natural gas, 13% light oil and 28% NGLs in the three month Reporting Period. The higher weighting of NGLs is a reflection of the liquids-rich nature of the Montney/Doig Resource Play in the Gordondale area.

*Commodity prices*

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

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

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

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| *Average benchmark prices:* | | | | |
| Light oil – WTI Cushing *(US$/bbl)* | 44.94 | 46.43 | 41.33 | 51.00 |
| Light oil – Edmonton Par *($/bbl)* | 55.80 | 57.47 | 51.31 | 59.09 |
| Natural gas – AECO – C daily *($/MMbtu)*(1) | 2.32 | 2.90 | 1.85 | 2.77 |
| Exchange rate – *(US$/CDN$)* | 1.31 | 1.32 | 1.32 | 1.27 |
| *Birchcliff's average realized sales price(2):* | | | | |
| Light oil *($/bbl)* | 52.12 | 52.91 | 47.13 | 55.04 |
| Natural gas *($/Mcf)* | 2.53 | 3.12 | 2.04 | 2.99 |
| NGLs *($/bbl)* | 25.82 | 49.42 | 32.69 | 51.73 |
| Average corporate realized sales price *($/boe) (6:1)* | 19.40 | 23.17 | 16.25 | 23.03 |

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

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

The average corporate realized sales price was $19.40/boe for the three month Reporting Period and $16.25/boe for the nine month Reporting Period, a 16% and 29% decline, respectively, from the Comparable Prior Periods.

The decrease in Birchcliff's average corporate realized sales price from the Comparable Prior Periods is due to the continued decline in oil and natural gas commodity spot prices in the Reporting Periods. During the Reporting Periods, the AECO natural gas spot price and the WTI oil spot price continued to decline from

2015 year-end levels, primarily due to the supply/demand imbalance of oil and natural gas that has resulted in above average inventory levels in North America. The AECO natural gas spot price averaged $2.32/Mcf for the three month Reporting Period and $1.85/Mcf for the nine month Reporting Period, a 20% and 33% decrease, respectively, from the Comparable Prior Periods. The WTI oil spot price in the three and nine month Reporting Periods was 3% and 19% lower, respectively, than the Comparable Prior Periods. The decline in commodity prices negatively impacted reported revenues in the Reporting Periods.

The decrease in Birchcliff's average realized sales price was partially offset by a higher average realized sales price attributable to the liquids-rich Gordondale Assets. The Gordondale Assets receive a higher average realized sales price compared to the Corporation's largest producing asset (the PCS Gas Plant and related wells and infrastructure), largely as a result of higher volume weighting of liquids produced in the Gordondale area which receive a higher value on a per boe equivalent basis than its natural gas sales. The higher weighting of liquids in the total corporate production mix improves Birchcliff's overall average realized sales price. During the three month Reporting Period, the average realized sales price of the Gordondale Assets was $20.80/boe as compared to $19.40/boe on a corporate basis.

With respect to the Gordondale Assets, NGLs (ethane, propane, butane) are substantially recovered from the raw natural gas stream at a third-party deep cut natural gas processing facility which reduces the heat content value and realized sales price of natural gas from the area. Birchcliff expects a heat content value of approximately 38.3 megajoules ("**MJ**") per cubic metre ("$\mathbf{m^3}$") for the Gordondale Assets as compared to its corporate average of approximately 40.8 MJ/$m^3$ in the three month Reporting Period.

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

Birchcliff's realized natural gas sales price at the wellhead averaged $2.53/Mcf for the three month Reporting Period which was higher than the average posted benchmark price for the period. Birchcliff receives premium pricing for its natural gas production due to its high heat content from its properties in the Pouce Coupe area. The following table sets forth Birchcliff's average realized sales price and heat content premium from its natural gas production during the three month Reporting Period and the three month Comparable Prior Period:

| | **Three months ended September 30, 2016** | **Three months ended September 30, 2015** |
|---|---|---|
| AECO – C daily *($/MMbtu)*(1) | 2.32 | 2.90 |
| Heat content premium | 0.21 | 0.22 |
| **Average realized natural gas sales price** *($/Mcf)* | **2.53** | **3.12** |

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

### Risk Management Contracts and 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. Birchcliff's exposure to credit risk, liquidity risk and market risk are consistent with those disclosed in the annual audited financial statements for the year ended December 31, 2015.

The Corporation has certain commodity price risk management contracts outstanding for 2016 and 2017 in order to reduce volatility in its financial results and to protect a portion of its funds flow and capital expenditure programs. Birchcliff's current strategy for 2017 is to hedge approximately 50% of its estimated annual average natural gas and oil production using a combination of financial derivatives and physical sales contracts, depending on its outlook for commodity prices.

*Financial derivative contracts*

During the three and nine month Reporting Periods, Birchcliff had certain financial derivative contracts outstanding in order to manage commodity price risk. These instruments are not used for trading or speculative purposes. Birchcliff has not designated its financial 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 September 30, 2016, the Corporation had the following financial derivatives in place:

| Product | Type of Contract | Notional quantity | Term[(1)] | Contract price | Fair value *($000s)* |
|---|---|---|---|---|---|
| Crude oil | Financial swap | 1,000 bbls/d | June 1, 2016 – December 31, 2016 | WTI CDN$64.63/bbl | 34 |
| Crude oil | Financial swap | 500 bbls/d | June 1, 2016 – December 31, 2016 | WTI CDN$65.25/bbl | 135 |
| **Fair value assets** | | | | | **169** |

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

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

| | **Three months ended September 30,** | | | | **Nine months ended September 30,** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2016** | | **2015** | | **2016** | | **2015** | |
| | *($000s)* | *($/boe)* | *($000s)* | *($/boe)* | *($000s)* | *($/boe)* | *($000s)* | *($/boe)* |
| Realized gain on derivatives | 853 | 0.18 | - | - | 936 | 0.07 | - | - |
| Unrealized gain on derivatives | 45 | 0.01 | - | - | 169 | 0.01 | - | - |

The following financial derivative contracts were entered into subsequent to September 30, 2016:

| Product | Type of Contract | Notional quantity | Term[(1)] | Contract price |
|---|---|---|---|---|
| Natural gas | Financial swap | 10,000 GJ/d | Jan 1, 2017 – December 31, 2017 | AECO CDN$2.98/GJ |
| Natural gas | Financial swap | 10,000 GJ/d | Jan 1, 2017 – December 31, 2017 | AECO CDN$2.98/GJ |
| Crude oil | Financial swap | 500 bbls/d | Jan 1, 2017 – December 31, 2017 | WTI CDN$71.00/bbl |

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

*Physical sales contracts*

Birchcliff also enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value through profit or loss. The Corporation entered into the following physical sales contracts subsequent to September 30, 2016:

| Product | Type of Contract | Volume | Term(1) | Contract price |
|---|---|---|---|---|
| Natural gas | AECO fixed price | 20,000 GJ/d | Jan 1, 2017 – December 31, 2017 | AECO CDN$2.98/GJ |
| Natural gas | AECO fixed price | 20,000 GJ/d | Jan 1, 2017 – December 31, 2017 | AECO CDN$3.00/GJ |
| Natural gas | AECO fixed price | 20,000 GJ/d | Jan 1, 2017 – December 31, 2017 | AECO CDN$2.99/GJ |

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

Birchcliff has committed under its financial and physical contracts to the sale of 29,200,000 GJ of natural gas in 2017 at an average price of $2.99/GJ or $3.40/Mcf. The conversion from GJ to Mcf is based on an expected corporate average natural gas heat content value of 40.4 MJ/$m^3$ in 2017, which assumes Birchcliff achieves its forecast product commodity mix.

## Royalties

The following table details Birchcliff's royalty expense:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Oil & natural gas royalties *($000s)*(1) | 7,298 | 3,025 | 10,734 | 8,049 |
| Oil & natural gas royalties *($/boe)* | 1.45 | 0.86 | 0.86 | 0.77 |
| Effective royalty rate *(%)*(2) | 7% | 4% | 5% | 3% |

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

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

Birchcliff's aggregate royalty expense in the Reporting Periods increased from the Comparable Prior Periods primarily due to increased oil and NGLs production attributable to the Gordondale Assets, partially offset by lower average realized commodity prices during the Reporting Periods and the effect these lower prices have on the sliding scale royalty calculation. The increase in the effective royalty rates from the Comparable Prior Periods were due to higher liquids weighting from the Gordondale Assets which generally have higher sliding scale royalty rates under the Alberta Royalty Framework (the "**ARF**"). During the three month Reporting Period, the effective royalty rate for the Gordondale Assets was approximately 15%.

The Government of Alberta introduced the new Modernized Royalty Framework (the "**MRF**") on January 29, 2016 and on April 21, 2016 it announced additional royalty details and technical formulas for the MRF. These details provided the necessary information to understand the economic implications for oil and gas producers and other stakeholders. Production from wells drilled prior to January 1, 2017 will continue under the previous ARF for 10 years before transitioning to the MRF. Wells drilled after January 1, 2017 will pay a 5% flat royalty until revenues exceed a normalized well cost allowance, which will be based on vertical well depth, lateral length (for horizontal wells) and total proppant used in the fracking of the well, after which royalty rates will range between 5% and 40% depending on commodity prices.

On July 12, 2016, the Government of Alberta announced that operators could apply to opt into the MRF prior to the implementation date of January 1, 2017, and thus gain earlier access to the new program. Birchcliff applied for early access to the MRF and received approval from the Alberta Energy Regulator for six wells which Birchcliff expects to drill in the fourth quarter of 2016.

**Operating Costs**

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

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2016 | | 2015 | |
| | *($000s)* | *($/boe)* | *($000s)* | *($/boe)* | *($000s)* | *($/boe)* | *($000s)* | *($/boe)* |
| Field operating costs | 23,675 | 4.72 | 15,809 | 4.47 | 50,920 | 4.10 | 49,570 | 4.72 |
| Recoveries | (404) | (0.08) | (449) | (0.13) | (1,272) | (0.11) | (1,114) | (0.11) |
| Field operating costs, net | 23,271 | 4.64 | 15,360 | 4.34 | 49,648 | 3.99 | 48,456 | 4.61 |
| Expensed workovers and other | 40 | 0.01 | 158 | 0.05 | 218 | 0.02 | 586 | 0.06 |
| **Operating costs** | **23,311** | **4.65** | **15,518** | **4.39** | **49,866** | **4.01** | **49,042** | **4.67** |

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

On a per unit basis, operating costs during the Reporting Periods were reduced by the continued cost benefits achieved from processing incremental volumes of natural gas at the PCS Gas Plant, lower service costs resulting from reduced industry activity and various cost reductions and infrastructure optimization initiatives implemented by the Corporation, and were increased by the higher operating cost structure associated with the Gordondale Assets. During the three month Reporting Period, the operating costs for the liquids-rich Gordondale Assets averaged $6.99/boe. Birchcliff is currently working on reducing the overall operating cost structure of the Gordondale Assets.

On a production month basis, operating costs averaged $1.50/boe ($0.25/Mcfe) at the PCS Gas Plant during the nine month Reporting Period, down 25% from $2.00/boe ($0.33/Mcfe) in the Comparable Prior Period.

**Transportation and Marketing Expenses**

Transportation and marketing expenses were $12.5 million ($2.50/boe) for the three month Reporting Period and $29.5 million ($2.38/boe) for the nine month Reporting Period as compared to $8.7 million ($2.44/boe) and $26.2 million ($2.50/boe) for the Comparable Prior Periods. The increase in aggregate transportation and marketing costs from the Comparable Prior Periods was largely due to an increase in trucking and pipeline transportation costs associated with production from the Gordondale Acquisition and increased firm service commitments on TransCanada's NGTL System, partially offset by lower oil trucking service costs resulting from reduced industry activity in the Reporting Periods. Transportation and marketing expenses for the Gordondale Assets for the three month Reporting Period were $2.51/boe.

### Operating Netbacks

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Montney/Doig Resource Play** | | | | |
| Average daily production, net: | | | | |
| Natural gas *(Mcf)* | 254,923 | 185,658 | 222,585 | 183,227 |
| Oil & NGLs *(bbls)* | 8,470 | 1,602 | 4,024 | 1,819 |
| Total boe *(6:1)* | 50,957 | 32,545 | 41,121 | 32,357 |
| *% of corporate production*(1) | *93%* | *85%* | *91%* | *84%* |
| Netback and cost *($/boe):* | | | | |
| Petroleum and natural gas revenue(2) | 18.20 | 20.37 | 14.70 | 19.98 |
| Royalty expense | (1.35) | (0.48) | (0.76) | (0.42) |
| Operating expense, net of recoveries | (4.17) | (2.98) | (3.29) | (3.33) |
| Transportation and marketing expense | (2.28) | (1.92) | (2.10) | (1.96) |
| Operating netback | 10.40 | 14.99 | 8.55 | 14.27 |
| **Worsley Charlie Lake Light Oil Resource Play** | | | | |
| Average daily production, net: | | | | |
| Natural gas *(Mcf)* | 4,683 | 8,388 | 5,975 | 8,647 |
| Oil & NGLs *(bbls)* | 2,017 | 2,907 | 2,210 | 2,857 |
| Total boe *(6:1)* | 2,797 | 4,305 | 3,206 | 4,298 |
| *% of corporate production*(1) | *5%* | *11%* | *7%* | *11%* |
| Netback and cost *($/boe):* | | | | |
| Petroleum and natural gas revenue(2) | 41.13 | 41.12 | 34.88 | 41.59 |
| Royalty expense | (3.23) | (3.44) | (1.88) | (2.81) |
| Operating expense, net of recoveries | (12.86) | (9.85) | (10.79) | (10.28) |
| Transportation and marketing expense | (6.27) | (5.99) | (6.06) | (6.10) |
| Operating netback | 18.77 | 21.84 | 16.15 | 22.40 |
| **Total Corporate** | | | | |
| Average daily production, net: | | | | |
| Natural gas *(Mcf)* | 263,652 | 199,746 | 233,198 | 198,146 |
| Oil & NGLs *(bbls)* | 10,596 | 5,142 | 6,503 | 5,422 |
| Total boe *(6:1)* | 54,538 | 38,433 | 45,370 | 38,446 |
| Netback and cost *($/boe)* | | | | |
| Petroleum and natural gas revenue(2) | 19.41 | 23.19 | 16.26 | 23.04 |
| Royalty expense | (1.45) | (0.86) | (0.86) | (0.77) |
| Operating expense, net of recoveries | (4.65) | (4.39) | (4.01) | (4.67) |
| Transportation and marketing expense | (2.50) | (2.44) | (2.38) | (2.50) |
| Operating netback | 10.81 | 15.50 | 9.01 | 15.10 |

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

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

#### *Montney/Doig Resource Play*

Birchcliff's production from the Montney/Doig Resource Play was 50,957 boe/d in the three month Reporting Period and 41,121 boe/d in the nine month Reporting Period, a 57% and 27% increase, respectively, from the Comparable Prior Periods. This increase was largely due to the production volumes associated with the Gordondale Assets which, on average for the periods, accounted for approximately

32% and 13% of the total production from the Montney/Doig Resource Play during the three and nine month Reporting Periods, respectively.

