Growth by the drill bit

QUARTERLY REPORT

2015 Q3

NINE MONTHS ENDED SEPTEMBER 30, 2015

November 11, 2015

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, 2015. We had a solid third quarter in 2015, with strong quarterly average production and record low operating costs. In addition, we returned to generating earnings, despite the fact that we are not hedged, which is a testament to our overall low-cost business.

Production during October 2015 averaged approximately 40,500 boe per day.

We had strong quarterly average production of 38,433 boe per day during the third quarter of 2015. Production consisted of 87% natural gas, 9% light oil and 4% natural gas liquids. Production was 12% above the average production in the third quarter of 2014. Our production during the quarter was adversely impacted by both firm and interruptible transportation service curtailments on TransCanada's NGTL System that occurred on the vast majority of days during the quarter and Birchcliff estimates that these curtailments decreased our quarterly average production by at least 1,300 boe per day.

We had funds flow of $44.6 million ($0.29 per basic common share), a decrease from $45.8 million ($0.30 per basic common share) in the second quarter of 2015 and a decrease from $75.0 million ($0.50 per basic common share) in the third quarter of 2014.

We had net income of $4.8 million, an increase from the net loss of $4.1 million we recorded in the second quarter of 2015 and a decrease from the net income of $29.7 million we recorded in the third quarter of 2014. We recorded net income to common shareholders of $3.8 million ($0.03 per basic common share) in the third quarter of 2015, an increase from the net loss to common shareholders of $5.2 million ($0.03 per basic common share) we recorded in the second quarter of 2015 and a decrease from net income to common shareholders of $28.7 million ($0.19 per basic common share) we recorded in the third quarter of 2014.

Our operating costs were $4.39 per boe, down 3% from the second quarter of 2015 and down 13% from the third quarter of 2014, a continued trend over the last four years.

Our general and administrative expense was $1.19 per boe, down 21% from the second quarter of 2015 and down 17% from the third quarter of 2014.

Our total cash costs were $10.58 per boe, which were unchanged from the second quarter of 2015 and down 19% from the third quarter of 2014. Total cash costs per boe were down 24% for the first nine months of 2015 as compared to the same period in 2014.

Financial and Operational Highlights

	Three months ended September 30,		Nine months ended September 30,	
	2015	**2014**	**2015**	**2014**
OPERATING				
Average daily production				
Light oil – *(barrels)*	3,554	3,957	3,767	3,957
Natural gas – *(thousands of cubic feet)*	199,746	172,675	198,146	162,220
NGLs – *(barrels)*	1,588	1,499	1,655	1,403
Total – barrels of oil equivalent *(6:1)*(1)	**38,433**	34,235	**38,446**	32,396
Average sales price *($ CDN)*(2)				
Light oil – *(per barrel)*	52.91	95.94	55.04	99.30
Natural gas – *(per thousand cubic feet)*	3.12	4.37	2.99	5.07
NGLs – *(per barrel)*	49.42	87.38	51.73	92.73
Total – barrels of oil equivalent *(6:1)*(1)	**23.17**	36.95	**23.03**	41.51
NETBACK AND COST *($ per barrel of oil equivalent at 6:1)*(1)				
Petroleum and natural gas revenue(2)	23.19	36.96	23.04	41.53
Royalty expense	(0.86)	(2.63)	(0.77)	(3.44)
Operating expense	(4.39)	(5.06)	(4.67)	(5.17)
Transportation and marketing expense	(2.44)	(2.41)	(2.50)	(2.45)
Netback(3)	**15.50**	26.86	**15.10**	30.47
General & Administrative expense, net	(1.19)	(1.44)	(1.46)	(1.73)
Interest expense	(1.70)	(1.50)	(1.53)	(1.63)
Realized loss on financial instruments	-	(0.10)	-	(0.11)
Funds flow netback(3)	**12.61**	23.82	**12.11**	27.00
Stock-based compensation expense, net	(0.23)	(0.25)	(0.23)	(0.44)
Depletion and depreciation expense	(9.82)	(10.39)	(10.60)	(11.03)
Accretion expense	(0.16)	(0.20)	(0.16)	(0.21)
Amortization of deferred financing fees	(0.07)	(0.07)	(0.07)	(0.08)
Gain on sale of assets	-	-	0.06	-
Unrealized gain on financial instruments	-	0.13	-	0.02
Dividends on Series C preferred shares	(0.25)	(0.28)	(0.25)	(0.30)
Income tax expense	(0.72)	(3.34)	(1.13)	(3.96)
Net income (loss)	**1.36**	9.42	**(0.27)**	11.00
Dividends on Series A preferred shares	(0.28)	(0.32)	(0.29)	(0.34)
Net income (loss) to common shareholders	**1.08**	9.10	**(0.56)**	10.66
FINANCIAL				
Petroleum and natural gas revenue *($000s)*(2)	82,011	116,424	241,828	367,290
Funds flow from operations *($000s)*(3)	44,587	75,030	127,059	238,781
Per common share – basic *($)*(3)	0.29	0.50	0.83	1.63
Per common share – diluted *($)*(3)	0.29	0.48	0.82	1.58
Net income (loss) *($000s)*	4,815	29,665	(2,838)	97,251
Net income (loss) to common shareholders *($000s)*	3,815	28,665	(5,838)	94,251
Per common share – basic *($)*	0.03	0.19	(0.04)	0.64
Per common share – diluted *($)*	0.02	0.19	(0.04)	0.62
Common shares outstanding *(000s)*				
End of period – basic	152,308	152,154	152,308	152,154
End of period – diluted	168,112	166,190	168,112	166,190
Weighted average common shares for period – basic	152,303	149,594	152,279	146,275
Weighted average common shares for period – diluted	153,916	154,800	154,265	151,561
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)*	50,013	104,363	213,674	341,250
Long-term bank debt *($000s)*	626,839	435,545	626,839	435,545
Working capital deficit *($000s)*	13,912	59,762	13,912	59,762
Total debt *($000s)*(3)	640,751	495,307	640,751	495,307

(1) See *"Advisories"* in this Third Quarter Report.

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

(3) See *"Non-GAAP Measures"* in this Third Quarter Report.

The majority of our Montney/Doig horizontal natural gas wells drilled in 2013, 2014 and 2015 are exhibiting increased production performance as compared to our original internal forecasts. We anticipate that as a result of the strong production performance from our Montney/Doig horizontal natural gas wells drilled in 2013, 2014 and 2015 and the new reserves established by our 2015 drilling program, we will see a material increase in our proved developed producing, total proved and proved plus probable reserves volumes at year end 2015.

As a result of the anticipated increases to our reserves volumes at year end 2015, we expect that our $800 million three-year term revolving credit facility will be increased upon the completion of our annual credit review in May 2016, assuming that commodity prices do not significantly deteriorate from current levels. The credit facility contains no financial covenants providing us with financial flexibility.

We are on budget to meet our $250 million capital expenditure program for 2015. In the second quarter of 2015, we increased our expected average production for the fourth quarter of 2015 by approximately 2,000 boe per day to 41,000 to 42,000 boe per day, while reducing our forecast of total capital expenditures for 2015 to $250 million from $266.7 million and drilling an additional 7 (7.0 net) Montney/Doig horizontal natural gas wells. Our revised capital expenditure program for 2015 contemplates the drilling of a total of 32 (31.5 net) wells.

We have achieved long-term reductions in both our operating and capital costs as a result of the hard work of our people, the advancement of horizontal drilling and completion technologies, the implementation of operating and capital cost reduction initiatives and efficient project execution. In addition, the collapse in oil prices and continued low natural gas prices have led to shorter-term cost reductions in most aspects of our business.

In summary, we had strong production, record low operating costs per boe, improved well performance and earnings during the third quarter of 2015.

UPDATE ON 2015 PRODUCTION AND 2015 PRODUCTION GUIDANCE CONFIRMED

Production during October 2015 averaged approximately 40,500 boe per day and we had quarterly average production of 38,433 boe per day during the third quarter. Our production during the quarter was adversely impacted by both firm and interruptible transportation service curtailments on TransCanada's NGTL System that occurred on the vast majority of days during the quarter and we estimate that these curtailments decreased our quarterly average production by at least 1,300 boe per day. During the fourth quarter of 2015, we have continued to experience curtailments of our transportation service on TransCanada's NGTL System which adversely impacts our production volumes.

Our 2015 annual average production is expected to be 39,000 to 40,000 boe per day, representing a range of 16% to 19% growth above the annual average of 33,734 boe per day in 2014. Our 2015 fourth quarter average and 2015 exit production is expected to be 41,000 to 42,000 boe per day, setting us up for strong average production in the first quarter of 2016.

Our annual average and fourth quarter average production for 2015 are expected to be on the low end of our production guidance range, primarily as a result of the numerous transportation service curtailments that have adversely impacted our production volumes. Our 2015 annual average and fourth quarter average production guidance assumes that any future transportation service curtailments or unplanned outages that occur during the balance of the fourth quarter of 2015 will be short in duration or otherwise insignificant. Please also see the note on forward-looking information contained herein under the heading *"Advisories – Forward-Looking Information"*.

UPDATE ON CAPITAL EXPENDITURES

During the third quarter of 2015, we had capital expenditures of $50.0 million. We currently anticipate that our capital expenditures in the fourth quarter of 2015 will be less than our funds flow for the quarter, which will provide us with continued financial flexibility despite the low commodity price environment.

UPDATE ON NATURAL GAS TRANSPORTATION CAPACITY

Virtually all of our natural gas production is transported on TransCanada's NGTL System in Alberta pursuant to both firm and interruptible service agreements. In recent months, interruptible service has been suspended and transportable volumes have been curtailed from time to time to as low as 85% of Birchcliff's firm service entitlements as a result National Energy Board ordered pipeline integrity testing procedures and other operational issues with TransCanada's NGTL System.

We currently have in place firm service contracts that in the aggregate provide transportation capacity slightly above the processing capacity of our own processing facilities and sufficient transportation capacity to meet our processing commitments at third party processing facilities. Additional firm transportation capacity will become available to us in 2016 and we expect to have sufficient firm transportation capacity to transport the majority of our anticipated increased production volumes resulting from the proposed Phase V expansion of our PCS Gas Plant discussed below.

UPDATE ON RESERVES

We anticipate that we will see a material increase in our proved developed producing, total proved and proved plus probable reserves volumes at year end 2015 as a result of the strong production performance from our Montney/Doig horizontal natural gas wells drilled in 2013, 2014 and 2015 and the new reserves established by our 2015 drilling program. Some of the expected reserves additions are anticipated to result from significant positive technical revisions at year end 2015 which do not require any increase to the future development capital associated with the wells. These technical revisions primarily result from the continued advancement of our drilling and completion technologies and improved well production performance on some of our existing wells.

At year end 2015, we also anticipate a significant decrease in our future development capital on a per well basis, mainly due to new technology efficiencies that we have been applying and the reduced price environment for services, equipment and supplies that we are currently experiencing.

UPDATE ON THE PCS GAS PLANT

Our PCS Gas Plant has a processing capacity of 180 MMcf per day of raw gas and is currently processing natural gas at or near maximum capacity.

Engineering, procurement and fabrication work is underway for the Phase V expansion of our PCS Gas Plant which will increase processing capacity to 260 MMcf per day from 180 MMcf per day. We currently anticipate that the Phase V expansion will be completed in the fall of 2016. In addition, preliminary planning and permitting work has been initiated for the Phase VI expansion of our PCS Gas Plant which is being designed to increase processing capacity to 340 MMcf per day from 260 MMcf per day. It is currently expected that the Phase VI expansion will be completed in early 2018.

UPDATE ON THE ELMWORTH GAS PLANT

As part of our future growth plans for our Montney/Doig Natural Gas Resource Play, we are continuing to prove up the play in the Elmworth area and in the next few years we intend to construct and operate a 100% owned natural gas plant in the Elmworth area (the "**Elmworth Gas Plant**"), as previously announced on August 12, 2015. We have commenced the preliminary planning for this plant and a critical requirement is a nearby acid gas disposal well which we drilled in the first quarter of 2015. In the second and third quarters, we conducted injectivity tests on the well and we are currently evaluating its injection capability and preparing the required regulatory application.

2015 THIRD QUARTER FINANCIAL AND OPERATIONAL RESULTS

PRODUCTION

Third quarter production averaged 38,433 boe per day, an increase of 12% from production of 34,235 boe per day in the third quarter of 2014. This production growth from the third quarter of 2014 was largely due to incremental production added from new Montney/Doig horizontal natural gas wells that were tied into our PCS Gas Plant, offset by numerous transportation service curtailments on TransCanada's NGTL System that adversely impacted Birchcliff's production and natural well production declines.

Production consisted of approximately 87% natural gas, 9% light oil and 4% natural gas liquids in the third quarter. Approximately 81% of our total corporate natural gas production and 73% of our total corporate production was processed at our PCS Gas Plant in the first nine months of 2015.

We have consistently demonstrated significant growth in third quarter production per common share. The following table highlights Birchcliff's third quarter production per basic common share growth since 2011 year-over-year:

	Q3 2011	Q3 2012	Q3 2013	Q3 2014	Q3 2015	Change Since 2011 *(%)*	Average Annual Growth *(%)*
Quarterly average production *(boe/day)*	17,648	21,426	24,662	34,235	38,433	118	29
Production per day per million common shares *(boe)*[(1)]	**139.4**	**151.4**	**173.0**	**228.9**	**252.3**	**81**	**20**

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

FUNDS FLOW AND NET INCOME TO COMMON SHAREHOLDERS

Funds flow was $44.6 million or $0.29 per basic common share, a decrease from $75.0 million or $0.50 per basic common share in the third quarter of 2014. This decrease was largely due to a 37% decrease in the average realized oil and natural gas wellhead price.

We recorded net income to common shareholders of $3.8 million ($0.03 per basic common share) in the third quarter of 2015, a decrease from $28.7 million ($0.19 per basic common share) in the third quarter of 2014. The decrease from the third quarter of 2014 was mainly attributable to lower funds flow as a result of the decrease in commodity prices.

