November 8, 2017

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, 2017.

Third Quarter 2017 Highlights

We had a strong third quarter in 2017, with record quarterly average production of 65,276 boe/d and quarterly funds flow from operations of $64.4 million. Highlights of the third quarter include the following:

- We had record quarterly average production of 65,276 boe/d, a 20% increase from 54,538 boe/d in the third quarter of 2016. Production consisted of approximately 79% natural gas and 21% light oil and NGLs as compared to 81% natural gas and 19% light oil and NGLs in the third quarter of 2016.
- We had quarterly funds flow from operations of $64.4 million, or $0.24 per basic common share, a 55% increase and a 33% increase, respectively, from $41.7 million and $0.18 per basic common share in the third quarter of 2016.
- We recorded a net loss to common shareholders of $121.7 million ($0.46 per basic common share), as compared to the net loss to common shareholders of $2.1 million ($0.01 per basic common share) in the third quarter of 2016. Included in the net loss is an after-tax book loss of $132.3 million ($22.04/boe) resulting from the sale of our Worsley Charlie Lake Light Oil Pool which closed on August 31, 2017.
- Our operating costs were $4.27/boe, an 8% decrease from $4.67/boe in the second quarter of 2017 and $4.65/boe in the third quarter of 2016.
- Our general and administrative expense was $0.82/boe, a 23% decrease from $1.07/boe in the third quarter of 2016.
- Our interest expense was $1.15/boe, a 29% decrease from $1.61/boe in the third quarter of 2016.
- We had net capital expenditures of $12.1 million for the three months ended September 30, 2017 and $257.5 million for the nine months ended September 30, 2017.
- At September 30, 2017, our long-term bank debt was $585.3 million and our total debt was $666.8 million.
- The 80 MMcf/d Phase V expansion of our 100% owned and operated natural gas processing plant in Pouce Coupe (the "**Pouce Coupe Gas Plant**") was successfully brought on-stream ahead of schedule and on budget, increasing the total processing capacity of the plant to 260 MMcf/d from 180 MMcf/d. The Pouce Coupe Gas Plant is currently running efficiently at near-maximum design throughput.
- Planned turnarounds were successfully conducted at our major facilities in Pouce Coupe and Gordondale, as well as at AltaGas' owned and operated natural gas processing facility located in Gordondale (the "**AltaGas Facility**").

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
OPERATING				
Average daily production				
Light oil – *(bbls)*	6,316	4,504	6,247	3,417
Natural gas – *(Mcf)*	308,748	263,652	299,240	233,198
NGLs – *(bbls)*	7,503	6,092	7,751	3,086
Total – boe	**65,276**	**54,538**	**63,871**	**45,370**
Average sales price *($ CDN)* (1)				
Light oil – *(per bbl)*	55.62	52.12	59.38	47.13
Natural gas – *(per Mcf)*	2.11	2.53	2.76	2.04
NGLs – *(per bbl)*	27.67	25.82	30.31	32.69
Total – boe	**18.55**	**19.40**	**22.40**	**16.25**
NETBACK AND COST *($/boe)*				
Petroleum and natural gas revenue(1)	18.56	19.41	22.41	16.26
Royalty expense	(0.63)	(1.45)	(1.12)	(0.86)
Operating expense	(4.27)	(4.65)	(4.70)	(4.01)
Transportation and marketing expense	(2.65)	(2.50)	(2.60)	(2.38)
Operating netback	**11.01**	**10.81**	**13.99**	**9.01**
General & administrative expense, net	(0.82)	(1.07)	(0.98)	(1.19)
Interest expense	(1.15)	(1.61)	(1.22)	(1.81)
Realized gain on financial instruments	1.69	0.18	0.87	0.07
Funds flow netback	**10.73**	**8.31**	**12.66**	**6.08**
Stock-based compensation expense, net	(0.22)	(0.12)	(0.18)	(0.14)
Depletion and depreciation expense	(6.99)	(8.08)	(7.33)	(8.54)
Accretion expense	(0.13)	(0.12)	(0.14)	(0.14)
Amortization of deferred financing fees	(0.07)	(0.06)	(0.06)	(0.06)
Gain (loss) on sale of assets	(30.19)	0.09	(11.46)	(0.84)
Unrealized gain (loss) on financial instruments	(0.36)	0.01	1.10	0.01
Dividends on Series C preferred shares	(0.15)	(0.17)	(0.15)	(0.21)
Income tax recovery (expense)	7.27	(0.07)	1.39	0.91
Net loss	**(20.11)**	**(0.21)**	**(4.17)**	**(2.93)**
Dividends on Series A preferred shares	(0.16)	(0.20)	(0.18)	(0.24)
Net loss to common shareholders	**(20.27)**	**(0.41)**	**(4.35)**	**(3.17)**
FINANCIAL				
Petroleum and natural gas revenue *($000s)* (1)	111,488	97,365	390,793	202,129
Funds flow from operations *($000s)*	64,430	41,675	220,672	75,637
Per common share – basic *($)*	0.24	0.18	0.83	0.42
Per common share – diluted *($)*	0.24	0.18	0.82	0.42
Net loss *($000s)*	(120,743)	(1,064)	(72,800)	(36,420)
Net loss to common shareholders *($000s)*	(121,743)	(2,064)	(75,800)	(39,420)
Per common share – basic *($)*	(0.46)	(0.01)	(0.29)	(0.22)
Per common share – diluted *($)*	(0.46)	(0.01)	(0.29)	(0.22)
Common shares outstanding *(000s)*				
End of period – basic	265,789	263,065	265,789	263,065
End of period – diluted	283,106	279,826	283,106	279,826
Weighted average common shares for period – basic	265,490	229,287	264,976	178,155
Weighted average common shares for period – diluted	267,988	234,295	267,946	180,681
Dividends on common shares *($000s)*	6,635	-	19,874	-
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)*	12,136	599,715	257,456	699,547
Revolving term credit facilities *($000s)*	585,323	634,534	585,323	634,534
Adjusted working capital deficit (surplus) *($000s)*	81,485	(22,454)	81,485	(22,454)
Total debt *($000s)*	666,808	612,080	666,808	612,080

(1) Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts.

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 this Third Quarter Report. In addition, this Third Quarter Report contains references to "funds flow from operations", "funds flow per common share", "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" in this Third Quarter Report.

- We drilled a total of 9 (9.0 net) wells in the third quarter of 2017, consisting of 6 (6.0 net) Montney/Doig horizontal natural gas wells in Pouce Coupe, 1 (1.0 net) Montney/Doig vertical science and technology well in Pouce Coupe and 2 (2.0 net) Montney horizontal oil wells in Gordondale.
- During the third quarter of 2017, we completed the disposition of our Worsley Charlie Lake Light Oil Pool for total proceeds of approximately $100 million (before adjustments) ($90 million in cash; $10 million in securities).

For further information regarding our financial and operational results for the third quarter of 2017, please see *"Third Quarter 2017 Financial and Operational Results"* below.

THIRD QUARTER 2017 FINANCIAL AND OPERATIONAL RESULTS

Production

Production for the third quarter of 2017 averaged 65,276 boe/d, notwithstanding: (i) the sale of our Worsley Charlie Lake Light Oil Pool which represented forecast 2017 average production of approximately 3,100 boe/d and was only included in our production until August 31, 2017; and (ii) the planned turnarounds that were conducted at our major facilities in Pouce Coupe and Gordondale, as well as at the AltaGas Facility.

Our 2017 third quarter average production represents a 20% increase over our quarterly average production of 54,538 boe/d in the third quarter of 2016. The increase in production is primarily attributable to the production from our assets in Gordondale which reflect volumes reported for the full quarter, as well as our 2017 capital drilling program which resulted in incremental production from new horizontal wells brought on production in Pouce Coupe and Gordondale. Production in the third quarter of 2017 was also positively impacted by incremental volumes from new Montney/Doig horizontal natural gas wells brought on-stream to Phase V of the Pouce Coupe Gas Plant, which came on-stream in September 2017.

Production consisted of approximately 79% natural gas, 10% light oil and 11% NGLs in the third quarter of 2017 as compared to 81% natural gas, 8% light oil and 11% NGLs in the third quarter of 2016. The change in the corporate production mix was as a result of the more heavily-weighted oil and NGLs production attributed to our assets in Gordondale.

Funds Flow from Operations and Net Loss

Funds flow from operations was $64.4 million, or $0.24 per basic common share, a 55% increase and a 33% increase, respectively, from $41.7 million and $0.18 per basic common share in the third quarter of 2016. These increases from the third quarter of 2016 were largely due to higher corporate production, partially offset by a lower average realized commodity sales price.

We had a net loss of $120.7 million as compared to the net loss of $1.1 million in the third quarter of 2016. We recorded a net loss to common shareholders of $121.7 million ($0.46 per basic common share) in the third quarter of 2017 as compared to the net loss to common shareholders of $2.1 million ($0.01 per basic common share) in the third quarter of 2016. These net losses are primarily attributable to the after-tax book loss of $132.3 million ($22.04/boe) on the sale of our Worsley Charlie Lake Light Oil Pool.

Operating Costs and General and Administrative Expense

Operating costs in the third quarter of 2017 were $4.27/boe, an 8% decrease from $4.65/boe in the third quarter of 2016. The decrease in operating costs per boe from the third quarter of 2016 was largely due to an increased percentage of incremental production additions in the three months ended September 30, 2017 being brought on-stream to Phase V of our Pouce Coupe Gas Plant in September 2017, the sale of our higher cost Worsley Charlie Lake Light Oil Pool and various cost reductions and infrastructure optimization initiatives implemented by Birchcliff.

General and administrative expense in the third quarter of 2017 was $0.82/boe, a 23% decrease from $1.07/boe in the third quarter of 2016. The decrease on a per unit basis is primarily due to an increase in corporate production.

Interest Expense

Interest expense was $1.15/boe, a 29% decrease from $1.61/boe in the third quarter of 2016. The decrease is primarily due to a combination of higher production, lower average effective interest rates and a lower average outstanding total credit facilities balance in the third quarter of 2017 as compared to the third quarter of 2016.

Commodity Prices

During the third quarter of 2017, the average benchmark price for WTI oil was US$48.21/bbl, up 7% from US$44.94/bbl during the third quarter of 2016, and the average benchmark price for natural gas sold at AECO was $1.45/MMbtu, down 38% from $2.32/MMbtu during the third quarter of 2016. The average corporate realized sales price during the quarter was $18.55/boe, a 4% decrease from $19.40/boe during the third quarter of 2016.

Pouce Coupe Gas Plant Netbacks

Approximately 58% of our total corporate natural gas production and 47% of our total corporate production was processed at our Pouce Coupe Gas Plant during the nine months ended September 30, 2017 as compared to 72% and 64%, respectively, during the nine months ended September 30, 2016. These decreases are primarily due to the increased weighting of liquids-rich production from our assets in Gordondale as a percentage of corporate production. The average plant and field operating cost for production processed through the Pouce Coupe Gas Plant for the nine months ended September 30, 2017 was $0.35/Mcfe ($2.07/boe) and the estimated operating netback at the Pouce Coupe Gas Plant was $2.28/Mcfe ($13.65/boe), resulting in an operating margin of 75%.

The following table details our average daily production and estimated operating netback for wells producing to the Pouce Coupe Gas Plant:

	Nine months ended September 30, 2017		Nine months ended September 30, 2016		Nine months ended September 30, 2015	
Average daily production, net to Birchcliff:						
Natural gas *(Mcf)*		173,351		168,638		159,786
Oil & NGLs *(bbls)*		1,146		968		1,258
Total boe		**30,038**		**29,074**		**27,889**
AECO – C daily *($/Mcf)* (1)	**$2.31**		**$1.85**		**$2.77**	
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue(2)	3.05	18.28	2.19	13.17	3.26	19.58
Royalty expense	(0.08)	(0.48)	(0.05)	(0.29)	(0.11)	(0.65)
Operating expense(3)	(0.35)	(2.07)	(0.25)	(1.50)	(0.33)	(2.00)
Transportation and marketing expense	(0.34)	(2.08)	(0.32)	(1.95)	(0.32)	(1.91)
Estimated operating netback	**$2.28**	**$13.65**	**$1.57**	**$9.43**	**$2.50**	**$15.02**
Operating margin	**75%**	**75%**	**72%**	**72%**	**77%**	**77%**

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

(2) Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts.

(3) Represents plant and field operating costs.

Funds Flow Netback and Total Cash Costs

During the third quarter of 2017, we had funds flow netback of $10.73/boe, a 29% increase from $8.31/boe in the third quarter of 2016. The increase was primarily driven by a decrease in total cash costs on a per unit basis and a higher realized gain on financial hedges, partially offset by a lower average corporate realized commodity sales price in the third quarter of 2017.

During the third quarter of 2017, we had total cash costs of $9.52/boe, a 16% decrease from $11.28/boe in the third quarter of 2016. On a per unit basis, the decrease in total cash costs in the third quarter of 2017 was primarily driven by lower royalty, operating, general and administrative and interest expenses, partially offset by higher transportation and marketing expenses.

Capital Activities and Expenditures

During the third quarter of 2017, we had net capital expenditures of $12.1 million. Net capital expenditures for the nine months ended September 30, 2017 were $257.5 million.

Our capital expenditure activities during the three and nine months ended September 30, 2017 were focused on our Montney/Doig Resource Play in our Pouce Coupe and Gordondale areas. Capital expenditures were primarily focused on drilling and completions activity, as well as spending on infrastructure related to the expansions of our Pouce Coupe Gas Plant. Our total F&D capital during the third quarter of 2017 (which excludes acquisitions, dispositions and administrative expenses) was $105.7 million, which consisted of $70.4 million on drilling and completions, $32.9 million on facilities and infrastructure, $0.9 million on land and seismic and $1.5 million on other capital expenditures. Of the $32.9 million spent on facilities and infrastructure, approximately $8.2 million was spent on the Phase V and VI expansions of the Pouce Coupe Gas Plant. See *"Advisories – Capital Expenditures".*

Drilling and Completions

Our drilling and completions activities during the third quarter of 2017 were focused on our Montney/Doig Resource Play in our Pouce Coupe and Gordondale areas. During the quarter, we drilled a total of 9 (9.0 net) wells with a 100% success rate. In Pouce Coupe, we drilled 6 (6.0 net) Montney/Doig horizontal natural gas wells, all of which were Montney D1 natural gas wells, as well as 1 (1.0 net) Montney/Doig vertical science and technology well. In Gordondale, we drilled 2 (2.0 net) Montney horizontal wells, both of which were Montney D2 oil wells. At September 30, 2017, we have successfully drilled and cased an aggregate of 346 (340.7 net) Montney/Doig horizontal wells, which includes 87 (81.8 net) wells that were acquired when we initially purchased our Gordondale assets in July 2016.

Credit Facilities and Debt

Our extendible revolving credit facilities have an aggregate principal amount of $950 million (the "**Credit Facilities**") and are comprised of an extendible revolving syndicated term credit facility of $900 million (the "**Syndicated Credit Facility**") and an extendible revolving working capital facility of $50 million (the "**Working Capital Facility**"). The maturity date of each of the Syndicated Credit Facility and the Working Capital Facility is May 11, 2020. We may each year, at our 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 do not contain any financial maintenance covenants.

The Credit Facilities are subject to semi-annual reviews of the borrowing base limit by our syndicate of lenders, which are typically completed in May and November of each year. The November semi-annual review of our borrowing base is currently underway and is expected to be completed on or about November 15, 2017. Birchcliff does not require any additional borrowing base capacity at this time. As such, we anticipate that our borrowing base limit will remain at $950 million upon the completion of such review primarily as a result of the material proved developed producing reserves additions that are expected at year-end 2017.

At September 30, 2017, our long-term bank debt was $585.3 million (September 30, 2016: $634.5 million) from available credit facilities of approximately $950 million (September 30, 2016: $950 million), leaving $342.4 million of unutilized credit capacity after adjusting for outstanding letters of credit and unamortized interest and fees. Total debt at September 30, 2017 was $666.8 million as compared to $612.1 million at September 30, 2016.

Risk Management

At September 30, 2017, we are committed under our financial and physical hedge contracts to the sale of 210,000 GJ/d or approximately 48% of our forecast corporate natural gas production from October 1, 2017 to December 31, 2017 at an average price of $3.05/GJ. After taking into account our market diversification on the Dawn and Alliance system markets (see *"Financial and Operational Update"* below), approximately 65% of our forecast 2017 fourth quarter average production volumes being sold at AECO are hedged.

At September 30, 2017, we had the following AECO natural gas hedges outstanding on a quarterly basis:

	AECO *(GJ/d)*	**AECO *($/GJ)***	**Natural Gas Production Hedged *(Mcf/d)*[(1)]**	**Estimated Average Natural Gas Wellhead Price *($/Mcf)*[(1)]**
Q4 2017	210,000	3.05	182,688	3.51

(1) See *"Advisories"* for the conversion from GJ to Mcf.

We also have outstanding financial derivative contracts for 1,500 bbls/d of crude oil production from October 1, 2017 to December 31, 2017 at an average WTI price of CDN$69.90/bbl for 2017.

FINANCIAL AND OPERATIONAL UPDATE

Update on Asset Sales

During the third quarter of 2017, we completed the sale of our Worsley Charlie Lake Light Oil Pool on August 31, 2017 for total consideration of approximately $100 million (before adjustments) ($90 million in cash; $10 million in securities of affiliates of the purchaser). Subsequent to the end of the quarter, we completed an additional disposition on October 2, 2017 for total cash consideration of $31.7 million (before adjustments). To date in 2017, we have completed asset sales (the "**Asset Sales**") for total proceeds of approximately $148 million (before adjustments) ($138 million in cash; $10 million in securities), representing forecast 2017 average production of approximately 3,600 boe/d.

