



**2021** ANNUAL REPORT

# TEAMWORK

**BIRCHCLIFF**  
ENERGY

## Overview

We set out this past year with a firm plan in mind, focusing on long-term success. Through execution of our plan, we're well-positioned for the future, minimizing risks and maximizing long-term gains.

Birchcliff Energy Ltd. ("**Birchcliff**") is a Calgary, Alberta based intermediate sized, low emissions intensity energy producer that explores for, develops and produces natural gas, light oil and natural gas liquids. In 2021, Birchcliff produced approximately 78,500 boe/d of natural gas, light oil and natural gas liquids. Birchcliff is focused on the Montney/Doig Resource Play in Alberta, which is considered by management to be one of the premier resource plays in North America. Birchcliff's operations are primarily concentrated in the Pouce Coupe and Gordondale areas of Alberta, where Birchcliff operates the vast majority of its production, owns large contiguous blocks of high working interest land and owns and/or controls its infrastructure. Birchcliff's common shares are listed on the TSX under the symbol BIR. Birchcliff's Series A and Series C Preferred Shares are listed for trading on the TSX under the symbols BIR.PR.A and BIR.PR.C, respectively.

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References to "Birchcliff", the "Corporation", "we", "our", "us" and "its" mean Birchcliff Energy Ltd. This report contains forward-looking statements within the meaning of applicable securities laws. For further information regarding the forward-looking statements contained herein, see "Advisories – Forward-Looking Statements" in this report. With respect to the disclosure of Birchcliff's production contained herein, see "Advisories – Production" in this report. In addition, this report uses various "non-GAAP financial measures", "non-GAAP ratios", "supplementary financial measures" and "capital management measures" as such terms are defined in National Instrument 52-112 – *Non-GAAP and Other Financial Measures Disclosure* ("**NI 52-112**"). Non-GAAP financial measures and non-GAAP ratios are not standardized financial measures under GAAP and might not be comparable to similar financial measures disclosed by other issuers where similar terminology is used. For further information regarding the non-GAAP and other financial measures used herein, see "Non-GAAP and Other Financial Measures" in this report.

## 2021 FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
<b>OPERATING</b>				
Average production				
Light oil (bbls/d)	2,604	3,566	2,899	4,415
Condensate (bbls/d)	5,330	6,658	5,715	5,824
NGLs (bbls/d)	7,570	8,285	7,705	7,650
Natural gas (Mcf/d)	379,275	360,839	373,217	351,068
<b>Total (boe/d)</b>	<b>78,716</b>	<b>78,649</b>	<b>78,520</b>	<b>76,401</b>
Average realized sales price (CDN\$) <sup>(1)(2)</sup>				
Light oil (per bbl)	92.79	49.56	79.24	42.39
Condensate (per bbl)	98.66	52.90	85.65	48.03
NGLs (per bbl)	38.24	16.16	30.54	13.62
Natural gas (per Mcf)	5.52	2.93	4.29	2.49
<b>Total (per boe)</b>	<b>40.02</b>	<b>21.87</b>	<b>32.53</b>	<b>18.90</b>
<b>NETBACK AND COST (\$/boe)<sup>(2)</sup></b>				
Petroleum and natural gas revenue <sup>(1)</sup>	40.02	21.88	32.53	18.90
Royalty expense	(3.93)	(0.90)	(2.66)	(0.65)
Operating expense	(3.50)	(3.03)	(3.19)	(2.95)
Transportation and other expense <sup>(3)</sup>	(5.06)	(4.94)	(5.18)	(4.93)
<b>Operating netback<sup>(3)</sup></b>	<b>27.53</b>	<b>13.01</b>	<b>21.50</b>	<b>10.37</b>
G&A expense, net	(1.45)	(1.11)	(0.99)	(0.88)
Interest expense	(0.72)	(1.20)	(1.00)	(0.93)
Realized gain (loss) on financial instruments	1.37	(1.63)	(0.75)	(2.13)
Other cash income	0.01	0.12	0.07	0.17
<b>Adjusted funds flow<sup>(3)</sup></b>	<b>26.74</b>	<b>9.19</b>	<b>18.83</b>	<b>6.60</b>
Depletion and depreciation expense	(7.44)	(7.49)	(7.42)	(7.60)
Unrealized gain (loss) on financial instruments	-	5.84	2.94	(1.27)
Other (expense) income <sup>(4)</sup>	(0.01)	0.30	0.03	(0.16)
Dividends on preferred shares	(0.23)	(0.26)	(0.24)	(0.27)
Income tax recovery (expense)	(4.41)	(2.00)	(3.31)	0.48
<b>Net income (loss) to common shareholders</b>	<b>14.65</b>	<b>5.58</b>	<b>10.83</b>	<b>(2.22)</b>
<b>FINANCIAL</b>				
Petroleum and natural gas revenue (\$000s) <sup>(1)</sup>	289,806	158,283	932,406	528,505
Cash flow from operating activities (\$000s)	196,142	71,431	515,369	188,180
Adjusted funds flow (\$000s) <sup>(5)</sup>	193,649	66,509	539,733	184,526
Per basic common share (\$) <sup>(3)</sup>	0.73	0.25	2.03	0.69
Net income (loss) to common shareholders (\$000s)	106,102	40,407	310,489	(62,008)
Per basic common share (\$)	0.40	0.15	1.17	(0.23)
End of period basic common shares (000s)	264,790	265,943	264,790	265,943
Weighted average basic common shares (000s)	265,197	265,940	265,990	265,936
Dividends on common shares (\$000s)	2,646	1,330	6,639	10,968
Dividends on preferred shares (\$000s)	1,717	1,905	6,905	7,654
F&D capital expenditures (\$000s) <sup>(6)</sup>	35,726	41,291	230,479	287,967
Total capital expenditures (\$000s) <sup>(6)</sup>	36,075	28,778	232,480	276,785
Long-term debt (\$000s)	500,870	731,372	500,870	731,372
Total debt (\$000s) <sup>(7)</sup>	499,397	761,951	499,397	761,951

(1) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.

(2) Average realized sales prices and the component values of netback and cost set out in the table above are supplementary financial measures unless otherwise indicated. See "Non-GAAP and Other Financial Measures" in this report.

(3) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures" in this report.

(4) Includes non-cash items such as compensation, accretion, amortization of deferred financing fees and other gains and losses.

(5) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures" in this report.

(6) See "Advisories - F&D Capital Expenditures" in this report.

(7) Capital management measure. See "Non-GAAP and Other Financial Measures" in this report.

## 2021 Achievements:

We generated **record annual adjusted funds flow of \$539.7 million<sup>(1)</sup>**, or \$2.03 per basic common share<sup>(2)</sup>, an increase of 192% and 194%, respectively, from 2020. Our cash flow from operating activities was \$515.4 million, a

**↑ 174%**  
INCREASE FROM 2020

We delivered **record annual free funds flow of**

**\$309.3 MILLION<sup>(1)</sup>**

or \$1.16 per basic common share.<sup>(2)</sup>

We earned **record annual net income to common shareholders of**

**\$310.5 MILLION**

or \$1.17 per basic common share.

We **significantly reduced total debt** at year-end to \$499.4 million<sup>(3)</sup>, a reduction of \$262.6 million (34%) from \$762.0 million at December 31, 2020.

**↓ 34%**  
TOTAL DEBT REDUCTION

We **increased our quarterly common share dividend** by

**100%**

to \$0.01 per share from \$0.005 per share for the quarter ended December 31, 2021.

We **grew our proved developed producing (“PDP”) reserves** at year-end 2021 by 5% over 2020, with **top-tier PDP F&D costs of \$5.88/boe<sup>(4)</sup>**, which has resulted in our PDP reserves having an

**OPERATING NETBACK RECYCLE RATIO OF**

**3.7x<sup>(2)</sup>**

highlighting the profitability of our business.

(1) Non-GAAP financial measure. See “Non-GAAP and Other Financial Measures” in this report.

(2) Non-GAAP ratio. See “Non-GAAP and Other Financial Measures” in this report.

(3) Capital management measure. See “Non-GAAP and Other Financial Measures” in this report.

(4) Supplementary financial measure. See “Non-GAAP and Other Financial Measures” in this report.

# CEO's Message to Shareholders

A photograph of two men in business suits shaking hands. The man on the left is wearing glasses and a blue checkered suit. The man on the right is older, with white hair, wearing a dark blue suit and a light-colored tie. They are standing in front of a wall with the Birchcliff logo. The logo consists of the word "BIRCHCLIFF" in large blue letters, with "ENERGY" in smaller blue letters below it.

**BIRCHCLIFF**  
ENERGY

**Chris Carlsen**  
President and  
Chief Operating Officer

**Jeff Tonken**  
Chief Executive Officer  
and Chairman of the Board

“As I look back, I am very proud of what Birchcliff accomplished in 2021, which was a record year for the company in many respects.”

- Jeff Tonken

**Dear Fellow Shareholders,**

## **LOOKING BACK ON 2021**

As I look back, I am very proud of what Birchcliff accomplished in 2021, which was a record year for the company in many respects. We generated record adjusted funds flow, record free funds flow and record net income for our common shareholders, while we focused on maintaining capital discipline and paying down our debt. We successfully and safely executed on our 2021 capital program, bringing a total of 33 wells on production and delivering annual average production of 78,520 boe/d. All of these achievements speak to the continued strong performance of our assets and the benefits of our low-cost operating structure.

In addition, we demonstrated our ongoing commitment to delivering leading environmental, social and governance (“ESG”) performance and reporting, with the release of our fourth annual ESG Report. Our commitment to ESG is reflected in our status as a low emissions intensity producer, with Birchcliff delivering one of the lowest GHG emissions intensities amongst our peer group.



**BIRCHCLIFF IS A PROUD PARTNER OF THE NATURAL GAS INNOVATION FUND**

### **COMMITMENT TO SAFETY**

155% increase in positive observation reporting helped lead to a 17% reduction in incidents in 2021 compared to 2020.

### **LOOKING FORWARD – 2022 AND BEYOND**

We remain committed to increasing shareholder value, which we intend to accomplish by maximizing free funds flow generation and significantly reducing indebtedness. In alignment with these priorities, our five year plan for 2022 to 2026 provides for significant free funds flow and the potential to reduce our total debt to zero in 2023. We believe that significantly reducing our indebtedness will reduce the risks to our business and create optionality when considering sustainable increases to our common share dividend and common share buybacks as we move forward.

With respect to 2022, our F&D capital budget of \$240 million to \$260 million is designed to maximize free funds flow generation and significantly reduce indebtedness, while maintaining capital discipline and a flat annual average production profile year-over-year. Based on our targeted annual average production of 78,000 to 80,000 boe/d, we expect to generate approximately \$590 million of adjusted funds flow and \$330 million to \$350 million of free funds flow in 2022. Free funds flow generated in 2022 will be primarily allocated towards debt reduction and we are targeting total debt of approximately \$175 million to \$195 million at December 31, 2022. This represents a reduction of up to \$587 million (77%) from our total debt of \$762 million at December 31, 2020 and a reduction of up to \$324 million (65%) from our total debt of \$499.4 million at December 31, 2021.

### **OUR COMMITMENT TO ESG**

At Birchcliff, we have always recognized the importance of, and our responsibility for, environmental stewardship and we are committed to the responsible development of our assets and to remaining one of the lowest emissions intensity producers in the industry. We strive to maintain excellence in environmental reporting and are continually looking to identify, develop and utilize new technology, systems and processes that will reduce our environmental footprint and create a safer work environment.

In addition, Birchcliff continues to invest financial resources and time to support our commitment to further reduce our impact, and the impact of the oil and gas industry as a whole, on the environment. Birchcliff is proud to be a partner in the Natural Gas Innovation Fund (“NGIF”) through two of its entities: NGIF Industry Grants organization and Cleantech Ventures Equity Fund. Birchcliff has been a member of NGIF Industry Grants since 2018 when it was expanded to include natural gas producers and is a founding member of NGIF Cleantech Ventures Equity Fund. Both NGIF initiatives were created by the Canadian Gas Association to support the funding of cleantech innovation in the natural gas value chain.

At Birchcliff, we are committed to supporting the communities where we operate. I am proud to announce that Birchcliff has committed to be a major contributor to STARS Air Ambulance, both in Northern Alberta and Calgary. Our ongoing financial support will help protect the health and safety of communities throughout Alberta, including the people that work directly and indirectly for Birchcliff. In 2021, we also supported many other initiatives, including the United Way.

Further information regarding our ESG initiatives and activities can be found in our ESG Report, which is available on our website at [www.birchcliffenergy.com](http://www.birchcliffenergy.com).



## SUCCESSION PLANNING – EXECUTIVE LEADERSHIP CHANGES

At Birchcliff, we take a proactive approach to succession and we made some exciting changes to our Executive Team effective January 1, 2022 to help lead us into the future. Chris Carlsen, previously our Vice President, Engineering, was appointed as our new President and Chief Operating Officer, while I continue on as Chief Executive Officer and Chairman of our Board of Directors. We also appointed three additional individuals to our Executive Team: Theo van der Werken as Vice President, Engineering, Robyn Bourgeois as Vice President, Legal, General Counsel and Corporate Secretary and Hue Tran as Vice President, Business Development and Marketing. The skills, expertise and perspectives of these three individuals will further complement our Executive Team, adding diversity of opinion and enhance Birchcliff's ability to continuously improve the execution of our business and create value for our shareholders. These individuals are all long-term employees who have excelled at Birchcliff and I believe all of us will benefit from their being a part of the Executive Team.

I want to sincerely thank our Board of Directors and the other members of our Executive Team for their hard work, support and determination, especially during the extraordinary circumstances that continue to arise as a result of the COVID-19 pandemic. During the challenging times we've dealt with over the last several years is when a cohesive and focused team really shines.

Lastly, on behalf of our Executive Team and the Board of Directors, I want to thank all of our employees for their dedication and extraordinary efforts in 2021. It is their focus, resilience and determination that has allowed us to deliver the exceptional results set forth herein. They continue to be simply the best.

**Jeff Tonken**  
Chief Executive Officer

March 16, 2022



**LOW EMISSIONS  
INTENSITY PRODUCER**



**GIVING BACK TO  
THE COMMUNITY**

over \$700,000 donated  
to charities in 2021

# MONTNEY/ DOIG

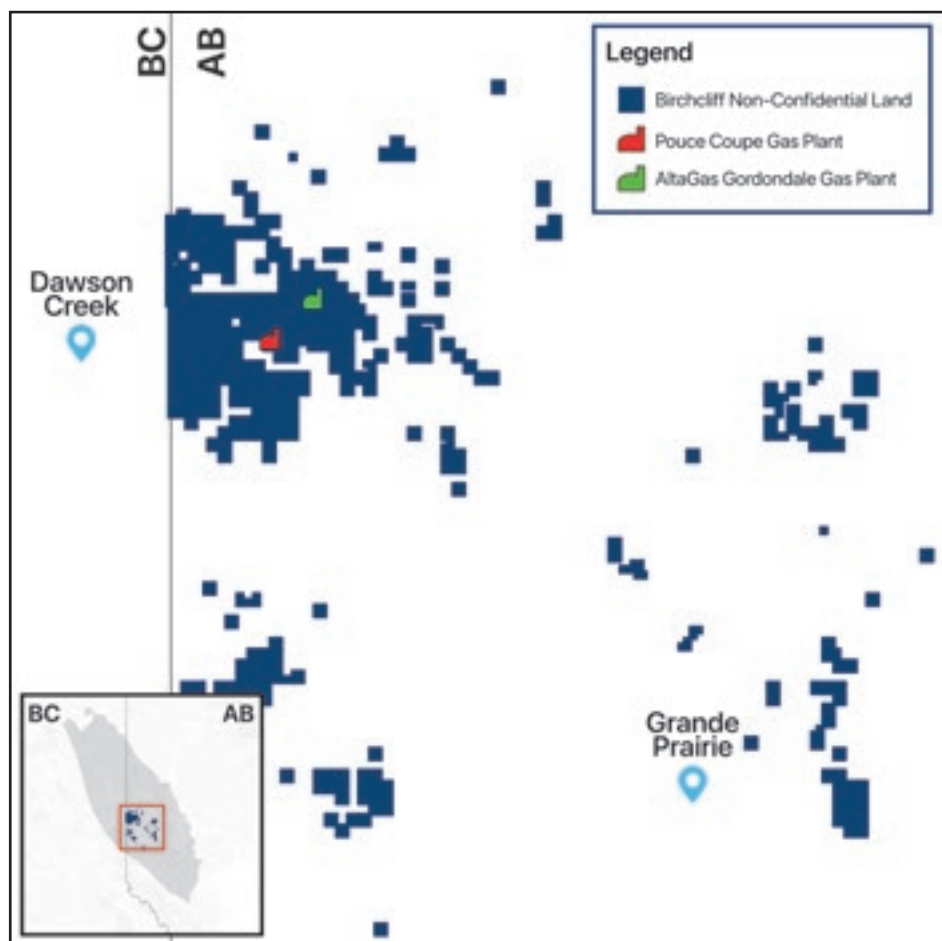
## Montney/Doig Resource Play

Our operations are concentrated within our one core area in **northwest Alberta, adjacent to the Alberta/British Columbia border**. Our Montney/Doig Resource Play is considered by management to be one of the most desirable natural gas and light oil drilling areas in North America.