OPERATING COSTS AND GENERAL AND ADMINISTRATIVE EXPENSE

Operating costs for the third quarter of 2015 were $4.39 per boe, a decrease from $5.06 per boe in the third quarter of 2014. Operating costs per boe decreased from the third quarter of 2014 largely due to the continued cost benefits achieved from processing incremental volumes of natural gas through our PCS Gas Plant, lower service costs due to reduced industry activity and the continued implementation of various optimization initiatives.

General and administrative expense in the third quarter of 2015 was $1.19 per boe, a decrease from $1.44 per boe in the third quarter of 2014.

We continue to focus on reducing our operating costs and general and administrative expense on a per boe basis. In the third quarter of 2015, we implemented two meaningful operating cost reduction initiatives that are expected to further reduce costs over the long term at our PCS Gas Plant. The first initiative was the conversion of an existing standing vertical well near the PCS Gas Plant to a water disposal well and connecting it by pipeline to the PCS Gas Plant. This eliminated the related trucking costs and disposal fees for any produced disposable water at the PCS Gas Plant. The second initiative was the conversion in August 2015 of a fuel gas pipeline to condensate service to connect the condensate stream from the PCS Gas Plant directly to Pembina's pipeline system. This eliminated related condensate trucking fees and better secured take away capacity for our produced condensate volumes.

PCS GAS PLANT NETBACKS

Since the PCS Gas Plant first became operational in March 2010, we have seen a significant reduction in our corporate operating costs on a per boe basis. During the first nine months of 2015, we processed approximately 81% of our total corporate natural gas production through our PCS Gas Plant with an average plant and field operating cost of $2.00 per boe ($0.33 per Mcfe). The estimated operating netback at our PCS Gas Plant was $15.02 per boe ($2.50 per Mcfe) resulting in an operating margin of 77% in the first nine months of 2015.

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

Production processed through the PCS Gas Plant

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

(1) Represents plant and field operating costs.

(2) See *"Non-GAAP Measures"*.

TOTAL CASH COSTS AND FUNDS FLOW NETBACK

During the third quarter of 2015, we had total cash costs of $10.58 per boe (royalties, operating, transportation and marketing, general and administrative and interest expense), a decrease from $13.04 per boe in the third quarter of 2014, and funds flow netback of $12.61 per boe, a decrease from $23.82 per boe in the third quarter of 2014.

CAPITAL EXPENDITURES

During the third quarter of 2015, we had capital expenditures of $50.0 million. For details regarding these capital expenditures, please see our management's discussion and analysis for the three and nine month periods ended September 30, 2015.

DEBT AND CAPITALIZATION

We have a $800 million three-year term extendible revolving credit facility with a maturity date of May 11, 2018, which is comprised of an extendible revolving syndicated term credit facility of $760 million and an extendible working capital facility of $40 million. The credit facility contains no financial covenants, which provides us with financial flexibility. For further details regarding the terms of our credit facilities, please see our management's discussion and analysis for the three and nine month periods ended September 30, 2015.

At September 30, 2015, our drawn bank debt was $635.8 million from available credit facilities aggregating $800 million, leaving $164.2 million of unutilized credit capacity which provides significant financial flexibility. Total debt at September 30, 2015, including the working capital deficit, was $640.8 million.

At September 30, 2015, we had 152,307,539 basic common shares outstanding.

OPERATIONS UPDATE

DRILLING

Birchcliff's 2015 drilling program is focused on our two proven resource plays, the Montney/Doig Natural Gas Resource Play and the Charlie Lake Light Oil Resource Play. As a result of current market conditions, the decrease in oil prices and continued low natural gas prices, our drilling activities during the third quarter of 2015 were focused on our Montney/Doig Natural Gas Resource Play. We actively employ the evolving technology utilized by the industry regarding horizontal well drilling and the related multi-stage fracture stimulations.

We drilled 6 (6.0 net) wells in the third quarter of 2015, all of which were Montney/Doig horizontal natural gas wells in the Pouce Coupe area.

We have drilled 30 (29.5 net) wells year to date, consisting of 26 (26.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area, 1 (1.0 net) Montney/Doig horizontal natural gas well in the Elmworth area, 1 (1.0 net) Charlie Lake horizontal light oil well in the Progress area, 1 (0.5 net) Halfway horizontal light oil well in the Progress area and 1 (1.0 net) Belloy vertical well drilled as an acid gas disposal well in the Elmworth area.

On our Montney/Doig Natural Gas Resource Play, we are currently utilizing multi-well pad drilling which allows us to drill continuously through spring break-up and reduce our per well costs as well as our environmental footprint. Our revised capital expenditure program for 2015, which we announced on August 12, 2015, includes the drilling of 29 (29.0 net) Montney/Doig horizontal natural gas wells on a total of 10 multi-well pads with 2 to 5 wells per pad.

We currently have one drilling rig at work in the Pouce Coupe area drilling 2 Montney/Doig horizontal natural gas wells on a multi-well pad. It is expected that these two wells will be completed and brought on production in the first quarter of 2016. We have 5 (5.0 net) standing Montney/Doig horizontal natural gas wells to bring on production by year end 2015, all of which are in the Pouce Coupe area.

MONTNEY/DOIG NATURAL GAS RESOURCE PLAY

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

Specific completion enhancements that we have been employing over the past two years have resulted in significant individual well performance improvements. As a result, our Montney/Doig natural gas production is exceeding our original internal expectations and the production forecast used by our independent reserves evaluator. As a result of the strong production performance from our Montney/Doig horizontal natural gas wells drilled in 2013, 2014 and 2015 and the new reserves established by our 2015 drilling program, we expect material increases to our proved developed producing, total proved and proved plus probable reserves on many of our existing producing wells and material reserves additions to our related future undeveloped drilling locations at year end 2015.

We have achieved long-term reductions in both our operating and capital costs as a result of the hard work of our people, the advancement of horizontal drilling and completion technologies, the implementation of operating and capital cost reduction initiatives and efficient project execution. In addition, the collapse in oil prices and continued low natural gas prices have led to shorter-term cost reductions in most aspects of our business.

Based on our recent multi-well pad drilling, our costs to drill, case, complete, equip and tie-in our Montney/Doig horizontal natural gas wells have decreased by approximately 22% to an average of $4.5 million per well from an average of $5.8 million per well.[1] The combination of these decreased capital costs and the improved well performance that we are now realizing has had a positive effect on our capital efficiencies and internal rates of return.

Exploration Activities in the Montney D4 Interval in the Elmworth and Pouce Coupe Areas

In July 2014, we drilled our first exploration well in the Montney D4 interval in the Pouce Coupe area. As at November 11, 2015, we have drilled a total of seven 100% working interest wells in the Montney D4 interval which is a relatively new exploration interval for Birchcliff. Five of these wells are in the Pouce Coupe area and the remaining two are in the Elmworth area.

In the fourth quarter of 2014, we drilled our first successful Montney/Doig horizontal exploration well in the Montney D4 interval in the Elmworth area. We subsequently drilled our second successful horizontal exploration well in the Elmworth area in the Montney D4 interval in the first quarter of 2015, which was brought on production in June 2015. The success of these two Montney D4 wells in the Elmworth area has added significant potential future drilling locations to Birchcliff's inventory and is expected to result in follow-up drilling by Birchcliff and significant future additions to our reserves volumes.

As part of our future growth plans for our Montney/Doig Natural Gas Resource Play, we are continuing to prove up the play in the Elmworth area and in the next few years we intend to construct and operate the 100% owned Elmworth Gas Plant as discussed above.

[1] The average cost of $4.5 million per well assumes that there are no costs associated with an extended gathering system.

Land and Potential Future Drilling Locations

Our land activities in the first nine months of 2015 on the Montney/Doig Natural Gas Resource Play included the acquisition of 12.75 sections, all at 100% working interest, 3.75 sections of which were in the heart of our Pouce Coupe area and 9 sections of which were in our Elmworth area. As at December 31, 2014, we held 332.6 sections of land that have potential for the Montney/Doig Natural Gas Resource Play. Of these lands, 305.1 (288.4 net) sections have potential for the Basal Doig/Upper Montney interval, 316.1 (306.2 net) sections have potential for the Montney D1 interval and 288.6 (281.7 net) sections have potential for the Montney D4 interval. As at December 31, 2014, Birchcliff's total land holdings on these three intervals were 909.9 (876.3 net) sections.

On full development of four horizontal wells per section per drilling interval, we have 3,505.2 net existing horizontal wells and potential net future horizontal drilling locations in respect of these three commercial intervals as at December 31, 2014. With 159 (158.9 net) horizontal locations drilled at the end of 2014, there remains 3,346.3 potential net future horizontal drilling locations as at December 31, 2014, up from 2,254.4 net at year end 2013. This does not include any potential net future horizontal drilling locations for the other three prospective Montney intervals, the Montney C, the Montney D2 and the Montney D3.

Substantial upside exists with respect to the 3,505.2 net existing horizontal wells and potential net future horizontal drilling locations. The reserves estimation and economic evaluation effective December 31, 2014 (the "**2014 Reserves Evaluation**") prepared by our independent reserves evaluator attributed proved reserves to 432.2 net existing wells and potential net future horizontal drilling locations (of which 277.3 net wells are potential future drilling locations) and proved plus probable reserves to 598.8 net existing wells and potential net future horizontal drilling locations (of which 443.9 net wells are potential future drilling locations). The remaining 2,906.4 potential net future horizontal drilling locations have not yet had any proved or probable reserves attributed to them by our independent reserves evaluator.

CHARLIE LAKE LIGHT OIL RESOURCE PLAY

In the fourth quarter of 2014, we drilled our first successful 100% working interest Charlie Lake horizontal exploration well in the Progress area, which was brought on production in December 2014. This well produced at an average rate of 300 bbls per day of light oil and 1.8 MMcf per day of natural gas for a total of 600 boe per day for the first 30 days of production. As at November 6, 2015, this well was producing 65 bbls per day of light oil and 0.9 MMcf per day of natural gas for a total of 220 boe per day with a 35% water cut.

In the second quarter of 2015, we drilled our second successful 100% working interest Charlie Lake horizontal light oil exploration well in our Progress area, which was brought on production in August 2015. This well produced at an average rate of 85 bbls per day of light oil and 2.2 MMcf per day of natural gas for a total of 450 boe per day for the first 30 days of production. As at November 6, 2015, this well was producing 80 bbls per day of light oil and 2.7 MMcf per day of natural gas for a total of 530 boe per day with a 45% water cut.

As at December 31, 2014, Birchcliff held 26.5 (25.75 net) sections of land in the Progress area on the Charlie Lake Light Oil Resource Play. Year to date, we have added 1.5 (1.75 net) sections and accordingly, Birchcliff now holds 28 (27.5 net) sections of land, the vast majority of which is contiguous, on this project. In the first quarter of 2015, we acquired a new 3-D seismic program in the Progress area to help delineate our Charlie Lake Light Oil Resource Play exploration success. The results of this seismic program are very encouraging and support that a significant amount of our lands have potential for this play.

We are currently developing a full scale development plan for our Progress Charlie Lake Light Oil Resource Play.

The production rates provided for the wells above are not determinative of the rates at which such wells will continue to produce and decline thereafter and are not necessarily indicative of the long-term performance or the ultimate recovery of such wells. See *"Advisories".*

HALFWAY LIGHT OIL RESOURCE PLAY

In the first quarter of 2015, we drilled 1 (0.5 net) Halfway horizontal light oil well in the Progress area. This well was completed utilizing multi-stage fracture stimulation technology and was brought on production in April 2015 at rates that exceeded our original expectations.

LAND HOLDINGS

As at September 30, 2015, our undeveloped land holdings were 430,293.6 gross (403,013.7 net) acres.

SHAREHOLDER SUPPORT

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

Mr. Schulich holds 40 million common shares representing 26.3% of the current issued and outstanding common shares.

OUTLOOK

OUTLOOK FOR 2015

Our production remains very strong and our costs, both operating and capital, have been further reduced resulting in a positive effect on our capital efficiencies.

Our 2015 annual average production is expected to be 39,000 to 40,000 boe per day, representing a range of 16% to 19% growth above the annual average of 33,734 boe per day in 2014. Our 2015 fourth quarter average and 2015 exit production is expected to be 41,000 to 42,000 boe per day, setting us up for strong average production in the first quarter of 2016. Our annual average and fourth quarter average production for 2015 are expected to be on the low end of our production guidance range, primarily as a result of the numerous transportation service curtailments that have adversely impacted our production volumes. Our 2015 annual average and fourth quarter average production guidance assumes that any future transportation service curtailments or unplanned outages that occur during the balance of the fourth quarter of 2015 will be short in duration or otherwise insignificant. Please also see the note on forward-looking information contained herein under the heading *"Advisories – Forward-Looking Information".*

We anticipate that as a result of the strong production performance from our Montney/Doig horizontal natural gas wells drilled in 2013, 2014 and 2015 and the new reserves established by our 2015 drilling program, we will see a material increase in our proved developed producing, total proved and proved plus probable reserves volumes at year end 2015.

We are on budget to meet our $250 million capital expenditure program for 2015. In the second quarter of 2015, we increased our expected average production for the fourth quarter of 2015 by approximately 2,000 boe per day to 41,000 to 42,000 boe per day, while reducing our forecast of total capital expenditures for 2015 to $250 million from $266.7 million and drilling an additional 7 (7.0 net) Montney/Doig horizontal natural gas wells. Our revised capital expenditure program for 2015 contemplates the drilling of a total of 32 (31.5 net) wells.

We currently have one drilling rig at work in the Pouce Coupe area drilling 2 Montney/Doig horizontal natural gas wells on a multi-well pad. It is expected that these two wells will be completed and brought on production in the first quarter of 2016. We have 5 (5.0 net) standing Montney/Doig horizontal natural gas wells to bring on production by year end 2015, all of which are in the Pouce Coupe area.

We currently anticipate that our capital expenditures in the fourth quarter of 2015 will be less than our funds flow for the quarter, which will provide us with continued financial flexibility despite the low commodity price environment.

