BIRCHCLIFF ENERGY

QUARTERLY REPORT | 2018Q2

BIRCHCLIFF ENERGY LTD. ANNOUNCES STRONG SECOND QUARTER 2018 RESULTS AND POSITIVE MONTNEY EXPLORATION RESULTS IN POUCE COUPE

Calgary, Alberta – Birchcliff Energy Ltd. ("Birchcliff") (TSX: BIR) is pleased to announce its financial and operational results for the second quarter of 2018 and its positive exploration and development results from its recent Montney D2 and C wells in Pouce Coupe. The full text of Birchcliff's Second Quarter 2018 Report, which contains the unaudited interim condensed financial statements for the three and six months ended June 30, 2018 and the related management's discussion and analysis ("**MD&A**"), will be available on Birchcliff's website at www.birchcliffenergy.com and on SEDAR at www.sedar.com.

"We had a solid second quarter in 2018, with quarterly average production of 76,296 boe/d, which was ahead of our internal budget and which represented an 18% increase from the second quarter of 2017. Light oil and NGLs accounted for 20% of our production in the quarter which allowed us to benefit from the improving prices for oil and other liquids," commented Jeff Tonken, President and Chief Executive Officer of Birchcliff. "Subsequent to the end of the quarter, the Phase VI expansion of our natural gas plant in Pouce Coupe was brought on-stream increasing the total processing capacity of the plant by 80 MMcf/d to 340 MMcf/d. In addition, we have recently had positive exploration and development results from the four horizontal Montney wells drilled on our multi-well science and technology pad in Pouce Coupe. These results have re-affirmed our confidence in the depth of the multi-interval drilling opportunities on our Montney/Doig Resource Play in Pouce Coupe."

HIGHLIGHTS

- Production averaged 76,296 boe/d in the second quarter of 2018, an 18% increase from 64,636 boe/d in the second quarter of 2017. Production consisted of approximately 80% natural gas, 7% light oil and 13% NGLs in the second quarter of 2018, as compared to 77% natural gas, 11% light oil and 12% NGLs in the second quarter of 2017. Light oil and NGLs production in the second quarter of 2018 increased 16% as compared to the first quarter of 2018.
- Adjusted funds flow of $72.4 million, or $0.27 per basic common share, in the second quarter of 2018, an 18% decrease from $88.6 million and $0.33 per basic common share in the second quarter of 2017.
- Net income to common shareholders of $6.4 million, or $0.02 per basic common share, in the second quarter of 2018, a 62% decrease and a 67% decrease, respectively, from $17.0 million and $0.06 per basic common share in the second quarter of 2017.
- Operating expense of $3.36/boe in the second quarter of 2018, a 28% decrease from $4.67/boe in the second quarter of 2017 and an 11% decrease from $3.78/boe in the first quarter of 2018.
- Net capital expenditures of $66.5 million in the second quarter of 2018 and $199.6 million in the first half of 2018.
- At June 30, 2018, Birchcliff's long-term bank debt was $617.3 million and its total debt was $661.4 million.
- Birchcliff expects that its total debt at year-end 2018 will be materially lower as compared to June 30, 2018, as approximately 78% ($199.6 million) of its budgeted $255 million capital expenditure program for 2018 (the "**2018 Capital Program**") was spent during the first half of the year.
- Birchcliff drilled a total of 7 (7.0 net) wells in the second quarter of 2018, consisting of 5 (5.0 net) Montney horizontal oil wells in Gordondale and 2 (2.0 net) Montney/Doig horizontal natural gas wells in Pouce Coupe.

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

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
OPERATING				
Average daily production				
Light oil – *(bbls)*	5,599	7,121	4,872	6,212
Natural gas – *(Mcf)*	364,360	297,016	370,880	294,407
NGLs – *(bbls)*	9,970	8,013	9,624	7,877
Total – boe	**76,296**	**64,636**	**76,309**	**63,157**
Average sales price *(CDN$)*(1)				
Light oil – *(per bbl)*	79.55	60.38	76.33	61.32
Natural gas – *(per Mcf)*	2.01	3.13	2.37	3.10
NGLs – *(per bbl)*	47.81	31.10	47.95	31.58
Total – per boe	**21.68**	**24.90**	**22.45**	**24.42**
NETBACK AND COST *($/boe)*				
Petroleum and natural gas revenue(1)	21.69	24.92	22.45	24.43
Royalty expense	(1.53)	(0.80)	(1.48)	(1.37)
Operating expense	(3.36)	(4.67)	(3.57)	(4.93)
Transportation and other expense	(3.64)	(2.57)	(3.60)	(2.57)
Operating netback	**13.16**	**16.88**	**13.80**	**15.56**
General & administrative expense, net	(0.88)	(1.07)	(0.88)	(1.06)
Interest expense	(0.96)	(1.16)	(0.96)	(1.26)
Realized gain (loss) on financial instruments	(0.93)	0.42	(0.69)	0.43
Other income	0.03	-	0.03	-
Adjusted funds flow netback	**10.42**	**15.07**	**11.30**	**13.67**
Stock-based compensation expense, net	(0.10)	(0.17)	(0.11)	(0.15)
Depletion and depreciation expense	(7.60)	(7.41)	(7.50)	(7.50)
Accretion expense	(0.11)	(0.14)	(0.12)	(0.15)
Amortization of deferred financing fees	(0.06)	(0.06)	(0.06)	(0.06)
Loss on sale of assets	(1.20)	(3.58)	(0.61)	(1.62)
Unrealized gain (loss) on financial instruments	0.36	0.80	(0.43)	1.86
Dividends on Series C preferred shares	(0.13)	(0.15)	(0.13)	(0.15)
Income tax expense	(0.51)	(1.30)	(0.71)	(1.71)
Net income	**1.07**	**3.06**	**1.63**	**4.19**
Dividends on Series A preferred shares	(0.15)	(0.17)	(0.15)	(0.17)
Net income to common shareholders	**0.92**	**2.89**	**1.48**	**4.02**
FINANCIAL				
Petroleum and natural gas revenue *($000s)*(1)	150,561	146,597	310,092	279,305
Cash flow from operating activities *($000s)*	71,825	57,467	163,678	128,081
Adjusted funds flow *($000s)*	72,369	88,612	156,027	156,242
Per common share – basic *($)*	0.27	0.33	0.59	0.59
Per common share – diluted *($)*	0.27	0.33	0.58	0.58
Net income *($000s)*	7,437	18,015	22,562	47,943
Net income to common shareholders *($000s)*	6,390	17,015	20,468	45,943
Per common share – basic *($)*	0.02	0.06	0.08	0.17
Per common share – diluted *($)*	0.02	0.06	0.08	0.17
Common shares outstanding *(000s)*				
End of period – basic	265,845	265,417	265,845	265,417
End of period – diluted	285,253	284,461	285,253	284,461
Weighted average common shares for period – basic	265,820	265,326	265,809	264,716
Weighted average common shares for period – diluted	267,773	268,203	266,793	268,065
Dividends on common shares *($000s)*	6,646	6,635	13,291	13,239
Dividends on Series A preferred shares *($000s)*	1,047	1,000	2,094	2,000
Dividends on Series C preferred shares *($000s)*	875	875	1,750	1,750
Capital expenditures, net *($000s)*	66,464	120,782	199,608	245,320
Revolving term credit facilities *($000s)*	617,291	628,401	617,291	628,401
Adjusted working capital deficit *($000s)*	44,118	72,083	44,118	72,083
Total debt *($000s)*	661,409	700,484	661,409	700,484

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

- During the second quarter of 2018, Birchcliff and its syndicate of lenders agreed to an extension of the maturity dates of Birchcliff's credit facilities from May 11, 2020 to May 11, 2021 and to the borrowing base remaining unchanged at $950 million.
- During the second quarter of 2018, Birchcliff and AltaGas Ltd. ("**AltaGas**") entered into a long-term natural gas processing arrangement (the "**Processing Arrangement**") effective January 1, 2018 for natural gas processed at AltaGas' deep-cut sour gas processing facility located in Gordondale, Alberta (the "**Gordondale Facility**"). As a result of the Processing Arrangement, Birchcliff's fees at the Gordondale Facility were reduced.
- Subsequent to the end of the quarter, the 80 MMcf/d Phase VI expansion of Birchcliff's 100% owned and operated natural gas processing plant in Pouce Coupe (the "**Pouce Coupe Gas Plant**") was brought on-stream on budget and ahead of schedule, increasing the total processing capacity of the plant to 340 MMcf/d.
- Birchcliff recently had positive exploration and development results in Pouce Coupe on its four-well science and technology pad with the following production results for the initial thirty days of production ("**IP30**")(1):

Area, interval, well type and location	**Production rate (raw)** *(boe/d)*	**Natural gas (raw)** *(MMcf/d)*	**Condensate** *(bbls/d)*	**CGR** *(bbls/MMcf)*	**Tubing or casing pressure** *(MPa)*
Pouce Coupe					
Montney D2 Exploration Gas Well – 102/02-03-079-13W6	971	4.0	222	49	14.5
Montney C Development Gas Well – 100/02-03-079-13W6	864	5.0	69	14	15.3
Montney D1 Development Gas Well – 102/01-03-079-13W6	1,007	5.0	137	26	11.1
Montney D1 Development Gas Well – 103/13-34-078-13W6	989	5.0	103	19	14.4

(1) See *"Operations Overview and Update"* and *"Advisories – Initial Production Rates"*.

SECOND QUARTER 2018 FINANCIAL AND OPERATIONAL RESULTS

Production

Birchcliff achieved solid quarterly average production of 76,296 boe/d in the second quarter of 2018, an 18% increase from 64,636 boe/d in the second quarter of 2017. The increase was primarily attributable to the success of Birchcliff's capital programs which resulted in incremental production from new horizontal wells brought on production in Pouce Coupe and Gordondale, partially offset by the sale of the Corporation's oil-weighted assets in the Worsley area in the third quarter of 2017, temporary restrictions in pipeline and compressor station capacity on the Alberta NGTL system during the second quarter of 2018 and natural production declines.

Production consisted of approximately 80% natural gas, 7% light oil and 13% NGLs in the second quarter of 2018, as compared to 77% natural gas, 11% light oil and 12% NGLs in the second quarter of 2017. Of the 13% NGLs in the second quarter of 2018, approximately 53% were high-value C4+ liquids. The change in commodity mix from the second quarter of 2017 was primarily due to the disposition of Birchcliff's oil-weighted Worsley assets and the start-up of Phase V of the Pouce Coupe Gas Plant, both of which occurred in the third quarter of 2017.

Adjusted Funds Flow and Net Income

Birchcliff had adjusted funds flow of $72.4 million, or $0.27 per basic common share, in the second quarter of 2018, an 18% decrease from $88.6 million and $0.33 per basic common share in the second quarter of 2017. The decrease was primarily due to a lower average realized natural gas sales price, higher aggregate royalty and transportation and other expenses and a realized mark-to-market loss on financial instruments of $6.5 million, partially offset by higher corporate production and higher average realized oil and NGLs sales prices which resulted in higher revenue and lower operating, G&A and interest expenses.

Birchcliff recorded net income of $7.4 million in the second quarter of 2018, a 59% decrease as compared to net income of $18.0 million in the second quarter of 2017. Birchcliff recorded net income to common shareholders of $6.4 million, or $0.02 per basic common share, a 62% decrease and a 67% decrease, respectively, as compared to net income to common shareholders of $17.0 million and $0.06 per basic common share in the second quarter of 2017. The decreases were primarily due to lower adjusted funds flow and higher depletion expense resulting from higher production in the second quarter of 2018.

Operating Expense

Birchcliff's operating expense was $3.36/boe in the second quarter of 2018, a 28% decrease from $4.67/boe in the second quarter of 2017. The decrease was primarily due to an incremental increase in natural gas production processed at the Pouce Coupe Gas Plant in connection with the start-up of Phase V in the third quarter of 2017, reduced processing fees at the Gordondale Facility as a result of the Processing Arrangement and the sale of the higher-cost Worsley assets in the third quarter of 2017.

Transportation and Other Expense

Birchcliff's transportation and other expense was $3.64/boe in the second quarter of 2018, a 42% increase from $2.57/boe in the second quarter of 2017. The increase was primarily due to firm service transportation tolls for natural gas transported to Dawn during the second quarter of 2018, which service commenced on November 1, 2017 (see *"Risk Management and Market Diversification"* for further information on Birchcliff's Dawn arrangements). The natural gas price at Dawn was significantly higher than at AECO during the second quarter of 2018 (see "*Second Quarter 2018 Financial and Operational Results – Commodity Prices"*).

G&A Expense

Birchcliff's G&A expense was $0.88/boe in the second quarter of 2018, an 18% decrease from $1.07/boe in the second quarter of 2017. The decrease was primarily due to higher production as compared to the second quarter of 2017.

Interest Expense

Birchcliff's interest expense was $0.96/boe in the second quarter of 2018, a 17% decrease from $1.16/boe in the second quarter of 2017. The decrease was primarily due to higher corporate production and lower average effective interest rates.

Adjusted Funds Flow Netback and Total Cash Costs

During the second quarter of 2018, Birchcliff's adjusted funds flow netback was $10.42/boe, a 31% decrease from $15.07 in the second quarter of 2017. The decrease was primarily due to a lower average natural gas sales price, partially offset by higher average oil and NGLs sales prices and higher production.

During the second quarter of 2018, Birchcliff's total cash costs were $10.37/boe, a 1% increase from $10.27/boe in the second quarter of 2017. The increase was primarily due to higher royalty and transportation and other expenses on a per boe basis, partially offset by lower operating, G&A and interest expenses on a per boe basis.

Pouce Coupe Gas Plant Netbacks

During the first half of 2018, Birchcliff processed approximately 67% of its total corporate natural gas production and 57% of its total corporate production through the Pouce Coupe Gas Plant as compared to 57% and 46%, respectively, during the first half of 2017. These increases were primarily due to the incremental production from horizontal natural gas wells brought on production in Pouce Coupe in connection with the start-up of Phase V of the Pouce Coupe Gas Plant in the third quarter of 2017. The average plant and field operating expense for production processed through the Pouce Coupe Gas Plant in the first half of 2018 was $0.39/Mcfe ($2.36/boe) and the estimated operating netback at the Pouce Coupe Gas Plant was $1.92/Mcfe ($11.51/boe), resulting in an operating margin of 66% in the first half of 2018.

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

	Six months ended June 30, 2018		Six months ended June 30, 2017	
Average daily production:				
Natural gas *(Mcf)*		249,317		169,040
Oil & condensate *(bbls)*		2,198		1,081
Total *(boe/d)*		**43,751**		**29,254**
Liquids-to-gas ratio *(bbls/MMcf)*[(1)]		**8.8**		**6.4**
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[(2)]	2.91	17.49	3.41	20.44
Royalty expense	(0.05)	(0.29)	(0.10)	(0.67)
Operating expense[(3)]	(0.39)	(2.36)	(0.33)	(1.90)
Transportation and other expense[(4)]	(0.55)	(3.33)	(0.35)	(2.07)
Estimated operating netback	**$1.92**	**$11.51**	**$2.63**	**$15.80**
Operating margin	**66%**	**66%**	**77%**	**77%**

(1) Liquids is primarily comprised of condensate.

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

(3) Represents plant and field operating expense.

(4) The increase in transportation and other expense from the comparative prior period was primarily due to transportation tolls for natural gas sold at the Dawn price during the six months ended June 30, 2018. Birchcliff began selling natural gas at the Dawn price on November 1, 2017.

Capital Activities and Expenditures

Birchcliff's 2018 Capital Program contemplates the drilling, completing, equipping and bringing on production of a total of 27 (27.0 net) wells during 2018, as well as the completion of the 80 MMcf/d Phase VI expansion of the Pouce Coupe Gas Plant. The 2018 Capital Program was strategically front-end loaded and highly focused on the first half of the year, allowing Birchcliff to bring new wells on production relatively early in the year in order to optimize producing days for the capital spent in 2018. During the second quarter of 2018, Birchcliff drilled a total of 7 (7.0 net) wells, consisting of 5 (5.0 net) Montney horizontal oil wells in the Gordondale area and 2 (2.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area. Subsequent to the end of the quarter, Birchcliff brought the Phase VI expansion on-stream. For further information regarding the 2018 Capital Program and Birchcliff's activities year-to-date, please see *"Operations Overview and Update"*.

Birchcliff's total capital expenditures during the second quarter of 2018 were $70.2 million and its net capital expenditures were $66.5 million. For the six months ended June 30, 2018, Birchcliff's total capital expenditures were $203.3 million and its net capital expenditures were $199.6 million.

Birchcliff expects that its 2018 adjusted funds flow will materially exceed its 2018 capital expenditures based on the assumptions set forth herein. See *"Outlook and Guidance"* and *"Advisories – Forward-Looking Statements"*.

Debt and Credit Facilities

Birchcliff expects that its total debt at year-end 2018 will be materially lower as compared to June 30, 2018, as approximately 78% ($199.6 million) of its 2018 Capital Program was spent during the first half of the year. As new wells are brought on production throughout 2018, the cash flow from such wells is expected to be used to repay debt and to fund capital expenditures, as well as for general corporate purposes. See *"Outlook and Guidance"* and *"Advisories – Forward-Looking Statements"*.

At June 30, 2018, Birchcliff's long-term bank debt was $617.3 million (June 30, 2017: $628.4 million) from available credit facilities of $950 million (June 30, 2017: $950 million), leaving $285.9 million of unutilized credit capacity after adjusting for outstanding letters of credit and unamortized interest and fees. Total debt at June 30, 2018 was $661.4 million (June 30, 2017: $700.5 million).

Birchcliff has extendible revolving credit facilities in the aggregate principal amount of $950 million (the "**Credit Facilities**") which are comprised of an extendible revolving syndicated term credit facility (the "**Syndicated Credit Facility**") and an extendible revolving working capital facility (the "**Working Capital Facility**"). The Credit Facilities are subject to semi-annual reviews of the borrowing base limit by Birchcliff's syndicate of lenders, which reviews are typically completed in May and November of each year. Pursuant to the terms of the agreement governing the Credit Facilities, Birchcliff may each year, at its option, request an extension to the maturity date of the Syndicated Credit

Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made. The Credit Facilities do not contain any financial maintenance covenants.

During the second quarter of 2018, Birchcliff's syndicate of lenders completed its semi-annual review of the borrowing base limit. In connection with such review, Birchcliff and its syndicate of lenders agreed to: (i) an extension of the maturity dates of each of the Syndicated Credit Facility and the Working Capital Facility from May 11, 2020 to May 11, 2021; (ii) the borrowing base remaining unchanged at $950 million; and (iii) increasing the Working Capital Facility to $100 million (from $50 million) with a corresponding reduction in the Syndicated Credit Facility to $850 million (from $900 million).

Commodity Prices

The following table sets forth the average benchmark index prices and Birchcliff's average realized sales prices for the periods indicated:

	Three months ended June 30, 2018	**Three months ended June 30, 2017**
Average benchmark index prices:		
Light oil – WTI Cushing *(US$/bbl)*	67.88	48.29
Light oil – Edmonton Par *(CDN$/bbl)*	80.30	61.50
Natural gas – NYMEX Henry Hub *(US$/MMBtu)*(1)	2.83	3.14
Natural gas – AECO 5A *(CDN$/MMBtu)*(1)	1.18	2.78
Natural gas – Union-Dawn Day Ahead *(CDN$/MMBtu)*(1)	3.57	4.18
Natural gas – ATP 5A Day Ahead *(CDN$/MMBtu)*(1)	1.54	2.93
Natural gas – Chicago Citygate *(US$/MMBtu)*(1)	2.67	2.93
Exchange rate – *(US$/CDN$)*	1.29	1.34
Birchcliff's average realized sales prices:(2)		
Light oil *($/bbl)*	79.55	60.38
Natural gas *($/Mcf)*	2.01	3.13
NGLs *($/bbl)*	47.81	31.10
Birchcliff's average realized sales price *($/boe)*	**21.68**	**24.90**

(1) $1.00/MMBtu = $1.00/Mcf based on a standard heat value Mcf. Please see *"Advisories – MMBtu Pricing Conversions"*.

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

The following table sets forth Birchcliff's natural gas sales, average daily production and average realized sales price by natural gas market for the second quarter of 2018:

	Three months ended June 30, 2018				
	Natural gas sales(1) *($000s)*	**Percentage of natural gas sales** *(%)*	**Natural gas production** *(Mcf/d)*	**Percentage of natural gas production** *(%)*	**Average realized natural gas sales price** *($/Mcf)*
AECO	25,092	38	219,135	60	1.27
Dawn(2)	37,542	56	108,950	30	3.79
Alliance(2)	3,985	6	36,275	10	1.21
Total	**66,619**	**100**	**364,360**	**100**	**2.01**

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

(2) Please see *"Risk Management and Market Diversification – Marketing and Transportation"*.

New Processing Arrangement for the Gordondale Facility

On April 3, 2018, Birchcliff and AltaGas announced that they had entered into a definitive agreement for the Processing Arrangement at the Gordondale Facility. The Processing Arrangement is effective from January 1, 2018 and replaced the parties' previous Gordondale processing arrangement. Under the Processing Arrangement, Birchcliff's fees at the Gordondale Facility were reduced and Birchcliff is being provided with up to 120 MMcf/d of natural gas processing on a firm-service basis and its take-or-pay obligation is 100 MMcf/d. The term of the Processing Arrangement is for at least 15 years, subject to extension in accordance with the terms of the agreement.