# 485

**MONTNEY/DOIG  
HORIZONTAL WELLS  
DRILLED AND CASED**

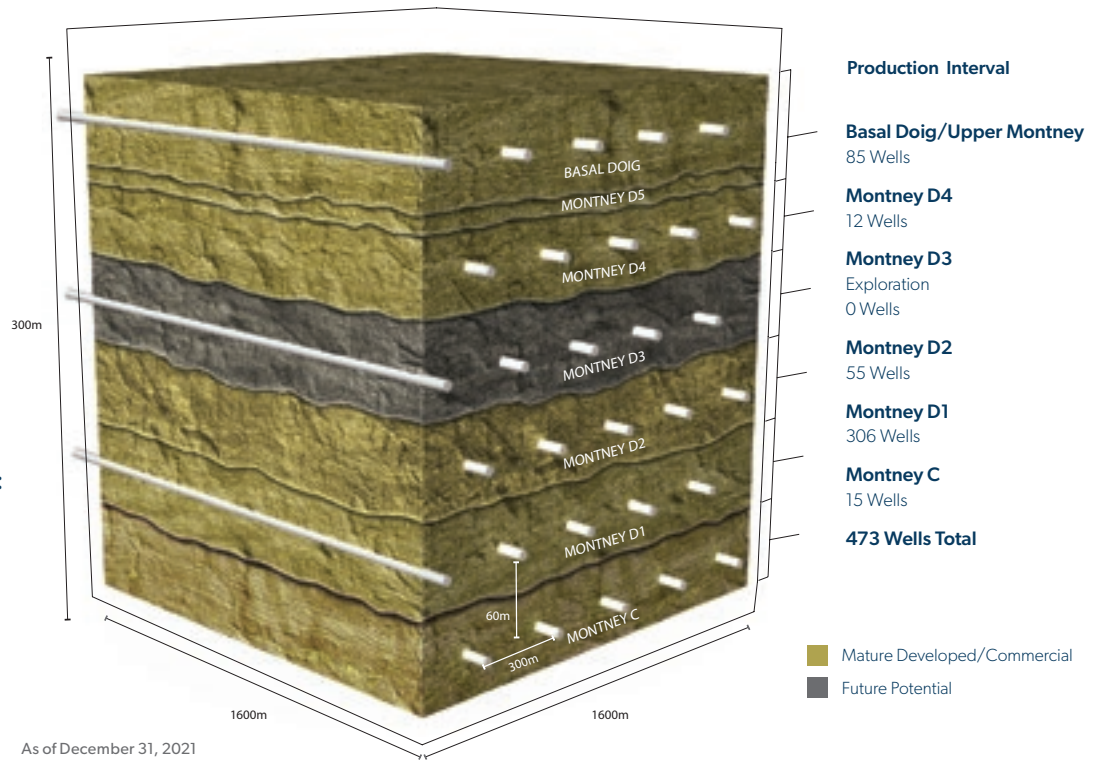
(481.9 NET)  
At December 31, 2021



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**BIRCHCLIFF  
MONTNEY/DOIG  
RESOURCE PLAY FULL  
DEVELOPMENT PLAN:  
HEXASTACK**



Over the past 17 years, Birchcliff has worked to de-risk its Montney/Doig Resource Play by **drilling both vertical and horizontal exploration wells** in order to develop an in-depth understanding of the oil and gas pools, rock properties and petrophysical characteristics and reservoir parameters.

Our Montney/Doig Resource Play is a regionally pervasive, continuous, low-permeability hydrocarbon accumulation or system that typically requires intensive stimulation to produce. The production characteristics of this play generally include steep initial declines that rapidly trend to much lower decline rates, yielding long-life production. The play exhibits a statistical distribution of estimated ultimate recoveries and therefore provides a repeatable distribution of drilling opportunities.

Birchcliff is developing its Montney/Doig Resource Play through the use of horizontal drilling and multi-stage fracture stimulation technology. Over the last several years, Birchcliff has focused on multi-well pad drilling which allows Birchcliff to reduce its environmental footprint and keep its per well costs low. In addition, larger multi-well pads enable Birchcliff's operational teams to create efficiencies through scale and repeatability. All wells planned to be drilled in 2022 are expected to be drilled on large multi-well pads. Birchcliff continues to utilize geology, geophysics and engineering to assist with its land evaluation, portfolio optimization and well planning, including acquiring and utilizing 3D seismic and subsurface diagnostics to reduce risk and optimize well placement of its horizontal wells.

# 2021 FINANCIALS

# Management's Discussion and Analysis

## GENERAL

This Management's Discussion and Analysis ("**MD&A**") for Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") dated March 16, 2022 is with respect to the three and twelve months ended December 31, 2021 (the "**Reporting Periods**") as compared to the three and twelve months ended December 31, 2020 (the "**Comparable Prior Periods**"). This MD&A has been prepared by management and approved by the Corporation's Audit Committee and Board of Directors and should be read in conjunction with the annual audited financial statements of the Corporation and related notes for the years ended December 31, 2021 and 2020 (the "**financial statements**"), which have been prepared in accordance with IFRS. All dollar amounts are expressed in Canadian currency unless otherwise stated.

This MD&A uses various "non-GAAP financial measures", "non-GAAP ratios", "supplementary financial measures" and "capital management measures" as such terms are defined in National Instrument 52-112 – *Non-GAAP and Other Financial Measures Disclosure* ("**NI 52-112**"). Non-GAAP financial measures and non-GAAP ratios are not standardized financial measures under GAAP and might not be comparable to similar financial measures disclosed by other issuers where similar terminology is used. For further information, including reconciliations to the most directly comparable GAAP measures where applicable, see "*Non-GAAP and Other Financial Measures*" in this MD&A.

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

With respect to the disclosure of Birchcliff's production contained in this MD&A: (i) references to "light oil" mean "light crude oil and medium crude oil" as such term is defined in National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**"); (ii) unless otherwise indicated, references to "liquids" mean "light crude oil and medium crude oil" and "natural gas liquids" (including condensate) as such terms are defined in NI 51-101; and (iii) references to "natural gas" mean "shale gas", which also includes an immaterial amount of "conventional natural gas", as such terms are defined in NI 51-101. In addition, NI 51-101 includes condensate within the product type of "natural gas liquids". Birchcliff has disclosed condensate separately from other natural gas liquids as the price of condensate as compared to other natural gas liquids is currently significantly higher and Birchcliff believes presenting the two commodities separately provides a more accurate description of its operations and results therefrom.

Birchcliff has incorporated the current and anticipated impacts of the novel coronavirus COVID-19 ("**COVID-19**") pandemic in its preparation of the MD&A and the financial statements. See "*Risk Factors*" in this MD&A and Note 2 "*Basis of Preparation – Current Environment and Estimation Uncertainty*" in the financial statements.

Regulations relating to climate and climate-related matters continue to evolve and may have additional disclosure requirements in the future. See "*Risk Factors*" in this MD&A and Note 2 "*Basis of Preparation – Climate Change and Environmental Reporting Regulations*" in the financial statements. Birchcliff publishes an annual Environmental, Social and Governance ("**ESG**") Report containing comprehensive information relating to its ESG performance, which can be found on the Corporation's website at [www.birchcliffenergy.com](http://www.birchcliffenergy.com).

## ABOUT BIRCHCLIFF

Birchcliff is a Calgary, Alberta based intermediate oil and natural gas company with operations focused on the Montney/Doig Resource Play in Alberta. Birchcliff's common shares, cumulative redeemable preferred shares, Series A (the "**Series A Preferred Shares**") and cumulative redeemable preferred shares, Series C (the "**Series C Preferred Shares**") 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, 2021 (the "**AIF**"), is available on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the Corporation's website at [www.birchcliffenergy.com](http://www.birchcliffenergy.com).

## HIGHLIGHTS

### 2021 Full-Year Highlights

- Generated record annual adjusted funds flow<sup>(1)</sup> of \$539.7 million, or \$2.03 per basic common share<sup>(2)</sup>, an increase of 192% and 194%, respectively, from the twelve month Comparable Prior Period. Cash flow from operating activities was \$515.4 million, a 174% increase from the twelve month Comparable Prior Period.
- Delivered record annual free funds flow<sup>(1)</sup> of \$309.3 million, or \$1.16 per basic common share<sup>(2)</sup>.
- Achieved average production of 78,520 boe/d, a 3% increase from the twelve month Comparable Prior Period. Liquids accounted for 21% of Birchcliff's total production in the twelve month Reporting Period, as compared to 23% in the twelve month Comparable Prior Period.
- Significantly reduced total debt<sup>(3)</sup> at year-end to \$499.4 million, a reduction of \$262.6 million (34%) from \$762.0 million at December 31, 2020.
- Earned record annual net income to common shareholders of \$310.5 million, or \$1.17 per basic common share, as compared to a net loss to common shareholders of \$62.0 million and \$0.23 per basic common share in the twelve month Comparable Prior Period.
- Achieved an operating netback<sup>(2)</sup> of \$21.50/boe, a 107% increase from the twelve month Comparable Prior Period.
- Realized an operating expense<sup>(4)</sup> of \$3.19/boe, an 8% increase from the twelve month Comparable Prior Period.
- Successfully executed the Corporation's 2021 capital program, bringing on production a total of 33 (33.0 net) wells. F&D capital expenditures were \$230.5 million in the twelve month Reporting Period.
- Purchased 5,242,700 common shares in the twelve month Reporting Period pursuant to its normal course issuer bid at an average price of \$6.00 per common share for an aggregate gross cost of \$31.5 million.

### Fourth Quarter 2021 Highlights

- Generated record quarterly adjusted funds flow of \$193.6 million, or \$0.73 per basic common share, an increase of 191% and 192%, respectively, from the three month Comparable Prior Period. Cash flow from operating activities was \$196.1 million, a 175% increase from the three month Comparable Prior Period.
- Delivered record quarterly free funds flow of \$157.9 million, or \$0.60 per basic common share.
- Achieved average production of 78,716 boe/d, which was comparable to the three month Comparable Prior Period. Liquids accounted for 20% of Birchcliff's total production in the three month Reporting Period, as compared to 24% in the three month Comparable Prior Period.
- Earned quarterly net income to common shareholders of \$106.1 million, or \$0.40 per basic common share, an increase of 163% and 167%, respectively from the three month Comparable Prior Period.
- Achieved an operating netback of \$27.53/boe, a 112% increase from the three month Comparable Prior Period.
- Realized an operating expense of \$3.50/boe, a 16% increase from the three month Comparable Prior Period.
- Increased its quarterly common share dividend by 100% to \$0.01 per share from \$0.005 per share for the quarter ended December 31, 2021.
- Purchased 2,042,700 common shares in the three month Reporting Period pursuant to its normal course issuer bid at an average price of \$6.91 per common share for an aggregate gross cost of \$14.1 million.

See "Cash Flow from Operating Activities and Adjusted Funds Flow", "Net Income and Loss 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 and Comparable Prior Periods.

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

(2) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures" in this MD&A.

(3) Capital management measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

(4) Supplementary financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

## 2022 OUTLOOK AND GUIDANCE

Birchcliff is focused on maintaining capital discipline, maximizing free funds flow generation and significantly reducing indebtedness. On January 19, 2022, the Corporation announced that its Board of Directors had approved an F&D capital budget of \$240 million to \$260 million for 2022, which targets an annual average production rate of 78,000 to 80,000 boe/d in 2022. Birchcliff's 2022 capital program contemplates the drilling of 30 (30.0 net) wells and bringing on production a total of 35 (35.0 net) wells during 2022. For further details regarding the Corporation's 2022 capital program, see its press release dated January 19, 2022.

The following table sets forth Birchcliff's guidance and commodity price assumptions for 2022, as well as its 2021 actual audited results and 2021 guidance for comparative purposes:

	2022 guidance and assumptions <sup>(1)</sup>	2021 actual results	2021 revised guidance and assumptions <sup>(2)</sup>
<b>Production</b>			
Annual average production (boe/d)	78,000 - 80,000	78,520	79,000 - 80,000
% Light oil	3%	4%	4%
% Condensate	7%	7%	7%
% NGLs	10%	10%	10%
% Natural gas	80%	79%	79%
Q4 average production (boe/d)	81,000 - 83,000	78,716	82,000 - 83,000
<b>Average Expenses (\$/boe)</b>			
Royalty <sup>(3)</sup>	3.10 - 3.30	2.66	2.60 - 2.80
Operating <sup>(3)</sup>	3.15 - 3.35	3.19	3.00 - 3.20
Transportation and other <sup>(4)</sup>	4.90 - 5.10	5.18	5.00 - 5.20
Interest <sup>(3)</sup>	0.50 - 0.60	1.00	-(5)
<b>Adjusted Funds Flow (\$ millions)<sup>(6)</sup></b>	590 <sup>(7)</sup>	539.7	575
<b>F&amp;D Capital Expenditures (\$ millions)</b>	240 - 260 <sup>(8)</sup>	230.5	225 - 230
<b>Free Funds Flow (\$ millions)<sup>(6)</sup></b>	330 - 350	309.3	345 - 350
<b>Total Debt at Year End (\$ millions)</b>	175 - 195 <sup>(9)</sup>	499.4	450 - 455
<b>Natural Gas Market Exposure</b>			
AECO exposure as a % of total natural gas production	19% <sup>(10)</sup>	6%	7%
Dawn exposure as a % of total natural gas production	42% <sup>(10)</sup>	42%	43%
NYMEX HH exposure as a % of total natural gas production	38% <sup>(10)</sup>	38%	38%
Alliance exposure as a % of total natural gas production	1% <sup>(10)</sup>	14%	12%
<b>Commodity Prices</b>			
Average WTI price (US\$/bbl)	76.00	68.70	69.00
Average WTI-MSW differential (CDN\$/bbl)	5.00	5.41	5.50
Average AECO price (CDN\$/GJ)	3.50	3.44	3.55
Average Dawn price (US\$/MMBtu)	3.90	3.62	3.80
Average NYMEX HH price (US\$/MMBtu)	4.00	3.88	3.85
Exchange rate (CDN\$ to US\$1)	1.26	1.2537	1.25

(1) Previously disclosed on January 19, 2022. Birchcliff's guidance for its 2022 production commodity mix, adjusted funds flow and natural gas market exposure is based on an annual average production rate of 79,000 boe/d during 2022, which is the mid-point of Birchcliff's annual average production guidance range.

(2) As revised on November 10, 2021.

(3) Supplementary financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

(4) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures" in this MD&A.

(5) Average interest expense guidance was not provided for 2021.

(6) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

(7) Birchcliff's estimate of 2022 adjusted funds flow takes into account the effects of its physical and financial basis swap contracts outstanding as at January 19, 2022 and excludes annual cash incentive payments that have not been approved by Birchcliff's Board of Directors.

(8) Birchcliff's estimate of 2022 F&D capital expenditures corresponds to Birchcliff's 2022 F&D capital budget and excludes any net potential acquisitions and dispositions and the capitalized portion of annual cash incentive payments that have not been approved by Birchcliff's Board of Directors. See "Advisories - F&D Capital Expenditures" in this MD&A.

(9) Capital management measure. See "Non-GAAP and Other Financial Measures" in this MD&A. Total debt guidance for 2022 assumes the following: (i) that any free funds flow remaining after the payment of dividends, asset retirement obligations and other amounts for administrative assets, financing fees and capital lease obligations is allocated towards debt reduction; (ii) that the timing of common share and preferred share dividends paid by the Corporation remains consistent with previous years, with the dividend rates and applicable taxes remaining unchanged; (iii) that there are approximately 265 million common shares, 2,000,000 Series A Preferred Shares and 1,530,709 Series C Preferred Shares outstanding, with no redemptions of the Series A or the Series C Preferred Shares or buybacks of common shares occurring during 2022; (iv) that no significant acquisitions are completed by the Corporation and there is no repayment of debt using the proceeds from asset dispositions or equity issuances; (v) that there are no proceeds received from the exercise of stock options or performance warrants during 2022; (vi) that the 2022 capital program will be carried out as currently contemplated and the level of capital spending set forth herein will be achieved; and (vii) the targets for production, production commodity mix, capital expenditures, adjusted funds flow, free funds flow and natural gas market exposure and the commodity price and exchange rate assumptions set forth herein are met. Total debt guidance does not include annual cash incentive payments that have not been approved by Birchcliff's Board of Directors.

(10) Birchcliff's guidance regarding its natural gas market exposure in 2022 assumes: (i) 175,000 GJ/d being sold on a physical basis at the Dawn price; (ii) 4,900 GJ/d being sold at Alliance on a physical basis at the AECO 5A price plus a premium; and (iii) 152,500 MMBtu/d being contracted on a financial and physical basis at a fixed basis differential between the AECO 7A price and the NYMEX HH price.

## 2022 Free Funds Flow Sensitivity

The following table illustrates the expected impact of changes in commodity prices and the CDN/US exchange rate on the Corporation's estimate of free funds flow for 2022 of \$330 million to \$350 million as disclosed in the guidance table above:

	Estimated change to 2022 free funds flow (\$ millions) <sup>(1)</sup>
Change in WTI US\$1.00/bbl	4.2
Change in NYMEX HH US\$0.10/MMBtu	6.5
Change in Dawn US\$0.10/MMBtu	7.3
Change in AECO CDN\$0.10/GJ	3.1
Change in CDN/US exchange rate CDN\$0.01	6.1

(1) The calculated impact on free funds flow is only applicable within the limited range of change indicated. Calculations are performed independently and may not be indicative of actual results. Actual results may vary materially when multiple variables change at the same time and/or when the magnitude of the change increases.

Changes in assumed commodity prices and variances in production estimates for 2022 can have an impact on the Corporation's estimates of adjusted funds flow and free funds flow and the Corporation's other guidance, which impact may be material. In addition, any acquisitions and dispositions completed over the course of 2022 could have an impact on Birchcliff's production, adjusted funds flow, free funds flow, expenses and total debt, which impact could be material. For further information, see "Advisories – Forward-Looking Statements" in this MD&A.

## Comparison of 2021 Results to Guidance

Birchcliff's annual and Q4 average production was 78,520 boe/d and 78,716 boe/d, respectively, which was slightly below guidance in the Reporting Periods primarily due to a force majeure event at a third-party fractionation facility and a significant outage on a third-party NGLs pipeline system experienced late in the third quarter and early in the fourth quarter of 2021 which primarily impacted production in the Gordondale field. Annual average production was also negatively impacted by reduced production processing capabilities primarily in the Gordondale field that resulted from extreme heat conditions in the summer months of 2021.

F&D capital expenditures and average per boe royalty, operating and transportation and other expenses in 2021 were in line with guidance. Birchcliff's adjusted funds flow of \$539.7 million in 2021 was lower than its guidance of \$575 million, free funds flow of \$309.3 million in 2021 was below its guidance of \$345 million to \$350 million and total debt at December 31, 2021 of \$499.4 million was above its guidance of \$450 million to \$455 million, all primarily due to lower than anticipated average realized natural gas and liquid sales prices in 2021. Total debt was also impacted by the additional costs associated with repurchasing common shares under the Corporation's normal course issuer bid, which was unbudgeted.

## SELECTED ANNUAL INFORMATION

The following table sets forth a summary of the Corporation's annual results for the three most recently completed financial years:

	2021	2020	2019
Average production			
Light oil (bbls/d)	2,899	4,415	4,742
Condensate (bbls/d)	5,715	5,824	5,145
NGLs (bbls/d)	7,705	7,650	7,264
Natural gas (Mcf/d)	373,217	351,068	364,958
Total (boe/d)	78,520	76,401	77,977
Average realized sales price (\$) <sup>(1)(2)</sup>			
Light oil (per bbl)	79.24	42.39	68.29
Condensate (per bbl)	85.65	48.03	68.06
NGLs (per bbl)	30.54	13.62	13.76
Natural gas (per Mcf)	4.29	2.49	2.48
Total (per boe)	32.53	18.90	21.55
Cash flow from operating activities (\$000s)	515,369	188,180	327,066
Adjusted funds flow (\$000s) <sup>(3)</sup>	539,733	184,526	334,504
Per common share – basic (\$) <sup>(4)</sup>	2.03	0.69	1.26
Free funds flow (\$000s) <sup>(3)</sup>	309,254	(103,441)	78,109
Net income (loss) (\$000s)	314,676	(57,821)	(55,392)
Net income (loss) to common shareholders (\$000s)	310,489	(62,008)	(59,579)
Per common share – basic (\$)	1.17	(0.23)	(0.22)
Petroleum and natural gas revenue (\$000s) <sup>(1)</sup>	932,406	528,505	613,559
F&D capital expenditures (\$000s) <sup>(5)</sup>	230,479	287,967	256,395
Total capital expenditures (\$000s) <sup>(3)</sup>	232,480	276,785	300,246
Operating expense (\$ per boe) <sup>(2)</sup>	3.19	2.95	3.09
Total assets (\$000s)	2,959,967	2,902,043	2,816,685
Long-term debt (\$000s)	500,870	731,372	609,177
Total debt (\$000s) <sup>(6)</sup>	499,397	761,951	632,582
End of period basic common shares (000s)	264,790	265,943	265,935
End of Period Series A Preferred Shares (000s)	2,000	2,000	2,000
End of Period Series C Preferred Shares (000s)	1,531	1,597	2,000
Weighted average basic common shares (000s)	265,990	265,936	265,930
Common share dividend distribution (\$000s)	6,639	10,968	27,923
Per common share (\$)	0.0250	0.0413	0.1050
Series A Preferred Share dividend distribution (\$000s)	4,187	4,187	4,187
Per Series A Preferred Share (\$)	2.0935	2.0935	2.0935
Series C Preferred Share dividend distribution (\$000s)	2,718	3,467	3,500
Per Series C Preferred Share (\$)	1.7500	1.7500	1.7500

(1) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.

