May 11, 2016

Fellow Shareholders,

We are pleased to report the first quarter financial and operational results for Birchcliff Energy Ltd. ("**Birchcliff**") for the three month period ended March 31, 2016.

Birchcliff's production continues to be strong, with low declines, which is reflected by the minimal capital we have spent on production additions. Our costs, both operating and capital, continue to fall as a result of more efficient project execution, the implementation of operating and capital cost reduction initiatives and an intense focus on all aspects of our business. Weak commodity prices have created a very difficult operating environment. However, as a result of Birchcliff being one of the lowest cost operators in our industry, we believe that we are well positioned to survive the downturn and we are preparing for an exciting future.

We had record quarterly average production of 41,958 boe per day during the first quarter of 2016, which is on the high end of our production guidance of 41,500 to 42,000 boe per day. Production consisted of 88% natural gas, 8% light oil and 4% NGL. Production was 9% above the average production in the first quarter of 2015, which was 38,416 boe per day.

Notwithstanding record production and record low operating costs, Birchcliff had funds flow of $20.7 million ($0.14 per basic common share), a decrease from $36.7 million ($0.24 per basic common share) in the first quarter of 2015, primarily as a result of weak commodity prices. We recorded a net loss to common shareholders of $13.0 million ($0.09 per basic common share), as compared to the net loss to common shareholders of $4.5 million ($0.03 per basic common share) in the first quarter of 2015.

Our operating costs were $3.71 per boe, a 27% decrease from $5.11 per boe in the first quarter of 2015 and a new record low for Birchcliff. Our general and administrative expense was $1.31 per boe, a 23% decrease from $1.70 per boe in the first quarter of 2015.

MISCELLANEOUS PROPERTY DISPOSITION

On April 28, 2016, we completed the disposition of miscellaneous petroleum and natural gas properties and related assets and interests in the Progress area that were producing from the Halfway formation (the "**Progress Disposition**") for cash consideration of $19.0 million, after customary closing adjustments. The Progress Disposition had an effective date of January 1, 2016 and represented approximately 600 boe per day of production (60% light oil). The assets sold did not include the Montney or any deeper rights.

The proceeds from the Progress Disposition were used to initially reduce indebtedness under our credit facilities, which is anticipated to be subsequently redrawn and applied as needed to fund our capital expenditures as discussed in further detail herein.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended March 31, 2016	Three months ended March 31, 2015
OPERATING		
Average daily production		
Light oil – *(barrels)*	3,232	4,017
Natural gas – *(thousands of cubic feet)*	222,478	195,935
NGL – *(barrels)*	1,646	1,743
Total – barrels of oil equivalent *(6:1)*[(1)]	**41,958**	**38,416**
Average sales price *($ CDN)*		
Light oil – *(per barrel)*	36.93	47.66
Natural gas – *(per thousand cubic feet)*	1.99	2.98
NGL – *(per barrel)*	42.06	46.45
Total – barrels of oil equivalent *(6:1)*[(1)]	**15.05**	**22.27**
NETBACK AND COST *($ per barrel of oil equivalent at 6:1)*[(1)]		
Petroleum and natural gas revenue	15.06	22.28
Royalty expense	(0.67)	(0.83)
Operating expense	(3.71)	(5.11)
Transportation and marketing expense	(2.22)	(2.59)
Netback[(2)]	**8.46**	**13.75**
General & administrative expense, net	(1.31)	(1.70)
Interest expense	(1.73)	(1.43)
Funds flow netback[(2)]	**5.42**	**10.62**
Stock-based compensation expense, net	(0.17)	(0.22)
Depletion and depreciation expense	(8.94)	(11.24)
Accretion expense	(0.15)	(0.16)
Amortization of deferred financing fees	(0.06)	(0.06)
Gain on sale of assets	-	0.19
Dividends on Series C preferred shares	(0.23)	(0.25)
Income tax recovery	0.98	0.11
Net loss	**(3.15)**	**(1.01)**
Dividends on Series A preferred shares	(0.26)	(0.29)
Net loss to common shareholders	**(3.41)**	**(1.30)**
FINANCIAL		
Petroleum and natural gas revenue *($000s)*	57,503	77,026
Funds flow from operations *($000s)*[(2)]	20,695	36,720
Per common share – basic *($)*[(2)]	0.14	0.24
Per common share – diluted *($)*[(2)]	0.13	0.24
Net loss *($000s)*	(12,035)	(3,479)
Net loss to common shareholders *($000s)*	(13,035)	(4,479)
Per common share – basic *($)*	(0.09)	(0.03)
Per common share – diluted *($)*	(0.09)	(0.03)
Common shares outstanding *(000s)*		
End of period – basic	152,308	152,284
End of period – diluted	169,239	168,108
Weighted average common shares for period – basic	152,308	152,243
Weighted average common shares for period – diluted	153,418	154,215
Dividends on Series A preferred shares *($000s)*	1,000	1,000
Dividends on Series C preferred shares *($000s)*	875	875
Capital expenditures, net *($000s)*	63,860	98,539
Revolving term credit facilities *($000s)*	647,359	536,570
Working capital deficit *($000s)*	42,779	73,600
Total debt *($000s)*[(2)]	690,138	610,170

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

(2) See *"Non-GAAP Measures"* in this First Quarter Report.

UPDATE ON CAPITAL EXPENDITURES

Our 2016 capital expenditure program (the "**2016 Capital Program**"), the details of which we previously announced on March 16, 2016, is designed to achieve modest production growth while continuing our investment in the Phase V expansion of our 100% owned and operated natural gas plant located in the Pouce Coupe South area (the "**PCS Gas Plant**"). The 2016 Capital Program contemplates the drilling of 13 (13.0 net) wells and includes the funding of key infrastructure required for future growth, including the Phase V expansion. During the first quarter of 2016, we spent approximately $63.9 million on capital expenditures, including approximately $30.3 million on drilling and completions and $31.1 million on infrastructure. For further details, please see *"Operations Update"* and our management's discussion and analysis for the three months ended March 31, 2016.

The 2016 Capital Program originally contemplated capital expenditures in the amount of $128.0 million. However, primarily as a result of the strong production performance from our base production and the wells that we have drilled during 2016, we have made the decision to defer the completion, equipping and tie-in of two Montney/Doig horizontal wells that we drilled in the first quarter of 2016 until 2017. The costs associated with these deferrals are approximately $3.5 million, and when added to our recent Montney D1 drilling savings of $0.9 million, has reduced our budgeted drilling and completions capital to approximately $51.3 million (down from $55.5 million). In addition, as a result of deferring a 10" pipeline twinning project in our Pouce Coupe field, we have also reduced our facilities and infrastructure capital to approximately $37.0 million (down from $39.0 million).

Our estimated net planned capital expenditures for 2016, after accounting for the $19.0 million of proceeds from the Progress Disposition, have been reduced from $128.0 million to $103.5 million, and our estimated total capital expenditures for 2016 have been reduced from $128.0 million to $122.5 million. Notwithstanding the adjustments to our 2016 Capital Program and the Progress Disposition, we are maintaining our annual average production guidance for 2016 of 40,000 to 41,000 boe per day. This is the second time we have reduced our capital spending since our original capital program of $140 million was announced on January 21, 2016, without reducing our 2016 annual average production guidance of 40,000 to 41,000 boe per day.

The following table provides details of the 2016 Capital Program, as revised:

2016 Capital Program(1)

	Gross Wells		Net Wells		Capital (MM$)(1)		Difference in Capital
	New	Old	New	Old	New	Old	(MM$)
Drilling & Development(2)							
Montney D1 Horizontal Gas Wells	8.0	8.0	8.0	8.0	30.9	31.8	(0.9)
Basal Doig/Upper Montney Horizontal Gas Wells	2.0	2.0	2.0	2.0	8.0	8.0	-
Montney D4 Horizontal Gas Wells	2.0	2.0	2.0	2.0	4.7	8.2	(3.5)
Charlie Lake Horizontal Light Oil Well	1.0	1.0	1.0	1.0	2.7	2.8	-
2015 Carry Forward Capital(3)	-	-	-	-	4.9	4.9	-
Total Drilling & Development	**13.0**	**13.0**	**13.0**	**13.0**	**51.3**	**55.5**	**(4.3)**
Facilities & Infrastructure(4)					37.0	39.0	(2.0)(5)
Production Optimization					15.0	14.0	1.0
Land & Seismic					5.1	5.1	-
Other					14.2	14.4	(0.2)
Total Capital					**122.5**	**128.0**	**(5.5)**
Less Proceeds from Progress Disposition					**(19.0)**	**-**	**(19.0)**
Total Net Capital					**103.5**	**128.0**	**(24.5)**

(1) Numbers may not add due to rounding.

(2) Except for two Montney D4 horizontal natural gas wells, all drilling and development costs have been presented on a drill, case, complete, equip and tie-in basis.

(3) Primarily completion, equipping and tie-in costs associated with 2 (2.0 net) wells rig released at the end of 2015.

(4) Includes approximately $24.8 million of capital in 2016 for the PCS Gas Plant Phase V expansion.

(5) Represents the capital associated with the pipeline deferral.

Based on recent commodity prices and exchange rates, we have revised our commodity price and exchange rate assumptions underlying the 2016 Capital Program. The 2016 Capital Program, as revised, now assumes an annual average WTI price of US$43.00 per barrel of oil (revised from US$40.00), an AECO price of CDN$1.90 per GJ of natural gas (revised from CDN$2.50) and an exchange rate of CDN$/US$ of 1.29 (revised from 1.40) during 2016. We currently expect that our capital expenditures for 2016 will approximate our funds flow during 2016 and the proceeds from the Progress Disposition, based on the foregoing assumptions.

The 2016 Capital Program is flexible and we have the ability to further defer capital expenditures in the event that actual commodity prices are materially less than what we have forecast. We have been closely monitoring commodity prices and our capital spending. We continue to find opportunities to reduce costs and defer certain capital expenditures, while still pursuing our objectives of modest production growth and the funding of key infrastructure to pave the way for future growth. We will continue to monitor commodity prices and economic conditions and may further adjust the 2016 Capital Program to respond to changes in commodity prices and other material changes in the assumptions underlying the 2016 Capital Program.

RE-DETERMINATION OF BORROWING BASE AT $750 MILLION UNDER CREDIT FACILITIES

Our bank syndicate recently completed its semi-annual review of the borrowing base under our extendible revolving credit facilities (the "**Credit Facilities**") and the borrowing base has been re-determined at $750 million, a modest reduction from the previous borrowing base of $800 million. The fact that the borrowing base under the Credit Facilities was re-determined at $750 million is a good testament to the strength of our reserves. Although the borrowing base has been reduced, we continue to have the financial flexibility required to run our business. In addition, the Credit Facilities do not contain any financial covenants.

We may each year, at our option, request an extension to the maturity dates of the Credit Facilities for an additional period of up to three years from May 11 of the year in which the extension request is made. In connection with the semi-annual review of the borrowing base, Birchcliff initially requested an extension of the maturity dates from May 11, 2018 to May 11, 2019. In order to preserve the current interest rate pricing margins applicable to Birchcliff's drawn loans, Birchcliff did not proceed with the requested extension. For further details regarding the terms of the Credit Facilities, please see our unaudited interim condensed financial statements for the three month period ended March 31, 2016 and related management's discussion and analysis.

UPDATE ON THE PCS GAS PLANT

A large portion of the capital spent on infrastructure in the first quarter was to progress the Phase V expansion of the PCS Gas Plant, which will increase the processing capacity to 260 MMcf per day from the current processing capacity of 180 MMcf per day. The fabrication work for the Phase V expansion is nearing completion and the finished components will be stored until field construction commences. It is currently estimated that an additional $30 million will be required to complete the field construction. We currently expect that the Phase V expansion will be completed in 2017, subject to an improvement in commodity prices and general economic conditions. The completion of Phase V of the PCS Gas Plant will be timed to coincide with the drilling of additional Montney/Doig horizontal natural gas wells to fill or partially fill the expanded PCS Gas Plant, so that operational momentum will not be lost and ensuring capital is only spent when required.