We continue to focus on improving our execution, reducing our costs and increasing our reserves all leading to improved capital efficiency and internal rates of return. We are utilizing multi-well pad drilling on our Montney/Doig Natural Gas Resource Play to improve drilling and completion efficiencies, reduce the cost per well and minimize our environmental footprint. Due to the combination of industry conditions, the hard work of our people, cost reduction initiatives and efficient project execution, we have seen a material reduction in our drilling and completion costs. We have also reduced our already low operating costs on a per boe basis to record low levels.

In the third quarter of 2015, we implemented two meaningful operating cost reduction initiatives that are expected to further reduce costs over the long term at our PCS Gas Plant. The first initiative was the conversion of an existing standing vertical well near the PCS Gas Plant to a water disposal well and connecting it by pipeline to the PCS Gas Plant. This eliminated the related trucking costs and disposal fees for any produced disposable water at the PCS Gas Plant. The second initiative was the conversion in August 2015 of a fuel gas pipeline to condensate service to connect the condensate stream from the PCS Gas Plant directly to Pembina's pipeline system. This eliminated related condensate trucking fees and better secured take away capacity for our produced condensate volumes.

As at November 11, 2015, we have successfully drilled and cased 186 (185.9 net) Montney/Doig horizontal natural gas wells. We believe we have up to 3,319.3 potential net future horizontal drilling locations on the Montney/Doig Natural Gas Resource Play. As at December 31, 2014, our total land holdings on the Basal Doig/Upper Montney interval, the Montney D1 interval and the Montney D4 interval were 909.9 (876.3 net) sections. On full development of four horizontal wells per section per interval, we have 3,505.2 net existing horizontal wells and potential net future horizontal drilling locations in respect of these three commercial intervals as at December 31, 2014.

OUTLOOK FOR 2016

As a result of the anticipated increases to our reserves volumes at year end 2015, we expect that our $800 million three-year term revolving credit facility will be increased upon the completion of our annual credit review in May 2016, assuming that commodity prices do not significantly deteriorate from current levels.

Birchcliff expects to complete the Phase V expansion of the PCS Gas Plant in the fall of 2016, which will increase the processing capacity to 260 MMcf per day from 180 MMcf per day.

As a result of current commodity prices and the ongoing Alberta royalty and climate change reviews, we have determined that we will finalize and announce our 2016 capital expenditure program on February 10, 2016 after we have had the opportunity to consider the results of these reviews and any possible impact that any changes to the regulatory regime in Alberta will have on our business.

We expect to release our unaudited financial results and summaries of our reserves evaluation and Montney/Doig Natural Gas Resource Assessment for the year ended December 31, 2015 on February 10, 2016.

SUMMARY

We remain focused on our strategy – growth by the drill bit in our core area of the Peace River Arch of Alberta. As our production and capital expenditures programs have grown over the years, the ownership and control of our infrastructure has become more important to Birchcliff. We continue to reduce our costs, control our capital expenditures, accurately forecast our production and prudently manage our business because we control our own infrastructure. We continue to use the same services, in the same area, directed by the same experienced Birchcliff personnel, which provides consistency, repeatability and reliability in our operations.

In conclusion, Birchcliff is in an enviable position. The production from our Montney/Doig horizontal natural gas wells are outperforming our original internal estimates. As a result, we had strong quarterly average production during the third quarter of 2015, notwithstanding both firm and interruptible transportation service curtailments on TransCanada's NGTL System that occurred on the vast majority of days during the quarter and which we estimate decreased our quarterly average production by at least 1,300 boe per day **(Strong Production)**. We had record low operating costs and general and administrative expense per boe during the third quarter of 2015 **(Record Low Operating and G&A Costs per boe)**. In addition to cost reductions resulting from industry conditions, we have also initiated technical and operational advancements that have resulted in significant sustainable cost reductions **(Cost Reductions)**. With the drilling of 7 additional wells under our revised capital expenditure program announced on August 12, 2015, we anticipate strong 2015 fourth quarter and 2015 exit production, setting us up for strong average production in the first quarter of 2016 **(Increased Production, Less Capital)**. We have significant financial flexibility with our $800 million syndicated revolving credit facility that contains no financial covenants **(Financial Flexibility)**. We have long-term shareholders who continue to support Birchcliff notwithstanding the significant changes in our business environment **(Seymour Schulich)**. We have a repeatable business operated by excellent people who have their personal wealth invested in Birchcliff **(Invested Staff)**.

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

With Respect,

(signed) "*A. Jeffery Tonken*"

A. Jeffery Tonken, President and Chief Executive Officer

Management's Discussion and Analysis

GENERAL

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

The following Management's Discussion and Analysis ("**MD&A**") is dated November 11, 2015. The unaudited interim condensed financial statements with respect to the three and nine months ended September 30, 2015 (the "**Reporting Periods**") as compared to the three and nine months ended September 30, 2014 (the "**Comparable Prior Periods**") and this MD&A have been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the interim condensed financial statements of the Corporation and related notes for the Reporting Periods and the 2014 Annual Report. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

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

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

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

2015 OUTLOOK

Birchcliff's 2015 annual average production is expected to be 39,000 to 40,000 boe per day, representing a range of 16% to 19% growth above the annual average of 33,734 boe per day in 2014. Birchcliff's 2015 fourth quarter average and 2015 exit production is expected to be 41,000 to 42,000 boe per day, setting the Corporation up for strong average production in the first quarter of 2016. The Corporation's annual average and fourth quarter average production for 2015 are expected to be on the low end of the Corporation's production guidance range, primarily as a result of the numerous transportation service curtailments that have adversely impacted its production volumes. Birchcliff's 2015 annual average and fourth quarter average production guidance assumes that any future transportation service curtailments or unplanned outages that occur during the balance of the fourth quarter of 2015 will be short in duration or otherwise insignificant. Please also see the note on forward-looking information contained herein under the heading *"Advisories – Forward-Looking Information"*.

Birchcliff anticipates that as a result of the strong production performance from its Montney/Doig horizontal natural gas wells drilled in 2013, 2014 and 2015 and the new reserves established by its 2015 drilling program, the Corporation will see a material increase in its proved developed producing, total proved and proved plus probable reserves volumes at year end 2015.

As a result of the anticipated increases to its reserves volumes at year end 2015, Birchcliff expects that its $800 million three-year term revolving credit facility will be increased upon the completion of its annual credit review in May 2016, assuming that commodity prices do not significantly deteriorate from current levels.

The Corporation does not foresee any liquidity issues with respect to the operation of its oil and natural gas business for the remainder of 2015 and expects to meet its future obligations as they become due. The Corporation's two established resource plays provide it with a long-term and operationally reliable production base. Funds flow from this production which is primarily dependent on commodity prices, affects the pace at which the Corporation invests in its resource plays and the rate at which its production will grow.

FUNDS FLOW FROM OPERATIONS

	Three months ended September 30,		Nine months ended September 30,	
($000s)	**2015**	**2014**	**2015**	**2014**
Funds flow from operations	**44,587**	75,030	**127,059**	238,781
Per common share – basic *($)*	**0.29**	0.50	**0.83**	1.63
Per common share – diluted *($)*	**0.29**	0.48	**0.82**	1.58

Funds flow in the three and nine month Reporting Periods decreased by 41% and 47%, respectively, from the Comparable Prior Periods. Lower funds flow in the Reporting Periods were largely attributed to a significant decrease in the average realized oil and natural gas wellhead prices as compared to the Comparable Period Periods, offset by a material increase in natural gas production and lower royalty costs.

NET INCOME (LOSS) TO COMMON SHAREHOLDERS

	Three months ended September 30,		Nine months ended September 30,	
($000s)	**2015**	**2014**	**2015**	**2014**
Net income (loss)	4,815	29,665	(2,838)	97,251
Net income (loss) to common shareholders (1)	**3,815**	28,665	**(5,838)**	94,251
Per common share – basic *($)*	**0.03**	0.19	**(0.04)**	0.64
Per common share – diluted *($)*	**0.02**	0.19	**(0.04)**	0.62

(1) Net income (loss) to common shareholders is calculated by adjusting net income (loss) for dividends paid on Series A Preferred Shares during the period.

Birchcliff recorded net income to common shareholders of $3.8 million for the three month Reporting Period and a net loss of $5.8 million for the nine month Reporting Period compared to net income of $28.7 million and $94.3 million, respectively, for the Comparable Prior Periods. The decrease in net income to common shareholders from the Comparable Prior Periods was largely due to lower funds flow from operations and higher depletion costs resulting from increased production in the Reporting Periods. Also included in the net loss to common shareholders for the nine month Reporting Period is a deferred income tax expense of $7.8 million resulting from a 20% increase in the Alberta corporate income tax rate to 12%.

PCS GAS PLANT NETBACKS

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

Production processed through the PCS Gas Plant

	Nine months ended September 30, 2015		Nine months ended September 30, 2014	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		159,786		126,450
Oil & NGLs *(bbls)*		1,258		1,007
Total boe *(6:1)*		**27,889**		22,082
Sales liquids yield (bbls/MMcf)		*7.9*		*8.0*
% of corporate natural gas production		*81%*		*78%*
% of corporate production		*73%*		*68%*
AECO – C daily *($/Mcf)*	**$2.77**		$4.81	
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue	3.26	19.58	5.54	33.23
Royalty expense	(0.11)	(0.65)	(0.29)	(1.75)
Operating expense[(1)]	(0.33)	(2.00)	(0.40)	(2.40)
Transportation and marketing expense	(0.32)	(1.91)	(0.30)	(1.81)
Estimated operating netback	**2.50**	**15.02**	4.55	27.27
Operating margin	**77%**	**77%**	82%	82%

(1) Represents plant and field operating costs.

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

On May 11, 2015, the aggregate limit of Birchcliff's credit facilities was increased to $800 million from $750 million primarily as a result of the material increase in the Corporation's proved developed producing reserves at December 31, 2014.

In addition to the increase in the credit facilities limit, Birchcliff's bank syndicate also approved the consolidation of the Corporation's $750 million credit facilities comprised of a $620 million revolving term credit facility, a $70 million non-revolving five-year term credit facility and a $60 million non-revolving five-year term credit facility into a single $800 million three-year term extendible revolving credit facility with a maturity date of May 11, 2018. Concurrently, the financial covenants contained in the credit facilities which previously required the Corporation to ensure that on the last day of each quarter the ratio of EBITDA to interest expense, determined on a historical rolling four quarter basis equaled or exceeded 3.5:1.0, and the ratio of debt to EBITDA, determined on a historical rolling four quarter basis did not exceed 4.0:1.0, were removed. The $800 million revolving term credit facility contains no financial covenants.

The $800 million extendible borrowing base revolving term credit facility is comprised of an extendible revolving syndicated term credit facility of $760 million and an extendible revolving working capital facility of $40 million. Birchcliff may each year, at its option, request an extension to the maturity date of the syndicated credit facility and the working capital facility, 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 increase and consolidation of the credit facilities along with the removal of the foregoing financial covenants provide Birchcliff with increased financial flexibility.

DISCUSSION OF OPERATIONS

Petroleum and Natural Gas Revenues

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

	Three months ended September 30, 2015				Three months ended September 30, 2014			
	Total Revenue *($000s)*	**Average Daily Production**	*(%)*	**Average** *($/unit)*	Total Revenue[1] *($000s)*	Average Daily Production	*(%)*	Average[1] *($/unit)*
Light oil *(bbls)*	17,300	3,554	9	52.91	34,928	3,957	12	95.94
Natural gas *(Mcf)*	57,420	199,746	87	3.12	69,390	172,675	84	4.37
Natural gas liquids *(bbls)*	7,222	1,588	4	49.42	12,052	1,499	4	87.38
Total P&NG sales *(boe)*	81,942	**38,433**	100	23.17	116,370	34,235	100	36.95
Royalty revenue	69			0.02	54			0.01
P&NG revenues	**82,011**			**23.19**	116,424			36.96

	Nine months ended September 30, 2015				Nine months ended September 30, 2014			
	Total Revenue *($000s)*	**Average Daily Production**	*(%)*	**Average** *($/unit)*	Total Revenue[1] *($000s)*	Average Daily Production	*(%)*	Average[1] *($/unit)*
Light oil *(bbls)*	56,604	3,767	10	55.04	107,264	3,957	12	99.30
Natural gas *(Mcf)*	161,702	198,146	86	2.99	224,373	162,220	84	5.07
Natural gas liquids *(bbls)*	23,367	1,655	4	51.73	35,520	1,403	4	92.73
Total P&NG sales *(boe)*	241,673	**38,446**	100	23.03	367,157	32,396	100	41.51
Royalty revenue	155			0.01	133			0.02
P&NG revenues	**241,828**			**23.04**	367,290			41.53

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

Production

Production averaged 38,433 boe per day in the three month Reporting Period and 38,446 boe per day in the nine month Reporting Period, a 12% and 19% increase, respectively, from the Comparable Prior Periods. This production growth was largely due to incremental production added from new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant, offset by numerous transportation service curtailments on TransCanada's NGTL System and natural well production declines. The PCS Gas Plant processed approximately 81% of Birchcliff's total corporate natural gas production and 73% of total corporate production in the first nine months of 2015.

Production consisted of approximately 87% natural gas, 9% light oil and 4% natural gas liquids in the third quarter of 2015 as compared to 84% natural gas, 12% light oil and 4% natural gas liquids in the third quarter of 2014.

Commodity prices

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	**2014**	**2015**	**2014**
Average benchmark prices:				
Light oil – WTI Cushing *($USD/bbl)*	46.43	97.15	51.00	99.61
Light oil – Edmonton Par *($/bbl)*	57.47	96.11	59.09	100.12
Natural gas – AECO – C daily *($/MMbtu)*(1)	2.90	4.02	2.77	4.81
Exchange rate – *(USD$/CDN$)*	1.32	1.10	1.27	1.10
Birchcliff's average realized sales price(2):				
Light oil *($/bbl)*	52.91	95.94	55.04	99.30
Natural gas *($/Mcf)*	3.12	4.37	2.99	5.07
NGLs *($/bbl)*	49.42	87.38	51.73	92.73
Barrels of oil equivalent *($/boe) (6:1)*	23.17	36.95	23.03	41.51

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

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

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

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

Beginning in the latter half of 2014 and continuing throughout the first nine months of 2015, the WTI oil spot price and AECO natural gas spot price declined significantly due to the supply/demand imbalance in North America which impacted reported revenues in the first nine months of 2015. The AECO natural gas spot price averaged $2.90 per Mcf for the three month Reporting Period and averaged $2.77 per Mcf for the nine month Reporting Period, a 28% and 42% decrease, respectively, from the Comparable Prior Periods. The WTI oil spot price in the three and nine month Reporting Periods were 52% and 49% lower, respectively, than the Comparable Prior Periods.