Birchcliff's recoveries of liquids from its Montney/Doig Resource Play were 33.2 bbls/MMcf in the three month Reporting Period and 18.1 bbls/MMcf in the nine month Reporting Period as compared to 8.6 bbls/MMcf and 9.9 bbls/MMcf, respectively, in the Comparable Prior Periods. Of the 33.2 bbls/MMcf of liquids produced in the three month Reporting Period, approximately 18.5 bbls/MMcf (56%) were high value oil and condensate (C5+). The increase in liquids recoveries during the Reporting Periods can be attributed to the NGLs production volumes acquired pursuant to the Gordondale Acquisition. Any NGLs not recovered from the raw natural gas stream increases the heat content value of Birchcliff's sales gas and the realized price.

Birchcliff's operating netback from the Montney/Doig Resource Play was $10.40/boe ($1.73/Mcfe) in the three month Reporting Period and $8.55/boe ($1.43/Mcfe) in the nine month Reporting Period, a decrease of 31% and 40%, respectively, from the Comparable Prior Periods. This decrease was largely due to lower realized prices received for Birchcliff's oil, natural gas and NGLs production and higher per boe royalties and operating costs associated with the Gordondale Assets in the Reporting Periods as compared to the Comparable Prior Periods.

*Worsley Charlie Lake Light Oil Resource Play*

Birchcliff's production from the Worsley Charlie Lake Light Oil Resource Play was 2,797 boe/d in the three month Reporting Period and 3,206 boe/d in the nine month Reporting Period, a decrease of 35% and 25%, respectively, from the Comparable Prior Periods. The decrease in production was largely due to natural declines and on-going pipeline inspections, maintenance activities, integrity monitoring and repairs in the Reporting Periods, partially offset by production optimization initiatives in the Worsley field that were ongoing during 2016.

Birchcliff's operating netback from the Worsley Charlie Lake Light Oil Resource Play was $18.77/boe in the three month Reporting Period and $16.15/boe in the nine month Reporting Period, a decrease of 14% and 28%, respectively, from the Comparable Prior Periods. The decrease was largely due to a combination of lower realized prices received for Birchcliff's oil, natural gas and NGLs production and higher operating costs in the Reporting Periods as compared to the Comparable Prior Periods.

## Administrative Expenses

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

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2016 | | 2015 | |
| | *($000s)* | *(%)* | *($000s)* | *(%)* | *($000s)* | *(%)* | *($000s)* | *(%)* |
| *Cash:* | | | | | | | | |
| Salaries and benefits(1) | 5,168 | 59 | 4,879 | 67 | 15,519 | 62 | 15,031 | 62 |
| Other(2) | 3,641 | 41 | 2,358 | 33 | 9,594 | 38 | 9,256 | 38 |
| | 8,809 | 100 | 7,237 | 100 | 25,113 | 100 | 24,287 | 100 |
| Operating overhead recoveries | (30) | (1) | (51) | (1) | (120) | (1) | (184) | (1) |
| Capitalized overhead(3) | (3,415) | (38) | (2,993) | (41) | (10,148) | (40) | (8,773) | (36) |
| General & administrative expenses, net | 5,364 | 61 | 4,193 | 58 | 14,845 | 59 | 15,330 | 63 |
| General & administrative expenses, net per boe | $1.07 | | $1.19 | | $1.19 | | $1.46 | |
| *Non-cash:* | | | | | | | | |
| Stock-based compensation | 1,525 | 100 | 1,987 | 100 | 4,470 | 100 | 6,038 | 100 |
| Capitalized stock-based compensation(3) | (900) | (59) | (1,181) | (59) | (2,671) | (60) | (3,605) | (60) |
| Stock-based compensation, net | 625 | 41 | 806 | 41 | 1,799 | 40 | 2,433 | 40 |
| Stock-based compensation, net per boe | $0.12 | | $0.23 | | $0.14 | | $0.23 | |
| **Administrative expenses, net** | **5,989** | | **4,999** | | **16,644** | | **17,763** | |
| **Administrative expenses, net per boe** | **$1.19** | | **$1.42** | | **$1.33** | | **$1.69** | |

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

The slight increase in aggregate gross general and administrative costs in the Reporting Periods compared to the Comparable Prior Periods is primarily due to staff additions needed to manage the larger production, reserves and land base acquired pursuant to the Gordondale Acquisition.

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

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

| | Three months ended September 30, 2016 | | Nine months ended September 30, 2016 | |
|---|---|---|---|---|
| | Number | Exercise price ($)(1) | Number | Exercise price ($)(1) |
| Outstanding at beginning of period | 13,842,138 | 6.40 | 12,569,238 | 7.80 |
| Granted | 235,500 | 8.70 | 3,301,000 | 3.82 |
| Exercised | (237,399) | (6.47) | (237,399) | (6.47) |
| Forfeited | - | - | (120,400) | (6.78) |
| Expired | (19,000) | (12.96) | (1,691,200) | (11.46) |
| **Outstanding, end of period** | **13,821,239** | **6.43** | **13,821,239** | **6.43** |

(1) Determined on a weighted average basis.

At September 30, 2016, there were 2,939,732 performance warrants outstanding with an exercise price of $3.00 which expire on January 31, 2020.

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

**Depletion and Depreciation Expenses**

Depletion and depreciation ("**D&D**") expenses were $40.6 million ($8.08/boe) for the three month Reporting Period and $106.2 million ($8.54/boe) for the nine month Reporting Period as compared to $34.7 million ($9.82/boe) and $111.2 million ($10.60/boe), respectively, for the Comparable Prior Periods.

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

D&D expenses on a per boe basis decreased from the Comparable Prior Periods mainly as a result of the actual increase in the Corporation's reserves as at December 31, 2015 and the expected increase in the Corporation's reserves at December 31, 2016.

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. The Corporation determines its D&D expenses on a field 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 CGUs, the Corporation took into consideration all available information, including, but not limited to: geographical proximity; geological similarities (i.e. reservoir characteristic, production profiles); degree of shared infrastructure; independent versus interdependent cash flows; operating structure; regulatory environment; management decision-making; and overall business strategy.

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

Birchcliff performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined that there were no impairment triggers identified during the Reporting Periods. As a result, an impairment test was not required at September 30, 2016.

### Finance Expenses

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

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2016 | | 2015 | |
| | *($000s)* | *($/boe)* | *($000s)* | *($/boe)* | *($000s)* | *($/boe)* | *($000s)* | *($/boe)* |
| *Cash:* | | | | | | | | |
| Interest on credit facilities | 8,069 | 1.61 | 6,023 | 1.70 | 22,483 | 1.81 | 16,147 | 1.53 |
| *Non-cash:* | | | | | | | | |
| Accretion on decommissioning obligations | 598 | 0.12 | 577 | 0.16 | 1,734 | 0.14 | 1,665 | 0.16 |
| Amortization of deferred financing fees | 294 | 0.06 | 236 | 0.07 | 758 | 0.06 | 686 | 0.07 |
| **Finance expenses** | **8,961** | **1.79** | **6,836** | **1.93** | **24,975** | **2.01** | **18,498** | **1.76** |

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

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| *Effective interest rates:* | | | | |
| Revolving working capital facility | 5.2% | 4.5% | 5.2% | 4.5% |
| Revolving syndicated term credit facility | 4.9% | 3.5% | 4.6% | 3.5% |
| Non-revolving term credit facility[(1)] | - | - | - | 4.0% |

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

Birchcliff's average outstanding total credit facilities balance was approximately $655 million and $645 million in the three and nine month Reporting Periods, respectively, as compared to $612 million and $625 million in the Comparable Prior Periods, calculated as the simple average of the month-end amounts.

### Gain or Loss on Sale of Assets

During the second quarter of 2016, Birchcliff completed the disposition of certain non-core miscellaneous petroleum and natural gas properties and related assets and interests in the Progress area (the "**Progress Disposition**") that were producing from the Halfway formation for cash consideration of $19.0 million, after customary closing adjustments. The Progress Disposition closed on April 28, 2016 and represented approximately 600 boe/d of production (60% light oil) and 4,135 net acres of land. The assets disposed of pursuant to the Progress Disposition are not material to the Corporation's financial results and operational performance as they represented approximately 1% of its production in the first half of 2016 and less than 1% of its proved plus probable reserves at December 31, 2015. As a result of the Progress Disposition, Birchcliff recorded a loss on sale of assets of approximately $10.9 million ($8.0 million, net of tax) for the nine month Reporting Period.

During the nine month Comparable Prior Period, Birchcliff completed two transactions whereby it disposed of minor non-reserve assets in the Gold Creek and Sturgeon Lake areas of Alberta in exchange for $0.7 million in cash. As a result of the dispositions, Birchcliff recorded a gain of $0.7 million or $0.06/boe in the nine month Comparable Prior Period. The sale of the Gold Creek and Sturgeon Lake assets are considered non-core asset dispositions and are not material to the Corporation's financial results and operational performance.

**Income Taxes**

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *($000s)* | **2016** | **2015** | **2016** | **2015** |
| Deferred income tax expense (recovery) | (456) | 1,807 | (13,559) | 9,680 |
| Dividend income tax expense on preferred shares | 750 | 750 | 2,250 | 2,250 |
| **Income tax expense (recovery)** | **294** | **2,557** | **(11,309)** | **11,930** |
| **Income tax expense (recovery) per boe** | **$0.07** | **$0.72** | **($0.91)** | **$1.13** |

The Corporation recorded an income tax expense of $0.3 million for the three month Reporting Period and an income tax recovery of $11.3 million for the nine month Reporting Period as compared to an income tax expense of $2.6 million and $11.9 million, respectively, for the Comparable Prior Periods. The decrease in income tax expense in the Reporting Periods was a result of the net loss reported during the Reporting Periods mainly resulting from lower commodity prices which negatively impacted funds flow. Included in the nine month Comparable Prior Period was a deferred income tax expense of $7.8 million resulting from an increase in the Alberta corporate income tax rate from 10% to 12%.

The Corporation's estimated income tax pools were $2.1 billion at September 30, 2016. Management expects that future taxable income will be available to utilize the accumulated tax pools. The components of the Corporation's estimated income tax pools are set forth in the table below:

| *($000s)* | **Tax pools as at September 30, 2016** |
|---|---|
| Canadian oil and gas property expense | 697,417 |
| Canadian development expense | 342,539 |
| Canadian exploration expense | 261,303 |
| Undepreciated capital costs | 363,450 |
| Non-capital losses | 426,480 |
| Financing costs | 24,166 |
| **Estimated income tax pools**(1) | **2,115,355** |

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

*Veracel tax pools*

Birchcliff's 2006 income tax filings were reassessed by the Canada Revenue Agency (the "**CRA**") in 2011 (the "**Reassessment**"). The Reassessment was based on the CRA's position that the tax pools available to Veracel Inc. ("**Veracel**"), prior to its amalgamation with Birchcliff, ceased to be available to Birchcliff after Birchcliff and Veracel amalgamated on May 31, 2005 (the "**Veracel Transaction**"). The Veracel tax pools in dispute totaled $39.3 million. Birchcliff appealed the Reassessment to the Tax Court of Canada (the "**Trial Court**") and the trial of that appeal occurred in November 2013. On October 1, 2015, the Trial Court issued its decision (the "**Trial Decision**") and dismissed Birchcliff's appeal on the basis of the general anti-avoidance rule contained in the *Income Tax Act* (Canada). Birchcliff has appealed the Trial Decision to the Federal Court of Appeal and expects that appeal to be heard in the fourth quarter of 2016 or the first quarter of 2017.