UPDATE ON NATURAL GAS TRANSPORTATION CAPACITY

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

2016 FIRST QUARTER FINANCIAL AND OPERATIONAL RESULTS

PRODUCTION

Record first quarter production averaged 41,958 boe per day, a 9% increase from production of 38,416 boe per day in the first quarter of 2015. Production per basic common share increased 9% from the first quarter of 2015. This production growth from the first quarter of 2015 was largely due to incremental production added from new Montney/Doig horizontal natural gas wells.

Production consisted of approximately 88% natural gas, 8% light oil and 4% NGL in the first quarter. Approximately 77% of our total corporate natural gas production and 71% of our total corporate production was processed at the PCS Gas Plant in the first quarter of 2016.

We have consistently demonstrated significant growth in first quarter production per common share. The following table highlights our year-over-year first quarter production per basic common share growth since 2012:

	Q1 2012	Q1 2013	Q1 2014	Q1 2015	Q1 2016	Change Since 2012 *(%)*	Average Annual Growth *(%)*
Quarterly average production *(boe per day)*	21,061	26,108	31,749	38,416	41,958	99	25
Production per day per million common shares *(boe)*[(1)]	**166.2**	**184.1**	**220.4**	**252.3**	**275.5**	**66**	**17**

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

FUNDS FLOW AND NET LOSS

Funds flow was $20.7 million ($0.14 per basic common share), a 44% decrease from $36.7 million ($0.24 per basic common share) in the first quarter of 2015. This decrease was largely due to a 32% decrease in the average realized oil and natural gas wellhead price.

We had a net loss of $12.0 million, as compared to the net loss of $3.5 million in the first quarter of 2015. We recorded a net loss to common shareholders of $13.0 million ($0.09 per basic common share) in the first quarter of 2016, as compared to the net loss to common shareholders of $4.5 million ($0.03 per basic common share) in the first quarter of 2015. These decreases were mainly attributable to lower funds flow as a result of the decrease in commodity prices.

OPERATING COSTS AND GENERAL AND ADMINISTRATIVE EXPENSE

We continue to focus on reducing our operating costs and general and administrative expense on a per boe basis. Operating costs in the first quarter of 2016 were $3.71 per boe, a 27% decrease from $5.11 per boe in the first quarter of 2015 and a new record low. Operating costs per boe decreased from the first quarter of 2015 largely due to the continued cost benefits achieved from processing incremental volumes of natural gas through the PCS Gas Plant and lower service costs due to reduced industry activity, as well as various cost reduction and infrastructure optimization initiatives that we have implemented. For example, we continue to benefit from reduced trucking costs as a result of two pipeline initiatives that were implemented during 2015.

General and administrative expense in the first quarter of 2016 was $1.31 per boe, a 23% decrease from $1.70 per boe in the first quarter of 2015.

PCS GAS PLANT NETBACKS

Since the PCS Gas Plant first became operational in March 2010, we have seen a significant reduction in our corporate operating costs on a per boe basis. During the first quarter of 2016, we processed approximately 77% of our total corporate natural gas production through the PCS Gas Plant with an average plant and field operating cost of $0.28 per Mcfe ($1.66 per boe). The estimated operating netback at the PCS Gas Plant was $1.48 per Mcfe ($8.88 per boe), resulting in an operating margin of 69% in the first quarter of 2016.

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

	Three months ended March 31, 2016		Three months ended March 31, 2015		Three months ended March 31, 2014		Three months ended March 31, 2013		Three months ended March 31, 2012	
Average daily production, net to Birchcliff:										
Natural gas *(Mcf)*		171,659		153,633		120,316		87,104		50,982
Oil & NGL *(bbls)*		991		1,284		923		246		145
Total boe *(6:1)*		**29,602**		**26,890**		**20,975**		**14,763**		**8,642**
Sales liquids yield (bbls/MMcf)		*5.8*		*8.4*		*7.7*		*2.8*		*2.8*
% of corporate natural gas production		*77%*		*78%*		*76%*		*68%*		*54%*
% of corporate production		*71%*		*70%*		*66%*		*57%*		*41%*
AECO – C daily *($/Mcf)*	**$1.83**		**$2.75**		**$5.71**		**$3.20**		**$2.15**	
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue	2.16	12.94	3.21	19.24	6.51	39.08	3.57	21.40	2.56	15.35
Royalty expense	(0.10)	(0.60)	(0.15)	(0.91)	(0.53)	(3.19)	(0.22)	(1.33)	(0.12)	(0.74)
Operating expense[(1)]	(0.28)	(1.66)	(0.39)	(2.32)	(0.43)	(2.61)	(0.28)	(1.68)	(0.20)	(1.18)
Transportation and marketing expense	(0.30)	(1.80)	(0.33)	(1.96)	(0.30)	(1.78)	(0.24)	(1.40)	(0.23)	(1.35)
Estimated operating netback	**$1.48**	**$8.88**	**$2.34**	**$14.05**	**$5.25**	**$31.50**	**$2.83**	**$16.99**	**$2.01**	**$12.08**
Operating margin		**69%**		**73%**		**81%**		**79%**		**79%**

(1) Represents plant and field operating costs.

TOTAL CASH COSTS AND FUNDS FLOW NETBACK

During the first quarter of 2016, we had total cash costs (comprised of royalty, operating, transportation and marketing, general and administrative and interest expenses) of $9.64 per boe, a 17% decrease from $11.66 per boe in the first quarter of 2015, and funds flow netback of $5.42 per boe, a 49% decrease from $10.62 per boe in the first quarter of 2015.

DEBT

At March 31, 2016, our long-term bank debt was $655.8 million from available credit facilities aggregating $800 million, leaving $144.2 million of unutilized credit capacity. Total debt at March 31, 2016, including working capital deficit, was $690.1 million. For further details, please see our management's discussion and analysis for the three months ended March 31, 2016.

We currently expect that our total debt at year-end 2016 will approximate our total debt at March 31, 2016 of approximately $656 million, assuming an annual average WTI price of US$43.00 per barrel of oil and an AECO price of CDN$1.90 per GJ of natural gas during 2016.

CAPITAL EXPENDITURES

During the first quarter of 2016, we had capital expenditures of $63.9 million, including approximately $0.9 million on land, $30.3 million on drilling and completions and $31.1 million on infrastructure. For further details regarding the breakdown of our capital expenditures, please see our management's discussion and analysis for the three months ended March 31, 2016.

DRILLING AND COMPLETIONS

We drilled 9 (9.0 net) wells in the first quarter of 2016, consisting of 8 (8.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area and 1 (1.0 net) Charlie Lake horizontal light oil well in Worsley. The Montney/Doig horizontal natural gas wells consisted of 6 (6.0 net) horizontal wells drilled in the Montney D1 interval and 2 (2.0 net) horizontal wells drilled in the Montney D4 interval. For further details, please see *"Operations Update".*

As at March 31, 2016, we have successfully drilled and cased 196 (195.9 net) Montney/Doig horizontal natural gas wells and 60 (60.0 net) Charlie Lake horizontal light oil wells utilizing multi-stage fracture stimulation technology.

LAND ACTIVITIES

Our land activities in the first quarter of 2016 included the acquisition of 21.5 sections of land (at 100% working interest) contiguous with existing lands on our Montney/Doig Natural Gas Resource Play in our Elmworth area. Subsequent to the end of the quarter, Birchcliff disposed of 6.5 net sections (4,135 net acres) of land pursuant to the Progress Disposition. The assets sold did not include the Montney or any deeper rights. For further details, please see *"Miscellaneous Property Disposition".*

As at March 31, 2016, we held 355.4 sections of land that have potential for the Montney/Doig Natural Gas Resource Play. Of these lands, 330.4 (314.2 net) sections have potential for the Basal Doig/Upper Montney interval, 338.7 (329.3 net) sections have potential for the Montney D1 interval and 314.7 (308.3 net) sections have potential for the Montney D4 interval. As at March 31, 2016, our total land holdings on these three intervals were 983.8 (951.8 net) sections. Assuming full development of four horizontal wells per section per interval, we have 3,807.2 net existing horizontal wells and potential net future horizontal drilling locations in respect of the Basal Doig/Upper Montney, Montney D1 and Montney D4 intervals as at March 31, 2016. With 196 (195.9 net) horizontal wells drilled as at March 31, 2016, there remain 3,611.3 potential net future horizontal drilling locations. For further information regarding these potential future horizontal drilling locations, please see *"Advisories – Drilling Locations".*

As at March 31, 2016, our undeveloped land holdings were 428,882.1 (401,146.2 net) acres.

OPERATIONS UPDATE

The 2016 Capital Program is focused on our two proven resource plays, the Montney/Doig Natural Gas Resource Play and the Charlie Lake Light Oil Resource Play. The 2016 Capital Program contemplates the drilling of 13 (13.0 net) wells, consisting of 12 (12.0 net) Montney/Doig horizontal natural gas wells, all of which will be drilled in our Pouce Coupe area, and 1 (1.0 net) Charlie Lake horizontal light oil well in Worsley.

In the current economic environment, we are focused on maximizing our capital efficiencies and reducing our drilling, casing, completion, equipping and tie-in costs. As a part of this effort, the 12 Montney/Doig horizontal natural gas wells are being drilled on three different multi-well pads – one two-well pad, one four-well pad and one six-well pad. Multi-well pad drilling allows us to drill continuously through spring break-up, improve our drilling and completion capital efficiencies and reduce our per well costs and environmental footprint. In addition, all three pads are already tied-in to our infrastructure system, minimizing the equipping and tie-in costs of the wells.

We have drilled 11 (11.0 net) wells year-to-date, consisting of 10 (10.0 net) Montney/Doig horizontal natural gas wells and the Charlie Lake horizontal light oil well in the Worsley area. Of the 11 wells drilled to-date, three wells have been completed and brought on production.

We have two Montney/Doig horizontal natural gas wells left to be drilled in order to conclude our planned drilling program for 2016. We currently have one drilling rig at work in the Pouce Coupe area which is drilling the second last Montney/Doig horizontal natural gas well on the six-well pad. Upon the completion of the drilling of these last two wells, we will have 10 wells drilled and cased in inventory. It is currently anticipated that we will complete, equip and tie-in eight of these 10 wells later this summer, leaving the last two wells to be completed in the first quarter of 2017, as our current production estimates do not require these production volumes to meet our production guidance. We may defer certain capital expenditures based on actual commodity prices received during 2016. For further details, please see *"Update on Capital Expenditures"*.

MONTNEY/DOIG NATURAL GAS RESOURCE PLAY

Part of our long-term strategy is to continue to explore the Montney/Doig Natural Gas Resource Play, both geographically and stratigraphically. The Montney/Doig Natural Gas Resource Play exists in two geological formations, the Montney and the Doig, and we have divided the geologic column in our area into six drilling intervals from the youngest (top) to the oldest (bottom): (i) the Basal/Doig Upper Montney; (ii) the Montney D4; (iii) the Montney D3; (iv) the Montney D2; (v) the Montney D1; and (vi) the Montney C. To-date, we have drilled wells in each of the Basal Doig/Upper Montney, the Montney D4, the Montney D1 and the Montney C intervals. The Montney D4 and Montney C intervals are relatively new intervals for Birchcliff as we did not drill any wells in those intervals prior to 2014.

Two of the 12 Montney/Doig horizontal natural gas wells under the 2016 Capital Program are Montney D4 wells. We previously drilled seven wells in the Montney D4 interval, two in our Elmworth area and five in our Pouce Coupe area. With respect to the remaining 10 wells contemplated by the 2016 Capital Program, two are Basal Doig/Upper Montney wells and eight are Montney D1 wells. All 10 of these wells are development wells. A primary factor in picking these 10 locations is their potential to increase the reserves attributable to the potential future drilling locations offsetting these locations.

As at May 10, 2016, we have successfully drilled and cased 198 (197.9 net) Montney/Doig horizontal natural gas wells.

CHARLIE LAKE LIGHT OIL RESOURCE PLAY

On our Charlie Lake Light Oil Resource Play in the Worsley area, we continue to see good production performance from our asset with minimal capital, including continued enhancement of the water flood area production. The 2016 Capital Program at Worsley is limited to one well that was drilled, completed and brought on production in the first quarter. This well addressed an 18 section block of land that would have expired and it also successfully delineated the pool to the north east.