Birchcliff's realized natural gas sales price at the wellhead averaged $3.12 per Mcf for the three month Reporting Period, an 8% premium from the posted benchmark prices for the period. Birchcliff receives premium pricing for its natural gas production due to its high heat content. The following table details Birchcliff's average realized sales price, heat content premium and other price differentials from its natural gas production during the three month Reporting Period:

	Three months ended September 30, 2015	Three months ended September 30, 2014
AECO – C daily *($/MMbtu)*(1)	2.90	4.02
Heat content premium	0.22	0.40
Price differential between physical sales contracts and AECO – C daily	-	(0.05)
Average realized natural gas sales price *($/Mcf)*	**3.12**	4.37

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

Risk Management Contracts

Birchcliff had no risk management contracts in place as at November 11, 2015 or during the Reporting Periods. During the Comparable Prior Periods, the Corporation did have certain commodity price risk management contracts in place which expired on December 31, 2014. The Corporation actively monitors the market to determine whether any additional commodity price risk management contracts are warranted.

Royalties

The following table details the Corporation's royalty expense:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Oil & natural gas royalties *($000s)*[1]	3,025	8,269	8,049	30,427
Oil & natural gas royalties *($/boe)*	0.86	2.63	0.77	3.44
Effective royalty rate *(%)*[2]	4%	7%	3%	8%

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

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

The decrease in the effective royalty rates from the Comparable Prior Periods was mainly due to significantly lower average oil and natural gas wellhead prices received for Birchcliff's production during the Reporting Periods and the effect these lower prices had on the sliding scale royalty calculation.

Operating Costs

The following table provides a breakdown of operating costs:

	Three months ended September 30,				Nine months ended September 30,			
	2015		2014		2015		2014	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Field operating costs	15,809	4.47	16,163	5.13	49,570	4.72	46,594	5.27
Recoveries	(449)	(0.13)	(320)	(0.10)	(1,114)	(0.11)	(944)	(0.11)
Field operating costs, net	15,360	4.34	15,843	5.03	48,456	4.61	45,650	5.16
Expensed workovers and other	158	0.05	89	0.03	586	0.06	81	0.01
Operating costs	**15,518**	**4.39**	15,932	5.06	**49,042**	**4.67**	45,731	5.17

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

Corporate operating costs per boe decreased 13% and 10% from the three and nine month Comparable Prior Periods, respectively, largely due to the continued cost benefits achieved from processing incremental volumes of natural gas through the Corporation's natural gas plant located in the Pouce Coupe South area (the "**PCS Gas Plant**"), lower service costs due to reduced industry activity and the continued implementation of various optimization initiatives. On a production month basis, operating costs averaged $2.00 per boe at the PCS Gas Plant during the first nine months of 2015, down 17% from the Comparable Prior Period. Birchcliff processed 81% of its total corporate natural gas production at the PCS Gas Plant in the first nine months of 2015.

Transportation and Marketing Expenses

Transportation and marketing expenses were $8.7 million ($2.44 per boe) for the three month Reporting Period and $26.2 million ($2.50 per boe) for the nine month Reporting Period as compared to $7.6 million ($2.41 per boe) and $21.7 million ($2.45 per boe) for the Comparable Prior Periods. The increased aggregate costs are primarily due to higher transportation expenses resulting from increased production in the Reporting Periods as compared to the Comparable Prior Periods.

Operating Netbacks

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	**2014**	**2015**	**2014**
Montney/Doig Natural Gas Resource Play[1]				
Average daily production, net:				
Natural gas *(Mcf)*	185,658	157,840	183,227	147,760
Oil & NGLs *(bbls)*	1,602	1,626	1,819	1,432
Total boe *(6:1)*	**32,545**	27,932	**32,357**	26,059
% of corporate production[2]	***85%***	*82%*	***84%***	*80%*
Netback and cost *($/boe):*				
Petroleum and natural gas revenue	20.37	29.95	19.98	33.93
Royalty expense	(0.48)	(0.77)	(0.42)	(1.70)
Operating expense, net of recoveries	(2.98)	(3.73)	(3.33)	(3.73)
Transportation and marketing expense	(1.92)	(1.78)	(1.96)	(1.81)
Operating netback	**14.99**	23.67	**14.27**	26.69
Worsley Charlie Lake Light Oil Resource Play[1]				
Average daily production, net:				
Natural gas *(Mcf)*	8,388	9,676	8,647	9,518
Oil & NGLs *(bbls)*	2,907	3,303	2,857	3,410
Total boe *(6:1)*	**4,305**	4,916	**4,298**	4,996
% of corporate production[2]	***11%***	*14%*	***11%***	*15%*
Netback and cost *($/boe):*				
Petroleum and natural gas revenue	41.12	72.57	41.59	77.15
Royalty expense	(3.44)	(11.93)	(2.81)	(11.35)
Operating expense, net of recoveries	(9.85)	(9.91)	(10.28)	(9.85)
Transportation and marketing expense	(5.99)	(5.81)	(6.10)	(5.71)
Operating netback	**21.84**	44.92	**22.40**	50.24
Total Corporate				
Average daily production, net:				
Natural gas *(Mcf)*	199,746	172,675	198,146	162,220
Oil & NGLs *(bbls)*	5,142	5,456	5,422	5,360
Total boe *(6:1)*	**38,433**	34,235	**38,446**	32,396
Netback and cost *($/boe)*				
Petroleum and natural gas revenue	23.19	36.96	23.04	41.53
Royalty expense	(0.86)	(2.63)	(0.77)	(3.44)
Operating expense, net of recoveries	(4.39)	(5.06)	(4.67)	(5.17)
Transportation and marketing expense	(2.44)	(2.41)	(2.50)	(2.45)
Operating netback	**15.50**	26.86	**15.10**	30.47

(1) Most resource plays produce both oil and natural gas; however, a resource play is categorized as either a natural gas resource play or an oil resource play based upon the predominate production or play type in that area.

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

Montney/Doig Natural Gas Resource Play

Birchcliff's production from the Montney/Doig Natural Gas Resource Play was 32,545 boe per day in the three month Reporting Period and 32,357 boe per day in the nine month Reporting Period, a 17% and 24% increase, respectively, from the Comparable Prior Periods. This increase was largely due to higher incremental production of natural gas from new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant.

Birchcliff's recoveries of liquids from its Montney/Doig natural gas production were 8.6 bbls per MMcf in the three month Reporting Period and 9.9 bbls per MMcf in the nine month Reporting Period. Of the 8.6 bbls per MMcf of liquids produced in the three month Reporting Period, approximately 8.3 bbls per MMcf (97%) is oil and condensate (C5+). Any natural gas liquids not recovered from the raw natural gas stream increases the heating value of Birchcliff's sales gas and the resulting realized sales price.

Birchcliff's operating netback from the Montney/Doig Natural Gas Resource Play was $14.99 per boe ($2.50 per Mcfe) in the three month Reporting Period and $14.27 per boe ($2.38 per Mcfe) in the nine month Reporting Period, a 37% and 47% decrease, respectively, from the Comparable Prior Periods. This decrease was largely due to lower realized prices received for Birchcliff's natural gas and liquids production in the Reporting Periods as compared to the Comparable Prior Periods.

Worsley Charlie Lake Light Oil Resource Play

Birchcliff's production from the Worsley Charlie Lake Light Oil Resource Play was 4,305 boe per day in the three month Reporting Period and 4,298 boe per day in the nine month Reporting Period, a 12% and 14% decrease, respectively, from the Comparable Prior Periods. The decrease in production from the Comparable Prior Periods was largely due to natural production declines.

Birchcliff's operating netback from the Worsley Charlie Lake Light Oil Resource Play was $21.84 per boe in the three month Reporting Period and $22.40 per boe in the nine month Reporting Period, a 51% and 55% decrease, respectively, from the Comparable Prior Periods. The decrease from the Comparable Prior Periods was largely due to lower realized oil prices received in the Reporting Periods.

Administrative Expenses

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

	Three months ended September 30,				Nine months ended September 30,			
	2015		**2014**		**2015**		**2014**	
	($000s)	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*
Cash:								
Salaries and benefits[1]	4,879	67	4,296	60	15,031	62	13,233	57
Other[2]	2,358	33	2,901	40	9,256	38	9,811	43
	7,237	100	7,197	100	24,287	100	23,044	100
Operating overhead recoveries	(51)	(1)	(60)	(1)	(184)	(1)	(191)	(1)
Capitalized overhead[3]	(2,993)	(41)	(2,611)	(36)	(8,773)	(36)	(7,511)	(33)
General & administrative, net	4,193	58	4,526	63	15,330	63	15,342	66
General & administrative, net per boe	$1.19		$1.44		$1.46		$1.73	
Non-cash:								
Stock-based compensation	1,987	100	1,930	100	6,038	100	7,931	100
Capitalized stock-based compensation[3]	(1,181)	(59)	(1,144)	(59)	(3,605)	(60)	(4,045)	(51)
Stock-based compensation, net	806	41	786	41	2,433	40	3,886	49
Stock-based compensation, net per boe	$0.23		$0.25		$0.23		$0.44	
Administrative expenses, net	**4,999**		5,312		**17,763**		19,228	
Administrative expenses, net per boe	**$1.42**		$1.69		**$1.69**		$2.17	

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

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

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

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

	Three months ended September 30, 2015		Nine months ended September 30, 2015	
	Number	**Exercise price *($)*[1]**	**Number**	**Exercise price *($)*[1]**
Outstanding at beginning of period	12,947,638	7.90	11,147,672	8.45
Granted	91,000	6.38	3,348,500	6.62
Exercised	(14,000)	(5.96)	(93,333)	(6.26)
Forfeited	(124,733)	(8.37)	(421,534)	(8.48)
Expired	(35,000)	(10.07)	(1,116,400)	(9.66)
Outstanding, September 30, 2015	**12,864,905**	**7.88**	**12,864,905**	**7.88**

(1) Determined on a weighted average basis.

At September 30, 2015, there were 2,939,732 performance warrants outstanding with an exercise price of $3.00 which expire on January 31, 2020.

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

Depletion and Depreciation Expenses

Depletion and depreciation ("**D&D**") expenses were $34.7 million ($9.82 per boe) for the three month Reporting Period and $111.2 million ($10.60 per boe) for the nine month Reporting Period as compared to $32.7 million ($10.39 per boe) and $97.5 million ($11.03 per boe), respectively, for the Comparable Prior Periods. D&D expenses were higher on an aggregate basis mainly due to a 12% and 19% increase in production from the three and nine month Comparable Prior Periods, respectively.

D&D is a function of the estimated proved plus probable reserve additions, the finding and development costs attributable to those reserves, the associated future development capital required to recover those reserves and production in the period. The Corporation determines its D&D expenses on an area basis.

Asset impairment assessment

The Corporation reviews its petroleum and natural gas assets for impairment in accordance with International Accounting Standards ("**IAS**") 36 under International Financial Reporting Standards ("**IFRS**"). Birchcliff's assets are grouped into cash generating units ("**CGUs**") 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, the geographical proximity, geological similarities (i.e. reservoir characteristic, production profiles), degree of shared infrastructure, independent versus interdependent cash flows, operating structure, regulatory environment, management decision-making and overall business strategy.

The Corporation's 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 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 Corporation's credit facility agreement; deterioration in the financial and operational performance of a CGU; net assets exceeding market capitalization; and significant downward revisions of estimated recoverable proved plus probable reserves of a CGU. If impairment indicators exist, an impairment test is performed by comparing a CGU's carrying value to its recoverable amount.

In light of the current low commodity price environment, Birchcliff performed an impairment test for its petroleum and natural gas assets on a CGU basis to assess for recoverability at September 30, 2015. Management has determined that the recoverable amount of Birchcliff's CGU exceeds the carrying amount at September 30, 2015 and therefore no impairment exists. In determining the recoverable amount, Birchcliff applied a pre-tax discount rate of 10% on cash flows from proved plus probable reserves. The petroleum and natural gas future prices are based on period-end commodity price forecast assumptions determined by the Corporation's independent reserves evaluator.

Finance Expenses

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

	Three months ended September 30,				Nine months ended September 30,			
	2015		2014		2015		2014	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Cash:								
Interest on credit facilities	6,023	1.70	4,739	1.50	16,147	1.53	14,409	1.63
Non-cash:								
Accretion on decommissioning obligations	577	0.16	645	0.20	1,665	0.16	1,878	0.21
Amortization of deferred financing fees	236	0.07	220	0.07	686	0.07	711	0.08
Finance expenses	**6,836**	**1.93**	5,604	1.77	**18,498**	**1.76**	16,998	1.92

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revolving working capital facility	4.5%	4.5%	4.5%	4.5%
Revolving syndicated term credit facility	3.5%	3.9%	3.5%	4.0%
Non-revolving term credit facility(1)	-	4.3%	4.0%	4.6%

(1) During the three month Reporting Period, the Corporation did not have an outstanding non-revolving term credit facility.

Birchcliff's average outstanding total credit facilities balance was approximately $612 million and $625 million in the three and nine month Reporting Periods, respectively, as compared to $437 million and $444 million in the Comparable Prior Periods, calculated as the simple average of the month end amounts.

Gain on Sale of Assets

During the nine month Reporting Period, Birchcliff completed transactions whereby it disposed of minor assets in the Gold Creek and Sturgeon Lake areas of Alberta in exchange for cash. As a result of these dispositions, Birchcliff recorded a gain on sale of assets of approximately $0.7 million ($0.5 million, net of tax) or $0.06 per boe in the nine month Reporting Period.