(2) Supplementary financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

(3) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

(4) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures" in this MD&A.

(5) See "Advisories – F&D Capital Expenditures" in this MD&A.

(6) Capital management measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

Annual average production in 2021 was comparable to the prior two years. Annual average production in each year was positively impacted by incremental production volumes from new Montney/Doig condensate-rich natural gas wells brought on production and negatively impacted by natural production declines. The decrease in the Corporation's liquids production from the prior two years was primarily due to the Corporation targeting horizontal natural gas wells in liquids-rich zones in the Reporting Periods and natural production declines from light oil and condensate-rich wells brought on-stream in 2020 and 2019.

Adjusted funds flow in 2021 increased by 192% from 2020 and 61% from 2019. The increases were primarily due to higher reported petroleum and natural gas revenue, partially offset by a higher royalty expense, both of which were largely impacted by a 72% and 51% increase in the average realized sales price received for Birchcliff's production as compared to 2020 and 2019, respectively. Birchcliff's average realized sales price in 2021 benefited from the significant increases in benchmark oil and natural gas prices in 2021 as a result of recovery in the global economy from the impacts of the COVID-19 pandemic and an improved oil and natural gas supply and demand balance in the global markets. Cash flow from operating activities in 2021 increased by 174% from 2020 and 58% from 2019. The reason for the increases is consistent with the explanation for adjusted funds flow; however, cash flow from operating activities was also impacted by changes in non-cash operating working capital and decommissioning expenditures.

Free funds flow in 2021 increased substantially from the prior two years. The increases were primarily due to higher adjusted funds flow and lower F&D capital expenditures in 2021 as compared to 2020 and 2019.

Birchcliff earned record net income to common shareholders of \$310.5 million (\$1.17 per basic common share) in 2021, as compared to a net loss to common shareholders of \$62.0 million (\$0.23 per basic common share) and \$59.6 million (\$0.22 per basic common share) in 2020 and 2019, respectively. The change to a net income position was primarily due to higher adjusted funds flow and an unrealized mark-to-market gain on financial instruments, which was partially offset by a higher income tax expense in 2021. Birchcliff recorded an unrealized mark-to-market gain on financial instruments of \$84.2 million in 2021, as compared to an unrealized mark-to-market loss on financial instruments of \$35.4 million and \$192.8 million in 2020 and 2019, respectively.

F&D capital expenditures in 2021 decreased by 20% from 2020 and 10% from 2019. The Corporation's capital expenditures fluctuate each year based on: (i) the Corporation's outlook for commodity prices and market conditions; and (ii) the level of drilling and completions operations and other capital projects and the timing thereof. Capital expenditures in the last three years were largely directed towards: (i) the drilling and completion of horizontal light oil and condensate-rich natural gas wells in Gordondale and Pouce Coupe; and (ii) the addition of the inlet-liquids handling facility at the Corporation's 100% owned and operated natural gas processing plant in Pouce Coupe (the "**Pouce Coupe Gas Plant**"), which was completed in the third quarter of 2020.

Operating expense on a per boe basis in 2021 increased by 8% from 2020 and 3% from 2019. The increases were primarily due to higher power and fuel costs and an increase in municipal property taxes. In 2020, the Alberta government provided municipal property tax relief in response to the COVID-19 pandemic, which was discontinued in 2021.

Total debt in 2021 decreased by 34% from 2020 and 21% from 2019. The decreases were primarily due to significant free funds flow generated in 2021 which was primarily allocated towards debt reduction. See "*Capital Resources and Liquidity*" in this MD&A.

Total common share dividends in 2021 decreased by 39% from 2020 and 76% from 2019. The decreases were due to the Corporation reducing the amount of its quarterly common share dividend in the second quarter of 2020 in order to preserve cash and improve liquidity as a result of the COVID 19 pandemic and ensuing commodity price collapse. In the three month Reporting Period, the Corporation increased the amount of its quarterly common share dividend from \$0.005 per share (or \$0.02 per share annually) to \$0.01 per share (or \$0.04 per share annually).

Birchcliff's Series C Preferred Shares outstanding at the end of 2021 and 2020 have decreased from 2019 due to the redemption of Series C Preferred Shares. The Corporation redeemed 66,471 and 402,820 Series C Preferred Shares in 2021 and 2020, respectively. See "*Outstanding Share Information – Capital Securities*" 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 periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
<b>Cash flow from operating activities (\$000s)</b>	<b>196,142</b>	<b>71,431</b>	<b>515,369</b>	<b>188,180</b>
<b>Adjusted funds flow (\$000s)<sup>(1)</sup></b>	<b>193,649</b>	<b>66,509</b>	<b>539,733</b>	<b>184,526</b>
Per common share – basic (\$) <sup>(2)</sup>	0.73	0.25	2.03	0.69
Per common share – diluted (\$) <sup>(2)</sup>	0.70	0.25	1.97	0.69
Adjusted funds flow (\$/boe) <sup>(2)</sup>	26.74	9.19	18.83	6.60

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

(2) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures" in this MD&A.

Adjusted funds flow in the three and twelve month Reporting Periods increased by 191% and 192%, respectively, from the Comparable Prior Periods. The increases were primarily due to higher reported petroleum and natural gas revenue, partially offset by a higher royalty expense, both of which were largely impacted by an 83% and 72% increase in the average realized sales price received for Birchcliff's production in the three and twelve month Reporting Periods, respectively. The Corporation's average realized sales price in the Reporting Periods benefited from the significant increases in benchmark oil and natural gas prices since the Comparable Prior Periods. See "Discussion of Operations – Petroleum and Natural Gas Revenue" and "Discussion of Operations – Royalties" in this MD&A for further information regarding the period-over-period movement in revenue, commodity prices and royalties.

Cash flow from operating activities for the three and twelve month Reporting Periods increased by 175% and 174%, respectively, from the Comparable Prior Periods. The reasons for the increases are consistent with the explanation for the increases to adjusted funds flow; however, cash flow from operating activities was also impacted by changes in non-cash operating working capital and decommissioning expenditures.

## NET INCOME AND LOSS TO COMMON SHAREHOLDERS

The following table sets forth the Corporation's net income and loss to common shareholders for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
<b>Net income (loss) to common shareholders (\$000s)</b>	<b>106,102</b>	<b>40,407</b>	<b>310,489</b>	<b>(62,008)</b>
Per common share – basic (\$)	0.40	0.15	1.17	(0.23)
Per common share – diluted (\$)	0.38	0.15	1.13	(0.23)
Net income (loss) to common shareholders (\$/boe) <sup>(1)</sup>	14.65	5.58	10.83	(2.22)

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

The change to a net income position in the twelve month Reporting Period was primarily due to higher adjusted funds flow and an unrealized mark-to-market gain on financial instruments, which was partially offset by a higher income tax expense as compared to the twelve month Comparable Prior Period. Birchcliff recorded an unrealized mark-to-market gain on financial instruments of \$84.2 million in the twelve month Reporting Period, as compared to an unrealized mark-to-market loss on financial instruments of \$35.4 million in the Comparable Prior Period.

The 163% increase to net income to common shareholders in the three month Reporting Period was primarily due to higher adjusted funds flow, partially offset by a lower unrealized mark-to-market gain on financial instruments and a higher income tax expense. Birchcliff had a negligible unrealized mark-to-market gain on financial instrument in the three month Reporting Period, as compared to an unrealized mark-to-market gain on financial instruments of \$42.2 million in the Comparable Prior Period.

See "Discussion of Operations – Risk Management" and "Discussion of Operations – Income Taxes" in this MD&A for further details regarding the period-over-period movement in unrealized gains and losses on financial instruments and income tax expense.

## DISCUSSION OF OPERATIONS

### Petroleum and Natural Gas Revenue

The following table sets forth Birchcliff's P&NG revenue by product category for the Corporation's Pouce Coupe operating assets geologically situated in the dry natural gas and condensate-rich trends of the Montney/Doig Resource Play (the "**Pouce Coupe assets**"), the Corporation's Gordondale operating assets geologically situated in the light oil-rich trend of the Montney/Doig Resource Play (the "**Gordondale assets**") and on a corporate basis for the periods indicated:

(\$000s)	Three months ended December 31, 2021			Three months ended December 31, 2020		
	Pouce Coupe assets	Gordondale assets	Corporate <sup>(1)</sup>	Pouce Coupe assets	Gordondale assets	Corporate <sup>(1)</sup>
Light oil	183	22,032	22,231	54	16,190	16,261
Condensate	32,776	15,601	48,377	23,495	8,910	32,406
NGLs	7,064	19,571	26,635	2,607	9,713	12,320
Natural gas	137,876	54,676	192,553	69,026	28,268	97,293
P&NG sales <sup>(2)</sup>	177,899	111,880	289,796	95,182	63,081	158,280
Royalty income	1	1	10	1	1	3
<b>P&amp;NG revenue</b>	<b>177,900</b>	<b>111,881</b>	<b>289,806</b>	<b>95,183</b>	<b>63,082</b>	<b>158,283</b>
<b>% of corporate P&amp;NG revenue</b>	<b>61%</b>	<b>39%</b>		<b>60%</b>	<b>40%</b>	
(\$000s)	Twelve months ended December 31, 2021			Twelve months ended December 31, 2020		
	Pouce Coupe assets	Gordondale assets	Corporate <sup>(1)</sup>	Pouce Coupe assets	Gordondale assets	Corporate <sup>(1)</sup>
Light oil	618	83,145	83,836	473	68,000	68,498
Condensate	123,979	54,672	178,651	76,736	25,661	102,397
NGLs	23,983	61,908	85,891	8,579	29,544	38,123
Natural gas	419,668	164,316	583,991	229,636	89,838	319,473
P&NG sales <sup>(2)</sup>	568,248	364,041	932,369	315,424	213,043	528,491
Royalty income	5	7	37	4	4	14
<b>P&amp;NG revenue</b>	<b>568,253</b>	<b>364,048</b>	<b>932,406</b>	<b>315,428</b>	<b>213,047</b>	<b>528,505</b>
<b>% of corporate P&amp;NG revenue</b>	<b>61%</b>	<b>39%</b>		<b>60%</b>	<b>40%</b>	

(1) Includes adjustments for other minor oil and natural gas properties that were not individually significant during the respective periods.

(2) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.

On a corporate basis, P&NG revenue increased by 83% and 76% from the three and twelve month Comparable Prior Periods, respectively. The increases were primarily due to a higher average realized sales price received for the Corporation's production in the Reporting Periods. The Corporation's average realized sales price benefited from the significant increases in benchmark oil and natural gas prices since the Comparable Prior Periods. See "*Discussion of Operations – Commodity Prices*" in this MD&A for further details regarding the period-over-period movement in Birchcliff's average realized sales prices.

## 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 periods indicated:

	Three months ended December 31, 2021			Three months ended December 31, 2020		
	Pouce Coupe assets	Gordondale assets	Corporate <sup>(1)</sup>	Pouce Coupe assets	Gordondale assets	Corporate <sup>(1)</sup>
Light oil (bbls/d)	21	2,581	2,604	11	3,551	3,566
Condensate (bbls/d)	3,574	1,755	5,330	4,877	1,780	6,658
NGLs (bbls/d)	1,511	6,059	7,570	1,499	6,786	8,285
Natural gas (Mcf/d)	268,607	110,670	379,275	251,500	109,345	360,839
<b>Production (boe/d)</b>	<b>49,875</b>	<b>28,840</b>	<b>78,716</b>	<b>48,305</b>	<b>30,342</b>	<b>78,649</b>
<b>Liquids-to-gas ratio (bbls/MMcf)</b>	<b>19.0</b>	<b>93.9</b>	<b>40.9</b>	<b>25.4</b>	<b>110.8</b>	<b>51.3</b>
<b>% of corporate production</b>	<b>63%</b>	<b>37%</b>		<b>61%</b>	<b>39%</b>	
	Twelve months ended December 31, 2021			Twelve months ended December 31, 2020		
	Pouce Coupe assets	Gordondale assets	Corporate <sup>(1)</sup>	Pouce Coupe assets	Gordondale assets	Corporate <sup>(1)</sup>
Light oil (bbls/d)	21	2,875	2,899	31	4,382	4,415
Condensate (bbls/d)	3,984	1,731	5,715	4,401	1,424	5,824
NGLs (bbls/d)	1,750	5,954	7,705	1,226	6,424	7,650
Natural gas (Mcf/d)	265,620	107,591	373,217	248,951	102,119	351,068
<b>Production (boe/d)</b>	<b>50,025</b>	<b>28,492</b>	<b>78,520</b>	<b>47,149</b>	<b>29,250</b>	<b>76,401</b>
<b>Liquids-to-gas ratio (bbls/MMcf)</b>	<b>21.7</b>	<b>98.2</b>	<b>43.7</b>	<b>22.7</b>	<b>119.8</b>	<b>51.0</b>
<b>% of corporate production</b>	<b>64%</b>	<b>36%</b>		<b>62%</b>	<b>38%</b>	

(1) Includes adjustments for other minor oil and natural gas properties that were not individually significant during the respective periods.

Birchcliff's corporate production remained consistent with the three month Comparable Prior Period and increased by 3% from the twelve month Comparable Prior Period. Production in the Reporting Periods was positively impacted by incremental production volumes from the new Montney/Doig light oil and condensate-rich natural gas wells brought on production in Gordondale and Pouce Coupe since the Comparable Prior Periods. Production in the Reporting Periods was negatively impacted by: (i) natural production declines and (ii) a force majeure event at a third-party fractionation facility and a significant outage on a third-party NGLs pipeline system experienced late in the third quarter and early in the fourth quarter of 2021 which primarily impacted production in the Gordondale field. Production in the twelve month Reporting Period was also negatively impacted by reduced production processing capabilities primarily in the Gordondale field that resulted from extreme heat conditions in the summer months of 2021.

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 periods indicated:

	Three months ended December 31, 2021			Three months ended December 31, 2020		
	Pouce Coupe assets	Gordondale assets	Corporate <sup>(1)</sup>	Pouce Coupe assets	Gordondale assets	Corporate <sup>(1)</sup>
% Light oil production	-	9%	3%	-	12%	5%
% Condensate production	7%	6%	7%	10%	6%	8%
% NGLs production	3%	21%	10%	3%	22%	11%
% Natural gas production	90%	64%	80%	87%	60%	76%
	Twelve months ended December 31, 2021			Twelve months ended December 31, 2020		
	Pouce Coupe assets	Gordondale assets	Corporate <sup>(1)</sup>	Pouce Coupe assets	Gordondale assets	Corporate <sup>(1)</sup>
% Light oil production	-	10%	4%	-	15%	6%
% Condensate production	9%	6%	7%	9%	5%	8%
% NGLs production	3%	21%	10%	3%	22%	9%
% Natural gas production	88%	63%	79%	88%	58%	77%

(1) Includes other minor oil and natural gas properties that were not individually significant during the respective periods.

In the three month Reporting Period, corporate liquids accounted for 20% of Birchcliff's total production, as compared to 24% in the Comparable Prior Period, with a liquids-to-gas ratio in the three month Reporting Period of 40.9 bbls/MMcf (51% high-value light oil and condensate). Corporate liquids accounted for 21% of total production in the twelve month Reporting Period, as compared to 23% in the Comparable Prior Period, with a liquids-to-gas ratio in the twelve month Reporting Period of 43.7 bbls/MMcf (53% high-value light oil and condensate).

The decreases in the liquids production weighting were primarily due to the Corporation targeting horizontal natural gas wells in liquids-rich zones in the Pouce Coupe and Gordondale areas in the Reporting Periods and natural production declines from light oil and condensate-rich natural gas wells brought on-stream in the Comparable Prior Periods, which included the 14-well pad brought on production in the third quarter of 2020.

### Commodity Prices

The following table sets forth the average benchmark index prices and exchange rate for the periods indicated:

	Three months ended December 31,			Twelve months ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Light oil – WTI Cushing (US\$/bbl)	79.78	42.57	87	68.70	38.91	77
Light oil – MSW (Mixed Sweet) (CDN\$/bbl)	96.12	49.57	94	80.67	43.52	85
Natural gas – NYMEX HH (US\$/MMBtu)	5.83	2.66	119	3.88	2.08	87
Natural gas – AECO 5A Daily (CDN\$/GJ)	4.41	2.50	76	3.44	2.11	63
Natural gas – AECO 7A Month Ahead (US\$/MMBtu)	3.93	2.10	87	2.84	1.68	69
Natural gas – Dawn Day Ahead (US\$/MMBtu)	4.65	2.30	102	3.62	1.88	93
Natural gas – ATP 5A Day Ahead (CDN\$/GJ)	4.74	2.78	71	4.03	2.05	97
Exchange rate (CDN\$ to US\$)	1.2598	1.3035	(3)	1.2537	1.3413	(7)
Exchange rate (US\$ to CDN\$)	0.7938	0.7672	3	0.7976	0.7455	7

Birchcliff physically sells substantially all of its light oil production based on the MSW benchmark price and substantially all of its natural gas production based on the AECO 5A and Dawn benchmark prices. Birchcliff has agreements for the firm service transportation of an aggregate of 175,000 GJ/d of natural gas on TCPL's Canadian Mainline, whereby natural gas is transported to the Dawn trading hub in Southern Ontario. Birchcliff has also diversified a portion of its AECO production to NYMEX HH-based pricing, predominantly on a financial basis, beginning January 1, 2019 and ending December 31, 2025. Birchcliff sold financial AECO 7A basis swaps for 147,500 MMBtu/d at an average contract price of NYMEX HH less US\$1.226/MMBtu during the Reporting Periods as compared to 127,500 MMBtu/d and US\$1.234/MMBtu in the Comparable Prior Periods. See "Discussion of Operations – Risk Management" in this MD&A.