On our Charlie Lake Light Oil Resource Play in the Progress area, our two exploration wells drilled in 2014 and 2015 continue to produce at strong production profiles. In the first quarter of 2016, we added one section to our land base on this project so we now own 29 (28.5 net) contiguous sections on this project.

As at May 10, 2016, we have successfully drilled and cased 60 (60.0 net) Charlie Lake horizontal light oil wells utilizing multi-stage fracture stimulation technology.

ALBERTA'S MODERNIZED ROYALTY FRAMEWORK

On April 21, 2016, the Government of Alberta announced additional royalty details and technical formulas for its Modernized Royalty Framework (the "**MRF**"). These details provide the necessary information to understand the economics for oil and gas producers and other stakeholders to continue to invest in Alberta. Production from wells drilled prior to January 1, 2017 will continue under the previous Alberta Royalty Framework (the "**ARF**") for 10 years before transitioning to the MRF. Based on the details provided thus far, we believe that the well drilling economics for our two proven resource plays, the Montney/Doig Natural Gas Resource Play and the Charlie Lake Light Oil Resource Play, within today's anticipated price ranges, are relatively consistent with the previous ARF.

2015 FINDING, DEVELOPMENT AND ACQUISITION COSTS – LOOK-BACK

We released our finding, development and acquisition ("**FD&A**") costs and recycle ratios on February 10, 2016, which are summarized below.

2015 FD&A Costs ($/boe)[1]

Excluding Future Development Capital	
Total FD&A – Proved Developed Producing	$7.79
Total FD&A – Proved	$2.96
Total FD&A – Proved Plus Probable	$2.02
Including Future Development Capital[2]	
Total FD&A – Proved	$2.28
Total FD&A – Proved Plus Probable	$1.32

(1) FD&A costs both including and excluding future development capital have been presented herein. FD&A costs for each reserves category in a particular period are calculated by taking the sum of: (i) exploration and development costs incurred in the period; and (ii) where future development capital has been included, the change during the period in future development capital for the reserves category; divided by the additions to the reserves category before production during the period. FD&A costs include the effect of acquisitions and dispositions. In calculating the amounts of FD&A costs for a year, the changes during the year in estimated reserves and estimated future development capital are based upon the evaluations of Birchcliff's reserves prepared by Deloitte LLP, Birchcliff's independent qualified reserves evaluator, effective December 31, 2015. FD&A costs may be used as a measure of a company's efficiency with respect to finding and developing its reserves. See *"Advisories – Oil and Gas Metrics"*.

(2) Includes the 2015 decrease in future development capital from 2014 of $56.5 million on a proved basis and a decrease of $85.4 million on a proved plus probable basis, which decreases are primarily due to the application of new technology, operational efficiencies and a reduction in service costs.

2015 Recycle Ratios[1]

	Operating Netback Recycle Ratio	Funds Flow Netback Recycle Ratio
Excluding Future Development Costs		
FD&A – Proved Developed Producing	1.9	1.5
FD&A – Proved	4.9	3.8
FD&A – Proved Plus Probable	7.2	5.6
Including Future Development Costs		
FD&A – Proved	6.4	5.0
FD&A – Proved Plus Probable	11.0	8.6

(1) Recycle ratios are calculated by dividing the average operating netback per boe or funds flow netback per boe, as the case may be, by FD&A costs. Recycle ratios may be used as a measure of a company's profitability. See *"Non-GAAP Measures"* and *"Advisories – Oil and Gas Metrics"*.

We are pleased to note that a look back of industry results would indicate that Birchcliff's results are top decile in the industry. In addition, TD Securities issued a 2015 Domestic E&P Reserves Scorecard, which comprised 49 domestic-focused Junior and Intermediate E&P companies, and Birchcliff stood #1 on their 2015 Reserves Ranking.

For full details regarding Birchcliff's FD&A costs and recycle ratios, please see our press release of February 10, 2016, a copy of which is available at www.sedar.com.

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 42 million common shares representing 27.6% of the current issued and outstanding common shares.

OUTLOOK

We remain focused on our strategy – growth by the drill bit in our core area of the Peace River Arch of Alberta. Our strategy is to continue to develop and expand our two very large resource plays, the Montney/Doig Natural Gas Resource Play and the Charlie Lake Light Oil Resource Play, while maintaining low capital costs and operating costs. These resource plays are large enough to provide us with an extensive inventory of repeatable, consistent, low-cost and low-risk drilling opportunities that we expect will provide production and reserves growth for many years. Our strategy is based on the fact that we operate essentially all of our production, our current ownership of large contiguous blocks of high working interest land in our operating areas and our 100% ownership of our major facilities and infrastructure. We continue to reduce our costs and control our capital expenditures primarily because we control the majority of our infrastructure. 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. Due to the combination of industry conditions, the hard work of our people, various cost reduction initiatives and efficient project execution, we have seen a material reduction in our drilling and completion costs. In addition, our already low operating costs on a per boe basis have been reduced to record low levels.

Our production remains very strong and the majority of our Montney/Doig horizontal natural gas wells are outperforming our original internal forecasts. We are well into the execution of the 2016 Capital Program, which is designed to achieve modest production growth, while further progressing the Phase V expansion of the PCS Gas Plant to provide for future growth. Our 2016 annual average production is expected to be 40,000 to 41,000 boe per day, representing a range of 3% to 5% growth over our annual average of 38,950 per day in 2015, notwithstanding the sale of miscellaneous assets in our Progress area including 600 boe per day of production which closed in April 2016. This production guidance also reflects the fact that we are scheduled to conduct a major turnaround operation at the PCS Gas Plant for approximately 10 days this summer.

The borrowing base under the Credit Facilities was recently re-determined at $750 million. The fact that the borrowing base under the Credit Facilities was re-determined at $750 million is a good testament to the strength of our reserves, especially when recent natural gas prices have been very low and we are unhedged.

As a result of these attributes, we believe that Birchcliff is well positioned to withstand the current commodity price environment. The production from the majority of our Montney/Doig horizontal natural gas wells are outperforming our original internal forecasts and we had record quarterly average production during the first quarter of 2016 **(Strong Production)**. We had record low operating costs and general and administrative expense per boe during the first quarter of 2016 **(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 sustainable cost reductions **(Cost Reductions)**. We have financial flexibility with our $750 million revolving credit facilities that do not contain any financial covenants **(Financial Flexibility)**. We continue to make major investments in our infrastructure, and at the same time, we are attempting to live within our funds flow **(Investment in Infrastructure)**. We have long-term shareholders who continue to support Birchcliff notwithstanding the significant changes in our business environment **(Seymour Schulich)**.

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

With Respect,

(signed) "*A. Jeffery Tonken*"

President and Chief Executive Officer
Birchcliff Energy Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

This Management's Discussion and Analysis ("**MD&A**") for Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is dated May 11, 2016. This MD&A and the unaudited interim condensed financial statements with respect to the three months ended March 31, 2016 (the "**Reporting Period**") as compared to the three months ended March 31, 2015 (the "**Comparable Prior Period**") 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 Period, as well as the audited financial statements of the Corporation and related notes and MD&A for the year ended December 31, 2015. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

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

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

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

ABOUT BIRCHCLIFF

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

2016 FIRST QUARTER FINANCIAL AND OPERATIONAL HIGHLIGHTS

- Record quarterly average production of 41,958 boe per day, a 9% increase from 38,416 boe per day in the Comparable Prior Period.
- Funds flow of $20.7 million ($0.14 per basic common share), a decrease from $36.7 million ($0.24 per basic common share) in the Comparable Prior Period.
- Record low operating costs of $3.71 per boe in the first quarter of 2016, a 27% decrease from $5.11 per boe in the Comparable Prior Period.
- Birchcliff's capital expenditures were $63.9 million, including $30.3 million for drilling and completions and $31.1 million for infrastructure.

2016 OUTLOOK

The Corporation's 2016 capital expenditure program (the "**2016 Capital Program**"), the details of which it announced on March 16, 2016, is designed to achieve modest production growth while continuing the Corporation's investment in the Phase V expansion of the Corporation's 100% owned and operated natural gas plant located in the Pouce Coupe South area (the "**PCS Gas Plant**"). The 2016 Capital Program contemplates the drilling of 13 (13.0 net) wells and the funding of key infrastructure required for future growth, including the Phase V expansion.

The 2016 Capital Program originally contemplated capital expenditures in the amount of $128.0 million. However, primarily as a result of the strong production performance from the Corporation's base production and the wells that it has drilled during 2016, the Corporation has made the decision to defer the completion, equipping and tie-in of two Montney/Doig horizontal wells that it drilled in the first quarter of 2016 until 2017. The costs associated with these deferrals are approximately $3.5 million, and when added to the Corporation's recent Montney D1 drilling savings of $0.9 million, has reduced the Corporation's budgeted drilling and completions capital to approximately $51.3 million (down from $55.5 million). In addition, as a result of deferring a 10" pipeline twinning project in the Corporation's Pouce Coupe field, Birchcliff has also reduced its facilities and infrastructure capital to approximately $37.0 million (down from $39.0 million).

The Corporation's estimated net planned capital expenditures for 2016, after accounting for the $19.0 million of proceeds from the recent disposition of certain miscellaneous petroleum and natural gas properties in the Progress area (the "**Progress Disposition**"), have been reduced from $128.0 million to $103.5 million, and its estimated total capital expenditures for 2016 have been reduced from $128.0 million to $122.5 million.

Based on recent commodity prices and exchange rates, Birchcliff has revised its commodity price and exchange rate assumptions underlying the 2016 Capital Program. The 2016 Capital Program, as revised, now assumes an annual average WTI price of US$43.00 per barrel of oil (revised from US$40.00), an AECO price of CDN$1.90 per GJ of natural gas (revised from CDN$2.50) and an exchange rate of CDN$/US$ of 1.29 (revised from 1.40) during 2016. Birchcliff currently expects that its capital expenditures for 2016 will approximate its funds flow during 2016 and the proceeds from the Progress Disposition, based on the foregoing assumptions.

The 2016 Capital Program is flexible and Birchcliff has the ability to further defer capital expenditures in the event that actual commodity prices are materially less than what it has forecast. Birchcliff has been closely monitoring commodity prices and its capital spending. The Corporation continues to find opportunities to reduce costs and defer certain capital expenditures, while still pursuing its objectives of modest production growth and the funding of key infrastructure to pave the way for future growth. Birchcliff will continue to monitor commodity prices and economic conditions and may further adjust the 2016 Capital Program to respond to changes in commodity prices and other material changes in the assumptions underlying the 2016 Capital Program. In addition, the Corporation may make adjustments to its other activities as appropriate. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and material.

The Corporation is maintaining its annual average production guidance for 2016 of 40,000 to 41,000 boe per day, notwithstanding the adjustments to the 2016 Capital Program and the Progress Disposition.

FUNDS FLOW FROM OPERATIONS

($000s)	**Three months ended March 31, 2016**	**Three months ended March 31, 2015**
Funds flow from operations	**20,695**	**36,720**
Per common share – basic *($)*	0.14	0.24
Per common share – diluted *($)*	0.13	0.24

Funds flow in the Reporting Period decreased by 44% from the Comparable Prior Period. Lower funds flow were largely attributed to a 23% decrease in the realized oil wellhead prices and a 33% decrease in the realized natural gas wellhead prices, offset by a 9% increase in production and significantly lower per unit total cash costs in the Reporting Period.

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

($/boe)	**Three months ended March 31, 2016**	**Three months ended March 31, 2015**	***% Change***
Royalty expense	0.67	0.83	(19%)
Operating expense	3.71	5.11	(27%)
Transportation and marketing expense	2.22	2.59	(14%)
General & administrative expense, net	1.31	1.70	(23%)
Interest expense	1.73	1.43	21%
Total Cash Costs	**9.64**	**11.66**	**(17%)**

On a per boe basis, total cash costs are down 17% from the Comparable Prior Period primarily driven by lower royalty, operating, transportation and marketing and general and administrative expenses, partially offset by higher interest expense in the Reporting Period.