Update on Pouce Coupe Gas Plant Expansions

Pouce Coupe Gas Plant – Phase V

During the third quarter of 2017, our 80 MMcf/d Phase V expansion of our Pouce Coupe Gas Plant was successfully brought on-stream, increasing the total processing capacity of the plant to 260 MMcf/d from 180 MMcf/d. Phase V was on budget and brought on-stream ahead of the initially scheduled on-stream date of October 1, 2017. The current throughput of the Pouce Coupe Gas Plant is 260 MMcf/d as we have filled Phase V with the new Pouce Coupe wells that we drilled during 2017. The Pouce Coupe Gas Plant is currently running efficiently at near- maximum design throughput.

Pouce Coupe Gas Plant – Phase VI

The engineering and licensing work has been completed for the 80 MMcf/d Phase VI expansion, which will increase the total processing capacity from 260 MMcf/d to 340 MMcf/d. Fabrication of the major components is underway and it is currently expected that Phase VI will be brought on-stream in October 2018. The total estimated cost for the Phase VI expansion is approximately $46 million, of which approximately $26 million has already been incurred and approximately $20 million is expected to be spent in 2018.

Pouce Coupe Gas Plant – Phases VII and VIII

We have commenced the planning and initial work to further expand the total processing capacity of our Pouce Coupe Gas Plant by 150 MMcf/d to 490 MMcf/d (Phase VII) and by 100 MMcf/d to 590 MMcf/d (Phase VIII), which expansions will include deep-cut capability. It is currently expected that Phases VII and VIII will be brought on-stream in 2020 and 2021, respectively.

Update on 2017 Capital Program

Our 2017 capital expenditure program (the "**2017 Capital Program**") contemplates the drilling of a total of 54 (54.0 net) wells during 2017, 38 (38.0 net) in Pouce Coupe and 16 (16.0 net) in Gordondale. The following tables summarize the wells we have drilled and brought on production year-to-date, as well as the remaining wells to be drilled and brought on production during 2017:

Wells Drilled – 2017

Area	Wells drilled to-date	Remaining wells to be drilled in 2017	Total wells to be drilled in 2017
Pouce Coupe			
Montney D1 HZ Gas Wells	26	1	27
Basal Doig/Upper Montney HZ Gas Wells	7	0	7
Montney D4 HZ Gas Wells	3	0	3
Montney/Doig Vertical Science/Tech Well	1	0	1
Total – Pouce Coupe	**37**	**1**	**38**
Gordondale			
Montney D2 HZ Oil Wells	9	0	9
Montney D1 HZ Oil Wells	5	0	5
Montney D1 HZ Liquids Rich Gas Wells	2	0	2
Total – Gordondale	**16**	**0**	**16**
TOTAL – COMBINED	**53**	**1**	**54**

Wells Drilled and Brought on Production – 2017

Area	Wells brought on production to-date	Remaining wells to be brought on production in 2017	Total wells to be brought on production in 2017
Pouce Coupe			
Montney D1 HZ Gas Wells	17	9	26[(1)]
Basal Doig/Upper Montney HZ Gas Wells	6	1	7
Montney D4 HZ Gas Wells	3	0	3
Montney/Doig Vertical Science/Tech Well	N/A	N/A	N/A[(1)]
Total – Pouce Coupe	**26**	**10**	**36[(1)]**
Gordondale			
Montney D2 HZ Oil Wells	9	0	9
Montney D1 HZ Oil Wells	5	0	5
Montney D1 HZ Liquids Rich Gas Wells	2	0	2
Total – Gordondale	**16**	**0**	**16**
TOTAL – COMBINED	**41**	**10**	**52[(1)]**

(1) A total of 27 Montney D1 horizontal natural gas wells are expected to be drilled in Pouce Coupe in 2017. Of these 27 wells, one well is expected be drilled in December 2017 and will not be completed or brought on production until 2018. Accordingly, only 26 of the Montney D1 horizontal natural gas wells drilled in 2017 are expected to be brought on production during the year. In addition, the Montney/Doig vertical science and technology well will not be a producing well and will not be brought on production. Accordingly, of the 54 wells expected to be drilled during 2017, only 52 will be brought on production during 2017.

We have drilled a total of 53 (53.0 net) wells year-to-date (21 during the first quarter, 22 during the second quarter, 9 wells during the third quarter and 1 well subsequent to the end of the third quarter), all of which were successful. Of the 54 (54.0 net) wells planned to be drilled during 2017, a total of 52 wells are anticipated to be brought on production this year as one Montney D1 horizontal natural gas well is scheduled to be drilled in December 2017 and will not be brought on production until 2018 and the Montney/Doig vertical science and technology well will not be a producing well. In addition, our 2017 Capital Program also included the capital associated with the completion, equipping and tie-in of 10 wells drilled in 2016, all of which were brought on production in the first quarter of 2017. Accordingly, a total of 62 (62.0 net) wells are expected to be brought on production during 2017.

All wells drilled in 2017 were drilled on multi-well pads, which allows us to reduce our per well costs and our environmental footprint. In addition, we actively employ the evolving technology utilized by the industry regarding horizontal well drilling and the related multi-stage fracture stimulation technology.

In Pouce Coupe, there are 10 wells left to bring on production during the remainder of 2017, 4 of which have already been completed and 6 of which are awaiting completion. We anticipate that these wells will be brought on production between mid-November and late December 2017 and that they will keep our Pouce Coupe Gas Plant full into the first quarter of 2018. In addition, we have one well left to drill in Pouce Coupe in 2017, which we plan to start drilling in December 2017. This well is expected to be completed and brought on production in 2018.

In Gordondale, we drilled 6 (6.0 net) Montney horizontal wells in the fourth quarter of 2016, 3 of which were Montney D2 oil wells and 3 of which were Montney D1 liquids-rich natural gas wells. These wells were completed, equipped and brought on production in the first quarter of 2017 and continue to meet our expectations. During 2017, we have drilled, equipped, completed and brought on production an additional 16 (16.0 net) wells and we have concluded our drilling program in Gordondale for 2017. We have drilled, cased, completed and equipped a total of 22 wells on our Gordondale assets (12 Montney D2 oil wells, 5 Montney D1 oil wells and 5 Montney D1 liquids-rich natural gas wells) since we acquired the assets in July 2016.

Update on Gordondale Montney D2 Horizontal Oil Wells

Since we acquired our Gordondale assets on July 28, 2016, we have drilled a total of 12 Montney D2 horizontal oil wells, all of which were brought on production during 2017. When we first acquired our Gordondale assets, the average production for such assets was approximately 26,000 boe/d for the first half of 2016. The 12 D2 wells, together with the 10 Montney D1 horizontal wells that we have drilled and brought on production, have replaced the natural production declines and have significantly increased the production on our Gordondale assets (currently approximately 30,000 boe/d). In addition, these 12 D2 horizontal wells have also helped us to significantly delineate, de-risk and prove the commerciality of the Montney D2 play as when we acquired the assets, there was only one D2 well that had been drilled on the play and only one offsetting D2 well.

In an effort to continuously improve our well performance and optimize our completions strategy, we have utilized three different completion systems on our Montney D2 wells drilled to date, including open hole packers, cemented sleeves fraced with coil tubing and plug and perf technology. We continue to evaluate the production results and cost efficiencies of each system in order to optimize field development in Gordondale.

Our Montney D2 horizontal well results are meeting our expectations. We anticipate significant reserve additions on our Montney D2 play at year-end 2017 due to the successful results of our drilling program in this interval.

We have been able to reduce the average drilling, completion, equipping and tie-in costs of our Montney D2 horizontal wells to approximately $5.3 million during 2017, which is approximately $1 million less than what we had initially budgeted at the time of our acquisition of the Gordondale assets. This has helped to significantly improve the economics of our Montney D2 wells.

Update on Science and Technology Multi-Well Pad Program

In the third quarter of 2017, we drilled a vertical science and technology well in Pouce Coupe. The well was drilled to the top of the Montney where we cut a full diameter core through the entire Montney section (approximately 300 metres). The extracted rock core will provide analytical data to increase our knowledge of rock properties, which will be incorporated in our petrophysical models and help us to more accurately represent the geology of the area. We are currently compiling all of the lab measurements and analytical data from this well. The well was drilled in the northern part of Pouce Coupe where we have drilled only a few horizontal wells to date. We are in the early stages of evaluating the data; however, the data we have received to date looks encouraging for the four different intervals to be developed in this area, being our two proven intervals (the Basal Doig/Upper

Montney and the Montney D1) and our two relatively new intervals (the Montney D2 and the Montney C).

We will utilize the learnings from the vertical well to finalize the planning on the execution of a science and technology multi-well pad program in order to optimize field development and develop an improved understanding of wells drilled on the Montney/Doig Resource Play. The second phase of the program which is expected to commence in early 2018 involves the drilling, completing, equipping and bringing on production of a Montney/Doig multi-layer four well pad utilizing the reservoir learnings from the vertical well. During the completion of the 4 horizontal wells, we intend to utilize the vertical well as a seismic monitoring well to gain further insight into fracture parameters and complexity. In addition to the vertical well, we plan to install a permanent fiber optic cable within the horizontal portion of one of the Montney horizontal wells, allowing further data to be collected on fracture parameters and ongoing production performance along the horizontal well length.

The purpose of this program is to collect high quality and high value data from the vertical well and the straddling horizontal wells, which can be used to enhance our technical capabilities and understanding with respect to the drilling, completion and production from a multi-layer resource play.

Update on Natural Gas Transportation & Marketing – Mitigation of AECO Pricing Risk and Market Diversification

We have agreements with TransCanada Pipelines ("**TCPL**") for the firm service transportation of 175,000 GJ/d in aggregate (approximately 152 MMcf/d) of natural gas on TCPL's Canadian Mainline for a ten year term, whereby natural gas will be transported from the Empress receipt point in Alberta to the Dawn trading hub located in Southern Ontario. The toll for the Empress to Dawn portion of the service is $0.77/GJ plus fuel. The first tranche of this service (120,000 GJ/d) became available to Birchcliff on November 1, 2017, with additional tranches becoming available on November 1, 2018 (35,000 GJ/d) and November 1, 2019 (20,000 GJ/d).

In addition, we have sales agreements with a third party marketer to sell and deliver into the Alliance pipeline system: (i) approximately 40 MMcf/d of natural gas under contracts which commenced November 1, 2017 and expire March 31, 2018, 10 MMcf/d of which is sold at Alliance's Trading Pool daily index price and 30 MMcf/d of which is sold at a Chicago index price; and (ii) approximately 5 MMcf/d of natural gas under contracts which commenced April 1, 2017 and expire October 31, 2020, which is sold at Alliance's Trading Pool daily index price.

Virtually all of our natural gas production was previously transported on the NGTL system in Alberta and sold at AECO. Approximately 60% of our current natural gas production is being sold at AECO, with 28% being sold at the Dawn, Ontario price and 12% being marketed via the Alliance pipeline system. After taking into account our Dawn and Alliance arrangements which commenced on November 1, 2017, we expect that approximately 73% of our forecast natural gas production for the fourth quarter of 2017 will be sold at AECO, approximately 19% will be sold at the Dawn, Ontario price and approximately 8% will be sold into the Alliance pipeline system. Of the 73% we expect to sell at AECO, approximately 65% is hedged at $3.51/Mcf.

These Dawn and Alliance arrangements will provide us with access to a more diverse portfolio of natural gas markets and reduce our exposure to prices at AECO which have been extremely volatile in recent months.

OUTLOOK AND GUIDANCE

2017 Guidance

We are re-affirming our 2017 fourth quarter average production guidance of 79,000 to 80,000 boe/d (approximately 20% oil and NGLs) and our 2017 annual average production guidance of 67,000 to 68,000 boe/d (approximately 21% oil and NGLs). The following table sets forth our guidance for 2017:

	2017 Guidance(1)
Estimated 2017 Annual Average Production	67,000 – 68,000 boe/d
% Oil and NGLs	21%
Estimated 2017 Q4 Average Production	79,000 – 80,000 boe/d
% Oil and NGLs	20%
Estimated 2017 Q4 Operating Costs	<$4.00/boe
Total capital expenditures	$404 million
Net capital expenditures	$262 million

(1) For further information regarding our guidance, including the assumptions surrounding such guidance, please see *"Advisories – Forward-Looking Information"* in this Third Quarter Report.

We have hedged approximately 50% of our forecast 2017 natural gas production at an estimated average wellhead price of $3.47/Mcf, which helps to protect our balance sheet and our 2017 Capital Program. We expect that the entirety of our 2017 Capital Program will be fully funded out of our forecast 2017 funds flow from operations, as well as the proceeds from the Asset Sales. The foregoing is based on our budgeted forecast average prices of approximately WTI US$50.00 per barrel of oil and an average wellhead price for natural gas of approximately CDN$2.75 per Mcf during 2017.

2018 Preliminary Outlook

Preliminary 2018 Capital Spending Plans

We are currently in the process of finalizing our capital expenditure plans for 2018. Although such plans have not yet been finalized, we anticipate spending in the range of $250 million to $450 million during 2018, depending on commodity prices and other factors. We expect that we will target a capital budget that is driven by funds flow from operations.

We expect that our 2018 capital expenditure plans will continue to focus on our Pouce Coupe and Gordondale assets, including the completion of the Phase VI expansion of our Pouce Coupe Gas Plant which will increase the total processing capacity from 260 MMcf/d to 340 MMcf/d. Assuming a $250 million capital expenditure program, we expect that we would have annual average production of approximately 80,000 boe/d and be able to complete the construction of Phase VI. Assuming a $450 million capital expenditure program, we expect that we would be able to drill the necessary wells to fill Phase VI and achieve exit production of approximately 100,000 boe/d.

2018 Hedging Strategy

Our current hedging strategy for 2018 is to hedge up to 50% of our estimated 2018 forecast average production using a combination of financial derivatives and physical delivery sales contracts, depending on our outlook for commodity prices and the availability of hedges on terms acceptable to Birchcliff.

Release of 2017 Results and 2018 Capital Spending Plans

On February 14, 2018, we expect to release our unaudited financial results, reserves and F&D costs for the year ended December 31, 2017, as well as the details regarding our 2018 capital expenditure plans and 2018 guidance.

Our updated five year plan is dependent on the capital we expect to spend during 2018 and will be released concurrently with our 2018 capital expenditure plans.

We expect material additions to our reserves volumes at year-end 2017 primarily as a result of the strong well performance on our Montney/Doig Resource Play and the new wells we drilled during 2017.

Intention to Implement a Normal Course Issuer Bid

We believe that within a continued volatile market environment, the prevailing market price of our common shares from time to time may not reflect the underlying value of such common shares. Accordingly, we intend to make an application to the Toronto Stock Exchange (the "**TSX**") to implement a normal course issuer bid (the "**NCIB**") whereby we would have the option to repurchase our common shares for cancellation. The NCIB will be subject to the acceptance of the TSX and, if accepted, will be made in accordance with the applicable rules and policies of the TSX and applicable securities laws. A further press release will be issued by Birchcliff if and when the TSX accepts the NCIB.

APPOINTMENT OF NEW DIRECTOR

We are pleased to announce that Ms. Debbie Gerlach, C.A., was appointed as a director of Birchcliff today. Ms. Gerlach was also appointed as a member of the Audit Committee, the Reserves Evaluation Committee and the Compensation Committee of the board of directors.

Prior to her retirement in September 2017, Ms. Gerlach was a partner with Deloitte LLP for over 21 years where she practiced in the Assurance and Advisory group. During that time, she worked with many public oil and gas companies over her 35 year career with the firm. Ms. Gerlach is a Chartered Accountant with the Chartered Professional Accountants Alberta and holds a Bachelor of Commerce Degree and a Master of Business Administration Degree, both from the University of Calgary.

Based on Ms. Gerlach's financial background and her knowledge of the oil and gas industry, we believe she will be an excellent addition to our board of directors.

THANK YOU

Seymour Schulich advised us that he sold all of his shares in Birchcliff in late September and early October 2017. Mr. Schulich was an objective sounding board and remains a friend to us at Birchcliff. We wish him the best in the future and thank him for his enthusiastic support over the last 10 years.

Our Management Team and our employees are excited, committed and remain enthusiastic about executing our long-term plan and delivering value to our shareholders. Thank you to all of our shareholders for your support and to our employees 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 8, 2017. This MD&A and the unaudited interim condensed financial statements with respect to the three and nine months ended September 30, 2017 (the "**Reporting Periods**") as compared to the three and nine months ended September 30, 2016 (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 the related notes and MD&A for the year ended December 31, 2016. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

This MD&A uses "funds flow from operations", "funds flow per common share", "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 GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. For further information, see "*Non-GAAP Measures"* in this MD&A.