OPERATIONS OVERVIEW AND UPDATE

Birchcliff's operations are concentrated within its one core area, the Peace River Arch of Alberta, which is centred northwest of Grande Prairie, Alberta. Within the Peace River Arch, Birchcliff is focused on its high-quality Montney/Doig Resource Play and the exploration and development of its low-cost natural gas, crude oil and liquids-rich assets on the play. Within the Montney/Doig Resource Play, Birchcliff's operations are primarily concentrated in the Pouce Coupe and Gordondale areas of Alberta where it owns large contiguous blocks of high working interest land.

Part of Birchcliff's long-term strategy is to continue to explore and delineate the Montney/Doig Resource Play, both geographically and stratigraphically. The Montney/Doig Resource Play exists in two geological formations (the Montney and the Doig) and Birchcliff has divided the geologic column in its areas of operations 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. As at August 14, 2018, Birchcliff has successfully drilled and cased an aggregate of 375 (369.8 net) Montney/Doig horizontal wells (which includes 87 (81.8 net) wells that were acquired when Birchcliff initially purchased its assets in Gordondale in 2016).

Operational Update

Birchcliff has been very active with the execution of its 2018 Capital Program which is focused on the drilling of crude oil wells in Gordondale and a combination of liquids-rich and low-cost natural gas wells in Pouce Coupe. Birchcliff has completed the drilling of all 27 (27.0 net) wells planned under its 2018 Capital Program (20 of which were drilled in the first quarter and 7 of which were drilled in the second quarter), 100% of which were successful. The following table summarizes the wells that Birchcliff has drilled and brought on production year-to-date, as well as the remaining wells to be brought on production during 2018:

Wells Drilled and Brought on Production – 2018(1)

Area	Wells drilled in 2018	Wells brought on production to-date	Remaining wells to be brought on production in 2018	Total wells to be brought on production in 2018
Pouce Coupe				
Montney D1 HZ Gas Wells	12	9	3	12
Montney D2 HZ Gas Wells	1	1	0	1
Montney C HZ Gas Wells	1	1	0	1
Total – Pouce Coupe	**14**	**11**	**3**	**14**
Gordondale				
Montney D2 HZ Oil Wells	8	4	4	8
Montney D1 HZ Oil Wells	5	3	2	5
Total – Gordondale	**13**	**7**	**6**	**13**
TOTAL – COMBINED	**27**	**18**	**9**	**27**(1)

(1) The 2018 Capital Program also includes the capital associated with 1 Montney/Doig well in Pouce Coupe that was drilled in December 2017 and subsequently completed in 2018. This well is expected to be brought on production during the third quarter of 2018. Accordingly, a total of 28 (28.0 net) wells are expected to be brought on production during 2018.

All of the wells drilled in 2018 were drilled on multi-well pads, which allows Birchcliff to reduce its per well costs and its environmental footprint. In addition, Birchcliff actively employs the evolving technology utilized by the industry regarding horizontal well drilling and the related multi-stage fracture stimulation technology. Birchcliff continues to spend significant time evolving its best practices for drilling and refining its engineered completions.

Gordondale

Key focus areas for Gordondale in 2018 include the drilling of crude oil wells and the delineation of the Montney D1 and D2 intervals. Since Birchcliff acquired its assets in Gordondale in 2016, it has drilled a total of 36 (36.0 net) wells in Gordondale, consisting of 20 (20.0 net) Montney D2 horizontal oil wells, 12 (12.0 net) Montney D1 horizontal oil wells and 4 (4.0 net) Montney D1 liquids-rich horizontal natural gas wells. When Birchcliff first acquired its assets in Gordondale, the average production for such assets was approximately 22,000 boe/d at the date of the acquisition.

The horizontal wells that Birchcliff has subsequently drilled and brought on production have replaced the natural production declines and significantly increased the production on its Gordondale assets (currently approximately 30,000 boe/d).

The 20 Montney D2 horizontal wells that Birchcliff has drilled, completed and brought on production to-date have significantly delineated, de-risked and proven the commerciality of the Montney D2 play. When Birchcliff initially acquired its assets in Gordondale, only one Montney D2 well had been previously drilled on the acquired assets and there was only one offsetting competitor Montney D2 well. In an effort to continuously improve its well performance and optimize its completions strategy, Birchcliff has utilized three different completion systems on its Montney D2 wells drilled to-date, including open hole packers, cemented sleeves fractured with coil tubing and plug and perf technology. Birchcliff continues to evaluate the production results and cost efficiencies of each system in order to optimize field development in Gordondale.

Pouce Coupe

During 2018, Birchcliff is focused on the drilling of liquids-rich natural gas wells and the pursuit of condensate and other NGLs in several different Montney/Doig intervals, including the Montney D1, D2 and C, to take advantage of the prices for liquids which have been relatively strong. Other key focus areas for Pouce Coupe during 2018 include the completion of the Phase VI expansion of the Pouce Coupe Gas Plant, the addition of shallow-cut capability for Phases V and VI of the Pouce Coupe Gas Plant and Birchcliff's multi-well science and technology pad.

Pouce Coupe Gas Plant – Successful Start-Up of Phase VI

Subsequent to the end of the second quarter of 2018, the 80 MMcf/d Phase VI expansion of the Pouce Coupe Gas Plant was brought on-stream on budget and ahead of the initially scheduled date of October 2018, increasing the total processing capacity of the Pouce Coupe Gas Plant to 340 MMcf/d from 260 MMcf/d. Phases V and VI are currently running at or near-maximum throughput, with the entire plant operating at approximately 80% of its total processing capacity. Birchcliff currently plans to divert some of its natural gas that is being processed by third-party processors to Phase VI, which will help it to reduce its operating costs on a per boe basis. Birchcliff expects that it will be able to fill this excess capacity over time as commodity prices improve and as it targets the drilling of liquids-rich natural gas wells.

Birchcliff is currently in the process of re-configuring Phases V and VI to provide for shallow-cut capability, which will allow Birchcliff to remove propane plus (C3+) from the natural gas stream. It is expected that this re-configuration will be completed in the fourth quarter of 2018.

Science and Technology Multi-Well Pad Program – Exploration and Development Success

Birchcliff has developed and executed upon its science and technology multi-well pad program in Pouce Coupe. The purpose of the program is to collect high-value data to increase Birchcliff's understanding of the drilling, completion and production of wells drilled on the multi-interval Montney/Doig Resource Play, and specifically in an area that has future potential for multi-interval development.

As described in further detail below, the first phase of the program involved the drilling of a vertical science and technology observation well with a full diameter Montney core which was drilled in the third quarter of 2017. The second phase involved the drilling of four straddling horizontal wells in three different Montney intervals (one exploration Montney D2 well, one Montney C development well and two Montney D1 development wells). Prior to this program, Birchcliff had only drilled one Montney C well and no Montney D2 wells in the area. By executing on this program and increasing its understanding of this multi-interval resource play, Birchcliff expects that it will be able to further optimize field development in Pouce Coupe.

The vertical science and technology observation well was drilled in Pouce Coupe to the top of the Montney where Birchcliff cut a full diameter core through the entire Montney section (approximately 300 metres). The extracted rock core provided analytical data to increase Birchcliff's knowledge of rock properties, which it incorporated into its petrophysical models, and helped it to more accurately represent the geology of the area. In addition to conventional open hole logs, Birchcliff also ran advanced unconventional wireline logs, including horizontal logs. Birchcliff continues to compile all of the data from the vertical well. However, based on the initial results of such data, Birchcliff is confident that there are at least four different intervals on the Montney/Doig Resource Play that are prospective in the offsetting area where the vertical well was drilled (in the northern portion of Pouce Coupe), namely its two proven intervals (the Basal Doig/Upper Montney and the Montney D1) and its two relatively new intervals (the Montney D2 and the Montney C). Birchcliff is excited about the potential identified in the Montney D2 and the C intervals from the vertical well and has utilized the learnings from the vertical well to develop its engineered drilling and completion for the four horizontal wells.

In January 2018, Birchcliff commenced the drilling of the first of the four horizontal wells on the multi-well pad and completed the drilling of all four wells in March. Birchcliff finished the completions on all four of the wells during the second quarter of 2018. During completion of the 4 horizontal wells, Birchcliff used a number of leading edge technologies, including on the vertical observation well which had micro-seismic and tilt meter monitoring. In one of the two Montney D1 horizontal wells, Birchcliff installed a permanent fibre optic cable which was connected at the surface to Birchcliff's fracture data infrastructure. This cable was successful in capturing offsetting well fracture data, as well as fracture data along its own horizontal length. Birchcliff also utilized tracers and production interference testing to better understand completion efficiencies and production distributions.

All four wells were brought on production during the second quarter of 2018 and the production results of such wells have been positive. The table below sets forth the IP30 results of each well:

Average IP30 Results[1]

Area, interval, well type and location	**Production rate (raw)**[2] *(boe/d)*	**Natural gas (raw)**[2][3] *(MMcf/d)*	**Condensate**[2] *(bbls/d)*	**CGR**[4] *(bbls/MMcf)*	**Tubing or casing pressure**[5] *(MPa)*
Pouce Coupe					
Montney D2 Exploration Gas Well – 102/02-03-079-13W6	971	4.0	222	49	14.5
Montney C Development Gas Well – 100/02-03-079-13W6	864	5.0	69	14	15.3
Montney D1 Development Gas Well – 102/01-03-079-13W6	1,007	5.0	137	26	11.1
Montney D1 Development Gas Well – 103/13-34-078-13W6	989	5.0	103	19	14.4

(1) The production results set forth herein are not necessarily indicative of the long-term performance or ultimate recovery of the wells. Please see *"Advisories – Initial Production Rates"*.

(2) Represents the cumulative volumes measured at the wellhead separator for the initial 30 days of production divided by 30. Excludes hours and days when the well did not produce.

(3) The natural gas volumes set forth in the table above represent raw gas volumes as opposed to sales gas volumes. The raw gas volumes include NGLs which were not measured separately except in the case of condensate. At Pouce Coupe, some additional NGLs are extracted from the raw gas at the Pouce Coupe Gas Plant. Any NGLs not recovered from the raw gas stream increases the heat content of the natural gas. The raw gas volumes are prior to processing and accordingly do not take into account plant shrinkage or losses to the natural gas volumes during processing.

(4) The CGR ratio was calculated by dividing total wellhead separator condensate volumes by total wellhead separator natural gas volumes over the initial 30 days of production.

(5) The casing pressure is the average of approximately the last 10 days of production through permanent facilities where the production tubing was installed in each well, with the exception of the 102/01-03-079-13W6 well which does not have tubing installed and is flowing up casing.

Birchcliff is enthusiastic about the results from this science and technology multi-well pad program. As discussed above, the data collected during the program provides support for the prospectivity of the Montney D2 and C intervals in Birchcliff's Pouce Coupe area. The Montney D2 well is the first Montney D2 well drilled by Birchcliff in Pouce Coupe and proves further liquids-rich inventory in Pouce Coupe. The Montney C well is the second well drilled by Birchcliff in the Montney C interval in Pouce Coupe. These results have re-affirmed Birchcliff's confidence in the depth of the multi-interval drilling opportunities on its Montney/Doig Resource Play in Pouce Coupe.

The significant capital and manpower investment in the science and technology multi-well pad program has resulted in exploration and development success. In addition, it represents a significant commitment to Birchcliff's long-term multi-discipline learning on the Montney/Doig Resource Play and the development of its assets. Along with Birchcliff's investment in data analytics, the reservoir modeling and other technologies it has developed as a result of the program will continue to enhance Birchcliff's understanding of the Montney/Doig Resource Play and optimize its results. Some of the specific learnings from the science and technology pad include the following:

- Reservoir attributes – porosity, permeability, hydrocarbon saturations and fracability.
- Stimulated rock volume – frac height, width, length, shape and complexity.
- Well placement – well lateral and vertical offset distances.
- Completion design – perf interval distances, sand tonnage, pumping rates and fluid rates.
- Production performance – enhanced understanding of how multiple wells perform as a volume, sandwich or cube.

RISK MANAGEMENT AND MARKET DIVERSIFICATION

Birchcliff actively looks for profitable opportunities to diversify its natural gas markets and reduce its exposure to prices at AECO. In addition, Birchcliff maintains an ongoing hedging program and engages in various risk management activities to reduce its exposure to volatility in commodity prices. In connection therewith, Birchcliff utilizes various financial derivative contracts, physical delivery sales contracts and marketing and transportation arrangements, as discussed in further detail below.

Risk Management Contracts and Hedging

With respect to 2018, Birchcliff has financial derivative contracts that are outstanding for an aggregate of 4,500 bbls/d of crude oil at an average WTI price of CDN$71.87/bbl for the period from July 1, 2018 to December 31, 2018, which represents approximately 29% of its 2018 forecast annual average oil and NGLs production and approximately 6% of its total 2018 forecast annual average production. With respect to 2019 and beyond, Birchcliff has entered into various risk management contracts, including NYMEX basis swaps which fix the basis differential between the AECO price and the NYMEX Henry Hub price. As a result of its market diversification activities, Birchcliff currently expects that approximately 63% of its natural gas production during 2019 will be sold at prices that are not based on AECO. The following table sets forth the details regarding Birchcliff's expected 2019 natural gas market exposure as a result of its market diversification initiatives undertaken at the date hereof:

	Assumed 2019 production(1)			Percentage of total assumed 2019 production(1)
Market diversification	*(GJ/d)*	*(MMBtu/d)*(2)	*(Mcf/d)*(3)	*(%)*
Dawn sales	158,333	150,134	137,123	37%
NYMEX basis differential(4)	105,462	100,000	91,334	25%
Alliance sales	5,561	5,273	5,000	1%
Natural gas sales not sold at AECO	**269,356**	**255,407**	**233,457**	**63%**
AECO sales	157,202	149,061	136,143	37%
Total natural gas sales	**426,558**	**404,468**	**369,600**	**100%**

(1) Assumes a flat production profile for 2019 with a production rate of 77,000 boe/d (which represents the mid-point of Birchcliff's annual average production guidance for 2018) and a commodity mix of 80% natural gas and 20% oil and NGLs. Birchcliff's production guidance for 2019 is partially dependent on Birchcliff's 2019 capital program, the details of which have not been determined and which is subject to approval by the Board of Directors. Birchcliff expects that details regarding its 2019 capital program and 2019 production guidance will be released no later than February 2019. For further information regarding Birchcliff's guidance, including the assumptions surrounding such guidance, please see the assumptions set forth below and *"Advisories – Forward-Looking Statements"*.

(2) The conversion from GJ to standard heat value in MMBtu is based on a heat content value of 37.4 MJ/m^3 or a heat conversion factor of 1 MMBtu = 1.055 GJ.

(3) The conversion from standard heat value in MMBtu to Mcf is based on Birchcliff's 2019 expected corporate average natural gas heat content value from its properties of 40.80 MJ/m^3 or a heat conversion factor of 1 Mcf = 1.095 MMBtu. The total heat content conversion factor is 1 Mcf = 1.15 GJ at the wellhead.

(4) See the *"Commodity Price Risk Management"* section in the MD&A for further details on the NYMEX/AECO basis swaps.

After taking into account Birchcliff's expected oil and NGLs production, approximately 29% of Birchcliff's total production in 2019 is expected to be exposed to AECO pricing, with the remaining 71% not exposed to AECO pricing (previously 30% and 70%, respectively).

The foregoing guidance regarding Birchcliff's 2019 natural gas market exposure is based on the following assumptions: (i) a flat production profile for 2019 with a production rate of 77,000 boe/d (which represents the mid-point of Birchcliff's annual average production guidance for 2018) and a commodity mix of 80% natural gas and 20% oil and NGLs; (ii) 155,000 GJ/d being sold at the Dawn index price from January 1, 2019 to October 31, 2019 and 175,000 GJ/d from November 1, 2019 to December 31, 2019; (iii) 5 MMcf/d being sold at Alliance's Trading Pool daily index price; and (iv) 100,000 MMBtu/d being hedged at a fixed basis differential between the AECO price and the NYMEX Henry Hub price. Please also see *"Advisories – Forward-Looking Statements".*

For further details regarding Birchcliff's risk management contracts and hedging activities, please see Birchcliff's interim condensed financial statements for the three and six months ended June 30, 2018 and related MD&A.

Marketing and Transportation

Birchcliff has agreements for the firm service transportation of an aggregate of 175,000 GJ/d of natural gas on TCPL's Canadian Mainline for a 10-year term, whereby natural gas is transported from the Empress receipt point in Alberta to the Dawn trading hub located in Southern Ontario. The first tranche of this service (120,000 GJ/d) became available to Birchcliff on November 1, 2017, with additional tranches becoming available on November 1, 2018 (35,000 GJ/d) and November 1, 2019 (20,000 GJ/d). In addition, Birchcliff has a sales agreement with a third party marketer to sell and deliver approximately 5 MMcf/d of natural gas under contracts which commenced April 1, 2017 and expire October 31, 2020, which is sold at Alliance's Trading Pool daily index price. Birchcliff previously had sales agreements with a third party marketer to sell and deliver into the Alliance pipeline system approximately 40 MMcf/d of natural gas for the period from November 1, 2017 to March 31, 2018.

OUTLOOK AND GUIDANCE

Birchcliff's 2018 Capital Program reflects its long-term plan to continue the exploration and development of its low-cost natural gas, crude oil and liquids-rich assets on the Montney/Doig Resource Play. The program directs capital investment to those projects with the most favourable rates of return, including a combination of liquids-rich natural gas, crude oil and natural gas development opportunities and strategic infrastructure for future growth.

Birchcliff is focused on protecting its balance sheet and expects that its 2018 adjusted funds flow will materially exceed its 2018 capital expenditures. In addition, Birchcliff expects that its total debt at year-end 2018 will be materially lower as compared to June 30, 2018, as approximately 78% ($199.6 million) of its $255 million 2018 Capital Program was spent during the first half of the year.

Birchcliff is maintaining its 2018 average production guidance of 76,000 to 78,000 boe/d (80% natural gas and 20% oil and NGLs). Birchcliff has revised its guidance regarding its average royalty expense during 2018 to $1.60/boe to $1.80/boe (from $1.20/boe to $1.40/boe) to reflect higher than expected commodity prices. The following table sets forth Birchcliff's original and revised guidance for 2018, as well as its updated commodity price assumptions:

	Original 2018 guidance and assumptions(1)	Revised 2018 guidance and assumptions
Production		
Annual average production (boe/d)	76,000 – 78,000	76,000 – 78,000
% Natural gas	80%	80%
% Oil and NGLs	20%	20%
Average Expenses ($/boe)		
Royalty	1.20 – 1.40	1.60 – 1.80
Operating	3.75 – 4.00(2)	3.40 – 3.60(2)
Transportation and other	3.80 – 4.10(3)	3.80 – 4.10(3)
Capital Expenditures (MM$)		
Estimated total capital	255.0	255.0
Estimated drilling and development capital	149.9	149.9
Estimated facilities and infrastructure capital	66.9	66.9
Natural Gas Market Exposure(4)		
AECO production as a % of total natural gas production	66%	66%
Dawn production as a % of total natural gas production	30%	30%
Commodity Price Assumptions		
Average WTI oil price (US$/bbl)	61.00	66.67
Average AECO price ($/MMBtu)(5)	1.58	1.63
Average Dawn price ($/MMBtu)(5)	3.48	3.70
Average wellhead natural gas price ($/Mcf)(6)	2.32	2.41

(1) As disclosed on February 14, 2018.

(2) Birchcliff's guidance regarding its average operating expense during 2018 was revised on April 3, 2018 to $3.40/boe to $3.60/boe.

(3) Includes transportation tolls for 120,000 GJ/d of natural gas sold at the Dawn price from January 1, 2018 to October 31, 2018 and 155,000 GJ/d from November 1, 2018 to December 31, 2018.

(4) Approximately 4% of total natural gas production is expected to be sold via the Alliance pipeline system in 2018.

(5) $1.00 per MMBtu equals $1.00 per Mcf based on a standard heat value of 37.4 MJ/m^3 or a heat uplift of 1.055 when converting from $/GJ.

(6) Birchcliff receives premium pricing for its natural gas production due to the high heat content from its properties. The conversion from standard heat value in MMBtu to realized wellhead price in Mcf is based on an expected corporate average realized natural gas heat content value of 40.80 MJ/m^3 or a heat uplift of 1.091. The total conversion is $1.00/GJ = $1.15/Mcf at the wellhead.

For further information regarding Birchcliff's guidance, including the assumptions surrounding such guidance, please see *"Advisories – Forward-Looking Statements"*.

CORPORATE RESPONSIBILITY REPORT

Birchcliff has released its inaugural Corporate Responsibility Report which has been posted on its website. The report has been designed to provide investors and stakeholders with additional information regarding Birchcliff's corporate responsibility initiatives.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

This Management's Discussion and Analysis ("**MD&A**") for Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is dated August 14, 2018. This MD&A with respect to the three and six months ended June 30, 2018 (the "**Reporting Periods**") as compared to the three and six months ended June 30, 2017 (the "**Comparable Prior Periods**") has 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 the related notes for the Reporting Periods, as well as the audited financial statements of the Corporation and the related notes for the year ended December 31, 2017. Birchcliff's interim condensed financial statements and the related notes for the Reporting Periods and the audited financial statements and the related notes for the year ended December 31, 2017 have been prepared in accordance with IFRS. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

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

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

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

ABOUT BIRCHCLIFF

Birchcliff is a Calgary, Alberta based intermediate oil and natural gas company with operations concentrated within its one core area, the Peace River Arch of Alberta. Birchcliff's common shares and cumulative redeemable preferred shares, Series A and Series C, are listed for trading on the Toronto Stock Exchange (the "**TSX**") under the symbols "BIR", "BIR.PR.A" and "BIR.PR.C", respectively. Additional information relating to the Corporation, including its Annual Information Form for the financial year ended December 31, 2017, is available on the SEDAR website at www.sedar.com and on the Corporation's website at www.birchcliffenergy.com.