The sale of assets in the Gold Creek and Sturgeon Lake areas are not significant to the Corporation's financial results and operational performance and, as such, are considered minor assets to Birchcliff.

Income Taxes

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

	Three months ended September 30,		Nine months ended September 30,	
($000s)	**2015**	**2014**	**2015**	**2014**
Deferred income tax expense	1,807	9,746	9,680	32,872
Dividend tax expense on preferred shares	750	749	2,250	2,251
Income tax expense	**2,557**	10,495	**11,930**	35,123
Income tax expense per boe	**$0.72**	$3.34	**$1.13**	$3.96

The decrease in income tax expense from the Comparable Prior Periods was largely due to lower recorded net income before taxes in the Reporting Periods. Also included in the nine month Reporting Period is a deferred income tax expense of $7.8 million resulting from an increase in the Alberta corporate income tax rate from 10% to 12%.

The Corporation's estimated income tax pools were $1.5 billion at September 30, 2015. Management expects that future taxable income will be available to utilize the accumulated tax pools. The components of the Corporation's estimated income tax pools are shown in the table below:

($000s)	Tax pools as at September 30, 2015
Canadian oil and gas property expense	243,465
Canadian development expense	430,774
Canadian exploration expense	285,584
Undepreciated capital costs	258,253
Non-capital losses	272,775
Financing costs	2,332
Estimated income tax pools	**1,493,183**

Birchcliff's 2006 income tax filings were reassessed by the Canada Revenue Agency (the "**CRA**") in 2011 (the "**Reassessment**"). The Reassessment was based on the CRA's position that the tax pools available to Veracel Inc. ("**Veracel**"), prior to its amalgamation with Birchcliff, ceased to be available to Birchcliff after Birchcliff and Veracel amalgamated on May 31, 2005. The Veracel tax pools in dispute totaled $39.3 million which includes approximately $16.2 million in non-capital losses, $15.6 million in scientific research and experimental development expenditures and $7.5 million in investment tax credits.

Birchcliff appealed the Reassessment to the Federal Tax Court of Canada (the "**Court**") and the trial of that appeal occurred in November 2013. On October 1, 2015, the 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). This Trial Decision does not result in any cash taxes payable by Birchcliff.

Birchcliff has appealed the Trial Decision to the Federal Court of Appeal (the "**Court of Appeal**") and expects that appeal to be heard in 2016. Management continues to believe that its tax position is appropriate and will be upheld by the Court of Appeal. Birchcliff is currently reviewing the Trial Decision and preparing its submissions to the Court of Appeal. Accordingly, Birchcliff has not recognized a deferred income tax liability with respect to the Reassessment as at September 30, 2015.

If management's assessment regarding its tax position should change or if Birchcliff's appeal is not successful, Birchcliff will record a non-cash deferred income tax expense of approximately $10.3 million. An unsuccessful outcome would not result in any cash taxes payable by Birchcliff.

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)	**2015**	**2014**	**2015**	**2014**
Land	870	3,170	5,793	13,044
Seismic	144	408	3,187	6,362
Workovers	1,377	515	4,802	6,569
Drilling and completions	31,956	74,414	128,067	191,357
Well equipment and facilities	15,459	25,548	71,800	66,581
Finding and development capital	49,806	104,055	213,649	283,913
Acquisitions	-	124	-	56,677
Dispositions	(5)	-	(665)	(131)
Finding, development and acquisition capital	49,801	104,179	212,984	340,459
Administrative assets	212	184	690	791
Capital expenditures, net	**50,013**	104,363	**213,674**	341,250

Birchcliff drilled 28 (27.5 net) wells during the nine month Reporting Period, consisting of 24 (24.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area, 1 (1.0 net) Montney/Doig horizontal natural gas well in the Elmworth area, 1 (1.0 net) Charlie Lake horizontal light oil well in the Progress area, 1 (0.5 net) Halfway horizontal light oil well in the Progress area and 1 (1.0 net) Belloy vertical well drilled as a potential acid gas injection well in the Elmworth area.

CAPITAL RESOURCES AND LIQUIDITY

In response to the current low commodity price environment, the Corporation initiated proactive measures throughout 2015 with a view to ensuring financial flexibility and long-term sustainability in a low commodity price environment, including establishing a revised capital expenditure program of approximately $250 million, negotiating reductions in both capital and operating service costs and implementing various cost optimization initiatives.

In May 2015, Birchcliff's credit facilities were consolidated and increased into a single $800 million extendible revolving term credit facility with a maturity date of May 11, 2018 from credit facilities previously in the aggregate amount of $750 million. The $800 million extendible revolving term credit facility is no longer subject to the quarterly financial covenants review (interest coverage & debt to EBITDA), which further improves Birchcliff's financial flexibility.

The Corporation believes that its internally generated funds flow, supplemented by its increased available credit facilities, will provide sufficient liquidity to sustain its operations, its dividends on preferred shares and its planned capital expenditures in the short and long-term.

Capital Resources

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

	Three months ended September 30,		Nine months ended September 30,	
($000s)	**2015**	**2014**	**2015**	**2014**
Funds flow from operations	44,587	75,030	127,059	238,781
Changes in non-cash working capital from operations	(2,336)	6,508	(22,402)	(4,993)
Decommissioning expenditures	(318)	(493)	(646)	(1,400)
Exercise of stock options	84	2,914	585	21,262
Exercise of preferred warrants	-	49,006	-	49,690
Financing fees paid on credit facilities	-	-	(940)	(1,018)
Dividends paid on preferred shares	(1,875)	(1,875)	(5,625)	(5,625)
Net change in non-revolving term credit facilities	-	1,416	(129,970)	733
Net change in revolving term credit facilities	26,684	(18,197)	288,263	39,984
Changes in non-cash working capital from investing	(16,777)	(9,951)	(42,647)	3,794
Capital resources	**50,049**	104,358	**213,677**	341,208

Working Capital

The Corporation's working capital deficit (current assets minus current liabilities) decreased to $13.9 million at September 30, 2015 from $76.7 million at December 31, 2014. The deficit at September 30, 2015 is largely comprised of costs incurred from the drilling and completion of new Montney/Doig wells.

At September 30, 2015, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of September 2015 production (80%), which was subsequently received in October 2015. In contrast, current liabilities largely consisted of trade and joint venture payables (68%) and accrued capital and operating costs (28%). Birchcliff routinely assesses the financial strength of its marketers and joint venture partners in accordance with the Corporation's credit risk guidelines. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations.

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

Bank Debt

Total debt, including working capital deficit, was $640.8 million at September 30, 2015 as compared to $545.7 million at December 31, 2014. A significant portion of the funds drawn under Birchcliff's bank credit facilities during the Reporting Periods was to pay costs relating to the drilling and completion of new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant, the Phase V expansion of the PCS Gas Plant and the exploration and development of the Montney/Doig Resource Natural Gas Play and the Charlie Lake Light Oil Resource Play.

Birchcliff's available bank credit facilities limit aggregate to approximately $800 million at September 30, 2015, leaving $164 million (21%) of the Corporation's credit facilities unutilized, providing for substantial financial flexibility.

The following table shows the Corporation's unused bank credit facilities:

As at, *($000s)*	**September 30, 2015**	**December 31, 2014**
Maximum borrowing base limit[1]:		
Non-revolving term credit facilities	-	130,000
Revolving term credit facilities	800,000	620,000
	800,000	750,000
Principal amount utilized:		
Drawn non-revolving term credit facilities[2]	-	(130,000)
Drawn revolving term credit facilities[2]	(635,616)	(342,433)
Outstanding letters of credit [3]	(184)	(184)
	(635,800)	(472,617)
Unused credit	**164,200**	277,383
% unused credit	**21%**	37%

(1) The Corporation's credit facilities are subject to an annual review of the borrowing base limit, which is directly impacted by the value of Birchcliff's petroleum and natural gas reserves. In May 2015, Birchcliff's bank credit facilities were consolidated and increased into a single $800 million extendible revolving term credit facility from credit facilities previously in the aggregate amount of $750 million and all financial covenants were removed.

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

(3) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit during the periods ended September 30, 2015 and December 31, 2014.

Contractual Obligations

The Corporation enters into contractual obligations in the ordinary course of conducting its day-to-day business. The following table lists Birchcliff's estimated material contractual obligations as of September 30, 2015:

($000s)	**2015**	**2016**	**2017 - 2019**	**Thereafter**
Accounts payable and accrued liabilities	45,230	-	-	-
Drawn revolving term credit facilities	-	-	635,616	-
Office lease[1]	905	3,619	3,318	-
Purchase obligations[2]	-	19,500	-	-
Transportation and processing	6,423	39,049	92,093	105,916
Estimated contractual obligations[3]	**52,558**	**62,168**	**731,027**	**105,916**

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

(2) As of September 30, 2015, the Corporation is committed to spend approximately $19.5 million in 2016 under a purchasing agreement relating to the construction of Phase V of the PCS Gas Plant.

(3) Contractual commitments that are routine in nature and form part of the normal course of operations for Birchcliff are not included. The Corporation's decommissioning obligations are excluded from the table as these obligations arose from a regulatory requirement rather than from a contractual arrangement. Birchcliff estimates the total undiscounted cash flow to settle its decommissioning obligations on its wells and facilities at September 30, 2015 to be approximately $158.5 million and will be incurred as follows: 2016 - $4.8 million, 2017 - $2.4 million and $151.3 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, in cash or common shares.

OFF-BALANCE SHEET TRANSACTIONS

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

OUTSTANDING SHARE INFORMATION

At September 30, 2015, Birchcliff had outstanding common shares, Series A Preferred Shares and Series C Preferred Shares. Birchcliff's common shares began trading on the TSX on July 21, 2005 under the symbol "**BIR**" and were at the same time de-listed from the TSX Venture Exchange where they were trading under the same symbol prior to such time. Birchcliff's common shares are included in the S&P/TSX Composite Index. Birchcliff's Series A Preferred Shares and Series C Preferred Shares are individually listed on the TSX under the symbols "**BIR.PR.A**" and "**BIR.PR.C**", respectively.

The following table summarizes the common shares issued:

	Common shares
Balance at December 31, 2014	152,214,206
Exercise of options	93,333
Balance at September 30, 2015	**152,307,539**

As of November 11, 2015, the Corporation had outstanding: 152,307,539 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 12,862,905 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 3, 2015, 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, 2015. Both dividends are designated as an eligible dividend for purposes of the *Income Tax Act* (Canada).

SUMMARY OF QUARTERLY RESULTS

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

Quarter ending,	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014	Mar. 31 2014	Dec. 31, 2013
Average daily production *(boe 6:1)*	**38,433**	38,489	38,416	37,704	34,235	31,178	31,749	28,391
Realized natural gas price *($/Mcf)*	**3.12**	2.86	2.98	3.91	4.37	4.81	6.10	3.81
Realized oil price *($/bbl)*[(1)]	**52.91**	64.93	47.66	71.87	95.94	104.72	97.30	81.52
Total revenues *($000s)*[(1)]	**82,011**	82,791	77,026	105,598	116,424	117,308	133,558	89,092
Operating costs *($/boe)*	**4.39**	4.53	5.11	5.33	5.06	5.25	5.21	5.44
Capital expenditures, net *($000s)*	**50,013**	65,122	98,539	109,682	104,363	75,484	161,403	18,188
Funds flow from operations *($000s)*	**44,587**	45,752	36,720	61,717	75,030	75,382	88,369	50,060
Per common share – basic *($)*	**0.29**	0.30	0.24	0.41	0.50	0.52	0.61	0.35
Per common share – diluted *($)*	**0.29**	0.30	0.24	0.40	0.48	0.49	0.60	0.34
Net income (loss) *($000s)*	**4,815**	(4,174)	(3,479)	17,053	29,665	28,087	39,499	37,062
Net income (loss) to common shareholders *($000s)*[(2)]	**3,815**	(5,174)	(4,479)	16,053	28,665	27,087	38,499	36,062
Per common share – basic *($)*	**0.03**	(0.03)	(0.03)	0.11	0.19	0.19	0.27	0.25
Per common share – diluted *($)*	**0.02**	(0.03)	(0.03)	0.10	0.19	0.18	0.26	0.25
Total assets *($ million)*	**2,022**	2,009	1,983	1,919	1,846	1,771	1,730	1,587
Long-term bank debt *($000s)*	**626,839**	599,998	536,570	469,033	435,545	452,183	453,772	393,967
Total debt *($000s)*	**640,751**	632,306	610,170	545,745	495,307	514,637	524,720	454,038
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	**152,308**	152,294	152,284	152,214	152,154	145,912	144,504	143,677
Diluted	**168,112**	168,181	168,108	166,302	166,190	166,285	166,085	163,548
Wtd. average common shares outstanding *(000s)*								
Basic	**152,303**	152,289	152,243	152,183	149,594	145,145	144,026	143,063
Diluted	**153,916**	154,650	154,215	155,304	154,800	152,623	147,090	145,319

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

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

Over the past eight quarters, the Corporation's successful drilling program along with fluctuations in commodity prices have contributed to the fluctuations in oil and gas revenues and funds flow from operations.

Net income has fluctuated primarily due to changes in funds flow from operations and a significant gain on sale of assets that occurred during the fourth quarter of 2013.

Average daily production volumes have generally increased over the past eight quarters, which can be attributed primarily to the Corporation's exploration and development activities on the Montney/Doig Natural Gas Resource Play.

Capital expenditures have fluctuated over the past eight quarters as a result of the timing of the Corporation's development capital expenditures as well as an asset divestiture and an asset acquisition that occurred during the fourth quarter of 2013 and first quarter of 2014, respectively.

POTENTIAL TRANSACTIONS

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

There were no changes in the Corporation's internal controls over financial reporting ("**ICFR**") that occurred during the period beginning on July 1, 2015 and ended on September 30, 2015 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, 2014.