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

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

ABOUT BIRCHCLIFF

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

2017 THIRD QUARTER FINANCIAL AND OPERATIONAL HIGHLIGHTS

Highlights of the third quarter include the following:

- Record quarterly average production of 65,276 boe/d, a 20% increase from 54,538 boe/d in the three month Comparable Prior Period. Production consisted of approximately 79% natural gas and 21% light oil and NGLs as compared to 81% natural gas and 19% light oil and NGLs in the three month Comparable Prior Period.
- Quarterly funds flow from operations of $64.4 million, or $0.24 per basic common share, a 55% increase and a 33% increase, respectively, from $41.7 million and $0.18 per basic common share in the three month Comparable Prior Period.
- Birchcliff recorded a net loss to common shareholders of $121.7 million ($0.46 per basic common share), as compared to the net loss to common shareholders of $2.1 million ($0.01 per basic common share) in the three month Comparable Prior Period. Included in the net loss is an after-tax book loss of $132.3 million resulting from the sale of Birchcliff's Worsley Charlie Lake Light Oil Pool (the "**Worsley Assets**") which closed on August 31, 2017.
- Operating costs of $4.27/boe, an 8% decrease from $4.65/boe in the three month Comparable Prior Period.
- General and administrative expense of $0.82/boe, a 23% decrease from $1.07/boe in the three month Comparable Prior Period.
- Interest expense of $1.15/boe, a 29% decrease from $1.61/boe in the three month Comparable Prior Period.
- Net capital expenditures of $12.1 million for the three month Reporting Period and $257.5 million for the nine month Reporting Period.
- At September 30, 2017, Birchcliff's long-term bank debt was $585.3 million and its total debt was $666.8 million.
- The 80 MMcf/d Phase V expansion of Birchcliff's 100% owned and operated natural gas processing plant in Pouce Coupe (the "**Pouce Coupe Gas Plant**") was successfully brought on-stream ahead of schedule and on budget, increasing the total processing capacity of the plant to 260 MMcf/d from 180 MMcf/d. The Pouce Coupe Gas Plant is currently running efficiently at near-maximum design throughput.
- Planned turnarounds were successfully conducted at Birchcliff's major facilities in Pouce Coupe and Gordondale, as well as at AltaGas' owned and operated natural gas processing facility located in Gordondale (the "**AltaGas Facility**").
- Birchcliff drilled a total of 9 (9.0 net) wells in the three month Reporting Period, consisting of 6 (6.0 net) Montney/Doig horizontal natural gas wells in Pouce Coupe, 1 (1.0 net) Montney/Doig vertical science and technology well in Pouce Coupe and 2 (2.0 net) Montney horizontal oil wells in Gordondale.
- During the three month Reporting Period, Birchcliff completed the disposition of the Worsley Assets for total proceeds of approximately $100 million (before adjustments) ($90 million in cash; $10 million in securities).

See *"Cash Flow from Operating Activities and Funds Flow from Operations", "Net Loss to Common Shareholders", "Pouce Coupe Gas Plant Netbacks",* "*Discussion of Operations",* "*Capital Expenditures*" and "*Capital Resources and Liquidity*" in this MD&A for further information regarding the financial and operational results for the Reporting Periods.

OUTLOOK

Natural Gas Transportation and Marketing and Market Diversification

The Corporation has agreements with TransCanada Pipelines ("**TCPL**") for the firm service transportation of 175,000 GJ/d in aggregate (approximately 152 MMcf/d) of natural gas on TCPL's Canadian Mainline for a ten year term, whereby natural gas will be transported from the Empress receipt point in Alberta to the Dawn trading hub located in Southern Ontario. The toll for the Empress to Dawn portion of the service is $0.77/GJ plus fuel. The first tranche of this service (120,000 GJ/d) became available to Birchcliff on November 1, 2017, with additional tranches becoming available on November 1, 2018 (35,000 GJ/d) and November 1, 2019 (20,000 GJ/d).

In addition, the Corporation has sales agreements with a third party marketer to sell and deliver into the Alliance pipeline system: (i) approximately 40 MMcf/d of natural gas under contracts which commenced November 1, 2017 and expire March 31, 2018, 10 MMcf/d of which is sold at Alliance's Trading Pool daily index price and 30 MMcf/d of which is sold at a Chicago index price; and (ii) approximately 5 MMcf/d of natural gas under contracts which commenced April 1, 2017 and expire October 31, 2020, which is sold at Alliance's Trading Pool daily index price.

Mitigation of AECO Pricing Risk

AECO prices were challenged during the three month Reporting Period, with spot natural gas prices under pressure periodically due to temporary restrictions in pipeline and compressor station capacity on the Alberta NGTL system. Virtually all of Birchcliff's natural gas production was previously transported on the NGTL system in Alberta and sold at AECO during the Reporting Periods. Approximately 60% of Birchcliff's current natural gas production is being sold at AECO, with 28% being sold at the Dawn, Ontario price and 12% being marketed via the Alliance pipeline system. After taking into account the Corporation's Dawn and Alliance arrangements which commenced on November 1, 2017, it expects that approximately 73% of its forecast natural gas production for the fourth quarter of 2017 will be sold at AECO, approximately 19% will be sold at the Dawn, Ontario price and approximately 8% will be sold into the Alliance pipeline system. Of the 73% Birchcliff expects to sell at AECO, approximately 65% is hedged at $3.51/Mcf. Birchcliff's Dawn and Alliance arrangements will provide it with access to a more diverse portfolio of natural gas markets and reduce its exposure to prices at AECO which have been extremely volatile in recent months.

2018 Hedging Strategy

The Corporation's current hedging strategy for 2018 is to hedge up to 50% of its estimated 2018 forecast average production using a combination of financial derivatives and physical delivery sales contracts, depending on its outlook for commodity prices and the availability of hedges on terms acceptable to Birchcliff.

2017 Guidance

Birchcliff is re-affirming its 2017 fourth quarter average production guidance of 79,000 to 80,000 boe/d (approximately 20% oil and NGLs) and its 2017 annual average production guidance of 67,000 to 68,000 boe/d (approximately 21% oil and NGLs). The following table sets forth the Corporation's guidance for 2017:

	2017 Guidance[(1)]
Estimated 2017 Annual Average Production	67,000 – 68,000 boe/d
% Oil and NGLs	21%
Estimated 2017 Q4 Average Production	79,000 – 80,000 boe/d
% Oil and NGLs	20%
Estimated 2017 Q4 Operating Costs	<$4.00/boe
Total capital expenditures	$404 million
Net capital expenditures	$262 million

(1) For further information regarding the Corporation's guidance, including the assumptions surrounding such guidance, please see *"Advisories – Forward-Looking Information"* in this MD&A.

The Corporation's 2017 capital expenditure program (the "**2017 Capital Program**") contemplates the drilling of a total of 54 (54.0 net) wells during 2017, 38 (38.0 net) in Pouce Coupe and 16 (16.0 net) in Gordondale. Of the 54 (54.0 net) wells planned to be drilled during 2017, a total of 52 wells are anticipated to be brought on production this year as one well is scheduled to be drilled in December 2017 and will not be brought on production until 2018 and one well is a Montney/Doig vertical science and technology well and will not be a producing well. In addition, the 2017 Capital Program also included the capital associated with the completion, equipping and tie-in of 10 wells drilled in 2016, all of which were brought on production in the first quarter of 2017. Accordingly, a total of 62 (62.0 net) wells are expected to be brought on production during 2017.

Birchcliff has hedged approximately 50% of its forecast 2017 natural gas production at an estimated average wellhead price of $3.47/Mcf, which helps to protect its balance sheet and the 2017 Capital Program. The Corporation expects that the entirety of the 2017 Capital Program will be fully funded out of its forecast 2017 funds flow from operations, as well as the proceeds from asset sales completed during 2017. The foregoing is based on the Corporation's budgeted forecast average prices of approximately WTI US$50.00 per barrel of oil and an average wellhead price for natural gas of approximately CDN$2.75 per Mcf during 2017.

The Corporation expects material additions to its reserves volumes at year-end 2017 primarily as a result of the strong well performance on its Montney/Doig Resource Play and the new wells it drilled during 2017.

CASH FLOW FROM OPERATING ACTIVITIES AND FUNDS FLOW FROM OPERATIONS

	Three months ended September 30,		Nine months ended September 30,	
($000s)	2017	2016	2017	2016
Cash flow from operating activities	**70,584**	**22,144**	**198,665**	**49,940**
Funds flow from operations	**64,430**	**41,675**	**220,672**	**75,637**
Per common share – basic *($)*	0.24	0.18	0.83	0.42
Per common share – diluted *($)*	0.24	0.18	0.82	0.42

Cash flow from operating activities for the three and nine month Reporting Periods increased by 219% and 298%, respectively, from the Comparable Prior Periods. Funds flow from operations in the three and nine month Reporting Periods increased by 55% and 192%, respectively, from the Comparable Prior Periods.

The increases in cash flow from operating activities and funds flow from operations from the three month Comparable Prior Period were largely due to increased production, partially offset by a lower average realized commodity sales price. During the three month Reporting Period, Birchcliff's production increased by 20% and the average realized commodity sales price decreased by 4% from the three month Comparable Prior Period. Funds flow from operations in the three month Reporting Period also increased due to lower royalty, general and administrative and interest costs and a higher realized cash gain on financial commodity price risk management contracts and was reduced by higher operating and transportation and marketing costs mainly associated with the Corporation's assets in Gordondale in the three month Reporting Period.

The increases in cash flow from operating activities and funds flow from operations from the nine month Comparable Prior Period were largely due to increased production and a higher average realized commodity sales price. During the nine month Reporting Period, Birchcliff's production increased by 41% and the average realized commodity sales price increased by 38% from the nine month Comparable Prior Period. Funds flow from operations in the nine month Reporting Period also increased due to lower interest costs and a higher realized cash gain on financial commodity price risk management contracts and was reduced by higher general and administrative expenses and increased royalty, operating and transportation and marketing costs mainly associated with the Corporation's assets in Gordondale.

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

	Three months ended September 30,			Nine months ended September 30,		
($/boe)	**2017**	**2016**	***% Change***	**2017**	**2016**	***% Change***
Royalty expense	0.63	1.45	(57%)	1.12	0.86	30%
Operating expense	4.27	4.65	(8%)	4.70	4.01	17%
Transportation and marketing expense	2.65	2.50	6%	2.60	2.38	9%
General & administrative expense, net	0.82	1.07	(23%)	0.98	1.19	(18%)
Interest expense	1.15	1.61	(29%)	1.22	1.81	(33%)
Total cash costs	**9.52**	**11.28**	**(16%)**	**10.62**	**10.25**	**4%**

On a per unit basis, total cash costs for the three month Reporting Period decreased by 16% and for the nine month Reporting Period increased by 4% as compared to the Comparable Prior Periods.

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

NET LOSS TO COMMON SHAREHOLDERS

	Three months ended September 30,		Nine months ended September 30,	
($000s)	**2017**	**2016**	**2017**	**2016**
Net loss	(120,743)	(1,064)	(72,800)	(36,420)
Net loss to common shareholders[(1)]	**(121,743)**	**(2,064)**	**(75,800)**	**(39,420)**
Per common share – basic *($)*	(0.46)	(0.01)	(0.29)	(0.22)
Per common share – diluted *($)*	(0.46)	(0.01)	(0.29)	(0.22)

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

During the three and nine month Reporting Periods, Birchcliff reported a net loss to common shareholders of $121.7 million and $75.8 million, respectively, compared to the net loss to common shareholders of $2.1 million and $39.4 million in the three and nine month Comparable Prior Periods, respectively.

The net loss position in the Reporting Periods was primarily driven by: (i) a $2.2 million unrealized mark-to-market loss and a $19.1 million unrealized mark-to-market gain in the three and nine month Reporting Periods, respectively, resulting from the change in the mark-to-market position during the Reporting Periods of the financial commodity price risk management contracts outstanding at September 30, 2017; (ii) a $132.3 million after-tax loss from the sale of the Worsley Assets recorded in the Reporting Periods; (iii) higher depletion costs resulting from increased production in the Reporting Periods; and (iv) partially offset by higher funds flow from operations as noted above.

POUCE COUPE GAS PLANT NETBACKS

During the nine month Reporting Period, Birchcliff processed approximately 58% of its total corporate natural gas production and 47% of its total corporate production through its Pouce Coupe Gas Plant, with an average plant and field operating cost of $0.35/Mcfe ($2.07/boe). The estimated operating netback at the Pouce Coupe Gas Plant was $2.28/Mcfe ($13.65/boe), resulting in an operating margin of 75% in the nine month Reporting Period.

The following table details Birchcliff's average daily production and estimated operating netback for wells producing to the Pouce Coupe Gas Plant:

	Nine months ended September 30, 2017		Nine months ended September 30, 2016	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		173,351		168,638
Oil & NGLs *(bbls)*		1,146		968
Total boe		**30,038**		**29,074**
AECO – C daily *($/Mcf)*[1]	**$2.31**		**$1.85**	
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[2]	3.05	18.28	2.19	13.17
Royalty expense	(0.08)	(0.48)	(0.05)	(0.29)
Operating expense[3]	(0.35)	(2.07)	(0.25)	(1.50)
Transportation and marketing expense	(0.34)	(2.08)	(0.32)	(1.95)
Estimated operating netback	**$2.28**	**$13.65**	**$1.57**	**$9.43**
Operating margin	**75%**	**75%**	**72%**	**72%**

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

(2) Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts.

(3) Represents plant and field operating costs.

DISCUSSION OF OPERATIONS

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

	Three months ended September 30, 2017				Three months ended September 30, 2016			
	Total Revenue[1] *($000s)*	**Average Daily Production**	*(%)*	**Average** *($/unit)*	**Total Revenue[1]** *($000s)*	**Average Daily Production**	*(%)*	**Average** *($/unit)*
Light oil *(bbls)*	32,319	6,316	10	55.62	21,599	4,504	8	52.12
Natural gas *(Mcf)*	60,011	308,748	79	2.11	61,278	263,652	81	2.53
NGLs *(bbls)*[2]	19,099	7,503	11	27.67	14,473	6,092	11	25.82
Total P&NG sales *(boe)*	111,429	65,276	100	18.55	97,350	54,538	100	19.40
Royalty revenue	59			0.01	15			0.01
P&NG revenues	**111,488**			**18.56**	**97,365**			**19.41**

(1) Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts.

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

	Nine months ended September 30, 2017				Nine months ended September 30, 2016			
	Total Revenue[1] *($000s)*	Average Daily Production	*(%)*	Average *($/unit)*	Total Revenue[1] *($000s)*	Average Daily Production	*(%)*	Average *($/unit)*
Light oil *(bbls)*	101,265	6,247	10	59.38	44,126	3,417	8	47.13
Natural gas *(Mcf)*	225,143	299,240	78	2.76	130,297	233,198	86	2.04
NGLs *(bbls)*[2]	64,130	7,751	12	30.31	27,647	3,086	6	32.69
Total P&NG sales *(boe)*	390,538	63,871	100	22.40	202,070	45,370	100	16.25
Royalty revenue	255			0.01	59			0.01
P&NG revenues	**390,793**			**22.41**	**202,129**			**16.26**

(1) Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts.

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

The increase in P&NG revenues from the three month Comparable Prior Period was largely attributable to incremental production additions primarily from the assets acquired by the Corporation in Gordondale in July 2016, partially offset by a lower average realized commodity sales price.

The increase in P&NG revenues from the nine month Comparable Prior Period was largely attributable to incremental production additions primarily from the assets acquired by the Corporation in Gordondale and a higher average realized commodity sales price.

Petroleum and Natural Gas Revenues

Production

Production averaged 65,276 boe/d in the three month Reporting Period and 63,871 boe/d in the nine month Reporting Period, a 20% and 41% increase, respectively, from the Comparable Prior Periods. Birchcliff's oil, natural gas and NGLs production for the three month Reporting Period increased by 40%, 17% and 23%, respectively, from the Comparable Prior Period. During the nine month Reporting Period, production from oil, natural gas and NGLs increased by 83%, 28% and 151%, respectively, from the Comparable Prior Period.

The increase in production from the Comparable Prior Periods was largely due to production from the Corporation's assets in Gordondale which reflect volumes reported for the full quarter, as well as the Corporation's 2017 capital drilling program which resulted in incremental production from new horizontal wells brought on production in Pouce Coupe and Gordondale in the Reporting Periods, partially offset by natural production declines. The Corporation's assets in Gordondale were acquired by the Corporation partway through the three month Comparable Prior Period and accordingly, the production for such period only includes volumes for such assets reported from July 28, 2016 to September 30, 2016. Production in the Reporting Periods was also positively impacted by incremental volumes from new Montney/Doig horizontal natural gas wells brought on-stream to Phase V of the Pouce Coupe Gas Plant which came on-stream in September 2017. Phase V was completed on budget and ahead of the initially scheduled on-stream date of October 1, 2017, bringing the total processing capacity of the Pouce Coupe Gas Plant to 260 MMcf/d from 180 MMcf/d.

Production in the Reporting Periods was negatively impacted by: (i) the sale of the Worsley Assets which closed on August 31, 2017 which represented forecast 2017 average production of approximately 3,100 boe/d and was only included in the Corporation's production until August 31, 2017; and (ii) the planned turnarounds that were successfully conducted at Birchcliff's major facilities in Pouce Coupe and Gordondale, as well as at the AltaGas Facility.

During the three month Reporting Period, production from the Montney/Doig Resource Play was comprised of 37,312 boe/d in Pouce Coupe and 25,458 boe/d in Gordondale. During the nine month Reporting Period, production from the Montney/Doig Resource Play was comprised of 35,707 boe/d in Pouce Coupe and 25,250 boe/d in Gordondale.

Production from the Worsley Assets in the three month Reporting Period averaged approximately 1,904 boe/d as compared to 2,797 boe/d in the Comparable Prior Period. During the nine month Reporting Period, production from the Worsley Assets averaged 2,277 boe/d compared to 3,206 boe/d in the Comparable Prior Period. The reduction in volumes from the three month Comparable Prior Period was mainly as a result of the sale of Worsley Assets which closed on August 31, 2017 and production not being reported subsequent to August 31, 2017. Production in the Reporting Periods also decreased due to the fact that no new wells were drilled during 2017, as well as natural production declines and unplanned downtime resulting from pipeline integrity issues and maintenance activities in the Worsley area throughout 2017.

Production consisted of approximately 79% natural gas, 10% light oil and 11% NGLs in the three month Reporting Period as compared to 81% natural gas, 8% light oil and 11% NGLs in the three month Comparable Prior Period. The change in corporate production mix was a result of the more heavily-weighted oil and NGLs production attributed to the Corporation's assets in Gordondale.

Commodity prices

Birchcliff sold 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 during the Reporting Periods and Comparable Prior Periods. The average realized sales 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 crude oil. 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 the Canadian Edmonton Par spot price can widen due to a number of factors, including, but not limited to, downtime in North American refineries, rising domestic production, high inventory levels in North America and lack of pipeline infrastructure connecting to key consuming oil markets.