2018 SECOND QUARTER FINANCIAL AND OPERATIONAL HIGHLIGHTS

- Production averaged 76,296 boe/d in the second quarter of 2018, an 18% increase from 64,636 boe/d in the second quarter of 2017. Production consisted of approximately 80% natural gas, 7% light oil and 13% NGLs in the second quarter of 2018, as compared to 77% natural gas, 11% light oil and 12% NGLs in the second quarter of 2017. Light oil and NGLs production in the second quarter of 2018 increased 16% as compared to the first quarter of 2018.
- Adjusted funds flow of $72.4 million, or $0.27 per basic common share, in the second quarter of 2018, an 18% decrease from $88.6 million and $0.33 per basic common share in the second quarter of 2017.
- Net income to common shareholders of $6.4 million, or $0.02 per basic common share, in the second quarter of 2018, a 62% decrease and a 67% decrease, respectively, from $17.0 million and $0.06 per basic common share in the second quarter of 2017.
- Operating expense of $3.36/boe in the second quarter of 2018, a 28% decrease from $4.67/boe in the second quarter of 2017 and an 11% decrease from $3.78/boe in the first quarter of 2018.

- Net capital expenditures of $66.5 million in the second quarter of 2018 and $199.6 million in the first half of 2018.
- At June 30, 2018, Birchcliff's long-term bank debt was $617.3 million and its total debt was $661.4 million.
- Birchcliff drilled a total of 7 (7.0 net) wells in the second quarter of 2018, consisting of 5 (5.0 net) Montney horizontal oil wells in Gordondale and 2 (2.0 net) Montney/Doig horizontal natural gas wells in Pouce Coupe.
- During the second quarter of 2018, Birchcliff and its syndicate of lenders agreed to an extension of the maturity dates of Birchcliff's credit facilities from May 11, 2020 to May 11, 2021 and to the borrowing base remaining unchanged at $950 million.
- During the second quarter of 2018, Birchcliff and AltaGas Ltd. ("**AltaGas**") entered into a long-term natural gas processing arrangement (the "**Processing Arrangement**") effective January 1, 2018 for natural gas processed at AltaGas' deep-cut sour gas processing facility located in Gordondale, Alberta (the "**Gordondale Facility**"). As a result of the Processing Arrangement, Birchcliff's fees at the Gordondale Facility were reduced.
- Subsequent to the end of the quarter, the 80 MMcf/d Phase VI expansion of Birchcliff's 100% owned and operated natural gas processing plant in Pouce Coupe (the "**Pouce Coupe Gas Plant**") was brought on-stream on budget and ahead of schedule, increasing the total processing capacity of the plant to 340 MMcf/d.

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

OUTLOOK AND GUIDANCE

Birchcliff's $255 million capital expenditure program for 2018 (the "**2018 Capital Program**") reflects its long-term plan to continue the exploration and development of its low-cost natural gas, crude oil and liquids-rich assets on the Montney/Doig Resource Play. The program directs capital investment to those projects with the most favourable rates of return, including a combination of liquids-rich natural gas, crude oil and natural gas development opportunities and strategic infrastructure for future growth.

Birchcliff is focused on protecting its balance sheet and expects that its 2018 adjusted funds flow will materially exceed its 2018 capital expenditures. In addition, Birchcliff expects that its total debt at year-end 2018 will be materially lower as compared to June 30, 2018, as approximately 78% ($199.6 million) of its 2018 Capital Program was spent during the first half of the year.

Birchcliff is maintaining its 2018 average production guidance of 76,000 to 78,000 boe/d (80% natural gas and 20% oil and NGLs). Birchcliff has revised its guidance regarding its average royalty expense during 2018 to $1.60/boe to $1.80/boe (from $1.20/boe to $1.40/boe) to reflect higher than expected commodity prices.

The following table sets forth Birchcliff's original and revised guidance for 2018, as well as its updated commodity price assumptions:

	Original 2018 guidance and assumptions(1)	Revised 2018 guidance and assumptions
Production		
Annual average production (boe/d)	76,000 – 78,000	76,000 – 78,000
% Natural gas	80%	80%
% Oil and NGLs	20%	20%
Average Expenses ($/boe)		
Royalty	1.20 – 1.40	1.60 – 1.80
Operating	3.75 – 4.00(2)	3.40 – 3.60(2)
Transportation and other	3.80 – 4.10(3)	3.80 – 4.10(3)
Capital Expenditures (MM$)		
Estimated total capital	255.0	255.0
Estimated drilling and development capital	149.9	149.9
Estimated facilities and infrastructure capital	66.9	66.9
Natural Gas Market Exposure(4)		
AECO production as a % of total natural gas production	66%	66%
Dawn production as a % of total natural gas production	30%	30%
Commodity Price Assumptions		
Average WTI oil price (US$/bbl)	61.00	66.67
Average AECO price ($/MMBtu)(5)	1.58	1.63
Average Dawn price ($/MMBtu)(5)	3.48	3.70
Average wellhead natural gas price ($/Mcf)(6)	2.32	2.41

(1) As disclosed on February 14, 2018.

(2) Birchcliff's guidance regarding its average operating expense during 2018 was revised on April 3, 2018 to $3.40/boe to $3.60/boe.

(3) Includes transportation tolls for 120,000 GJ/d of natural gas sold at the Dawn price from January 1, 2018 to October 31, 2018 and 155,000 GJ/d from November 1, 2018 to December 31, 2018.

(4) Approximately 4% of total natural gas production is expected to be sold via the Alliance pipeline system in 2018.

(5) $1.00 per MMBtu equals $1.00 per Mcf based on a standard heat value of 37.4 MJ/m^3 or a heat uplift of 1.055 when converting from $/GJ.

(6) Birchcliff receives premium pricing for its natural gas production due to the high heat content from its properties. The conversion from standard heat value in MMBtu to realized wellhead price in Mcf is based on an expected corporate average realized natural gas heat content value of 40.80 MJ/m^3 or a heat uplift of 1.091. The total conversion is $1.00/GJ = $1.15/Mcf at the wellhead.

See *"Advisories – Forward-Looking Statements"* in this MD&A.

CASH FLOW FROM OPERATING ACTIVITIES AND ADJUSTED FUNDS FLOW

The following table sets forth the Corporation's cash flow from operating activities and adjusted funds flow for the Reporting Periods and the Comparable Prior Periods:

	Three months ended June 30,		Six months ended June 30,	
($000s)	**2018**	**2017**	**2018**	**2017**
Cash flow from operating activities	71,825	57,467	163,678	128,081
Adjusted funds flow(1)	**72,369**	**88,612**	**156,027**	**156,242**
Per common share – basic *($)*	0.27	0.33	0.59	0.59
Per common share – diluted *($)*	0.27	0.33	0.58	0.58

(1) Birchcliff previously referred to adjusted funds flow as "funds flow from operations". See "*Non-GAAP Measures*".

Adjusted funds flow in the three and six month Reporting Periods decreased by 18% and 1%, respectively, from the Comparable Prior Periods. The decrease in adjusted funds flow from the Comparable Prior Periods was largely due to a lower average realized natural gas sales price, higher aggregate royalty and transportation and other expenses and realized mark-to-market losses on financial instruments in the Reporting Periods. The decrease in adjusted funds flow in the Reporting Periods was partially offset by an increase in production, higher average realized oil and NGLs sales prices and lower operating, interest and general and administrative expenses.

Cash flow from operating activities for the three and six month Reporting Periods increased by 25% and 28%, respectively, from the Comparable Prior Periods. The reason for the increase in cash flow from operating activities in the Reporting Periods is consistent with the explanation for adjusted funds flow as noted above, however the increase also includes changes in non-cash operating working capital that materially reduced cash flow from operating activities in the Comparable Prior Periods.

The following table sets forth a breakdown of the Corporation's total cash costs on a per unit basis and the percentage change period-over-period for the Reporting Periods and the Comparable Prior Periods:

	Three months ended June 30,			Six months ended June 30,		
($/boe)	**2018**	**2017**	**% Change**	**2018**	**2017**	**% Change**
Royalty expense	1.53	0.80	91%	1.48	1.37	8%
Operating expense	3.36	4.67	(28)%	3.57	4.93	(28)%
Transportation and other expense	3.64	2.57	42%	3.60	2.57	40%
General & administrative expense, net	0.88	1.07	(18)%	0.88	1.06	(17)%
Interest expense	0.96	1.16	(17)%	0.96	1.26	(24)%
Total cash costs	**10.37**	**10.27**	**1%**	**10.49**	**11.19**	**(6)%**

On a per unit basis, total cash costs for the three month Reporting Period increased by 1% as compared to the three month Comparable Prior Period, primarily driven by higher royalty and transportation and other expenses, partially offset by lower operating, general and administrative and interest expenses.

On a per unit basis, total cash costs for the six month Reporting Period decreased by 6% as compared to the six month Comparable Prior Period, primarily driven by lower operating, general and administrative and interest expenses, partially offset by higher royalty and transportation and other expenses.

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

NET INCOME TO COMMON SHAREHOLDERS

The following table sets forth the Corporation's net income and net income to common shareholders for the Reporting Periods and the Comparable Prior Periods:

	Three months ended June 30,		Six months ended June 30,	
($000s)	**2018**	**2017**	**2018**	**2017**
Net income	7,437	18,015	22,562	47,943
Net income to common shareholders(1)	**6,390**	**17,015**	**20,468**	**45,943**
Per common share – basic *($)*	0.02	0.06	0.08	0.17
Per common share – diluted *($)*	0.02	0.06	0.08	0.17

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

During the three and six month Reporting Periods, Birchcliff reported net income to common shareholders of $6.4 million and $20.5 million, respectively, compared to net income to common shareholders of $17.0 million and $45.9 million in the Comparable Prior Periods.

The decrease in net income to common shareholders from the Comparable Prior Periods was primarily driven by lower adjusted funds flow and higher depletion expense in the Reporting Periods, partially offset by reduced losses on the sale of assets and lower income tax expense during the Reporting Periods. Net income to common shareholders in the six month Reporting Period was also reduced by a mark-to-market unrealized loss on financial instruments as compared to an unrealized gain in the six month Comparable Prior Period.

POUCE COUPE GAS PLANT NETBACKS

During the six month Reporting Period, Birchcliff processed approximately 67% of its total corporate natural gas production and 57% of its total corporate production through the Pouce Coupe Gas Plant as compared to 57% and 46%, respectively, during the six month Comparable Prior Period. These increases were primarily due to the incremental production from horizontal natural gas wells brought on production in Pouce Coupe in connection with the start-up of Phase V of the Pouce Coupe Gas Plant in the third quarter of 2017. The average plant and field operating expense for production processed through the Pouce Coupe Gas Plant was $0.39/Mcfe ($2.36/boe) and the estimated operating netback at the Pouce Coupe Gas Plant was $1.92/Mcfe ($11.51/boe), resulting in an operating margin of 66% in the six month Reporting Period.

The following table sets forth Birchcliff's average daily production and estimated operating netback for wells producing to the Pouce Coupe Gas Plant for the six month Reporting Period and the six month Comparable Prior Period:

	Six months ended June 30, 2018		Six months ended June 30, 2017	
Average daily production:				
Natural gas *(Mcf)*		249,317		169,040
Oil & condensate *(bbls)*		2,198		1,081
Total *(boe/d)*		**43,751**		**29,254**
Liquids-to-gas ratio *(bbls/MMcf)*[(1)]		**8.8**		**6.4**
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[(2)]	2.91	17.49	3.41	20.44
Royalty expense	(0.05)	(0.29)	(0.10)	(0.67)
Operating expense[(3)]	(0.39)	(2.36)	(0.33)	(1.90)
Transportation and other expense[(4)]	(0.55)	(3.33)	(0.35)	(2.07)
Estimated operating netback	**$1.92**	**$11.51**	**$2.63**	**$15.80**
Operating margin	**66%**	**66%**	**77%**	**77%**

(1) Liquids is primarily comprised of condensate.

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

(3) Represents plant and field operating expense.

(4) The increase in transportation and other expense from the six month Comparable Prior Period was primarily due to transportation tolls for natural gas sold at the Dawn price during the six month Reporting Period. Birchcliff began selling natural gas at the Dawn price on November 1, 2017.

DISCUSSION OF OPERATIONS

Petroleum and Natural Gas Revenues

The following table sets forth Birchcliff's petroleum and natural gas revenues by product category for the Corporation's Pouce Coupe operating assets in the Montney/Doig Resource Play (the "**Pouce Coupe assets**"), the Corporation's Gordondale operating assets in the Montney/Doig Resource Play (the "**Gordondale assets**") and on a corporate basis for the Reporting Periods and the Comparable Prior Periods:

	Three months ended June 30, 2018			Three months ended June 30, 2017		
($000s)	**Pouce Coupe assets**	**Gordondale assets**	**Total corporate[(2)]**	**Pouce Coupe assets**	**Gordondale assets**	**Total corporate[(3)]**
Light oil[(1)]	66	40,323	40,533	30	29,646	39,125
Natural gas[(1)]	49,345	17,060	66,619	57,384	25,156	84,681
NGLs[(1)]	20,194	23,162	43,378	8,074	14,320	22,678
Total P&NG sales	69,605	80,545	150,530	65,488	69,122	146,484
Royalty revenue	4	24	31	4	137	113
Total P&NG revenues	**69,609**	**80,569**	**150,561**	**65,492**	**69,259**	**146,597**
% of corporate revenues	**46%**	**54%**		**45%**	**47%**	
	Six months ended June 30, 2018			**Six months ended June 30, 2017**		
($000s)	**Pouce Coupe assets**	**Gordondale assets**	**Total corporate[(2)]**	**Pouce Coupe assets**	**Gordondale assets**	**Total corporate[(3)]**
Light oil[(1)]	125	66,945	67,309	95	49,757	68,946
Natural gas[(1)]	118,538	40,106	159,193	113,826	47,026	165,132
NGLs[(1)]	36,716	46,758	83,517	16,386	28,051	45,031
Total P&NG sales	155,379	153,809	310,019	130,307	124,834	279,109
Royalty revenue	10	61	73	7	168	196
Total P&NG revenues	**155,389**	**153,870**	**310,092**	**130,314**	**125,002**	**279,305**
% of corporate revenues	**50%**	**50%**		**47%**	**45%**	

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

(2) Includes revenues from Birchcliff's other minor oil and natural gas properties which were not individually significant during the Reporting Periods.

(3) Includes revenues from the Corporation's oil-weighted assets in the Worsley area which were sold in August 2017 and other minor oil and natural gas properties which were not individually significant during the Comparable Prior Periods.

Corporate petroleum and natural gas revenues for the three and six month Reporting Periods increased 3% and 11%, respectively, from the Comparable Prior Periods largely due to higher production from the Pouce Coupe assets and the Gordondale assets and an increase in the corporate average realized oil and NGLs sales prices, partially offset by a decrease in the corporate average realized natural gas sales price in the Reporting Periods.

Production

The following table sets forth Birchcliff's production by product category for the Pouce Coupe assets, the Gordondale assets and on a corporate basis for the Reporting Periods and the Comparable Prior Periods:

			Three months ended June 30, 2018			Three months ended June 30, 2017
	Pouce Coupe assets	Gordondale assets	Total corporate(1)	Pouce Coupe assets	Gordondale assets	Total corporate(2)
Light oil *(bbls/d)*	10	5,569	5,599	7	5,290	7,121
Natural gas *(Mcf/d)*	270,497	92,650	364,360	198,630	91,014	297,016
NGLs *(bbls/d)*	2,668	7,298	9,970	1,471	6,474	8,013
Total production *(boe/d)*	**47,761**	**28,308**	**76,296**	**34,584**	**26,933**	**64,636**
Liquids-to-gas ratio *(bbls/MMcf)*(3)	**9.9**	**138.9**	**42.7**	**7.4**	**129.3**	**51.0**
% of corporate production	**63%**	**37%**		**54%**	**42%**	
			Six months ended June 30, 2018			**Six months ended June 30, 2017**
	Pouce Coupe assets	**Gordondale assets**	**Total corporate(1)**	**Pouce Coupe assets**	**Gordondale assets**	**Total corporate(2)**
Light oil *(bbls/d)*	10	4,844	4,872	10	4,396	6,212
Natural gas *(Mcf/d)*	276,105	93,467	370,880	200,555	86,373	294,407
NGLs *(bbls/d)*	2,537	7,083	9,624	1,455	6,353	7,877
Total production *(boe/d)*	**48,564**	**27,504**	**76,309**	**34,891**	**25,145**	**63,157**
Liquids-to-gas ratio *(bbls/MMcf)*(3)	**9.2**	**127.6**	**39.1**	**7.3**	**124.4**	**47.9**
% of corporate production	**64%**	**36%**		**55%**	**40%**	

(1) Includes production from Birchcliff's other minor oil and natural gas properties which were not individually significant during the Reporting Periods.

(2) Includes production from the Corporation's oil-weighted assets in the Worsley area which were sold in August 2017 and other minor oil and natural gas properties which were not individually significant during the Comparable Prior Periods.

(3) Liquids is comprised of light oil and NGLs (ethane, propane, butane and condensate).

Corporate production averaged 76,296 boe/d in the three month Reporting Period and 76,309 boe/d in the six month Reporting Period, an 18% and a 21% increase, respectively, from the Comparable Prior Periods. On a corporate basis, natural gas and NGLs production for the three month Reporting Period increased by 23% and 24%, respectively, from the three month Comparable Prior Period and oil production for the three month Reporting Period decreased by 21% from the three month Comparable Prior Period. For the six month Reporting Period, corporate natural gas and NGLs production increased by 26% and 22%, respectively, from the six month Comparable Prior Period and corporate oil production for the six month Reporting Period decreased by 22% from the six month Comparable Prior Period.

The increase in corporate production from the Comparable Prior Periods was primarily attributable to the success of Birchcliff's capital programs which resulted in incremental production from new horizontal wells brought on production in Pouce Coupe and Gordondale, partially offset by the sale of the Corporation's oil-weighted assets in the Worsley area in the third quarter of 2017, temporary restrictions in pipeline and compressor station capacity on the Alberta NGTL system during the three month Reporting Period and natural production declines.

During the three month Reporting Period, Birchcliff produced a total of 15,569 bbls/d of oil and NGLs ("**liquids**") on a corporate basis which made up 20% of the total production and represented an average liquids-to-gas ratio of 42.7 bbls/MMcf. Birchcliff's liquids-to-gas ratio for the three month Reporting Period was 9.9 bbls/MMcf for the Pouce Coupe assets which was comprised of 97% high-value pentanes plus ("**condensate**") and 138.9 bbls/MMcf for the Gordondale assets which was comprised of 54% high-value oil and condensate. Birchcliff's corporate NGLs production mix consisted of approximately 24% ethane, 23% propane, 14% butane and 39% condensate in the three month Reporting Period as compared to 25% ethane, 27% propane, 16% butane and 32% condensate in the three month Comparable Prior Period.

During the six month Reporting Period, Birchcliff produced a total of 14,496 bbls/d of liquids on a corporate basis which made up 19% of the Corporation's total production and represented an average liquids-to-gas ratio of 39.1 bbls/MMcf. During the six month Reporting Period, Birchcliff's liquids-to-gas ratio was 9.2 bbls/MMcf for the Pouce Coupe assets which was comprised of 97% high-value condensate and 127.6 bbls/MMcf for the Gordondale assets which was comprised of 52% high-value oil and condensate. Birchcliff's corporate NGLs production mix consisted of approximately 25% ethane, 22% propane, 13% butane and 40% condensate in the six month Reporting Period as compared to 25% ethane, 27% propane, 16% butane and 32% condensate in the six month Comparable Prior Period.

The following table sets forth Birchcliff's production weighting by product category for the Pouce Coupe assets, the Gordondale assets and on a corporate basis for the Reporting Periods and the Comparable Prior Periods:

			Three months ended June 30, 2018			Three months ended June 30, 2017
	Pouce Coupe assets	Gordondale assets	Total corporate(1)	Pouce Coupe assets	Gordondale assets	Total corporate(2)
% Light oil production	-	20%	7%	-	20%	11%
% Natural gas production	94%	55%	80%	96%	56%	77%
% NGLs production	6%	25%	13%	4%	24%	12%
			Six months ended June 30, 2018			Six months ended June 30, 2017
	Pouce Coupe assets	Gordondale assets	Total corporate(1)	Pouce Coupe assets	Gordondale assets	Total corporate(2)
% Light oil production	-	18%	6%	-	17%	10%
% Natural gas production	95%	57%	81%	96%	57%	78%
% NGLs production	5%	25%	13%	4%	26%	12%

(1) Includes production weighting from Birchcliff's other minor oil and natural gas properties which were not individually significant during the Reporting Periods.

(2) Includes production weighting from the Corporation's oil-weighted assets in the Worsley area which were sold in August 2017 and other minor oil and natural gas properties which were not individually significant during the Comparable Prior Periods.

The changes in the corporate production mix from the Comparable Prior Periods was primarily due to the addition of Phase V of the Pouce Coupe Gas Plant in the third quarter of 2017 which resulted in incremental natural gas production and the disposition of Birchcliff's oil-weighted assets in the Worsley area which occurred in the third quarter of 2017.

During the three month Reporting Period, liquids production made up 45% of the total production from the Gordondale assets and 6% of the total production from the Pouce Coupe assets as compared to 44% and 4%, respectively, in the three month Comparable Prior Period. During the six month Reporting Period, liquids production made up 43% of the total production from the Gordondale assets and 5% of the total production from the Pouce Coupe assets as compared to 43% and 4%, respectively, in the six month Comparable Prior Period.