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. A more detailed discussion of the risk factors affecting the Corporation is presented in the Risk Factors section of the Corporation's Annual Management's Discussion and Analysis and Annual Information Form for the year ended December 31, 2014. In addition to the foregoing, readers should carefully consider the risk factors set forth below.

The Alberta NDP provincial government is proceeding with plans to study, and potentially modify, both Alberta's royalty structure and policies on climate change. In connection therewith, the provincial government has appointed a royalty review panel and a climate change panel to provide recommendations and advice to the government on Alberta's royalty structure and climate change policies. Although the outcome of these reviews are not yet known, any change in Alberta's provincial royalty structure or climate change policies could have a significant impact on the Corporation's future financial results, cost of capital and capital investment plans. In addition, a federal Liberal majority government was elected on October 19, 2015. This newly elected federal government may implement new environmental legislation and regulatory oversight, which could have a significant impact on the oil and gas industry.

The Corporation delivers its products through gathering and processing facilities and pipeline systems, some of which it does not own. The amount of oil and natural gas that the Corporation can produce and sell is subject to the accessibility, availability, proximity and capacity of these gathering and processing facilities and pipeline systems. The lack of availability of capacity in any of the gathering and processing facilities and pipeline systems could result in the Corporation's inability to realize the full economic potential of its production or in a reduction of the price offered for the Corporation's production. Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and market oil and natural gas production. The Corporation's results of operations may be adversely affected by transportation service curtailments, apportionments, unplanned outages and interruptions on the pipelines on which the Corporation's products are transported, as well as the actions or inactions of third party operators, any of which could cause adversely affect the Corporation's production, cause delays in the Corporation receiving its revenues and cause the Corporation to incur additional expenses.

NON-GAAP MEASURES

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

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

	Three months ended September 30,		Nine months ended September 30,	
($000s)	**2015**	**2014**	**2015**	**2014**
Cash flow from operating activities	41,933	81,045	104,011	232,388
Adjustments:				
Decommissioning expenditures	318	493	646	1,400
Changes in non-cash working capital	2,336	(6,508)	22,402	4,993
Funds flow from operations	**44,587**	75,030	**127,059**	238,781

"Netback" and "operating netback" denote petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. "Estimated operating netback" of the PCS Gas Plant (and the components thereof) is based upon certain cost allocations and accruals directly attributable to the PCS Gas Plant and related wells and infrastructure on a production month basis.

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

"Total debt" is calculated as the revolving term credit facilities plus non-revolving term credit facilities as they appear on the Corporation's Condensed Statements of Financial Position plus working capital deficit. The following table reconciles the non-revolving term credit facilities plus the revolving term credit facilities to total debt:

As at, *($000s)*	**September 30, 2015**	**December 31, 2014**
Non-revolving term credit facilities	-	129,476
Revolving term credit facilities	626,839	339,557
Long-term bank debt	626,839	469,033
Working capital deficit	13,912	76,712
Total debt	**640,751**	545,745

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.*

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

Mcfe Conversions*:* *Thousands of cubic feet of gas equivalent ("****Mcfe****") amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. Mcfe amounts may be misleading, particularly if used in isolation. A conversion ratio of 1 bbl to 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.*

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

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

Forward-Looking Information*:* *This MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking information relates to future events or future performance and is based upon Birchcliff's current internal expectations, estimates, projections, assumptions and beliefs. All information other than historical fact is forward-looking information. Words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "estimated", "forecast", "may", "will", "potential", "proposed" and other similar words that convey certain events or conditions "may" or "will" occur are intended to identify forward-looking information.*

In particular, this MD&A contains forward-looking information relating to: Birchcliff's plans and other aspects of its anticipated future operations, management focus, strategies and priorities; expected results from Birchcliff's portfolio of oil and gas assets and results of operations; Birchcliff's production guidance, including its estimates of its annual average production for 2015, 2015 annual average production growth, 2015 fourth quarter average production and 2015 exit production, its expectation that its 2015 annual average and fourth quarter average production will be on the low end of its production guidance range and its expectation that it will have strong average production in the first quarter of 2016; expected reserves increases, including Birchcliff's expectation that it will see a material increase in its proved developed producing, total proved and proved plus probable reserves volumes at year end 2015; Birchcliff's expectation that its credit facilities will be increased upon the completion of its annual credit review in May 2016; the flexibility and sustainability of the Corporation; the Corporation's liquidity, including that the Corporation expects to meet its future obligations as they become due and the Corporation's belief that its internally generated funds flow, supplemented by its increased available credit facilities, will provide sufficient liquidity to sustain its operations, its dividends on preferred shares and its planned capital expenditures in the short and long-term; the Corporation's estimated income tax pools and its expectation that future taxable income will be available to utilize the accumulated tax pools; the Veracel Reassessment, including the Corporation's expectation that its appeal to the Court of

Appeal will be heard in 2016 and management's belief that its tax position is appropriate and will be upheld by the Court of Appeal; Birchcliff's revised capital expenditure program for 2015; the proposed expansion of the PCS Gas Plant; the Corporation's expectation that counterparties will be able to meet their financial obligations to Birchcliff; estimates of contractual and decommissioning obligations; and the future impact of regulatory measures, including changes to the royalty and climate change regimes.

The forward-looking information contained in this MD&A is based upon certain expectations and assumptions, including: prevailing and future commodity prices, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; 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; anticipated timing and results of capital expenditures; the sufficiency of budgeted capital expenditures to carry out planned operations; results of operations; 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; the availability of, demand for and cost of labour, services and materials; Birchcliff's ability to access capital; the ability to obtain financing on acceptable terms; the ability to obtain any necessary regulatory approvals in a timely manner; the ability of Birchcliff to secure adequate transportation for its products; Birchcliff's ability to market oil and gas; and abandonment costs and timing of decommissioning obligations. In addition, Birchcliff has made the following key assumptions with respect to certain forward-looking information contained in this MD&A:

- *With respect to estimates as to Birchcliff's annual average production for 2015, 2015 annual average production growth, 2015 fourth quarter average production and 2015 exit production and statements that Birchcliff expects strong average production in the first quarter of 2016, the key assumptions are that: no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells; the construction of new infrastructure meets timing expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations. Birchcliff's annual average and fourth quarter average production for 2015 are expected to be on the low end of Birchcliff's production guidance range, primarily as a result of the numerous transportation service curtailments that have adversely impacted Birchcliff's production volumes. Birchcliff's 2015 annual average and fourth quarter average production guidance assumes that any future transportation service curtailments or unplanned outages that occur during the balance of the fourth quarter of 2015 will be short in duration or otherwise insignificant.*

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

- *With respect to Birchcliff's expectation that its credit facilities will be increased upon the completion of its annual credit review in May 2016, the key assumptions are that: Birchcliff's proved developed producing reserves increase as currently expected; commodity prices do not significantly deteriorate from current levels; the criteria applied by Birchcliff's syndicate of lenders remains consistent with historical practice; and the syndicate's forecast of commodity prices are consistent with the forecast used by Birchcliff's independent reserves evaluator.*

- *With respect to statements regarding the Corporation's liquidity, the key assumption is that the Corporation's forecasts of production, commodity prices and funds flow are valid.*
- *With respect to statements regarding management's belief that its tax position with respect to the Veracel transaction is appropriate and will be upheld by the Court of Appeal, the key assumption is the validity of the Corporation's interpretation of how the Income Tax Act (Canada) applies to the Veracel transaction.*
- *With respect to statements regarding Birchcliff's revised capital expenditure program for 2015, the key assumption is that Birchcliff realizes the annual average production target of 39,000 to 40,000 boe per day and the commodity prices upon which Birchcliff's revised capital expenditure program is based, being an expected annual average WTI price of US$50.00 per barrel of oil and an AECO price of CDN$2.70 per GJ of natural gas during 2015. Birchcliff may adjust its 2015 capital budget or further adjust its capital expenditure program to respond to changes in commodity prices and other material changes in the assumptions underlying its 2015 capital expenditure program.*
- *With respect to statements regarding the proposed expansion of the PCS Gas Plant, the key assumptions are that: future drilling is successful; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund those projects; and commodity prices warrant proceeding with the construction of such facility and the drilling of associated wells.*

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

Forward-looking information necessarily involves both known and unknown risks and uncertainties that could cause actual results to differ materially from those anticipated, including, but not limited to: general economic, market and business conditions which will, among other things, impact the demand for and market prices of Birchcliff's products and Birchcliff's access to capital; volatility of crude oil and natural gas prices; fluctuations in currency and interest rates; operational risks and liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves and resources; the accuracy of oil and natural gas reserves estimates and estimated production levels as they are affected by exploration and development drilling and estimated decline rates; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; changes in tax laws, crown royalty rates, environmental laws and incentive programs relating to the oil and 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 inability to secure adequate production transportation for Birchcliff's products; the occurrence of unexpected events such as fires, equipment failures and other similar events affecting Birchcliff or other parties whose operations or assets directly or indirectly affect Birchcliff; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; stock market volatility; loss of market demand; environmental risks, claims and liabilities; incorrect assessments of the value of acquisitions and exploration and development programs; shortages in equipment and skilled personnel; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; competition for, among other things, capital, acquisitions of *reserves, undeveloped lands, equipment and skilled personnel; and uncertainties associated with credit facilities and counterparty credit risk.*

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

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

Birchcliff Energy Ltd.
Condensed Statements of Financial Position

Unaudited (Expressed in thousands of Canadian dollars)

As at,	**September 30, 2015**	**December 31, 2014**
ASSETS		
Current assets:		
Cash	**57**	54
Accounts receivable	**27,257**	34,931
Prepaid expenses and deposits	**4,004**	1,612
	31,318	36,597
Non-current assets:		
Exploration and evaluation *(Note 3)*	**922**	2,235
Petroleum and natural gas properties and equipment *(Note 4)*	**1,989,777**	1,879,848
	1,990,699	1,882,083
Total assets	**2,022,017**	1,918,680
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	**45,230**	113,309
	45,230	113,309
Non-current liabilities:		
Revolving term credit facilities *(Note 5)*	**626,839**	339,557
Non-revolving term credit facilities *(Note 6)*	-	129,476
Decommissioning obligations *(Note 7)*	**88,738**	85,824
Deferred income taxes	**105,620**	95,941
Capital securities	**48,528**	48,296
	869,725	699,094
Total liabilities	**914,955**	812,403
SHAREHOLDERS' EQUITY		
Share capital *(Note 8)*		
Common shares	**783,481**	782,671
Preferred shares *(perpetual)*	**41,434**	41,434
Contributed surplus	**58,931**	53,118
Retained earnings	**223,216**	229,054
	1,107,062	1,106,277
Total shareholders' equity and liabilities	**2,022,017**	1,918,680

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

Approved by the Board

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

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

Birchcliff Energy Ltd.
Condensed Statements of Net Income (Loss) and Comprehensive Income (Loss)

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	**2014**	**2015**	**2014**
REVENUE				
Petroleum and natural gas sales	**82,011**	116,424	**241,828**	367,290
Royalties	**(3,025)**	(8,269)	**(8,049)**	(30,427)
Net revenue from oil and natural gas sales	**78,986**	108,155	**233,779**	336,863
Realized loss on financial instruments	-	(315)	-	(931)
Unrealized gain on financial instruments	-	396	-	207
	78,986	108,236	**233,779**	336,139
EXPENSES				
Operating	**15,518**	15,932	**49,042**	45,731
Transportation and marketing	**8,665**	7,613	**26,201**	21,669
Administrative, net	**4,999**	5,312	**17,763**	19,228
Depletion and depreciation *(Note 4)*	**34,721**	32,740	**111,214**	97,514
Finance	**6,836**	5,604	**18,498**	16,998
Dividends on capital securities	**875**	875	**2,625**	2,625
(Gain) on sale of assets	-	-	**(656)**	-
	71,614	68,076	**224,687**	203,765
INCOME BEFORE TAXES	**7,372**	40,160	**9,092**	132,374
Income tax expense	**2,557**	10,495	**11,930**	35,123
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**4,815**	29,665	**(2,838)**	97,251
Net income (loss) per common share *(Note 8)*				
Basic	**$0.03**	$0.19	**($0.04)**	$0.64
Diluted	**$0.02**	$0.19	**($0.04)**	$0.62

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, 2013	694,183	41,434	60,119	118,750	914,486
Dividends on perpetual preferred shares	-	-	-	(3,000)	(3,000)
Exercise of stock options	30,880	-	(9,618)	-	21,262
Exercise of preferred warrants	56,783	-	(7,093)	-	49,690
Stock-based compensation	-	-	7,931	-	7,931
Net income and comprehensive income	-	-	-	97,251	97,251
As at September 30, 2014	781,846	41,434	51,339	213,001	1,087,620
As at December 31, 2014	782,671	41,434	53,118	229,054	1,106,277
Dividends on perpetual preferred shares *(Note 8)*	-	-	-	(3,000)	(3,000)
Exercise of stock options *(Notes 8 and 9)*	810	-	(225)	-	585
Stock-based compensation *(Note 9)*	-	-	6,038	-	6,038
Net loss and comprehensive loss	-	-	-	(2,838)	(2,838)
As at September 30, 2015	**783,481**	**41,434**	**58,931**	**223,216**	**1,107,062**

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,	
	2015	**2014**	**2015**	**2014**
Cash provided by (used in):				
OPERATING				
Net income (loss) and comprehensive income (loss)	**4,815**	29,665	**(2,838)**	97,251
Adjustments for items not affecting operating cash:				
Unrealized gain on financial instruments	-	(396)	-	(207)
Depletion and depreciation	**34,721**	32,740	**111,214**	97,514
Stock-based compensation	**806**	786	**2,433**	3,886
Finance	**6,836**	5,604	**18,498**	16,998
(Gain) on sale of assets	-	-	**(656)**	-
Income tax expense	**2,557**	10,495	**11,930**	35,123
Interest paid	**(6,023)**	(4,739)	**(16,147)**	(14,409)
Dividends on capital securities	**875**	875	**2,625**	2,625
Decommissioning expenditures *(Note 7)*	**(318)**	(493)	**(646)**	(1,400)
Changes in non-cash working capital	**(2,336)**	6,508	**(22,402)**	(4,993)
	41,933	81,045	**104,011**	232,388
FINANCING				
Exercise of stock options	**84**	2,914	**585**	21,262
Exercise of preferred warrants	-	49,006	-	49,690
Financing fees paid on credit facilities	-	-	**(940)**	(1,018)
Dividends on perpetual preferred shares *(Note 8)*	**(1,000)**	(1,000)	**(3,000)**	(3,000)
Dividends on capital securities *(Note 8)*	**(875)**	(875)	**(2,625)**	(2,625)
Net change in non-revolving term credit facilities	-	1,416	**(129,970)**	733
Net change in revolving term credit facilities	**26,684**	(18,197)	**288,263**	39,984
	24,893	33,264	**152,313**	105,026
INVESTING				
Petroleum and natural gas properties and equipment	**(49,919)**	(104,220)	**(214,226)**	(284,604)
Exploration and evaluation assets	**(99)**	(19)	**(113)**	(100)
Acquisition of petroleum and natural gas properties	-	(124)	-	(56,677)
Sale of petroleum and natural gas properties and equipment	**5**	-	**605**	-
Sale of exploration and evaluation assets	-	-	**60**	131
Changes in non-cash working capital	**(16,777)**	(9,951)	**(42,647)**	3,794
	(66,790)	(114,314)	**(256,321)**	(337,456)
NET CHANGE IN CASH	**36**	(5)	**3**	(42)
CASH, BEGINNING OF PERIOD	**21**	59	**54**	96
CASH, END OF PERIOD	**57**	54	**57**	54

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, 2015

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

1. NATURE OF OPERATIONS

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

These financial statements were approved and authorized for issuance by the Board of Directors on November 11, 2015.