The average realized sales prices the Corporation receives for its light oil and natural gas production depend on a number of factors, including the average benchmark prices for crude oil and natural gas, the US to Canadian dollar exchange rate, transportation costs, product quality differentials and the heat premium on its 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 price and the MSW price. The differential between the WTI price and the MSW price can fluctuate due to a number of factors, including, but not limited to, domestic oil supply and demand balance, North American refinery utilization rates and inventory levels and pipeline infrastructure capacity connecting key oil consuming markets. In the Reporting Periods, the WTI benchmark oil index price increased significantly from the Comparable Prior Periods. In February 2020, benchmark oil prices started a precipitous drop predominantly due to the COVID-19 pandemic and resulting significant oil demand destruction in the Comparable Prior Periods. Benchmark oil prices began to recover in the second half of 2020 and have surpassed pre-pandemic levels in the Reporting Periods due to continued production curtailments by OPEC+ and an increase in global oil demand and drawdown of global oil inventories.

Canadian natural gas prices are influenced by regional and global supply and demand fundamentals which can be impacted by a number of factors, including, but not limited to, production growth levels, weather-related conditions in key natural gas consuming markets, changing demographics, economic growth, inventory levels, access to underground storage, net import and export LNG markets, pipeline supply takeaway capacity, maintenance on key natural gas infrastructure, 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. Natural gas benchmark prices increased significantly from the Comparable Prior Periods predominantly due to an improved supply and demand balance in North America resulting from weather-related natural gas supply disruptions, an increase in weather-related domestic demand for natural gas and an increase in US LNG exports due to significant global demand for natural gas during the Reporting Periods.

The following table sets forth Birchcliff's average realized light oil, condensate, NGLs and natural gas sales prices for the periods indicated:

	Three months ended December 31,			Twelve months ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Light oil (\$/bbl)	92.79	49.56	87	79.24	42.39	87
Condensate (\$/bbl)	98.66	52.90	87	85.65	48.03	78
NGLs (\$/bbl)	38.24	16.16	137	30.54	13.62	124
Natural gas (\$/Mcf)	5.52	2.93	88	4.29	2.49	72
<b>Average realized sales price (\$/boe)<sup>(1)(2)</sup></b>	<b>40.02</b>	<b>21.87</b>	<b>83</b>	<b>32.53</b>	<b>18.90</b>	<b>72</b>

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

(2) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.

The Corporation's average realized sales price increased by 83% and 72% from the three and twelve month Comparable Prior Periods, respectively, primarily due to the significant increases in benchmark oil and natural gas prices which positively impacted the sales prices Birchcliff received for its production in the Reporting Periods.

### Natural Gas Sales, Production and Average Realized Sales Price

The following table sets forth Birchcliff's sales, average daily production and average realized sales price by physical natural gas market for the periods indicated, before taking into account the Corporation's financial instruments:

	Three months ended December 31, 2021					Three months ended December 31, 2020				
	Natural gas sales (\$000s) <sup>(1)</sup>		Natural gas production (Mcf/d)		Average realized sales price (\$/Mcf) <sup>(1)(2)</sup>	Natural gas sales (\$000s) <sup>(1)</sup>		Natural gas production (Mcf/d)		Average realized sales price (\$/Mcf) <sup>(1)(2)</sup>
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
AECO	85,230	44	185,870	49	4.98	44,556	46	172,817	48	2.80
Dawn	88,932	46	156,618	41	6.17	44,785	46	159,071	44	3.06
Alliance <sup>(3)</sup>	18,391	10	36,787	10	5.43	7,952	8	28,951	8	2.99
<b>Total</b>	<b>192,553</b>	<b>100</b>	<b>379,275</b>	<b>100</b>	<b>5.52</b>	<b>97,293</b>	<b>100</b>	<b>360,839</b>	<b>100</b>	<b>2.93</b>
	Twelve months ended December 31, 2021					Twelve months ended December 31, 2020				
	Natural gas sales (\$000s) <sup>(1)</sup>		Natural gas production (Mcf/d)		Average realized sales price (\$/Mcf) <sup>(1)(2)</sup>	Natural gas sales (\$000s) <sup>(1)</sup>		Natural gas production (Mcf/d)		Average realized sales price (\$/Mcf) <sup>(1)(2)</sup>
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
AECO	234,229	40	163,418	44	3.92	153,007	48	176,827	51	2.37
Dawn	274,381	47	158,712	43	4.74	152,728	48	159,002	45	2.62
Alliance <sup>(3)</sup>	75,381	13	51,087	13	4.04	13,738	4	15,239	4	2.46
<b>Total</b>	<b>583,991</b>	<b>100</b>	<b>373,217</b>	<b>100</b>	<b>4.29</b>	<b>319,473</b>	<b>100</b>	<b>351,068</b>	<b>100</b>	<b>2.49</b>

(1) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.

(2) Supplementary financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

(3) Birchcliff has short-term physical sales agreements with third-party marketers to sell and deliver into the Alliance pipeline system. Alliance sales are recorded net of transportation tolls.

### Risk Management

Birchcliff engages in risk management activities by utilizing various financial instruments and physical delivery contracts to diversify its sales points or fix commodity prices and market interest rates. The Board of Directors has authorized the Corporation to execute a risk management strategy whereby Birchcliff is authorized, subject to compliance with the agreement governing the Corporation's extendible revolving term credit facilities (the "Credit Facilities"), to enter into agreements and financial or physical transactions with one or more counterparties from time to time that are intended to reduce the risk to the Corporation from volatility in future commodity prices, foreign exchange rates and/or interest rates.

## 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 instruments are recorded on the statements of financial position on a mark-to-market fair value basis at December 31, 2021, with the changes in fair value being recognized as a non-cash unrealized gain or loss in profit or loss and realized upon settlement. These contracts are not entered into for trading or speculative purposes.

Birchcliff's average notional quantity and contract price for its NYMEX/AECO 7A financial basis swaps outstanding at December 31, 2021 are summarized on an annual basis as set forth below:

Product	Type of Contract	Average Notional Quantity	Period	Average Contract Price
Natural gas	AECO 7A basis swap <sup>(1)</sup>	147,500 MMBtu/d	Jan. 1, 2022 – Dec. 31, 2022	NYMEX HH less US\$1.227/MMBtu
Natural gas	AECO 7A basis swap <sup>(1)</sup>	147,500 MMBtu/d	Jan. 1, 2023 – Dec. 31, 2023	NYMEX HH less US\$1.227/MMBtu
Natural gas	AECO 7A basis swap <sup>(1)</sup>	147,500 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2024	NYMEX HH less US\$1.120/MMBtu
Natural gas	AECO 7A basis swap <sup>(1)</sup>	147,500 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US\$1.088/MMBtu

(1) Birchcliff sold AECO basis swap.

There were no financial derivative contracts entered into subsequent to December 31, 2021 to manage commodity price risk.

Birchcliff also enters into physical delivery 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 December 31, 2021, the Corporation had the following physical delivery contract in place:

Product	Type of Contract	Quantity	Remaining Term	Contract Price
Natural gas	AECO 7A basis swap <sup>(1)</sup>	5,000 MMBtu/d	Jan. 1, 2022 – Dec. 31, 2023	NYMEX HH less US\$1.205/MMBtu

(1) Birchcliff sold AECO basis swap.

There were no physical delivery contracts entered into subsequent to December 31, 2021 to manage commodity price risk.

## Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation's Credit Facilities are exposed to interest rate risk. The remainder of Birchcliff's financial assets and liabilities are not directly exposed to interest rate risk.

At December 31, 2021, Birchcliff had the following financial derivative contracts in place to manage interest rate risk:

Type of Contract	Index	Remaining Term <sup>(1)</sup>	Notional value	Fixed Rate
Interest rate swap	One-month banker's acceptance – CDOR <sup>(2)</sup>	Jan. 1 2022 – Mar. 1, 2024	\$350 million	2.215%

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

(2) Canadian Dollar Offered Rate ("CDOR").

There were no financial derivative contracts entered into subsequent to December 31, 2021 to manage interest rate risk.

## Realized and Unrealized Gains and Losses on Financial Instruments

The following table provides a summary of the realized and unrealized gains and losses on financial instruments for the periods indicated:

	Three months ended December 31,				Twelve months ended December 31,			
	2021		2020		2021		2020	
	(\$000s)	(\$/boe) <sup>(1)</sup>	(\$000s)	(\$/boe) <sup>(1)</sup>	(\$000s)	(\$/boe) <sup>(1)</sup>	(\$000s)	(\$/boe) <sup>(1)</sup>
<b>Realized gain (loss)</b>	<b>9,908</b>	<b>1.37</b>	<b>(11,819)</b>	<b>(1.63)</b>	<b>(21,451)</b>	<b>(0.75)</b>	<b>(59,665)</b>	<b>(2.13)</b>
<b>Unrealized gain (loss)</b>	<b>29</b>	<b>-</b>	<b>42,237</b>	<b>5.84</b>	<b>84,242</b>	<b>2.94</b>	<b>(35,446)</b>	<b>(1.27)</b>

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

Birchcliff realized a gain on financial instruments of \$9.9 million and a loss on financial instruments of \$21.5 million in the three and twelve month Reporting Periods, respectively, primarily due to the settlement of NYMEX HH/AECO 7A financial basis swap contracts in the Reporting Periods. The realized gains and losses on financial instruments were positively impacted by the increase in the average basis spread between NYMEX HH and AECO 7A during the Reporting Periods as compared to the Comparable Prior Periods.

The unrealized gain on financial instruments of \$84.2 million in the twelve month Reporting Period resulted from the decrease in the fair value net liability position of the Corporation's financial instruments to \$83.8 million at December 31, 2021 from a liability position of \$168.0 million at December 31, 2020. The change in the fair value of financial instruments in the twelve month Reporting Period was primarily due to: (i) the increase in the forward basis spread between NYMEX HH and AECO 7A contracts outstanding at December 31, 2021 as compared to the fair value previously assessed at December 31, 2020; and (ii) the settlement of financial NYMEX HH/AECO basis swap contracts in the twelve month Reporting Period.

Unrealized gains and losses on financial instruments can fluctuate materially from period to period due to movement in the forward strip commodity prices and interest rates. Unrealized gains and losses on financial instruments do not impact adjusted funds flow and may differ materially from the actual gains or losses realized on the eventual cash settlement of financial contracts in the period.

## Royalties

The following table sets forth Birchcliff's royalty expense for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
<b>Royalty expense (\$000s)<sup>(1)</sup></b>	<b>28,452</b>	<b>6,522</b>	<b>76,271</b>	<b>18,204</b>
<b>Royalty expense (\$/boe)<sup>(2)</sup></b>	<b>3.93</b>	<b>0.90</b>	<b>2.66</b>	<b>0.65</b>
Effective royalty rate (%) <sup>(2)(3)</sup>	10%	4%	8%	3%

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

(2) Supplementary financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

(3) The effective royalty rate is calculated by dividing the aggregate royalties into P&NG sales for the period.

Royalty expense per boe increased by 337% and 309% from the three and twelve month Comparable Prior Periods, respectively, primarily due to the significant increase in the average realized sales price received for Birchcliff's production.

## Operating Expense

The following table sets forth a breakdown of Birchcliff's operating expense for the periods indicated:

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
Field operating expense	26,208	22,990	96,533	87,120
Recoveries	(893)	(1,048)	(5,018)	(4,763)
<b>Operating expense</b>	<b>25,315</b>	<b>21,942</b>	<b>91,515</b>	<b>82,357</b>
<b>Operating expense per boe<sup>(1)</sup></b>	<b>\$3.50</b>	<b>\$3.03</b>	<b>\$3.19</b>	<b>\$2.95</b>

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

Operating expense per boe increased by 16% and 8% from the three and twelve month Comparable Prior Periods, respectively, primarily due to higher power and fuel costs and an increase in municipal property taxes in the Reporting Periods. In the Comparable Prior Periods, the Alberta Government provided municipal property tax relief in response to the COVID-19 pandemic, which was discontinued in the Reporting Periods.

## Transportation and Other

The following table sets forth Birchcliff's transportation and other expense for the periods indicated:

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
Natural gas transportation	28,288	26,904	114,607	106,409
Liquids transportation	7,194	7,431	28,212	28,732
Fractionation <sup>(1)</sup>	1,942	2,059	8,285	5,305
Other fees	30	33	159	128
Transportation expense	37,454	36,427	151,263	140,574
Transportation expense per boe <sup>(2)</sup>	\$5.17	\$5.03	\$5.28	\$5.03
Marketing purchases <sup>(3)</sup>	5,413	1,152	18,034	11,127
Marketing revenue <sup>(3)</sup>	(6,169)	(1,889)	(20,722)	(13,687)
Marketing gain <sup>(4)</sup>	(756)	(737)	(2,688)	(2,560)
Marketing gain per boe <sup>(5)</sup>	(\$0.11)	(\$0.09)	(\$0.10)	(\$0.10)
<b>Transportation and other expense<sup>(4)</sup></b>	<b>36,698</b>	<b>35,690</b>	<b>148,575</b>	<b>138,014</b>
<b>Transportation and other expense per boe<sup>(5)</sup></b>	<b>\$5.06</b>	<b>\$4.94</b>	<b>\$5.18</b>	<b>\$4.93</b>

(1) Included in the twelve month Comparable Prior Period is a \$1.4 million prior-period equalization credit from third-party fractionation operators.

(2) Supplementary financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

(3) Marketing purchases and marketing revenue primarily represent the volumes purchased and sold to third parties, which are recorded on a gross basis for financial statement presentation purposes.

Birchcliff enters into certain marketing purchase and sales arrangements to reduce its take-or-pay fractionation fees associated with third-party commitments. Any gains or losses from the purchase and sale of third-party products primarily relate to the commodity price differential.

(4) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

(5) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures" in this MD&A.

On a per boe basis, transportation and other expense increased by 2% and 5% from the three and twelve month Comparable Prior Periods, respectively. The increases were primarily due to additional AECO firm service transportation charges on the NGTL system during the Reporting Periods.



## Operating Netback

The following table sets forth Birchcliff's average production and operating netback for the Pouce Coupe assets, the Gordondale assets and on a corporate basis for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
<b>Pouce Coupe assets:</b>				
<i>Average production</i>				
Light oil (bbls/d)	21	11	21	31
Condensate (bbls/d)	3,574	4,877	3,984	4,401
NGLs (bbls/d)	1,511	1,499	1,750	1,226
Natural gas (Mcf/d)	268,607	251,500	265,620	248,951
<b>Total (boe/d)</b>	<b>49,875</b>	<b>48,305</b>	<b>50,025</b>	<b>47,149</b>
<b>% of corporate production</b>	<b>63%</b>	<b>61%</b>	<b>64%</b>	<b>62%</b>
<b>Liquids-to-gas ratio (bbls/MMcf)</b>	<b>19.0</b>	<b>25.4</b>	<b>21.7</b>	<b>22.7</b>
<i>Netback and cost (\$/boe)<sup>(1)</sup></i>				
Petroleum and natural gas revenue <sup>(2)</sup>	38.77	21.42	31.12	18.28
Royalty expense	(3.21)	(0.64)	(2.12)	(0.41)
Operating expense	(2.81)	(2.35)	(2.47)	(2.18)
Transportation and other expense <sup>(3)</sup>	(5.24)	(5.20)	(5.43)	(5.25)
<b>Operating netback<sup>(3)</sup></b>	<b>27.51</b>	<b>13.23</b>	<b>21.10</b>	<b>10.44</b>
<b>Gordondale assets:</b>				
<i>Average production</i>				
Light oil (bbls/d)	2,581	3,551	2,875	4,382
Condensate (bbls/d)	1,755	1,780	1,731	1,424
NGLs (bbls/d)	6,059	6,786	5,954	6,424
Natural gas (Mcf/d)	110,670	109,345	107,591	102,119
<b>Total (boe/d)</b>	<b>28,840</b>	<b>30,342</b>	<b>28,492</b>	<b>29,250</b>
<b>% of corporate production</b>	<b>37%</b>	<b>39%</b>	<b>36%</b>	<b>38%</b>
<b>Liquids-to-gas ratio (bbls/MMcf)</b>	<b>93.9</b>	<b>110.8</b>	<b>98.2</b>	<b>119.8</b>
<i>Netback and cost (\$/boe)<sup>(1)</sup></i>				
Petroleum and natural gas revenue <sup>(2)</sup>	42.17	22.60	35.01	19.90
Royalty expense	(5.18)	(1.31)	(3.61)	(1.03)
Operating expense	(4.67)	(4.12)	(4.44)	(4.17)
Transportation and other expense <sup>(3)</sup>	(4.77)	(4.51)	(4.75)	(4.42)
<b>Operating netback<sup>(3)</sup></b>	<b>27.55</b>	<b>12.66</b>	<b>22.21</b>	<b>10.28</b>
<b>Corporate<sup>(4)</sup>:</b>				
<i>Average production</i>				
Light oil (bbls/d)	2,604	3,566	2,899	4,415
Condensate (bbls/d)	5,330	6,658	5,715	5,824
NGLs (bbls/d)	7,570	8,285	7,705	7,650
Natural gas (Mcf/d)	379,275	360,839	373,217	351,068
<b>Total (boe/d)</b>	<b>78,716</b>	<b>78,649</b>	<b>78,520</b>	<b>76,401</b>
<b>Liquids-to-gas ratio (bbls/MMcf)</b>	<b>40.9</b>	<b>51.3</b>	<b>43.7</b>	<b>51.0</b>
<i>Netback and cost (\$/boe)<sup>(1)</sup></i>				
Petroleum and natural gas revenue <sup>(2)</sup>	40.02	21.88	32.53	18.90
Royalty expense	(3.93)	(0.90)	(2.66)	(0.65)
Operating expense	(3.50)	(3.03)	(3.19)	(2.95)
Transportation and other expense <sup>(3)</sup>	(5.06)	(4.94)	(5.18)	(4.93)
<b>Operating netback<sup>(3)</sup></b>	<b>27.53</b>	<b>13.01</b>	<b>21.50</b>	<b>10.37</b>

(1) The component values of netback and cost set out in the table above are supplementary financial measures unless otherwise indicated. See "Non-GAAP and Other Financial Measures" in this MD&A.

(2) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.

(3) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures" in this MD&A.

(4) Includes adjustments for other minor oil and natural gas properties which were not individually significant during the respective periods.

### ***Pouce Coupe Assets***

Birchcliff's average production from its Pouce Coupe assets increased by 3% and 6% from the three and twelve month Comparable Prior Periods, respectively. The increases were primarily due to incremental production volumes from the new condensate-rich natural gas wells brought on production in Pouce Coupe since the Comparable Prior Periods, partially offset by natural production declines. Production in the twelve month Reporting Period was also negatively impacted by scheduled plant turnarounds in May 2021 at Phases V/VI of the Pouce Coupe Gas Plant.