Commodity Prices

The following table sets forth the average benchmark index prices and exchange rate for the Reporting Periods and the Comparable Prior Periods:

	Three months ended June 30,		**Six months ended June 30,**	
	2018	**2017**	**2018**	**2017**
Light oil – WTI Cushing *(US$/bbl)*	67.88	48.29	65.37	50.10
Light oil – Edmonton Par *(CDN$/bbl)*	80.30	61.50	76.08	62.52
Natural gas – NYMEX Henry Hub *(US$/MMBtu)*(1)	2.83	3.14	2.84	3.10
Natural gas – AECO 5A *(CDN$/MMBtu)*(1)	1.18	2.78	1.63	2.74
Natural gas – Union-Dawn Day Ahead *(CDN$/MMBtu)*(1)	3.57	4.18	3.69	4.21
Natural gas – ATP 5A Day Ahead *(CDN$/MMBtu)*(1)	1.54	2.93	2.05	3.01
Natural gas – Chicago City Gate *(US$/MMBtu)*(1)	2.67	2.93	2.82	2.94
Exchange rate – *(US$/CDN$)*	1.29	1.34	1.28	1.33

(1) $1.00/MMBtu = $1.00/Mcf based on a standard heat value Mcf. See "*Advisories – MMBtu Pricing Conversions*".

Birchcliff sold the majority of its light crude oil on a spot basis and sold its natural gas production for prices primarily based on the AECO and Dawn benchmark prices during the Reporting Periods. During the Comparable Prior Periods, Birchcliff sold substantially all of its natural gas production at the AECO benchmark price. The average realized sales price the Corporation receives for its light crude oil and natural gas production depends on a number of factors, including the average benchmark prices for crude oil and natural gas, the US to Canadian dollar exchange rate, transportation and product quality differentials and the heat premium on it natural gas production.

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

Canadian 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 renewable and non-renewable energy alternatives, drilling and completion rates and efficiencies in extracting natural gas from North American natural gas basins. AECO natural gas spot prices during the three month Reporting Period continued to receive a significant discount to the NYMEX Henry Hub price primarily due to the high natural gas supplies from Western Canada relative to limited economic transportation and egress solutions out of Western Canadian natural gas basins. During the three month Reporting Period, AECO natural gas spot prices were additionally challenged due to temporary restrictions in pipeline and compressor station capacity on the Alberta NGTL system.

The following table sets forth Birchcliff's average realized oil, natural gas and NGLs sales prices for the Reporting Periods and the Comparable Prior Periods:

	Three months ended June 30, 2018	**Three months ended June 30, 2017**
Light oil *($/bbl)*	79.55	60.38
Natural gas *($/Mcf)*	2.01	3.13
NGLs *($/bbl)*	47.81	31.10
Average realized sales price *($/boe)*(1)	**21.68**	**24.90**
	Six months ended June 30, 2018	**Six months ended June 30, 2017**
Light oil *($/bbl)*	76.33	61.32
Natural gas *($/Mcf)*	2.37	3.10
NGLs *($/bbl)*	47.95	31.58
Average realized sales price *($/boe)*(1)	**22.45**	**24.42**

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

During the three month Reporting Period: (i) Birchcliff's average realized natural gas sales price decreased 36% from the Comparable Prior Period; (ii) Birchcliff's average realized oil sales price increased 32% from the Comparable Prior Period; and (iii) Birchcliff's average realized NGLs sales price increased 54% from the Comparable Prior Period. During the six month Reporting Period: (i) Birchcliff's average realized natural gas sales price decreased 24% from the Comparable Prior Period; (ii) Birchcliff's average realized oil sales price increased 24% from the Comparable Prior Period; and (iii) Birchcliff's average realized NGLs sales price increased 52% from the Comparable Prior Period. The changes in the average realized sales prices from the Comparable Prior Periods were primarily a result of the movement in the average benchmark index price for each respective commodity.

The average realized sales price for the Pouce Coupe assets was $16.01/boe in the three month Reporting Period and $17.68/boe in the six month Reporting Period, a 23% decrease and a 14% decrease, respectively, from the Comparable Prior Periods. The average realized sales price for the Gordondale assets was $31.27/boe in the three month Reporting Period and $30.90/boe in the six month Reporting Period, an increase of 11% and 13%, respectively, from the Comparable Prior Periods. The Corporation's assets in Gordondale received a higher average realized sales price compared to the Corporation's assets in Pouce Coupe, largely as a result of higher volume weighting of liquids produced in the Gordondale area which received a higher value on a per unit basis than Birchcliff's natural gas sales. The higher weighting of liquids in the total corporate production mix improved Birchcliff's overall average realized sales price.

For further production and average realized pricing details for Birchcliff's Pouce Coupe assets and Gordondale assets, see "*Discussion of Operations – Operating Netbacks*" in this MD&A.

Natural Gas Sales, Production and Average Realized Sales Price

The following table sets forth Birchcliff's natural gas sales, production and average realized sales price by natural gas market for the Reporting Periods and the Comparable Prior Periods:

					Three months ended June 30, 2018					Three months ended June 30, 2017
	Natural gas sales *($000s)*	*(%)*	**Natural gas production** *(Mcf/d)*	*(%)*	**Average realized natural gas price** *($/Mcf)*[1]	**Natural gas sales** *($000s)*	*(%)*	**Natural gas production** *(Mcf/d)*	*(%)*	**Average realized natural gas price** *($/Mcf)*[1]
AECO	25,092	38	219,135	60	1.27	84,681	100	297,016	100	3.13
Dawn[2]	37,542	56	108,950	30	3.79	-	-	-	-	-
Alliance[3]	3,985	6	36,275	10	1.21	-	-	-	-	-
Total	**66,619**	**100**	**364,360**	**100**	**2.01**	**84,681**	**100**	**297,016**	**100**	**3.13**

					Six months ended June 30, 2018					Six months ended June 30, 2017
	Natural gas sales *($000s)*	*(%)*	**Natural gas production** *(Mcf/d)*	*(%)*	**Average realized natural gas price** *($/Mcf)*[1]	**Natural gas sales** *($000s)*	*(%)*	**Natural gas production** *(Mcf/d)*	*(%)*	**Average realized natural gas price** *($/Mcf)*[1]
AECO	68,720	43	219,235	59	1.74	165,132	100	294,407	100	3.10
Dawn[2]	77,168	48	109,693	30	3.89	-	-	-	-	-
Alliance[3]	13,305	9	41,952	11	1.75	-	-	-	-	-
Total	**159,193**	**100**	**370,880**	**100**	**2.37**	**165,132**	**100**	**294,407**	**100**	**3.10**

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

(2) The Corporation has in place firm service transportation for an aggregate of 175,000 GJ/d of natural gas on TCPL's Canadian Mainline for a 10-year term, whereby natural gas is transported to the Dawn trading hub. The first 120,000 GJ/d tranche of service became available to Birchcliff on November 1, 2017, with an additional 35,000 GJ/d becoming available on November 1, 2018 and an additional 20,000 GJ/d becoming available on November 1, 2019.

(3) Birchcliff has in place various natural gas delivery arrangements with third party marketers to deliver and sell natural gas on the Alliance pipeline system.

After taking into account Birchcliff's liquids production, approximately 48% of the Corporation's production was exposed to AECO pricing, with the remaining 52% of production not exposed to AECO pricing during the Reporting Periods.

Commodity Price Risk Management

The Corporation maintains an ongoing commodity price risk management program in order to reduce volatility in its financial results. As a part of this program, the Corporation utilizes various financial derivative and physical delivery sales contracts. The Board of Directors of the Corporation has authorized the Corporation to hedge such portion of its forecast production as is permitted by the Corporation's credit facilities, which generally permit the Corporation to hedge up to 65% of its forecast production over the following four fiscal quarters. Birchcliff's current strategy is to hedge up to 50% of its estimated forecast annual average production using a combination of financial derivatives and physical sales contracts, depending on its outlook for commodity prices and the availability of hedges on terms acceptable to Birchcliff.

Financial Derivative Contracts

Birchcliff has not designated its financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity price contracts to be effective economic hedges. As a result, all such financial derivative contracts are recorded on the statement of financial position on a mark-to-market fair value basis at June 30, 2018, with the changes in fair value being recognized as a non-cash unrealized gain or loss in profit or loss. These contracts are not entered into for trading or speculative purposes.

As at June 30, 2018, Birchcliff had the following financial derivative contracts in place in order to manage commodity price risk:

Product	Type of Contract	Notional Quantity	Term(1)	Contract Price/Floating Price
Crude oil	Financial swap	1,500 bbls/d	Jul. 1, 2018 – Dec. 31, 2018	WTI CDN$71.85/bbl
Crude oil	Financial swap	3,000 bbls/d	Jul. 1, 2018 – Dec. 31, 2018	WTI CDN$71.88/bbl
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Mar. 31, 2019	WTI CDN$77.00/bbl
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Mar. 31, 2019	WTI CDN$77.00/bbl
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Jun. 30, 2019	WTI CDN$78.00/bbl
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Jun. 30, 2019	WTI CDN$80.25/bbl
Natural gas	AECO basis swap	30,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2023	NYMEX Henry Hub less US$1.30/MMBtu
Natural gas	AECO basis swap	10,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2023	NYMEX Henry Hub less US$1.32/MMBtu
Natural gas	AECO basis swap	30,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2023	NYMEX Henry Hub less US$1.33/MMBtu
Natural gas	AECO basis swap	15,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2024	NYMEX Henry Hub less US$1.185/MMBtu
Natural gas	AECO basis swap	5,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2024	NYMEX Henry Hub less US$1.20/MMBtu
Natural gas	AECO basis swap	5,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2024	NYMEX Henry Hub less US$1.20/MMBtu

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

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

	Three months ended June 30,				Six months ended June 30,			
	2018		2017		2018		2017	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Realized gain (loss) on derivatives	(6,462)	(0.93)	2,484	0.42	(9,581)	(0.69)	4,895	0.43
Unrealized gain (loss) on derivatives	2,520	0.36	4,711	0.80	(5,878)	(0.43)	21,263	1.86

There were no financial derivative contracts entered into subsequent to June 30, 2018.

Physical Delivery Sales Contracts

Birchcliff also enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value through profit or loss. At June 30, 2018, the Corporation had the following physical sales contract in place:

Product	Type of Contract	Quantity	Term[1]	Floating Price
Natural Gas	AECO basis swap	5,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2023	NYMEX Henry Hub less US$1.205/MMBtu

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

There were no physical delivery sales contracts entered into subsequent to June 30, 2018.

Royalties

The following table sets forth Birchcliff's royalty expense for the Reporting Periods and the Comparable Prior Periods:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Royalty expense *($000s)*[1]	10,632	4,711	20,443	15,677
Royalty expense *($/boe)*	1.53	0.80	1.48	1.37
Effective royalty rate *(%)*[2]	7%	3%	7%	6%

(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.

During the three month Reporting Period, Birchcliff's aggregate and per unit royalties increased from the Comparable Prior Period primarily due to a 32% increase in the average realized oil sales price and a 54% increase in the average realized NGLs sales price and the effect these higher prices have on the sliding scale royalty calculation, partially offset by a 36% decrease in the average realized natural gas sales price.

During the six month Reporting Period, Birchcliff's aggregate and per unit royalties increased from the Comparable Prior Period primarily due to a 24% increase in the average realized oil sales price and a 52% increase in the average realized NGLs sales price and the effect these higher prices have on the sliding scale royalty calculation, partially offset by a 24% decrease in the average realized natural gas sales price.

See "*Discussion of Operations – Operating Netbacks*" in this MD&A for details on royalties for the Pouce Coupe assets and Gordondale assets.

Operating Expense

The following table sets forth a breakdown of Birchcliff's operating expense for the Reporting Periods and the Comparable Prior Periods:

	Three months ended June 30,				Six months ended June 30,			
	2018		2017		2018		2017	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Field operating expense	23,875	3.44	27,886	4.74	50,371	3.65	57,283	5.01
Recoveries	(556)	(0.08)	(437)	(0.07)	(1,119)	(0.08)	(885)	(0.08)
Field operating expense, net	23,319	3.36	27,449	4.67	49,252	3.57	56,398	4.93
Expensed workovers and other	-	-	4	-	-	-	5	-
Operating expense	**23,319**	**3.36**	**27,453**	**4.67**	**49,252**	**3.57**	**56,403**	**4.93**

On an aggregate and per unit basis, operating costs decreased in the Reporting Periods as compared to the Comparable Prior Periods primarily due to: (i) an incremental increase in natural gas production processed at the Pouce Coupe Gas Plant in connection with the start-up of Phase V in the third quarter of 2017; (ii) a reduction in third-party natural gas processing fees at the Gordondale Facility as a result of the Processing Arrangement which was effective January 1, 2018; and (iii) the sale of the higher-cost Worsley assets in the third quarter of 2017. See "*Discussion of Operations – Operating Netbacks*" in this MD&A for details on operating expense for the Pouce Coupe assets and Gordondale assets.

Transportation and Other Expense

The following table sets forth Birchcliff's transportation and other expense for the Reporting Periods and the Comparable Prior Periods:

	Three months ended June 30,				Six months ended June 30,			
	2018		2017		2018		2017	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Transportation	23,769	3.42	15,144	2.57	47,033	3.41	29,317	2.56
Fractionation	1,441	0.21	-	-	2,685	0.20	-	-
Other	29	-	31	-	61	-	64	0.01
Transportation and other expense[1]	**25,239**	**3.64**	**15,175**	**2.57**	**49,779**	**3.60**	**29,381**	**2.57**

(1) Previously referred to as "transportation and marketing expense" in the Comparable Prior Periods.

The increase in the aggregate and per unit transportation and other expense from the Comparable Prior Periods was largely due to firm service pipeline transportation tolls for natural gas transported to Dawn which commenced November 1, 2017. Fractionation fees associated with NGLs production processed at third-party facilities were reclassified from NGLs revenue for the Reporting Periods as a result of Birchcliff's transition to IFRS 15: *Revenue from Contracts with Customers* ("**IFRS 15**") effective January 1, 2018. See "*Changes in Accounting Policies*" in this MD&A for further details.

See "*Discussion of Operations – Operating Netbacks*" in this MD&A for details on transportation and other expense for the Pouce Coupe assets and Gordondale assets.

Operating Netbacks

The following table sets forth Birchcliff's net production and operating netback for the Corporation's assets in Pouce Coupe and Gordondale on the Montney/Doig Resource Play and on a corporate basis for the Reporting Periods and the Comparable Prior Periods:

	Three months ended June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
Pouce Coupe Montney/Doig Resource Play:				
Average daily production:				
Light oil *(bbls/d)*	10	7	10	10
Natural gas *(Mcf/d)*	270,497	198,630	276,105	200,555
NGLs *(bbls/d)*	2,668	1,471	2,537	1,455
Total *(boe/d)*	47,761	34,584	48,564	34,891
% of corporate production	63%	54%	64%	55%
Liquids-to-gas ratio *(bbls/MMcf)*(1)	9.9	7.4	9.2	7.3
Netback and cost ($/boe):				
Petroleum and natural gas revenue(2)	16.02	20.81	17.68	20.63
Royalty expense	0.02	(0.01)	(0.26)	(0.38)
Operating expense	(2.21)	(2.76)	(2.42)	(2.91)
Transportation and other expense	(3.47)	(2.27)	(3.38)	(2.27)
Operating netback	10.36	15.77	11.62	15.07
Gordondale Montney/Doig Resource Play:				
Average daily production:				
Light oil *(bbls/d)*	5,569	5,290	4,844	4,396
Natural gas *(Mcf/d)*	92,650	91,014	93,467	86,373
NGLs *(bbls/d)*	7,298	6,474	7,083	6,353
Total *(boe/d)*	28,308	26,933	27,504	25,145
% of corporate production	37%	42%	36%	40%
Liquids-to-gas ratio *(bbls/MMcf)*(3)	138.9	129.3	127.6	124.4
Netback and cost ($/boe):				
Petroleum and natural gas revenue(2)	31.28	28.26	30.91	27.47
Royalty expense	(4.15)	(1.44)	(3.62)	(2.43)
Operating expense	(5.14)	(6.11)	(5.46)	(6.59)
Transportation and other expense	(3.92)	(2.70)	(4.01)	(2.65)
Operating netback	18.07	18.01	17.82	15.80
Total Corporate:				
Average daily production:				
Light oil *(bbls/d)*	5,599	7,121	4,872	6,212
Natural gas *(Mcf/d)*	364,360	297,016	370,880	294,407
NGLs *(bbls/d)*	9,970	8,013	9,624	7,877
Total *(boe/d)*(4)	76,296	64,636	76,309	63,157
Liquids-to-gas ratio *(bbls/MMcf)*(3)	42.7	51.0	39.1	47.9
Netback and cost ($/boe):				
Petroleum and natural gas revenue(2)	21.69	24.92	22.45	24.43
Royalty expense	(1.53)	(0.80)	(1.48)	(1.37)
Operating expense	(3.36)	(4.67)	(3.57)	(4.93)
Transportation and other expense	(3.64)	(2.57)	(3.60)	(2.57)
Operating netback	13.16	16.88	13.80	15.56

(1) Liquids is primarily comprised of condensate.

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

(3) Liquids is comprised of light oil and NGLs (ethane, propane, butane and condensate).

(4) For the Reporting Periods, includes production from Birchcliff's other minor oil and natural gas properties which were not individually significant. For the Comparable Prior Periods, includes production from the Corporation's oil-weighted assets in the Worsley area which were sold in August 2017 and other minor oil and natural gas properties which were not individually significant.

Pouce Coupe Montney/Doig Resource Play

Birchcliff's production from the Pouce Coupe assets was 47,761 boe/d in the three month Reporting Period and 48,564 boe/d in the six month Reporting Period, a 38% and 39% increase, respectively, from the Comparable Prior Periods. The increase in production was primarily attributable to Birchcliff's capital programs which resulted in incremental production from new horizontal natural gas wells being brought on production in connection with the start-up of Phase V of the Pouce Coupe Gas Plant in September 2017, partially offset by temporary restrictions in pipeline and compressor station capacity on the Alberta NGTL system and natural production declines.

Birchcliff's liquids-to-gas ratio for the Pouce Coupe assets was 9.9 bbls/MMcf in the three month Reporting Period and 9.2 bbls/MMcf in the six month Reporting Period as compared to 7.4 bbls/MMcf and 7.3 bbls/MMcf, respectively, in the Comparable Prior Periods. During the three month Reporting Period, approximately 97% of the liquids produced in the Pouce Coupe area was comprised of high-value condensate which received an average price of $84.35/bbl. During the six month Reporting Period, approximately 97% of the liquids produced in the Pouce Coupe area was comprised of high-value condensate which received an average price of $81.11/bbl.

Birchcliff's operating netback from the Pouce Coupe assets was $10.36/boe in the three month Reporting Period and $11.62/boe in the six month Reporting Period, a 34% decrease and 23% decrease, respectively, from the Comparable Prior Periods. The decreases were largely due to a lower average realized natural gas sales price received for Birchcliff's Pouce Coupe production and higher transportation and other expense due to firm service pipeline transportation tolls for a portion of Pouce Coupe natural gas transported to Dawn, partially offset by lower per boe operating and royalty expenses during the Reporting Periods. Royalty expense per boe for the Reporting Periods was impacted by a gas cost allowance adjustment applied in those periods. Operating expense per boe decreased from the Comparable Prior Periods largely due to an increase in natural gas production processed through Phase V of the Pouce Coupe Gas Plant during the Reporting Periods.

Gordondale Montney/Doig Resource Play

Birchcliff's production from the Gordondale assets was 28,308 boe/d in the three month Reporting Period and 27,504 boe/d in the six month Reporting Period, a 5% and 9% increase, respectively, from the Comparable Prior Periods. The increase in production was primarily attributable to Birchcliff's capital programs which resulted in incremental production from new horizontal oil wells being brought on production in Gordondale, partially offset by temporary restrictions in pipeline and compressor station capacity on the Alberta NGTL system and natural production declines.

Birchcliff's liquids-to-gas ratio for the Gordondale assets was 138.9 bbls/MMcf in the three month Reporting Period and 127.6 bbls/MMcf in the six month Reporting Period as compared to 129.3 bbls/MMcf and 124.4 bbls/MMcf, respectively, in the Comparable Prior Periods. During the three month Reporting Period, approximately 54% of the liquids produced in Gordondale was comprised of high-value oil and condensate which received an average price of $82.31/bbl. Birchcliff's Gordondale NGLs production mix consisted of approximately 32% ethane, 31% propane, 18% butane and 19% condensate in the three month Reporting Period. During the six month Reporting Period, approximately 52% of the liquids produced in Gordondale was comprised of high-value oil and condensate which received an average price of $80.01/bbl. Birchcliff's Gordondale NGLs production mix consisted of approximately 33% ethane, 30% propane, 18% butane and 19% condensate in the six month Reporting Period.

Birchcliff's operating netback from the Gordondale assets was $18.07/boe in the three month Reporting Period and $17.82/boe in the six month Reporting Period, a 1% increase and a 13% increase, respectively, from the Comparable Prior Periods. The increases were largely due to higher average realized oil and NGLs sales prices received for Birchcliff's Gordondale production, partially offset by a lower average realized natural gas sales price, increased royalty expense and higher transportation and other expense due to firm service pipeline transportation tolls for a portion of Gordondale natural gas transported to Dawn.