## CAPITAL EXPENDITURES

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *($000s)* | **2016** | **2015** | **2016** | **2015** |
| Land | 1,948 | 870 | 3,472 | 5,793 |
| Seismic | 150 | 144 | 950 | 3,187 |
| Workovers | 444 | 1,377 | 2,040 | 4,802 |
| Drilling and completions | 7,830 | 31,956 | 49,072 | 128,067 |
| Well equipment and facilities | 7,749 | 15,459 | 49,241 | 71,800 |
| Finding and development capital | 18,121 | 49,806 | 104,775 | 213,649 |
| Acquisitions | 581,058 | - | 612,316 | - |
| Dispositions | (500) | (5) | (19,248) | (665) |
| Finding, development and acquisition capital | 598,679 | 49,801 | 697,843 | 212,984 |
| Administrative assets | 1,036 | 212 | 1,704 | 690 |
| **Capital cash expenditures, net** | **599,715** | **50,013** | **699,547** | **213,674** |

Finding and development capital totalling $18.1 million in the three month Reporting Period included $2.1 million (12%) on land and seismic costs and $8.1 million (45%) on the drilling, completing and equipping of Montney/Doig horizontal natural gas wells. During the nine month Reporting Period, finding and development capital totalling $104.8 million was largely comprised of $4.4 million (4%) on land and seismic costs, $24.6 million (23%) on the fabrication of Phase V of the PCS Gas Plant and approximately $52.5 million (50%) on the drilling, completing and equipping of Montney/Doig horizontal natural gas wells. The remaining capital during the Reporting Periods was spent on other infrastructure, expansion of the Montney/Doig Resource Play and the Worsley Charlie Lake Light Oil Resource Play and on other oil and gas exploration and development projects in the Peace River Arch.

On July 28, 2016, Birchcliff closed the Gordondale Acquisition for cash consideration of approximately $612.3 million, after closing adjustments and other related costs. The Gordondale Assets include high working interest operated production and a large contiguous land base which is adjacent to Birchcliff's existing Pouce Coupe properties.

As a result of the closing of the Gordondale Acquisition, the Corporation's Board of Directors approved the 2016 Capital Program which contemplates the drilling of a total of 23 (23.0 net) wells. The Corporation's estimated net capital expenditures for 2016 (net of acquisitions and dispositions, but excluding the Gordondale Acquisition) are approximately $145 million.

For the three month Reporting Period, Birchcliff successfully completed four Montney/Doig horizontal natural gas wells off of one multi-well pad site. Of the four wells that were completed, two were Montney D1 interval wells and two were Montney D4 interval wells.

In the nine month Reporting Period, Birchcliff drilled 13 (13.0 net) wells, consisting of 12 (12.0 net) Montney/Doig horizontal natural gas wells and 1 (1.0 net) Charlie Lake horizontal light oil well. The Montney/Doig horizontal natural gas wells consisted of 8 (8.0 net) wells drilled in the Montney D1 interval, 2 (2.0 net) wells drilled in the Basal Doig/Upper Montney interval and 2 (2.0 net) wells drilled in the Montney D4 interval.

## CAPITAL RESOURCES AND LIQUIDITY

### Liquidity and Capital Resources

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

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *($000s)* | **2016** | **2015** | **2016** | **2015** |
| Funds flow from operations | 41,675 | 44,587 | 75,637 | 127,059 |
| Changes in non-cash working capital from operations | (19,261) | (2,336) | (24,834) | (22,402) |
| Decommissioning expenditures | (270) | (318) | (863) | (646) |
| Exercise of stock options | 1,537 | 84 | 1,537 | 585 |
| Issue of common shares | 690,750 | - | 690,750 | - |
| Share issue costs | (27,565) | - | (27,581) | - |
| Financing fees paid on credit facilities | (795) | - | (795) | (940) |
| Dividends paid on preferred shares | (1,875) | (1,875) | (5,625) | (5,625) |
| Net change in non-revolving term credit facilities[(1)] | - | - | - | (129,970) |
| Net change in revolving term credit facilities | (74,398) | 26,684 | 12,729 | 288,263 |
| Prepaid expenses on acquisition | (1,206) | - | (1,206) | - |
| Changes in non-cash working capital from investing | (8,852) | (16,777) | (20,212) | (42,647) |
| **Capital resources** | **599,740** | **50,049** | **699,537** | **213,677** |

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

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

On July 13, 2016, the Corporation closed the Financings for aggregate gross proceeds of approximately $690.8 million. On July 28, 2016, Birchcliff closed the Gordondale Acquisition and the aggregate gross proceeds of the Financings were used to pay the balance of the purchase price for the Gordondale Acquisition and the balance of the fees payable to the underwriters of the Offering, with the remaining aggregate net proceeds applied to reduce indebtedness under the Corporation's Credit Facilities. In addition, the borrowing base under the Corporation's Credit Facilities was increased to $950 million from $750 million in connection with the closing of the Gordondale Acquisition. As a result of the completion of the Gordondale Acquisition and the Financings, Birchcliff has not only positioned itself for future growth but has also significantly improved its financial position. As of September 30, 2016, the balance outstanding under the Corporation's Credit Facilities (excluding working capital surplus) was $635 million as compared to $710 million at June 30, 2016 and $622 million at December 31, 2015. See *"Bank Debt"*.

### Working Capital

The Corporation's adjusted working capital increased to a $22.5 million surplus at September 30, 2016 from a $21.5 million deficit at December 31, 2015. The surplus at the end of the Reporting Periods was largely due to an increase in revenue to be received from marketers in respect of September 2016 production volumes associated with the acquired Gordondale Assets and due to the reduced capital spending since spring breakup.

At September 30, 2016, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of September 2016 production (76%), which was subsequently received in October 2016. In contrast, current liabilities largely consisted of trade and joint venture payables (67%) and accrued capital and operating costs (30%). 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.

Adjusted working capital includes items expected for normal operations, including trade receivables and payables, accruals, deposits and prepaid expenses. The Corporation's adjusted working capital varies primarily due to the timing of such items, as well as due to the Corporation's capital expenditures, increases in revenue due to acquisitions, commodity price volatility and seasonal fluctuations, among other things. Although the adjusted working capital was in a surplus position at the end of the Reporting Periods, the Corporation's adjusted working capital is generally in a deficit position due to the Corporation's capital development activities. Birchcliff manages any adjusted working capital deficit using funds flow from operations and advances under the Credit Facilities. Any adjusted working capital deficit position will not reduce the amount available under the Credit Facilities. Management believes that its funds flow from operations and available credit under the increased Credit Facilities will be sufficient to fund the Corporation's planned capital expenditures for the remainder of 2016 and to meet its current and future working capital requirements in 2016.

**Bank Debt**

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

In connection with the closing of the Gordondale Acquisition, the Credit Facilities were amended to increase the borrowing base to $950 million from $750 million. After giving effect to the increase in the borrowing base, the Credit Facilities are comprised of: (i) an extendible revolving syndicated term credit facility of $900 million (increased from $710 million); and (ii) an extendible revolving working capital credit facility of $50 million (increased from $40 million) (the "**Working Capital Facility**").

Total debt, including the adjusted working capital surplus, was $612.1 million at September 30, 2016 as compared to $643.6 million at December 31, 2015. A significant portion of the funds drawn under the Credit Facilities in the Reporting Periods was 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 V expansion of the PCS Gas Plant and the exploration and development of the Montney/Doig Resource Play and the Worsley Charlie Lake Light Oil Resource Play.

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

| As at, *($000s)* | **September 30, 2016** | **December 31, 2015** |
|---|---|---|
| *Maximum borrowing base limit*[(1)]*:* | | |
| Revolving term credit facilities | 950,000 | 800,000 |
| *Principal amount utilized:* | | |
| Drawn revolving term credit facilities[(2)] | (643,598) | (630,037) |
| Outstanding letters of credit[(3)] | (12,310) | (242) |
| | (655,908) | (630,279) |
| **Unused credit** | **294,092** | **169,721** |
| **% unused credit** | **31%** | **21%** |

(1) The Credit Facilities are subject to a semi-annual review of the borrowing base limit, which limit is directly impacted by the value of Birchcliff's petroleum and natural gas reserves. On July 28, 2016, in connection with the closing of the Gordondale Acquisition, the borrowing base was increased to $950 million (from $750 million) thus increasing the unused credit available to Birchcliff. The lenders also agreed to waive the requirement to redetermine the borrowing base limit in connection with the delivery of the Corporation's next in-house engineering report which is required to be delivered by November 15, 2016.

(2) The drawn amounts are not reduced for unamortized costs and fees.

(3) Letters of credit are issued to various service providers. In connection with the closing of the Gordondale Acquisition, the Corporation issued a letter of credit for $12 million to secure its obligations under various midstream and marketing arrangements. The letter of credit has reduced the amount available under the Working Capital Facility from $50 million to approximately $38 million. There were no amounts drawn on the letters of credit during the periods ended September 30, 2016 and December 31, 2015.

**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 September 30, 2016:

| *($000s)* | **2016** | **2017** | **2018 - 2020** | **Thereafter** |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | 36,521 | - | - | - |
| Drawn revolving term credit facilities | - | - | 643,598 | - |
| Office lease(1) | 904 | 3,315 | 13,099 | 33,960 |
| Purchase obligations(2) | 600 | - | - | - |
| Transportation, processing and fractionation(3) | 26,874 | 103,294 | 275,691 | 313,658 |
| **Estimated contractual obligations(4)** | **64,899** | **106,609** | **932,388** | **347,618** |

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

On December 2, 2015, the Corporation entered into a new operating lease commitment relating to an office premises beginning February 1, 2018 and expiring on January 31, 2028. The commitment amount under the new 10 year office lease is estimated to be $47.1 million, which includes costs allocated to base rent, parking and building operating expenses.

(2) The Corporation is committed to spend approximately $0.6 million in 2016 under a purchasing agreement relating to the construction of the Phase V of the PCS Gas Plant.

(3) As a result of the Gordondale Acquisition, Birchcliff's firm transportation, processing and fractionation obligations have increased as at September 30, 2016.

(4) Contractual commitments that are not material to Birchcliff are excluded. 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 September 30, 2016 to be approximately $244.9 million and will be incurred as follows: 2017 - $1.6 million, 2018 - $1.8 million and $241.5 million thereafter. The estimate for determining the undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

Birchcliff's Series C Preferred Shares, which are redeemable by their holders after June 30, 2020, have not been included in this table as they are not contractual obligations of the Corporation at the end of the Reporting Periods. Upon receipt of a notice of redemption, the Corporation has an obligation to redeem the Series C Preferred Shares, at its option, 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 September 30, 2016, Birchcliff had common shares, Series A Preferred Shares and Series C Preferred Shares that were outstanding. Birchcliff's common shares are listed on the TSX under the symbol "**BIR**" and are included in the S&P/TSX Composite Index. Birchcliff's Series A Preferred Shares and Series C Preferred Shares are individually listed on the TSX under the symbols "**BIR.PR.A**" and "**BIR.PR.C**", respectively.

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

| | **Common Shares** |
|---|---|
| Balance at December 31, 2015 | 152,307,539 |
| Exercise of options | 237,399 |
| Exchange of Subscription Receipts(1) | 110,520,000 |
| **Balance at September 30, 2016** | **263,064,938** |
| Exercise of options | 176,299 |
| **Balance at November 9, 2016** | **263,241,237** |

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

As at November 9, 2016, the Corporation had the following securities outstanding: 263,241,237 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 13,650,440 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 September 1, 2016, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A Preferred Share and $0.875 million or $0.4375 per Series C Preferred Share for the calendar quarter ending September 30, 2016. Both dividends are designated as an eligible dividend for purposes of the *Income Tax Act* (Canada).

## SUMMARY OF QUARTERLY RESULTS

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

| Quarter ending, | Sep. 30, 2016 | Jun. 30, 2016 | Mar. 31, 2016 | Dec. 31, 2015 | Sep. 30, 2015 | Jun. 30, 2015 | Mar. 31, 2015 | Dec. 31, 2014 |
|---|---|---|---|---|---|---|---|---|
| Average daily production *(boe 6:1)* | 54,538 | 39,513 | 41,958 | 40,445 | 38,433 | 38,489 | 38,416 | 37,704 |
| Realized natural gas price *($/Mcf)*(1) | 2.53 | 1.48 | 1.99 | 2.67 | 3.12 | 2.86 | 2.98 | 3.91 |
| Realized oil price *($/bbl)*(1) | 52.12 | 51.20 | 36.93 | 49.36 | 52.91 | 64.93 | 47.66 | 71.87 |
| Total revenues *($000s)*(1) | 97,365 | 47,261 | 57,503 | 75,476 | 82,011 | 82,791 | 77,026 | 105,598 |
| Operating costs *($/boe)* | 4.65 | 3.45 | 3.71 | 4.16 | 4.39 | 4.53 | 5.11 | 5.33 |
| Capital expenditures, net *($000s)* | 599,715 | 4,722 | 63,860 | 33,533 | 50,013 | 65,122 | 98,539 | 109,682 |
| Funds flow from operations *($000s)* | 41,675 | 13,267 | 20,695 | 33,697 | 44,587 | 45,752 | 36,720 | 61,717 |
| Per common share – basic *($)* | 0.18 | 0.09 | 0.14 | 0.22 | 0.29 | 0.30 | 0.24 | 0.41 |
| Per common share – diluted *($)* | 0.18 | 0.09 | 0.13 | 0.22 | 0.29 | 0.30 | 0.24 | 0.40 |
| Net income (loss) *($000s)* | (1,064) | (23,321) | (12,035) | (9,322) | 4,815 | (4,174) | (3,479) | 17,053 |
| Net income (loss) to common shareholders *($000s)*(2) | (2,064) | (24,321) | (13,035) | (10,322) | 3,815 | (5,174) | (4,479) | 16,053 |
| Per common share – basic *($)* | (0.01) | (0.16) | (0.09) | (0.07) | 0.03 | (0.03) | (0.03) | 0.11 |
| Per common share – diluted *($)* | (0.01) | (0.16) | (0.09) | (0.07) | 0.02 | (0.03) | (0.03) | 0.10 |
| Total assets *($ million)* | 2,704 | 2,059 | 2,053 | 2,025 | 2,022 | 2,009 | 1,983 | 1,919 |
| Long-term bank debt *($000s)* | 634,534 | 709,510 | 647,359 | 622,074 | 626,839 | 599,998 | 536,570 | 469,033 |
| Total debt *($000s)* | 612,080 | 715,651 | 690,138 | 643,612 | 640,751 | 632,306 | 610,170 | 545,745 |
| Dividends on pref. shares – Series A *($000s)* | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Dividends on pref. shares – Series C *($000s)* | 875 | 875 | 875 | 875 | 875 | 875 | 875 | 875 |
| Pref. shares outstanding – Series A *(000s)* | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Pref. shares outstanding – Series C *(000s)* | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Common shares outstanding *(000s)* | | | | | | | | |
| Basic | 263,065 | 152,308 | 152,308 | 152,308 | 152,308 | 152,294 | 152,284 | 152,214 |
| Diluted | 279,826 | 169,089 | 169,239 | 167,817 | 168,112 | 168,181 | 168,108 | 166,302 |
| Wtd. average common shares outstanding *(000s)* | | | | | | | | |
| Basic | 229,287 | 152,308 | 152,308 | 152,308 | 152,303 | 152,289 | 152,243 | 152,183 |
| Diluted | 234,295 | 154,279 | 153,418 | 153,627 | 153,916 | 154,650 | 154,215 | 155,304 |