NET LOSS TO COMMON SHAREHOLDERS

($000s)	**Three months ended March 31, 2016**	**Three months ended March 31, 2015**
Net loss	(12,035)	(3,479)
Net loss to common shareholders[(1)]	**(13,035)**	**(4,479)**
Per common share – basic *($)*	(0.09)	(0.03)
Per common share – diluted *($)*	(0.09)	(0.03)

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

The increase in net loss to common shareholders from the Comparable Prior Period was largely due to lower funds flow from operations, offset by lower non-cash depletion costs in the Reporting Period.

PCS GAS PLANT NETBACKS

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

	Three months ended March 31, 2016		Three months ended March 31, 2015	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		171,659		153,633
Oil & NGL *(bbls)*		991		1,284
Total boe *(6:1)*		**29,602**		**26,890**
Sales liquids yield (bbls/MMcf)		*5.8*		*8.4*
% of corporate natural gas production		*77%*		*78%*
% of corporate production		*71%*		*70%*
AECO – C daily *($/Mcf)*	**$1.83**		**$2.75**	
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue	2.16	12.94	3.21	19.24
Royalty expense	(0.10)	(0.60)	(0.15)	(0.91)
Operating expense(1)	(0.28)	(1.66)	(0.39)	(2.32)
Transportation and marketing expense	(0.30)	(1.80)	(0.33)	(1.96)
Estimated operating netback	**$1.48**	**$8.88**	**$2.34**	**$14.05**
Operating margin		**69%**		**73%**

(1) Represents plant and field operating costs.

DISCUSSION OF OPERATIONS

Petroleum and Natural Gas Revenues

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

	Three months ended March 31, 2016				Three months ended March 31, 2015			
	Total Revenue *($000s)*	**Average Daily Production**	*(%)*	**Average** *($/unit)*	**Total Revenue** *($000s)*	**Average Daily Production**	*(%)*	**Average** *($/unit)*
Light oil *(bbls)*	10,861	3,232	8	36.93	17,232	4,017	10	47.66
Natural gas *(Mcf)*	40,316	222,478	88	1.99	52,485	195,935	85	2.98
NGL *(bbls)*	6,301	1,646	4	42.06	7,288	1,743	5	46.45
Total P&NG sales *(boe)*	57,478	41,958	100	15.05	77,005	38,416	100	22.27
Royalty revenue	25			0.01	21			0.01
P&NG revenues	**57,503**			**15.06**	**77,026**			**22.28**

Total P&NG revenues for the Reporting Period were $57.5 million, a 25% decrease from $77.0 million in the Comparable Prior Period. The decrease from the Comparable Prior Period was largely attributable to a 32% decrease in the average realized oil and natural gas wellhead price, partially offset by higher production volumes, as discussed in further detail below.

Production

Production averaged 41,958 boe per day in the Reporting Period, a 9% increase from the Comparable Prior Period. The increase in production from the Comparable Prior Period was largely due to incremental production added from new Montney/Doig horizontal natural gas wells, notwithstanding natural production declines.

Production consisted of approximately 88% natural gas, 8% light oil and 4% natural gas liquids ("**NGL**") in the Reporting Period as compared to 85% natural gas, 10% light oil and 5% NGL in the Comparable Prior Period. The PCS Gas Plant processed approximately 77% of Birchcliff's total corporate natural gas production and 71% of its total corporate production in the first quarter of 2016.

Commodity prices

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

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

	Three months ended March 31, 2016	**Three months ended March 31, 2015**
Average benchmark prices:		
Light oil – WTI Cushing *($US/bbl)*	33.45	48.63
Light oil – Edmonton Par *($/bbl)*	41.68	49.74
Natural gas – AECO – C daily *($/MMbtu)*(1)	1.83	2.75
Exchange rate – *(US$/CDN$)*	1.35	1.26
Birchcliff's average realized sales price:		
Light oil *($/bbl)*	36.93	47.66
Natural gas *($/Mcf)*	1.99	2.98
NGL *($/bbl)*	42.06	46.45
Barrels of oil equivalent *($/boe) (6:1)*	15.05	22.27

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

The average realized sales price for the Reporting Period was $15.05 per boe, a 32% decline from $22.27 per boe in the Reporting Period.

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

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

During the first quarter of 2016, the AECO natural gas spot price and the WTI oil spot price continued to decline from 2015 year-end levels, primarily due to the supply/demand imbalance of oil and natural gas that has resulted in high inventory levels in North America. The AECO natural gas spot price averaged $1.83 per Mcf for the Reporting Period, a 33% decrease from the Comparable Prior Period. The WTI oil spot price in the Reporting Period was 31% lower than the Comparable Prior Period. The decline in commodity prices negatively impacted reported revenues in the first quarter of 2016.

Birchcliff's realized natural gas sales price at the wellhead averaged $1.99 per Mcf for the Reporting Period, a 9% 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 sets forth Birchcliff's average realized sales price and heat content premium from its natural gas production:

	Three months ended March 31, 2016	Three months ended March 31, 2015
AECO – C daily *($/MMbtu)*(1)	1.83	2.75
Heat content premium	0.16	0.23
Average realized natural gas sales price ***($/Mcf)***	**1.99**	**2.98**

(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 during the Reporting Period and Comparable Prior Period. The Corporation has not entered into any such contracts subsequent to the Reporting Period to the date of this MD&A. The Corporation actively monitors the market to determine whether any commodity price risk management contracts are warranted.

Royalties

The following table details Birchcliff's royalty expense:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Oil & natural gas royalties *($000s)*(1)	2,551	2,886
Oil & natural gas royalties *($/boe)*	0.67	0.83
Effective royalty rate *(%)*(2)	4%	4%

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

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

Birchcliff's aggregate royalty expense decreased from the Comparable Prior Period primarily due to lower oil and natural prices, offset by higher production in the Reporting Period.

Birchcliff's effective royalty rate is largely unchanged from the Comparable Prior Period and is impacted by both the production incentives earned for a number of Montney/Doig horizontal natural gas wells that are receiving a 5% royalty rate and by oil and natural gas wellhead prices received for Birchcliff's production and the effect these prices have on the sliding scale royalty calculation.

The Government of Alberta introduced the new Modernized Royalty Framework (the "**MRF**") on January 29, 2016 and on April 21, 2016 it announced additional royalty details and technical formulas for the MRF. These details provide the necessary information to understand the economics for oil and gas producers and other stakeholders to continue to invest in Alberta. Production from wells drilled prior to January 1, 2017 will continue under the previous Alberta Royalty Framework (the "**ARF**") for 10 years before transitioning to the MRF. Based on the details provided thus far, the Corporation believes that the well drilling economics for the Corporation's two proven resource plays, the Montney/Doig Natural Gas Resource Play and the Charlie Lake Light Oil Resource Play, within today's anticipated price ranges, are relatively consistent with the previous ARF.

Operating Costs

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

	Three months ended March 31, 2016		Three months ended March 31, 2015	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*
Field operating costs	14,573	3.82	17,650	5.10
Recoveries	(518)	(0.14)	(342)	(0.09)
Field operating costs, net	14,055	3.68	17,308	5.01
Expensed workovers and other	97	0.03	361	0.10
Operating costs	**14,152**	**3.71**	**17,669**	**5.11**

Corporate operating costs per boe decreased 27% from the Comparable Prior Period largely due to the continued cost benefits achieved from processing incremental volumes of natural gas at the PCS Gas Plant and lower service costs resulting from reduced industry activity, as well as various cost reduction and infrastructure optimization initiatives that the Corporation has implemented.

On a production month basis, operating costs averaged $1.66 per boe ($0.28 per Mcfe) at the PCS Gas Plant during the Reporting Period, down 28% from $2.32 per boe ($0.39 per Mcfe) in the Comparable Prior Period. Birchcliff processed 77% of its total corporate natural gas production at the PCS Gas Plant during the Reporting Period as compared to 78% in the Comparable Prior Period.

Transportation and Marketing Expenses

Transportation and marketing expenses were $8.5 million ($2.22 per boe) for the Reporting Period and $8.9 million ($2.59 per boe) for the Comparable Prior Period. The decreased aggregate costs from the Comparable Prior Period are primarily due to the reduced costs associated with transporting Birchcliff's condensate from the PCS Gas Plant and lower oil trucking service costs in the Reporting Period, partially offset by increased firm service commitments on TransCanada's NGTL System.

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 March 31, 2016	Three months ended March 31, 2015
Montney/Doig Natural Gas Resource Play(1)		
Average daily production, net:		
Natural gas *(Mcf)*	208,199	179,438
Oil & NGL *(bbls)*	1,806	2,022
Total boe *(6:1)*	36,506	31,928
% of corporate production(2)	*87%*	*83%*
Netback and cost *($/boe):*		
Petroleum and natural gas revenue	13.44	19.78
Royalty expense	(0.53)	(0.40)
Operating expense, net of recoveries	(2.74)	(3.85)
Transportation and marketing expense	(1.89)	(2.01)
Operating netback	8.28	13.52
Worsley Charlie Lake Light Oil Resource Play(1)		
Average daily production, net:		
Natural gas *(Mcf)*	7,676	9,590
Oil & NGL *(bbls)*	2,539	3,042
Total boe *(6:1)*	3,819	4,640
% of corporate production(2)	*9%*	*12%*
Netback and cost *($/boe):*		
Petroleum and natural gas revenue	27.99	36.53
Royalty expense	(1.45)	(3.02)
Operating expense, net of recoveries	(9.66)	(10.43)
Transportation and marketing expense	(5.83)	(6.32)
Operating netback	11.05	16.76
Total Corporate		
Average daily production, net:		
Natural gas *(Mcf)*	222,478	195,935
Oil & NGL *(bbls)*	4,878	5,760
Total boe *(6:1)*	41,958	38,416
Netback and cost *($/boe)*		
Petroleum and natural gas revenue	15.06	22.28
Royalty expense	(0.67)	(0.83)
Operating expense, net of recoveries	(3.71)	(5.11)
Transportation and marketing expense	(2.22)	(2.59)
Operating netback	8.46	13.75

(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 Period and Comparable Prior Period.

Montney/Doig Natural Gas Resource Play

Birchcliff's production from the Montney/Doig Natural Gas Resource Play was 36,506 boe per day in the Reporting Period, a 14% increase from the Comparable Prior Period. This increase was largely due to higher production of natural gas from new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant and nearby third party plants throughout 2015 and into the first quarter of 2016.

Birchcliff's recoveries of liquids from its Montney/Doig natural gas production was 8.7 bbls per MMcf in the Reporting Period as compared to 11.3 bbls per MMcf in the Comparable Prior Period. Of the 8.7 bbls per MMcf of liquids produced in the Reporting Period, approximately 8.4 bbls per MMcf (97%) were high value oil and condensate (C5+). Any NGL not recovered from the raw natural gas stream (ethane, propane and butane) increases the heat content value of Birchcliff's sales gas and the realized sales price.

Birchcliff's operating netback from the Montney/Doig Natural Gas Resource Play was $8.28 per boe ($1.38 per Mcfe) in the Reporting Period, a decrease of 39% from the Comparable Prior Period. The decrease was largely due to lower realized prices received for Birchcliff's natural gas and liquids production in the Reporting Period as compared to the Comparable Prior Period.

Worsley Charlie Lake Light Oil Resource Play

Birchcliff's production from the Worsley Charlie Lake Light Oil Resource Play was 3,819 boe per day in the Reporting Period, a decrease of 18% from the Comparable Prior Period. The decrease in production was largely due to natural declines partially offset by production optimization initiatives in the Worsley field that were ongoing during 2015 and into the first quarter of 2016.

Birchcliff's operating netback from the Worsley Charlie Lake Light Oil Resource Play was $11.05 per boe in the Reporting Period, a decrease of 34% from the Comparable Prior Period. The decrease was largely due to lower realized prices received for Birchcliff's oil, natural gas and liquids production in the Reporting Period as compared to the Comparable Prior Period.