Canadian AECO natural gas prices are mainly influenced by North American supply and demand fundamentals which can be impacted by a number of factors, including, but not limited to, weather-related conditions, changing demographics, economic growth, underground storage levels, net import and export markets, pipeline takeaway capacity, cost of competing fuels, drilling and completion rates and efficiencies in extracting natural gas from North American natural gas basins. AECO natural gas spot prices were challenged during the three month Reporting Period, with spot natural gas prices under pressure periodically due to temporary restrictions in pipeline and compressor station capacity on the Alberta NGTL system. Approximately half of Birchcliff's production was hedged during the three month Reporting Period, which reduced the pricing impact as a result of these restrictions.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
Average benchmark prices:				
Light oil – WTI Cushing *(US$/bbl)*	48.21	44.94	49.47	41.33
Light oil – Edmonton Par *($/bbl)*	56.44	55.80	60.49	51.31
Natural gas – AECO – C daily *($/MMbtu)*(1)	1.45	2.32	2.31	1.85
Exchange rate – *(US$/CDN$)*	1.25	1.31	1.31	1.32
Birchcliff's average realized sales price: (2)				
Light oil *($/bbl)*	55.62	52.12	59.38	47.13
Natural gas *($/Mcf)*	2.11	2.53	2.76	2.04
NGLs *($/bbl)*	27.67	25.82	30.31	32.69
Average corporate realized sales price *($/boe)*	**18.55**	**19.40**	**22.40**	**16.25**

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

(2) Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts.

The average corporate realized sales price was $18.55/boe for the three month Reporting Period and $22.40/boe for the nine month Reporting Period, a 4% decrease and 38% increase, respectively, from the Comparable Prior Periods. The decrease from the three month Comparable Prior Period was largely due to lower natural gas prices, partially offset by higher oil and NGLs prices. The increase from the nine month Comparable Prior Period was largely due to higher oil and natural gas prices, partially offset by lower NGLs pricing.

During the three month Reporting Period: (i) Birchcliff's average realized natural gas sales price decreased 17% from the Comparable Prior Period; (ii) Birchcliff's average realized oil sales price increased 7% from the Comparable Prior Period; and (iii) Birchcliff's average realized NGLs sales price increased 7% from the Comparable Prior Period.

During the nine month Reporting Period: (i) Birchcliff's average realized natural gas sales price increased 35% from the Comparable Prior Period; (ii) Birchcliff's average realized oil sales price increased 26% from the Comparable Prior Period; and (iii) Birchcliff's average realized NGLs sales price decreased 7% from the Comparable Prior Period.

The Corporation's assets in Gordondale receive a higher average sales price compared to the Corporation's assets in Pouce Coupe, largely as a result of higher volume weighting of NGLs produced in the Gordondale area which receive a higher value on a per unit basis than Birchcliff's natural gas sales. The higher weighting of NGLs in the total corporate production mix improves Birchcliff's overall average realized sales price. During the three month Reporting Period, the average realized oil, natural gas and NGLs sales price was $22.77/boe for the Gordondale Montney/Doig Resource Play as compared to $14.52/boe for the Pouce Coupe Montney/Doig Resource Play. During the nine month Reporting Period, the average realized oil, natural gas and NGLs sales price was $25.85/boe for the Gordondale Montney/Doig Resource Play as compared to $18.48/boe for the Pouce Coupe Montney/Doig Resource Play.

With respect to the Corporation's Gordondale assets, NGLs (ethane, propane, butane) are substantially recovered from the raw natural gas stream at the AltaGas Facility which reduces the heat content value and realized sales price of natural gas from the area. During the three and nine month Reporting Periods, the average realized natural gas sales price for the Gordondale Montney/Doig Resource Play was $2.08/Mcf and $2.12/Mcf, respectively, as compared to $2.69/Mcf and $2.78/Mcf, respectively, for the Pouce Coupe Montney/Doig Resource Play.

During the three month Reporting Period, the NGLs production mix in Gordondale consisted of approximately 31% ethane, 32% propane, 20% butane and 17% condensate (C5+). During the nine month Reporting Period, the NGLs production mix in Gordondale consisted of approximately 31% ethane, 33% propane, 19% butane and 17% condensate (C5+). In comparison, approximately 95% of Birchcliff's NGLs production mix in Pouce Coupe was comprised of high value condensate (C5+) during the Reporting Periods. The NGLs sales price averaged $20.07/boe for the Gordondale Montney/Doig Resource Play as compared to $54.84/boe for the Pouce Coupe Montney/Doig Resource Play during the three month Reporting Period. For the nine month Reporting Period, the NGLs sales price averaged $23.02/boe for the Gordondale Montney/Doig Resource Play as compared to $59.58/boe for the Pouce Coupe Montney/Doig Resource Play.

Commodity Price Risk Management

The Corporation maintains an ongoing commodity price risk management program in order to reduce volatility in its financial results and to protect a portion of its funds flow from operations, its capital expenditure programs and its dividend payments. As a part of this program, the Corporation utilizes various financial derivative and physical delivery sales contracts. The Board of Directors of the Corporation has authorized the Corporation to hedge such portion of its forecast production as is permitted by the Corporation's credit facilities, which permit the Corporation to hedge up to 65% of its forecast production over the following four fiscal quarters for terms not exceeding three years. Birchcliff's current strategy for 2018 is to hedge up to 50% of its estimated 2018 forecast average production using a combination of financial derivatives and physical sales contracts, depending on its outlook for commodity prices and the availability of hedges on terms acceptable to Birchcliff.

As at September 30, 2017, Birchcliff is committed under its financial and physical sales contracts to the sale of 210,000 GJ/d of natural gas from October 1, 2017 to December 31, 2017 at an average AECO price of $3.05/GJ.

Financial derivative contracts

As at September 30, 2017, the Corporation had the following financial derivatives in place:

Product	Type of contract	Notional quantity	Term[1]	Contract price	Fair value *($000s)*
Natural gas	Financial swap	50,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN $3.05/GJ	5,374
Natural gas	Financial swap	30,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN $3.12/GJ	3,596
Crude oil	Financial swap	1,500 bbls/d	October 1, 2017 – December 31, 2017	WTI CDN $69.90/bbl	696
Fair value assets[2]					**9,666**

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

(2) Birchcliff has not designated its financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity price contracts to be effective economic hedges. As a result, all such financial derivative contracts are recorded on the statement of financial position on a "mark-to-market" fair value basis at September 30, 2017, with the changes in fair value being recognized as a non-cash unrealized gain or loss in profit or loss. These contracts are not entered into for trading or speculative purposes.

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

	Three months ended September 30,				**Nine months ended September 30,**			
	2017		**2016**		**2017**		**2016**	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Realized gain on derivatives	10,103	1.69	853	0.18	14,998	0.87	936	0.07
Unrealized gain (loss) on derivatives	(2,164)	(0.36)	45	0.01	19,099	1.10	169	0.01

There were no financial derivative contracts entered into subsequent to September 30, 2017.

Physical delivery 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. At September 30, 2017, the Corporation had the following physical sales contracts in place:

Product	Type of contract	Volume	Term[1]	Contract price
Natural gas	Fixed price	20,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN$2.99/GJ
Natural gas	Fixed price	20,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN$2.98/GJ
Natural gas	Fixed price	20,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN$3.00/GJ
Natural gas	Fixed price	10,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN$3.00/GJ
Natural gas	Fixed price	60,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN$3.10/GJ

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

There were no physical delivery sales contracts entered into subsequent to September 30, 2017.

Royalties

The following table details Birchcliff's royalty expense:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Oil & natural gas royalties *($000s)*[(1)]	3,779	7,298	19,456	10,734
Oil & natural gas royalties *($/boe)*	0.63	1.45	1.12	0.86
Effective royalty rate *(%)*[(2)]	3%	7%	5%	5%

(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 and effective royalty rate decreased from the three month Comparable Prior Period primarily due to a 17% decrease in natural gas prices and the effect these lower prices have on the sliding scale royalty calculation, as well as a prior period gas cost allowance ("**GCA**") adjustment recorded in the three month Reporting Period, partially offset by higher oil and NGLs production and prices.

The aggregate royalties increased from the nine month Comparable Prior Period primarily due to higher average realized commodity prices and increased production in the nine month Reporting Period.

During the three and nine month Reporting Periods, the effective royalty rate for the Gordondale Montney/Doig Resource Play averaged 4% and 7%, respectively, and for the Pouce Coupe Montney/Doig Resource Play the effective royalty rate averaged 2% and 2%, respectively. The effective royalty rate for the three month Reporting Period was impacted by prior period GCA credits of $1.1 million attributed to the acquisition of the Gordondale assets which reduced Birchcliff's aggregate royalty expense in that period.

Operating Costs

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

	Three months ended September 30,				Nine months ended September 30,			
	2017		2016		2017		2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Field operating costs	26,103	4.35	23,675	4.72	83,386	4.78	50,920	4.10
Recoveries	(509)	(0.08)	(404)	(0.08)	(1,395)	(0.08)	(1,272)	(0.11)
Field operating costs, net	25,594	4.26	23,271	4.64	81,991	4.70	49,648	3.99
Expensed workovers and other	29	0.01	40	0.01	35	-	218	0.02
Operating costs	**25,623**	**4.27**	**23,311**	**4.65**	**82,026**	**4.70**	**49,866**	**4.01**

On a per unit basis, operating costs during the three and nine month Reporting Periods decreased by 8% and increased by 17%, respectively, from the Comparable Prior Periods.

The per unit operating costs in the three month Reporting Period decreased due to: (i) an increased percentage of incremental production additions in the three month Reporting Period being brought on-stream to Birchcliff's Phase V Pouce Coupe Gas Plant in September 2017; (ii) the sale of the higher cost Worsley Assets which closed on August 31, 2017; and (iii) various cost reductions and infrastructure optimization initiatives implemented by the Corporation. The per unit operating costs in the nine month Reporting Period increased due to additional operating, processing and service costs associated with the Corporation's assets in Gordondale. The Corporation's assets in Gordondale have a higher cost structure primarily resulting from increased oil and NGLs production weighting and additional fees incurred to process natural gas from the Gordondale area at the AltaGas Facility.

During the three and nine month Reporting Periods, operating costs: (i) for the Gordondale Montney/Doig Resource Play averaged approximately $5.99/boe and $6.39/boe, respectively; (ii) for the Pouce Coupe Montney/Doig Resource Play averaged approximately $2.57/boe and $2.79/boe, respectively; and (iii) for the Worsley Assets averaged approximately $12.61/boe and $13.95/boe, respectively.

Transportation and Marketing Expense

The following table details Birchcliff's transportation and marketing expense:

	Three months ended September 30,				Nine months ended September 30,			
	2017		2016		2017		2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Transportation and marketing expense	**15,960**	**2.65**	**12,501**	**2.50**	**45,341**	**2.60**	**29,500**	**2.38**

The increase in the aggregate and per unit transportation and marketing expense from the Comparable Prior Periods was largely due to an increase in trucking and pipeline transportation costs associated with higher weighting of oil and NGLs production from the Corporation's assets in Gordondale and increased firm service commitments on the NGTL system. During the three and nine month Reporting Periods, transportation and marketing expense for the Gordondale Montney/Doig Resource Play averaged approximately $3.07/boe and $2.79/boe, respectively. For the Pouce Coupe Montney/Doig Resource Play transportation and marketing expense averaged approximately $2.10/boe and $2.22/boe during the three and nine month Reporting Periods, respectively.

Transportation and marketing expense for the Worsley Assets averaged approximately $8.00/boe and $6.45/boe for the three and nine month Reporting Periods, respectively.

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 (herein defined as the Worsley Assets) and on a corporate basis:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Montney/Doig Resource Play				
Average daily production, net:				
Natural gas *(Mcf)*	302,392	254,923	292,139	222,585
Oil & NGLs *(bbls)*	12,371	8,470	12,267	4,024
Total boe	62,770	50,957	60,957	41,121
% of corporate production(1)	*96%*	*93%*	*95%*	*91%*
Netback and cost *($/boe):*				
Petroleum and natural gas revenue(2)	17.87	18.20	21.53	14.70
Royalty expense	(0.53)	(1.35)	(0.99)	(0.76)
Operating expense, net of recoveries	(3.96)	(4.17)	(4.28)	(3.29)
Transportation and marketing expense	(2.49)	(2.28)	(2.45)	(2.10)
Operating netback	10.89	10.40	13.81	8.55
Worsley Charlie Lake Light Oil Resource Play				
Average daily production, net:				
Natural gas *(Mcf)*	3,169	4,683	3,728	5,975
Oil & NGLs *(bbls)*	1,376	2,017	1,656	2,210
Total boe	1,904	2,797	2,277	3,206
% of corporate production(1)	*3%*	*5%*	*4%*	*7%*
Netback and cost *($/boe):*				
Petroleum and natural gas revenue(2)	41.47	41.13	45.84	34.88
Royalty expense	(3.98)	(3.23)	(4.40)	(1.88)
Operating expense, net of recoveries	(12.61)	(12.86)	(13.95)	(10.79)
Transportation and marketing expense	(8.00)	(6.27)	(6.45)	(6.06)
Operating netback	16.88	18.77	21.04	16.15
Total Corporate				
Average daily production, net:				
Natural gas *(Mcf)*	308,748	263,652	299,240	233,198
Oil & NGLs *(bbls)*	13,819	10,596	13,998	6,503
Total boe	65,276	54,538	63,871	45,370
Netback and cost *($/boe)*				
Petroleum and natural gas revenue(2)	18.56	19.41	22.41	16.26
Royalty expense	(0.63)	(1.45)	(1.12)	(0.86)
Operating expense, net of recoveries	(4.27)	(4.65)	(4.70)	(4.01)
Transportation and marketing expense	(2.65)	(2.50)	(2.60)	(2.38)
Operating netback	11.01	10.81	13.99	9.01

(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 effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts.

Montney/Doig Resource Play

Birchcliff's production from the Montney/Doig Resource Play was 62,770 boe/d in the three month Reporting Period and 60,957 boe/d in the nine month Reporting Period, a 23% and 48% increase, respectively, from the Comparable Prior Periods. This increase was primarily due to the production volumes associated with assets acquired by the Corporation in Gordondale in July 2016 which on average represented approximately 41% of the total production from the Montney/Doig Resource Play during the Reporting Periods. Production from the Montney/Doig Resource Play during the three month Reporting Period was also increased by incremental volumes from new Montney/Doig natural gas horizontal wells brought on-stream to Phase V of the Pouce Coupe Gas Plant which came on-stream in September 2017.

Birchcliff's recoveries of liquids (oil/NGLs) from its Montney/Doig Resource Play were 40.9 bbls/MMcf in the three month Reporting Period and 42.0 bbls/MMcf in the nine month Reporting Period as compared to 32.2 bbls/MMcf and 18.1 bbls/MMcf in the three and nine month Comparable Prior Periods, respectively. The liquids recoveries averaged approximately 122.2 bbls/MMcf and 123.7 bbls/MMcf in Gordondale during the three and nine month Reporting Periods, respectively, as compared to 7.5 bbls/MMcf and 7.4 bbls/MMcf in Pouce Coupe during the three and nine month Reporting Periods, respectively. Any liquids not recovered from the raw natural gas stream increases the heat content value of Birchcliff's natural gas sales and the realized sales price.

Birchcliff's operating netback for the Montney/Doig Resource Play was $10.89/boe in the three month Reporting Period and $13.81/boe in the nine month Reporting Period, an increase of 5% and 62%, respectively, from the Comparable Prior Periods. The significant increase in the operating netback from the nine month Comparable Prior Period was primarily driven by higher average realized sales price received for Birchcliff's oil and natural gas production, partially offset by higher per unit royalties, operating and transportation and marketing costs mainly attributed to the Corporation's assets in Gordondale. The Corporation's assets in Gordondale have a higher cost structure primarily resulting from higher production weighting to oil and NGLs and additional fees incurred to process natural gas from the Gordondale assets at the AltaGas Facility.

Worsley Charlie Lake Light Oil Resource Play (Worsley Assets)

Birchcliff's production from the Worsley Assets was 1,904 boe/d in the three month Reporting Period and 2,277 boe/d in the nine month Reporting Period, a decrease of 32% and 29%, respectively, from the Comparable Prior Periods. Production for the three month Reporting Period was largely impacted by the sale of the Worsley Assets which closed on August 31, 2017, and as a result no volumes were recorded beyond such date. Production in the Reporting Periods also decreased due to the fact that no new wells were drilled during 2017, as well as natural production declines and unplanned downtime resulting from pipeline integrity issues and maintenance activities in the Worsley area throughout 2017.

Birchcliff's operating netback for the Worsley Assets was $16.88/boe in the three month Reporting Period and $21.04/boe in the nine month Reporting Period, a 10% decrease and a 30% increase, respectively, from the Comparable Prior Periods. The decrease in the operating netback in the three month Reporting Period was largely due to higher royalty and transportation and marketing costs as compared to the Comparable Prior Period, partially offset by slightly lower operating costs. The increase in the operating netback in the nine month Reporting Period was largely due to higher average realized commodity prices received for Birchcliff's production, partially offset by increased royalty, operating, transportation and marketing costs as compared to the Comparable Prior Period.