Operating expense for Gordondale was $5.14/boe in the three month Reporting Period and $5.46/boe in the six month Reporting Period, a 16% decrease and a 17% decrease, respectively, from the Comparable Prior Periods. The decreases in operating expense from the Comparable Prior Periods were primarily attributable to a reduction in third-party natural gas processing fees at the Gordondale Facility as a result of the Processing Arrangement which was effective January 1, 2018. The Gordondale assets generally have a higher cost structure as compared to the

Pouce Coupe assets resulting from higher production weighting to liquids and additional fees incurred to process natural gas at the Gordondale Facility.

Administrative Expense

The following table sets forth the components of Birchcliff's net administrative expense for the Reporting Periods and the Comparable Prior Periods:

	Three months ended June 30,				Six months ended June 30,			
	2018		2017		2018		2017	
	($000s)	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*
Cash:								
Salaries and benefits[1]	5,685	60	6,172	59	12,067	64	12,342	62
Other[2]	3,754	40	4,207	41	6,768	36	7,645	38
	9,439	100	10,379	100	18,835	100	19,987	100
Operating overhead recoveries	(42)	(1)	(54)	(1)	(83)	(1)	(94)	(1)
Capitalized overhead[3]	(3,318)	(35)	(4,039)	(38)	(6,633)	(35)	(7,754)	(38)
General & administrative expenses, net	6,079	64	6,286	61	12,119	64	12,139	61
General & administrative expenses, net per boe	$0.88		$1.07		$0.88		$1.06	
Non-cash:								
Stock-based compensation	1,557	100	2,409	100	3,471	100	4,218	100
Capitalized stock-based compensation[3]	(865)	(56)	(1,438)	(60)	(1,961)	(56)	(2,493)	(59)
Stock-based compensation, net	692	44	971	40	1,510	44	1,725	41
Stock-based compensation, net per boe	$0.10		$0.17		$0.11		$0.15	
Administrative expense, net	**6,771**		**7,257**		**13,629**		**13,864**	
Administrative expense, net per boe	**$0.98**		**$1.24**		**$0.99**		**$1.21**	

(1) Includes salaries and benefits paid to the officers and employees of the Corporation and retainer fees, meeting fees and benefits paid to the directors of the Corporation.

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

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

On an aggregate basis, general and administrative expense for the Reporting Periods remained consistent with the Comparable Prior Periods. On a per boe basis, general and administrative expense in the three and six month Reporting Periods decreased 18% and 17%, respectively, from the Comparable Prior Periods due to higher production volumes.

Depletion and Depreciation Expense

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

The following table sets forth Birchcliff's D&D expense for the Reporting Periods and the Comparable Prior Periods:

	Three months ended June 30,				Six months ended June 30,			
	2018		2017		2018		2017	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Depletion and depreciation expense	**52,740**	**7.60**	**43,603**	**7.41**	**103,609**	**7.50**	**85,740**	**7.50**

D&D expense for the Reporting Periods were higher on an aggregate basis as compared to the Comparable Prior Periods mainly due to an increase in production.

Asset Impairment Assessment

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

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

Birchcliff performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined that there were no impairment indicators identified at the end of the Reporting Periods. As a result, an impairment test was not required at June 30, 2018.

Finance Expense

The following table sets forth the components of the Corporation's finance expense for the Reporting Periods and the Comparable Prior Periods:

	Three months ended June 30,				Six months ended June 30,			
	2018		**2017**		**2018**		**2017**	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Cash:								
Interest expense on credit facilities	6,658	0.96	6,844	1.16	13,290	0.96	14,358	1.26
Non-cash:								
Accretion on decommissioning obligations	795	0.11	846	0.14	1,588	0.12	1,676	0.15
Amortization of deferred financing fees	383	0.06	378	0.06	785	0.06	709	0.06
Finance expense	**7,836**	**1.13**	**8,068**	**1.36**	**15,663**	**1.14**	**16,743**	**1.47**

The decrease in the aggregate interest expense from the Comparable Prior Periods was primarily due to a lower average effective interest rate under the Corporation's revolving syndicated term credit facility in the Reporting Periods. The effective interest rates applicable to the drawn loans are based on a pricing margin grid and will change as a result of the ratio of outstanding indebtedness to the trailing four quarter EBITDA as calculated in accordance with the agreement governing the Corporation's extendible revolving working capital facility (the "**Working Capital Facility**") and the extendible revolving syndicated term credit facility (the "**Syndicated Credit Facility**" and together with the Working Capital Facility, the "**Credit Facilities**"). EBITDA is defined as earnings before interest and non-cash items, including (if any) income taxes, stock-based compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments and depletion, depreciation and amortization.

The following table sets forth the Corporation's effective interest rates under its Credit Facilities for the Reporting Periods and the Comparable Prior Periods:

	Three months ended June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
Revolving working capital facility	4.7%	4.5%	4.7%	4.5%
Revolving syndicated term credit facility	4.4%	4.6%	4.5%	5.0%

Birchcliff's average outstanding total credit facilities balance was approximately $594 million and $585 million in the three and six month Reporting Periods, respectively, as compared to $597 million and $582 million in the Comparable Prior Periods, calculated as the simple average of the month-end amounts.

Loss on Sale of Assets

The following table details Birchcliff's loss on sale of assets in the Reporting Periods and Comparable Prior Periods:

	Three months ended June 30,				Six months ended June 30,			
	2018		2017		2018		2017	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Loss on sale of assets	**8,361**	**1.20**	**21,030**	**3.58**	**8,361**	**0.61**	**18,550**	**1.62**

In June 2018, Birchcliff completed the dispositions of certain non-core miscellaneous petroleum and natural gas properties and related assets and interests. The cash consideration was $5.3 million, before customary closing adjustments. As a result of the dispositions, Birchcliff recorded a loss on sale of assets of approximately $8.4 million ($6.1 million, net of tax) in the Reporting Periods.

The dispositions noted above are considered non-core as they represented less than 1% of both Birchcliff's production during the Reporting Periods and proved plus probable reserves at June 30, 2018 and therefore were not significant to the Corporation's financial results and operational performance.

Income Taxes

The components of the Corporation's income tax expense for the Reporting Periods and the Comparable Prior Periods are set forth in the table below:

	Three months ended June 30,		Six months ended June 30,	
($000s)	2018	2017	2018	2017
Deferred income tax expense	2,837	6,855	8,447	17,912
Dividend income tax expense on preferred shares	769	750	1,537	1,500
Income tax expense	**3,606**	**7,605**	**9,984**	**19,412**
Income tax expense per boe	**$0.51**	**$1.30**	**$0.71**	**$1.71**

The decrease in the aggregate income tax expense from the Comparable Prior Periods was largely due to lower net income before tax recorded in the Reporting Periods.

The Corporation's estimated income tax pools were $2.1 billion at June 30, 2018. 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 June 30, 2018
Canadian oil and gas property expense	445,890
Canadian development expense	407,595
Canadian exploration expense	284,295
Undepreciated capital costs	365,855
Non-capital losses	610,920
Financing costs and other	16,080
Estimated income tax pools(1)	**2,130,635**

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

Veracel Tax Pools

Birchcliff's 2006 income tax filings were reassessed by the CRA in 2011 (the "**Reassessment**"). The Reassessment was based on the CRA's position that the tax pools available to Veracel Inc. ("**Veracel**"), prior to its amalgamation with Birchcliff, ceased to be available to Veracel after Birchcliff and Veracel amalgamated on May 31, 2005. The Veracel tax pools in dispute totalled $39.3 million. Birchcliff appealed the Reassessment to the Tax Court of Canada (the "**Trial Court**") and the trial of that appeal occurred in November 2013. On October 1, 2015, the Trial Court issued its decision (the "**Trial Decision**") and dismissed Birchcliff's appeal on the basis of the general anti-avoidance rule contained in the *Income Tax Act* (Canada). The Trial Decision was rendered by a judge based on the written record and not by the judge who conducted the trial. As a result of the Trial Decision, Birchcliff recorded a non-cash deferred income tax expense in the amount of $10.2 million in the fourth quarter of 2015.

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

CAPITAL EXPENDITURES

The following table sets forth a summary of the Corporation's capital expenditures for the Reporting Periods and the Comparable Prior Periods:

	Three months ended June 30,		Six months ended June 30,	
($000s)	**2018**	**2017**	**2018**	**2017**
Land	648	461	1,347	881
Seismic	301	227	895	535
Workovers	824	3,120	4,155	5,410
Drilling and completions	49,321	79,827	125,561	156,278
Well equipment and facilities	18,732	46,824	70,390	96,854
Finding and development capital	69,826	130,459	202,348	259,958
Acquisitions	1,515	-	1,515	-
Dispositions	(5,265)	(10,151)	(5,184)	(15,493)
Finding, development and acquisition capital	66,076	120,308	198,679	244,465
Administrative assets	388	474	929	855
Capital expenditures, net	**66,464**	**120,782**	**199,608**	**245,320**

During the three month Reporting Period, Birchcliff had net capital expenditures of $66.5 million which included approximately $26.7 million (40%) on the drilling and completion of Montney/Doig horizontal wells in Pouce Coupe, $22.6 million (34%) on the drilling and completion of Montney horizontal wells in Gordondale and $4.8 million (7%) on the Phase VI expansion of the Pouce Coupe Gas Plant which was brought on-stream subsequent to the end of the Reporting Periods.

During the six month Reporting Period, Birchcliff had net capital expenditures of $199.6 million which included approximately $71.9 million (36%) on the drilling and completion of Montney/Doig horizontal wells in Pouce Coupe, $53.7 million (27%) on the drilling and completions of Montney horizontal wells in Gordondale and $17.2 million (9%) on the Phase VI expansion of the Pouce Coupe Gas Plant.

The remaining capital during the Reporting Periods was primarily attributed to land, seismic and infrastructure expansion projects in the Montney/Doig Resource Play and on other oil and gas exploration and development projects in the Peace River Arch.

During the three month Reporting Period, Birchcliff drilled a total of 7 (7.0 net) wells, consisting of 2 (2.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area and 5 (5.0 net) Montney horizontal oil wells in the Gordondale area. During the six month Reporting Period, Birchcliff drilled a total of 27 (27.0 net) wells, consisting of 14 (14.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area and 13 (13.0 net) Montney horizontal oil wells in the Gordondale area.

CAPITAL RESOURCES AND LIQUIDITY

Liquidity and Capital Resources

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

The following table sets forth a summary of the Corporation's capital resources for the Reporting Periods and the Comparable Prior Periods:

	Three months ended June 30,		Six months ended June 30,	
($000s)	**2018**	**2017**	**2018**	**2017**
Adjusted funds flow	72,369	88,612	156,027	156,242
Changes in non-cash working capital from operations	(469)	(31,075)	8,148	(27,790)
Decommissioning expenditures	(75)	(70)	(497)	(371)
Exercise of stock options	133	5,671	162	8,020
Financing fees paid on credit facilities	(950)	(2,375)	(950)	(2,375)
Dividends paid on common shares	(6,646)	(6,635)	(13,291)	(13,239)
Dividends paid on preferred shares	(1,922)	(1,875)	(3,844)	(3,750)
Net change in revolving term credit facilities	44,001	51,521	30,486	57,705
Changes in non-cash working capital from investing	(39,972)	16,974	23,372	70,844
Capital resources	**66,469**	**120,748**	**199,613**	**245,286**

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

Birchcliff's market diversification initiatives have helped to reduce its exposure to volatility in commodity prices, including AECO prices which have been extremely volatile in recent months. Birchcliff has entered into agreements with TCPL for the firm service transportation of an aggregate of 175,000 GJ/d (approximately 152 MMcf/d) of natural gas on TCPL's Canadian Mainline for a 10-year term, whereby natural gas is transported from the Empress receipt point in Alberta to the Dawn trading hub located in Southern Ontario. See "*Petroleum and Natural Gas Revenue*" in this MD&A for further details. Birchcliff also has various financial and physical derivative contracts outstanding to help protect its adjusted funds flow and capital expenditure programs. See *"Commodity Price Risk Management"* in this MD&A for further details.

In addition to its adjusted funds flow, the Corporation's other main source of liquidity is its Credit Facilities in the aggregate principle amount of $950 million of which $286 million remains undrawn at June 30, 2018. See "*Bank Debt*" in this MD&A for further details. The Corporation may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made. During the three month Reporting Period, Birchcliff's syndicate of lenders completed its semi-annual review of Birchcliff's borrowing base limit under its Credit Facilities. In connection with such review, Birchcliff and its syndicate of lenders agreed to: (i) an extension of the maturity dates of each of the Syndicated Credit Facility and the Working Capital Facility from May 11, 2020 to May 11, 2021; (ii) the borrowing base remaining unchanged at $950 million; and (iii) increasing the Working Capital Facility to $100 million (from $50 million) with a corresponding reduction in the Syndicated Credit Facility to $850 million (from $900 million).

The 2018 Capital Program is set at $255 million with approximately $149.9 million allocated for drilling and development and $66.9 million for facilities and infrastructure. Birchcliff expects that its 2018 capital expenditures will be less than its adjusted funds flow during 2018 based on the assumptions set forth in the table located in the "*Outlook and Guidance*" section in this MD&A.

Management believes that its adjusted funds flow during 2018 will be sufficient to fund the Corporation's 2018 Capital Program. Should commodity prices deteriorate materially below Birchcliff's assumptions in the second half of 2018, Birchcliff may adjust its on-going capital program, draw down on its Credit Facilities, seek additional equity financing and/or consider the potential sale of additional non-core assets to fund planned growth. The 2018 Capital Program has been designed with financial and operational flexibility with the potential to accelerate or decelerate capital expenditures throughout the year, depending on commodity prices and industry conditions. See *"Advisories"*.

Working Capital

The Corporation's adjusted working capital deficit increased to $44.1 million at June 30, 2018 from an $11.1 million deficit at December 31, 2017. The deficit at June 30, 2018 was largely comprised of costs incurred from the drilling and completion of new wells in Pouce Coupe and Gordondale and the Phase VI expansion of the Pouce Coupe Gas Plant.

At June 30, 2018, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of June 30, 2018 production (76%), which was subsequently received in July 2018. In contrast, current liabilities largely consisted of trade payables (57%) and accrued capital and operating costs (14%). Birchcliff routinely assesses the financial strength of its marketers. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations.

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

Bank Debt

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

Total debt, including the adjusted working capital deficit, was $661 million at June 30, 2018 as compared to $598 million at December 31, 2017. The total debt from December 31, 2017 was increased by capital expenditures incurred on the drilling and completion of new horizontal wells in Pouce Coupe and Gordondale and the Phase VI expansion of the Pouce Coupe Gas Plant and the payment of dividends on common and preferred shares and reduced by adjusted funds flow in the Reporting Periods.

The following table sets forth the Corporation's unused Credit Facilities as at June 30, 2018 and December 31, 2017:

As at, *($000s)*	**June 30, 2018**	**December 31, 2017**
Maximum borrowing base limit:		
Revolving term credit facilities	950,000	950,000
Principal amount utilized:		
Drawn revolving term credit facilities(1)	(621,954)	(594,823)
Outstanding letters of credit(2)	(42,185)	(12,184)
	(664,139)	(607,007)
Unused credit	**285,861**	**342,993**
% unused credit	**30%**	**36%**

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

(2) Letters of credit are issued to various service providers. The letters of credit reduce the amount available under the Working Capital Facility. There were no amounts drawn on the letters of credit during the Reporting Periods and Comparable Prior Periods. Subsequent to the end of the Reporting Periods, Birchcliff reduced its letters of credit to $34.2 million from $42.2 million.

Contractual Obligations & Commitments

The Corporation enters into various contractual obligations and commitments in the normal course of operations. The following table lists Birchcliff's estimated material contractual obligations and commitments at June 30, 2018:

($000s)	2018	2019	2020-2022	Thereafter
Accounts payable and accrued liabilities	104,053	-	-	-
Drawn revolving term credit facilities	-	-	621,954	-
Operating leases(1)	2,066	4,491	13,790	24,661
Capital commitments(2)	4,491	-	-	-
Firm transportation and fractionation (3)	47,054	92,096	360,826	438,508
Natural gas processing(4)	11,540	17,155	51,512	171,691
Estimated contractual obligations(5)	**169,204**	**113,742**	**1,048,082**	**634,860**

(1) On December 2, 2015, the Corporation entered into an operating lease commitment relating to a new office premise beginning February 1, 2018 and expiring on January 31, 2028. The commitment amount under the new 10 year office lease is estimated to be $46.2 million, which includes costs allocated to base rent, parking and building operating expenses. The office lease commitment amounts disclosed in the above table have not been reduced for any rents receivable by the Corporation.

(2) Includes drilling commitments.

(3) Includes firm transportation service arrangements with various terms on TCPL's Alberta NGTL System and on TCPL's Canadian Mainline to the AECO and Dawn trading hubs and fractionation commitments associated with NGLs production processed at third-party facilities in Gordondale.

(4) Includes natural gas processing commitments at third-party facilities.

(5) Contractual obligations and commitments that are not material to Birchcliff are excluded from the above table. The Corporation's decommissioning obligations are excluded from the table as these obligations arose from a regulatory requirement rather than from a contractual arrangement. Birchcliff estimates the total undiscounted cash flow to settle its decommissioning obligations on its wells and facilities at June 30, 2018 to be approximately $273.9 million and are estimated to be incurred as follows: 2018 - $1.6 million, 2019 - $0.7 million and $271.6 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, for cash or common shares.

OFF-BALANCE SHEET TRANSACTIONS

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

OUTSTANDING SHARE INFORMATION

At August 10, 2018, Birchcliff had common shares, Series A Preferred Shares and Series C Preferred Shares that were outstanding. Birchcliff's common shares are listed on the TSX under the symbol "**BIR**" and are included in the S&P/TSX Composite Index. Birchcliff's Series A Preferred Shares and Series C Preferred Shares are individually listed on the TSX under the symbols "**BIR.PR.A**" and "**BIR.PR.C**", respectively.

The following table sets forth the common shares issued by the Corporation:

	Common Shares
Balance at December 31, 2017	265,796,698
Exercise of options	48,332
Balance at June 30, 2018	**265,845,030**
Exercise of options	40,332
Balance at August 10, 2018	**265,885,362**

At August 10, 2018, the Corporation had the following securities outstanding: 265,885,362 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 16,122,536 stock options to purchase an equivalent number of common shares; and 2,939,732 performance warrants to purchase an equivalent number of common shares.

Dividends

The following table sets forth the dividend distributions by the Corporation for each class of shares for the Reporting Periods and the Comparable Prior Periods:

	Three months ended June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
Common shares:				
Dividend distribution *($000s)*	6,646	6,635	13,291	13,239
Per common share *($)*	0.0250	0.0250	0.0250	0.0250
Preferred shares - Series A:				
Series A dividend distribution *($000s)*	1,047	1,000	2,094	2,000
Per Series A preferred share *($)*	0.5234	0.5000	0.5234	0.5000
Preferred shares - Series C:				
Series C dividend distribution *($000s)*	875	875	1,750	1,750
Per Series C preferred share *($)*	0.4375	0.4375	0.4375	0.4375

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

SUMMARY OF QUARTERLY RESULTS

The following table sets forth a summary of the Corporation's quarterly results for the eight most recently completed quarters:

Quarter ending,	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sep. 30, 2016
Average daily production *(boe)*	76,296	76,323	80,103	65,276	64,636	61,662	60,750	54,538
Realized natural gas sales price *($/Mcf)*(1)	2.01	2.72	2.64	2.11	3.13	3.06	3.31	2.53
Realized oil sales price *($/bbl)*(1)	79.55	71.92	68.58	55.62	60.38	62.59	60.75	52.12
Realized NGLs sales price *($/bbl)*(1)	47.81	48.09	40.08	27.67	31.10	32.09	33.39	25.82
Total revenues *($000s)*(1)	150,561	159,531	166,149	111,488	146,597	132,708	135,457	97,365
Operating costs *($/boe)*	3.36	3.78	3.86	4.27	4.67	5.22	4.54	4.65
Capital expenditures, net *($000s)*	66,464	133,144	18,669	12,136	120,782	124,538	62,482	599,715
Cash flow from operating activities *($000s)*	71,825	91,853	88,995	70,584	57,467	70,614	90,574	22,144
Adjusted funds flow *($000s)*	72,369	83,658	97,008	64,430	88,612	67,630	71,806	41,675
Per common share – basic *($)*	0.27	0.31	0.36	0.24	0.33	0.26	0.27	0.18
Per common share – diluted *($)*	0.27	0.31	0.36	0.24	0.33	0.25	0.27	0.18
Net income (loss) *($000s)*	7,437	15,125	25,820	(120,743)	18,015	29,928	12,085	(1,064)
Net income (loss) to common shareholders *($000s)*(2)	6,390	14,078	24,773	(121,743)	17,015	28,928	11,085	(2,064)
Per common share – basic *($)*	0.02	0.05	0.09	(0.46)	0.06	0.11	0.04	(0.01)
Per common share – diluted *($)*	0.02	0.05	0.09	(0.46)	0.06	0.11	0.04	(0.01)
Total assets *($ million)*	2,715	2,697	2,627	2,615	2,871	2,797	2,710	2,704
Long-term bank debt *($000s)*	617,291	573,935	587,126	585,323	628,401	578,954	572,517	634,534
Total debt *($000s)*	661,409	657,732	598,193	666,808	700,484	664,352	600,012	612,080
Dividends on common shares *($000s)*(3)	6,646	6,645	6,644	6,635	6,635	6,604	-	-
Dividends on pref. shares – Series A *($000s)*	1,047	1,047	1,047	1,000	1,000	1,000	1,000	1,000
Dividends on pref. shares – Series C *($000s)*	875	875	875	875	875	875	875	875
Pref. shares outstanding – Series A *(000s)*	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Pref. shares outstanding – Series C *(000s)*	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Common shares outstanding *(000s)*								
Basic	265,845	265,805	265,797	265,789	265,417	264,442	264,042	263,065
Diluted	285,253	285,692	282,895	283,106	284,461	284,160	279,881	279,826
Wtd. avg. common shares outstanding *(000s)*								
Basic	265,820	265,797	265,792	265,490	265,326	264,099	263,396	229,287
Diluted	267,773	266,179	267,619	267,988	268,203	268,077	268,974	234,295

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

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

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

Average daily production volumes from the third quarter of 2016 to the fourth quarter of 2017 increased largely due to production volumes from both the assets acquired in Gordondale in the third quarter of 2016 and new horizontal wells brought on-stream in Pouce Coupe and Gordondale, partially offset by natural production declines from those wells. Average daily production for the first and second quarters of 2018 decreased compared to the fourth quarter of 2017 mainly due to temporary restrictions in pipeline and compressor station capacity on the Alberta NGTL system and natural production declines, partially offset by new horizontal wells brought on production in Pouce Coupe and Gordondale during the Reporting Periods.