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

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

Average daily production volumes have generally increased over the past eight quarters, which can be primarily attributed to the Corporation's exploration and development activities on the Montney/Doig Resource Play. Average daily production volumes in the three month Reporting Period increased by 39% when compared to the average daily production from the previous seven quarters, largely due to the production volumes acquired pursuant to the Gordondale Acquisition.

Quarterly variances in revenues, funds flow from operations and net income are primarily due to fluctuations in commodity prices and production volumes. In general, the Corporation's realized natural gas price and oil price declined during the previous seven quarters due to continued low commodity prices. Oil and gas revenues and funds flow have also generally decreased over the previous seven quarters due to the lower average realized sales prices received, which has been partially offset by a general increase in the average daily production. For the three month Reporting Period, the Corporation's production and realized oil and natural gas prices have increased leading to an increase in both oil and gas revenues and funds flow when compared to the previous seven quarters.

Net income has fluctuated primarily in response to changes in funds flow from operations and other non-cash adjustments including depletion expense, non-recurring tax expenses and gain and losses on sale of assets recognized in the period.

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

During the three month Reporting Period, Birchcliff closed the Gordondale Acquisition which significantly increased capital expenditures compared to the previous seven quarters. The Gordondale Acquisition was funded through the Financings. At the closing of the Gordondale Acquisition, the aggregate gross proceeds of the Financings were released from escrow to pay the balance of the purchase price for the Gordondale Acquisition and the balance of the fees payable to the underwriters of the Offering. The remaining aggregate net proceeds were applied to reduce indebtedness under the Corporation's Credit Facilities, which has decreased the Corporation's total debt balance at the end of the three month Reporting Period compared to the previous seven quarters. In connection with the closing of the Gordondale Acquisition, each Subscription Receipt was exchanged for one common share of the Corporation and a total of 110,520,000 common shares of the Corporation were issued, which has increased both the common shares and weighted average common shares outstanding for the three month Reporting Period compared to the previous seven quarters.

## POTENTIAL TRANSACTIONS

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

## INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Corporation's internal control over financial reporting ("**ICFR**") that occurred during the period beginning on July 1, 2016 and ended on September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

## 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. The Corporation's use of estimates, judgments and assumptions in preparing the interim condensed financial statements for the Reporting Periods is discussed in Note 3 of the annual audited financial statements for the year ended December 31, 2015.

## FUTURE ACCOUNTING PRONOUNCEMENTS

Future accounting pronouncements with a potential impact on the Corporation are summarized in Note 4 of the Corporation's annual audited financial statements for the year ended December 31, 2015.

## RISK FACTORS AND RISK MANAGEMENT

The Corporation's financial and operational performance is potentially affected by a number of factors, including, but not limited to, financial risks, risks relating to economic conditions, business and operational risks, environmental and regulatory risks and other risks. The impact of any risk or a combination of risks may adversely affect the Corporation's business, financial condition, results of operations, prospects, cash flow and reputation, which may reduce or restrict the Corporation's ability to pay preferred share dividends and may materially affect the market price of the Corporation's securities. The Corporation's approach to risk management includes an ongoing review of principal and emerging risks, an analysis of the severity and likelihood of each risk and an evaluation of the effectiveness of current mitigation procedures. A more detailed discussion of the risk factors affecting the Corporation is presented under the headings *"Risk Factors and Risk Management"* in the MD&A for the year ended December 31, 2015 and *"Risk Factors"* in the revised Annual Information Form for the year ended December 31, 2015.

## NON-GAAP MEASURES

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

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

| | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| *($000s)* | **2016** | **2015** | **2016** | **2015** |
| Cash flow from operating activities | 22,144 | 41,933 | 49,940 | 104,011 |
| Adjustments: | | | | |
| Decommissioning expenditures | 270 | 318 | 863 | 646 |
| Change in non-cash working capital | 19,261 | 2,336 | 24,834 | 22,402 |
| **Funds flow from operations** | **41,675** | **44,587** | **75,637** | **127,059** |

"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 attributable to the PCS Gas Plant and related wells and infrastructure on a production month basis. All netbacks are calculated on a per unit basis. Management believes that netback, operating netback and estimated operating netback assist management and investors in assessing Birchcliff's profitability and its operating results on a per unit basis to better analyze its performance against prior periods on a comparable basis.

"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. Management believes that operating margin assists management and investors in assessing the profitability and efficiency of the PCS Gas Plant and Birchcliff's ability to generate operating cash flows (equal to petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses).

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

"Adjusted working capital deficit (surplus)" is calculated as current assets minus current liabilities excluding the effects of financial instruments. Management believes that adjusted working capital deficit (surplus) assists management and investors in assessing Birchcliff's liquidity. The following table reconciles current assets minus current liabilities to adjusted working capital deficit (surplus):

| **As at,** *($000s)* | **September 30, 2016** | **December 31, 2015** |
|---|---|---|
| Working capital deficit (surplus) | (22,623) | 21,538 |
| Fair value of financial instruments | 169 | - |
| **Adjusted working capital deficit (surplus)** | **(22,454)** | **21,538** |

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

| **As at,** *($000s)* | **September 30, 2016** | **December 31, 2015** |
|---|---|---|
| Revolving term credit facilities | 634,534 | 622,074 |
| Adjusted working capital deficit (surplus) | (22,454) | 21,538 |
| **Total debt** | **612,080** | **643,612** |

## ADVISORIES

### Unaudited numbers

All financial amounts referred to in this MD&A for the Reporting Periods and the Comparable Prior Periods are management's best estimates and are unaudited.

### Operating Costs

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

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

### Mcfe Conversions

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

**MMbtu Pricing Conversions**

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

**Risk Factors – Payment of Dividends**

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

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

Dividends may be reduced or suspended during periods of lower funds from operations. The timing and amount of Birchcliff's capital expenditures, and the ability of Birchcliff to repay or refinance existing debt as it becomes due, directly affects the amount of cash dividends that may be declared by the Board of Directors. Future acquisitions, expansions of Birchcliff's assets, and other capital expenditures and the repayment or refinancing of existing debt as it becomes due may be financed from sources such as funds flow from operations, the issuance of additional shares or other securities of Birchcliff, and borrowings. Dividends may be reduced, or even eliminated, at times when significant capital or other expenditures are made. There can be no assurance that sufficient capital will be available on terms acceptable to Birchcliff, or at all, to make additional investments, fund future expansions or make other required capital expenditures. To the extent that external sources of capital, including the issuance of additional shares or other securities or the availability of additional credit facilities, become limited or unavailable on favourable terms or at all due to credit market conditions or otherwise, the ability of Birchcliff to make the necessary capital investments to maintain or expand its operations, to repay outstanding debt and to invest in assets, as the case may be, may be impaired. To the extent Birchcliff is required to use funds flow to finance capital expenditures or acquisitions or to repay existing debt as it becomes due, the level of dividends declared may be reduced.

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

The payment of dividends to Shareholders in the future is not assured or guaranteed. The Dividend Policy will be periodically reviewed by Birchcliff's Board of Directors and no assurance or guarantee can be given that Birchcliff will maintain the Dividend Policy in its current form.

**Forward-Looking Information**

Certain statements contained in this MD&A constitute forward-looking statements and information (collectively referred to as "**forward-looking information**") within the meaning of applicable Canadian securities laws. Such forward-looking information relates to future events or Birchcliff's future performance. All information other than historical fact may be forward-looking information. Such forward-looking information is often, but not always, identified by the use of words such as "seek", "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "estimated", "forecast", "potential", "proposed", "predict", "budget", "continue", "targeting", "may", "will", "could", "might", "should" and other similar words and expressions. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Birchcliff believes that the expectations reflected in the forward-looking information are reasonable in the current circumstances but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this MD&A should not be unduly relied upon.

In particular, this MD&A contains forward-looking information relating to the following: Birchcliff's plans and other aspects of its anticipated future operations, focus, objectives, strategies, opportunities, priorities and goals; Birchcliff's production guidance for 2016 and 2017; the 2016 Capital Program, including planned capital expenditures and Birchcliff's plan to drill a total of 23 (23.0 net) wells; Birchcliff's estimate of its net capital expenditures for 2016; statements that Birchcliff expects material reserves additions at year-end 2016; statements that Birchcliff expects to fund its 2017 capital expenditures and dividends out of internally generated funds flow; Birchcliff's dividend policy and the payment of dividends, including the amount of and timing of the payment of future dividends; Birchcliff's hedging strategy and the use of risk-management techniques, including that it expects to hedge up to 50% of its oil and natural gas production in 2017; Birchcliff's proposed exploration and development activities and the timing thereof, including wells to be drilled; the impact the MRF has on the Corporation; the performance characteristics of Birchcliff's oil and natural gas properties; the Corporation's estimated income tax pools and management's expectation that future taxable income will be available to utilize the accumulated tax pools; Birchcliff's expectation that its appeal with respect to the Veracel Transaction will be heard in the fourth quarter of 2016 or the first quarter of 2017; the Corporation's liquidity, including Birchcliff's financial flexibility, the sources of funding for the Corporation's activities and capital requirements, statements that the Corporation may from time to time seek additional capital in the form of debt and/or equity or dispose of non-core properties to fund its on-going capital expenditure programs and protect its balance sheet, the Corporation's expectation that counterparties will be able to meet their financial obligations and management's belief that its funds flow from operations and available credit under the Credit Facilities will be sufficient to fund the Corporation's planned capital expenditures for the remainder of 2016 and to meet its current and future working capital requirements in 2016; the proposed expansion of the PCS Gas Plant; and estimates of contractual and decommissioning obligations. In addition, information relating to reserves is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

With respect to forward-looking information contained in this MD&A, assumptions have been made regarding, among other things: Birchcliff's ability to develop the Gordondale Assets and obtain the anticipated benefits therefrom; Birchcliff's ability to successfully integrate the Gordondale Assets; prevailing and future commodity prices and differentials, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; expected funds flow from operations; Birchcliff's future debt levels; the state of the economy and the exploration and production business; the economic and political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes and environmental laws; the sources of funding for Birchcliff's capital expenditure programs and other activities; anticipated timing and results of capital expenditures; the sufficiency of budgeted capital expenditures to carry out planned operations; Birchcliff's ability to find opportunities to reduce costs and defer certain capital expenditures; results of future operations; future operating, transportation, marketing and general and administrative costs; the performance of existing and future wells, well production rates and well decline rates; well drainage areas; success rates for future drilling; reserves and resource volumes and Birchcliff's ability to replace and expand oil and gas reserves through acquisition, development or exploration; the impact of competition on Birchcliff; the availability of, demand for and cost of labour, services and materials; Birchcliff's ability to access capital; the ability to obtain financing on acceptable terms; the ability to obtain any necessary regulatory approvals in a timely manner; the ability of Birchcliff to secure adequate transportation for its products; Birchcliff's ability to market oil and gas; abandonment costs and timing of decommissioning obligations; and the availability of hedges on terms acceptable to Birchcliff.

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

- With respect to Birchcliff's production guidance, the key assumptions are that: the Corporation's capital expenditure programs will be carried out as currently contemplated; no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that any transportation service curtailments or unplanned outages that occur will be short in duration or otherwise insignificant; the construction of new infrastructure meets timing and operational expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations.

- With respect to statements regarding the 2016 Capital Program, such program is based on the following commodity price and exchange rate assumptions during 2016: an annual average WTI price of approximately US$40.50 per bbl of oil; an AECO price of approximately CDN $2.00 per GJ of natural gas; and an exchange rate of CDN$/US$ of 1.33. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials.