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,			
	2017		2016		2017		2016	
	($000s)	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*
Cash:								
Salaries and benefits[1]	5,645	65	5,168	59	17,986	63	15,519	62
Other[2]	3,020	35	3,641	41	10,665	37	9,594	38
	8,665	100	8,809	100	28,651	100	25,113	100
Operating overhead recoveries	(57)	(1)	(30)	(1)	(150)	(1)	(120)	(1)
Capitalized overhead[3]	(3,694)	(42)	(3,415)	(38)	(11,448)	(39)	(10,148)	(40)
General & administrative expenses, net	4,914	57	5,364	61	17,053	60	14,845	59
General & administrative expenses, net per boe	$0.82		$1.07		$0.98		$1.19	
Non-cash:								
Stock-based compensation	3,358	100	1,525	100	7,575	100	4,470	100
Capitalized stock-based compensation[3]	(2,017)	(60)	(900)	(59)	(4,509)	(60)	(2,671)	(60)
Stock-based compensation, net	1,341	40	625	41	3,066	40	1,799	40
Stock-based compensation, net per boe	$0.22		$0.12		$0.18		$0.14	
Administrative expenses, net	**6,255**		**5,989**		**20,119**		**16,644**	
Administrative expenses, net per boe	**$1.04**		**$1.19**		**$1.16**		**$1.33**	

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

(2) Includes costs such as rent, legal, tax, insurance, corporate travel, 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 increase in the aggregate net administrative costs in the Reporting Periods as compared to the Comparable Prior Periods was primarily driven by: (i) additional staff needed to manage the increase in production, reserves and land base associated with the Corporation's assets in Gordondale and higher general business expenditures; and (ii) the accelerated vesting of unvested stock options held by staff managing the Worsley Assets which resulted in additional stock-based compensation expense for the period. On a per unit basis, net administrative expenses decreased in the Reporting Periods compared to the Comparable Prior Periods primarily due to the disproportionate increase in corporate production volumes as compared to net administrative expenses.

A summary of the outstanding stock options is presented below:

	Three months ended September 30, 2017		Nine months ended September 30, 2017	
	Number	Exercise Price *($)*[1]	Number	Exercise Price *($)*[1]
Outstanding, beginning of period	16,104,576	6.88	12,899,775	6.45
Granted	70,000	6.00	4,730,400	7.75
Exercised	(372,065)	(3.50)	(1,746,796)	(5.34)
Forfeited	(1,376,835)	(7.57)	(1,457,703)	(7.57)
Expired	(47,667)	(6.72)	(47,667)	(6.72)
Outstanding, end of period	**14,378,009**	**6.90**	**14,378,009**	**6.90**

(1) Determined on a weighted average basis.

At September 30, 2017, there were also 2,939,732 performance warrants outstanding with an exercise price of $3.00 which expire on January 31, 2020.

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

Depletion and Depreciation Expenses

Depletion and depreciation ("**D&D**") expenses are a function of the estimated proved plus probable reserve additions, the finding and development costs attributable to those reserves, the associated future development costs required to recover those reserves and the actual production in the relevant period. The Corporation determines its D&D expenses on a field area basis.

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

	Three months ended September 30,				Nine months ended September 30,			
	2017		2016		2017		2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Depletion and depreciation expenses	42,006	6.99	**40,566**	**8.08**	127,746	7.33	**106,185**	**8.54**

D&D expenses for the Reporting Periods were higher on an aggregate basis compared to the Comparable Prior Periods mainly due to an increase in corporate production. On a per unit basis, D&D expenses decreased from the Comparable Prior Periods mainly as a result of the significant reserves addition in the Pouce Coupe and Gordondale areas in the Reporting Periods and Comparable Prior Periods.

Asset impairment assessment

The Corporation reviews its petroleum and natural gas assets for impairment in accordance with International Accounting Standards ("**IAS**") 36 under 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 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.

Subsequent to September 30, 2017, the Corporation disposed of certain petroleum and natural gas properties and related assets and interests in Alberta for cash consideration of $31.7 million, before closing adjustments. As of September 30, 2017, the Corporation had negotiated the terms and executed a definitive purchase and sale agreement and was committed to the disposal of the assets, which was considered highly probable to occur and the assets were available for immediate sale in their present condition. As these assets were considered held for sale, their net book value and associated decommissioning obligations were reclassified on the statement of financial position to “held for sale”. Immediately prior to reclassifying the assets as held for sale, Birchcliff conducted a review of the assets’ recoverable amount and determined no impairment was required.

Birchcliff also performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined that there were no impairment indicators identified at the end of the Reporting Periods. As a result, an impairment test was not required at September 30, 2017.

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,			
	2017		**2016**		**2017**		**2016**	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Cash:								
Interest on credit facilities	6,885	1.15	8,069	1.61	21,243	1.22	22,483	1.81
Non-cash:								
Accretion on decommissioning obligations	784	0.13	598	0.12	2,460	0.14	1,734	0.14
Amortization of deferred financing fees	401	0.07	294	0.06	1,110	0.06	758	0.06
Finance expenses	**8,070**	**1.35**	**8,961**	**1.79**	**24,813**	**1.42**	**24,975**	**2.01**

The decrease in the aggregate interest expense from the Comparable Prior Periods was largely due to a lower average outstanding total credit facilities balance and, for the three month Reporting Period lower average effective interest rates. 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 extendible revolving credit facilities (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 following table details the Corporation’s effective interest rates under its credit facilities:

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
Effective interest rates:				
Revolving working capital facility	5.0%	5.2%	5.0%	5.2%
Revolving syndicated term credit facility	4.5%	4.9%	4.8%	4.6%

Birchcliff’s average outstanding total credit facilities balance was approximately $604 million and $588 million in the three and nine month Reporting Periods, respectively, as compared to $655 million and $645 million in the Comparable Prior Periods, calculated as the simple average of the month-end amounts.

Gain (loss) on Sale of Assets

The following table details Birchcliff's gain (loss) on its sale of assets:

	Three months ended September 30,				Nine months ended September 30,			
	2017		2016		2017		2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Gain (loss) on sale of assets	**(181,298)**	**(30.19)**	**468**	**0.09**	**(199,848)**	**(11.46)**	**(10,434)**	**(0.84)**

On August 31, 2017, Birchcliff completed the sale of the Worsley Assets for total consideration of $100 million, before closing adjustments. As a result of the disposition, Birchcliff recorded a loss on the sale of assets of approximately $181.3 million ($132.3 million, net of tax) in the three month Reporting Period.

In May 2017, Birchcliff completed the disposition of certain miscellaneous petroleum and natural gas properties and related assets and interests in the Progress area. The cash consideration was $6.0 million, before closing adjustments. As a result of the disposition, Birchcliff recorded a loss on the sale of assets of approximately $19.8 million ($14.4 million, net of tax) in the nine month Reporting Period.

In April 2017, Birchcliff completed the dispositions of certain miscellaneous petroleum and natural gas properties and related assets and interests in each of the Valhalla, Gordondale and Rycroft areas. The cash consideration was approximately $4.3 million, before closing adjustments. As a result of the dispositions, Birchcliff recorded a loss on the sale of assets of approximately $1.2 million ($0.9 million, net of tax) in the nine month Reporting Period.

In March 2017, Birchcliff completed the dispositions of certain miscellaneous petroleum and natural gas properties and related assets and interests in each of the Elmworth and Rycroft areas. The cash consideration was $300,000, before closing adjustments. As a result of the dispositions, Birchcliff recorded a gain on the sale of assets of approximately $0.7 million ($0.5 million, net of tax) in the nine month Reporting Period.

In February 2017, Birchcliff completed the disposition of assets in the Gold Creek area of Alberta for cash consideration of approximately $5.0 million. As a result of the disposition, Birchcliff recorded a gain on the sale of assets of approximately $1.8 million ($1.3 million, net of tax) in the nine month Reporting Period.

All dispositions noted above were considered non-core asset dispositions as they in aggregate represented less than 3% of Birchcliff's production for the Reporting Periods and approximately 4% of proved plus probable reserves at September 30, 2017 and therefore were not significant to the Corporation's financial results and operational performance.

Income Taxes

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

	Three months ended September 30,		Nine months ended September 30,	
($000s)	2017	2016	2017	2016
Deferred income tax expense (recovery)	(44,446)	(456)	(26,534)	(13,559)
Dividend income tax expense on preferred shares	750	750	2,250	2,250
Income tax expense (recovery)	**(43,696)**	**294**	**(24,284)**	**(11,309)**
Income tax expense (recovery) per boe	**($7.27)**	**$0.07**	**($1.39)**	**($0.91)**

Birchcliff had an income tax recovery in the Reporting Periods resulting from a net loss before tax recorded in those periods as compared to an income tax expense in the three month Comparable Prior Period and an income tax recovery in the nine month Comparable Prior Period. Birchcliff had a significant income tax recovery in the Reporting Periods largely resulting from the accounting loss on the sale of the Worsley Assets.

The Corporation's estimated income tax pools were $2.16 billion at September 30, 2017. 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, 2017**
Canadian oil and gas property expense	493,669
Canadian development expense	399,205
Canadian exploration expense	267,860
Undepreciated capital costs	361,894
Non-capital losses	615,043
Financing costs and other	18,619
Estimated income tax pools(1)	**2,156,290**

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

Veracel tax pools

Birchcliff's 2006 income tax filings were reassessed by the Canada Revenue Agency (the "**CRA**") in 2011 (the "**Reassessment**"). The Reassessment was based on the CRA's position that the tax pools available to Veracel Inc. ("**Veracel**"), prior to its amalgamation with Birchcliff, ceased to be available to Veracel after Birchcliff and Veracel amalgamated on May 31, 2005. The Veracel tax pools in dispute totalled $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). The Trial Decision was rendered by a judge based on the written record and not by the judge who conducted the trial. As a result of the Trial Decision, Birchcliff recorded a non-cash deferred income tax expense in the amount of $10.2 million in the fourth quarter of 2015.

Birchcliff appealed the Trial Decision to the Federal Court of Appeal (the "**FCA**"), which appeal was heard in January 2017. On April 28, 2017, the FCA issued its decision and allowed the appeal and set aside the Trial Decision, based on the lack of jurisdiction by the judge who rendered the Trial Decision. In setting aside the Trial Decision, the FCA referred the matter back to the judge of the Trial Court who initially conducted the trial in 2013 to render a judgement.

Birchcliff was recently advised by its counsel that the judge who heard the original trial resigned from the Trial Court effective October 1, 2017 and that under the applicable rules of court, that judge can still render a judgement in the original trial until November 27, 2017. Birchcliff will develop an appropriate strategy once it is determined whether a judgement will be rendered by the original judge before the deadline.

SUBSEQUENT EVENT

During the three month Reporting Period, Birchcliff entered into a definitive purchase and sale agreement for the sale of certain petroleum and natural gas properties and related assets and interests in Alberta for cash consideration of $31.7 million, before closing adjustments. The transaction closed on October 2, 2017. The Corporation estimates that in the fourth quarter of 2017 it will recognize an after-tax accounting gain of approximately $9.9 million on the sale of these assets.

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)	**2017**	**2016**	**2017**	**2016**
Land	533	1,948	1,414	3,472
Seismic	385	150	921	950
Workovers	1,541	444	6,951	2,040
Drilling and completions	70,388	7,830	233,687	49,072
Well equipment and facilities	32,860	7,749	122,692	49,241
Finding and development capital	105,707	18,121	365,665	104,775
Acquisitions	18	581,058	941	612,316
Dispositions[(1)]	(94,115)	(500)	(110,531)	(19,248)
Finding, development and acquisition capital	11,610	598,679	256,075	697,843
Administrative assets	526	1,036	1,381	1,704
Capital expenditures, net	**12,136**	**599,715**	**257,456**	**699,547**

(1) Relates to the sale of the Worsley Assets, after closing adjustments and other costs.

During the three month Reporting Period, Birchcliff incurred finding and development capital of $105.7 million which included approximately $44.3 million (42%) on the drilling and completion of Montney/Doig horizontal wells in Pouce Coupe, $22.2 million (21%) on the drilling and completion of Montney horizontal wells in Gordondale, $6.6 million (6%) on the Phase V expansion of the Pouce Coupe Gas Plant which was completed in September 2017 and increased processing capacity from 180 MMcf/d to 260 MMcf/d and $1.6 million (2%) on the fabrication of the major components of Phase VI of the Pouce Coupe Gas Plant which will increase processing capacity from 260 MMcf/d to 340 MMcf/d. Birchcliff drilled a total of 9 (9.0 net) wells in the three month Reporting Period, consisting of 6 (6.0 net) Montney/Doig horizontal natural gas wells in Pouce Coupe, 1 (1.0 net) Montney/Doig vertical science and technology well in Pouce Coupe and 2 (2.0 net) Montney horizontal oil wells in Gordondale.

During the nine month Reporting Period, Birchcliff incurred finding and development capital of $365.7 million which included approximately $135.6 million (37%) on the drilling and completion of Montney/Doig horizontal wells in Pouce Coupe, $97.1 million (27%) on the drilling and completion of Montney horizontal wells in Gordondale, $27.0 million (7%) on the Phase V expansion of the Pouce Coupe Gas Plant and $26.5 million (7%) on the fabrication of the major components of Phase VI of the Pouce Coupe Gas Plant.

Included in net capital expenditures for the Reporting Periods was total consideration of $94.1 million from the sale of the Worsley Assets, after closing adjustments and other costs.

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

CAPITAL RESOURCES AND LIQUIDITY

Liquidity and Capital Resources

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

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

($000s)	Three months ended September 30, 2017	2016	Nine months ended September 30, 2017	2016
Funds flow from operations	64,430	41,675	220,672	75,637
Changes in non-cash working capital from operations	6,484	(19,261)	(21,306)	(24,834)
Decommissioning expenditures	(330)	(270)	(701)	(863)
Exercise of stock options	1,303	1,537	9,323	1,537
Issue of common shares	-	690,750	-	690,750
Share issue costs	-	(27,565)	-	(27,581)
Financing fees paid on credit facilities	-	(795)	(2,375)	(795)
Dividends paid on common shares	(6,635)	-	(19,874)	-
Dividends paid on preferred shares	(1,875)	(1,875)	(5,625)	(5,625)
Net change in revolving term credit facilities	(43,405)	(74,398)	14,300	12,729
Deposit on acquisition	-	(1,206)	-	(1,206)
Changes in non-cash working capital from investing	2,163	(8,852)	73,007	(20,212)
Capital resources	**22,135**	**599,740**	**267,421**	**699,537**

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

As of September 30, 2017, Birchcliff has hedged approximately 48% of its fourth quarter 2017 forecast natural gas production at $3.05/GJ to help protect its funds flow from operations and capital expenditure programs. As a result of Birchcliff's market diversification on the Dawn and Alliance system markets, approximately 65% of its forecast 2017 fourth quarter average production volumes being sold at AECO are hedged. Birchcliff also has financial swaps for 1,500 bbls/d of crude oil at an average price of CDN$69.90/bbl for 2017. See "*Outlook*" and *"Commodity Price Risk Management"* in this MD&A for further details.

On August 31, 2017, the Corporation completed the disposition of the Worsley Assets for total consideration of approximately $100 million, before closing adjustments and other costs. See *"Discussion of Operations – Loss on Sale of Assets"*. On October 2, 2017, the Corporation completed the sale of certain petroleum and natural gas properties and related assets and interests in Alberta for cash consideration of $31.7 million, before closing adjustments. See *"Subsequent Events"*. The proceeds from these asset sales were applied to initially reduce Birchcliff's indebtedness under the Credit Facilities (with no impact to the borrowing base limits), which may be subsequently redrawn as needed to fund Birchcliff's on-going capital expenditure program and for general corporate purposes. This is expected to improve the Corporation's balance sheet and increase its financial flexibility.

In May 2017, Birchcliff's syndicate of lenders completed its semi-annual review of the Corporation's borrowing base limit under the Corporation's Credit Facilities. In connection with such review, the Corporation and the lenders agreed to an extension of the maturity dates from May 11, 2018 to May 11, 2020 and to the borrowing base remaining unchanged at $950 million. The November semi-annual review of Birchcliff's borrowing base is currently underway and is expected to be completed on or about November 15, 2017. The Corporation anticipates that its borrowing base limit will remain at $950 million upon the completion of such review.

Management believes that its funds flow from operations and, if needed, available credit under the Credit Facilities will be sufficient to fund the Corporation's planned capital expenditures for the remainder of 2017 and to meet its current and future working capital requirements for the remainder of 2017 and during 2018. Should commodity prices deteriorate materially, Birchcliff may adjust its on-going capital program and accordingly, seek additional equity financing and/or consider the potential sale of additional non-core assets to fund planned growth. See *"Advisories".*

Working Capital

The Corporation's adjusted working capital deficit increased to $81.5 million at September 30, 2017 from a $27.5 million deficit at December 31, 2016. This increase is primarily a result of increased capital spending during the Reporting Periods. The deficit at September 30, 2017 is largely comprised of costs incurred on the drilling and completion of new wells in Pouce Coupe and Gordondale and the completion of Phase V of the Pouce Coupe Gas Plant during the Reporting Periods.

At September 30, 2017, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of September 2017 production (59%), which was subsequently received in October 2017. In contrast, current liabilities largely consisted of trade payables (78%) and accrued capital and operating costs (21%). Birchcliff routinely assesses the financial strength of its marketers. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations.

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

Bank Debt

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

As of September 30, 2017, the Credit Facilities are comprised of: (i) an extendible revolving syndicated term credit facility of $900 million (the "**Syndicated Credit Facility**"); and (ii) an extendible revolving working capital credit facility of $50 million (the "**Working Capital Facility**"). The Corporation may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made. In May 2017, Birchcliff's syndicate of lenders completed its semi-annual review of the borrowing base limit and consented to an extension of the maturity dates of the Syndicated Credit Facility and Working Capital Facility from May 11, 2018 to May 11, 2020 and to the borrowing base remaining unchanged at $950 million.

Total debt, including the adjusted working capital deficit, was $666.8 million at September 30, 2017 as compared to $600.0 million at December 31, 2016. A significant portion of the funds drawn under the Credit Facilities in the Reporting Periods was used to pay costs relating to the drilling and completion of horizontal wells in Pouce Coupe and Gordondale, including related facilities and infrastructure. Total debt was reduced by cash proceeds from the sale of the Worsley Assets totaling $90 million, before closing adjustments and other costs.