Birchcliff's liquids-to-gas ratio for the Pouce Coupe assets decreased by 25% and 4% from the three and twelve month Comparable Prior Periods, respectively. The decreases were primarily due to the Corporation targeting horizontal natural gas wells in liquids-rich zones in the Pouce Coupe area in the Reporting Periods and natural production declines from the condensate-rich natural gas wells brought on-stream in the Comparable Prior Periods, including from the 14-well pad brought on production in the third quarter of 2020. The decrease in the twelve month Reporting Period was partially offset by increased NGLs recovery at Phase III of the Pouce Coupe Gas Plant beginning in the fourth quarter of 2020.

Birchcliff's operating netback for the Pouce Coupe assets increased by 108% and 102% from the three and twelve month Comparable Prior Periods, respectively. The increases were primarily due to higher per boe petroleum and natural gas revenue, partially offset by a higher per boe royalty expense, both of which were largely impacted by the significant increase in the average realized sales price received for Birchcliff's Pouce Coupe production since the Comparable Prior Periods.

### ***Gordondale Assets***

Birchcliff's average production from its Gordondale assets decreased by 5% and 3% from the three and twelve month Comparable Prior Periods, respectively. The decreases were primarily due to a force majeure event at a third-party fractionation facility and a significant outage on a third-party NGLs pipeline system experienced late in the third quarter and early in the fourth quarter of 2021 and natural production declines, partially offset by incremental production volumes from the new light oil wells brought on production in Gordondale since the Comparable Prior Periods. Production in the twelve month Reporting Period was also negatively impacted by reduced production processing capabilities in the Gordondale field that resulted from extreme heat conditions in the summer months of 2021.

Birchcliff's liquids-to-gas ratio for the Gordondale assets decreased by 15% and 18% from the three and twelve month Comparable Prior Periods, respectively. The decreases were primarily due to the Corporation targeting horizontal natural gas wells in liquids-rich zones in the Gordondale area and natural production declines from light oil wells brought on-stream in the Comparable Prior Periods.

Birchcliff's operating netback for the Gordondale assets increased by 118% and 116% from the three and twelve month Comparable Prior Periods, respectively. The increases were primarily due to higher per boe petroleum and natural gas revenue, partially offset by a higher per boe royalty expense, both of which were largely impacted by the significant increase in the average realized sales price received for Birchcliff's Gordondale production since the Comparable Prior Periods.

## Administrative Expense

The following table sets forth the components of Birchcliff's net administrative expense for the periods indicated:

	Three months ended December 31,				Twelve months ended December 31,			
	2021		2020		2021		2020	
	(\$000s)	(%)	(\$000s)	(%)	(\$000s)	(%)	(\$000s)	(%)
<i>Cash:</i>								
Salaries and benefits <sup>(1)</sup>	16,327	85	14,939	86	35,504	74	33,404	74
Other <sup>(2)</sup>	2,860	15	2,399	14	12,426	26	11,633	26
G&A expense, gross	19,187	100	17,338	100	47,930	100	45,037	100
Operating overhead recoveries	(37)	(1)	(33)	(1)	(144)	(1)	(133)	(1)
Capitalized overhead <sup>(3)</sup>	(8,667)	(44)	(9,277)	(53)	(19,540)	(40)	(20,289)	(44)
G&A expense, net	10,483	55	8,028	46	28,246	59	24,615	55
G&A expense, net per boe <sup>(4)</sup>	\$1.45		\$1.11		\$0.99		\$0.88	
<i>Non-cash:</i>								
Other compensation	1,625	100	1,302	100	5,605	100	5,527	100
Capitalized compensation <sup>(3)</sup>	(872)	(54)	(740)	(57)	(3,175)	(57)	(3,098)	(56)
Other compensation, net	753	46	562	43	2,430	43	2,429	44
Other compensation, net per boe <sup>(4)</sup>	\$0.10		\$0.08		\$0.08		\$0.09	
<b>Administrative expense, net</b>	<b>11,236</b>		<b>8,590</b>		<b>30,676</b>		<b>27,044</b>	
<b>Administrative expense, net per boe<sup>(4)</sup></b>	<b>\$1.55</b>		<b>\$1.19</b>		<b>\$1.07</b>		<b>\$0.97</b>	

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

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

(3) Includes a portion of gross G&A expenses and other compensation directly attributable to the exploration and development activities of the Corporation which have been capitalized.

(4) Supplementary financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

Net administrative expense on an aggregate basis increased by 31% and 13% from the three and twelve month Comparable Prior Periods, respectively, primarily due to higher employee-related expenses, which included employee retirement costs incurred in the three month Reporting Period, and an increase in general business expenditures.

The following table sets forth the Corporation's outstanding stock options for the periods indicated:

	Three months ended December 31,				Twelve months ended December 31,			
	2021		2020		2021		2020	
	Number	Price (\$) <sup>(1)</sup>	Number	Price (\$) <sup>(1)</sup>	Number	Price (\$) <sup>(1)</sup>	Number	Price (\$) <sup>(1)</sup>
Outstanding, beginning	19,005,656	3.17	21,035,501	3.99	26,134,201	3.56	23,483,368	4.28
Granted <sup>(2)</sup>	5,436,100	6.54	5,225,700	1.81	5,689,100	6.45	5,403,200	1.79
Exercised	(1,260,336)	(3.09)	(7,500)	(1.91)	(4,090,375)	(3.09)	(7,500)	(1.91)
Forfeited	(19,501)	(3.73)	(69,000)	(2.77)	(2,082,940)	(7.53)	(194,067)	(2.92)
Expired	(45,000)	(8.53)	(50,500)	(4.74)	(2,533,067)	(3.90)	(2,550,800)	(6.52)
<b>Outstanding, ending</b>	<b>23,116,919</b>	<b>3.96</b>	<b>26,134,201</b>	<b>3.56</b>	<b>23,116,919</b>	<b>3.96</b>	<b>26,134,201</b>	<b>3.56</b>

(1) Calculated on a weighted average basis.

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

At December 31, 2021, there were also 2,939,732 performance warrants outstanding to purchase an equivalent number of common shares. The performance warrants have an exercise price of \$3.00 per common share and an expiry date of January 31, 2025.

## Depletion and Depreciation Expense

Depletion and depreciation (“**D&D**”) expense is a function of the estimated proved and probable reserves additions, the F&D costs attributable to those reserves, the associated future development capital 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 periods indicated:

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
<b>Depletion and depreciation expense</b>	<b>53,916</b>	<b>54,199</b>	<b>212,757</b>	<b>212,404</b>
<b>Depletion and depreciation expense per boe<sup>(1)</sup></b>	<b>\$7.44</b>	<b>\$7.49</b>	<b>\$7.42</b>	<b>\$7.60</b>

(1) Supplementary financial measure. See “Non-GAAP and Other Financial Measures” in this MD&A.

D&D expense on an aggregate basis remained consistent with the Comparable Prior Periods. Included in the depletion assessment at December 31, 2021 was 1,022 MMboe of total proved plus probable reserves and \$4.3 billion of future development capital required to recover those reserves as estimated by the Corporation’s independent qualified reserves evaluator. See “Advisories – Reserves” in this MD&A.

### Asset Impairment Assessment

In accordance with IFRS, an impairment test is performed if Birchcliff identifies indicators of impairment at the end of a reporting period. At December 31, 2021 and December 31, 2020, Birchcliff determined there were no impairment indicators present and therefore an impairment test was not required.

Birchcliff determined there were indicators of impairment at March 31, 2020 due to the decline in forecasted oil and gas commodity prices and reduction in market capitalization since its previously completed impairment assessment at December 31, 2019. An impairment is recognized if the carrying value of a Cash Generating Unit (“**CGU**”) exceeds the estimated recoverable amount for that CGU. A CGU’s estimated recoverable amount is the greater of its fair value less cost to sell and its current value in use. The estimated recoverable amount involves significant assumptions, including the estimate of proved and probable oil and gas reserves and the related cash flows and the discount rate. The estimate of proved and probable oil and gas reserves and the related cash flows is sensitive to the significant forecasted assumptions regarding oil and gas commodity prices, production, operating costs, royalty costs and future development costs.

At March 31, 2020, the Corporation used value in use derived from the estimate of proved and probable oil and gas reserves and the related cash flows estimated by the Corporation’s independent third-party reserves evaluators at December 31, 2019, which were internally updated to forecasted period-end oil and gas commodity prices, future development costs and production. The estimated future cash flows are discounted at pre-tax rates between 8% and 17.5% depending on the risk profile of the reserves category. Birchcliff’s P&NG properties and equipment were not impaired at March 31, 2020. For further details on the methodology used in the impairment test, see the notes to the financial statements.

## Finance Expense

The following table sets forth the components of the Corporation's finance expense for the periods indicated:

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
<i>Cash:</i>				
Interest expense <sup>(1)</sup>	5,183	8,652	28,797	26,067
Interest expense per boe <sup>(1)(2)</sup>	\$0.72	\$1.20	\$1.00	\$0.93
<i>Non-cash:</i>				
Accretion <sup>(3)</sup>	940	629	3,473	2,815
Amortization of deferred financing fees	239	248	968	1,229
Other expenses	1,179	877	4,441	4,044
Other expenses per boe <sup>(2)</sup>	\$0.16	\$0.12	\$0.15	\$0.14
<b>Finance expense</b>	<b>6,362</b>	<b>9,529</b>	<b>33,238</b>	<b>30,111</b>
<b>Finance expense per boe<sup>(2)</sup></b>	<b>\$0.88</b>	<b>\$1.32</b>	<b>\$1.15</b>	<b>\$1.07</b>

(1) At December 31, 2020, the Credit Facilities were comprised of an extendible revolving syndicated term credit facility (the "Syndicated Credit Facility") of \$900.0 million and an extendible revolving working capital facility (the "Working Capital Facility") of \$100.0 million. The agreement governing the Credit Facilities was amended effective May 6, 2021 to: (i) extend the maturity dates of each of the Syndicated Credit Facility and Working Capital Facility from May 11, 2022 to May 11, 2024; and (ii) decrease the borrowing base limit to \$850.0 million from \$1.0 billion, with the Syndicated Credit Facility being decreased to \$750.0 million and the Working Capital Facility remaining at \$100.0 million. See "Capital Resources and Liquidity" in this MD&A.

(2) Supplementary financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

(3) Includes accretion on decommissioning obligations, lease obligations and post-employment benefit obligations.

Birchcliff's aggregate interest expense decreased by 40% from the three month Comparable Prior Period and increased by 10% from the twelve month Comparable Prior Period. The decrease in the interest expense from the three month Comparable Prior Period was primarily due to a decrease in the average effective interest rate under the Syndicated Credit Facility and a lower average outstanding Syndicated Credit Facility balance in the three month Reporting Period. The increase in the interest expense from the twelve month Comparable Prior Period was primarily due to an increase in the average effective interest rate under the Syndicated Credit Facility, partially offset by lower average outstanding Syndicated Credit Facility balance in the twelve month Reporting Period.

The following table sets forth the Corporation's average effective interest rates under its Credit Facilities for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
Working Capital Facility	4.5%	5.5%	5.1%	5.5%
Syndicated Credit Facility <sup>(1)</sup>	3.4%	4.3%	4.1%	3.5%

(1) The average effective interest rate under the Syndicated Credit Facility is determined primarily based on: (i) the market interest rate in LIBOR loans and/or drawn bankers' acceptances; and (ii) the pricing margin applicable to LIBOR loans and/or stamping fee in respect of bankers' acceptances. Birchcliff's pricing margin will change as a result of the ratio of outstanding indebtedness to the trailing four quarter EBITDA as calculated in accordance with the Corporation's agreement governing the Credit Facilities. EBITDA is defined as earnings before interest and non-cash items, including (if any) income taxes, other compensation, gains and losses on sale of assets and securities, unrealized gains and losses on financial instruments, depletion, depreciation and amortization and impairment charges.

The average outstanding balance under the Syndicated Credit Facility was approximately \$570 million and \$671 million in the three and twelve month Reporting Periods, respectively, as compared to \$754 million and \$702 million in the Comparable Prior Periods, calculated as the simple average of the month-end amounts.

## Other Cash Income

The following table sets forth the components of the Corporation's other cash income sources for the periods indicated:

	Three months ended December 31,				Twelve months ended December 31,			
	2021		2020		2021		2020	
	(\$000s)	(\$/boe) <sup>(1)</sup>	(\$000s)	(\$/boe) <sup>(1)</sup>	(\$000s)	(\$/boe) <sup>(1)</sup>	(\$000s)	(\$/boe) <sup>(1)</sup>
<b>Other income</b>	<b>68</b>	<b>0.01</b>	<b>879</b>	<b>0.12</b>	<b>2,182</b>	<b>0.07</b>	<b>4,943</b>	<b>0.17</b>

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

Birchcliff's other cash income in the twelve month Reporting Period primarily included the sale of Emissions Performance Credits ("EPCs") for \$1.7 million (net of purchases) for the 2019 and 2020 emissions reporting periods under Alberta's Technology Innovation and Emissions Reduction (TIER) program, which replaced its predecessor regulation on January 1, 2020. Facilities regulated under TIER, such as the Pouce Coupe Gas Plant, must reduce emissions beyond its established facility benchmarks in order to generate EPCs.

### Other Non-Cash Gains

The following table sets forth the components of the Corporation's other non-cash gains for the periods indicated:

	Three months ended December 31,				Twelve months ended December 31,			
	2021		2020		2021		2020	
	(\$000s)	(\$/boe) <sup>(1)</sup>	(\$000s)	(\$/boe) <sup>(1)</sup>	(\$000s)	(\$/boe) <sup>(1)</sup>	(\$000s)	(\$/boe) <sup>(1)</sup>
<b>Other gains</b>	<b>1,792</b>	<b>0.25</b>	<b>3,589</b>	<b>0.50</b>	<b>7,312</b>	<b>0.26</b>	<b>2,026</b>	<b>0.07</b>

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

### Gain on Investment

On August 31, 2017, Birchcliff acquired securities consisting of 4,500,000 common A units in a limited partnership and 10,000,000 preferred units in a trust (collectively, the "Securities") at a combined investment value of \$10.0 million. The Securities are not publicly listed and do not constitute significant investments. Birchcliff recorded a gain on investment from the Securities of \$1.3 million and \$6.4 million during the three and twelve month Reporting Periods, respectively, as compared to a loss on investment of \$0.6 million and \$2.6 million in the Comparable Prior Periods.

### Gain on Sale of Assets

During the three month Comparable Prior Period, Birchcliff completed the disposition of various Gordondale lands and assets with a net book value totaling \$14.3 million, relinquished \$5.9 million related to decommissioning obligations and received cash consideration of \$12.7 million. As a result of the disposition, Birchcliff recognized a gain on sale of \$4.3 million. This disposition was considered non-core as it represented less than 1% of both Birchcliff's total production during the Reporting Periods and total proved plus probable reserves at December 31, 2020 and therefore was not significant to the Corporation's financial results or operational performance.

### Income Taxes

The following table sets forth the components of the Corporation's income taxes for the periods indicated:

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
Deferred tax expense (recovery) expense	31,117	13,623	91,503	(16,479)
Dividend tax expense on preferred shares	687	762	2,762	3,062
<b>Income tax expense (recovery)</b>	<b>31,804</b>	<b>14,385</b>	<b>94,265</b>	<b>(13,417)</b>
<b>Income tax expense (recovery) per boe<sup>(1)</sup></b>	<b>\$4.41</b>	<b>\$2.00</b>	<b>\$3.31</b>	<b>(\$0.48)</b>

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

Birchcliff's income taxes are primarily impacted by the before-tax net income or loss position recorded in the respective period.

The Corporation's estimated income tax pools were \$1.9 billion at December 31, 2021. 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 December 31, 2021
Canadian oil and gas property expense	324,681
Canadian development expense	274,539
Canadian exploration expense	308,056
Undepreciated capital costs	239,899
Non-capital losses	703,153
SR&ED <sup>(1)</sup> & Investment tax credits	23,941
Financing costs and other	5,600
<b>Estimated income tax pools</b>	<b>1,879,869</b>

(1) Scientific research and experimental development ("SR&ED") tax pools.

## CAPITAL EXPENDITURES

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

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
Land	447	1,466	1,807	2,785
Seismic	514	158	1,117	840
Workovers	1,024	1,917	9,116	11,135
Drilling and completions	26,333	29,042	171,435	174,304
Well equipment and facilities	7,408	8,708	47,004	98,903
F&D capital expenditures <sup>(1)</sup>	35,726	41,291	230,479	287,967
Acquisitions	56	-	283	-
Dispositions	-	(12,892)	-	(12,877)
FD&A capital expenditures <sup>(2)</sup>	35,782	28,399	230,762	275,090
Administrative assets	293	379	1,718	1,695
<b>Total capital expenditures<sup>(2)</sup></b>	<b>36,075</b>	<b>28,778</b>	<b>232,480</b>	<b>276,785</b>

(1) See "Advisories – F&D Capital Expenditures" in this MD&A.

(2) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

During the three month Reporting Period, Birchcliff had F&D capital expenditures of \$35.7 million which primarily included \$24.9 million (70%) for the drilling of horizontal wells in Pouce Coupe. During the three month Reporting Period, Birchcliff drilled a total of 5 (5.0 net) wells.

During the twelve month Reporting Period, Birchcliff had F&D capital expenditures of \$230.5 million which primarily included \$130.7 million (57%) for the drilling and completion of horizontal wells in Pouce Coupe and \$40.7 million (18%) for the drilling and completion of horizontal wells in Gordondale. During the twelve month Reporting Period, Birchcliff drilled a total of 32 (32.0 net) wells and brought on production a total of 33 (33.0 net) wells.

The remaining capital during the Reporting Periods was primarily spent on land, seismic, well equipment and facilities, including gas gathering and optimization projects in the Montney/Doig Resource Play.

## CAPITAL RESOURCES AND LIQUIDITY

### Liquidity and Capital Resources

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

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
Cash flow from operating activities	196,142	71,431	515,369	188,180
Repurchase of common shares	(14,139)	-	(31,506)	(610)
Issuance of common shares	3,892	14	12,641	14
Repurchase of capital securities	(60)	(9,116)	(1,662)	(9,141)
Lease payments	(614)	(573)	(2,444)	(2,292)
Financing fees paid	-	-	(3,454)	-
Dividend distributions	(4,363)	(3,235)	(13,544)	(18,622)
Net change in revolving term credit facilities	(147,695)	(40,583)	(228,015)	121,120
Investments	(1,097)	-	(1,252)	-
Changes in non-cash working capital from investing	4,009	10,867	(13,650)	(1,874)
<b>Capital resources<sup>(1)</sup></b>	<b>36,075</b>	<b>28,805</b>	<b>232,483</b>	<b>276,775</b>

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

The capital-intensive nature of Birchcliff's operations requires it to maintain adequate sources of liquidity to fund its short-term and long-term financial obligations. Birchcliff's capital resources primarily consist of adjusted funds flow and available Credit Facilities, which the Corporation believes are sufficient to fund its working capital requirements, capital expenditure programs and dividend payments for the foreseeable future.