- With respect to the estimate of net capital expenditures for 2016, such estimate is net of acquisitions and dispositions (excluding the Gordondale Acquisition) and takes into account proceeds in the amount of $19 million received by Birchcliff from a disposition completed in the Progress area on April 28, 2016 and payments in the amount of $0.3 million for minor acquisitions. The key assumptions surrounding such estimate are that: the 2016 Capital Program will be carried out as currently contemplated; and Birchcliff realizes the annual average production target of 49,000 to 51,000 boe/d. In addition, the estimate is based on the following commodity price and exchange rate assumptions during 2016: an annual average WTI price of approximately US$40.50 per bbl of oil; an AECO price of approximately CDN$2.00 per GJ of natural gas; and an exchange rate of CDN$/US$ of 1.33.

- With respect to statements regarding expected reserves increases, the key assumptions are that: the production from Birchcliff's existing and future wells meet or exceed expectations; and in conducting their reserves evaluations, Birchcliff's independent reserves evaluators will concur with Birchcliff's internal technical interpretations.

- With respect to Birchcliff's production guidance for 2017, such guidance is subject to similar assumptions as Birchcliff's other production guidance as set forth herein and is also based on the following commodity price and exchange rate assumptions during 2017: an average forecast WTI price of approximately US$55.00 per bbl of oil; an average forecast AECO price of approximately CDN$3.00 per GJ of natural gas; and an exchange rate of CDN$/US$ of 1.29. With respect to statements that Birchcliff expects to fund its 2017 capital expenditures and dividends out of internally generated funds flow, such statements assume that the production targets and commodity price assumptions for 2017 are achieved. These statements also assume that the commodity mix of natural gas, oil and NGLs forecast by Birchcliff is achieved.

- With respect to statements of future wells to be drilled, the key assumptions are: the continuing validity of the geological and other technical interpretations performed by Birchcliff's technical staff, which indicate that commercially economic volumes can be recovered from Birchcliff's lands as a result of drilling future wells; and that commodity prices and general economic conditions will warrant proceeding with the drilling of such wells.

- With respect to statements regarding the Corporation's liquidity, the key assumption is that the Corporation's forecasts of production and commodity prices are valid.

- With respect to statements regarding the proposed expansion of the PCS Gas Plant, the key assumptions are that: future drilling is successful; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund those projects; the key components of the plant will operate as designed; and commodity prices and general economic conditions will warrant proceeding with the construction of such facilities and the drilling of associated wells.

Birchcliff's actual results, performance or achievements could differ materially from those anticipated in the forward-looking information as a result of both known and unknown risks and uncertainties including, but not limited to: the failure to realize the anticipated benefits of acquisitions and dispositions, including the Gordondale Acquisition; unforeseen difficulties in integrating the Gordondale Assets into Birchcliff's operations; variances in Birchcliff's actual capital costs, operating costs and economic returns from those anticipated; general economic, market and business conditions which will, among other things, impact the demand for and market prices of Birchcliff's products and Birchcliff's access to capital; volatility of crude oil and natural gas prices; fluctuations in currency and interest rates; operational risks and liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves and resources; the accuracy of oil and natural gas reserves estimates and estimated production levels as they are affected by exploration and development drilling and estimated decline rates; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; uncertainties related to Birchcliff's future potential drilling locations; fluctuations in the costs of borrowing; changes in tax laws, crown royalty rates, environmental laws and incentive programs relating to the oil and natural gas industry and other actions by government authorities, including changes to the royalty and carbon tax regimes and the imposition or reassessment of taxes; the cost of compliance with current and future environmental laws; political uncertainty and uncertainty associated with government policy changes; uncertainties and risks associated with pipeline restrictions and outages to third-party infrastructure that could cause disruptions to production; the ability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements; the inability to secure adequate production transportation for Birchcliff's products; the occurrence of unexpected events such as fires, equipment failures and other similar events affecting Birchcliff or other parties whose operations or assets directly or indirectly affect Birchcliff; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; stock market volatility; loss of market demand; environmental risks, claims and liabilities; incorrect assessments of the value of acquisitions and exploration and development programs;

shortages in equipment and skilled personnel; the absence or loss of key employees; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainty that development activities in connection with its assets will be economical; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; uncertainties associated with credit facilities; counterparty credit risk; risks associated with Birchcliff's hedging program and the risk that hedges on terms acceptable to Birchcliff may not be available; and risks associated with the declaration and payment of dividends, including the discretion of Birchcliff's board of directors to declare dividends.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other risk factors that could affect results of operations, financial performance or financial results are included in Birchcliff's most recent Annual Information Form and in other reports filed with Canadian securities regulatory authorities.

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

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

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

**Previously Disclosed Guidance**

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 information 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 release dated November 9, 2016 and is available on the Corporation's SEDAR profile at www.sedar.com.

# BIRCHCLIFF ENERGY LTD.
# CONDENSED STATEMENTS OF FINANCIAL POSITION

*Unaudited (Expressed in thousands of Canadian dollars)*

| **As at,** | **September 30, 2016** | **December 31, 2015** |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash | 47 | 57 |
| Accounts receivable | 54,788 | 23,410 |
| Prepaid expenses and deposits | 4,140 | 2,579 |
| Fair value of financial instruments *(Note 10)* | 169 | - |
| | 59,144 | 26,046 |
| Non-current assets: | | |
| Exploration and evaluation *(Note 3)* | 263 | 247 |
| Petroleum and natural gas properties and equipment *(Note 4)* | 2,644,586 | 1,999,080 |
| | 2,644,849 | 1,999,327 |
| **Total assets** | **2,703,993** | **2,025,373** |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | 36,521 | 47,584 |
| Non-current liabilities: | | |
| Revolving term credit facilities *(Note 5)* | 634,534 | 622,074 |
| Decommissioning obligations *(Note 6)* | 153,297 | 92,504 |
| Deferred income taxes | 95,166 | 116,171 |
| Capital securities | 48,838 | 48,606 |
| | 931,835 | 879,355 |
| **Total liabilities** | **968,356** | **926,939** |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital *(Note 7)* | | |
| Common shares | 1,456,171 | 783,481 |
| Preferred shares *(perpetual)* | 41,434 | 41,434 |
| Contributed surplus | 64,558 | 60,625 |
| Retained earnings | 173,474 | 212,894 |
| | 1,735,637 | 1,098,434 |
| **Total shareholders' equity and liabilities** | **2,703,993** | **2,025,373** |

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

Approved by the Board

(signed) "*Larry A. Shaw*"
**Larry A. Shaw**
Director

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

# BIRCHCLIFF ENERGY LTD.
# CONDENSED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **REVENUE** | | | | |
| Petroleum and natural gas sales | 97,365 | 82,011 | 202,129 | 241,828 |
| Royalties | (7,298) | (3,025) | (10,734) | (8,049) |
| Net revenue from oil and natural gas sales | 90,067 | 78,986 | 191,395 | 233,779 |
| Realized gain on financial instruments *(Note 10)* | 853 | - | 936 | - |
| Unrealized gain on financial instruments *(Note 10)* | 45 | - | 169 | - |
| | 90,965 | 78,986 | 192,500 | 233,779 |
| **EXPENSES** | | | | |
| Operating | 23,311 | 15,518 | 49,866 | 49,042 |
| Transportation and marketing | 12,501 | 8,665 | 29,500 | 26,201 |
| Administrative, net | 5,989 | 4,999 | 16,644 | 17,763 |
| Depletion and depreciation *(Note 4)* | 40,566 | 34,721 | 106,185 | 111,214 |
| Finance | 8,961 | 6,836 | 24,975 | 18,498 |
| Dividends on capital securities *(Note 7)* | 875 | 875 | 2,625 | 2,625 |
| (Gain) loss on sale of assets *(Note 4)* | (468) | - | 10,434 | (656) |
| | 91,735 | 71,614 | 240,229 | 224,687 |
| NET INCOME (LOSS) BEFORE TAXES | (770) | 7,372 | (47,729) | 9,092 |
| Income tax recovery (expense) | (294) | (2,557) | 11,309 | (11,930) |
| **NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)** | **(1,064)** | **4,815** | **(36,420)** | **(2,838)** |
| Net income (loss) per common share *(Note 7)* | | | | |
| Basic | ($0.01) | $0.03 | ($0.22) | ($0.04) |
| Diluted | ($0.01) | $0.02 | ($0.22) | ($0.04) |

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

# BIRCHCLIFF ENERGY LTD.
# CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

*Unaudited (Expressed in thousands of Canadian dollars)*

| | Share Capital | | | | |
|---|---|---|---|---|---|
| | **Common Shares** | **Preferred Shares** | **Contributed Surplus** | **Retained Earnings** | **Total** |
| As at December 31, 2014 | 782,671 | 41,434 | 53,118 | 229,054 | 1,106,277 |
| Dividends on perpetual preferred shares | - | - | - | (3,000) | (3,000) |
| Exercise of stock options | 810 | - | (225) | - | 585 |
| Stock-based compensation | - | - | 6,038 | - | 6,038 |
| Net loss and comprehensive loss | - | - | - | (2,838) | (2,838) |
| As at September 30, 2015 | 783,481 | 41,434 | 58,931 | 223,216 | 1,107,062 |
| | | | | | |
| As at December 31, 2015 | 783,481 | 41,434 | 60,625 | 212,894 | 1,098,434 |
| Issue of common shares *(Note 7)* | 690,750 | - | - | - | 690,750 |
| Share issue costs, net of tax *(Note 7)* | (20,134) | - | - | - | (20,134) |
| Dividends on perpetual preferred shares *(Note 7)* | - | - | - | (3,000) | (3,000) |
| Exercise of stock options *(Note 8)* | 2,074 | - | (537) | - | 1,537 |
| Stock-based compensation *(Note 8)* | - | - | 4,470 | - | 4,470 |
| Net loss and comprehensive loss | - | - | - | (36,420) | (36,420) |
| **As at September 30, 2016** | **1,456,171** | **41,434** | **64,558** | **173,474** | **1,735,637** |

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

# BIRCHCLIFF ENERGY LTD.
# CONDENSED STATEMENTS OF CASH FLOWS

*Unaudited (Expressed in thousands of Canadian dollars)*

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Cash provided by (used in): | | | | |
| **OPERATING** | | | | |
| Net income (loss) and comprehensive income (loss) | (1,064) | 4,815 | (36,420) | (2,838) |
| Adjustments for items not affecting operating cash: | | | | |
| Unrealized gain on financial instruments | (45) | - | (169) | - |
| Depletion and depreciation | 40,566 | 34,721 | 106,185 | 111,214 |
| Stock-based compensation | 625 | 806 | 1,799 | 2,433 |
| Finance | 8,961 | 6,836 | 24,975 | 18,498 |
| (Gain) loss on sale of assets | (468) | - | 10,434 | (656) |
| Income taxes expense (recovery) | 294 | 2,557 | (11,309) | 11,930 |
| Interest paid | (8,069) | (6,023) | (22,483) | (16,147) |
| Dividends on capital securities | 875 | 875 | 2,625 | 2,625 |
| Decommissioning expenditures | (270) | (318) | (863) | (646) |
| Changes in non-cash working capital | (19,261) | (2,336) | (24,834) | (22,402) |
| | 22,144 | 41,933 | 49,940 | 104,011 |
| **FINANCING** | | | | |
| Exercise of stock options | 1,537 | 84 | 1,537 | 585 |
| Issue of common shares | 690,750 | - | 690,750 | - |
| Share issue costs | (27,565) | - | (27,581) | - |
| Financing fees paid on credit facilities | (795) | - | (795) | (940) |
| Dividends on perpetual preferred shares | (1,000) | (1,000) | (3,000) | (3,000) |
| Dividends on capital securities | (875) | (875) | (2,625) | (2,625) |
| Net change in non-revolving term credit facilities | - | - | - | (129,970) |
| Net change in revolving term credit facilities | (74,398) | 26,684 | 12,729 | 288,263 |
| | 587,654 | 24,893 | 671,015 | 152,313 |
| **INVESTING** | | | | |
| Petroleum and natural gas properties and equipment | (19,156) | (49,919) | (106,464) | (214,226) |
| Exploration and evaluation assets | (2) | (99) | (16) | (113) |
| Acquisition of petroleum and natural gas properties *(Note 4)* | (582,263) | - | (613,521) | - |
| Sale of petroleum and natural gas properties and equipment | 500 | 5 | 19,248 | 605 |
| Sale of exploration and evaluation assets | - | - | - | 60 |
| Changes in non-cash working capital | (8,852) | (16,777) | (20,212) | (42,647) |
| | (609,773) | (66,790) | (720,965) | (256,321) |
| Net change in cash | 25 | 36 | (10) | 3 |
| Cash, beginning of period | 22 | 21 | 57 | 54 |
| **CASH, END OF PERIOD** | **47** | **57** | **47** | **57** |

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

# BIRCHCLIFF ENERGY LTD.
# NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

*Unaudited (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 Alberta, 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 Suite 1000, 600 – 3$^{rd}$ Avenue S.W., Calgary, Alberta, Canada T2P 0G5. 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 November 9, 2016.

## 2. BASIS OF PREPARATION

These unaudited interim condensed financial statements present Birchcliff's financial results of operations and financial position under International Financial Reporting Standards ("**IFRS**") as at and for the three and nine months ended September 30, 2016, including the 2015 comparative periods. The financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**").

These financial statements have been prepared following the same IFRS accounting policies and methods of computation as disclosed in the annual audited financial statements for the year ended December 31, 2015. Certain information and disclosures normally required to be included in the notes to the annual audited financial statements have been condensed, omitted or have been disclosed on an annual basis only. Accordingly, these financial statements should be read in conjunction with the annual audited financial statements and the notes thereto for the year ended December 31, 2015.