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

As at, *($000s)*	**September 30, 2017**	**December 31, 2016**
Maximum borrowing base limit:		
Revolving term credit facilities	950,000	950,000
Principal amount utilized:		
Drawn revolving term credit facilities(1)	(595,377)	(580,770)
Outstanding letters of credit(2)	(12,184)	(12,310)
	(607,561)	(593,080)
Unused credit	**342,439**	**356,920**
% unused credit	**36%**	**38%**

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

(2) Letters of credit are issued to various service providers. The letters of credit reduce the amount available under the Working Capital Facility from $50 million to approximately $37 million. There were no amounts drawn on the letters of credit during the periods ended September 30, 2017 and December 31, 2016.

Contractual Obligations & Commitments

The Corporation enters into various contractual obligations and commitments in the normal course of operations. The following table lists Birchcliff's estimated material contractual obligations and commitments at September 30, 2017:

($000s)	**2017**	**2018**	**2019 - 2021**	**Thereafter**
Accounts payable and accrued liabilities	137,551	-	-	-
Drawn revolving term credit facilities	-	-	595,377	-
Operating leases(1)	583	4,117	13,625	29,317
Capital commitments(2)	253	16,197	-	-
Firm transportation, processing and fractionation(3)	32,647	137,302	450,040	538,992
Estimated contractual obligations(4)	**171,034**	**157,616**	**1,059,042**	**568,309**

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

(2) Includes drilling commitments and facility spending commitments relating to the Phase VI expansion of the Pouce Coupe Gas Plant.

(3) Includes the impacts from firm service transportation agreements on TCPL's Canadian Mainline to the Southern Ontario Dawn trading hub. TCPL received approval from the National Energy Board for service on the Canadian Mainline on September 21, 2017. The Corporation has negotiated firm service for a 10-year period commencing in November 2017. The first tranche of this service (120,000 GJ/d) became available on November 1, 2017. See *"Outlook"* in this MD&A.

(4) Contractual obligations and commitments that are not material to Birchcliff are excluded from the above table. The Corporation's decommissioning obligations are excluded from the table as these obligations arose from a regulatory requirement rather than from a contractual arrangement. Birchcliff estimates the total undiscounted cash flow to settle its decommissioning obligations on its wells and facilities at September 30, 2017 to be approximately $272 million and will be incurred as follows: 2017 - $1.8 million, 2018 - $2.0 million and $268.2 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 September 30, 2020, have not been included in this table as they are not contractual obligations of the Corporation at the end of the Reporting Period. Upon receipt of a notice of redemption, the Corporation has an obligation to redeem the Series C Preferred Shares, at its option, for cash or common shares.

OFF-BALANCE SHEET TRANSACTIONS

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

OUTSTANDING SHARE INFORMATION

At September 30, 2017, Birchcliff had common shares, Series A Preferred Shares and Series C Preferred Shares that were outstanding. Birchcliff's common shares are listed on the TSX under the symbol "**BIR**" and are included in the S&P/TSX Composite Index. Birchcliff's Series A Preferred Shares and Series C Preferred Shares are individually listed on the TSX under the symbols "**BIR.PR.A**" and "**BIR.PR.C**", respectively.

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

	Common Shares
Balance at December 31, 2016	**264,041,902**
Exercise of options	1,746,796
Balance at September 30, 2017	**265,788,698**

At November 8, 2017, the Corporation had the following securities outstanding: 265,788,698 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 14,378,009 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 5, 2017, the Board of Directors declared a quarterly cash dividend of $6.6 million or $0.025 per common share for the calendar quarter ending September 30, 2017. This dividend was payable on October 2, 2017 to shareholders of record on September 15, 2017.

On September 5, 2017, 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, 2017. These dividends was payable on October 2, 2017 to shareholders of record on September 15, 2017.

On September 30, 2017, the annual fixed dividend rate for the Series A Preferred Shares was reset to 8.374%. Subject to the terms and conditions of the Series A Preferred Shares and Birchcliff's right to redeem such shares, the dividend rate will reset on September 30, 2022 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield plus 6.83%.

All of the dividends have been designated as "eligible dividends" for the purposes of the *Income Tax Act* (Canada).

SUMMARY OF QUARTERLY RESULTS

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

Quarter ending,	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015
Average daily production *(boe)*	65,276	64,636	61,662	60,750	54,538	39,513	41,958	40,445
Realized natural gas sales price *($/Mcf)*[(1)]	2.11	3.13	3.06	3.31	2.53	1.48	1.99	2.67
Realized oil sales price *($/bbl)*[(1)]	55.62	60.38	62.59	60.75	52.12	51.20	36.93	49.36
Total revenues *($000s)*[(1)]	111,488	146,597	132,708	135,457	97,365	47,261	57,503	75,476
Operating costs *($/boe)*	4.27	4.67	5.22	4.54	4.65	3.45	3.71	4.16
Capital expenditures, net *($000s)*	12,136	120,782	124,538	62,482	599,715	4,722	63,860	33,533
Cash flow from operating activities *($000s)*	70,584	57,467	70,614	90,574	22,144	7,049	20,747	44,786
Funds flow from operations *($000s)*	64,430	88,612	67,630	71,806	41,675	13,267	20,695	33,697
Per common share – basic *($)*	0.24	0.33	0.26	0.27	0.18	0.09	0.14	0.22
Per common share – diluted *($)*	0.24	0.33	0.25	0.27	0.18	0.09	0.13	0.22
Net income (loss) *($000s)*	(120,743)	18,015	29,928	12,085	(1,064)	(23,321)	(12,035)	(9,322)
Net income (loss) to common shareholders *($000s)*[(2)]	(121,743)	17,015	28,928	11,085	(2,064)	(24,321)	(13,035)	(10,322)
Per common share – basic *($)*	(0.46)	0.06	0.11	0.04	(0.01)	(0.16)	(0.09)	(0.07)
Per common share – diluted *($)*	(0.46)	0.06	0.11	0.04	(0.01)	(0.16)	(0.09)	(0.07)
Total assets *($ million)*	2,615	2,871	2,797	2,710	2,704	2,059	2,053	2,025
Long-term bank debt *($000s)*	585,323	628,401	578,954	572,517	634,534	709,510	647,359	622,074
Total debt *($000s)*	666,808	700,484	664,352	600,012	612,080	715,651	690,138	643,612
Dividends on common shares *($000s)*[(3)]	6,635	6,635	6,604	-	-	-	-	-
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	265,789	265,417	264,442	264,042	263,065	152,308	152,308	152,308
Diluted	283,106	284,461	284,160	279,881	279,826	169,089	169,239	167,817
Wtd. average common shares outstanding *(000s)*								
Basic	265,490	265,326	264,099	263,396	229,287	152,308	152,308	152,308
Diluted	267,988	268,203	268,077	268,974	234,295	154,279	153,418	153,627

(1) Excludes the effects of financial hedges using financial instruments but includes the effects of fixed price physical delivery contracts.

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

(3) Birchcliff paid its first common share dividend in the first quarter of 2017.

Average daily production volumes in the last five quarters has increased largely due to incremental production volumes from both the assets acquired in Gordondale and new horizontal wells brought on-stream in Pouce Coupe and Gordondale, partially offset by natural production declines from those wells.

Quarterly variances in revenues, funds flow from operations and net income are primarily due to fluctuations in commodity prices and production volumes. Oil and gas revenues and funds flow from operations in the last five quarters were largely impacted by incremental production from the assets acquired in Gordondale in the third quarter of 2016 and, except for the three month Reporting Period, higher average realized commodity prices. Birchcliff had net income in the three quarters preceding the three month Reporting Period primarily in response to increases in funds flow from operations. Birchcliff recorded a net loss in the three month Reporting Period primarily as a result of the after-tax book loss of $132.3 million from the sale of the Worsley Assets (see *"Net Loss to Common Shareholders"* in this MD&A). Net income or loss in the last eight quarters was also impacted by certain non-cash adjustments including depletion expense, non-recurring tax expenses, unrealized gains and losses on commodity price risk management contracts and gains and losses on the sale of assets recognized in the period.

In general, capital expenditures have fluctuated over the past eight quarters primarily as a result of the timing of the Corporation's development capital expenditures. Capital expenditures are also impacted by commodity prices and market conditions, as well as the timing of acquisitions and dispositions. In the third quarter of 2016, Birchcliff completed the acquisition of the assets in Gordondale for $613.5 million which significantly increased net capital expenditures in comparison to the other quarters. In the three month Reporting Period, Birchcliff disposed of the Worsley Assets for total consideration of $100 million, before closing adjustments and other costs.

Birchcliff paid a common share dividend of $6.6 million or $0.025 per common share in each of the quarters ending March 31, 2017, June 30, 2017 and September 30, 2017.

In connection with the acquisition of the assets in Gordondale, Birchcliff issued a total of 110,520,000 common shares in the third quarter of 2016 which increased both the number of common shares and the weighted average common shares outstanding at the end of the period compared to the previous quarters.

Quarterly variances in long-term debt and total debt are primarily due to fluctuations in funds flow from operations, the amount and timing of capital expenditures (including acquisitions and dispositions) and the timing of proceeds received from equity financings in a period. The fluctuations in long-term debt and total debt in the last four quarters have been primarily impacted by the net proceeds from the equity financings in the third quarter of 2016 (after the payment of the balance of the purchase price for the assets in Gordondale) and the proceeds from the sale of the Worsley Assets which were used to reduce indebtedness under the Credit Facilities, partially offset by increased capital spending in excess of funds flow from operations during the twelve months ended September 30, 2017.

POTENTIAL TRANSACTIONS

Within its focus area, the Corporation is continually reviewing potential asset 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 asset acquisitions and dispositions and corporate merger and acquisition opportunities.

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, 2017 and ending on September 30, 2017 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 Period is discussed in Note 3 of the annual audited financial statements for the year ended December 31, 2016.

NEW ACCOUNTING POLICIES

In connection with the closing of the Worsley Assets, the Corporation received on August 31, 2017 securities consisting of 4,500,000 common A units in a limited partnership affiliated with the purchaser and 10,000,000 preferred units in a trust affiliated with the purchaser (collectively, the “**Securities**”) at a combined value of $10 million. See Note 5 to the Corporation's financial statements for the Reporting Periods for additional information on the Securities.

The Securities are considered a financial instrument and have been categorized as available for sale which requires the Securities to be fair valued at the end of each reporting period with any gains or losses recognized in other comprehensive income. In the event of disposal or impairment the cumulative fair value changes recognized in other comprehensive income are reclassified to profit or loss. Distributions declared are recorded to profit or loss and presented as an operating activity on the statement of cash flow.

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, 2016. The Corporation continues to assess the impact of the standards on the financial statements.

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 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, 2016 and *"Risk Factors"* in the Annual Information Form for the year ended December 31, 2016.

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
Mcf	thousand cubic feet
Mcfe	thousand cubic feet of gas equivalent
MMbtu	million British thermal units
MMcf	million cubic feet
MMcf/d	million cubic feet per day
NGLs	natural gas liquids
NGTL	NOVA Gas Transmission Ltd.
P&NG	petroleum and natural gas
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 MD&A uses "funds flow from operations", "funds flow per common share", "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 from operations" denotes 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 from operations divided by the basic or diluted weighted average number of common shares outstanding for the period. Management believes that 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 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)	**2017**	**2016**	**2017**	**2016**
Cash flow from operating activities	70,584	22,144	198,665	49,940
Adjustments:				
Decommissioning expenditures	330	270	701	863
Change in non-cash working capital	(6,484)	19,261	21,306	24,834
Funds flow from operations	**64,430**	**41,675**	**220,672**	**75,637**

"Operating netback" denotes petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. "Estimated operating netback" of the Pouce Coupe Gas Plant (and the components thereof) is based upon certain cost allocations and accruals directly attributable to the Pouce Coupe Gas Plant and related wells and infrastructure. All netbacks are calculated on a per unit basis, unless otherwise indicated. Management believes that operating netback and estimated operating netback assist management and investors in assessing Birchcliff's profitability and its operating results on a per unit basis to better analyze its performance against prior periods on a comparable basis. The following table provides a breakdown of operating netback:

	Three months ended September 30,				Nine months ended September 30,			
	2017		**2016**		**2017**		**2016**	
	($000s)	*($/boe)*[(1)]	*($000s)*	*($/boe)*[(1)]	*($000s)*	*($/boe)*[(1)]	*($000s)*	*($/boe)*[(1)]
Petroleum and natural gas revenue	111,488	18.56	97,365	19.41	390,793	22.41	202,129	16.26
Royalty expense	(3,779)	(0.63)	(7,298)	(1.45)	(19,456)	(1.12)	(10,734)	(0.86)
Operating expense	(25,623)	(4.27)	(23,311)	(4.65)	(82,026)	(4.70)	(49,866)	(4.01)
Transportation and marketing expense	(15,960)	(2.65)	(12,501)	(2.50)	(45,341)	(2.60)	(29,500)	(2.38)
Operating netback	**66,126**	**11.01**	**54,255**	**10.81**	**243,970**	**13.99**	**112,029**	**9.01**

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

"Operating margin" for the Pouce Coupe 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 Pouce Coupe 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 unit 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 any financial instruments and excluding assets held for sale including associated liabilities. Management believes that adjusted working capital deficit (surplus) assists management and investors in assessing Birchcliff's liquidity. The following table reconciles working capital deficit (current assets minus current liabilities), as determined in accordance with IFRS, to adjusted working capital deficit (surplus):

As at, *($000s)*	**September 30, 2017**	**December 31, 2016**	**September 30, 2016**
Working capital deficit (surplus)	53,566	36,928	(22,623)
Fair value of financial instruments	9,666	(9,433)	169
Assets held for sale including associated liabilities	18,253	-	-
Adjusted working capital deficit (surplus)	**81,485**	**27,495**	**(22,454)**

"Total debt" is calculated as the revolving term credit facilities plus adjusted working capital deficit or less adjusted working capital surplus, as the case may be. 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, 2017**	**December 31, 2016**	**September 30, 2016**
Revolving term credit facilities	585,323	572,517	634,534
Adjusted working capital deficit (surplus)	81,485	27,495	(22,454)
Total debt	**666,808**	**600,012**	**612,080**

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 and Mcfe Conversions

Boe amounts have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil and Mcfe amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. Boe and Mcfe amounts may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl and an Mcfe conversion ratio of 1 bbl: 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.

Oil and Gas Metrics

This MD&A contains metrics commonly used in the oil and natural gas industry, including "operating netback". These oil and gas metrics do not have any standardized meanings or standard methods of calculation and therefore may not be comparable to similar measures presented by other companies where similar terminology is used 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 Birchcliff's future performance and future performance may not compare to Birchcliff's performance in previous periods and therefore such metrics should not be unduly relied upon. For information on how operating netback is calculated, please see *"Non-GAAP Measures".*

Capital Expenditures

Unless otherwise stated, references in this MD&A to "net capital expenditures" and "capital expenditures, net" denote finding and development costs plus administrative costs plus acquisition capital, less any dispositions.

Birchcliff's guidance regarding its 2017 capital expenditures has been presented both on a total and a net basis (net of acquisitions and dispositions). Certain dispositions that have been completed at the date of this MD&A have been accounted for in Birchcliff's estimate of net capital expenditures. Birchcliff makes acquisitions and dispositions in the ordinary course of business. Any further acquisitions and dispositions completed during 2017 could have an impact on Birchcliff's capital expenditures, production and funds flow from operations for 2017, which impact could be material. In addition, Birchcliff's estimate of its 2017 net capital expenditures is subject to change if any unplanned acquisition and disposition activity is carried out during 2017. See also *"Advisories – Forward-Looking Information"* below.

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", "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 financial performance, operations, focus, objectives, strategies, opportunities, priorities and goals; Birchcliff's production guidance (including its estimates of its annual average and fourth quarter average production and commodity mix in 2017); Birchcliff's guidance regarding its 2017 Capital Program and its proposed exploration and development activities and the timing thereof (including estimates of total and net capital expenditures in 2017, the number of wells to be drilled and brought on production and Birchcliff's expectation that the entirety of the 2017 Capital Program will be fully funded out of Birchcliff's forecast funds flow from operations for 2017 and the proceeds from the asset sales completed during 2017); proposed expansions of the Pouce Coupe Gas Plant (including the anticipated processing capacities of the Pouce Coupe Gas Plant after such expansions and the anticipated commitments for such expansions and the timing thereof); the performance characteristics of Birchcliff's oil and natural gas properties and expected results from its assets; Birchcliff's marketing and transportation arrangements (including its expectation that approximately 73% of its forecast natural gas production for the fourth quarter of 2017 will be sold at AECO (of which approximately 65% is hedged), approximately 19% will be sold at the Dawn, Ontario price and approximately 8% will be sold into the Alliance pipeline system and that its Dawn and Alliance arrangements will provide it with access to a more diverse portfolio of natural gas markets and reduce Birchcliff's exposure to prices at AECO); Birchcliff's expectation that its operating costs in the fourth quarter of 2017 will be less than $4.00/boe; statements regarding expected reserves increases at year-end 2017 (including Birchcliff's expectation that it will have material additions to its reserves volumes at year-end 2017); Birchcliff's expectation that in the fourth quarter of 2017 it will recognize an after-tax accounting gain of approximately $9.9 million on the sale of certain assets; Birchcliff's hedging strategy and the use of risk-management techniques (including that its current hedging strategy for 2018 is to hedge up to 50% of its estimated 2018 forecast average production using a combination of financial derivatives and physical delivery sales contracts); the Corporation's estimated income tax pools and management's expectation that future taxable income will be available to utilize the accumulated tax pools; the Corporation's liquidity (including the Corporation's financial flexibility, the sources of funding for the Corporation's activities and capital requirements, that the Corporation generally relies on its funds flow operations and available credit under its existing credit facilities to fund its 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, that the use of proceeds from assets sales completed during 2017 is expected to improve the Corporation's balance sheet and increase its financial flexibility, management's belief that its funds flow from operations and, if needed, available credit under the Credit Facilities will be sufficient to fund the Corporation's planned capital expenditures for the remainder of 2017 and to meet its current and future working capital requirements for the remainder of 2017 and during 2018 and the Corporation's expectation that counterparties will be able to meet their financial obligations); statements regarding the Credit Facilities (including Birchcliff's expectation that its borrowing base will remain at $950 million after the completion of the November semi-annual review); and estimates of contractual and decommissioning obligations.