At December 31, 2021, Birchcliff had long-term debt under its Credit Facilities of \$500.9 million as compared to \$731.4 million at December 31, 2020 from available Credit Facilities of \$850.0 million and \$1.0 billion, respectively. After adjusting for outstanding letters of credit and unamortized fees, the Corporation had \$341.2 million of credit available at December 31, 2021 to fund future obligations. Birchcliff's Credit Facilities do not contain any financial maintenance covenants and do not mature until May 11, 2024. See "Capital Resources and Liquidity – Bank Debt" in this MD&A.

Birchcliff continues to proactively look for strategic risk management and market diversification opportunities in order to potentially reduce the overall volatility of its adjusted funds flow. Birchcliff's existing market diversification initiatives have increased its exposure to various natural gas sales trading hubs in North America. Birchcliff has agreements for the firm service transportation of an aggregate of 175,000 GJ/d of natural gas on TCPL's Canadian Mainline whereby natural gas is transported to the Dawn sales trading hub in Southern Ontario. Birchcliff also has various financial and physical risk management contracts in place up to 2025 with exposure to NYMEX HH pricing. See "Discussion of Operations – Petroleum and Natural Gas Revenue" and "Discussion of Operations – Risk Management" in this MD&A.

Birchcliff remains committed to significantly reducing indebtedness in order to reduce the risks to its business and provide the Corporation with optionality to consider sustainable increases to its common share dividend and common share buybacks. The Corporation believes that its anticipated 2022 adjusted funds flow of \$590 million will provide sufficient liquidity to fund its 2022 capital program, dividend distributions and working capital requirements. Free funds flow generated in 2022 will initially be prioritized towards debt reduction as the Corporation continues to focus on reducing its indebtedness. For further information, see "Capital Resources and Liquidity – Bank Debt", "2022 Outlook and Guidance" and "Advisories – Forward-Looking Statements" in this MD&A.



## Working Capital

The Corporation's adjusted working capital surplus<sup>(1)</sup> was \$1.5 million at December 31, 2021 as compared to an adjusted working capital deficit<sup>(1)</sup> of \$30.6 million at December 31, 2020. Adjusted working capital consists of items from normal day-to-day operations which includes trade receivables and payables, accruals, deposits and prepaid expenses and excludes the current portion of the fair value of financial instruments and capital securities. The change to a surplus position at December 31, 2021 was primarily due to the significant increases in benchmark oil and natural gas prices and the positive effects this had on Birchcliff's working capital balances.

At December 31, 2021, the major component of Birchcliff's current assets was revenue to be received from its commodity marketers in respect of December 2021 production (90%), which was subsequently received in January 2022. Birchcliff continues to monitor the financial strength of its marketers. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations. Current liabilities at December 31, 2021 primarily consisted of trade payables and accrued capital and operating expenses.

The Corporation's adjusted working capital varies from quarter to quarter primarily due to the timing of items included from normal operations, as well as the size and timing of the Corporation's total 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. The adjusted working capital position does not impact the amount available under its Credit Facilities.

## Bank Debt

Total debt at December 31, 2021 was \$499.4 million, a decrease of 34% from \$762.0 million at December 31, 2020. Total debt decreased primarily due to significant free funds flow generated in the Reporting Periods, which was primarily allocated to debt reduction. In the twelve month Reporting Period, Birchcliff generated \$539.7 million in adjusted funds flow and had \$230.5 million in F&D capital expenditures, resulting in free funds flow of \$309.3 million. Total debt in the twelve month Reporting Period was also impacted by proceeds received from the exercise of stock options of \$12.6 million, the cost to repurchase common shares under Birchcliff's normal course issuer bid of \$31.5 million and the payment of dividends of \$13.5 million. See "Discussion of Operations – Administrative Expense", "Outstanding Share Information – NCIB" and "Outstanding Share Information – Dividends" in this MD&A for details on the Corporation's stock option exercises, common share repurchases and dividend distributions.

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

As at December 31, (\$000s)	2021	2020
Maximum borrowing base limit <sup>(1)</sup> :		
Revolving term credit facilities	850,000	1,000,000
Principal amount utilized:		
Drawn revolving term credit facilities	(504,588)	(732,603)
Outstanding letters of credit <sup>(2)</sup>	(4,185)	(4,185)
	(508,773)	(736,788)
<b>Unused credit</b>	<b>341,227</b>	<b>263,212</b>
<b>% unused credit</b>	<b>40%</b>	<b>26%</b>

- (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 oil and gas reserves. In connection with the most recent semi-annual review of the borrowing base limit under the Credit Facilities, which was completed by the Corporation's syndicate of lenders in December 2021, the borrowing base limit was confirmed at \$850.0 million. In May 2021, the borrowing base limit under the Credit Facilities was reduced from \$1.0 billion to \$850.0 million and the maturity date was extended to May 11, 2024. Birchcliff's Credit Facilities include a provision giving the lenders the right to redetermine the borrowing base in certain circumstances, including if the Corporation's liability management rating ("LMR") is less than 2.0. Birchcliff's LMR at December 31, 2021 was 17.8. The Credit Facilities do not contain any financial maintenance covenants. See "Risk Factors – Credit Facilities" in this MD&A.
- (2) Letters of credit are issued to various service providers. The letters of credit reduce the amount available under the Working Capital Facility.

(1) Capital management measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

## Contractual Obligations and 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 December 31, 2021:

(\$000s)	2022	2023	2024-2026	Thereafter
Accounts payable and accrued liabilities	96,736	-	-	-
Drawn revolving term credit facilities	-	-	504,588	-
Firm transportation and fractionation <sup>(1)</sup>	146,554	130,837	321,367	107,133
Natural gas processing <sup>(2)</sup>	19,327	17,155	51,512	103,024
Operating commitments <sup>(3)</sup>	2,033	2,033	6,099	2,202
Capital commitments <sup>(4)</sup>	3,586	2,560	-	-
Lease payments	3,174	3,174	8,126	3,273
Capital securities <sup>(5)</sup>	38,268	-	-	-
<b>Estimated contractual obligations<sup>(6)</sup></b>	<b>309,678</b>	<b>155,759</b>	<b>891,692</b>	<b>215,632</b>

(1) Includes firm transportation service arrangements and fractionation commitments with third parties.

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

(3) Includes variable operating components associated with Birchcliff's head office premises.

(4) Includes drilling commitments.

(5) Birchcliff had 1,530,709 Series C Preferred Shares outstanding at December 31, 2021, which are redeemable by their holders at \$25.00 per share. For further details, see "Outstanding Share Information – Capital Securities" in this MD&A and the financial statements.

(6) 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 December 31, 2021 to be approximately \$245.0 million and are estimated to be incurred as follows: 2022 – \$3.3 million, 2023 – \$3.5 million and \$238.2 million thereafter. The estimate for determining the undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

## OFF-BALANCE SHEET TRANSACTIONS

The Corporation has certain arrangements, all of which are reflected in the contractual obligations and commitments table above, which were entered into in the normal course of operations.

## OUTSTANDING SHARE INFORMATION

At March 15, 2022, 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". 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 for the periods indicated:

	Common Shares
Balance at December 31, 2020	265,942,729
Exercise of stock options	4,090,375
Repurchase of common shares <sup>(1)</sup>	(5,242,700)
Balance at December 31, 2021	264,790,404
Exercise of stock options	1,753,536
Repurchase of common shares <sup>(1)</sup>	(754,300)
<b>Balance at March 15, 2022</b>	<b>265,789,640</b>

(1) Includes common shares that have been repurchased and cancelled pursuant to the 2021 and 2022 NCIB.

At March 15, 2022, the Corporation had the following securities outstanding: 265,789,640 common shares; 2,000,000 Series A Preferred Shares; 1,530,709 Series C Preferred Shares; 19,853,783 stock options to purchase an equivalent number of common shares; and 2,939,732 performance warrants to purchase an equivalent number of common shares.

## Normal Course Issuer Bid

On November 17, 2021, Birchcliff announced that the TSX had accepted the Corporation's notice of intention to make a normal course issuer bid (the "**2022 NCIB**"). Pursuant to the 2022 NCIB, Birchcliff may purchase up to 13,267,554 of its outstanding common shares over a period of twelve months commencing on November 25, 2021. The 2022 NCIB will terminate no later than November 24, 2022. Under the 2022 NCIB, common shares may be purchased in open market transactions on the TSX and/ or alternative Canadian trading systems at the prevailing market price at the time of such transaction. Pursuant to the rules of the TSX, the total number of common shares that Birchcliff is permitted to purchase is subject to a daily purchase limit of 382,548 common shares. However, Birchcliff may make one block purchase per calendar week which exceeds the daily purchase restriction. All common shares purchased under the 2022 NCIB will be cancelled. The 2022 NCIB effectively renewed the Corporation's previous normal course issuer bid under which the Corporation was permitted to purchase 13,296,936 common shares over the period from November 25, 2020 to November 24, 2021 (the "**2021 NCIB**"). During the twelve month Reporting Period, Birchcliff purchased and cancelled 5,242,700 common shares pursuant to the 2021 and 2022 NCIB at an average price of \$6.00 for an aggregate cost of \$31.5 million (before fees). Birchcliff purchased and cancelled 754,300 common shares pursuant to the 2022 NCIB at an average price of \$6.88 for an aggregate cost of \$5.2 million (before fees) from January 1, 2022 to March 15, 2022.

A security holder of the Corporation may obtain, for no charge, a copy of the notice in respect of the 2022 and 2021 NCIB filed with the TSX by contacting the Corporation at 403-261-6401.

## Capital Securities

Subject to the provisions of the *Business Corporations Act* (Alberta) (the "**ABCA**") and the provisions governing the Series C Preferred Shares (the "**Provisions**"), a holder of Series C Preferred Shares may, at its option, upon giving notice in accordance with the Provisions (the "**Notice of Redemption**"), redeem for cash, all or any number of Series C Preferred Shares held by such holder on the last day of a financial quarter at \$25.00 per share, together with all accrued and unpaid dividends to but excluding the date fixed for redemption.

Upon receipt of the Notice of Redemption, the Corporation may, at its option (subject, if required, to stock exchange approval), upon not less than 20 days' prior written notice, elect to convert all such Series C Preferred Shares into common shares. The number of common shares into which each Series C Preferred Share may be so converted will be determined by dividing the amount of \$25.00, together with all accrued and unpaid dividends to but excluding the date fixed for conversion, by the greater of \$2.00 and 95% of the "Current Market Price" (as determined in accordance with the Provisions) of the common shares.

The Corporation received Notices of Redemption for 66,471 Series C Preferred Shares in the twelve month Reporting Period which the Corporation elected to settle in cash at \$25.00 per share for a total redemption value of approximately \$1.7 million. In the twelve month Comparable Prior Period, the Corporation received Notices of Redemption for 402,820 Series C Preferred Shares. The Corporation elected to settle in cash the redemption of 365,655 Series C Preferred Shares at \$25.00 per share for a total of \$9.1 million and elected to convert the remaining 37,165 Series C Preferred Shares into common shares, issuing a total of 464,562 common shares.

## Dividends

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

	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
<i>Common shares:</i>				
Dividend distribution (\$000s)	2,646	1,330	6,639	10,968
Per common share (\$)	0.0100	0.0050	0.0250	0.0413
<i>Series A Preferred Shares:</i>				
Series A dividend distribution (\$000s)	1,047	1,047	4,187	4,187
Per Series A Preferred Share (\$)	0.5234	0.5234	2.0935	2.0935
<i>Series C Preferred Shares:</i>				
Series C dividend distribution (\$000s)	670	858	2,718	3,467
Per Series C Preferred Share (\$)	0.4375	0.4375	1.7500	1.7500

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

In the three month Reporting Period, the Corporation increased the amount of its quarterly common share dividend from \$0.005 per share (or \$0.02 per share annually) to \$0.01 per share (or \$0.04 per share annually). The quarterly common share dividend was reduced in the second quarter of 2020, in response to the COVID-19 pandemic and ensuing global price collapse, from \$0.02625 per share (or \$0.105 per share annually) to \$0.005 per share (or \$0.02 per share annually).

## 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,	Dec. 31, 2021	Sep. 30, 2021	Jun. 30, 2021	Mar. 31, 2021	Dec. 31, 2020	Sep. 30, 2020	Jun. 30, 2020	Mar. 31, 2020
Average light oil production (bbls/d)	2,604	2,878	2,766	3,355	3,566	4,405	5,744	3,954
Average condensate production (bbls/d)	5,330	5,990	6,070	5,467	6,658	7,266	4,825	4,524
Average NGLs production (bbls/d)	7,570	6,889	7,647	8,734	8,285	6,898	7,455	7,962
Average natural gas production (Mcf/d)	379,275	415,005	352,694	345,057	360,839	358,851	341,558	342,831
Average production (boe/d)	78,716	84,924	75,265	75,065	78,649	78,376	74,950	73,580
Average realized light oil sales price (\$/bbl) <sup>(1)(2)</sup>	92.79	83.52	76.50	67.02	49.56	48.50	25.72	53.18
Average realized condensate sales price (\$/bbl) <sup>(1)(2)</sup>	98.66	88.04	81.90	74.22	52.90	48.27	31.09	58.48
Average realized NGLs sales price (\$/bbl) <sup>(1)(2)</sup>	38.24	35.13	25.27	24.69	16.16	14.05	12.05	12.02
Average realized natural gas sales price (\$/Mcf) <sup>(1)(2)</sup>	5.52	4.46	3.48	3.52	2.93	2.48	2.22	2.29
Average realized sales price (\$/boe) <sup>(1)(2)</sup>	40.02	33.70	28.27	27.47	21.87	19.80	15.27	18.41
P&NG revenue (\$000s) <sup>(1)</sup>	289,806	263,348	193,643	185,609	158,283	142,779	104,180	123,263
Operating expense (\$/boe) <sup>(2)</sup>	3.50	2.96	3.14	3.18	3.03	2.73	2.89	3.14
F&D capital expenditures (\$000s) <sup>(3)</sup>	35,726	18,026	80,887	95,840	41,291	30,842	83,473	132,361
Total capital expenditures (\$000s) <sup>(4)</sup>	36,075	18,622	81,160	96,625	28,778	31,193	83,974	132,840
Cash flow from operating activities (\$000s)	196,142	155,606	81,013	82,608	71,431	52,977	13,221	50,551
Adjusted funds flow (\$000s) <sup>(4)</sup>	193,649	168,076	90,188	87,820	66,509	59,377	21,746	36,894
Per common share – basic (\$) <sup>(5)</sup>	0.73	0.63	0.34	0.33	0.25	0.22	0.08	0.14
Per common share – diluted (\$) <sup>(5)</sup>	0.70	0.61	0.33	0.33	0.25	0.22	0.08	0.14
Free funds flow (\$000s) <sup>(4)</sup>	157,923	150,050	9,301	(8,020)	25,218	28,535	(61,727)	(95,467)
Net income (loss) (\$000s)	107,149	139,413	44,901	23,213	41,454	(16,646)	(38,475)	(44,154)
Net income (loss) to common shareholders (\$000s)	106,102	138,367	43,854	22,166	40,407	(17,692)	(39,522)	(45,201)
Per common share – basic (\$)	0.40	0.52	0.16	0.08	0.15	(0.07)	(0.15)	(0.17)
Per common share – diluted (\$)	0.38	0.50	0.16	0.08	0.15	(0.07)	(0.15)	(0.17)
Total assets (\$ million)	2,960	2,993	2,996	2,941	2,902	2,912	2,929	2,871
Long-term debt (\$000s)	500,870	648,327	720,920	701,735	731,372	771,706	753,092	619,055
Total debt (\$000s) <sup>(6)</sup>	499,397	637,905	770,897	777,385	761,951	784,414	807,573	739,631
Dividends on common shares (\$000s)	2,646	1,330	1,333	1,330	1,330	1,330	1,327	6,981
Dividends on Series A Preferred Shares (\$000s)	1,047	1,046	1,047	1,047	1,047	1,046	1,047	1,047
Dividends on Series C Preferred Shares (\$000s)	670	671	678	699	858	859	875	875
Series A Preferred Shares outstanding (000s)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Series C Preferred Shares outstanding (000s)	1,531	1,533	1,533	1,550	1,597	1,962	1,963	2,000
Common shares outstanding (000s)								
Basic	264,790	265,573	266,953	266,045	265,943	265,935	265,935	265,935
Diluted	290,847	287,518	289,806	292,757	295,017	290,009	290,014	290,037
Weighted average common shares outstanding (000s)								
Basic	265,197	266,547	266,231	265,989	265,940	265,935	265,935	265,935
Diluted	276,600	276,282	270,155	266,370	265,985	265,935	265,935	265,935

(1) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.

(2) Supplementary financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

(3) See "Advisories – F&D Capital Expenditures" in this MD&A.

(4) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

(5) Non-GAAP financial ratio. See "Non-GAAP and Other Financial Measures" in this MD&A.

(6) Capital management measure. See "Non-GAAP and Other Financial Measures" in this MD&A.

Quarterly average daily production volumes were impacted primarily by Birchcliff's successful drilling of condensate-rich natural gas and light oil horizontal wells in Pouce Coupe and Gordondale and the timing thereof and natural production declines during those periods. Light oil production has generally trended lower in the last six quarters primarily due to the Corporation specifically targeting horizontal natural gas wells in liquid-rich zones in the Pouce Coupe and Gordondale areas.

P&NG revenue and adjusted funds flow in the last eight quarters were largely impacted by the average realized sales price received for Birchcliff's production. Birchcliff's average realized sales prices benefited from the significant increases in benchmark oil and natural gas prices since the second quarter of 2020 as the global economy began to recover from the impacts of the COVID-19 pandemic. Over the last eight quarters, Birchcliff's adjusted funds flow was also impacted by realized gains and losses on the settlement of financial instruments due to added market diversification initiatives, higher trending transportation and other expense, primarily as a result of additional AECO and Dawn firm service, and an increase in income tax expense.

Birchcliff's net income and loss in each of the last eight quarters was largely impacted by adjusted funds flow and certain non-cash adjustments, including depletion expense and unrealized mark-to-market gains and losses on financial instruments due to added market diversification initiatives.

The Corporation's F&D capital expenditures fluctuate quarter to quarter based on the Corporation's outlook for commodity prices and market conditions and the level of drilling and completions operations and other capital projects and the timing thereof.

Quarterly fluctuations in long-term debt and total debt are primarily driven by available free funds flow which is impacted by changes in adjusted funds flow and the amount and timing of F&D capital expenditures. Long-term debt in the last three quarters has trended lower due to significant free funds flow generation, which was primarily allocated towards debt reduction in line with management's commitment to significantly reduce indebtedness.