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

## 3. EXPLORATION AND EVALUATION ASSETS

The continuity for exploration and evaluation ("**E&E**") assets are as follows:

| *($000s)* | **E&E**(1) |
|---|---|
| As at December 31, 2014 | 2,235 |
| Additions | 117 |
| Disposals | (1) |
| Lease expiries | (2,104) |
| As at December 31, 2015 | 247 |
| Additions | 16 |
| **As at September 30, 2016** | **263** |

(1) E&E assets consist of the Corporation's exploration activities which are pending the determination of economic quantities of commercially producible proved reserves. Additions represent the Corporation's net share of costs incurred on E&E activities during the period. A review of each exploration project by area is carried out at each reporting date to ascertain whether economical quantities of proved reserves have been discovered and whether such costs should be transferred to depletable 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 the three and nine months ended September 30, 2016.

## 4. 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, 2014 | 2,325,501 | 10,220 | 2,335,721 |
| Additions | 267,711 | 749 | 268,460 |
| Dispositions | (4,862) | - | (4,862) |
| As at December 31, 2015 | 2,588,350 | 10,969 | 2,599,319 |
| Additions | 148,966 | 1,722 | 150,688 |
| Acquisitions(1) | 632,387 | - | 632,387 |
| Dispositions(2) | (36,590) | - | (36,590) |
| As at September 30, 2016(3) | 3,333,113 | 12,691 | 3,345,804 |
| | | | |
| *Accumulated depletion and depreciation:* | | | |
| As at December 31, 2014 | (449,409) | (6,464) | (455,873) |
| Depletion and depreciation expense | (143,181) | (1,185) | (144,366) |
| As at December 31, 2015 | (592,590) | (7,649) | (600,239) |
| Depletion and depreciation expense | (105,130) | (1,055) | (106,185) |
| Dispositions(2) | 5,206 | - | 5,206 |
| As at September 30, 2016 | (692,514) | (8,704) | (701,218) |
| | | | |
| *Net book value:* | | | |
| As at December 31, 2015 | 1,995,760 | 3,320 | 1,999,080 |
| **As at September 30, 2016(4)** | **2,640,599** | **3,987** | **2,644,586** |

(1) In July 2016, Birchcliff acquired certain petroleum and natural gas properties, interests and related assets primarily located in the Gordondale area of Alberta. See "*Business Combination*" below.

(2) Consists of two non-core asset dispositions in the Progress and Grande Prairie areas with combined net book values of $31.4 million for net proceeds of $19.5 million.

(3) 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 P&NG 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.

(4) Birchcliff performed an impairment assessment of its P&NG assets on a cash generating unit (CGU) basis and determined there were no impairment triggers identified at the end of the reporting periods. As a result, no impairment test was required as at September 30, 2016.

**Business Combination**

On July 28, 2016, Birchcliff acquired significant petroleum and natural gas properties and related assets located in the Gordondale area of Alberta from Encana Corporation (the "**Gordondale Acquisition**"). The Gordondale Acquisition is within Birchcliff's existing Pouce Coupe and Gordondale areas and has resulted in a significant increase in production and processing capacity along with allowing the Corporation to leverage operational synergies created from having ownership in key assets.

The cash purchase price of $613.5 million (after adjustments) for the Gordondale Acquisition was funded through the issuance of 110,520,000 subscription receipts at a price of $6.25 (see Note 7, "*Capital Stock*").

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

Results from operations are included in the Corporation's financial statements from the closing date of the transaction. The acquisition has been accounted for using the purchase method based on fair values as set forth below:

| *($000s)* | |
|---|---|
| Fair value of net assets acquired: | |
| Prepaid expenses | 1,206 |
| Petroleum and natural gas properties and equipment | 632,387 |
| Decommissioning obligations | (20,072) |
| **Total** | **613,521** |
| Consideration: | |
| **Cash consideration** | **613,521** |

The fair value attributed to the petroleum and natural gas properties and equipment acquired was supported by an independent reserve engineering report using proved plus probable reserves discounted at a rate based on what a market participant would pay as well as market metrics for similar assets. The fair value of decommissioning obligations was initially estimated using a credit-adjusted rate of 7%.

Included in the condensed statements of net income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2016 are the following amounts relating to the Gordondale Acquisition since July 28, 2016:

| *($000s)* | |
|---|---|
| Petroleum and natural gas sales | 31,343 |
| Net income and comprehensive income | 56 |

If the Gordondale Acquisition had occurred on January 1, 2016, the pro-forma results of petroleum and natural gas sales and net income (loss) and comprehensive income (loss) for the nine months ended September 30, 2016 is set forth below:

| *($000s)* | **As Stated** | **Gordondale Acquisition** | **Pro Forma September 30, 2016** |
|---|---|---|---|
| Petroleum and natural gas sales | 202,129 | 95,740 | 297,869 |
| Net income (loss) and comprehensive income (loss) | (36,420) | (4,072) | (40,492) |

## 5. REVOLVING TERM CREDIT FACILITIES

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

| **As at,** *($000s)* | **September 30, 2016** | **December 31, 2015** |
|---|---|---|
| Syndicated credit facility | 612,000 | 607,000 |
| Working capital facility | 31,598 | 23,037 |
| Drawn revolving term credit facilities | 643,598 | 630,037 |
| Unamortized prepaid interest on bankers' acceptances | (7,179) | (6,347) |
| Unamortized deferred financing fees | (1,885) | (1,616) |
| **Revolving term credit facilities** | **634,534** | **622,074** |

On July 28, 2016, in connection with the Gordondale Acquisition, the Corporation's extendible revolving credit facilities (the "**Credit Facilities**") were amended to increase the borrowing base to $950 million from $750 million. After giving effect to the increase in the borrowing base, the Credit Facilities are comprised of: (i) an extendible revolving syndicated term credit facility of $900 million (increased from $710 million) (the "**Syndicated Credit Facility**"); and (ii) an extendible revolving working capital credit facility of $50 million (increased from $40 million) (the "**Working Capital Facility**").

The Credit Facilities allow for prime rate loans, London Inter Bank Offered Rate (LIBOR) loans, U.S. base rate loans, bankers' acceptances and, in the case of the Working Capital Facility only, letters of credit. The interest rates applicable to the drawn loans are based on a pricing margin grid and will change as a result of the ratio of outstanding indebtedness to EBITDA as calculated in accordance with the agreement governing the Credit Facilities. EBITDA is defined as earnings before interest and non-cash items, including (if any) income taxes, stock-based compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments and depletion, depreciation and amortization.

The Credit Facilities are subject to a semi-annual review of the borrowing base limit by Birchcliff's syndicate of lenders, which limit is directly impacted by the value of Birchcliff's oil and natural gas reserves. In addition, pursuant to the terms of the credit agreement governing the Credit Facilities, the borrowing base of the Credit Facilities may be adjusted in certain other circumstances. Upon any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall, Birchcliff must eliminate the borrowing base shortfall amount. In conjunction with the recent increase to the borrowing base, the syndicate of lenders agreed to waive the requirement to re-determine the borrowing base limit in connection with the delivery of the Corporation's next in-house engineering report which is required to be delivered by November 15, 2016.

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

The Credit Facilities are secured by a fixed and floating charge debenture and pledge charging substantially all of the Corporation's assets. No fixed charges have been granted pursuant to such debenture. The Credit Facilities do not contain any financial covenants.

## 6. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flow required to settle its decommissioning obligations is approximately $245.0 million (December 31, 2015 – $159.9 million) and is expected to be incurred between 2018 and 2063. A risk-free rate of 1.79% (December 31, 2015 – 2.26%) and an inflation rate of 2.0% (December 31, 2015 – 2.0%) were used to calculate the fair value of the decommissioning obligations.

A reconciliation of the decommissioning obligations is set forth below:

| **As at,** *($000s)* | **September 30, 2016** | **December 31, 2015** |
|---|---|---|
| Balance, beginning | 92,504 | 85,824 |
| Obligations incurred | 1,411 | 2,086 |
| Obligations acquired(1) | 20,072 | - |
| Obligations divested(2) | (1,449) | (1,170) |
| Change in discount rate on acquisition(1) | 27,417 | - |
| Changes in estimated future cash flows(3) | 12,471 | 4,422 |
| Accretion expense | 1,734 | 2,235 |
| Actual expenditures | (863) | (893) |
| **Balance, ending** | **153,297** | **92,504** |

(1) The decommissioning obligations acquired in the Gordondale Acquisition were initially recognised using a credit-adjusted discount rate of 7%. They were subsequently revalued using the risk-free rate noted above resulting in the change in discount rate on acquisition of $27.4 million with the offset to petroleum and natural gas properties and equipment.

(2) Represents obligations divested from the sale of the Progress assets in the second quarter of 2016.

(3) Change primarily due to the revision in risk-free rate for wells and facilities not related to the Gordondale Acquisition for the nine months ended September 30, 2016.

## 7. CAPITAL STOCK

### Share Capital

#### (a) Authorized:

Unlimited number of voting common shares, with no par value

Unlimited number of preferred shares, with no par value

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

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

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

| As at, *(000s)* | September 30, 2016 | December 31, 2015 |
|---|---|---|
| **Common Shares:** | | |
| Outstanding at beginning of period - Jan 1 | 152,308 | 152,214 |
| Issue of common shares | 110,520 | - |
| Exercise of stock options | 237 | 94 |
| Outstanding at end of period | 263,065 | 152,308 |
| **Series A Preferred Shares (perpetual):** | | |
| Outstanding at beginning of period - Jan 1 | 2,000 | 2,000 |
| Outstanding at end of period | 2,000 | 2,000 |

### Issue of Common Shares

On July 13, 2016, in connection with the Gordondale Acquisition, Birchcliff closed a bought deal financing of 107,520,000 subscription receipts of the Corporation ("**Subscription Receipts**") at a price of $6.25 per Subscription Receipt for gross proceeds of $672.0 million (the "**Offering**") and a concurrent private placement of 3,000,000 Subscription Receipts at a price of $6.25 per Subscription Receipt for gross proceeds of $18.8 million (the "**Concurrent Private Placement**"). Gross proceeds from the Offering and the Concurrent Private Placement were $690.8 million.

On July 28, 2016, Birchcliff closed the Gordondale Acquisition and each Subscription Receipt was exchanged for one common share of the Corporation for no additional consideration. The net proceeds of $663.2 million, after fees payable to the underwriters of the Offering, were used to pay the balance of the purchase price for the Gordondale Acquisition, and the remaining balance to reduce indebtedness under the Corporation's Credit Facilities. Birchcliff recognized a deferred income tax benefit of $7.5 million in respect of share issue costs related to the Offering and Concurrent Private Placement totalling approximately $27.6 million.

### Capital Securities

The Corporation has 2,000,000 Series C Preferred Shares outstanding at September 30, 2016 (December 31, 2015 – 2,000,000).

### Dividends

On September 1, 2016, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A Preferred Share and $0.875 million or $0.4375 per Series C Preferred Share for the calendar quarter ending September 30, 2016. Both dividends are designated as an eligible dividend for purposes of the *Income Tax Act* (Canada).

### Per Common Share

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Net income (loss) and comprehensive income (loss) *($000s)* | (1,064) | 4,815 | (36,420) | (2,838) |
| Dividends on Series A Preferred Shares *($000s)* | (1,000) | (1,000) | (3,000) | (3,000) |
| Net income (loss) to common shareholders *($000s)* | (2,064) | 3,815 | (39,420) | (5,838) |
| Weighted average common shares *(000s)*: | | | | |
| Weighted average basic common shares outstanding | 229,287 | 152,303 | 178,155 | 152,279 |
| Effects of dilutive securities | - | 1,613 | - | - |
| Weighted average diluted common shares outstanding[1] | 229,287 | 153,916 | 178,155 | 152,279 |
| **Net Income (loss) per common share** | | | | |
| **Basic** | **($0.01)** | **$0.03** | **($0.22)** | **($0.04)** |
| **Diluted** | **($0.01)** | **$0.02** | **($0.22)** | **($0.04)** |

(1) As the Corporation reported a loss for the three and nine months ended September 30, 2016, the basic and diluted weighted average shares outstanding are the same for the period. The weighted average diluted common shares outstanding as of September 30, 2016 excludes 2,842,500 stock options that are anti-dilutive in the three month reporting period (September 30, 2015 –10,670,170 ).

## 8. SHARE-BASED PAYMENTS

### Stock Options

At September 30, 2016, the Corporation's Amended and Restated Stock Option Plan (the "**Option Plan**") permitted the grant of options in respect of a maximum of 26,306,494 (September 30, 2015 – 15,230,754) common shares. At September 30, 2016, there remained available for issuance options in respect of 12,485,255 (September 30, 2015 – 2,365,849) common shares. During the three months ended September 30, 2016, the weighted average common share trading price on the Toronto Stock Exchange was $8.62 (September 30, 2015 – $6.21) per common share.

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

| | Three months ended September 30, 2016 | | Nine months ended September 30, 2016 | |
|---|---|---|---|---|
| | **Number** | **Weighted Average Exercise Price *($)*** | **Number** | **Weighted Average Exercise Price *($)*** |
| Outstanding at beginning of period | 13,842,138 | 6.40 | 12,569,238 | 7.80 |
| Granted | 235,500 | 8.70 | 3,301,000 | 3.82 |
| Exercised | (237,399) | (6.47) | (237,399) | (6.47) |
| Forfeited | - | - | (120,400) | (6.78) |
| Expired | (19,000) | (12.96) | (1,691,200) | (11.46) |
| **Outstanding, September 30, 2016[1]** | **13,821,239** | **6.43** | **13,821,239** | **6.43** |

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

The weighted average fair value per option granted during the three months ended September 30, 2016 was $3.32 (September 30, 2015 – $2.12). In determining the stock-based compensation expense for options issued during the three months ended September 30, 2016, the Corporation applied a weighted average estimated forfeiture rate of 12% (September 30, 2015 – 12%).