Quarterly variances in revenues, adjusted funds flow and net income (loss) are primarily due to fluctuations in commodity prices and production volumes. Oil and gas revenues and adjusted funds flow in the last seven quarters were largely impacted by production from the assets acquired in Gordondale in the third quarter of 2016, incremental production additions to Phase V of the Pouce Coupe Gas Plant in the second half of 2017 and, except for the third quarter of 2017 and the second quarter of 2018, higher trending average realized sales prices. Birchcliff recorded a net loss in the third quarter of 2017 primarily as a result of the after-tax book loss of $132.3 million from the disposition of its Worsley assets. Net income or loss in the last eight quarters was also impacted by certain non-cash adjustments including depletion expense, unrealized gains and losses on financial instruments and gains and losses on the sale of non-core assets recognized in those periods.

In general, capital expenditures have fluctuated over the past eight quarters primarily as a result of the timing of the Corporation's development capital expenditures. Capital expenditures are also impacted by commodity prices and market conditions, as well as the timing of acquisitions and dispositions. In the third quarter of 2016, Birchcliff acquired the Gordondale assets which significantly increased net capital expenditures in that quarter in comparison to the other quarters.

Quarterly variances in long-term debt and total debt are primarily due to fluctuations in adjusted funds flow, the amount and timing of capital expenditures (including acquisitions and dispositions), payment of common and preferred share dividends and the timing of proceeds received from equity financings in a period.

POTENTIAL TRANSACTIONS

Within its focus area, the Corporation is continually reviewing potential asset acquisitions and dispositions and corporate mergers and acquisitions for the purpose of determining whether any such potential transaction is of interest to the Corporation, as well as the terms on which such a potential transaction would be available. As a result, the Corporation may from time to time be involved in discussions or negotiations with other parties or their agents in respect of potential asset acquisitions and dispositions and corporate merger and acquisition opportunities.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Corporation's internal control over financial reporting ("**ICFR**") that occurred during the period beginning on April 1, 2018 and ended on June 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies, reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The Corporation's use of estimates, judgments and assumptions in preparing the interim condensed financial statements for the Reporting Periods and the Comparable Prior Periods is discussed in Note 3 of the annual audited financial statements for the year ended December 31, 2017.

CHANGES IN ACCOUNTING POLICIES

Accounting Pronouncements Adopted

On January 1, 2018, Birchcliff adopted IFRS 15 using the cumulative effect method. Under this method, the comparative periods were not restated and the cumulative effect on net earnings of the application of IFRS 15 to revenue contracts in progress at January 1, 2018 was nil. The Corporation reviewed its revenue streams and major contracts with customers using the IFRS 15 five step model and there were no changes to net earnings or timing of petroleum and natural gas sales recognized. It should be noted, however, that certain Income Statement line item reclassifications were made. Refer to the interim condensed financial statements of the Corporation and related notes for the Reporting Periods for more information, including additional disclosure requirements.

On January 1, 2018, Birchcliff adopted IFRS 9: *Financial Instruments* ("**IFRS 9**") to replace IAS 39: *Financial Instruments: Recognition and Measurement* ("**IAS 39**"). IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss. The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 bases the classification of financial assets on the contractual cash flow characteristics and the company's business model for managing the financial asset. Additionally, embedded derivatives are not separated if the host contract is a financial asset within the scope of IFRS 9. Instead, the entire hybrid contract is assessed for classification and measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The adoption of IFRS 9 has resulted in changes to the Corporation's investment in securities which, upon adoption of IFRS 9, are measured at fair value through profit or loss. Under the previous IAS 39 standard, Birchcliff's investment in securities were categorized as available for sale which required the securities to be fair valued at the end of each reporting period with any gains or losses recognized in other comprehensive income. There were no changes to the treatment of distributions declared on the investment in securities which are recorded to profit or loss. The adoption of IFRS 9 had no impact on the amounts recorded in the financial statements as at January 1, 2018 or on the comparative periods.

Future Accounting Pronouncements

In January 2016, the IASB issued IFRS 16: *Leases* ("**IFRS 16**"). The standard will be effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided IFRS 15 has been applied, or is applied at the same date as IFRS 16. Birchcliff is currently evaluating the impact of adopting IFRS 16 on the financial statements.

RISK FACTORS AND RISK MANAGEMENT

The Corporation's financial and operational performance is potentially affected by a number of factors, including, but not limited to, financial risks, risks relating to economic conditions, business and operational risks, environmental and regulatory risks and other risks. The impact of any risk or a combination of risks may adversely affect the Corporation's business, financial condition, results of operations, prospects, cash flow and reputation, which may reduce or restrict the Corporation's ability to pay common share and 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, 2017 and *"Risk Factors"* in the Annual Information Form for the year ended December 31, 2017.

ABBREVIATIONS

AECO	benchmark price for natural gas determined at the AECO 'C' hub in southeast Alberta
bbl	barrel
bbls	barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day
F&D	finding and development
GAAP	generally accepted accounting principles for Canadian public companies which are currently IFRS
GJ	gigajoule
GJ/d	gigajoules per day
IFRS	International Financial Reporting Standards as issued by the International Accounting Standards Board
m3	cubic metres
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mcfe	thousand cubic feet of gas equivalent
MJ	megajoule
MM$	millions of dollars
MMBtu	million British thermal units
MMBtu/d	million British thermal units per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
NGLs	natural gas liquids
NGTL	NOVA Gas Transmission Ltd.
NYMEX	New York Mercantile Exchange
P&NG	petroleum and natural gas
TCPL	TransCanada Pipelines
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma, for crude oil of standard grade
000s	thousands
$000s	thousands of dollars

NON-GAAP MEASURES

This MD&A uses "adjusted funds flow", "adjusted funds flow per common share", "operating netback", "estimated operating netback", "operating margin", "total cash costs", "adjusted working capital deficit" 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.

"Adjusted funds flow" denotes cash flow from operating activities before the effects of decommissioning expenditures and changes in non-cash working capital and "adjusted funds flow per common share" denotes adjusted funds flow divided by the basic or diluted weighted average number of common shares outstanding for the period. The Corporation eliminates changes in non-cash working capital and settlements of decommissioning expenditures from cash flow from operating activities as the amounts can be discretionary and may vary from period-to-period depending on its capital programs and the maturity of its operating areas. The settlement of decommissioning expenditures are managed with Birchcliff's capital budgeting process which considers available adjusted funds flow. Management believes that adjusted funds flow and adjusted funds flow per common share assist management and investors in assessing Birchcliff's profitability, as well as its ability to generate the cash necessary to fund future growth through capital investments, decommission its assets, pay dividends and repay debt. Investors are cautioned that adjusted funds flow should not be construed as an alternative to or more meaningful than cash flow from operating activities or net income or loss as determined in accordance with GAAP as an indicator of Birchcliff's performance. Birchcliff previously referred to adjusted funds flow as "funds flow from operations". The following table provides a reconciliation of cash flow from operating activities, as determined in accordance with GAAP, to adjusted funds flow for the Reporting Periods and Comparable Prior Periods:

($000s)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Cash flow from operating activities	71,825	57,467	163,678	128,081
Add back:				
Change in non-cash working capital	469	31,075	(8,148)	27,790
Funds flow	72,294	88,542	155,530	155,871
Adjustments:				
Decommissioning expenditures	75	70	497	371
Adjusted funds flow	**72,369**	**88,612**	**156,027**	**156,242**

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

	Three months ended June 30,				Six months ended June 30,			
	2018		2017		2018		2017	
	($000s)	*($/boe)*(1)	*($000s)*	*($/boe)*(1)	*($000s)*	*($/boe)*(1)	*($000s)*	*($/boe)*(1)
Petroleum and natural gas revenue	150,561	21.69	146,597	24.92	310,092	22.45	279,305	24.43
Royalty expense	(10,632)	(1.53)	(4,711)	(0.80)	(20,443)	(1.48)	(15,677)	(1.37)
Operating expense	(23,319)	(3.36)	(27,453)	(4.67)	(49,252)	(3.57)	(56,403)	(4.93)
Transportation and other expense	(25,239)	(3.64)	(15,175)	(2.57)	(49,779)	(3.60)	(29,381)	(2.57)
Operating netback	**91,371**	**13.16**	**99,258**	**16.88**	**190,618**	**13.80**	**177,844**	**15.56**

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

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

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

"Adjusted working capital deficit" is calculated as current assets minus current liabilities excluding the effects of any financial instruments. Management believes that adjusted working capital deficit assists management and investors in assessing Birchcliff's liquidity. The following table reconciles working capital deficit (current assets minus current liabilities), as determined in accordance with GAAP, to adjusted working capital deficit for the Reporting Periods and Comparable Prior Periods:

As at, *($000s)*	June 30, 2018	December 31, 2017	June 30, 2017
Working capital deficit	58,502	15,113	60,254
Financial instrument – asset	5,037	-	11,829
Financial instrument – liability	(19,421)	(4,046)	-
Adjusted working capital deficit	**44,118**	**11,067**	**72,083**

"Total debt" is calculated as the revolving term credit facilities plus adjusted 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 GAAP, to total debt:

As at, *($000s)*	June 30, 2018	December 31, 2017	June 30, 2017
Revolving term credit facilities	617,291	587,126	628,401
Adjusted working capital deficit	44,118	11,067	72,083
Total debt	**661,409**	**598,193**	**700,484**

ADVISORIES

Unaudited Numbers

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

Boe and Mcfe Conversions

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

MMBtu Pricing Conversions

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

Oil and Gas Metrics

This MD&A contains metrics commonly used in the oil and natural gas industry, including operating netback. These oil and gas metrics do not have any standardized meanings or standard methods of calculation and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. As such, they should not be used to make comparisons. Management uses these oil and gas metrics for its own performance measurements and to provide shareholders with measures to compare Birchcliff's performance over time; however, such measures are not reliable indicators of Birchcliff's future performance and future performance may not compare to Birchcliff's performance in previous periods and therefore should not be unduly relied upon. For further information regarding netbacks, please see *"Non-GAAP Measures".*

Capital Expenditures

Unless otherwise stated, references in this MD&A to: (i) "net capital expenditures" and "capital expenditures, net" denote F&D costs (which includes land, seismic, workovers, drilling and completions and well equipment and facilities) plus administrative assets, plus acquisition costs, less any dispositions; and (ii) "total capital expenditures" denotes F&D costs plus administrative assets. Birchcliff's guidance regarding its 2018 Capital Program and 2018 capital expenditures has been presented on a total basis. Birchcliff makes acquisitions and dispositions in the ordinary course of business. Any acquisitions and dispositions completed during 2018 could have an impact on Birchcliff's capital expenditures, production, adjusted funds flow and costs for 2018, which impact could be material. Please also see *"Advisories – Forward-Looking Statements".*

Forward-Looking Statements

Certain statements contained in this MD&A constitute forward-looking statements and forward-looking information (collectively referred to as "**forward-looking statements**") within the meaning of applicable Canadian securities laws. The forward-looking statements contained in this MD&A relate to future events or Birchcliff's future plans, operations or performance and are based on Birchcliff's current expectations, estimates, projections, beliefs and assumptions. Such forward-looking statements have been made by Birchcliff in light of the information available to it at the time the statements were made and reflect its experience and perception of historical trends. All statements and information other than historical fact may be forward-looking statements. Such forward-looking statements are often, but not always, identified by the use of words such as "seek", "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "forecast", "potential", "proposed", "predict", "budget", "continue", "targeting", "may", "will", "could", "might", "should" and other similar words and expressions.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Accordingly, readers are cautioned not to place undue reliance on such forward-looking statements. Although Birchcliff believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct and Birchcliff makes no representation that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements.

In particular, this MD&A contains forward-looking statements relating to the following: Birchcliff's plans and other aspects of its anticipated future financial performance, operations, focus, objectives, strategies, opportunities, priorities and goals (including that Birchcliff's long-term plan is to continue the exploration and development of its low-cost natural gas, crude oil and liquids-rich assets on the Montney/Doig Resource Play and that Birchcliff is focused on protecting its balance sheet); Birchcliff's expectation that its total debt at year-end 2018 will be materially lower as compared to June 30, 2018; the performance and other characteristics of Birchcliff's oil and natural gas properties and expected results from its assets; Birchcliff's guidance regarding its 2018 Capital Program and its proposed exploration and development activities and the timing thereof (including its estimates of capital expenditures in 2018, planned capital expenditures and capital allocation, the focus of, the objectives of and the anticipated results from the 2018 Capital Program, Birchcliff's expectation that its 2018 adjusted funds flow will materially exceed its 2018 capital expenditures and that its 2018 capital expenditures will be less than its adjusted funds flow during 2018 and statements that the 2018 Capital Program has been designed with financial and operational flexibility with the potential to accelerate or decelerate capital expenditures throughout the year); Birchcliff's production and other guidance (including its estimates of its annual average production and commodity mix in 2018, its estimates of royalty, operating and transportation and other expenses in 2018 and its estimates of its natural gas production that is expected to be sold at or via AECO, Dawn and Alliance during 2018); Birchcliff's market diversification and hedging activities, strategies and use of risk management techniques (including that Birchcliff's current strategy is to hedge up to 50% of its estimated forecast annual average production using a combination of financial derivatives and physical sales contracts); the Corporation's estimated income tax pools and management's expectation that future taxable income will be available to utilize the accumulated tax pools; Birchcliff's marketing and transportation arrangements (including that additional tranches of service on TCPL's Canadian Mainline will become available later in 2018 and 2019); the Corporation's liquidity (including the Corporation's financial flexibility, the sources of funding for the Corporation's activities and capital requirements, that the Corporation generally relies on its adjusted funds flow and available credit under its existing credit facilities to fund its capital requirements, statements that the Corporation may from time to time seek additional capital in the form of debt and/or equity or dispose of non-core properties to fund its on-going capital expenditure programs and protect its balance sheet, management's belief that its adjusted funds flow during 2018 will be sufficient to fund the Corporation's 2018 Capital Program, statements that Birchcliff may adjust its on-going capital program, draw down on its Credit Facilities, seek additional equity financing and/or consider the potential sale of additional non-core assets to fund planned growth should commodity prices deteriorate materially and the Corporation's expectation that counterparties will be able to meet their financial obligations); statements that management of debt levels continues to be a priority for Birchcliff; estimates of Birchcliff's material contractual obligations and commitments; and statements regarding Birchcliff's decommissioning obligations.

With respect to the forward-looking statements contained in this MD&A, assumptions have been made regarding, among other things: prevailing and future commodity prices and differentials, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; the state of the economy, financial markets and the exploration, development and production business; the political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes and environmental laws; future cash flow, debt and dividend levels; future operating, transportation, marketing, general and administrative and other expenses; Birchcliff's ability to access capital and obtain financing on acceptable terms; the timing and amount of capital expenditures and the sources of funding for capital expenditures and other activities; the sufficiency of budgeted capital expenditures to carry out planned operations; the successful and timely implementation of capital projects; results of future operations;

Birchcliff's ability to continue to develop its assets and obtain the anticipated benefits therefrom; the performance of existing and future wells, well production rates and well decline rates; success rates for future drilling; reserves and resource volumes and Birchcliff's ability to replace and expand reserves through acquisition, development or exploration; the impact of competition on Birchcliff; the availability of, demand for and cost of labour, services and materials; the ability to obtain any necessary regulatory or other approvals in a timely manner; the satisfaction by third parties of their obligations to Birchcliff; the ability of Birchcliff to secure adequate transportation for its products; Birchcliff's ability to market oil and gas; the availability of hedges on terms acceptable to Birchcliff; and natural gas market exposure. In addition to the foregoing assumptions, Birchcliff has made the following assumptions with respect to certain forward-looking statements contained in this MD&A:

- Birchcliff's 2018 guidance (as updated August 14, 2018) assumes the following commodity prices during 2018: an average WTI oil price of US$66.67/bbl; an average AECO price of $1.63/MMBtu; an average Dawn price of $3.70/MMBtu; and an average wellhead natural gas price of $2.41/Mcf.
- With respect to statements regarding the 2018 Capital Program (including estimates of 2018 capital expenditures, statements that its 2018 adjusted funds flow is expected to materially exceed its 2018 capital expenditures and that its 2018 capital expenditures will be less than its adjusted funds flow during 2018 and statements that its adjusted funds flow during 2018 will be sufficient to fund the 2018 Capital Program), such statements are based on the following assumptions:
    - Estimates of 2018 capital expenditures and the allocation of capital expenditures assume that the 2018 Capital Program will be carried out as currently contemplated. Please also see "*Advisories – Capital Expenditures"*.
    - Statements that Birchcliff's adjusted funds flow during 2018 will be sufficient to fund the 2018 Capital Program, that its 2018 adjusted funds flow is expected to materially exceed its 2018 capital expenditures and that its 2018 capital expenditures will be less than its adjusted funds flow during 2018 assume that: the 2018 Capital Program will be carried out as currently contemplated; and the production targets, commodity mix, natural gas market exposure and commodity price assumptions set forth herein are met.

  The amount and allocation of capital expenditures for exploration and development activities by area and the number and types of wells to be drilled is dependent upon results achieved and is subject to review and modification by management on an ongoing basis throughout the year. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials. Birchcliff will monitor economic conditions and commodity prices and, where deemed prudent, will adjust the 2018 Capital Program to respond to changes in commodity prices and other material changes in the assumptions underlying the 2018 Capital Program. In addition, any acquisitions and dispositions completed during 2018 could have an impact on Birchcliff's capital expenditures, production, adjusted funds flow and costs for 2018, which impact could be material.
- With respect to statements that Birchcliff expects that its total debt at year-end 2018 will be materially lower as compared to 2018, such statements assume that: the 2018 Capital Program will be carried out as currently contemplated; and the production targets, commodity mix, natural gas market exposure and commodity price assumptions set forth herein are met.
- With respect to Birchcliff's production guidance, such guidance assumes that: Birchcliff's capital expenditure 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. In addition, Birchcliff's production guidance may be affected by acquisition and disposition activity and acquisitions and dispositions could occur that may impact expected production.

Birchcliff's actual results, performance or achievements could differ materially from those anticipated in the forward-looking statements as a result of both known and unknown risks and uncertainties 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; stock market volatility; loss of market demand; an inability to access sufficient capital from internal and external sources; fluctuations in the costs of borrowing; operational risks and liabilities inherent in oil and natural gas operations; the occurrence of unexpected events such as fires, equipment failures and other similar events affecting Birchcliff or other parties whose operations or assets directly or indirectly affect Birchcliff; uncertainty that development activities in connection with its assets will be economical; uncertainties associated with estimating oil and natural gas reserves and resources; the accuracy of oil and natural gas reserves estimates and estimated production levels; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; horizontal drilling and completions techniques and the failure of drilling results to meet expectations for reserves or production; uncertainties related to Birchcliff's future potential drilling locations; potential delays or changes in plans with respect to exploration or development projects or capital expenditures, including delays in the completion of Birchcliff's gas plants and other facilities; the accuracy of cost estimates and variances in Birchcliff's actual costs and economic returns from those anticipated; incorrect assessments of the value of acquisitions and exploration and development programs; changes in tax laws, Crown royalty rates, environmental laws, carbon tax regimes, incentive programs and other regulations that affect the oil and natural gas industry and other actions by government authorities; 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 inability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements or other agreements; shortages in equipment and skilled personnel; the absence or loss of key employees; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; management of Birchcliff's growth; environmental risks, claims and liabilities; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainties associated with credit facilities and counterparty credit risk; non-performance or default by counterparties; risks associated with Birchcliff's hedging program and the risk that hedges on terms acceptable to Birchcliff may not be available; risks associated with the declaration and payment of dividends, including the discretion of Birchcliff's board of directors to declare dividends; the failure to obtain any required approvals in a timely manner or at all; the failure to realize the anticipated benefits of acquisitions and dispositions and unforeseen difficulties in integrating acquired assets into Birchcliff's operations; negative public perception of the oil and natural gas industry, including transportation, hydraulic fracturing and fossil fuels; and the availability of insurance and the risk that certain losses may not be insured.