With respect to forward-looking information contained in this MD&A, assumptions have been made regarding, among other things: Birchcliff's ability to continue to develop its assets and obtain the anticipated benefits therefrom; prevailing and future commodity prices and differentials, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; expected funds flow from operations; Birchcliff's future debt levels; the state of the economy and the exploration and production business; the economic and political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes and environmental laws; the sources of funding for Birchcliff's capital expenditure programs and other activities; anticipated timing and results of capital expenditures; the sufficiency of budgeted capital expenditures to carry out planned operations; 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 or other approvals in a timely manner; the ability of Birchcliff to secure adequate transportation for its products; Birchcliff's ability to market oil and gas; the availability of hedges on terms acceptable to Birchcliff; and abandonment costs and decommissioning obligations.

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

- With respect to 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. In addition, Birchcliff's production may be affected by acquisition and disposition activity and acquisitions and dispositions could occur that may impact expected production.
- With respect to the 2017 Capital Program (including estimates of 2017 capital expenditures and statements that the entirety of the 2017 Capital Program will be fully funded out of Birchcliff's forecast 2017 funds flow from operations and the proceeds from the asset sales completed during 2017), such program is based on the following commodity price and exchange rate assumptions during 2017: an annual average WTI price of approximately US$50.00 per bbl of oil; an average wellhead price for natural gas of approximately CDN$2.75 per Mcf; and an exchange rate of US$/CDN$ of 1.30.
    - With respect to Birchcliff's estimates of capital expenditures, such estimates assume that the 2017 Capital Program will be carried out as currently contemplated. See *"Advisories – Capital Expenditures"*.
    - With respect to statements that the entirety of the 2017 Capital Program will be fully funded out of Birchcliff's forecast 2017 funds flow from operations and the proceeds from the asset sales completed during 2017, such statements assume that: the 2017 Capital Program will be carried out as currently contemplated; the production targets and commodity price assumptions set forth herein are achieved; and Birchcliff's forecast commodity mix is achieved.
    - The amount and allocation of capital expenditures for exploration and development activities by area and the number and types of wells to be drilled is dependent upon results achieved and is subject to review and modification by management on an ongoing basis throughout the year. 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, 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 Pouce Coupe 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.
- 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.

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; 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; an inability to access sufficient capital from internal and external sources; fluctuations in the costs of borrowing; 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; 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; 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; horizontal drilling and completions techniques and the failure of drilling results to meet expectations for reserves or production; uncertainties related to Birchcliff's future potential drilling locations; 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; potential delays or changes in plans with respect to exploration or development projects or capital expenditures, including delays in the completion of Birchcliff's gas plants and other facilities; 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; risks associated with the declaration and payment of dividends, including the discretion of Birchcliff's Board of Directors to declare dividends; the failure to obtain any required approvals in a timely manner or at all; unforeseen difficulties in integrating acquired assets into Birchcliff's operations; variances in Birchcliff's actual capital costs, operating costs and economic returns from those anticipated; negative public perception of the oil and natural gas industry, including transportation, hydraulic fracturing and fossil fuels; management of Birchcliff's growth; and the availability of insurance and the risk that certain losses may not be insured.

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.

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF FINANCIAL POSITION

Unaudited (Expressed in thousands of Canadian dollars)

As at,	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash	7	47
Accounts receivable	51,483	62,572
Prepaid expenses and deposits	4,576	2,001
Financial instruments *(Note 11)*	9,666	-
Assets held for sale *(Note 4)*	18,795	-
	84,527	64,620
Non-current assets:		
Exploration and evaluation *(Note 3)*	53	53
Petroleum and natural gas properties and equipment *(Note 4)*	2,520,099	2,645,784
Investment in securities *(Note 5)*	10,005	-
	2,530,157	2,645,837
Total assets	**2,614,684**	**2,710,457**
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	137,551	92,115
Financial instruments *(Note 11)*	-	9,433
Liabilities associated with assets held for sale *(Note 7)*	542	-
	138,093	101,548
Non-current liabilities:		
Revolving term credit facilities *(Note 6)*	585,323	572,517
Decommissioning obligations *(Note 7)*	93,425	133,470
Deferred income taxes	73,064	99,599
Capital securities	49,148	48,916
	800,960	854,502
Total liabilities	**939,053**	**956,050**
SHAREHOLDERS' EQUITY		
Share capital *(Note 8)*		
Common shares	1,477,715	1,464,567
Preferred shares *(perpetual)*	41,434	41,434
Contributed surplus	67,597	63,847
Retained earnings	88,885	184,559
	1,675,631	1,754,407
Total shareholders' equity and liabilities	**2,614,684**	**2,710,457**

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 LOSS AND COMPREHENSIVE LOSS

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
REVENUE				
Petroleum and natural gas sales	111,488	97,365	390,793	202,129
Royalties	(3,779)	(7,298)	(19,456)	(10,734)
Net revenue from oil and natural gas sales	107,709	90,067	371,337	191,395
Realized gain on financial instruments *(Note 11)*	10,103	853	14,998	936
Unrealized gain (loss) on financial instruments *(Note 11)*	(2,164)	45	19,099	169
	115,648	90,965	405,434	192,500
EXPENSES				
Operating	25,623	23,311	82,026	49,866
Transportation and marketing	15,960	12,501	45,341	29,500
Administrative, net	6,255	5,989	20,119	16,644
Depletion and depreciation *(Note 4)*	42,006	40,566	127,746	106,185
Finance	8,070	8,961	24,813	24,975
Dividends on capital securities *(Note 8)*	875	875	2,625	2,625
(Gain) loss on sale of assets *(Note 4)*	181,298	(468)	199,848	10,434
	280,087	91,735	502,518	240,229
Net loss before taxes	(164,439)	(770)	(97,084)	(47,729)
Income tax recovery (expense)	43,696	(294)	24,284	11,309
NET LOSS AND COMPREHENSIVE LOSS	**(120,743)**	**(1,064)**	**(72,800)**	**(36,420)**
Net loss per common share *(Note 8)*				
Basic	($0.46)	($0.01)	($0.29)	($0.22)
Diluted	($0.46)	($0.01)	($0.29)	($0.22)

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, 2015	783,481	41,434	60,625	212,894	1,098,434
Issue of common shares *(Note 8)*	690,750	-	-	-	690,750
Share issue costs, net of tax *(Note 8)*	(20,134)	-	-	-	(20,134)
Dividends on perpetual preferred shares *(Note 8)*	-	-	-	(3,000)	(3,000)
Exercise of stock options *(Note 9)*	2,074	-	(537)	-	1,537
Stock-based compensation *(Note 9)*	-	-	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
As at December 31, 2016	1,464,567	41,434	63,847	184,559	1,754,407
Dividends on common shares *(Note 8)*	-	-	-	(19,874)	(19,874)
Dividends on perpetual preferred shares *(Note 8)*	-	-	-	(3,000)	(3,000)
Exercise of stock options *(Note 9)*	13,148	-	(3,825)	-	9,323
Stock-based compensation *(Note 9)*	-	-	7,575	-	7,575
Net loss and comprehensive loss	-	-	-	(72,800)	(72,800)
As at September 30, 2017	**1,477,715**	**41,434**	**67,597**	**88,885**	**1,675,631**

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,	
	2017	**2016**	**2017**	**2016**
Cash provided by (used in):				
OPERATING				
Net loss and comprehensive loss	(120,743)	(1,064)	(72,800)	(36,420)
Adjustments for items not affecting operating cash:				
Unrealized (gain) loss on financial instruments	2,164	(45)	(19,099)	(169)
Depletion and depreciation	42,006	40,566	127,746	106,185
Stock-based compensation	1,341	625	3,066	1,799
Finance	8,070	8,961	24,813	24,975
(Gain) loss on sale of assets	181,298	(468)	199,848	10,434
Income taxes expense (recovery)	(43,696)	294	(24,284)	(11,309)
Interest paid	(6,885)	(8,069)	(21,243)	(22,483)
Dividends on capital securities	875	875	2,625	2,625
Decommissioning expenditures	(330)	(270)	(701)	(863)
Changes in non-cash working capital	6,484	(19,261)	(21,306)	(24,834)
	70,584	22,144	198,665	49,940
FINANCING				
Exercise of stock options	1,303	1,537	9,323	1,537
Issue of common shares	-	690,750	-	690,750
Share issue costs	-	(27,565)	-	(27,581)
Financing fees paid on credit facilities	-	(795)	(2,375)	(795)
Dividends on common shares	(6,635)	-	(19,874)	-
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 revolving term credit facilities	(43,405)	(74,398)	14,300	12,729
	(50,612)	587,654	(4,251)	671,015
INVESTING				
Petroleum and natural gas properties *(Note 4)*	(106,233)	(19,156)	(367,046)	(106,464)
Acquisition of petroleum and natural gas properties and equipment	(18)	(582,263)	(941)	(613,521)
Sale of petroleum and natural gas properties and equipment *(Note 4)*	84,110	500	100,526	19,248
Exploration and evaluation assets	-	(2)	-	(16)
Changes in non-cash working capital	2,163	(8,852)	73,007	(20,212)
	(19,978)	(609,773)	(194,454)	(720,965)
Net change in cash	(6)	25	(40)	(10)
Cash, beginning of period	13	22	47	57
CASH, END OF PERIOD	**7**	**47**	**7**	**47**

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, 2017

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 – 3rd 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 8, 2017.

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, 2017, including the 2016 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, 2016, except as described below. 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, 2016.

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, 2015	247
Additions	46
Lease expiries	(240)
As at December 31, 2016 and September 30, 2017	**53**

(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 2017 and 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, 2015	2,588,350	10,969	2,599,319
Additions	190,546	2,981	193,527
Acquisitions	634,345	-	634,345
Dispositions	(37,005)	-	(37,005)
As at December 31, 2016	3,376,236	13,950	3,390,186
Additions	374,261	1,350	375,611
Acquisitions	941	-	941
Dispositions[1]	(523,653)	-	(523,653)
Transfer to assets held for sale[2]	(46,225)	-	(46,225)
As at September 30, 2017[3]	3,181,560	15,300	3,196,860
Accumulated depletion and depreciation:			
As at December 31, 2015	(592,590)	(7,649)	(600,239)
Depletion and depreciation expense	(147,837)	(1,532)	(149,369)
Dispositions	5,206	-	5,206
As at December 31, 2016	(735,221)	(9,181)	(744,402)
Depletion and depreciation expense	(126,377)	(1,369)	(127,746)
Disposition[1]	167,957	-	167,957
Transfer to assets held for sale[2]	27,430	-	27,430
As at September 30, 2017	(666,211)	(10,550)	(676,761)
Net book value:			
As at December 31, 2016	2,641,015	4,769	2,645,784
As at September 30, 2017[4]	**2,515,349**	**4,750**	**2,520,099**

(1) Consists largely of an asset disposition of the Worsley Charlie Lake Light Oil Pool (the "**Worsley Disposition**") situated in Alberta with a net book value of $321.1 million for total consideration of $100 million before closing adjustment and other costs, consisting of: (i) cash consideration of $90 million and (ii) securities of affiliates of the purchaser with a total value of $10 million (note 5). The Worsley Disposition closed on August 31, 2017.

(2) See *"Assets Held for Sale"* discussion below.

(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 at September 30, 2017.

Assets Held for Sale

Subsequent to September 30, 2017, the Corporation disposed of certain petroleum and natural gas properties and equipment in Alberta (the "**Assets**") for cash consideration of $31.7 million, before closing adjustments. As of September 30, 2017, the Corporation had negotiated the terms and executed a definitive sales agreement, was committed to the disposal of the Assets, which was considered highly probable of occurring and the Assets were available for immediate sale in their present condition. As these Assets were considered held for sale, their net book value of $18.8 million and associated decommissioning obligations of $0.5 million (note 7) were reclassified on the statement of financial position to "held for sale". Immediately prior to reclassifying the Assets as held for sale, Birchcliff conducted a review of the Assets' recoverable amount and determined no impairment was required. The transaction closed on October 2, 2017.

5. INVESTMENT IN SECURITIES

In connection with the closing of the Worsley Disposition (note 4), the Corporation received on August 31, 2017 (the "**Issuance Date**") securities consisting of 4,500,000 common A units (the "**Common A LP Units**") in a limited partnership (the "**Limited Partnership**") affiliated with the purchaser and 10,000,000 preferred units (the "**Preferred Trust Units**") in a trust (the "**Trust**") affiliated with the purchaser (collectively, the "**Securities**") at a combined value of $10 million. The Securities acquired are not publicly listed and do not constitute significant investments of the Corporation.

The Securities have limited voting rights and, in the case of the Common A LP units, no redemption rights and limited participation rights in the event of the liquidation, dissolution or wind-up of the Limited Partnership. Holders of the Securities are entitled to, if and when declared, non-cumulative, quarterly distributions for each three month period ending March 31, June 30, September 30 and December 31. The Preferred Trust Units are redeemable on demand by Birchcliff. For each Preferred Trust Unit redeemed by Birchcliff within the first five years of the Issuance Date, the redemption price will be equal to the lesser of (i) 90% of the fair market value of each redeemed Preferred Trust Unit at the date the redemption and (ii) $0.90 per redeemed Preferred Trust Unit. For each Preferred Trust Unit redeemed on a date that is later than five years from the Issuance Date, being after August 31, 2022 (the "**Fifth Anniversary Date**"), the redemption price will be equal to the lesser of (i) the fair market value of each redeemed Preferred Trust Unit at the date the redemption and (ii) $1.00 per redeemed Preferred Trust Unit.

Payment of the redemption price by the Trust is limited to a maximum cash amount of $10,000 per month (or a greater amount, if the trustees of the Trust so decide) and any portion of the redemption price in excess of such cash amount (the "**Balance**") will be repaid through the Trust's issuance of a redemption note or an *in specie* distribution of the Trust's property. If the Preferred Trust Units are redeemed by Birchcliff before the Fifth Anniversary Date, the Balance is paid by the Trust through the issuance of redemption notes due and payable prior to the sixth anniversary of the Issuance Date, being August 31, 2023. If the Preferred Trust Units are redeemed by Birchcliff after the Fifth Anniversary Date, the Balance is paid by the Trust through the issuance of redemption notes due and payable within less than a year of the date the redemption notes are issued.

The Securities are considered a financial instrument and have been categorized as available for sale which requires the Securities to be fair valued at the end of each reporting period with any gains or losses recognized in other comprehensive income. In the event of disposal or impairment the cumulative fair value changes recognized in other comprehensive income are reclassified to profit or loss. Distributions declared are recorded to profit or loss and presented as an operating activity on the statement of cash flow. The Securities had a fair value of $10 million as of September 30, 2017. There were no distributions declared on the Securities during the three months ended September 30, 2017.

6. REVOLVING TERM CREDIT FACILITIES

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

As at, *($000s)*	**September 30, 2017**	**December 31, 2016**
Syndicated credit facility	565,000	569,000
Working capital facility	30,377	11,770
Drawn revolving term credit facilities	595,377	580,770
Unamortized prepaid interest on bankers' acceptances	(6,924)	(6,621)
Unamortized deferred financing fees	(3,130)	(1,632)
Revolving term credit facilities	**585,323**	**572,517**

At September 30, 2017, the Corporation's credit facilities consisted of extendible revolving credit facilities in the aggregate principal amount of $950 million with maturity dates of May 11, 2020 (the "**Credit Facilities**"). The Credit Facilities are comprised of: (i) an extendible revolving syndicated term credit facility of $900 million (the "**Syndicated Credit Facility**"); and (ii) an extendible revolving working capital facility of $50 million (the "**Working Capital Facility**").

In May 2017, Birchcliff's syndicate of lenders completed its semi-annual review of the Corporation's borrowing base limit under its credit facilities. In connection with such review, the Corporation and the lenders agreed to an extension of the maturity dates from May 11, 2018 to May 11, 2020 and to the borrowing base remaining unchanged at $950 million.

The Credit Facilities allow for prime rate loans, 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. 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 maintenance covenants.

7. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is set forth below:

As at, *($000s)*	**September 30, 2017**	**December 31, 2016**
Balance, beginning	133,470	92,504
Obligations incurred	3,785	2,772
Obligations acquired	269	20,072
Obligations divested(1)	(45,316)	(1,579)
Change in discount rate on acquisition	-	22,599
Changes in estimated future cash flows	-	(4,102)
Accretion expense	2,460	2,547
Actual expenditures	(701)	(1,343)
Transferred to current liabilities associated with assets held for sale *(note 4)*	(542)	-
Balance, ending(2)	**93,425**	**133,470**

(1) Primarily relates to the disposition of wells and facilities associated with the Worsley Disposition (note 4).

(2) Birchcliff applied a risk-free rate of 2.36% and an inflation rate of 2.0% to calculate the discounted fair value of its decommissioning liabilities as at September 30, 2017 and December 31, 2016.

8. 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, 2017**	**December 31, 2016**
Common Shares:		
Outstanding at beginning of period	264,042	152,308
Issue of common shares	-	110,525
Exercise of stock options	1,747	1,209
Outstanding at end of period	265,789	264,042
Series A Preferred Shares (perpetual):		
Outstanding at beginning of period	2,000	2,000
Outstanding at end of period	2,000	2,000

Capital Securities

The Corporation has outstanding 2,000,000 Series C Preferred Shares at September 30, 2017 (December 31, 2016 – 2,000,000).