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

| Three months ended, | September 30, 2016 | September 30, 2015 |
|---|---|---|
| Risk-free interest rate | 0.6% | 0.6% |
| Expected life *(years)* | 4.0 | 4.0 |
| Expected volatility | 48.9% | 42.0% |

A summary of the stock options outstanding and exercisable under the Option Plan at September 30, 2016 is set forth 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 |
| $3.35 | $6.00 | 5,013,901 | 2.82 | $4.43 | 1,991,401 | 0.56 | $5.96 |
| $6.01 | $9.00 | 8,605,838 | 2.52 | $7.51 | 5,248,180 | 2.09 | $7.67 |
| $9.01 | $12.00 | 198,500 | 2.76 | $9.99 | 95,498 | 2.60 | $10.07 |
| $12.01 | $12.31 | 3,000 | 2.55 | $12.31 | 2,000 | 2.55 | $12.31 |
| | | **13,821,239** | **2.63** | **$6.43** | **7,337,079** | **1.68** | **$7.24** |

### 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. There are 2,939,732 performance warrants outstanding and exercisable at September 30, 2016 (September 30, 2015 – 2,939,732). Each performance warrant is exercisable at a price of $3.00 to purchase one common share of Birchcliff and expires on January 31, 2020.

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

## 9. 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 during the nine months ended September 30, 2016.

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

| As at, *($000s)* | September 30, 2016 | December 31, 2015 |
|---|---|---|
| *Maximum borrowing base limit*(1): | | |
| Revolving term credit facilities | 950,000 | 800,000 |
| *Principal amount utilized*: | | |
| Drawn revolving term credit facilities | (643,598) | (630,037) |
| Outstanding letters of credit(2) | (12,310) | (242) |
| | (655,908) | (630,279) |
| **Unused credit** | **294,092** | **169,721** |

(1) In connection with the Gordondale Acquisition, the Credit Facilities were increased to $950 million. In conjunction with the increase to the borrowing base on July 28, 2016, the syndicate of lenders agreed to waive the requirement to redetermine the borrowing base limit in connection with the delivery of the Corporation's next in-house engineering report which is required to be delivered by November 15, 2016.

(2) Letters of credit are issued to various service providers. In connection with the Gordondale Acquisition, the Corporation issued a letter of credit for $12 million to secure its obligations under various midstream and marketing arrangements. The aforementioned letter of credit has reduced the amount available under the Working Capital Facility from $50 million to approximately $38 million. There were no amounts drawn on the letters of credit during the three and nine months ended September 30, 2016.

The capital structure of the Corporation is as follows:

| **As at,** *($000s)* | **September 30, 2016** | **December 31, 2015** | **% Change** |
|---|---|---|---|
| Shareholders' equity[1] | 1,735,637 | 1,098,434 | |
| Capital securities | 48,838 | 48,606 | |
| Shareholders' equity & capital securities | 1,784,475 | 1,147,040 | 56% |
| Shareholders' equity & capital securities as a % of total capital[2] | 74% | 64% | |
| Working capital deficit (surplus)[3] | (22,454) | 21,538 | |
| Drawn revolving term credit facilities | 643,598 | 630,037 | |
| Drawn debt | 621,144 | 651,575 | (5%) |
| Drawn debt as a % of total capital | 26% | 36% | |
| **Capital** | **2,405,619** | **1,798,615** | **34%** |

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

(2) Of the 74%, approximately 69% relates to common capital stock and 5% relates to preferred capital stock.

(3) Working capital deficit is defined as current assets less current liabilities (excluding fair value of financial instruments).

## 10. 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. Birchcliff's exposure to credit risk, liquidity risk and market risk are consistent with those disclosed in the annual audited financial statements for the year ended December 31, 2015.

*Financial derivative contracts*

During the three and nine months ended September 30, 2016, Birchcliff had certain financial derivative contracts outstanding in order to manage commodity price risk. These instruments are not used for trading or speculative purposes. Birchcliff has not designated its financial 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 September 30, 2016, the Corporation had the following financial derivatives in place:

| **Product** | **Type of Contract** | **Notional quantity** | **Term**[1] | **Contract price** | **Fair value** *($000s)* |
|---|---|---|---|---|---|
| Crude oil | Financial swap | 1,000 bbls/d | June 1, 2016 – December 31, 2016 | WTI CDN $64.63/bbl | 34 |
| Crude oil | Financial swap | 500 bbls/d | June 1, 2016 – December 31, 2016 | WTI CDN $65.25/bbl | 135 |
| **Fair value assets** | | | | | **169** |

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

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *($000s)* | **2016** | **2015** | **2016** | **2015** |
| Realized gain on derivatives | 853 | - | 936 | - |
| Unrealized gain on derivatives | 45 | - | 169 | - |

The following financial derivative contracts were entered into subsequent to September 30, 2016:

| Product | Type of Contract | Notional quantity | Term[1] | Contract price |
|---|---|---|---|---|
| Natural Gas | Financial swap | 10,000 GJ/d | Jan 1, 2017 – December 31, 2017 | AECO CDN$2.98/GJ |
| Natural Gas | Financial swap | 10,000 GJ/d | Jan 1, 2017 – December 31, 2017 | AECO CDN$2.98/GJ |
| Crude oil | Financial swap | 500 bbls/d | Jan 1, 2017 – December 31, 2017 | WTI CDN$71.00/bbl |

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

*Physical sales contracts*

Birchcliff also enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value through profit or loss. The Corporation entered into the following physical sales contracts subsequent to September 30, 2016:

| Product | Type of Contract | Volume | Term[1] | Contract price |
|---|---|---|---|---|
| Natural Gas | AECO fixed price | 20,000 GJ/d | Jan 1, 2017 – December 31, 2017 | AECO CDN$2.98/GJ |
| Natural Gas | AECO fixed price | 20,000 GJ/d | Jan 1, 2017 – December 31, 2017 | AECO CDN$3.00/GJ |
| Natural Gas | AECO fixed price | 20,000 GJ/d | Jan 1, 2017 – December 31, 2017 | AECO CDN$2.99/GJ |

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

# ABBREVIATIONS

| | |
|---|---|
| AECO | physical storage and trading hub for natural gas on the TransCanada Alberta transmission system which is the delivery point for various benchmark Alberta index prices |
| bbl | barrel |
| bbls | barrels |
| bbls/d | barrels per day |
| boe | barrel of oil equivalent |
| boe/d | barrels of oil equivalent per day |
| GAAP | generally accepted accounting principles |
| GJ | gigajoule |
| GJ/d | gigajoules per day |
| IFRS | International Financial Reporting Standards |
| $m^3$ | cubic metres |
| Mboe | thousand barrels of oil equivalent |
| Mcf | thousand cubic feet |
| Mcfe | thousand cubic feet of gas equivalent |
| MJ | megajoules |
| MMcf | million cubic feet |
| MMcf/d | million cubic feet per day |
| NGLs | natural gas liquids |
| WTI | West Texas Intermediate oil at Cushing, Oklahoma, the benchmark for North American crude oil pricing |
| 000s | thousands |
| $000s | thousands of dollars |

# NON-GAAP MEASURES

This Third Quarter Report uses “funds flow”, “funds flow from operations”, “funds flow per common share”, “netback”, “operating netback”, “estimated operating netback”, “operating margin”, “total cash costs”, “adjusted working capital deficit (surplus)” and “total debt”. These measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. For further details on these non-GAAP measures, please see *“Non-GAAP Measures”* in the management’s discussion and analysis for the three and nine months ended September 30, 2016.

In addition, this Third Quarter Report uses “funds flow netback” and “free funds flow” 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.

"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 any other cash income sources. Funds flow netback is calculated on a per unit basis. Management believes that funds flow netback assists management and investors in assessing Birchcliff's profitability and its operating results on a per unit basis to better analyze its performance against prior periods on a comparable basis.

"Free funds flow" is calculated by deducting net capital expenditures and preferred share dividend payments (including related dividend tax) for the period from funds flow from operations for the same period. Free funds flow reflects cash available for distribution to Birchcliff's common shareholders and/or to reduce company bank debt. Management uses free funds flow to measure financial performance and liquidity.

# ADVISORIES

## UNAUDITED NUMBERS

All financial amounts referred to in this Third Quarter Report for the three and nine months ended September 30, 2016 and three and nine months ended September 30, 2015 are management's best estimates and are unaudited.

## CURRENCY

All amounts in this Third Quarter Report are stated in Canadian dollars unless otherwise specified.

## OPERATING COSTS

References in this Third Quarter Report to "operating costs" exclude transportation and marketing costs.

## OIL AND GAS DEFINITIONS

Certain terms used herein are defined in National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**"), CSA Staff Notice 51-324 – *Revised Glossary to NI 51-101 Standards of Disclosure for Oil and Gas Activities* ("**CSA Staff Notice 51-324**") and/or the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") and, unless the context otherwise requires, shall have the same meanings in this Third Quarter Report as in NI 51-101, CSA Staff Notice 51-324 or the COGE Handbook, as the case may be.

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

## MCFE CONVERSIONS

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

### CONVERSION FROM GJ TO MCF

The conversion from an AECO price of CDN$2.99/GJ to a price of CDN$3.40/Mcf is calculated using an estimated corporate average heat content value of 40.4 $MJ/m^3$ for 2017, which assumes Birchcliff achieves its forecast product commodity mix.

### DRILLING LOCATIONS

This Third Quarter Report discloses potential net future drilling locations in three categories: (i) proved locations; (ii) probable locations; and (iii) unbooked locations. Proved locations and probable locations are proposed drilling locations identified in the independent engineering evaluation prepared by Deloitte LLP, Birchcliff's qualified reserves evaluator, in respect of the reserves attributable to Birchcliff's oil and natural gas properties effective December 31, 2015 (the "**Deloitte Report**") or the independent engineering evaluation prepared by McDaniel & Associates Consultants Ltd., Birchcliff's qualified reserves evaluator, in respect of the reserves attributable to the Gordondale Assets effective March 31, 2016 (the "**McDaniel Report**") that have proved and/or probable reserves, as applicable, attributed to them in the Deloitte Report or the McDaniel Report. Unbooked locations are internal estimates based on Birchcliff's prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal technical analysis review. Unbooked locations have been identified by management based on evaluation of applicable geologic, seismic, engineering, production and reserves information. Unbooked locations do not have proved or probable reserves attributed to them in the Deloitte Report or the McDaniel Report. Of the 4,870.5 net existing horizontal wells and potential net future horizontal drilling locations identified herein, 653.7 are proved locations, 251.6 are probable locations, 905.3 are proved plus probable locations and 3,965.2 are unbooked locations.

Birchcliff's ability to drill and develop these locations and the drilling locations on which Birchcliff actually drills wells depends on a number of uncertainties and factors, including, but not limited to, the availability of capital, equipment and personnel, oil and natural gas prices, capital and operating costs, inclement weather, seasonal restrictions, drilling results, additional geological, geophysical and reservoir information that is obtained, production rate recovery, gathering system and transportation constraints, net price received for commodities produced, regulatory approvals and regulatory changes. As a result of these uncertainties, there can be no assurance that the potential future drilling locations Birchcliff has identified will ever be drilled or if Birchcliff will be able to produce oil, NGLs or natural gas from these or any other potential drilling locations. As such, Birchcliff's actual drilling activities may materially differ from those presently identified, which could adversely affect Birchcliff's business. While certain of the unbooked drilling locations have been derisked by drilling existing wells in relative close proximity to such unbooked drilling locations, some of the other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional proved or probable reserves, resources or production.

### OIL AND GAS METRICS

This Third Quarter Report contains certain oil and gas metrics, including "netback", "operating netback" and "funds flow netback", which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics have been included herein to provide readers with additional measures to evaluate Birchcliff's performance; however, such measures are not reliable indicators of the future performance of Birchcliff and future performance may not compare to its performance in previous periods and therefore such metrics should not be unduly relied upon. For information on how such netbacks are calculated, please *see "Non-GAAP Measures".*

## FORWARD-LOOKING INFORMATION

Certain statements contained in this Third Quarter Report constitute forward-looking statements and information (collectively referred to as "**forward-looking information**") within the meaning of applicable Canadian securities laws. Such forward-looking information relates to future events or Birchcliff's future performance. All information other than historical fact may be forward-looking information. Such forward-looking information is often, but not always, identified by the use of words such as "seek", "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "estimated", "forecast", "potential", "proposed", "predict", "budget", "continue", "targeting", "may", "will", "could", "might", "should" and other similar words and expressions. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Birchcliff believes that the expectations reflected in the forward-looking information are reasonable in the current circumstances but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this Third Quarter Report should not be unduly relied upon.