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

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

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

The forward-looking statements contained in this MD&A are expressly qualified by the foregoing cautionary statements. The forward-looking statements contained in this MD&A are made as of the date of this MD&A. Unless required by applicable laws, Birchcliff does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF FINANCIAL POSITION

Unaudited (Expressed in thousands of Canadian dollars)

As at,	**June 30, 2018**	**December 31, 2017**
ASSETS		
Current assets:		
Cash	53	48
Accounts receivable	51,990	69,302
Prepaid expenses and deposits	7,892	2,622
Financial instruments *(Note 12)*	5,037	-
	64,972	71,972
Non-current assets:		
Petroleum and natural gas properties and equipment *(Note 4)*	2,635,202	2,545,131
Financial instruments *(Note 12)*	4,798	-
Investment in securities *(Note 5)*	10,005	10,005
	2,650,005	2,555,136
Total assets	**2,714,977**	**2,627,108**
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	104,053	83,039
Financial instruments *(Note 12)*	19,421	4,046
	123,474	87,085
Non-current liabilities:		
Revolving term credit facilities *(Note 6)*	617,291	587,126
Financial instruments *(Note 12)*	338	-
Decommissioning obligations *(Note 7)*	126,389	124,825
Deferred income taxes	91,141	82,694
Capital securities	49,381	49,225
	884,540	843,870
Total liabilities	**1,008,014**	**930,955**
SHAREHOLDERS' EQUITY		
Share capital *(Note 8)*		
Common shares	1,477,967	1,477,750
Preferred shares *(perpetual)*	41,434	41,434
Contributed surplus	73,375	69,959
Retained earnings	114,187	107,010
	1,706,963	1,696,153
Total shareholders' equity and liabilities	**2,714,977**	**2,627,108**

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

Approved by the Board

(signed) "*Dennis A. Dawson*"
Dennis A. Dawson
Lead Independent Director

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
REVENUE				
Petroleum and natural gas sales *(Note 9)*	150,561	146,597	310,092	279,305
Royalties	(10,632)	(4,711)	(20,443)	(15,677)
Net revenue from oil and natural gas sales	139,929	141,886	289,649	263,628
Other income *(Note 5)*	197	-	399	-
Realized gain (loss) on financial instruments *(Note 12)*	(6,462)	2,484	(9,581)	4,895
Unrealized gain (loss) on financial instruments *(Note 12)*	2,520	4,711	(5,878)	21,263
	136,184	149,081	274,589	289,786
EXPENSES				
Operating	23,319	27,453	49,252	56,403
Transportation and other	25,239	15,175	49,779	29,381
Administrative, net	6,771	7,257	13,629	13,864
Depletion and depreciation *(Note 4)*	52,740	43,603	103,609	85,740
Finance	7,836	8,068	15,663	16,743
Dividends on capital securities *(Note 8)*	875	875	1,750	1,750
Loss on sale of assets *(Note 4)*	8,361	21,030	8,361	18,550
	125,141	123,461	242,043	222,431
Net income before taxes	11,043	25,620	32,546	67,355
Income tax expense	(3,606)	(7,605)	(9,984)	(19,412)
NET INCOME AND COMPREHENSIVE INCOME	**7,437**	**18,015**	**22,562**	**47,943**
Net income per common share *(Note 8)*				
Basic	$0.02	$0.06	$0.08	$0.17
Diluted	$0.02	$0.06	$0.08	$0.17

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, 2016	1,464,567	41,434	63,847	184,559	1,754,407
Dividends on common shares	-	-	-	(13,239)	(13,239)
Dividends on perpetual preferred shares	-	-	-	(2,000)	(2,000)
Exercise of stock options	11,390	-	(3,370)	-	8,020
Stock-based compensation	-	-	4,217	-	4,217
Net income and comprehensive income	-	-	-	47,943	47,943
As at June 30, 2017	1,475,957	41,434	64,694	217,263	1,799,348
As at December 31, 2017	1,477,750	41,434	69,959	107,010	1,696,153
Dividends on common shares *(Note 8)*	-	-	-	(13,291)	(13,291)
Dividends on perpetual preferred shares *(Note 8)*	-	-	-	(2,094)	(2,094)
Exercise of stock options *(Note 10)*	217	-	(55)	-	162
Stock-based compensation *(Note 10)*	-	-	3,471	-	3,471
Net income and comprehensive income	-	-	-	22,562	22,562
As at June 30, 2018	**1,477,967**	**41,434**	**73,375**	**114,187**	**1,706,963**

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 June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
Cash provided by (used in):				
OPERATING				
Net income and comprehensive income	7,437	18,015	22,562	47,943
Adjustments for items not affecting operating cash:				
Unrealized (gain) loss on financial instruments	(2,520)	(4,711)	5,878	(21,263)
Depletion and depreciation	52,740	43,603	103,609	85,740
Stock-based compensation	692	971	1,510	1,725
Finance	7,836	8,068	15,663	16,743
Loss on sale of assets	8,361	21,030	8,361	18,550
Income taxes expense	3,606	7,605	9,984	19,412
Interest paid	(6,658)	(6,844)	(13,290)	(14,358)
Dividends on capital securities	875	875	1,750	1,750
Decommissioning expenditures	(75)	(70)	(497)	(371)
Changes in non-cash working capital	(469)	(31,075)	8,148	(27,790)
	71,825	57,467	163,678	128,081
FINANCING				
Exercise of stock options	133	5,671	162	8,020
Financing fees paid on credit facilities	(950)	(2,375)	(950)	(2,375)
Dividends on common shares	(6,646)	(6,635)	(13,291)	(13,239)
Dividends on perpetual preferred shares	(1,047)	(1,000)	(2,094)	(2,000)
Dividends on capital securities	(875)	(875)	(1,750)	(1,750)
Net change in revolving term credit facilities	44,001	51,521	30,486	57,705
	34,616	46,307	12,563	46,361
INVESTING				
Petroleum and natural gas properties and equipment	(70,133)	(130,933)	(203,277)	(260,813)
Acquisition of petroleum and natural gas properties and equipment	(1,515)	-	(1,515)	-
Sale of petroleum and natural gas properties and equipment	5,184	10,151	5,184	15,493
Changes in non-cash working capital	(39,972)	16,974	23,372	70,844
	(106,436)	(103,808)	(176,236)	(174,476)
Net change in cash	5	(34)	5	(34)
Cash, beginning of period	48	47	48	47
CASH, END OF PERIOD	**53**	**13**	**53**	**13**

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

BIRCHCLIFF ENERGY LTD.
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018

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

1. NATURE OF OPERATIONS

Birchcliff Energy Ltd. (“**Birchcliff**” or the “**Corporation**”) is domiciled and incorporated in Alberta, Canada. Birchcliff is engaged in the exploration for and the development, production and acquisition of petroleum and natural gas reserves in Western Canada. The Corporation’s financial year end is December 31. The address of the Corporation’s registered office is Suite 1000, 600 – 3rd Avenue S.W., Calgary, Alberta, Canada T2P 0G5. Birchcliff’s common shares, Series A Preferred Shares and Series C Preferred Shares are listed for trading on the Toronto Stock Exchange under the symbols “**BIR**”, “**BIR.PR.A**” and “**BIR.PR.C**”, respectively.

These financial statements were approved and authorized for issuance by the Board of Directors on August 14, 2018.

2. BASIS OF PREPARATION

These unaudited interim condensed financial statements present Birchcliff’s financial results of operations and financial position under International Financial Reporting Standards (“**IFRS**”) as at and for the three and six months ended June 30, 2018, including the 2017 comparative periods. The financial statements have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 Interim Financial Reporting, as issued by the International Accounting Standards Board (“**IASB**”).

These financial statements have been prepared following the same IFRS accounting policies and methods of computation as disclosed in the annual audited financial statements for the year ended December 31, 2017, except as described in Note 3. 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, 2017.

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

3. CHANGES IN ACCOUNTING POLICIES

Accounting Pronouncements Adopted

On January 1, 2018, Birchcliff adopted IFRS 15: *Revenue from Contracts with Customers* ("**IFRS 15**") using the cumulative effect method. Under this method, the comparative periods have not been restated and the cumulative effect on net earnings and the change in opening retained earnings as a result of the application of IFRS 15 to revenue contracts in progress at January 1, 2018 is nil. The Corporation reviewed its revenue streams and major contracts with customers using the IFRS 15 five step model and there were no changes to net earnings or timing of petroleum and natural gas sales recognized. It should be noted, however, that certain Income Statement line item reclassifications were made. Refer to Note 9 for more information, including additional disclosure requirements.

On January 1, 2018, Birchcliff adopted IFRS 9: *Financial Instruments* ("**IFRS 9**") to replace IAS 39: *Financial Instruments: Recognition and Measurement* ("**IAS 39**"). IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss. The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 bases the classification of financial assets on the contractual cash flow characteristics and the company's business model for managing the financial asset. Additionally, embedded derivatives are not separated if the host contract is a financial asset within the scope of IFRS 9. Instead, the entire hybrid contract is assessed for classification and measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The adoption of IFRS 9 has resulted in changes to the Corporation's investment in securities which, upon adoption of IFRS 9, are measured at fair value through profit or loss. Under the previous IAS 39 standard, Birchcliff's investment in securities were categorized as available for sale which required the securities to be fair valued at the end of each reporting period with any gains or losses recognized in other comprehensive income. There were no changes to the treatment of distributions declared on the investment in securities which are recorded to profit or loss. The adoption of IFRS 9 had no impact on the amounts recorded in the financial statements as at January 1, 2018 or on the comparative periods.

Future Accounting Pronouncements

In January 2016, the IASB issued IFRS 16: *Leases* ("**IFRS 16**"). The standard will be effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided IFRS 15 has been applied, or is applied at the same date as IFRS 16. Birchcliff is currently evaluating the impact of adopting IFRS 16 on the financial statements.

4. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

The continuity for petroleum and natural gas properties and equipment are as follows:

($000s)	Exploration & Evaluation Assets	Developed & Producing Assets	Corporate Assets	Total
Cost:				
As at December 31, 2016	53	3,376,236	13,950	3,390,239
Additions	28	455,894	1,774	457,696
Acquisitions	-	999	-	999
Dispositions	-	(542,027)	-	(542,027)
As at December 31, 2017	81	3,291,102	15,724	3,306,907
Additions	-	207,182	929	208,111
Acquisitions	-	2,148	-	2,148
Dispositions(1)	-	(53,308)	-	(53,308)
As at June 30, 2018(2)	81	3,447,124	16,653	3,463,858
Accumulated depletion and depreciation:				
As at December 31, 2016	-	(735,221)	(9,181)	(744,402)
Depletion and depreciation expense	-	(183,831)	(1,835)	(185,666)
Dispositions	-	168,292	-	168,292
As at December 31, 2017	-	(750,760)	(11,016)	(761,776)
Depletion and depreciation expense	-	(102,639)	(970)	(103,609)
Dispositions(1)	-	36,729	-	36,729
As at June 30, 2018	-	(816,670)	(11,986)	(828,656)
Net book value:				
As at December 31, 2017	81	2,540,342	4,708	2,545,131
As at June 30, 2018(3)	**81**	**2,630,454**	**4,667**	**2,635,202**

(1) Consists mainly of two asset dispositions with a combined net book value of $16.6 million for total consideration of $5.3 million.

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

(3) Birchcliff performed an impairment assessment of its P&NG assets on a CGU basis and determined there were no impairment indicators identified at the end of the reporting period and the comparative prior period. As a result, no impairment test was required as at June 30, 2018 or June 30, 2017.

5. INVESTMENT IN SECURITIES

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

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

Payment of the redemption price by the Trust is limited to a maximum cash amount of $10,000 per month (or a greater amount, if the trustees of the Trust so decide) and any portion of the redemption price in excess of such cash amount (the "**Balance**") will be repaid through the Trust's issuance of a redemption note or an *in specie* distribution of the Trust's property. If the Preferred Trust Units are redeemed by Birchcliff before the Fifth

Anniversary Date, the Balance is paid by the Trust through the issuance of redemption notes due and payable prior to the sixth anniversary of the Issuance Date, being August 31, 2023. If the Preferred Trust Units are redeemed by Birchcliff after the Fifth Anniversary Date, the Balance is paid by the Trust through the issuance of redemption notes due and payable within less than a year of the date the redemption notes are issued.

The Securities had a fair value of $10 million as of June 30, 2018. During the first six months of 2018, Birchcliff recorded $0.4 million in dividend distributions in respect of the Securities that are included in other income.

6. REVOLVING TERM CREDIT FACILITIES

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

As at, *($000s)*	**June 30, 2018**	**December 31, 2017**
Syndicated credit facility	585,000	578,000
Working capital facility	36,954	16,823
Drawn revolving term credit facilities	621,954	594,823
Unamortized prepaid interest on bankers' acceptances	(1,536)	(4,891)
Unamortized deferred financing fees	(3,127)	(2,806)
Revolving term credit facilities	**617,291**	**587,126**

At June 30, 2018, the Corporation's credit facilities consisted of extendible revolving credit facilities in the aggregate principal amount of $950 million with maturity dates of May 11, 2021 (the "**Credit Facilities**"). At June 30, 2018, the Credit Facilities were comprised of: (i) an extendible revolving syndicated term credit facility (the "**Syndicated Credit Facility**") of $850 million; and (ii) an extendible revolving working capital facility (the "**Working Capital Facility**") of $100 million.

The Credit Facilities are subject to a semi-annual review of the borrowing base limit by Birchcliff's syndicate of lenders, which limit is directly impacted by the value of Birchcliff's oil and natural gas reserves. In addition, pursuant to the terms of the credit agreement governing the Credit Facilities, the borrowing base of the Credit Facilities may be adjusted in certain other circumstances. Upon any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall, Birchcliff must eliminate the borrowing base shortfall amount. Birchcliff may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made. In connection with the most recently completed semi-annual review of the Corporation's borrowing base limit under its credit facilities, the Corporation and the lenders agreed to the borrowing base remaining unchanged at $950 million.

7. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is set forth below:

As at, *($000s)*	**June 30, 2018**	**December 31, 2017**
Balance, beginning	124,825	133,470
Obligations incurred	2,788	8,468
Obligations acquired	633	626
Obligations divested	(2,948)	(45,902)
Changes in estimated future cash flows	-	25,902
Accretion expense	1,588	3,055
Actual expenditures	(497)	(794)
Balance, ending[(1)]	**126,389**	**124,825**

(1) Birchcliff applied a risk-free rate of 2.362% and an inflation rate of 2.0% to calculate the discounted fair value of its decommissioning liabilities as at June 30, 2018 and December 31, 2017.

8. CAPITAL STOCK

Share Capital

(a) Authorized:

Unlimited number of voting common shares, with no par value.

Unlimited number of preferred shares, with no par value.

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

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

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

As at, *(000s)*	**June 30, 2018**	**December 31, 2017**
Common Shares:		
Outstanding at beginning of period	265,797	264,042
Exercise of stock options	48	1,755
Outstanding at end of period[(1)]	265,845	265,797
Series A Preferred Shares (perpetual):		
Outstanding at beginning of period	2,000	2,000
Outstanding at end of period	2,000	2,000

(1) On November 15, 2017, Birchcliff announced that the TSX had accepted the Corporation's notice of intention to make a normal course issuer bid (the "**NCIB**"). Pursuant to the NCIB, Birchcliff may purchase up to 20,121,747 of its outstanding common shares. The total number of Common Shares that Birchcliff is permitted to purchase is subject to a daily purchase limit of 280,426 common shares; provided, however, that the Corporation may make one block purchase per calendar week which exceeds the daily purchase restriction. The NCIB commenced on November 20, 2017 and will terminate on November 19, 2018, or such earlier time as the NCIB is completed or is terminated at the option of Birchcliff. Purchases under the NCIB will be effected through the facilities of the TSX and/or Canadian alternative trading systems at the prevailing market price at the time of such transaction. All common shares purchased under the NCIB will be cancelled. Birchcliff did not purchase any common shares pursuant to the NCIB in 2017 or in the first half of 2018.

Capital Securities

The Corporation has outstanding 2,000,000 Series C Preferred Shares at June 30, 2018 (December 31, 2017 – 2,000,000).

Dividends

The following table sets forth the dividend distributions by the Corporation for each class of shares:

	Three months ended June 30,		**Six months ended June 30,**	
	2018	**2017**	**2018**	**2017**
Common shares:				
Dividend distribution *($000s)*	6,646	6,635	13,291	13,239
Per common share *($)*	0.0250	0.0250	0.0250	0.0250
Preferred shares - Series A:				
Series A dividend distribution *($000s)*	1,047	1,000	2,094	2,000
Per Series A preferred share *($)*	0.5234	0.5000	0.5234	0.5000
Preferred shares - Series C:				
Series C dividend distribution *($000s)*	875	875	1,750	1,750
Per Series C preferred share *($)*	0.4375	0.4375	0.4375	0.4375

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

Per Common Share

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income *($000s)*	7,437	18,015	22,562	47,943
Dividends on Series A preferred shares *($000s)*	(1,047)	(1,000)	(2,094)	(2,000)
Net income to common shareholders *($000s)*	6,390	17,015	20,468	45,943
Weighted average common shares (000s):				
Weighted average basic common shares outstanding	265,820	265,326	265,809	264,716
Effects of dilutive securities	1,953	2,877	984	3,349
Weighted average diluted common shares outstanding[(1)]	267,773	268,203	266,793	268,065
Net income per common share:				
Basic	$0.02	$0.06	$0.08	$0.17
Diluted	$0.02	$0.06	$0.08	$0.17

(1) The weighted average diluted common shares outstanding as of June 30, 2018 excludes 14,141,401 common shares issuable pursuant to outstanding stock options that are anti-dilutive in the six month reporting period (June 30, 2017 – 13,117,175).

9. PETROLEUM AND NATURAL GAS SALES

The following table sets forth Birchcliff's petroleum and natural gas ("**P&NG**") sales:

	Three months ended June 30,		Six months ended June 30,	
($000s)	2018	2017	2018	2017
Light oil sales	40,533	39,125	67,309	68,946
Natural gas sales	66,619	84,681	159,193	165,132
NGLs sales	43,378	22,678	83,517	45,031
Total P&NG sales[(1)]	150,530	146,484	310,019	279,109
Royalty income	31	113	73	196
Total P&NG sales	**150,561**	**146,597**	**310,092**	**279,305**

(1) Excludes the effects of hedges using financial instruments but includes the effects of any fixed price physical delivery contracts outstanding during the period, if any.

Revenue from the sale of crude oil, natural gas and natural gas liquids ("**NGLs**") is measured based on the consideration specified in contracts with marketers and other third parties. Birchcliff recognizes revenue when it transfers control of the product to the contract counterparty. In making this evaluation, management considers if Birchcliff has the ability to direct the use of, and obtain substantially all of the remaining benefits from the delivery of the product.

Birchcliff evaluates its arrangements with marketers and other third parties to determine if the Corporation acts as the principal or as an agent. In making this evaluation, the Corporation considers if it obtains control of the product delivered or services provided, which is indicated by the Corporation having the primary responsibility for the delivery of the product or rendering of the service, having the ability to establish prices or having inventory risk. If the Corporation acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Corporation from the transaction.

10. SHARE-BASED PAYMENTS

Stock Options

At June 30, 2018, the Corporation's Amended and Restated Stock Option Plan (the "**Option Plan**") permitted the grant of options in respect of a maximum of 26,584,503 (June 30, 2017 – 26,541,663) common shares. At June 30, 2018, there remained available for issuance options in respect of 10,115,934 (June 30, 2017 – 10,437,087) common shares. During the three months ended June 30, 2018, the weighted average common share trading price on the Toronto Stock Exchange was $4.40 (June 30, 2017 – $6.60) per common share.

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

	Three months ended June 30, 2018		Six months ended June 30, 2018	
	Number	Weighted Average Exercise Price *($)*	Number	Weighted Average Exercise Price *($)*
Outstanding, beginning of period	16,947,072	5.88	14,158,107	6.88
Granted[(1)]	56,000	4.24	4,386,900	3.11
Exercised	(39,666)	(3.35)	(48,332)	(3.35)
Forfeited	(230,835)	(5.79)	(297,837)	(6.07)
Expired	(264,002)	(8.47)	(1,730,269)	(7.47)
Outstanding, June 30, 2018	**16,468,569**	**5.84**	**16,468,569**	**5.84**

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

The weighted average fair value per option granted during the three months ended June 30, 2018 was $1.46 (June 30, 2017 – $2.41). In determining the stock-based compensation expense for options issued during the three months ended June 30, 2018, the Corporation applied a weighted average estimated forfeiture rate of 10% (June 30, 2017 – 11%).

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

Three months ended,	**June 30, 2018**	**June 30, 2017**
Risk-free interest rate	2.0%	0.9%
Expected life *(years)*	4.1	4.1
Expected volatility	50.3%	49.1%
Dividend yield	2.4%	1.4%

A summary of the stock options outstanding and exercisable under the Option Plan at June 30, 2018 is set forth below:

Exercise Price *($)*		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price *($)*	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price *($)*
3.07	6.00	6,894,068	3.90	3.27	1,615,178	2.56	3.44
6.01	9.00	9,451,501	2.22	7.65	6,540,203	1.60	7.59
9.01	11.86	123,000	1.55	10.07	100,333	1.12	10.28
		16,468,569	**2.92**	**5.84**	**8,255,714**	**1.78**	**6.81**

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 June 30, 2018 (June 30, 2017 – 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.

11. 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 June 30, 2018.

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

As at, *($000s)*	June 30, 2018	December 31, 2017
Maximum borrowing base limit[(1)]:		
Revolving term credit facilities	950,000	950,000
Principal amount utilized:		
Drawn revolving term credit facilities	(621,954)	(594,823)
Outstanding letters of credit[(2)]	(42,185)	(12,184)
	(664,139)	(607,007)
Unused credit	**285,861**	**342,993**

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

(2) Letters of credit are issued to various service providers. The letters of credit reduced the amount available under the Working Capital Facility from $100 million to approximately $58 million. There were no amounts drawn on the letters of credit during the three months ended June 30, 2018 and 2017.