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, 2015, including the 2014 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, 2014. 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, 2014.

Birchcliff's financial statements are prepared on a historical cost basis, except for certain financial and non-financial assets and liabilities which have been measured at fair value. The Corporation's financial statements include the accounts of Birchcliff only and are expressed in Canadian dollars, unless otherwise stated. There are no subsidiary companies.

3. EXPLORATION AND EVALUATION ASSETS

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

($000s)	E&E[1]
As at December 31, 2013	2,264
Additions	102
Disposals	(131)
As at December 31, 2014	2,235
Additions	117
Disposals	(1)
Lease expiries[2]	(1,429)
As at September 30, 2015	**922**

(1) E&E assets consist of the Corporation's exploration activities which are pending the determination of economic quantities of commercially producible proven reserves. Additions represent the Corporation's net share of costs incurred on E&E activities during the period. A review of each exploration project by area is carried out at each reporting date to ascertain whether economical quantities of proven reserves have been discovered and whether such costs should be transferred to depletable petroleum and natural gas components. There were no exploration costs reclassified from the E&E category to petroleum and natural gas properties and equipment category during the three and nine months ended September 30, 2015.

(2) During the nine months ended September 30, 2015, the Corporation incurred an expense of approximately $1.4 million related to lease expiries on undeveloped land that has been included in depletion and depreciation expense.

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, 2013	1,855,992	8,802	1,864,794
Additions	411,579	1,418	412,997
Acquisitions	58,465	-	58,465
Dispositions	(535)	-	(535)
As at December 31, 2014	2,325,501	10,220	2,335,721
Additions	219,168	554	219,722
Dispositions	(8)	-	(8)
As at September 30, 2015[1]	2,544,661	10,774	2,555,435
Accumulated depletion and depreciation:			
As at December 31, 2013	(314,325)	(5,284)	(319,609)
Depletion and depreciation expense	(135,098)	(1,180)	(136,278)
Dispositions	14	-	14
As at December 31, 2014	(449,409)	(6,464)	(455,873)
Depletion and depreciation expense	(108,913)	(872)	(109,785)
As at September 30, 2015	(558,322)	(7,336)	(565,658)
Net book value:			
As at December 31, 2014	1,876,092	3,756	1,879,848
As at September 30, 2015[2]	**1,986,339**	**3,438**	**1,989,777**

(1) The Corporation's P&NG properties and equipment were pledged as security for its credit facilities. Although the Corporation believes that it has title to its petroleum and natural gas properties, it cannot control or completely protect itself against the risk of title disputes and challenges. There were no borrowing costs capitalized to P&NG properties and equipment.

(2) In light of low commodity prices, the Corporation performed an asset impairment test to ensure that the carrying value of its P&NG properties and equipment was recoverable at the end of the reporting period. Birchcliff's P&NG properties and equipment were not impaired at September 30, 2015. In determining the recoverable amount, Birchcliff applied a pre-tax discount rate of 10% on cash flows from proved plus probable reserves. The petroleum and natural gas future prices are based on period-end commodity price forecasts determined by the Corporation's independent reserves evaluator.

5. REVOLVING TERM CREDIT FACILITIES

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

As at, *($000s)*	**September 30, 2015**	**December 31, 2014**
Syndicated credit facility	602,000	319,000
Working capital facility	33,616	23,433
Drawn revolving term credit facilities	635,616	342,433
Unamortized prepaid interest on bankers' acceptances	(7,003)	(2,084)
Unamortized deferred financing fees	(1,774)	(792)
Revolving term credit facilities	**626,839**	339,557

On May 11, 2015, the aggregate limit of Birchcliff's credit facilities was increased to $800 million from $750 million. In addition to the increase in the credit facilities limit, Birchcliff's bank syndicate also approved the consolidation of the Corporation's $750 million credit facilities comprised of a $620 million revolving term credit facility, a $70 million non-revolving five-year term credit facility and a $60 million non-revolving five-year term credit facility into a single $800 million three-year term extendible revolving credit facility with a maturity date of May 11, 2018. Concurrently, the financial covenants contained in the credit facilities which previously required the Corporation to ensure that on the last day of each quarter the ratio of EBITDA to interest expense, determined on a historical rolling four quarter basis equaled or exceeded 3.5:1.0, and the ratio of debt to EBITDA, determined on a historical rolling four quarter basis did not exceed 4.0:1.0, were removed. The $800 million extendible borrowing base revolving term credit facility has no financial covenants.

The $800 million extendible borrowing base revolving term credit facility is comprised of an extendible revolving syndicated term credit facility of $760 million and an extendible revolving working capital facility of $40 million. Birchcliff may each year, at its option, request an extension to the maturity date of the syndicated credit facility and the working capital facility, 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 revolving term credit facilities allow for prime rate loans, US base rate loans, bankers' acceptances, letters of credit and LIBOR loans. The interest rates applicable to the drawn loans are based on a pricing grid and will change as a result of the ratio of outstanding indebtedness to EBITDA. EBITDA is defined as earnings before interest and non-cash items including income taxes, stock-based compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments and depletion, depreciation and amortization. The revolving term credit facilities are subject to the Syndicate's redetermination of the borrowing base once each year as of November 15. Upon any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall, Birchcliff must eliminate the borrowing base shortfall amount. The revolving term credit facilities are secured by a fixed and floating charge debenture, an instrument of pledge and a general security agreement encompassing all of the Corporation's assets.

6. NON-REVOLVING TERM CREDIT FACILITIES

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

As at, *($000s)*	**September 30, 2015**	**December 31, 2014**
$70 million non-revolving five-year term credit facility[1]	-	70,000
$60 million non-revolving five-year term credit facility[1]	-	60,000
Drawn non-revolving term credit facilities	-	130,000
Unamortized prepaid interest on bankers' acceptances	-	(30)
Unamortized deferred financing fees	-	(494)
Non-revolving term credit facilities	-	129,476

(1) On May 11, 2015, Birchcliff's non-revolving term credit facilities were consolidated and included in the $800 million three-year term revolving credit facility as described in Note 5 in these financial statements.

7. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is provided below:

As at, *($000s)*	**September 30, 2015**	**December 31, 2014**
Balance, beginning	85,824	73,433
Obligations incurred	1,738	5,751
Obligations acquired	-	1,788
Changes in estimated future cash flows	157	4,091
Accretion expense	1,665	2,424
Actual expenditures	(646)	(1,663)
Balance, ending[1]	**88,738**	85,824

(1) As at September 30, 2015, Birchcliff applied a risk-free rate of 2.42% to calculate the discounted fair value of decommissioning liabilities (December 31, 2014 – 2.43%).

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 presents the number of common shares and perpetual preferred shares issued:

As at, *(000s)*	**September 30, 2015**	**December 31, 2014**
Common Shares:		
Outstanding at beginning of period - Jan 1	152,215	143,677
Exercise of stock options	93	2,551
Exercise of preferred warrants	-	5,987
Outstanding at end of period	**152,308**	152,215
Series A Preferred Shares *(perpetual)* **:**		
Outstanding at beginning of period - Jan 1	2,000	2,000
Outstanding at end of period	**2,000**	2,000

Capital Securities

The Corporation has outstanding 2,000,000 Series C Preferred Shares at September 30, 2015 (December 31, 2014 - 2,000,000).

Dividends

On September 3, 2015, 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, 2015. Both dividends are designated as an eligible dividend for purposes of the *Income Tax Act* (Canada).

Per Common Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	**2014**	**2015**	**2014**
Net income (loss) and comprehensive income (loss) *($000s)*	4,815	29,665	(2,838)	97,251
Dividends on Series A Preferred Shares *($000s)*	(1,000)	(1,000)	(3,000)	(3,000)
Net income (loss) to common shareholders *($000s)*	3,815	28,665	(5,838)	94,251
Weighted average common shares *(000s)*:				
Weighted average basic common shares outstanding	152,303	149,594	152,279	146,275
Effects of dilutive securities	1,613	5,206	-	5,286
Weighted average diluted common shares outstanding[1]	153,916	154,800	152,279	151,561
Net income (loss) per common share *($/share)*				
Basic	**$0.03**	$0.19	**($0.04)**	$0.64
Diluted	**$0.02**	$0.19	**($0.04)**	$0.62

(1) As the Corporation reported a loss for the nine months ended September 30, 2015 the basic and diluted weighted average shares outstanding are the same for the period. The weighted average diluted common shares outstanding at September 30, 2015 excludes 15,804,637 stock options and performance warrants that were anti-dilutive (September 30, 2014 – 2,112,300).

9. SHARE-BASED PAYMENTS

Stock Options

At September 30, 2015, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of a maximum of 15,230,754 (September 30, 2014 – 15,215,391) common shares. At September 30, 2015, there remained available for issuance options in respect of 2,365,849 (September 30, 2014 – 4,119,419) common shares. For stock options exercised during the three months ended September 30, 2015, the weighted average share trading price was $6.21 (September 30, 2014 – $11.73) per common share.

A summary of the outstanding stock options at September 30, 2015 is presented below:

	Three months ended September 30, 2015		Nine months ended September 30, 2015	
	Number	Exercise price ($)[1]	Number	Exercise price ($)[1]
Outstanding at beginning of period	12,947,638	7.90	11,147,672	8.45
Granted	91,000	6.38	3,348,500	6.62
Exercised	(14,000)	(5.96)	(93,333)	(6.26)
Forfeited	(124,733)	(8.37)	(421,534)	(8.48)
Expired	(35,000)	(10.07)	(1,116,400)	(9.66)
Outstanding, September 30, 2015	**12,864,905**	**7.88**	**12,864,905**	**7.88**

(1) Determined on a weighted average basis.

The weighted average fair value per option granted during the three months ended September 30, 2015 was $2.12 (September 30, 2014 – $3.86). In determining the stock-based compensation expense for options issued during the three months ended September 30, 2015, the Corporation applied a weighted average estimated forfeiture rate of 12% (September 30, 2014 – 13%).

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

Three months ended,	September 30, 2015	September 30, 2014
Risk-free interest rate	0.6%	1.4%
Expected life *(years)*	4.0	3.9
Expected volatility	42.0%	37.3%

A summary of the stock options outstanding and exercisable under the plan at September 30, 2015 is presented below:

Exercise Price		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life *(years)*	Weighted Average Exercise Price	Quantity	Weighted Average Remaining Contractual Life *(years)*	Weighted Average Exercise Price
$5.96	$6.00	2,149,735	1.57	$5.96	2,149,735	1.57	$5.96
$6.01	$9.00	8,571,470	3.44	$7.48	2,554,262	2.69	$7.85
$9.01	$12.00	1,882,700	0.79	$11.18	1,675,033	0.42	$11.31
$12.01	$14.56	261,000	2.41	$13.07	161,666	1.60	$12.95
		12,864,905	**2.72**	**$7.88**	**6,540,696**	**1.71**	**$8.24**

Performance Warrants

Performance warrants were issued on January 14, 2005 as part of the Corporation's initial restructuring to become a public entity. Birchcliff issued 4,049,665 performance warrants with an exercise price of $3.00 with an amended expiration date of January 31, 2020. There are 2,939,732 performance warrants outstanding and exercisable at September 30, 2015 (September 30, 2014 – 2,939,732).

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

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, 2015.

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

As at, *($000s)*	**September 30, 2015**	**December 31, 2014**
Maximum borrowing base limit(1):		
Non-revolving term credit facilities	-	130,000
Revolving term credit facilities	800,000	620,000
	800,000	750,000
Principal amount utilized:		
Drawn non-revolving term credit facilities	-	(130,000)
Drawn revolving term credit facilities	(635,616)	(342,433)
Outstanding letters of credit(2)	(184)	(184)
	(635,800)	(472,617)
Unused credit	**164,200**	**277,383**

(1) The Corporation's credit facilities are subject to an annual review of the borrowing base limit, which is directly impacted by the value of Birchcliff's petroleum and natural gas reserves. On May 11, 2015, the aggregate limit of Birchcliff's credit facilities was increased to $800 million from $750 million.

(2) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit during the three months ended September 30, 2015.

The capital structure of the Corporation is as follows:

As at, *($000s)*	**September 30, 2015**	**December 31, 2014**	**Change**
Shareholders' equity(1)	1,107,062	1,106,277	
Capital securities	48,528	48,296	
Shareholders' equity & capital securities	1,155,590	1,154,573	0%
Shareholders' equity & capital securities as a % of total capital(2)	64%	68%	
Working capital deficit	13,912	76,712	
Drawn non-revolving term credit facilities	-	130,000	
Drawn revolving term credit facilities	635,616	342,433	
Drawn debt	649,528	549,145	18%
Drawn debt as a % of total capital	36%	32%	
Capital	**1,805,118**	1,703,718	6%

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

(2) Of the 64%, approximately 56% relates to common capital stock and 8% relates to preferred capital stock.