Administrative Expenses

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

	Three months ended March 31, 2016		**Three months ended March 31, 2015**	
	($000s)	*(%)*	*($000s)*	*(%)*
Cash:				
Salaries and benefits(1)	5,285	63	5,325	61
Other(2)	3,150	37	3,448	39
	8,435	100	8,773	100
Operating overhead recoveries	(42)	(1)	(62)	(1)
Capitalized overhead(3)	(3,380)	(40)	(2,838)	(32)
General & administrative, net	5,013	59	5,873	67
General & administrative, net per boe	$1.31		$1.70	
Non-cash:				
Stock-based compensation	1,570	100	2,000	100
Capitalized stock-based compensation(3)	(920)	(59)	(1,243)	(62)
Stock-based compensation, net	650	41	757	38
Stock-based compensation, net per boe	$0.17		$0.22	
Administrative expenses, net	**5,663**		**6,630**	
Administrative expenses, net per boe	**$1.48**		**$1.92**	

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

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

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

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

	Number	Exercise price ($)[1]
Outstanding at beginning of period	12,569,238	7.80
Granted	3,012,500	3.40
Forfeited	(10,833)	(8.17)
Expired	(1,579,200)	(11.36)
Outstanding, end of period	**13,991,705**	**6.45**

(1) Determined on a weighted average basis.

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

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

Depletion and Depreciation Expenses

Depletion and depreciation ("**D&D**") expenses were $34.1 million ($8.94 per boe) for the Reporting Period as compared to $38.8 million ($11.24 per boe) for the Comparable Prior Period. D&D expenses were lower on an aggregate basis in the Reporting Period due to a 22% increase in the estimated proved plus probable reserves from the Comparable Prior Period.

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

Asset impairment assessment

The Corporation reviews its petroleum and natural gas assets for impairment in accordance with International Accounting Standards ("**IAS**") 36 under International Financial Reporting Standards ("**IFRS**"). Birchcliff's assets are grouped into cash generating units ("**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 agreements governing the Corporation's bank credit facilities; deterioration in the financial and operational performance of a CGU; net assets exceeding market capitalization; and significant downward revisions of estimated recoverable proved plus probable reserves of a CGU. If impairment indicators exist, an impairment test is performed by comparing a CGU's carrying value to its recoverable amount.

Birchcliff performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined that there were no impairment triggers identified at the end of the Reporting Period. As a result, an impairment test was not required at March 31, 2016.

Finance Expenses

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

	Three months ended March 31, 2016		Three months ended March 31, 2015	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*
Cash:				
Interest on credit facilities	6,589	1.73	4,959	1.43
Non-cash:				
Accretion on decommissioning obligations	565	0.15	557	0.16
Amortization of deferred financing fees	234	0.06	221	0.06
Finance expenses	**7,388**	**1.94**	**5,737**	**1.65**

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 Corporation's effective interest rates under its credit facilities:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Effective interest rates:		
Revolving working capital facility	4.7%	4.1%
Revolving syndicated term credit facility	4.2%	3.9%
Non-revolving term credit facility(1)	-	4.1%

(1) Subsequent to the end of the Comparable Prior Period, Birchcliff's credit facilities, including the non-revolving credit facility, were consolidated into the Credit Facilities (as defined herein). Accordingly, the Corporation did not have an outstanding non-revolving term credit facility during the Reporting Period.

Birchcliff's average outstanding balance under its bank credit facilities was approximately $631 million in the Reporting Period as compared to $504 million in the Comparable Prior Period, calculated as the simple average of the month end amounts.

Gain on Sale of Assets

Birchcliff had no dispositions in the Reporting Period which triggered gains and losses on sale of assets.

During the Comparable Prior Period, Birchcliff completed two transactions whereby it disposed of minor non-reserve assets in the Gold Creek and Sturgeon Lake areas of Alberta in exchange for $0.7 million in cash. As a result of the dispositions, Birchcliff recorded a gain of $0.7 million or $0.19 per boe in the first quarter of 2015. The sale of the Gold Creek and Sturgeon Lake assets are considered non-core asset dispositions and are not material to the Corporation's financial results and operational performance.

Income Taxes

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

($000s)	Three months ended March 31, 2016	Three months ended March 31, 2015
Deferred income tax recovery	4,490	1,150
Dividend income tax expense on preferred shares	(750)	(750)
Income tax recovery	**3,740**	**400**
Income tax recovery per boe	**$0.98**	**$0.11**

The increase in income tax recovery was due to the larger net loss recorded during the Reporting Period mainly resulting from lower commodity prices which negatively impacted funds flow.

The Corporation's estimated income tax pools were $1.5 billion at March 31, 2016. Management expects that future taxable income will be available to utilize the accumulated tax pools. The components of the Corporation's estimated income tax pools are set forth in the table below:

($000s)	Tax pools as at March 31, 2016
Canadian oil and gas property expense	216,803
Canadian development expense	338,219
Canadian exploration expense	259,008
Undepreciated capital costs	259,069
Non-capital losses	426,480
Financing costs	1,523
Estimated income tax pools	**1,501,102**

Veracel tax pools

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

SUBSEQUENT EVENTS

Miscellaneous Property Disposition

On April 28, 2016, the Corporation completed the Progress Disposition of certain miscellaneous petroleum and natural gas properties and related assets and interests in the Progress area that were producing from the Halfway formation for cash consideration of $19.0 million, after customary closing adjustments. The Progress Disposition had an effective date of January 1, 2016 and represented approximately 600 boe per day of production (60% light oil) and 4,135 net acres of land. The assets disposed of pursuant to the Progress Disposition are considered non-core assets as they represented less than 1% of both Birchcliff's first quarter of 2016 production and proved plus probable reserves at December 31, 2015 and therefore are not material to the Corporation's financial results and operational performance. No significant capital was allocated during 2016 to these assets.

The proceeds from the Progress Disposition were used to initially reduce indebtedness under the Credit Facilities, which is anticipated to be subsequently redrawn and applied as needed to fund the Corporation's capital expenditures.

Re-Determination of Borrowing Base at $750 Million Under Credit Facilities

On May 11, 2016, the borrowing base under the Corporation's extendible revolving credit facilities (the "**Credit Facilities**") was re-determined at $750 million, a modest reduction from the previous borrowing base of $800 million. Under the terms of the credit agreement governing the Credit Facilities, Birchcliff is subject to a semi-annual borrowing base redetermination, with the next redetermination scheduled for November 2016. Birchcliff had previously disclosed that it expected that the aggregate credit limit of the Credit Facilities would remain at $800 million during the most recent credit review; however, primarily as a result of continued low commodity prices, the borrowing base was reduced.

The Credit Facilities are comprised of: (i) an extendible revolving syndicated term credit facility of $760 million (the "**Syndicated Credit Facility**"); and (ii) an extendible revolving working capital facility of $40 million (the "**Working Capital Facility**"). The outstanding balance drawn under the Credit Facilities was $656 million as at March 31, 2016. The Credit Facilities do not contain any financial covenants.

The maturity dates of the Credit Facilities are May 11, 2018. Birchcliff may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made. In connection with the semi-annual review of the borrowing base which was recently completed, Birchcliff initially requested an extension of the maturity dates from May 11, 2018 to May 11, 2019. In order to preserve the current interest rate pricing margins applicable to the Corporation's drawn loans, Birchcliff did not proceed with the requested extension.

See *"Capital Resources and Liquidity – Bank Debt"* in this MD&A for further information regarding the Credit Facilities.

CAPITAL EXPENDITURES

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

($000s)	**Three months ended March 31, 2016**	**Three months ended March 31, 2015**
Land	860	571
Seismic	797	2,900
Workovers	664	2,332
Drilling and completions	30,290	61,169
Well equipment and facilities	31,121	32,084
Finding and development capital	63,732	99,056
Dispositions	(31)	(660)
Finding, development and acquisition capital	63,701	98,396
Administrative assets	159	143
Capital expenditures, net	**63,860**	**98,539**

Birchcliff drilled 9 (9.0 net) wells in the Reporting Period, consisting of 8 (8.0 net) natural gas wells and 1 (1.0 net) oil well. The natural gas wells included 8 (8.0 net) Montney/Doig horizontal wells in the Pouce Coupe area. The oil well included 1 (1.0 net) Charlie Lake horizontal light oil well in the Worsley area.

CAPITAL RESOURCES AND LIQUIDITY

Liquidity and Capital Resources

The Corporation generally relies on its funds flow from operations and available credit under the Credit Facilities to funds its capital requirements, including its dividend payments on its preferred shares. The following table sets forth a summary of the Corporation's capital resources:

($000s)	**Three months ended March 31, 2016**	**Three months ended March 31, 2015**
Funds flow from operations	20,695	36,720
Changes in non-cash working capital from operations	629	2,587
Decommissioning expenditures	(577)	(280)
Exercise of stock options	-	442
Dividends paid on preferred shares	(1,875)	(1,875)
Net change in non-revolving term credit facilities(1)	-	30
Net change in revolving term credit facilities	25,128	67,363
Changes in non-cash working capital from investing	19,860	(6,448)
Capital resources	**63,860**	**98,539**

(1) Subsequent to the end of the Comparable Prior Period, Birchcliff's credit facilities, including the non-revolving credit facilities, were consolidated into the Credit Facilities. Accordingly, the Corporation did not have outstanding non-revolving term credit facilities during the Reporting Period.

Birchcliff's funds flow from operations depends on a number of factors, including, but not limited to, commodity prices, production and sales volumes, operating expenses, royalties and foreign exchange rates. The current low commodity price environment has resulted in lower funds flow from operations being received by Birchcliff. The Corporation has been closely monitoring commodity prices and its capital spending and in response to continued low commodity prices, has taken proactive measures with a view to ensuring liquidity and financial flexibility in the current environment. On March 16, 2016, Birchcliff announced that it had reduced its capital expenditure budget from $140 million to $128 million and on May 11, 2016, it announced that it was deferring certain capital expenditures under its 2016 Capital Program for total capital expenditures of $122.5 million during 2016 (see *"Outlook"*). On April 28, 2016, the Corporation completed the Progress Disposition for cash consideration of $19.0 million, after customary closing adjustments. The proceeds from the Progress Disposition were used to initially reduce indebtedness under the Credit Facilities, which is anticipated to be subsequently redrawn and applied as needed to fund the Corporation's capital expenditures (see *"Subsequent Events"*). In addition to the foregoing, the Corporation has negotiated reductions in both capital and operating service costs and implemented various cost reduction and infrastructure optimization initiatives.

Birchcliff currently expects that its capital expenditures for 2016 will approximate its funds flow during 2016 and the proceeds from the Progress Disposition. In addition, management believes that its funds flow from operations and available credit under the Credit Facilities will be sufficient to fund the Corporation's planned capital expenditures during 2016 and to meet its current and future working capital requirements in 2016. The 2016 Capital Program is flexible and Birchcliff has the ability to defer capital expenditures in the event that actual commodity prices are materially less than what it has forecast. Should commodity prices deteriorate materially, Birchcliff may further adjust the 2016 Capital Program accordingly and/or consider the potential sale of its non-core assets to fund planned growth. In addition, the Corporation may consider seeking additional capital in the form of debt or equity. There is no assurance that any of the additional sources of capital will be available if and when required. See *"Outlook"* and *"Advisories*".

Working Capital

The Corporation's working capital deficit (current assets minus current liabilities) increased to $42.8 million at March 31, 2016 from $21.5 million at December 31, 2015. The deficit at the end of the Reporting Period is largely comprised of costs incurred from the drilling and completion of new wells.

At March 31, 2016, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of March 2016 production (67%), which was subsequently received in April 2016. In contrast, current liabilities largely consisted of trade and joint venture payables (77%) and accrued capital and operating costs (20%). 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.

Working capital includes items expected for normal operations, including trade receivables and payables, accruals, deposits and prepaid expenses. The Corporation's working capital varies primarily due to the timing of such items, as well as due to the Corporation's capital expenditures, commodity price volatility and seasonal fluctuations, among other things. Due to the Corporation's capital development activities, the Corporation's working capital is generally in a deficit position. Birchcliff manages its working capital deficit using funds flow from operations and advances under the Credit Facilities. The Corporation's working capital deficit does not reduce the amount available under the Credit Facilities.