The Corporation pays dividends on its common shares, Series A Preferred Shares and Series C Preferred Shares when declared and approved by the Board of Directors. On November 30, 2021, the Corporation increased the amount of its quarterly common share dividend from \$0.005 per share to \$0.01 per share with the first increased payment taking effect for the quarter ended December 31, 2021. On June 2, 2020, the Corporation reduced the amount of its quarterly common share dividend from \$0.02625 per share to \$0.005 per share with the first reduced payment taking effect for the quarter ended June 30, 2020. As a result of these rate changes, the dividends paid on the common shares after March 31, 2020 were significantly lower, however, have increased in the most recently completed quarter.

Since March 31, 2020, Birchcliff has received Notices of Redemptions for a total of 469,291 Series C Preferred Shares. As a result of the redemptions, the dividends paid on the Series C Preferred Shares over the seven most recently completed quarters have decreased since the quarter ended March 31, 2020.

## 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

### Disclosure Controls and Procedures

The Corporation's Chief Executive Officer and Chief Financial Officer (the "**Certifying Officers**") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("**DC&P**"), as defined in National Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings* ("**NI 52-109**"), to provide reasonable assurance that: (i) material information relating to the Corporation is made known to the Certifying Officers by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings, or other reports filed or submitted by the Corporation under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's DC&P at December 31, 2021 and have concluded that the Corporation's DC&P were effective at December 31, 2021.

While the Certifying Officers believe that the Corporation's DC&P provide a reasonable level of assurance and are effective, they do not expect that the DC&P will prevent all errors and fraud. A control system, no matter how well conceived, maintained and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met.

## Internal Control over Financial Reporting

The Certifying Officers have designed, or caused to be designed under their supervision, internal control over financial reporting (“ICFR”), as defined in NI 52-109, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles applicable to the Corporation. The control framework the Certifying Officers used to design the Corporation’s ICFR is *Internal Control – Integrated Framework (2013)* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation’s ICFR at December 31, 2021 and have concluded that the Corporation’s ICFR was effective at December 31, 2021. There were no changes in the Corporation’s ICFR that occurred during the period beginning on October 1, 2021 and ended on December 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Corporation’s ICFR. Birchcliff’s ICFR was not impacted by the COVID-19 pandemic during the Reporting Periods.

While the Certifying Officers believe that the Corporation’s ICFR provides a reasonable level of assurance and is effective, they do not expect that the ICFR will prevent all errors and fraud. A control system, no matter how well conceived, maintained and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met.

## CRITICAL ACCOUNTING ESTIMATES

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and 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.

### Critical Judgments in Applying Accounting Policies

The following are the critical judgments that management has made in the process of applying the Corporation’s accounting policies and that have the most significant effect on the amounts recognized in its financial statements:

#### *Identification of Cash-Generating Units*

Birchcliff’s assets are required to be aggregated into CGUs for the purpose of calculating impairment based on their ability to generate largely independent cash inflows. CGUs have been determined based on similar geological structure, shared infrastructure, geographical proximity, operating structure, commodity type and similar exposures to market risks. By their nature, these assumptions are subject to management’s judgment and may impact the carrying value of the Corporation’s assets in future periods.

#### *Identification of Impairment Indicators*

IFRS requires Birchcliff to assess, at each reporting date, whether there are any internal or external indicators that its petroleum and natural gas properties and equipment within a CGU may be impaired. Birchcliff is required to consider information from both external sources (such as negative downturn in forecasted oil and gas commodity prices, significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in the estimate of proved and probable oil and gas reserves and the related cash flows, significant adverse effect on the financial and operational performance of a CGU, evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management’s judgment.

#### *Tax Uncertainties*

IFRS requires Birchcliff, at each reporting date, to make certain judgments on uncertain tax positions by relevant tax authorities. Judgments include determining whether the Corporation will “more likely than not” be successful in defending its tax positions by considering information from relevant tax interpretations and tax laws in Canada. As such, this recognition threshold is subject to management’s judgment and may impact the carrying value of the Corporation’s deferred tax assets and liabilities at the end of the reporting period.

#### *Lease Obligation*

IFRS requires Birchcliff to make certain judgements in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

## Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities within the next financial year:

### Reserves

Reported recoverable quantities of proved and probable oil and gas reserves and the related cash flows requires estimation and are subject to assumptions regarding forecasted production profile, forecasted oil and gas commodity prices, forecasted operating costs, forecasted royalty costs and forecasted future development costs. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economical, geological and technical factors used to estimate proved and probable oil and gas reserves may change from period to period. Changes in reported proved and probable oil and gas reserves can impact the carrying values of the Corporation's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The estimated recoverable quantities of proved and probable oil and gas reserves and the related cash flows from Birchcliff's petroleum and natural gas interests are evaluated by independent third party reserve evaluators at least annually.

The Corporation's proved and probable oil and gas reserves represent the estimated quantities of petroleum, natural gas and NGLs which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such proved and probable oil and gas reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proved and probable if producibility is supported by either production or conclusive formation tests. Birchcliff's proved and probable oil and gas reserves are determined in accordance with the standards contained in NI 51-101 and the *Canadian Oil and Gas Evaluation Handbook* (the "**COGE Handbook**").

### Share-Based Payments

All equity-settled, share-based awards issued by the Corporation are fair valued using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

### Decommissioning Obligations

The Corporation estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires an estimate regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these risk-free cash flows.

### Post-Employment Benefit Obligation

The Corporation estimates the post-employment benefit obligation at the end of each reporting period. In most instances, the obligation occurs many years into the future. The Corporation uses estimates related to the initial measurement of the obligation for eligible employees including expected age of employee retirement, employee turnover, probability of early retirement, discount rate and inflation rate on salary and benefits. From time to time, these estimates may change causing the obligation recorded by the Corporation to change.

### Lease Obligation

Lease obligations are estimated using the rate implicit in the lease unless this rate is not readily determinable, in which case a discount rate equal to the Corporation's incremental borrowing rate is used. This rate represents the rate that the Corporation would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

### ***Impairment of Non-Financial Assets***

For the purposes of determining the extent of any impairment or its reversal, estimates must be made regarding proved and probable oil and gas reserves and the related cash flows considering significant assumptions including forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, forecasted royalty costs and forecasted future development costs. These significant assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the discount rate estimate used to discount the cash flow estimates related to proved and probable oil and gas reserves. Changes in the aforementioned assumptions could affect the carrying amount of the Corporation's assets, and impairment charges and reversal will affect profit or loss.

### ***Income Taxes***

Birchcliff files corporate income tax, goods and services tax and other tax returns with various provincial and federal taxation authorities in Canada. There can be differing interpretations of applicable tax laws and regulations. The resolution of these tax positions through negotiations or litigation with tax authorities can take several years to complete. The Corporation does not anticipate that there will be any material impact upon the results of its operations, financial position or liquidity.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. Estimates of future taxable income are based on forecasted cash flows from operations. To the extent that any interpretation of tax law is challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability of Birchcliff to realize the deferred tax assets recorded at the statement of financial position date could be impacted.

## **RISK FACTORS**

**Investors should carefully consider the risk factors set out below and consider all other information contained herein and in the Corporation's other public filings before making an investment decision. The risks set out below are not an exhaustive list and should not be taken as a complete summary or description of all the risks associated with the Corporation's business and the oil and natural gas business generally. If any of the risks set out below materialize, the Corporation's business, financial condition, results of operations, prospects, cash flow and reputation may be adversely affected, which may, in turn, reduce or restrict the Corporation's ability to pay dividends and may materially affect the market prices of the Corporation's securities.**

### **Commodity Prices, Markets and Marketing**

***Various factors may adversely impact the prices and marketability of oil, natural gas and NGLs, affecting the Corporation's revenue, production volumes, development and exploration activities, value of its reserves, cash flow and ability to access capital***

The Corporation's revenue, operating results and financial condition depend substantially on the prevailing prices for oil and natural gas and the Corporation's ability to successfully market its oil and natural gas production from its properties. Numerous factors beyond the Corporation's control do, and will continue to, affect the marketability and price of oil and natural gas acquired, produced or discovered by the Corporation.

The Corporation's ability to market its oil and natural gas may depend upon its ability to acquire capacity on pipelines that deliver natural gas, oil and NGLs to commercial markets or contract for the delivery of oil by rail (see "*Risk Factors – Gathering and Processing Facilities, Pipeline Systems, Trucks and Rail*"). Deliverability uncertainties include the distance the Corporation's reserves are from pipelines, railway lines, processing and storage facilities and operational problems affecting pipelines, railway lines and facilities.



Prices for oil and natural gas may fluctuate widely in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors that are beyond the Corporation's control. These factors include, but are not limited to, the following:

- domestic and global supply of, and demand for, oil, NGLs and natural gas;
- concerns regarding COVID-19 and its impact on the supply of, and demand for, oil, NGLs and natural gas;
- global oil, NGLs and natural gas inventory levels;
- volatility and trading patterns in the commodity-futures markets;
- the proximity, capacity, cost and availability of pipelines and other transportation facilities;
- the capacity of refiners to utilize available supplies of oil and NGLs;
- weather conditions affecting supply and demand;
- overall domestic and global economic conditions;
- political conditions, instability and hostilities;
- conflicts in the Middle East, Eastern Europe and elsewhere and sanctions imposed on certain oil producing nations by other countries;
- the actions of OPEC, its members and other state-controlled oil companies relating to oil price and production controls;
- currency fluctuations;
- the price and quantity of oil, NGLs and LNG imports to and exports from the US and other countries;
- the development of new hydrocarbon exploration, production and transportation methods or technological advancements in existing methods;
- capital investments by oil and natural gas companies relating to the exploration, development and production of hydrocarbons;
- social attitudes or policies affecting energy consumption and energy supply;
- domestic and foreign governmental regulations, including environmental regulations, climate change regulations and taxation;
- shareholder activism or activities by non-governmental organizations to limit sources of capital for the energy sector or restrict the exploration, development and production of oil, NGLs and natural gas;
- the effects of energy conservation efforts and GHG reduction measures; and
- the price, availability and acceptance of alternative energies, including renewable energy.

Any substantial and prolonged decline in the price of oil and natural gas would have an adverse effect on the carrying value of the Corporation's assets, borrowing capacity, revenue, profitability and cash flow from operating activities and may have a material adverse effect on the Corporation's business, financial condition, results of operations, prospects, its ability to pay dividends and ultimately on the market prices of the Corporation's securities.

A material decline in oil and natural gas prices could result in a reduction in the Corporation's net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas. The Corporation might also elect not to produce from certain wells at lower prices. In addition, any prolonged period of low oil or natural gas prices could result in a decision by the Corporation to suspend or slow exploration and development activities or the construction or expansion of new or existing facilities or reduce its production levels.

Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisitions and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on the value of such properties. Price volatility also makes it difficult to budget for and project the return on potential acquisitions or development and exploitation projects.

Lower commodity prices may also affect the volume and value of the Corporation's reserves, rendering certain reserves uneconomic for development. The Corporation's reserves at December 31, 2021 are estimated using forecast prices and costs. If oil and natural gas prices decrease, the Corporation's reserves may be substantially reduced as economic limits of developed reserves are reached earlier and undeveloped reserves become uneconomic at such prices. Even if some reserves remain economic at lower price levels, sustained low prices may compel the Corporation to re-evaluate its development plans and reduce or eliminate various projects with marginal economics. Any decrease in the value of the Corporation's reserves may reduce the borrowing base under the Credit Facilities, which, depending on the level of the Corporation's indebtedness, could result in the Corporation having to repay a portion of its indebtedness. See "*Risk Factors – Credit Facilities*".

In addition, lower commodity prices restrict the Corporation's cash flow resulting in less funds being available to fund the Corporation's capital expenditure programs. The Corporation's capital expenditure plans are impacted by the Corporation's cash flow. Consequently, the Corporation may not be able to replace its production with additional reserves and both the Corporation's production and reserves could be reduced on a year-over-year basis.

In addition to possibly resulting in a decrease in the value of the Corporation's economically recoverable reserves, lower commodity prices may also result in a decrease in the value of the Corporation's infrastructure and facilities, all of which could also have the effect of requiring a write-down of the carrying value of its oil and natural gas assets on its balance sheet and the recognition of an impairment charge on its income statement.

### **Exploration, Development and Production Risks**

#### ***The Corporation's business, operations and financial condition may be affected by the financial, operational, environmental and safety risks associated with the exploration, development and production of oil and natural gas***

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, the Corporation's existing reserves and the production therefrom, will decline over time as the Corporation produces from such reserves. A future increase in the Corporation's reserves will depend on both the ability of the Corporation to explore and develop its existing properties and its ability to select and acquire suitable producing properties or prospects. There is no assurance that the Corporation will be able to continue to find satisfactory properties to acquire or participate in. Moreover, management of the Corporation may determine that current markets, terms of acquisition, participation or pricing conditions make potential acquisitions or participation uneconomic. There is also no assurance that the Corporation will discover or acquire further commercial quantities of oil and natural gas. The success of the Corporation's business is highly dependent on its ability to acquire or discover new reserves in a cost-efficient manner as substantially all of the Corporation's cash flow is derived from the sale of the petroleum and natural gas reserves that it accumulates and develops. In order to remain financially viable, the Corporation must be able to replace reserves over time at a lesser cost on a per unit basis than its cash flow on a per unit basis.

Future oil and natural gas exploration may involve unprofitable efforts from dry wells or wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, completing (including hydraulic fracturing), operating and other costs. Completion of a well does not ensure a profit on the investment or recovery of drilling, completion and operating costs.

Drilling hazards, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. Field operating conditions include, but are not limited to, delays in obtaining governmental approvals or consents, the shutting-in of wells resulting from extreme weather conditions, insufficient storage or transportation capacity or geological and mechanical conditions. While diligent well supervision, effective maintenance operations and the development and utilization of enhanced recovery technologies can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, spills and other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property or the environment and cause personal injury or threaten wildlife. Particularly, the Corporation may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to the Corporation.

Oil and natural gas production operations are also subject to geological and seismic risks, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

As is standard industry practice, the Corporation is not fully insured against all risks, nor are all risks insurable. Although the Corporation maintains liability and business interruption insurance in amounts that it considers consistent with industry practice, liabilities associated with certain risks could exceed policy limits or not be covered. In either event, the Corporation could incur significant costs. See "Risk Factors – Insurance".

## Project Risks

### ***The success of the Corporation's operations may be negatively impacted by factors outside of its control resulting in operational delays and cost overruns***

The Corporation manages a variety of small and large projects in the conduct of its business. Project delays and interruptions may delay expected revenue from operations. Significant project cost overruns could make a project uneconomic. The Corporation's ability to execute projects and successfully market its oil, NGLs and natural gas depends upon numerous factors beyond the Corporation's control, including:

- the availability and proximity of processing and pipeline capacity;
- the availability of storage capacity;
- the availability of, and the ability to acquire, water supplies needed for drilling and hydraulic fracturing and the Corporation's ability to dispose of water used or removed from strata at a reasonable cost and in accordance with applicable environmental regulations;
- the effects of inclement and severe weather events, including fire, drought and flooding;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- regulatory changes;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, the Corporation could be unable to execute projects on time, on budget, or at all, and may be unable to effectively market the oil, NGLs and natural gas that it produces.

## Gathering and Processing Facilities, Pipeline Systems, Trucking and Rail

### ***Lack of capacity and/or regulatory constraints on gathering and processing facilities, pipeline systems and railway lines may have a negative impact on the Corporation's ability to produce and sell its oil and natural gas***

The Corporation delivers its products through gathering and processing facilities, pipeline systems, by truck and, in certain circumstances, by rail. The amount of oil and natural gas that the Corporation can produce and sell is subject to the accessibility, availability, proximity and capacity of these gathering and processing facilities, pipeline systems, trucks and railway lines. Unexpected shutdowns or curtailment of capacity of pipelines for maintenance or integrity work or because of actions taken by regulators could also affect the Corporation's production and operations which may have a material adverse effect on its business and financial condition.

The Corporation's production passes through Birchcliff owned or third-party infrastructure prior to it being ready for sale. There is a risk that should this infrastructure fail and cause a significant portion of the Corporation's production to be shut-in and unable to be sold, this could have a material adverse effect on the Corporation's available cash flow. With respect to facilities owned by third parties and over which the Corporation has no control, these facilities may discontinue or decrease operations, either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could have a material adverse effect on the Corporation's ability to process its production and deliver the same to market. Midstream and pipeline companies may take actions to maximize their return on investment which may in turn adversely affect producers and shippers, especially when combined with a regulatory framework that may not always align with the interests of particular shippers.

Further, the Corporation has certain long-term take-or-pay commitments to deliver products through third-party owned infrastructure which creates a financial liability and there can be no assurance that future volume commitments will be met which may adversely affect the Corporation's financial condition and cash flow from operating activities.

## **Market Prices of the Corporation's Securities**

***The market prices of the Corporation's securities may be volatile and adversely affected by factors related and unrelated to the oil and natural gas industry and cannot be accurately predicted***

The market prices of the Corporation's securities may be volatile, which may affect the ability of holders to sell such securities at an advantageous price. The market prices of the securities of oil and natural gas issuers, including the Corporation, is subject to substantial volatility often based on factors related and unrelated to the financial performance or prospects of the issuers involved. Factors unrelated to the Corporation's performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices and/or current perceptions of the oil and natural gas market. This includes, but is not limited to, changing (and in some cases negative) investor sentiment towards energy-related businesses. In recent years, the volatility of oil and natural gas commodity prices and the securities of issuers involved in the oil and natural gas business, has increased due, in part, to the implementation of computerized trading and the decrease of discretionary commodity trading. The volatility, trading volume and market prices of oil and natural gas issuers have been impacted by increasing investment levels in passive funds that track major indices and only purchase securities included in such indices and subsequently dispose of those securities if they are excluded from such indices. In addition, many institutional investors, pension funds and insurance companies, including government sponsored entities, have implemented investment strategies increasing their investments in low-carbon assets and businesses while decreasing the carbon intensity of their portfolios through, among other measures, divestments. These factors have impacted the volatility and liquidity of certain securities and put downward pressure on the market prices of those securities.

Similarly, the market prices of the Corporation's securities could be subject to significant fluctuations in response to variations in the Corporation's operating results, financial condition, liquidity and other internal factors. In addition, market price fluctuations in the Corporation's securities may also be due to the Corporation's results failing to meet the expectations of securities analysts or investors in any quarter, downward revisions in securities analysts' estimates and material public announcements by the Corporation, along with a variety of additional factors, including, without limitation, those set forth under "Advisories – Forward-Looking Statements". Accordingly, the prices at which the Corporation's securities will trade cannot be accurately predicted.

## **Political Uncertainty**

***The Corporation's business may be adversely affected by political and social events and decisions made in Canada and elsewhere***

The Corporation's results can be adversely impacted by political, legal or regulatory developments in Canada and elsewhere that affect local operations and local and international markets. Changes in government, government policy or regulations, changes in law or the interpretation of settled law, third-party opposition to industrial activity generally or projects specifically, and the duration of regulatory reviews could impact the Corporation's existing operations and planned projects. This includes actions by regulators or other political actors to delay or deny necessary licenses and permits for the Corporation's activities or restrict the operation of third-party infrastructure that the Corporation relies on. Additionally, changes in environmental regulations, assessment processes or other laws, and increasing and expanding stakeholder consultation (including Indigenous stakeholders), may increase the cost of compliance or reduce or delay available business opportunities and adversely impact the Corporation's results.