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. Management has implemented and monitors compliance with risk management guidelines as outlined by the Board of Directors. The Corporation's risk management guidelines are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls and to monitor risks and adherence to market conditions and the Corporation's activities. Birchcliff's exposure to credit risk, liquidity risk and market risk are consistent with those disclosed in the annual audited financial statements for the year ended December 31, 2014.

Birchcliff had no risk management contracts in place as at or during the three month and nine months ended September 30, 2015. The Corporation actively monitors the market to determine whether any additional commodity price risk management contracts are warranted.

12. CONTINGENT LIABILITY

Birchcliff's 2006 income tax filings were reassessed by the Canada Revenue Agency (the "**CRA**") in 2011 (the "**Reassessment**"). The Reassessment was based on the CRA's position that the tax pools available to Veracel Inc. ("**Veracel**"), prior to its amalgamation with Birchcliff, ceased to be available to Birchcliff after Birchcliff and Veracel amalgamated on May 31, 2005. The Veracel tax pools in dispute totaled $39.3 million which includes approximately $16.2 million in non-capital losses, $15.6 million in scientific research and experimental development expenditures and $7.5 million in investment tax credits.

Birchcliff appealed the Reassessment to the Federal Tax Court of Canada (the "**Court**") and the trial of that appeal occurred in November 2013. On October 1, 2015, the 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). This Trial Decision does not result in any cash taxes payable by Birchcliff.

Birchcliff has appealed the Trial Decision to the Federal Court of Appeal (the "**Court of Appeal**") and expects that appeal to be heard in 2016. Management continues to believe that its tax position is appropriate and will be upheld by the Court of Appeal. Birchcliff is currently reviewing the Trial Decision and preparing its submissions to the Court of Appeal. Accordingly, Birchcliff has not recognized a deferred income tax liability with respect to the Reassessment as at September 30, 2015.

If management's assessment regarding its tax position should change or if Birchcliff's appeal is not successful, Birchcliff will record a non-cash deferred income tax expense of approximately $10.3 million. An unsuccessful outcome would not result in any cash taxes payable by Birchcliff.

Non-GAAP Measures

This Third Quarter Report uses "funds flow", "funds flow from operations", "funds flow per common share", "netback", "operating netback", "estimated operating netback", "operating margin" and "total debt" which do not have standardized meanings prescribed by generally accepted accounting principles and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. For further details on these Non-GAAP measures, please see *"Non-GAAP Measures"* in the Management's Discussion and Analysis for the three and nine months ended September 30, 2015.

In addition, this Third Quarter Report uses: (i) "funds flow netback" which 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; and (ii) "total cash costs" which are comprised of royalties, operating, transportation and marketing, general and administrative and interest costs. Such measures do not have standardized meanings prescribed by generally accepted accounting principles and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Management utilizes funds flow netback and total cash costs as key measures to assess Birchcliff's efficiency and its ability to generate the cash necessary to fund future growth through capital investments, pay dividends on preferred shares and repay debt.

Advisories

Unaudited numbers*: All financial amounts referred to in this Third Quarter Report for the three and nine months ended September 30, 2015 and three and nine months ended September 30, 2014 are management's best estimates and are unaudited.*

Boe Conversions*: Barrel of oil equivalent ("****boe****") amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel of oil (1 bbl). Boe amounts may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.*

Mcfe Conversions*: Thousands of cubic feet of gas equivalent ("****Mcfe****") amounts have been calculated by using the conversion ratio of one barrel of oil (1 bbl) to six thousand cubic feet (6 Mcf) of natural gas. Mcfe amounts may be misleading, particularly if used in isolation. A conversion ratio of 1 bbl to 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.*

Operating Costs*: References in this Third Quarter Report to "operating costs" exclude transportation and marketing costs.*

Drilling Locations: *This Third Quarter Report discloses potential drilling locations in three categories: (i) proved locations; (ii) probable locations; and (iii) unbooked locations. Proved locations and probable locations are proposed drilling locations identified in the 2014 Reserves Evaluation that have proved* *and/or probable reserves, as applicable, attributed to them in the 2014 Reserves Evaluation. Unbooked locations are internal estimates based on Birchcliff's prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal technical analysis review. Unbooked locations do not have proved or probable reserves attributed to them. Of the 3,505.2 net existing horizontal wells and potential net future horizontal drilling locations identified herein, 432.2 are proved locations, 166.6 are probable locations and 2,906.4 are unbooked locations. Unbooked locations are potential locations that have been identified by management based on evaluation of applicable geologic, seismic, engineering, production and reserves information. There is no certainty that Birchcliff will drill all unbooked drilling locations and if drilled, there is no certainty that such locations will result in additional proved or probable reserves, resources or production. The drilling locations on which Birchcliff actually drills wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional geological, geophysical and reservoir information that is obtained and other factors. While certain of the unbooked drilling locations have been derisked by drilling existing wells in relative close proximity to such unbooked drilling locations, some of the other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional proved or probable reserves, resources or production.*

***Initial Production Rates**: Any references in this Third Quarter Report to initial production rates and other short-term production rates for any wells are not determinative of the rates at which such wells will continue to produce and decline thereafter and are not necessarily indicative of the long-term performance or the ultimate recovery of such wells. Such rates may be based on field estimates and may be based on limited data available at the time. Readers are cautioned not to place reliance on such rates in calculating aggregate production for Birchcliff or the assets for which such rates are provided.*

***Forward-Looking Information**: This Third Quarter Report contains forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking information relates to future events or future performance and is based upon Birchcliff's current internal expectations, estimates, projections, assumptions and beliefs. All information other than historical fact is forward-looking information. Words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "estimated", "forecast", "may", "will", "potential", "proposed" and other similar words that convey certain events or conditions "may" or "will" occur are intended to identify forward-looking information.*

In particular, this Third Quarter Report contains forward-looking information relating to: Birchcliff's plans and other aspects of its anticipated future operations, management focus, strategies and priorities; expected results from Birchcliff's portfolio of oil and gas assets and results of operations; Birchcliff's production guidance, including its estimates of its annual average production for 2015, 2015 annual average production growth, 2015 fourth quarter average production and 2015 exit production, its expectation that its 2015 annual average and fourth quarter average production will be on the low end of its production guidance range and its expectation that it will have strong average production in the first quarter of 2016; Birchcliff's revised capital expenditure program for 2015, including its plan to drill a total of 32 (31.5 net) wells; Birchcliff's proposed exploration and development activities and the timing thereof, including wells to be drilled and brought on production; Birchcliff's expectation that its capital expenditures in the fourth quarter of 2015 will be less than its funds flow for the quarter, providing it with continued financial flexibility; expected reserves increases, including Birchcliff's expectation that it will see a material increase in its proved developed producing, total proved and proved plus probable reserves volumes at year end 2015; Birchcliff's expectation that it will have a significant decrease in its future development capital on a per well basis at year end 2015; Birchcliff's expectation that its credit *facilities will be increased upon the completion of its annual credit review in May 2016; Birchcliff's expectation that it will release its results for the year ended December 31, 2015 and its 2016 capital expenditure program on February 10, 2016; proposed expansions of the PCS Gas Plant, including the anticipated processing capacities of the PCS Gas Plant after such expansions and the anticipated timing of such expansions; Birchcliff's intention to construct and operate the Elmworth Gas Plant and the anticipated timing thereof; Birchcliff's expectation that it will have sufficient firm transportation capacity to transport the majority of its increased production volumes resulting from the proposed Phase V expansion of the PCS Gas Plant; Birchcliff's expectation that the operating cost reductions that it has implemented will further reduce costs over the long term at the PCS Gas Plant; estimates of potential future drilling locations and opportunities; and Birchcliff's expectation that the success of its two Montney D4 wells in the Elmworth area will result in follow-up drilling by Birchcliff and significant future reserves additions. 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, 2015 under the heading "Advisories – Forward-Looking Information".*

The forward-looking information contained in this Third Quarter Report is based upon certain expectations and assumptions, including: prevailing and future commodity prices, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; 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; anticipated timing and results of capital expenditures; the sufficiency of budgeted capital expenditures to carry out planned operations; results of operations; 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; the availability of, demand for and cost of labour, services and materials; Birchcliff's ability to access capital; the ability to obtain financing on acceptable terms; the ability to obtain any necessary regulatory approvals in a timely manner; the ability of Birchcliff to secure adequate transportation for its products; and Birchcliff's ability to market oil and gas. In addition, Birchcliff has made the following key assumptions with respect to certain forward-looking information contained in this Third Quarter Report:

- *With respect to estimates as to Birchcliff's annual average production for 2015, 2015 annual average production growth, 2015 fourth quarter average production and 2015 exit production and statements that Birchcliff expects strong average production in the first quarter of 2016, the key assumptions are that: no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells; the construction of new infrastructure meets timing expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations. Birchcliff's annual average and fourth quarter average production for 2015 are expected to be on the low end of Birchcliff's production guidance range, primarily as a result of the numerous transportation service curtailments that have adversely impacted Birchcliff's production volumes. Birchcliff's 2015 annual average and fourth quarter average production guidance assumes that any future transportation service curtailments or unplanned outages that occur during the balance of the fourth quarter of 2015 will be short in duration or otherwise insignificant.*
- *With respect to statements regarding Birchcliff's revised capital expenditure program for 2015, the key assumption is that Birchcliff realizes the annual average production target of 39,000 to 40,000 boe per day and the commodity prices upon which Birchcliff's revised capital expenditure*

program is based, being an expected annual average WTI price of US$50.00 per barrel of oil and an AECO price of CDN$2.70 per GJ of natural gas during 2015. Birchcliff may adjust its 2015 capital budget or further adjust its capital expenditure program to respond to changes in commodity prices and other material changes in the assumptions underlying its 2015 capital expenditure program.

- *With respect to statements regarding expected reserves increases, the key assumptions are that: the production from Birchcliff's wells meet or exceed expectations; and in conducting its reserves evaluation, Birchcliff's independent reserves evaluator will concur with Birchcliff's internal technical interpretations.*
- *With respect to Birchcliff's expectation that its credit facilities will be increased upon the completion of its annual credit review in May 2016, the key assumptions are that: Birchcliff's proved developed producing reserves increase as currently expected; commodity prices do not significantly deteriorate from current levels; the criteria applied by Birchcliff's syndicate of lenders remains consistent with historical practice; and the syndicate's forecast of commodity prices are consistent with the forecast used by Birchcliff's independent reserves evaluator.*
- *With respect to statements regarding proposed expansions of the PCS Gas Plant, including the anticipated processing capacities of the PCS Gas Plant after such expansions and the anticipated timing of such expansions, the key assumptions are that: future drilling is successful; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund those projects; and commodity prices warrant proceeding with the construction of such facilities and the drilling of associated wells.*
- *With respect to statements regarding Birchcliff's intention to construct and operate the Elmworth Gas Plant and the timing thereof, the key assumptions are that: future drilling in the Elmworth area is successful; the acid gas disposal well drilled by Birchcliff is capable of handling the volumes of acid gas to be produced at the plant and complies with all regulatory requirements; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund the Elmworth Gas Plant; and commodity prices warrant proceeding with the construction of the Elmworth Gas Plant and the drilling of associated wells.*
- *With respect to statements of future wells to be drilled and brought on production and estimates of potential future drilling locations and opportunities, the key assumption is the validity of the geological and other technical interpretations performed by Birchcliff's technical staff, which indicate that commercially economic volumes can be recovered from Birchcliff's lands as a result of drilling such future wells.*
- *With respect to statements that the success of Birchcliff's two Montney D4 wells in the Elmworth area is expected to result in follow-up drilling by Birchcliff and significant future reserves additions, 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 such future drilling; and commodity prices warrant proceeding with such future drilling. In addition, statements regarding future reserve additions assume that in conducting its reserves evaluation, Birchcliff's independent reserves evaluator will concur with Birchcliff's internal technical interpretations.*

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

Forward-looking information necessarily involves both known and unknown risks and uncertainties that could cause actual results to differ materially from those anticipated, including, but not limited to: general economic, market and business conditions which will, among other things, impact the demand for and market prices of Birchcliff's products and Birchcliff's access to capital; volatility of crude oil and natural gas prices; fluctuations in currency and interest rates; operational risks and liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves and resources; the accuracy of oil and natural gas reserves estimates and estimated production levels as they are affected by exploration and development drilling and estimated decline rates; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; changes in tax laws, crown royalty rates, environmental laws and incentive programs relating to the oil and 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 inability to secure adequate production transportation for Birchcliff's products; the occurrence of unexpected events such as fires, equipment failures and other similar events affecting Birchcliff or other parties whose operations or assets directly or indirectly affect Birchcliff; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; stock market volatility; loss of market demand; environmental risks, claims and liabilities; incorrect assessments of the value of acquisitions and exploration and development programs; shortages in equipment and skilled personnel; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; and uncertainties associated with credit facilities and counterparty credit risk.

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

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

Corporate Information

OFFICERS

A. Jeffery Tonken
President & Chief Executive Officer

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

Chris A. Carlsen
Vice-President, Engineering

Bruno P. Geremia
Vice-President & Chief Financial Officer

David M. Humphreys
Vice-President, Operations

James W. Surbey
Vice-President, Corporate Development

DIRECTORS

Larry A. Shaw (Chairman)
Calgary, Alberta

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President & Chief Executive Officer
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Manager, General Accounting

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Bill Partridge
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SOLICITORS

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Calgary, Alberta

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Deloitte LLP
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BANKERS

The Bank of Nova Scotia

HSBC Bank Canada

Union Bank, Canada Branch

Alberta Treasury Branches

National Bank of Canada

The Toronto-Dominion Bank

Canadian Imperial Bank of Commerce

Business Development Bank of Canada

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