Bank Debt

Management of debt levels continues to be a priority for Birchcliff given its long-term growth plans and the current low commodity price environment. Birchcliff believes a phased and flexible approach to existing and future growth plans should assist management in maintaining its ability to manage capital expenditures and debt levels. Management is able to quickly respond to changing commodity prices by adjusting its capital spending programs in an effort to protect the Corporation's balance sheet.

Total debt, including the working capital deficit, was $690.1 million at March 31, 2016 as compared to $643.6 million at December 31, 2015. A significant portion of the funds drawn under the Credit Facilities in the Reporting Period 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 Worsley Charlie Lake Light Oil Resource Play.

The Credit Facilities limit aggregate to approximately $800 million at March 31, 2016, leaving $144 million (18%) unutilized. The following table sets forth the Corporation's unused Credit Facilities:

As at, *($000s)*	**March 31, 2016**	**December 31, 2015**
Maximum borrowing base limit[(1)]*:*		
Revolving term credit facilities	800,000	800,000
Principal amount utilized:		
Drawn revolving term credit facilities[(2)]	(655,512)	(630,037)
Outstanding letters of credit[(3)]	(242)	(242)
	(655,754)	(630,279)
Unused credit	**144,246**	**169,721**
% unused credit	**18%**	**21%**

(1) The Credit Facilities are subject to a semi-annual review of the borrowing base limit, which limit is directly impacted by the value of Birchcliff's petroleum and natural gas reserves. On May 11, 2016, the borrowing base was re-determined at $750 million.

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

(3) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit during the periods ended March 31, 2016 and December 31, 2015.

On February 10, 2016, Birchcliff previously disclosed that it expected to fund the 2016 Capital Program using internally generated funds flow and not increase its 2016 year-end debt over year-end 2015. Birchcliff has subsequently reduced its capital expenditures under the 2016 Capital Program as discussed under *"Outlook"*. In addition, primarily as a result of continuing low commodity prices, Birchcliff currently expects that it will not materially increase its total debt at year-end 2016 over its total debt at year-end 2015, assuming an annual average WTI price of US$43.00 per barrel of oil and an AECO price of CDN$1.90 per GJ of natural gas during 2016, with an exchange rate of CDN$/US$ of 1.29.

Contractual Obligations

The Corporation enters into contractual obligations in the ordinary course of conducting its day-to-day business. The following table lists Birchcliff's estimated material contractual obligations at March 31, 2016:

($000s)	**2016**	**2017**	**2018 - 2020**	**Thereafter**
Accounts payable and accrued liabilities	64,943	-	-	-
Drawn revolving term credit facilities	-	-	655,512	-
Office lease(1)	2,712	3,315	13,099	33,960
Purchase obligations(2)	5,096	-	-	-
Transportation and processing	28,883	35,028	75,724	68,514
Estimated contractual obligations(3)	**101,634**	**38,343**	**744,335**	**102,474**

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

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

(2) The Corporation is committed to spend approximately $5.0 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 March 31, 2016 to be approximately $160.0 million and will be incurred as follows: 2017 - $1.6 million, 2018 - $1.8 million and $156.6 million thereafter. The estimate for determining the undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

Birchcliff's Series C Preferred Shares, which are redeemable by their holders after June 30, 2020, have not been included in this table as they are not contractual obligations of the Corporation at the end of the Reporting 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 Period and Comparable Prior Period.

OUTSTANDING SHARE INFORMATION

At March 31, 2016, Birchcliff had outstanding common shares, Series A Preferred Shares and Series C Preferred Shares. Birchcliff's common shares are listed on the TSX under the symbol "**BIR**" and are included in the S&P/TSX Composite Index. Birchcliff's Series A Preferred Shares and Series C Preferred Shares are individually listed on the TSX under the symbols "**BIR.PR.A**" and "**BIR.PR.C**", respectively.

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

	Common shares
Balance at December 31, 2015	152,307,539
Exercise of options	-
Balance at March 31, 2016	**152,307,539**

As at May 11, 2016, the Corporation had outstanding: 152,307,539 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 13,894,370 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 March 3, 2016, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A Preferred Share and $0.875 million or $0.4375 per Series C Preferred Share for the calendar quarter ending March 31, 2016. Both dividends are designated as an eligible dividend for purposes of the *Income Tax Act* (Canada).

SUMMARY OF QUARTERLY RESULTS

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

Quarter ending,	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014
Average daily production *(boe 6:1)*	41,958	40,445	38,433	38,489	38,416	37,704	34,235	31,178
Realized natural gas price *($/Mcf)*(1)	1.99	2.67	3.12	2.86	2.98	3.91	4.37	4.81
Realized oil price *($/bbl)*(1)	36.93	49.36	52.91	64.93	47.66	71.87	95.94	104.72
Total revenues *($000s)*(1)	57,503	75,476	82,011	82,791	77,026	105,598	116,424	117,308
Operating costs *($/boe)*	3.71	4.16	4.39	4.53	5.11	5.33	5.06	5.25
Capital expenditures, net *($000s)*	63,860	33,533	50,013	65,122	98,539	109,682	104,363	75,484
Funds flow from operations *($000s)*	20,695	33,697	44,587	45,752	36,720	61,717	75,030	75,382
Per common share – basic *($)*	0.14	0.22	0.29	0.30	0.24	0.41	0.50	0.52
Per common share – diluted *($)*	0.13	0.22	0.29	0.30	0.24	0.40	0.48	0.49
Net income (loss) *($000s)*	(12,035)	(9,322)	4,815	(4,174)	(3,479)	17,053	29,665	28,087
Net income (loss) to common shareholders *($000s)*(2)	(13,035)	(10,322)	3,815	(5,174)	(4,479)	16,053	28,665	27,087
Per common share – basic *($)*	(0.09)	(0.07)	0.03	(0.03)	(0.03)	0.11	0.19	0.19
Per common share – diluted *($)*	(0.09)	(0.07)	0.02	(0.03)	(0.03)	0.10	0.19	0.18
Total assets *($ million)*	2,053	2,025	2,022	2,009	1,983	1,919	1,846	1,771
Long-term bank debt *($000s)*	647,359	622,074	626,839	599,998	536,570	469,033	435,545	452,183
Total debt *($000s)*	690,138	643,612	640,751	632,306	610,170	545,745	495,307	514,637
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	152,308	152,308	152,294	152,284	152,214	152,154	145,912
Diluted	169,239	167,817	168,112	168,181	168,108	166,302	166,190	166,285
Wtd. average common shares outstanding *(000s)*								
Basic	152,308	152,308	152,303	152,289	152,243	152,183	149,594	145,145
Diluted	153,418	153,627	153,916	154,650	154,215	155,304	154,800	152,623

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

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

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

Quarterly variances in revenues, funds flow from operations and net income are primarily due to fluctuations in commodity prices and production volumes. In general, the Corporation's realized natural gas price and oil price has declined over the past eight quarters due to continued low commodity prices. Oil and gas revenues and the Corporation's funds from operations have generally decreased over the past eight quarters due to the lower average realized sales prices received, which has been partially offset by increased average daily production. In turn, net income has fluctuated primarily in response to changes in funds flow from operations. In addition, net income in the fourth quarter of 2015 was impacted by a deferred income tax expense in the amount of $10.2 million that was recorded in the quarter as a result of the Trial Decision being rendered in connection with the Reassessment.

Capital expenditures have fluctuated over the past eight quarters primarily as a result of the timing of the Corporation's development capital expenditures. Capital expenditures are also impacted by the impact of market conditions and the timing of acquisitions and dispositions. There have been no significant asset divestures or acquisitions over the past eight quarters.

POTENTIAL TRANSACTIONS

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Corporation's internal control over financial reporting ("**ICFR**") that occurred during the period beginning on January 1, 2016 and ended on March 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies; reported amounts of assets and liabilities; and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The Corporation's use of estimates, judgments and assumptions in preparing the interim condensed financial statements for the Reporting Period is discussed in Note 3 of the annual audited financial statements for the year ended December 31, 2015.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

RISK FACTORS AND RISK MANAGEMENT

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

NON-GAAP MEASURES

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

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

($000s)	**Three months ended March 31, 2016**	**Three months ended March 31, 2015**
Cash flow from operating activities	20,747	39,027
Adjustments:		
Decommissioning expenditures	577	280
Change in non-cash working capital	(629)	(2,587)
Funds flow from operations	**20,695**	**36,720**

"Netback" and "operating netback" denote petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. "Estimated operating netback" of the PCS Gas Plant (and the components thereof) is based upon certain cost allocations and accruals directly attributable to the PCS Gas Plant and related wells and infrastructure on a production month basis. All netbacks are calculated on a per unit basis. Management believes that netback, operating netback and estimated operating netback assists management and investors in assessing Birchcliff's profitability and its operating results on a per unit basis to better analyze its performance against prior periods on a comparable basis.

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

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

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

As at, *($000s)*	**March 31, 2016**	**December 31, 2015**
Revolving term credit facilities	647,359	622,074
Working capital deficit	42,779	21,538
Total debt	**690,138**	**643,612**

ADVISORIES

Unaudited numbers

All financial amounts referred to in this MD&A for the Reporting Period and the Comparable Prior Period 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

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, priorities and goals; the 2016 Capital Program, including planned capital expenditures, Birchcliff's plan to drill a total of 13 (13.0 net) wells, the objectives of and anticipated results from the 2016 Capital Program and the flexibility of the 2016 Capital Program and Birchcliff's ability to further defer capital expenditures in the event that actual commodity prices are materially less than what it has forecast; Birchcliff's proposed exploration and development activities and the timing thereof; Birchcliff's expectation that its capital expenditures for 2016 will approximate its funds flow during 2016 and the proceeds from the Progress Disposition; the anticipated use of proceeds from the Progress Disposition; the proposed expansion of the PCS Gas Plant; Birchcliff's production guidance for 2016; the impact of the MRF on Birchcliff; the Corporation's estimated income tax pools and management's expectation that future taxable income will be available to utilize the accumulated tax pools; Birchcliff's expectation that its appeal with respect to the Veracel Transaction will be heard in 2016; the Corporation's liquidity, including statements that should commodity prices deteriorate materially, the Corporation may further adjust the 2016 Capital Program and/or consider the potential sale of its non-core assets, that the Corporation may consider seeking additional capital in the form of debt or equity, the sources of funding for the Corporation's capital requirements, management's belief that its funds flow from operations and available credit under the Credit Facilities will be sufficient to fund the Corporation's planned capital expenditures during 2016 and to meet its current and future working capital requirements in 2016 and the Corporation's expectation that counterparties will be able to meet their financial obligations; management's ability to manage capital expenditures and debt levels and its ability to respond to changing commodity prices by adjusting its capital spending programs; Birchcliff's expectation that it will not materially increase its total debt at year-end 2016 over its total debt at year-end 2015; the timing of semi-annual reviews of the borrowing base under the Credit Facilities; and estimates of contractual and decommissioning obligations.

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 statements regarding the 2016 Capital Program, the key assumption is that Birchcliff realizes the annual average production target of 40,000 to 41,000 boe per day. In addition, the 2016 Capital Program is based on the following commodity price and exchange rate assumptions during 2016: an annual average WTI price of US$43.00 per barrel of oil; an AECO price of CDN$1.90 per GJ of natural gas; and an exchange rate of CDN$/US$ of 1.29. Birchcliff will continue to monitor economic conditions and commodity prices and may further adjust the 2016 Capital Program to respond to changes in commodity prices and other material changes in the assumptions underlying the 2016 Capital Program. In addition, Birchcliff may make adjustments to its other activities as appropriate. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and material.