The capital structure of the Corporation is as follows:

As at, *($000s)*	June 30, 2018	December 31, 2017	% Change
Shareholders' equity[(1)]	1,706,963	1,696,153	
Capital securities	49,381	49,225	
Shareholders' equity & capital securities	1,756,344	1,745,378	1%
Shareholders' equity & capital securities as a % of total capital[(2)]	73%	74%	
Working capital deficit[(3)]	44,118	11,067	
Drawn revolving term credit facilities	621,954	594,823	
Drawn debt	666,072	605,890	10%
Drawn debt as a % of total capital	27%	26%	
Capital	**2,422,416**	**2,351,268**	**3%**

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

(2) Of the 73%, approximately 68% relates to common capital stock and 5% relates to preferred capital stock.

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

12. FINANCIAL RISK MANAGEMENT

Birchcliff is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and periodically reviews the results of all risk management activities and all outstanding positions. Birchcliff's exposure to credit risk, liquidity risk and market risk are consistent with those disclosed in the annual audited financial statements for the year ended December 31, 2017.

Financial Derivative Contracts

As of June 30, 2018, Birchcliff had certain financial derivative contracts outstanding in order to manage commodity price risk. These instruments are not used for trading or speculative purposes. Birchcliff has not designated its financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity contracts to be effective economic hedges. As a result, all such financial derivative contracts are recorded on the statement of financial position at fair value, with the changes in fair value being recognized as an unrealized gain or loss in profit or loss.

As at June 30, 2018, Birchcliff had the following financial derivative contracts in place in order to manage commodity price risk:

Product	Type of Contract	Notional Quantity	Term(1)	Contract Price/Floating Price
Crude oil	Financial swap	1,500 bbls/d	Jul. 1, 2018 – Dec. 31, 2018	WTI CDN$71.85/bbl
Crude oil	Financial swap	3,000 bbls/d	Jul. 1, 2018 – Dec. 31, 2018	WTI CDN$71.88/bbl
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Mar. 31, 2019	WTI CDN$77.00/bbl
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Mar. 31, 2019	WTI CDN$77.00/bbl
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Jun. 30, 2019	WTI CDN$78.00/bbl
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Jun. 30, 2019	WTI CDN$80.25/bbl
Natural gas	AECO basis swap	30,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2023	NYMEX Henry Hub less US$1.30/MMBtu
Natural gas	AECO basis swap	10,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2023	NYMEX Henry Hub less US$1.32/MMBtu
Natural gas	AECO basis swap	30,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2023	NYMEX Henry Hub less US$1.33/MMBtu
Natural gas	AECO basis swap	15,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2024	NYMEX Henry Hub less US$1.185/MMBtu
Natural gas	AECO basis swap	5,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2024	NYMEX Henry Hub less US$1.20/MMBtu
Natural gas	AECO basis swap	5,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2024	NYMEX Henry Hub less US$1.20/MMBtu

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

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

	Three months ended June 30,		Six months ended June 30,	
($000s)	**2018**	**2017**	**2018**	**2017**
Realized gain (loss) on derivatives	(6,462)	2,484	(9,581)	4,895
Unrealized gain (loss) on derivatives	2,520	4,711	(5,878)	21,263

As of June 30, 2018, if the future strip prices for WTI crude oil had been CDN$1.00/bbl higher, with all other variables held constant, after tax net income in the six month Reporting Period would have decreased by $0.9 million. As of June 30, 2018, if the future strip prices for AECO was US$0.10/MMBtu higher, with all other variables held constant, after tax net income in the six month Reporting Period would have decreased by $26.7 million.

There were no financial derivative contracts entered into subsequent to June 30, 2018.

Physical Delivery Sales Contracts

Birchcliff also enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value through profit or loss. At June 30, 2018, the Corporation had the following physical sales contract in place:

Product	Type of Contract	Quantity	Term(1)	Floating Price(2)
Natural Gas	AECO basis swap	5,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2023	Henry Hub less US$1.205/MMBtu

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

(2) Natural gas prices referenced to NYMEX Henry Hub.

There were no physical delivery sales contracts entered into subsequent to June 30, 2018.

ABBREVIATIONS

AECO	benchmark price for natural gas determined at the AECO ‘C’ hub in southeast Alberta
bbl	barrel
bbls	barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day
C4+	butanes plus
CGR	condensate gas ratio
F&D	finding and development
G&A	general and administrative
GAAP	generally accepted accounting principles for Canadian public companies which are currently International Financial Reporting Standards as issued by the International Accounting Standards Board
GJ	gigajoule
GJ/d	gigajoules per day
HZ	horizontal
m3	cubic metres
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mcfe	thousand cubic feet of gas equivalent
MJ	megajoule
MM$	millions of dollars
MMBtu	million British thermal units
MMBtu/d	million British thermal units per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
MPa	megapascal
NGLs	natural gas liquids
NGTL	NOVA Gas Transmission Ltd.
NYMEX	New York Mercantile Exchange
TCPL	TransCanada PipeLines
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma, for crude oil of standard grade
000s	thousands
$000s	thousands of dollars

NON-GAAP MEASURES

This Second Quarter Report uses “adjusted funds flow”, “adjusted funds flow per common share”, “operating netback”, “estimated operating netback”, “operating margin”, “total cash costs”, “adjusted working capital deficit” and “total debt”. These measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. For further details on these non-GAAP measures, please see *“Non-GAAP Measures”* in the management’s discussion and analysis for the three and six months ended June 30, 2018.

In addition, this Second Quarter Report uses “adjusted funds flow netback” which does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. “Adjusted funds flow netback” denotes petroleum and natural gas revenue less royalties, less operating expense, less transportation and other expense, less net general and administrative expense, less interest expense and less any realized losses (plus realized gains) on financial instruments and plus any other cash income sources. Birchcliff previously referred to adjusted funds flow netback as “funds flow netback”. Adjusted funds flow netback is calculated on a per unit basis, unless otherwise indicated. Management believes that adjusted funds flow netback assists management and investors in assessing Birchcliff’s profitability and its operating results on a per unit basis to better analyze its performance against prior periods on a comparable basis.

The following table provides a breakdown of Birchcliff's corporate adjusted funds flow netback for the periods indicated:

	Three months ended June 30,				Six months ended June 30,			
	2018		2017		2018		2017	
	($000s)	*($/boe)*(1)	*($000s)*	*($/boe)*(1)	*($000s)*	*($/boe)*(1)	*($000s)*	*($/boe)*(1)
Petroleum and natural gas revenue	150,561	21.69	146,597	24.92	310,092	22.45	279,305	24.43
Royalty expense	(10,632)	(1.53)	(4,711)	(0.80)	(20,443)	(1.48)	(15,677)	(1.37)
Operating expense	(23,319)	(3.36)	(27,453)	(4.67)	(49,252)	(3.57)	(56,403)	(4.93)
Transportation and other expense	(25,239)	(3.64)	(15,175)	(2.57)	(49,779)	(3.60)	(29,381)	(2.57)
General & administrative expense, net	(6,079)	(0.88)	(6,286)	(1.07)	(12,119)	(0.88)	(12,139)	(1.06)
Interest expense	(6,658)	(0.96)	(6,844)	(1.16)	(13,290)	(0.96)	(14,358)	(1.26)
Realized gain (loss) on financial instruments	(6,462)	(0.93)	2,484	0.42	(9,581)	(0.69)	4,895	0.43
Other income	197	0.03	-	-	399	0.03	-	-
Adjusted funds flow netback	**72,369**	**10.42**	**88,612**	**15.07**	**156,027**	**11.30**	**156,242**	**13.67**

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

ADVISORIES

Unaudited Information

All financial and operating information contained in this Second Quarter Report for the three and six months ended June 30, 2018 and 2017 is unaudited.

Currency

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

Boe and Mcfe Conversions

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

MMBtu Pricing Conversions

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

Oil and Gas Metrics

This Second Quarter Report contains metrics commonly used in the oil and natural gas industry, including netbacks. These oil and gas metrics do not have any standardized meanings or standard methods of calculation and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. As such, they should not be used to make comparisons. Management uses these oil and gas metrics for its own performance measurements and to provide shareholders with measures to compare Birchcliff's performance over time; however, such measures are not reliable indicators of Birchcliff's future performance and future performance may not compare to Birchcliff's performance in previous periods and therefore should not be unduly relied upon.

For further information regarding netbacks, please see *"Non-GAAP Measures"* in the management's discussion and analysis for the three and six months ended June 30, 2018 and in this Second Quarter Report.

Initial Production Rates

Any references in this Second Quarter Report to initial production rates (including IP30) and other short-term production rates are useful in confirming the presence of hydrocarbons; however, such rates are not determinative of the rates at which such wells will continue to produce and decline thereafter and are not necessarily indicative of the long-term performance or the ultimate recovery of such wells. While encouraging, readers are cautioned not to place undue reliance on such rates in calculating the aggregate production for Birchcliff. Such rates are based on field estimates and may be based on limited data available at this time.

Capital Expenditures

Unless otherwise stated, references in this Second Quarter Report to: (i) "net capital expenditures" and "capital expenditures, net" denote F&D costs (which includes land, seismic, workovers, drilling and completions and well equipment and facilities) plus administrative assets, plus acquisition costs, less any dispositions; and (ii) "total capital expenditures" denotes F&D costs plus administrative assets. Birchcliff's guidance regarding its 2018 Capital Program and 2018 capital expenditures has been presented on a total basis. Birchcliff makes acquisitions and dispositions in the ordinary course of business. Any acquisitions and dispositions completed during 2018 could have an impact on Birchcliff's capital expenditures, production, adjusted funds flow and costs for 2018, which impact could be material. Please also see "*Advisories – Forward-Looking Statements".*

Forward-Looking Statements

Certain statements contained in this Second Quarter Report constitute forward-looking statements and forward-looking information (collectively referred to as "**forward-looking statements**") within the meaning of applicable Canadian securities laws. The forward-looking statements contained in this Second Quarter Report relate to future events or Birchcliff's future plans, operations or performance and are based on Birchcliff's current expectations, estimates, projections, beliefs and assumptions. Such forward-looking statements have been made by Birchcliff in light of the information available to it at the time the statements were made and reflect its experience and perception of historical trends. All statements and information other than historical fact may be forward-looking statements. Such forward-looking statements are often, but not always, identified by the use of words such as "seek", "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "forecast", "potential", "proposed", "predict", "budget", "continue", "targeting", "may", "will", "could", "might", "should" and other similar words and expressions.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Accordingly, readers are cautioned not to place undue reliance on such forward-looking statements. Although Birchcliff believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct and Birchcliff makes no representation that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements.

In particular, this Second Quarter Report contains forward-looking statements relating to the following: Birchcliff's plans and other aspects of its anticipated future financial performance, operations, focus, objectives, strategies, opportunities, priorities and goals (including that Birchcliff is focused on its high-quality Montney/Doig Resource Play and the exploration and development of its low-cost natural gas, crude oil and liquids-rich assets on the play, that part of Birchcliff's long-term strategy is to continue to explore and delineate the Montney/Doig Resource Play and that Birchcliff is focused on protecting its balance sheet); Birchcliff's expectation that its total debt at year-end 2018 will be materially lower as compared to June 30, 2018 and statements that as new wells are brought on production throughout 2018, the cash flow from such wells is expected to be used to repay debt and to fund capital expenditures, as well as for general corporate purposes; Birchcliff's guidance regarding its 2018 Capital Program and its proposed exploration and development activities and the timing thereof (including its estimates of capital expenditures in 2018, planned capital expenditures and capital allocation, the focus of, the objectives of and the anticipated results from the 2018 Capital Program, the number and types of wells to be drilled and brought on production, Birchcliff's science and technology multi-well pad program and statements that its 2018 adjusted funds flow is expected to materially exceed its 2018 capital expenditures); statements regarding plans for facilities and the timing thereof (including statements regarding the re-configuring of Phases V and VI of the Pouce Coupe Gas Plant to provide for shallow-cut capability, statements that Birchcliff currently plans to divert some of its natural gas that is being processed by third-party processors to Phase VI which will help it to reduce its operating costs and Birchcliff's expectation that it will be able to fill excess capacity at the Pouce Coupe Gas Plant over time); statements regarding improving commodity prices; the performance and other characteristics of Birchcliff's oil and natural gas properties and expected results from its assets (including statements regarding the characteristics of Birchcliff's Montney/Doig Resource Play, statements regarding well performance, statements regarding the future potential or prospectivity of Birchcliff's properties and statements with respect to Birchcliff's confidence in the depth of the multi-interval drilling opportunities on the Montney/Doig Resource Play); statements regarding Birchcliff's Credit Facilities (including the timing of semi-annual reviews); Birchcliff's market diversification and hedging activities, strategies and use of risk management techniques (including statements that Birchcliff actively looks for profitable opportunities to diversify its natural gas markets and reduce its exposure to prices at AECO, statements that it maintains an ongoing hedging program and engages in various risk management activities to reduce its exposure to volatility in commodity prices, the percentages of its forecast 2018 production that is hedged, Birchcliff's expected 2019 natural gas market exposure and its expectation that during 2019 approximately 63% of its natural gas production will be sold at prices that are not based on AECO and that after taking into account Birchcliff's oil and NGLs production, approximately 29% of its total production in 2019 is expected to be exposed to AECO pricing, with the remaining 71% not exposed to AECO pricing); Birchcliff's expectation that details regarding its 2019 capital program and 2019 production guidance will be released no later than February 2019; Birchcliff's marketing and transportation arrangements (including that additional tranches of service on TCPL's Canadian Mainline will become available later in 2018 and 2019); and Birchcliff's production and other guidance (including its estimates of its annual average production and commodity mix in 2018, its estimates of royalty, operating and transportation and other expenses in 2018 and its estimates of its natural gas production that is expected to be sold at or via AECO, Dawn and Alliance during 2018). In addition, forward-looking statements in this Second Quarter Report include the forward-looking statements identified in the management's discussion and analysis for the three and six months ended June 30, 2018 under the heading *"Advisories – Forward-Looking Statements".*

With respect to the forward-looking statements contained in this Second Quarter Report, assumptions have been made regarding, among other things: prevailing and future commodity prices and differentials, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; the state of the economy, financial markets and the exploration, development and production business; the political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes and environmental laws; future cash flow, debt and dividend levels; future operating, transportation, marketing, G&A and other expenses; Birchcliff's ability to access capital and obtain financing on acceptable terms; the timing and amount of capital expenditures and the sources of funding for capital expenditures and other activities; the sufficiency of budgeted capital expenditures to carry out planned operations; the successful and timely implementation of capital projects; results of future operations; Birchcliff's ability to continue to develop its assets and obtain the anticipated benefits therefrom; the performance of existing and future wells, well production rates and well decline rates; success rates for future drilling; reserves and resource volumes and Birchcliff's ability to replace and expand reserves through acquisition, development or exploration; the impact of competition on Birchcliff; the availability of, demand for and cost of labour, services and materials; the ability to obtain any necessary regulatory or other approvals in a timely manner; the satisfaction by third parties of their obligations to Birchcliff; the ability of Birchcliff to secure adequate transportation for its products; Birchcliff's ability to market oil and gas; the availability of hedges on terms acceptable to Birchcliff; and natural gas market exposure. In addition to the foregoing assumptions, Birchcliff has made the following assumptions with respect to certain forward-looking statements contained in this Second Quarter Report:

- Birchcliff's 2018 guidance (as updated August 14, 2018) assumes the following commodity prices during 2018: an average WTI oil price of US$66.67/bbl; an average AECO price of $1.63/MMBtu; an average Dawn price of $3.70/MMBtu; and an average wellhead natural gas price of $2.41/Mcf.

- With respect to statements regarding the 2018 Capital Program (including estimates of 2018 capital expenditures and statements that Birchcliff's 2018 adjusted funds flow is expected to materially exceed its 2018 capital expenditures), such statements are based on the following assumptions:
  - Estimates of 2018 capital expenditures and the allocation of capital expenditures assume that the 2018 Capital Program will be carried out as currently contemplated. Please also see *"Advisories – Capital Expenditures"*.
  - Statements that Birchcliff's 2018 adjusted funds flow is expected to materially exceed its 2018 capital expenditures assume that: the 2018 Capital Program will be carried out as currently contemplated; and the production targets, commodity mix, natural gas market exposure and commodity price assumptions set forth herein are met.

  The amount and allocation of capital expenditures for exploration and development activities by area and the number and types of wells to be drilled is dependent upon results achieved and is subject to review and modification by management on an ongoing basis throughout the year. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials. Birchcliff will monitor economic conditions and commodity prices and, where deemed prudent, will adjust the 2018 Capital Program to respond to changes in commodity prices and other material changes in the assumptions underlying the 2018 Capital Program. In addition, any acquisitions and dispositions completed during 2018 could have an impact on Birchcliff's capital expenditures, production, adjusted funds flow and costs for 2018, which impact could be material.

- With respect to statements that Birchcliff expects that its total debt at year-end 2018 will be materially lower as compared to 2018, such statements assume that: the 2018 Capital Program will be carried out as currently contemplated; and the production targets, commodity mix, natural gas market exposure and commodity price assumptions set forth herein are met.
- With respect to Birchcliff's production guidance, such guidance assumes that: Birchcliff's capital expenditure 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. In addition, Birchcliff's production guidance may be affected by acquisition and disposition activity and acquisitions and dispositions could occur that may impact expected production.
- With respect to statements regarding the future potential and prospectivity of Birchcliff's properties, such statements assume: the continuing validity of the geological and other technical interpretations determined by Birchcliff's technical staff with respect to such properties; and that, over the long-term, commodity prices and general economic conditions will warrant proceeding with the exploration and development of such properties.

Birchcliff's actual results, performance or achievements could differ materially from those anticipated in the forward-looking statements as a result of both known and unknown risks and uncertainties 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; stock market volatility; loss of market demand; an inability to access sufficient capital from internal and external sources; fluctuations in the costs of borrowing; operational risks and liabilities inherent in oil and natural gas operations; the occurrence of unexpected events such as fires, equipment failures and other similar events affecting Birchcliff or other parties whose operations or assets directly or indirectly affect Birchcliff; uncertainty that development activities in connection with its assets will be economical; uncertainties associated with estimating oil and natural gas reserves and resources; the accuracy of oil and natural gas reserves estimates and estimated production levels; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; horizontal drilling and completions techniques and the failure of drilling results to meet expectations for reserves or production; uncertainties related to Birchcliff's future potential drilling locations; potential delays or changes in plans with respect to exploration or development projects or capital expenditures, including delays in the completion of Birchcliff's gas plants and other facilities; the accuracy of cost estimates and variances in Birchcliff's actual costs and economic returns from those anticipated; incorrect assessments of the value of acquisitions and exploration and development programs; changes in tax laws, Crown royalty rates, environmental laws, carbon tax regimes, incentive programs and other regulations that affect the oil and natural gas industry and other actions by government authorities; 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 inability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements or other agreements; shortages in equipment and skilled personnel; the absence or loss of key employees; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; management of Birchcliff's growth; environmental risks, claims and liabilities; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainties associated with credit facilities and counterparty credit risk; non-performance or default by counterparties; risks associated with Birchcliff's hedging program and the risk that hedges on terms acceptable to Birchcliff may not be available; risks associated with the declaration and payment of dividends, including the discretion of Birchcliff's board of directors to declare dividends; the failure to obtain any required approvals in a timely manner or at all; the failure to realize the anticipated benefits of acquisitions and dispositions and unforeseen difficulties in integrating acquired assets into Birchcliff's operations; negative public perception of the oil and natural gas industry, including transportation, hydraulic fracturing and fossil fuels; and the availability of insurance and the risk that certain losses may not be insured.

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

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

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

The forward-looking statements contained in this Second Quarter Report are expressly qualified by the foregoing cautionary statements. The forward-looking statements contained in this Second Quarter Report are made as of the date of this Second Quarter Report. Unless required by applicable laws, Birchcliff does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

CORPORATE INFORMATION

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A. Jeffery Tonken
President & Chief Executive Officer

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

Chris A. Carlsen
Vice-President, Engineering

Bruno P. Geremia
Vice-President & Chief Financial Officer

David M. Humphreys
Vice-President, Operations

DIRECTORS

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

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Lead Independent Director
Calgary, Alberta

Debra A. Gerlach
Independent Director
Calgary, Alberta

Rebecca J. Morley
Independent Director
Calgary, Alberta

James W. Surbey
Non-Independent Director
Calgary, Alberta

MANAGEMENT

Gates Aurigemma
Manager, General Accounting

Robyn Bourgeois
General Counsel & Corporate Secretary

Jesse Doenz
Controller & Investor Relations Manager

George Fukushima
Manager of Engineering

Andrew Fulford
Surface Land Manager

MANAGEMENT CONT'D

Paul Messer
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Tyler Murray
Mineral Land Manager

Bruce Palmer
Manager of Geology

Brian Ritchie
Asset Manager – Gordondale

Michelle Rodgerson
Manager of Human Resources & Corporate Services

Jeff Rogers
Facilities Manager

Randy Rousson
Drilling & Completions Manager

Vic Sandhawalia
Manager of Finance

Ryan Sloan
Health, Safety & Environment Manager

Duane Thompson
Production Manager

Hue Tran
Business Development Manager

Theo van der Werken
Asset Manager – Pouce Coupe

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AUDITORS

KPMG LLP, Chartered Professional Accountants
Calgary, Alberta

RESERVES EVALUATORS

Deloitte LLP
Calgary, Alberta

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

BANKERS

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HSBC Bank Canada
National Bank of Canada
Canadian Imperial Bank of Commerce
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