In particular, this Third Quarter Report contains forward-looking information relating to the following: Birchcliff's plans and other aspects of its anticipated future operations, focus, objectives, strategies, opportunities, priorities and goals; the intention of Birchcliff to materially grow its production and reserves, to maintain a top tier balance sheet and to pay a sustainable quarterly dividend; the Five Year Plan, including the production and commodity mix forecast by the plan, the focus of, objectives of and anticipated results of the plan, statements that the production growth and capital expenditures contemplated by the plan are expected to be funded out of internally generated funds flow, statements that Birchcliff will generate significant free funds flow over the five year period, statements that the free funds flow is expected to provide Birchcliff with significant financial flexibility, statements that Birchcliff may choose to use such free funds flow to reduce its indebtedness, to increase its capital spending and/or to pay dividends, statements that Birchcliff currently expects that it will materially reduce its indebtedness over the five year period, statements that Birchcliff intends to continue to build and own its own processing facilities and statements that Birchcliff is confident in its ability to successfully execute the plan and achieve its goals; anticipated improvements in capital efficiencies and internal rates of return; Birchcliff's dividend policy and the payment of dividends, including the amount of and timing of the payment of future dividends, statements that the total dividends payable to common shareholders during 2017 will be approximately $26 million, statements that Birchcliff does not currently intend to implement a dividend reinvestment plan or stock dividend program, statements that any dividends paid will be funded primarily from internally generated funds flow, statements regarding the sustainability of dividends and statements regarding the tax treatment of dividends; Birchcliff's hedging strategy and the use of risk-management techniques, including that it expects to hedge up to 50% of its oil and natural gas production in 2017; Birchcliff's production guidance and expected commodity mix; Birchcliff's estimates of its net capital expenditures for 2016 and total debt at December 31, 2016; statements that Birchcliff expects material reserves additions and material positive technical revisions to its reserves at year-end 2016; the 2016 Capital Program, including planned capital expenditures and Birchcliff's plan to drill a total of 23 (23.0 net) wells; Birchcliff's proposed exploration and development activities and the timing thereof, including wells to be drilled, completed and brought on production; anticipated timing for production to come on-stream; Birchcliff's expectation that its water disposal well will significantly reduce water transportation and disposal costs; the sources of funding for Birchcliff's activities and dividends, including statements that Birchcliff expects to fund its 2017 capital expenditures and dividends out of internally generated funds flow; the performance characteristics of Birchcliff's oil and natural gas properties; decline rates; proposed expansions of the PCS Gas Plant, including the anticipated processing capacities of the PCS Gas Plant after such expansions and the anticipated timing and costs of such expansions; Birchcliff's future plans for the Elmworth area, including its intention to construct and operate the Elmworth Gas Plant, the anticipated processing capacity of the Elmworth Gas Plant and the anticipated timing thereof; potential future drilling locations and drilling opportunities and that Birchcliff's inventory of drilling opportunities is expected to provide it with production and reserves growth for many years; and that Birchcliff expects to announce the details of its 2017 capital expenditure program, its 2016 unaudited financial results and 2016 reserves and finding costs on February 8, 2017. Information relating to reserves is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future. In addition, this Third Quarter Report includes the forward-looking information identified in the management's discussion and analysis for the three and nine months ended September 30, 2016 under the heading *"Advisories – Forward-Looking Information".*

With respect to forward-looking information contained in this Third Quarter Report, assumptions have been made regarding, among other things: Birchcliff's ability to develop the Gordondale Assets and obtain the anticipated benefits therefrom; Birchcliff's ability to successfully integrate the Gordondale Assets; prevailing and future commodity prices and differentials, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; expected funds flow from operations; Birchcliff's future debt levels; the state of the economy and the exploration and production business; the economic and political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes and environmental laws; the sources of funding for Birchcliff's capital expenditure programs and other activities; anticipated timing and results of capital expenditures; the sufficiency of budgeted capital expenditures to carry out planned operations; Birchcliff's ability to find opportunities to reduce costs and defer certain capital expenditures; results of future operations; future operating, transportation, marketing and general and administrative costs; the performance of existing and future wells, well production rates and well decline rates; well drainage areas; success rates for future drilling; reserves and resource volumes and Birchcliff's ability to replace and expand oil and gas reserves through acquisition, development or exploration; the impact of competition on Birchcliff; the availability of, demand for and cost of labour, services and materials; Birchcliff's ability to access capital; the ability to obtain financing on acceptable terms; the ability to obtain any necessary regulatory approvals in a timely manner; the ability of Birchcliff to secure adequate transportation for its products; Birchcliff's ability to market oil and gas; and the availability of hedges on terms acceptable to Birchcliff.

In addition to the foregoing assumptions, Birchcliff has made the following key assumptions with respect to certain forward-looking information contained in this Third Quarter Report:

- With respect to the Five Year Plan:
  - The plan is based on the following commodity price and exchange rate assumptions over the five year period: an average forecast WTI price of approximately US$55.00 per bbl of oil; an average forecast AECO price of approximately CDN$3.00 per GJ of natural gas; and an exchange rate of CDN$/US$ of 1.29.
  - The forecast production contained in the plan is subject to similar assumptions as Birchcliff's other production guidance as set forth herein, as well as assumptions regarding future commodity prices and exchange rates, the number of wells drilled over the five year period and

the processing capacity and timing of the construction and commissioning of future facilities of Birchcliff.

- o The plan forecasts that approximately 375 wells are drilled over the five year period. The number of wells forecast to be drilled under the plan is subject to similar assumptions regarding the drilling of future wells as set forth herein. The actual number of wells drilled may fluctuate significantly depending on, among other things, the production performance of wells drilled.

- o The plan assumes that the Phase V expansion of the PCS Gas Plant (for a total combined processing capacity of 260 MMcf) is operational in October 2017, that the Phase VI expansion of the PCS Gas Plant (for a total combined processing capacity of 340 MMcf/d) is operational in October 2018, that the Phase VII expansion of the PCS Gas Plant (for a total combined processing capacity of 420 MMcf/d) is operational in the fall of 2020 and that the Elmworth Gas Plant (with a processing capacity of 40 MMcf/d) is operational in the fall of 2021.

- o With respect to statements that the production growth and capital expenditures contemplated by the plan are expected to be funded out of internally generated funds flow and that Birchcliff is expected to generate significant free funds flow over the five year period, such statements assume that the production targets and commodity price assumptions set forth herein are achieved. These statements also assume that the commodity mix of natural gas, oil and NGLs forecast by Birchcliff is achieved. Statements that Birchcliff expects to fund its 2017 capital expenditures and dividends out of internally generated funds flow are based on the same assumptions.

- With respect to Birchcliff's expectation that the total dividends payable to common shareholders during 2017 will be approximately $26 million, such expectation assumes that a quarterly dividend of $0.025 per common share is paid during 2017 and that 263 million common shares are issued and outstanding. See also *"Advisories – Risk Factors – Payment of Dividends"* in the MD&A.

- With respect to Birchcliff's production guidance, the key assumptions are that: Birchcliff's capital expenditure programs will be carried out as currently contemplated; no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that any transportation service curtailments or unplanned outages that occur will be short in duration or otherwise insignificant; the construction of new infrastructure meets timing and operational expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations.

- With respect to the estimate of net capital expenditures for 2016, such estimate is net of acquisitions and dispositions (excluding the Gordondale Acquisition) and takes into account proceeds in the amount of $19 million received by Birchcliff from a disposition completed in the Progress area on April 28, 2016 and payments in the amount of $0.3 million for minor acquisitions. The key assumptions surrounding such estimate are that: the 2016 Capital Program will be carried out as currently contemplated; and Birchcliff realizes the annual average production target of 49,000 to 51,000 boe/d. In addition, the estimate is based on the following commodity price and exchange rate assumptions during 2016: an annual average WTI price of approximately US$40.50 per bbl of oil; an AECO price of approximately CDN$2.00 per GJ of natural gas; and an exchange rate of CDN$/US$ of 1.33.

- With respect to the estimate of total debt at December 31, 2016, such estimate assumes net capital expenditures for 2016 of $145 million and an annual average WTI price of approximately US$40.50

per bbl of oil and an AECO price of approximately CDN$2.00 per GJ of natural gas during 2016. In addition, estimated total debt at December 31, 2016 is based on a purchase price for the Gordondale Acquisition of approximately $612 million, after closing adjustments and other related costs.

- With respect to statements regarding expected reserves increases, the key assumptions are that: the production from Birchcliff's existing and future wells meet or exceed expectations; and in conducting their reserves evaluations, Birchcliff's independent reserves evaluators will concur with Birchcliff's internal technical interpretations.

- With respect to statements regarding the 2016 Capital Program, such program is based on the following commodity price and exchange rate assumptions during 2016: an annual average WTI price of approximately US$40.50 per bbl of oil; an AECO price of approximately CDN $2.00 per GJ of natural gas; and an exchange rate of CDN$/US$ of 1.33. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials.

- With respect to statements of future wells to be drilled and brought on production and estimates of potential future drilling locations, the key assumptions are: the continuing validity of the geological and other technical interpretations performed by Birchcliff's technical staff, which indicate that commercially economic volumes can be recovered from Birchcliff's lands as a result of drilling future wells; and that commodity prices and general economic conditions will warrant proceeding with the drilling of such wells.

- With respect to statements regarding proposed expansions of the PCS Gas Plant, including the anticipated processing capacities of the PCS Gas Plant after such expansions and the anticipated timing of such expansions, the key assumptions are that: future drilling is successful; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund those projects; the key components of the plant will operate as designed; and commodity prices and general economic conditions will warrant proceeding with the construction of such facilities and the drilling of associated wells.

- With respect to statements regarding Birchcliff's intention to construct and operate the Elmworth Gas Plant, including the anticipated processing capacity of such plant and the anticipated timing of such plant, the key assumptions are that: future drilling in the Elmworth area is successful, the acid gas disposal well drilled by Birchcliff is capable of handling the volumes of acid gas to be produced at the plant and complies with all regulatory requirements; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund the plant; and commodity prices and general economic conditions warrant proceeding with the construction of the plant and the drilling of associated wells.

Birchcliff's actual results, performance or achievements could differ materially from those anticipated in the forward-looking information as a result of both known and unknown risks and uncertainties including, but not limited to: the failure to realize the anticipated benefits of acquisitions and dispositions, including the Gordondale Acquisition; unforeseen difficulties in integrating the Gordondale Assets into Birchcliff's operations; variances in Birchcliff's actual capital costs, operating costs and economic returns from those anticipated; general economic, market and business conditions which will, among other things, impact the demand for and market prices of Birchcliff's products and Birchcliff's access to capital; volatility of crude oil and natural gas prices; fluctuations in currency and interest rates; operational risks and liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves and resources; the accuracy of oil and natural gas reserves estimates and estimated production levels as they are affected by exploration and development drilling and estimated decline rates; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; uncertainties related to Birchcliff's future potential drilling locations; fluctuations in the costs of borrowing; changes in tax laws, crown royalty rates, environmental laws and incentive programs relating to the oil and natural gas industry and other actions by government authorities, including changes to the royalty and carbon tax regimes and the imposition or reassessment of taxes; the cost of compliance with current and future environmental laws; political uncertainty and uncertainty associated with government policy changes; uncertainties and risks associated with pipeline restrictions and outages to third-party infrastructure that could cause disruptions to production; the ability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements; the inability to secure adequate production transportation for Birchcliff's products; the occurrence of unexpected events such as fires, equipment failures and other similar events affecting Birchcliff or other parties whose operations or assets directly or indirectly affect Birchcliff; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; stock market volatility; loss of market demand; environmental risks, claims and liabilities; incorrect assessments of the value of acquisitions and exploration and development programs; shortages in equipment and skilled personnel; the absence or loss of key employees; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainty that development activities in connection with its assets will be economical; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; uncertainties associated with credit facilities; counterparty credit risk; risks associated with Birchcliff's hedging program and the risk that hedges on terms acceptable to Birchcliff may not be available; and risks associated with the declaration and payment of dividends, including the discretion of Birchcliff's board of directors to declare dividends.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other risk factors that could affect results of operations, financial performance or financial results are included in Birchcliff's most recent Annual Information Form and in other reports filed with Canadian securities regulatory authorities.

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

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

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

# 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

**Dennis A. Dawson**
Calgary, Alberta

**Rebecca Morley**
Calgary, Alberta

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

## MANAGEMENT

**Gates Aurigemma**
Manager, General Accounting

**Perry Billard**
Asset Manager – Worsley

**Robyn Bourgeois**
General Counsel

**Wayne Brown**
Production Manager

**Jesse Doenz**
Controller & Investor Relations Manager

**George Fukushima**
Manager of Engineering

## MANAGEMENT CONT'D

**Andrew Fulford**
Surface Land Manager

**Robert (Bob) Grisack**
Land Manager

**Paul Messer**
Manager of IT

**Bruce Palmer**
Manager of Geology

**Bill Partridge**
Engineering Lead

**Brian Ritchie**
Asset Manager – Gordondale

**Michelle Rodgerson**
Office Manager

**Jeff Rogers**
Facilities Manager

**Randy Rousson**
Drilling & Completions Manager

**Ryan Sloan**
Health, Safety and Environment Manager

**Hue Tran**
Joint Venture and Marketing Manager

**Theo van der Werken**
Asset Manager – Pouce Coupe

## SOLICITORS

Borden Ladner Gervais LLP
Calgary, Alberta

## AUDITORS

KPMG LLP, Chartered Professional Accountants
Calgary, Alberta

## RESERVE EVALUATORS

Deloitte LLP
Calgary, Alberta

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

## BANKERS

The Bank of Nova Scotia

HSBC Bank Canada

National Bank of Canada

Canadian Imperial Bank of Commerce

Bank of Montreal

The Toronto-Dominion Bank

Alberta Treasury Branches

Business Development Bank of Canada

Wells Fargo Bank, N.A., Canadian Branch

United Overseas Bank Limited

ICICI Bank Canada

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## TRANSFER AGENT

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**TSX: BIR, BIR.PR.A, BIR.PR.C**