- With respect to statements of future wells to be drilled, the key assumptions are: the continuing validity of the geological and other technical interpretations performed by Birchcliff's technical staff, which indicate that commercially economic volumes can be recovered from Birchcliff's lands as a result of drilling future wells; and that commodity prices and general economic conditions will warrant proceeding with the drilling of such wells.
- With respect to statements that Birchcliff expects that its capital expenditures for 2016 will approximate funds flow during 2016 and the proceeds from the Progress Disposition, that its total debt at year-end 2016 will approximate its total debt at March 31, 2016, and that it will not materially increase its total debt at 2016 year-end over its total debt at year-end 2015, the key assumptions are that: the 2016 Capital Program will be carried out as currently contemplated; and Birchcliff realizes the annual average production target of 40,000 to 41,000 boe per day. In addition, the foregoing statements are based on the following commodity price and exchange rate assumptions during 2016: an annual average WTI price of US$43.00 per barrel of oil; an AECO price of CDN$1.90 per GJ of natural gas; and an exchange rate of CDN$/US$ of 1.29.
- With respect to statements regarding the proposed expansion of the PCS Gas Plant, the key assumptions are that: future drilling is successful; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund those projects; the key components of the plant will operate as designed; and commodity prices and general economic conditions will warrant proceeding with the construction of such facilities and the drilling of associated wells.
- With respect to estimates as to Birchcliff's annual average production for 2016, the key assumptions are that: the 2016 Capital Program will be carried out as currently contemplated; no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that any transportation service curtailments or unplanned outages that occur will be short in duration or otherwise insignificant; the construction of new infrastructure meets timing and operational expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations.
- With respect to statements regarding the Corporation's liquidity, the key assumption is that the Corporation's forecasts of production and commodity prices are valid.

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 natural gas industry and other actions by government authorities, including changes to the royalty and carbon tax regimes and the imposition or reassessment of taxes; the cost of compliance with current and future environmental laws; political uncertainty and uncertainty associated with government policy changes; uncertainties and risks associated with pipeline restrictions and outages to third-party infrastructure that could cause disruptions to production; the 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 the 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,	**March 31, 2016**	**December 31, 2015**
ASSETS		
Current assets:		
Cash	57	57
Accounts receivable	19,646	23,410
Prepaid expenses and deposits	2,461	2,579
	22,164	26,046
Non-current assets:		
Exploration and evaluation *(Note 3)*	252	247
Petroleum and natural gas properties and equipment *(Note 4)*	2,030,714	1,999,080
	2,030,966	1,999,327
Total assets	**2,053,130**	**2,025,373**
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	64,943	47,584
Non-current liabilities:		
Revolving term credit facilities *(Note 5)*	647,359	622,074
Decommissioning obligations *(Note 6)*	93,497	92,504
Deferred income taxes	111,679	116,171
Capital securities	48,683	48,606
	901,218	879,355
Total liabilities	**966,161**	**926,939**
SHAREHOLDERS' EQUITY		
Share capital *(Note 7)*		
Common shares	783,481	783,481
Preferred shares *(perpetual)*	41,434	41,434
Contributed surplus	62,195	60,625
Retained earnings	199,859	212,894
	1,086,969	1,098,434
Total shareholders' equity and liabilities	**2,053,130**	**2,025,373**

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

Approved by the Board

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

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

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

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

Three months ended,	**March 31, 2016**	**March 31, 2015**
REVENUE		
Petroleum and natural gas sales	57,503	77,026
Royalties	(2,551)	(2,886)
Net revenue from oil and natural gas sales	54,952	74,140
EXPENSES		
Operating	14,152	17,669
Transportation and marketing	8,503	8,919
Administrative, net	5,663	6,630
Depletion and depreciation *(Note 4)*	34,146	38,845
Finance	7,388	5,737
Dividends on capital securities	875	875
(Gain) on sale of assets	-	(656)
	70,727	78,019
NET LOSS BEFORE TAXES	(15,775)	(3,879)
Income tax recovery	3,740	400
NET LOSS AND COMPREHENSIVE LOSS	**(12,035)**	**(3,479)**
Net loss per common share *(Note 7)*		
Basic	($0.09)	($0.03)
Diluted	($0.09)	($0.03)

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

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

Unaudited (Expressed in thousands of Canadian dollars)

	Share Capital				
	Common Shares	**Preferred Shares**	**Contributed Surplus**	**Retained Earnings**	**Total**
As at December 31, 2014	782,671	41,434	53,118	229,054	1,106,277
Dividends on perpetual preferred shares	-	-	-	(1,000)	(1,000)
Exercise of stock options	599	-	(157)	-	442
Stock-based compensation	-	-	2,000	-	2,000
Net loss and comprehensive loss	-	-	-	(3,479)	(3,479)
As at March 31, 2015	783,270	41,434	54,961	224,575	1,104,240
As at December 31, 2015	783,481	41,434	60,625	212,894	1,098,434
Dividends on perpetual preferred shares *(Note 7)*	-	-	-	(1,000)	(1,000)
Stock-based compensation *(Note 8)*	-	-	1,570	-	1,570
Net loss and comprehensive loss	-	-	-	(12,035)	(12,035)
As at March 31, 2016	**783,481**	**41,434**	**62,195**	**199,859**	**1,086,969**

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,	**March 31, 2016**	**March 31, 2015**
Cash provided by (used in):		
OPERATING		
Net loss and comprehensive loss	(12,035)	(3,479)
Adjustments for items not affecting operating cash:		
Depletion and depreciation	34,146	38,845
Stock-based compensation	650	757
Finance	7,388	5,737
(Gain) on sale of assets	-	(656)
Income taxes recovery	(3,740)	(400)
Interest paid	(6,589)	(4,959)
Dividends on capital securities	875	875
Decommissioning expenditures *(Note 6)*	(577)	(280)
Changes in non-cash working capital	629	2,587
	20,747	39,027
FINANCING		
Exercise of stock options	-	442
Dividends on perpetual preferred shares *(Note 7)*	(1,000)	(1,000)
Dividends on capital securities *(Note 7)*	(875)	(875)
Net change in non-revolving term credit facilities	-	30
Net change in revolving term credit facilities	25,128	67,363
	23,253	65,960
INVESTING		
Petroleum and natural gas properties and equipment	(63,886)	(99,194)
Exploration and evaluation assets	(5)	(5)
Sale of petroleum and natural gas properties and equipment	31	600
Sale of exploration and evaluation assets	-	60
Changes in non-cash working capital	19,860	(6,448)
	(44,000)	(104,987)
Net change in cash	-	-
Cash, beginning of period	57	54
CASH, END OF PERIOD	**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 MONTHS ENDED MARCH 31, 2016

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

1. NATURE OF OPERATIONS

Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is domiciled and incorporated in 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 S.W., 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 May 11, 2016.

2. BASIS OF PREPARATION

These unaudited interim condensed financial statements present Birchcliff's financial results of operations and financial position under International Financial Reporting Standards ("**IFRS**") as at and for the three months ended March 31, 2016, including the 2015 comparative period. The financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**").

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

Birchcliff's financial statements are prepared on a historical cost basis, except for certain financial and non-financial assets and liabilities which have been measured at fair value. The Corporation's financial statements include the accounts of Birchcliff only and are expressed in Canadian dollars, unless otherwise stated. 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, 2014	2,235
Additions	117
Disposals	(1)
Lease expiries	(2,104)
As at December 31, 2015	247
Additions	5
As at March 31, 2016	**252**

(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 months ended March 31, 2016.

4. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

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

($000s)	**P&NG Assets**	**Corporate Assets**	**Total**
Cost:			
As at December 31, 2014	2,325,501	10,220	2,335,721
Additions	267,711	749	268,460
Dispositions	(4,862)	-	(4,862)
As at December 31, 2015	2,588,350	10,969	2,599,319
Additions	65,657	154	65,811
Dispositions	(31)	-	(31)
As at March 31, 2016[1]	2,653,976	11,123	2,665,099
Accumulated depletion and depreciation:			
As at December 31, 2014	(449,409)	(6,464)	(455,873)
Depletion and depreciation expense	(143,181)	(1,185)	(144,366)
As at December 31, 2015	(592,590)	(7,649)	(600,239)
Depletion and depreciation expense	(33,829)	(317)	(34,146)
As at March 31, 2016	(626,419)	(7,966)	(634,385)
Net book value:			
As at December 31, 2015	1,995,760	3,320	1,999,080
As at March 31, 2016[2]	**2,027,557**	**3,157**	**2,030,714**

(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) Birchcliff performed an impairment assessment of its P&NG assets on a CGU basis and determined there were no impairment triggers identified at the end of the reporting period. As a result, no impairment test was required as at March 31, 2016.

5. REVOLVING TERM CREDIT FACILITIES

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

As at, *($000s)*	**March 31, 2016**	**December 31, 2015**
Syndicated credit facility	636,000	607,000
Working capital facility	19,512	23,037
Drawn revolving term credit facilities	655,512	630,037
Unamortized prepaid interest on bankers' acceptances	(6,695)	(6,347)
Unamortized deferred financing fees	(1,458)	(1,616)
Revolving term credit facilities	**647,359**	**622,074**

As at March 31, 2016, Birchcliff's credit facilities consisted of extendible revolving credit facilities in the aggregate principal amount of $800 million with maturity dates of May 11, 2018 (the "**Credit Facilities**"). The Credit Facilities are comprised of: (i) an extendible revolving syndicated term credit facility of $760 million (the "**Syndicated Credit Facility**"); and (ii) an extendible revolving working capital facility of $40 million (the "**Working Capital Facility**"). The Credit Facilities allow for prime rate loans, LIBOR loans, U.S. base rate loans, bankers' acceptances and, in the case of the Working Capital Facility only, letters of credit. The interest rates applicable to the drawn loans are based on a pricing margin grid and will change as a result of the ratio of outstanding indebtedness to EBITDA as calculated in accordance with the agreement governing the Credit Facilities. EBITDA is defined as earnings before interest and non-cash items including (if any) income taxes, stock-based compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments and depletion, depreciation and amortization.

The Credit Facilities are subject to a semi-annual review of the borrowing base limit by Birchcliff's syndicate of lenders, which limit is directly impacted by the value of Birchcliff's oil and natural gas reserves. In addition, pursuant to the terms of the credit agreement governing the Credit Facilities, the borrowing base of the Credit Facilities may be adjusted in certain other circumstances. Upon any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall, Birchcliff must eliminate the borrowing base shortfall amount. On May 11, 2016, the borrowing base was re-determined at $750 million, a reduction from the previous borrowing base of $800 million.

The maturity dates of the Credit Facilities are May 11, 2018. Birchcliff may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made. In connection with the semi-annual review of the borrowing base which was recently completed, Birchcliff initially requested an extension of the maturity dates from May 11, 2018 to May 11, 2019. In order to preserve the current interest rate pricing margins applicable to the Corporation's drawn loans, Birchcliff did not proceed with the requested extension.

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

6. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is provided below:

As at, *($000s)*	**March 31, 2016**	**December 31, 2015**
Balance, beginning	92,504	85,824
Obligations incurred	1,005	2,086
Obligations divested	-	(1,170)
Changes in estimated future cash flows	-	4,422
Accretion expense	565	2,235
Actual expenditures	(577)	(893)
Balance, ending[(1)]	**93,497**	**92,504**

(1) Birchcliff applied a risk-free rate of 2.26% and an inflation rate of 2.0% to calculate the discounted fair value of its decommissioning liabilities as at March 31, 2016 (December 31, 2015 – 2.26% and 2.0%, respectively).

7. CAPITAL STOCK

Share Capital

(a) Authorized:

Unlimited number of voting common shares, with no par value

Unlimited number of preferred shares, with no par value

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

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

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

As at, *(000s)*	**March 31, 2016**	**December 31, 2015**
Common Shares:		
Outstanding at beginning of period - Jan 1	152,308	152,214
Exercise of stock options	-	94
Outstanding at end of period	152,308	152,308
Series A Preferred Shares (perpetual):		
Outstanding at beginning of period - Jan 1	2,000	2,000
Outstanding at end of period	2,000	2,000

Capital Securities

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

Dividends

On March 3, 2016, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A Preferred Share and $0.875 million or $0.4375 per Series C Preferred Share for the calendar quarter ending March 31, 2016. 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 loss per common share:

Three months ended,	March 31, 2016	March 31, 2015
Net loss *($000s)*	(12,035)	(3,479)
Dividends on Series A Preferred Shares *($000s)*	(1,000)	(1,000)
Net loss to common shareholders *($000s)*	(13,035)	(4,479)
Weighted average common shares *(000s)*:		
Weighted average basic common shares outstanding	152,308	152,243
Effects of dilutive securities	-	-
Weighted average diluted common shares outstanding[1]	152,308	152,243
Net loss per common share		
Basic	**($0.09)**	**($0.03)**
Diluted	**($0.09)**	**($0.03)**

(1) As the Corporation reported a loss for the three months ended March 31, 2016 and three months March 31, 2015, the basic and diluted weighted average shares outstanding are the same for the period. The weighted average diluted common shares outstanding excludes 11,967,886 stock options and performance warrants that are anti-dilutive in the three month reporting period (March 31, 2015 – 10,655,103).