Dividends

On September 5, 2017, the Board of Directors declared a quarterly cash dividend of $6.6 million or $0.025 per common share for the calendar quarter ending September 30, 2017. This dividend was payable to shareholders of record on September 15, 2017.

On September 5, 2017, 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, 2017. These dividends were payable to shareholders of record on September 15, 2017.

On September 30, 2017, the annual fixed dividend rate for the Series A Preferred Shares was reset to 8.374%. Subject to the terms and conditions of the Series A Preferred Shares and Birchcliff's right to redeem such shares, the dividend rate will reset on September 30, 2022 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield plus 6.83%.

All of the dividends have been designated as "eligible dividends" for the 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,	
	2017	**2016**	**2017**	**2016**
Net loss *($000s)*	(120,743)	(1,064)	(72,800)	(36,420)
Dividends on Series A preferred shares *($000s)*	(1,000)	(1,000)	(3,000)	(3,000)
Net loss to common shareholders *($000s)*	(121,743)	(2,064)	(75,800)	(39,420)
Weighted average common shares *(000s)*:				
Weighted average basic common shares outstanding	265,490	229,287	264,976	178,155
Weighted average diluted common shares outstanding(1)	265,490	229,287	264,976	178,155
Net loss per common share				
Basic	**($0.46)**	**($0.01)**	**($0.29)**	**($0.22)**
Diluted	**($0.46)**	**($0.01)**	**($0.29)**	**($0.22)**

(1) As the Corporation reported a loss for the three and nine month reporting periods, the basic and diluted weighted average shares outstanding are the same for the periods.

9. SHARE-BASED PAYMENTS

Stock Options

At September 30, 2017, the Corporation's Amended and Restated Stock Option Plan (the "**Option Plan**") permitted the grant of options in respect of a maximum of 26,578,870 (September 30, 2016 – 26,306,494) common shares. At September 30, 2017, there remained available for issuance options in respect of 12,200,861 (September 30, 2016 – 12,485,255) common shares. During the three months ended September 30, 2017, the weighted average common share trading price on the Toronto Stock Exchange was $5.96 (September 30, 2016 – $8.62) per common share.

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

	Three months ended September 30, 2017		Nine months ended September 30, 2017	
	Number	Exercise Price ($)[1]	Number	Exercise Price ($)[1]
Outstanding, beginning of period	16,104,576	6.88	12,899,775	6.45
Granted[2]	70,000	6.00	4,730,400	7.75
Exercised	(372,065)	(3.50)	(1,746,796)	(5.34)
Forfeited	(1,376,835)	(7.57)	(1,457,703)	(7.57)
Expired	(47,667)	(6.72)	(47,667)	(6.72)
Outstanding, September 30, 2017	**14,378,009**	**6.90**	**14,378,009**	**6.90**

(1) Determined on a weighted average basis.

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

The weighted average fair value per option granted during the three months ended September 30, 2017 was $2.10 (September 30, 2016 – $3.32). In determining the stock-based compensation expense for options issued during the three months ended September 30, 2017, the Corporation applied a weighted average estimated forfeiture rate of 11% (September 30, 2016 – 12%).

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

Three months ended,	September 30, 2017	September 30, 2016
Risk-free interest rate	1.5%	0.6%
Expected life *(years)*	4.1	4.0
Expected volatility	49.2%	48.9%
Dividend yield	1.7%	-

A summary of the stock options outstanding and exercisable under the Option Plan at September 30, 2017 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	2,620,669	3.35	3.49	834,041	3.31	3.43
6.01	9.00	11,576,340	2.59	7.63	6,200,451	1.35	7.65
9.01	12.00	178,000	2.21	10.00	122,332	1.69	10.22
12.01	12.31	3,000	1.56	12.31	3,000	1.56	12.31
		14,378,009	**2.72**	**6.90**	**7,159,824**	**1.58**	**7.20**

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, 2017 (September 30, 2016 – 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.

10. 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, 2017.

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

As at, ***($000s)***	**September 30, 2017**	**December 31, 2016**
Maximum borrowing base limit[1]:		
Revolving term credit facilities	950,000	950,000
Principal amount utilized:		
Drawn revolving term credit facilities	(595,377)	(580,770)
Outstanding letters of credit[2]	(12,184)	(12,310)
	(607,561)	(593,080)
Unused credit	**342,439**	**356,920**

(1) The Credit Facilities are subject to a semi-annual review of the borrowing base limit, which is directly impacted by the value of Birchcliff's petroleum and natural gas reserves.

(2) Letters of credit are issued to various service providers. The letters 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, 2017.

The capital structure of the Corporation is as follows:

As at, ***($000s)***	**September 30, 2017**	**December 31, 2016**	**% Change**
Shareholders' equity[1]	1,675,631	1,754,407	
Capital securities	49,148	48,916	
Shareholders' equity & capital securities	1,724,779	1,803,323	(4%)
Shareholders' equity & capital securities as a % of total capital[2]	72%	75%	
Working capital deficit[3]	81,485	27,495	
Drawn revolving term credit facilities	595,377	580,770	
Drawn debt	676,862	608,265	11%
Drawn debt as a % of total capital	28%	25%	
Capital	**2,401,641**	**2,411,588**	**(0.4%)**

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

(2) Of the 72%, approximately 67% relates to common capital stock and 5% relates to preferred capital stock.

(3) Working capital is defined as current assets less current liabilities (excluding fair value of financial instruments and assets held for sale including associated liabilities).

11. 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. 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, 2016.

Financial derivative contracts

As of September 30, 2017, 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, 2017, the Corporation had the following financial derivatives in place:

Product	Type of contract	Notional quantity	Term[(1)]	Contract price	Fair value *($000s)*
Natural gas	Financial swap	50,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN $3.05/GJ	5,374
Natural gas	Financial swap	30,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN $3.12/GJ	3,596
Crude oil	Financial swap	1,500 bbls/d	October 1, 2017 – December 31, 2017	WTI CDN 69.90/bbl	696
Fair value assets					**9,666**

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
Realized gain on derivatives	10,103	853	14,998	936
Unrealized gain (loss) on derivatives	(2,164)	45	19,099	169

As of September 30, 2017, if the future strip prices for AECO natural gas had been CDN$0.10/GJ higher, with all other variables held constant, the after-tax net income in the nine months ended September 30, 2017 would have decreased by $0.5 million. As of September 30, 2017, if the future strip prices for WTI crude oil had been CDN$1.00/bbl higher, with all other variables held constant, the after-tax net income in the nine months ended September 30, 2017 would have decreased by $0.1 million.

There were no financial derivative contracts entered into subsequent to September 30, 2017.

Physical delivery 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. At September 30, 2017, the Corporation had the following physical sales contracts in place:

Product	Type of contract	Volume	Term[(1)]	Contract price
Natural gas	Fixed price	20,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN$2.99/GJ
Natural gas	Fixed price	20,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN$2.98/GJ
Natural gas	Fixed price	20,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN$3.00/GJ
Natural gas	Fixed price	10,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN$3.00/GJ
Natural gas	Fixed price	60,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN$3.10/GJ

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

There were no physical delivery sales contracts entered into subsequent to September 30, 2017.

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
F&D	finding and development
GAAP	generally accepted accounting principles
GJ	gigajoule
GJ/d	gigajoules per day
HZ	horizontal
IFRS	International Financial Reporting Standards
m^3	cubic metres
Mcf	thousand cubic feet
Mcfe	thousand cubic feet of gas equivalent
MJ	megajoules
MMbtu	million British thermal units
MMcf	million cubic feet
MMcf/d	million cubic feet per day
NGLs	natural gas liquids
NGTL	NOVA Gas Transmission Ltd.
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 from operations", "funds flow per common share", "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 months ended September 30, 2017.

In addition, this Third Quarter Report uses "funds flow netback" which does not have a standardized meaning 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, unless otherwise indicated. 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. The following table provides a breakdown of funds flow netback:

	Three months ended September 30,				Nine months ended September 30,			
	2017		2016		2017		2016	
	($000s)	($/boe)(1)	($000s)	($/boe)(1)	($000s)	($/boe)(1)	($000s)	($/boe)(1)
Petroleum and natural gas revenue	111,488	18.56	97,365	19.41	390,793	22.41	202,129	16.26
Royalty expense	(3,779)	(0.63)	(7,298)	(1.45)	(19,456)	(1.12)	(10,734)	(0.86)
Operating expense	(25,623)	(4.27)	(23,311)	(4.65)	(82,026)	(4.70)	(49,866)	(4.01)
Transportation and marketing expense	(15,960)	(2.65)	(12,501)	(2.50)	(45,341)	(2.60)	(29,500)	(2.38)
General & administrative expense, net	(4,914)	(0.82)	(5,364)	(1.07)	(17,053)	(0.98)	(14,845)	(1.19)
Interest expense	(6,885)	(1.15)	(8,069)	(1.61)	(21,243)	(1.22)	(22,483)	(1.81)
Realized gain on financial instruments	10,103	1.69	853	0.18	14,998	0.87	936	0.07
Funds flow netback	**64,430**	**10.73**	**41,675**	**8.31**	**220,672**	**12.66**	**75,637**	**6.08**

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

ADVISORIES

UNAUDITED INFORMATION

All financial and operating information contained in this Third Quarter Report for the three and nine months ended September 30, 2017 is 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.

BOE AND MCFE CONVERSIONS

Boe amounts have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil and Mcfe amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. Boe and Mcfe amounts may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl and an Mcfe conversion ratio of 1 bbl: 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.

CONVERSION FROM GJ TO MCF – WELLHEAD PRICE

Birchcliff receives premium pricing for its natural gas production due to its high heat content from its properties. With respect to Birchcliff’s natural gas hedging contracts outstanding as of September 30, 2017, the prices have been presented in both AECO CDN $/GJ and $/Mcf, with the latter representing the average expected natural gas wellhead price under contract. The conversion from GJ to Mcf is based on an expected corporate average natural gas heat content value of 40.8 MJ/m^3 for the period from October 1, 2017 to December 31, 2017.

INITIAL PRODUCTION RATES

Any references in this Third Quarter Report to initial production rates and other short-term production rates are useful in confirming the presence of hydrocarbons; however, such rates are not determinative of the rates at which such wells will continue to produce and decline thereafter and are not indicative of the long-term performance or of the ultimate recovery of such wells.

OIL AND GAS METRICS

This Third Quarter Report contains metrics commonly used in the oil and natural gas industry, including "operating netback" and "funds flow netback". These oil and gas metrics do not have any standardized meanings or standard methods of calculation and therefore may not be comparable to similar measures presented by other companies where similar terminology is used 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 Birchcliff's future performance and future performance may not compare to Birchcliff's 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"*.

CAPITAL EXPENDITURES

Unless otherwise stated, references in this Third Quarter Report to "net capital expenditures" and "capital expenditures, net" denote F&D costs plus administrative costs plus acquisition capital, less any dispositions.

Birchcliff's guidance regarding its 2017 capital expenditures has been presented both on a total and a net basis (net of acquisitions and dispositions). Certain dispositions that have been completed at the date of this Third Quarter Report have been accounted for in Birchcliff's estimate of net capital expenditures. Birchcliff makes acquisitions and dispositions in the ordinary course of business. Any further acquisitions and dispositions completed during 2017 could have an impact on Birchcliff's capital expenditures, production and funds flow from operations for 2017, which impact could be material. In addition, Birchcliff's estimate of its 2017 net capital expenditures is subject to change if any unplanned acquisition and disposition activity is carried out during 2017. See also *"Advisories – Forward-Looking Information"* below.

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", "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 financial performance, operations, focus, objectives, strategies, opportunities, priorities and goals; Birchcliff's production guidance (including its estimates of its annual average and fourth quarter average production and commodity mix in 2017, Birchcliff's expectation that it will have record quarterly average production in the fourth quarter of 2017 and Birchcliff's preliminary guidance for 2018); Birchcliff's guidance regarding its 2017 Capital Program, its preliminary outlook for its capital expenditure plans and spending in 2018 and its proposed exploration and development activities and the timing thereof (including estimates of total and net capital expenditures in 2017, that Birchcliff anticipates spending in the range of $250 million to $450 million during 2018 and that it expects that it will target a capital budget that is driven by funds flow, the focus of and anticipated results from Birchcliff's capital expenditure programs, the number and types of wells to be drilled and brought on production, Birchcliff's science and technology multi-well pad program and Birchcliff's expectation that the entirety of the 2017 Capital Program will be fully funded out of Birchcliff's forecast funds flow from operations for 2017 and the proceeds from the Asset Sales); proposed expansions of the Pouce Coupe Gas Plant (including the anticipated processing capacities of the Pouce Coupe Gas Plant after such expansions, the anticipated timing of such expansions, the anticipated cost of and the capital required for such expansions and the timing thereof and the proposed design capabilities of such expansions); the performance characteristics of Birchcliff's oil and natural gas properties and expected results from its assets; Birchcliff's expectation that it will release on February 14, 2018 its unaudited financial results, reserves and F&D costs for the year ended December 31, 2017, as well as the details regarding its 2018 capital expenditure plans, 2018 guidance and updated five year plan; statements regarding Birchcliff's Credit Facilities (including the timing of semi-annual reviews and Birchcliff's expectation that its borrowing base will remain at $950 million after the completion of the November semi-annual review); Birchcliff's marketing and transportation arrangements (including its expectation that approximately 73% of its forecast natural gas production for the fourth quarter of 2017 will be sold at AECO (of which approximately 65% is hedged), approximately 19% will be sold at the Dawn, Ontario price and approximately 8% will be sold into the Alliance pipeline system and that its Dawn and Alliance arrangements will provide it with access to a more diverse portfolio of natural gas markets and reduce Birchcliff's exposure to prices at AECO); Birchcliff's expectation that its operating costs in the fourth quarter of 2017 will be less than $4.00/boe; statements regarding expected reserves increases at year-end 2017 (including Birchcliff's expectation that it will have material additions to its reserves volumes at year-end 2017); Birchcliff's hedging strategy (including that its current hedging strategy for 2018 is to hedge up to 50% of its estimated 2018 forecast average production using a combination of financial derivatives and physical delivery sales contracts); and statements with respect to the NCIB (including that Birchcliff intends to make an application to the TSX to implement the NCIB). 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, 2017 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 continue to develop its assets and obtain the anticipated benefits therefrom; prevailing and future commodity prices and differentials, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; expected funds flow from operations; Birchcliff's future debt levels; the state of the economy and the exploration and production business; the economic and political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes and environmental laws; the sources of funding for Birchcliff's capital expenditure programs and other activities; anticipated timing and results of capital expenditures; the sufficiency of budgeted capital expenditures to carry out planned operations; 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 or other approvals in a timely manner; the ability of Birchcliff to secure adequate transportation for its products; Birchcliff's ability to market oil and gas; and the availability of hedges on terms acceptable to Birchcliff.

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

- 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. In addition, Birchcliff's production may be affected by acquisition and disposition activity and acquisitions and dispositions could occur that may impact expected production.
- With respect to the 2017 Capital Program (including estimates of 2017 capital expenditures and statements that the entirety of the 2017 Capital Program will be fully funded out of Birchcliff's forecast 2017 funds flow from operations and the proceeds from the Asset Sales), such program is based on the following commodity price and exchange rate assumptions during 2017: an annual average WTI price of approximately US$50.00 per bbl of oil; an average wellhead price for natural gas of approximately CDN$2.75 per Mcf; and an exchange rate of US$/CDN$ of 1.30.
    - With respect to Birchcliff's estimates of capital expenditures, such estimates assume that the 2017 Capital Program will be carried out as currently contemplated. See *"Advisories – Capital Expenditures"*.
    - With respect to statements that the entirety of the 2017 Capital Program will be fully funded out of Birchcliff's forecast 2017 funds flow from operations and the proceeds from the Asset Sales, such statements assume that: the 2017 Capital Program will be carried out as currently contemplated; the production targets and commodity price assumptions set forth herein are achieved; and Birchcliff's forecast commodity mix is achieved.
    - The amount and allocation of capital expenditures for exploration and development activities by area and the number and types of wells to be drilled is dependent upon results achieved and is subject to review and modification by management on an ongoing basis throughout the year. 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, 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 Pouce Coupe Gas Plant, including the anticipated processing capacities of the Pouce Coupe 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 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.

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; 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; an inability to access sufficient capital from internal and external sources; fluctuations in the costs of borrowing; 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; 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; 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; horizontal drilling and completions techniques and the failure of drilling results to meet expectations for reserves or production; uncertainties related to Birchcliff's future potential drilling locations; 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; potential delays or changes in plans with respect to exploration or development projects or capital expenditures, including delays in the completion of Birchcliff's gas plants and other facilities; 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; risks associated with the declaration and payment of dividends, including the discretion of Birchcliff's Board of Directors to declare dividends; the failure to obtain any required approvals in a timely manner or at all; unforeseen difficulties in integrating acquired assets into

Birchcliff's operations; variances in Birchcliff's actual capital costs, operating costs and economic returns from those anticipated; negative public perception of the oil and natural gas industry, including transportation, hydraulic fracturing and fossil fuels; management of Birchcliff's growth; and the availability of insurance and the risk that certain losses may not be insured.

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

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Chris A. Carlsen
Vice-President, Engineering

Bruno P. Geremia
Vice-President & Chief Financial Officer

David M. Humphreys
Vice-President, Operations

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Surface Land Manager

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Jeff Rogers
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Manager of Financial Accounting, Taxation & Insurance

Ryan Sloan
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Theo van der Werken
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McDaniel & Associates Consultants Ltd.
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HSBC Bank Canada

National Bank of Canada

Canadian Imperial Bank of Commerce

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