8. SHARE-BASED PAYMENTS

Stock Options

At March 31, 2016, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of a maximum of 15,230,754 (March 31, 2015 – 15,228,354) common shares. At March 31, 2016, there remained available for issuance options in respect of 1,239,049 (March 31, 2015 – 2,343,849) common shares. During the three months ended March 31, 2016, the weighted average share trading price was $4.85 (March 31, 2015 – $7.01) per common share.

A summary of the outstanding stock options is presented below:

	Number	Weighted Average Exercise Price *($)*
Outstanding, December 31, 2015	12,569,238	7.80
Granted	3,012,500	3.40
Forfeited	(10,833)	(8.17)
Expired	(1,579,200)	(11.36)
Outstanding, March 31, 2016	**13,991,705**	**6.45**

The weighted average fair value per option granted during the three months ended March 31, 2016 was $1.20 (March 31, 2015 – $2.12). In determining the stock-based compensation expense for options issued during the three months ended March 31, 2016, the Corporation applied a weighted average estimated forfeiture rate of 12% (March 31, 2015 – 13%).

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

Three months ended,	March 31, 2016	March 31, 2015
Risk-free interest rate	0.6%	0.7%
Expected life *(years)*	4.0	4.0
Expected volatility	44.9%	40.8%

A summary of the stock options outstanding and exercisable under the plan at March 31, 2016 is presented below:

Exercise Price		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$3.35	$6.00	5,170,235	3.26	$4.47	2,147,735	1.07	$5.96
$6.01	$9.00	8,507,970	2.94	$7.48	5,096,141	2.57	$7.65
$9.01	$12.00	198,500	3.26	$9.99	92,498	3.09	$10.03
$12.01	$13.26	115,000	0.22	$12.79	113,000	0.17	$12.80
		13,991,705	**3.04**	**$6.45**	**7,449,374**	**2.11**	**$7.27**

Performance Warrants

On January 14, 2005, Birchcliff issued 4,049,665 performance warrants as part of the Corporation's initial restructuring to become a public entity. There are 2,939,732 performance warrants outstanding and exercisable at March 31, 2016 (March 31, 2015 – 2,939,732). Each performance warrant is exercisable at a price of $3.00 to purchase one common share of Birchcliff and expires on January 31, 2020.

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

9. CAPITAL MANAGEMENT

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations, including potential obligations arising from additional acquisitions; to maintain a capital structure that allows Birchcliff to finance its growth strategy using primarily internally-generated cash flow and its available debt capacity; and to optimize the use of its capital to provide an appropriate investment return to its shareholders. There were no changes in the Corporation's approach to capital management during the three months ended March 31, 2016.

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

As at, *($000s)*	**March 31, 2016**	**December 31, 2015**
Maximum borrowing base limit(1):		
Revolving term credit facilities	800,000	800,000
Principal amount utilized:		
Drawn revolving term credit facilities	(655,512)	(630,037)
Outstanding letters of credit(2)	(242)	(242)
	(655,754)	(630,279)
Unused credit	**144,246**	**169,721**

(1) The Credit Facilities are subject to a semi-annual review of the borrowing base limit, which limit is directly impacted by the value of Birchcliff's petroleum and natural gas reserves. On May 11, 2016, the borrowing base was re-determined at $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 March 31, 2016.

The capital structure of the Corporation is as follows:

As at, *($000s)*	March 31, 2016	Dec. 31, 2015	% Change
Shareholders' equity[1]	1,086,969	1,098,434	
Capital securities	48,683	48,606	
Shareholders' equity & capital securities	1,135,652	1,147,040	(1%)
Shareholders' equity & capital securities as a % of total capital[2]	62%	64%	
Working capital deficit	42,779	21,538	
Drawn revolving term credit facilities	655,512	630,037	
Drawn debt	698,291	651,575	7%
Drawn debt as a % of total capital	38%	36%	
Capital	**1,833,943**	**1,798,615**	**2%**

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

(2) Of the 62%, approximately 54% relates to common capital stock and 8% relates to preferred capital stock.

10. FINANCIAL RISK MANAGEMENT

Birchcliff is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and periodically reviews the results of all risk management activities and all outstanding positions. Management has implemented and monitors compliance with risk management guidelines as outlined by the Board of Directors. The Corporation's risk management guidelines are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls and to monitor risks and adherence to market conditions and the Corporation's activities. Birchcliff's exposure to credit risk, liquidity risk and market risk are consistent with those disclosed in the annual audited financial statements for the year ended December 31, 2015.

Birchcliff had no risk management contracts in place as at or during the three months ended March 31, 2016 and three months ended March 31, 2015. The Corporation actively monitors the market to determine whether any additional commodity price risk management contracts are warranted.

11. SUBSEQUENT EVENTS

On April 28, 2016, Birchcliff completed the disposition of certain non-core petroleum and natural gas properties and related assets and interests in the Progress area for cash consideration of $19.0 million, after customary closing adjustments. The proceeds from the disposition were used to initially reduce indebtedness under the Credit Facilities, which is anticipated to be subsequently redrawn and applied as needed to fund the Corporation's capital expenditure program.

On May 11, 2016, the borrowing base under the Credit Facilities was re-determined at $750 million, a reduction from the previous borrowing base of $800 million.

ABBREVIATIONS

AECO	physical storage and trading hub for natural gas on the TransCanada Alberta transmission system which is the delivery point for various benchmark Alberta index prices
bbl	barrel
bbls	barrels
boe	barrel of oil equivalent
GAAP	generally accepted accounting principles
GJ	gigajoule
IFRS	International Financial Reporting Standards
Mcf	thousand cubic feet
Mcfe	thousand cubic feet of gas equivalent
MMcf	million cubic feet
NGL	natural gas liquids
WTI	West Texas Intermediate oil at Cushing, Oklahoma, the benchmark for North American crude oil pricing
000s	thousands
$000s	thousands of dollars
MM$	millions of dollars

NON-GAAP MEASURES

This First Quarter Report uses "funds flow", "funds flow from operations", "funds flow per common share", "netback", "operating netback", "estimated operating netback", "operating margin", "total cash costs" and "total debt". These measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. For further details on these non-GAAP measures, please see *"Non-GAAP Measures"* in the management's discussion and analysis for the three months ended March 31, 2016.

In addition, this First Quarter Report uses "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. Funds flow netback is calculated on a per unit basis. Such measure does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Management believes that funds flow netback assists management and investors in assessing Birchcliff's profitability and its operating results on a per unit basis to better analyze its performance against prior periods on a comparable basis.

ADVISORIES

UNAUDITED NUMBERS

All financial amounts referred to in this First Quarter Report for the three months ended March 31, 2016 and three months ended March 31, 2015 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

Mcfe amounts have been calculated by using the conversion ratio of one 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.

OPERATING COSTS

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

DRILLING LOCATIONS

This First Quarter Report discloses potential net future drilling locations in three categories: (i) proved locations; (ii) probable locations; and (iii) unbooked locations. Proved locations and probable locations are proposed drilling locations identified in the reserves estimation and economic evaluation prepared by Birchcliff's independent qualified reserves evaluator, Deloitte LLP, in respect of Birchcliff's oil and gas properties effective December 31, 2015 (the "**2015 Reserves Evaluation**") that have proved and/or probable reserves, as applicable, attributed to them in the 2015 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 have been identified by management based on evaluation of applicable geologic, seismic, engineering, production and reserves information. Unbooked locations do not have proved or probable reserves attributed to them in the 2015 Reserves Evaluation. Of the 3,807.2 net existing horizontal wells and potential net future horizontal drilling locations identified herein, 505.2 are proved locations, 193.6 are probable locations, 698.8 are proved plus probable locations and 3,108.4 are unbooked locations.

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

OIL AND GAS METRICS

This First Quarter Report contains certain oil and gas metrics, including FD&A costs, recycle ratios and netbacks, which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics have been included herein to provide readers with additional measures to evaluate Birchcliff's performance; however, such measures are not reliable indicators of the future performance of Birchcliff and future performance may not compare to the performance in previous periods and therefore such metrics should not be unduly relied upon.

FORWARD-LOOKING INFORMATION

This First 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 First Quarter Report contains forward-looking information relating to: Birchcliff's plans and other aspects of its anticipated future operations, management focus, strategies, priorities and goals; performance characteristics of Birchcliff's oil and natural gas properties; Birchcliff's belief that it is well positioned to survive the downturn; Birchcliff's production guidance for 2016, including its estimates of its annual average production for 2016 and 2016 annual average production growth; the 2016 Capital Program, including planned capital expenditures, Birchcliff's plan to drill a total of 13 (13.0 net) wells, the objectives of and anticipated results from the 2016 Capital Program and the flexibility of the 2016 Capital Program and Birchcliff's ability to further defer capital expenditures in the event that actual commodity prices are materially less than what it has forecast; 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 for 2016 will approximate its funds flow during 2016 and the proceeds from the Progress Disposition; the proposed expansion of the PCS Gas Plant, including the anticipated processing capacity of the PCS Gas Plant after such expansion, the anticipated timing of such expansion and the estimated cost to achieve such expansion; Birchcliff's flexibility; the anticipated use of proceeds from the Progress Disposition; Birchcliff's expectation that its total debt at year-end 2016 will approximate its total debt at March 31, 2016; estimates of potential future drilling locations; Birchcliff's inventory of drilling opportunities is expected to provide it with production and reserves growth for many years; Birchcliff's ability to find opportunities to reduce costs and defer certain capital expenditures; and the impact of the MRF on Birchcliff. In addition, this First

Quarter Report includes the forward-looking information identified in the management's discussion and analysis for the three months ended March 31, 2016 under the heading *"Advisories – Forward-Looking Information".*

The forward-looking information contained in this First 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 First Quarter Report:

- With respect to statements regarding the 2016 Capital Program, the key assumption is that Birchcliff realizes the annual average production target of 40,000 to 41,000 boe per day. In addition, the 2016 Capital Program is based on the following commodity price and exchange rate assumptions during 2016: an annual average WTI price of US$43.00 per barrel of oil; an AECO price of CDN$1.90 per GJ of natural gas; and an exchange rate of CDN$/US$ of 1.29. Birchcliff will continue to monitor economic conditions and commodity prices and may further adjust the 2016 Capital Program to respond to changes in commodity prices and other material changes in the assumptions underlying the 2016 Capital Program. In addition, Birchcliff may make adjustments to its other activities as appropriate. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and material.

- With respect to statements that Birchcliff expects that its capital expenditures for 2016 will approximate funds flow during 2016 and the proceeds from the Progress Disposition and that its total debt at year-end 2016 will approximate its total debt at March 31, 2016, the key assumptions are that: the 2016 Capital Program will be carried out as currently contemplated; and Birchcliff realizes the annual average production target of 40,000 to 41,000 boe per day. In addition, the foregoing statements are based on the following commodity price and exchange rate assumptions during 2016: an annual average WTI price of US$43.00 per barrel of oil; an AECO price of CDN$1.90 per GJ of natural gas; and an exchange rate of CDN$/US$ of 1.29.

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

- With respect to estimates as to Birchcliff's annual average production for 2016 and 2016 annual average production growth, the key assumptions are that: the 2016 Capital Program will be carried out as currently contemplated; no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that any transportation service curtailments or unplanned outages that occur will be short in duration or otherwise insignificant; the construction of new infrastructure meets timing and operational expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations.

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

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; discretion in the use of the proceeds from the Progress Disposition; 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 First 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 First 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.

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Union Bank, Canada Branch

Alberta Treasury Branches

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