Other government and political factors that could adversely affect the Corporation's financial results include increases in taxes or government royalty rates (including retroactive claims) and changes in trade policies and agreements. Further, the adoption of regulations mandating efficiency standards and the use of alternative fuels or uncompetitive fuel components could affect the Corporation's operations. Many governments are providing tax advantages and other subsidies to support alternative energy sources or are mandating the use of specific fuels or technologies. Governments and others are also promoting research into new technologies to reduce the cost and increase the scalability of alternative energy sources and the success of these initiatives may decrease the demand for the Corporation's products.

A change in federal, provincial or municipal governments in Canada may have an impact on the directions taken by such governments on matters that may impact the oil and natural gas industry, including the balance between economic development and environmental policy. The oil and natural gas industry has become an increasingly politically polarizing topic in Canada, which has resulted in a rise in civil disobedience surrounding oil and natural gas development, particularly with respect to infrastructure projects. Protests, blockades and demonstrations have the potential to delay and disrupt the Corporation's activities.

## COVID-19 and Its Effect on the Global Economy

### ***The COVID-19 pandemic continues to cause disruptions in economic activity in Canada and internationally and impact the demand for oil, NGLs and natural gas***

In March 2020, the World Health Organization declared COVID-19 a global pandemic, prompting many countries around the world to close international borders and order the closure of institutions and businesses deemed non-essential. This resulted in a swift and significant reduction in economic activity in Canada and internationally along with a sudden drop in the demand for oil, NGLs and natural gas. Since 2020, oil prices have largely recovered from their historic lows, but price support from future demand remains uncertain as countries experience varying degrees of virus outbreak and newly emerging virus variants following efforts to re-open local economies and international borders. Low commodity prices resulting from reduced demand associated with the impact of COVID-19 has had, and may continue to have, a negative impact on the Corporation's operational results and financial condition. Low prices for oil, NGLs and natural gas would reduce the Corporation's cash flow from operating activities and impact the Corporation's level of capital investment and may result in the reduction of production at certain producing properties. See *"Risk Factors – Commodity Prices, Markets and Marketing"*.

While the duration and full impact of the COVID-19 pandemic is not yet known, the effects of COVID-19 may also include disruptions to production operations, access to materials and services, increased employee absenteeism from illness and temporary closures of the Corporation's facilities.

The extent to which the Corporation's operational and financial results are affected by COVID-19 will depend on various factors and consequences beyond its control, such as the duration and scope of the pandemic, additional actions taken by business and government in response to the pandemic, and the speed and effectiveness of responses to combat the virus. Additionally, COVID-19 and its effect on local and global economic conditions stemming from the pandemic could also aggravate the other risk factors identified herein, the extent of which is not yet known.

## Climate Change

### ***Climate change may pose varied and far ranging risks to the business and operations of the Corporation, both known and unknown, which may adversely affect its business, operations and financial condition***

Global climate issues continue to attract public and scientific attention. Numerous reports, including reports from the Intergovernmental Panel on Climate Change, have engendered concern about the impacts of human activity, especially hydrocarbon combustion, on global climate issues. In turn, increasing public, government and investor attention is being paid to global climate issues and to emissions of GHGs, including emissions of CO<sub>2</sub> and methane from the production and use of oil, NGLs and natural gas. The majority of countries across the globe, including Canada, have agreed to reduce their carbon emissions in accordance with the Paris Agreement. In addition, during the course of the 2021 United Nations Climate Change Conference in Glasgow, Scotland, Canada's Prime Minister Justin Trudeau made several pledges aimed at reducing Canada's GHG emissions and environmental impact.

As discussed in further detail below, the Corporation faces various risks associated with climate change. The Corporation has grouped its risks related to climate change into two main categories: physical risks and transition risks. Physical risks have been further sub-divided into acute physical risks (those that are event-driven, including increased severity of extreme weather events) and chronic physical risks (those that relate to longer-term shifts in climate patterns). Transition risks have been further sub-divided into reputational, market, regulatory and policy, legal and technology risks.

### ***Physical Risks – Acute***

Climate change has been linked to an increased severity and frequency of extreme weather. Extreme hot and cold weather, heavy snowfall, heavy rainfall and wildfires may restrict or interfere with the Corporation's operations, increasing its costs and negatively impacting its production. For example, extreme weather may impact the Corporation's ability to complete capital projects, facility turnarounds, maintenance and repairs on time. See *"Risk Factors – Seasonality and Extreme Weather"*.

Moreover, extreme weather conditions may lead to disruptions in the Corporation's ability to transport its production, as well as goods and services in its supply chains. Extreme weather also increases the risk of damage to infrastructure and equipment and the risk of injury to the Corporation's personnel due to dangerous working conditions. Certain of the Corporation's properties are situated in locations that are proximate to forests and rivers and a wildfire or flood may lead to significant downtime and/or damage to the Corporation's assets.

### ***Physical Risks – Chronic***

Climate change has been linked to long-term shifts in climate patterns, including rising mean temperature and sea levels and long-term changes in precipitation patterns. As the level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns, long-term shifts in climate patterns pose the risk of exacerbating operational delays and other risks posed by seasonal weather patterns.

In addition, long-term shifts in weather patterns such as water scarcity, increased frequency of storms and fires and prolonged heat waves may, among other things, require the Corporation to incur greater expenditures (time and capital) to deal with the challenges posed by such changes to its premises, operations, supply chain, transport needs and employee safety, which may in turn have a material adverse effect on the Corporation's business, operations and financial condition. In the event of water shortages or sourcing issues, the Corporation may not be able to, or will incur greater costs to, carry out hydraulic fracturing. See "*Risk Factors – Hydraulic Fracturing*".

### ***Transition Risks – Reputational***

The Corporation's business, financial condition, operations or prospects may be negatively impacted as a result of any negative public opinion towards the Corporation or as a result of any negative sentiment towards, or in respect of, the Corporation's reputation with stakeholders, special interest groups, political leadership, the media or other entities. Public opinion may be influenced by certain media and special interest groups' negative portrayal of the industry in which the Corporation operates, as well as their opposition to certain oil and natural gas projects.

Concerns about climate change have resulted in a number of environmental activists and members of the public opposing the continued exploitation and development of fossil fuels which has influenced investors' willingness to invest in the oil and natural gas industry. Historically, political and legal opposition to the fossil fuel industry focused on public opinion and the regulatory process. More recently, however, there has been a movement to more directly hold governments and oil and natural gas companies responsible for climate change through climate litigation. In November 2018, ENvironment JEUnesse, a Québec advocacy group, applied to the Québec Superior Court to certify all Quebecois under 35 as a class in a proposed class action lawsuit against the Government of Canada for climate-related matters. The application was denied and ENvironment JEUnesse appealed to the Appeal Court of Québec on February 23, 2021, which appeal was dismissed on December 31, 2021. In January 2019, the City of Victoria became the first municipality in Canada to endorse a class action lawsuit against oil and natural gas producers for alleged climate-related harms. The Union of British Columbia Municipalities defeated the City of Victoria's motion to initiate a class action lawsuit to recover costs it claims are related to climate change.

Given the perceived elevated long-term risks associated with policy development, regulatory changes, public and private legal challenges, or other market developments related to climate change, there have also been efforts in recent years affecting the investment community, including investment advisors, sovereign wealth funds, banks, public pension funds, universities and other institutional investors, promoting direct engagement and dialogue with companies in their portfolios on climate change action (including exercising their voting rights on matters relating to climate change) and increased capital allocation to investments in low-carbon assets and businesses, while decreasing the carbon intensity of their portfolios through, among other measures, divestments of companies with high exposure to GHG-intensive operations and products. Certain stakeholders have also pressured insurance providers and commercial and investment banks to reduce or stop providing insurance coverage and financing to oil and natural gas companies and related infrastructure businesses and projects. The impact of such efforts may adversely affect the Corporation's operations and the demand for and price of the Corporation's securities and may negatively impact the Corporation's cost of capital and access to the capital markets. In addition, the Corporation's management may be required to dedicate significant time and resources to these climate change-related concerns.

See "*Risk Factors – Changing Investor Sentiment*", "*Risk Factors – Public Opinion and Reputational Risk*" and "*Risk Factors – Public Opposition and Non-Governmental Organizations*".

### ***Transition Risks – Market***

Concerns over climate change, fossil fuels, GHG emissions and water and land-use could lead to reduced demand for the oil, natural gas and NGLs that the Corporation produces, which would have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. See "*Risk Factors – Alternatives to and Changing Demand for Petroleum Products*".

### ***Transition Risks – Regulatory and Policy***

Foreign and domestic governments continue to evaluate and implement policy, legislation and regulations focused on restricting GHG emissions and promoting adaptation to climate change and the transition to a low-carbon economy. It is not possible to predict what measures foreign and domestic governments may implement in this regard, nor is it possible to predict the requirements that such measures may impose or when such measures may be implemented. However, international multilateral agreements, the obligations adopted thereunder and legal challenges concerning the adequacy of climate-related policy brought against foreign and domestic governments may accelerate the implementation of these measures.

Existing and future laws and regulations may impose significant liabilities for a failure to comply with their requirements. Concerns over climate change, fossil fuels, GHG emissions and water and land-use could lead to the enactment of more stringent laws and regulations applicable to the Corporation. Any new laws and regulations (or additional requirements to existing laws and regulations) could have a material impact on the Corporation's business, financial condition, results of operations and prospects.

Adverse impacts to the Corporation's business as a result of GHG legislation may include, but are not limited to, increased compliance costs, permitting delays, increased operating costs and capital expenditures. Given the evolving nature of climate change policy and the control of GHG emissions and resulting requirements, including carbon taxes and carbon pricing schemes implemented by varying levels of government, it is expected that current and future climate change regulations will have the effect of increasing the Corporation's operating expenses and, in the long-term, potentially reducing the demand for oil and natural gas resulting in a decrease in the Corporation's profitability and a reduction in the value of its assets or requiring impairments for financial statement purposes.

The Corporation's exploration and production facilities and other operations and activities emit GHGs which requires the Corporation to comply with applicable GHG emissions legislation. The Corporation is subject to Alberta's *Technology Innovation and Emissions Reduction Regulation* and may become subject to future regional, provincial and/or federal climate change regulations to manage GHG emissions.

With respect to environmental, social, governance and climate reporting, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators published for comment proposed National Instrument 51-107 – *Disclosure of Climate Related Matters*, intended to introduce climate-related disclosure requirements for reporting issuers in Canada. If the Corporation is not able to meet future sustainability reporting requirements of regulators or current and future expectations of investors, insurance providers, lenders or other stakeholders, its business and ability to attract and retain skilled employees, obtain regulatory permits, licences, registrations, approvals and authorizations from various governmental authorities, and raise capital may be adversely affected.

See "*Risk Factors – Regulatory*", "*Risk Factors – Environmental*", "*Risk Factors – Evolving Corporate Governance, Sustainability and Reporting Framework*" and "*Risk Factors – Carbon Pricing Risk*".

### ***Transition Risks – Legal***

Claims have been made against certain energy companies alleging that GHG emissions from oil and natural gas operations constitute a public nuisance under certain laws or that such energy companies provided misleading disclosure to the public and investors of current or future risks associated with climate change. As a result, individuals, government authorities or other organizations may make claims against oil and natural gas companies, for alleged personal injury, property damage or other potential liabilities. While the Corporation is not a party to any such litigation or proceedings, it could be named in actions making similar allegations. An unfavorable ruling in any such case could adversely affect the demand for and price of securities issued by the Corporation, impact its operations and have an adverse effect on its financial condition, which could prove to be material. See "*Risk Factors – Litigation*".

### ***Transition Risks – Technology***

The adoption of new technologies by the Corporation to deal with climate change could require a significant capital investment. See "*Risk Factors – Cost of New Technologies*".

## Regulatory

### ***Modification to current, or implementation of additional, regulations may reduce the demand for oil and natural gas, increase the Corporation's costs and/or delay planned operations***

The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce the demand for oil and natural gas, increase the Corporation's costs or make certain projects uneconomic, any of which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. Further, the ongoing third-party challenges to regulatory decisions and orders has reduced the efficiency of the regulatory regime, as the implementation of the decisions and orders has been delayed resulting in uncertainty and interruption to the business of the oil and natural gas industry.

In order to conduct oil and natural gas operations, the Corporation requires regulatory permits, licences, registrations, approvals and authorizations from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all of the permits, licences, registrations, approvals and authorizations that may be required to conduct operations that it may wish to undertake in the time required or on acceptable terms and conditions. Any failure to renew, maintain or obtain the required permits, licences, registrations, approvals and authorizations or the revocation or termination of the same may disrupt the Corporation's operations and have a material adverse effect on the Corporation's business and financial condition. In addition, the Corporation may have to comply with the requirements of certain federal legislation such as the *Competition Act* (Canada) and the *Investment Canada Act* (Canada), which may adversely affect its business and financial condition and the market value of its securities or assets, particularly when undertaking, or attempting to undertake, an acquisition or disposition.

## Environmental

### ***Compliance with environmental regulations requires the dedication of a portion of the Corporation's financial and operational resources***

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, the initiation and approval of new oil and natural gas projects and restrictions and prohibitions on the spill, release or emission of various substances produced in association with oil and natural gas industry operations. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites.

Compliance with environmental legislation can require significant expenditures and/or result in operational restrictions. A breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it is in material compliance with current applicable environmental legislation, no assurance can be given that environmental compliance requirements will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

In addition, new environmental legislation may increase uncertainty among oil and natural gas participants as the new legislation is implemented. The implementation of new environmental legislation or the modification of existing legislation affecting the oil and natural gas industry generally could reduce the demand for oil and natural gas and increase costs. See "*Risk Factors – Climate Change*".

## Changing Investor Sentiment

### ***Changing investor sentiment towards the oil and natural gas industry may impact the Corporation's access to, and cost of, capital***

A number of factors, including the effects of the use of fossil fuels on climate change, the impact of oil and natural gas operations on the environment, environmental damage relating to spills of petroleum products during production and transportation and Indigenous rights, have affected certain investors' sentiments towards investing in the oil and natural gas industry. As a result of these concerns, some institutional, retail and governmental investors have announced that they no longer are willing to fund or invest in oil and natural gas properties or companies or are reducing the amount of their investments over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust social, environmental and governance policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from the Corporation's Board of Directors, management and employees. Failing to implement the policies and practices as requested by institutional investors may result in such investors reducing their investment in the Corporation or not investing in the Corporation at all. Any reduction in the investor base interested or willing to invest in the oil and natural gas industry and more specifically, in the Corporation, may result in limiting Birchcliff's access to capital, increasing the cost of capital and decreasing the price and liquidity of the Corporation's securities, even if the Corporation's operating results, underlying asset value or prospects have not changed.



## **Public Opinion and Reputational Risk**

### ***The Corporation relies on its reputation to continue its operations and to attract and retain investors and employees***

The Corporation's business, financial condition, operations and prospects may be negatively impacted as a result of any negative public opinion towards the Corporation or as a result of any negative sentiment towards, or in respect of, the Corporation's reputation with stakeholders, special interest groups, political leadership, the media or other entities. Public opinion may be influenced by certain media and special interest groups' negative portrayal of the industry in which the Corporation operates, as well as their opposition to certain oil and natural gas projects. Potential impacts of negative public opinion or reputational issues may include delays or interruptions in operations, legal or regulatory actions or challenges, blockades, increased regulatory oversight, reduced support for, delays in, challenges to, or the revocation of regulatory approvals, permits and/or licences and increased costs and/or cost overruns. See "Risk Factors – Public Opposition and Non-Governmental Organizations".

Any environmental damage, loss of life, injury or damage to property caused by the Corporation's operations could damage its reputation. Negative sentiment towards the Corporation could result in a lack of willingness of governmental authorities to grant the necessary licences or permits for the Corporation to operate its business. In addition, negative sentiment towards the Corporation could result in the residents of the areas where the Corporation is doing business opposing further operations in the area by the Corporation. If the Corporation develops a reputation of having an unsafe workplace, this may impact its ability to attract and retain the necessary skilled employees and consultants to operate its business. Further, the Corporation's reputation and public opinion could be affected by the actions and activities of other corporations operating in the oil and natural gas industry, particularly other producers, over which the Corporation has no control. In addition, opposition from special interest groups opposed to oil and natural gas development and the possibility of climate-related litigation against governments and fossil fuel companies may harm the Corporation's reputation. See "Risk Factors – Climate Change".

Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, operational, insurance, regulatory and legal risks, among others, must all be managed effectively to safeguard the Corporation's reputation. Damage to the Corporation's reputation could result in negative investor sentiment towards the Corporation, which may result in limiting the Corporation's access to capital, increasing the cost of capital and decreasing the price and liquidity of the Corporation's securities.

## **Public Opposition and Non-Governmental Organizations**

### ***The oil and natural gas industry and the Corporation may be subject to public opposition and other actions by non-governmental organizations***

The oil and natural gas industry may, at times, be subject to public opposition. The oil and natural gas industry has become an increasingly politically polarizing topic in Canada, which has resulted in a rise in civil disobedience surrounding oil and natural gas development, particularly with respect to infrastructure projects. Such public opposition could expose the Corporation to the risk of higher costs, operational delays and disruptions or even project cancellations due to increased pressure on governments and regulators by special interest groups, which may include Indigenous groups, landowners, environmental interest groups (including those opposed to oil and natural gas production operations) and other non-governmental organizations. Potential impacts of such pressure and opposition include blockades, legal or regulatory actions or challenges, increased regulatory oversight, reduced support of the federal, provincial or municipal governments, and delays in, challenges to, or the revocation of regulatory approvals, permits and/or licences, as well as direct legal challenges, including the possibility of climate-related litigation. There is no guarantee that the Corporation will be able to satisfy the concerns of the special interest groups and non-governmental organizations and attempting to address such concerns may require significant and unanticipated capital and operating expenditures which may negatively impact the Corporation's business, financial condition, results of operations and prospects.

In addition, the Corporation's oil and natural gas properties, wells and facilities or the third-party facilities and pipelines utilized by the Corporation could be the subject of a terrorist attack. If any of such properties, wells or facilities are the subject of terrorist attack, it may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

## **Availability and Cost of Equipment, Materials and Services**

### ***Restrictions on the availability and cost of equipment, materials and services may impede the Corporation's exploration, development and operating activities***

Oil and natural gas exploration, development and operating activities are dependent on the availability and cost of specialized equipment and other materials (typically leased from third parties) in the areas where such activities will be conducted. The cost or availability of oil and gas field equipment may adversely affect the Corporation's ability to undertake exploration, development and construction projects. The oil and gas industry is cyclical in nature and is prone to shortages of supply of equipment and services, including drilling rigs, geological and geophysical services, engineering and construction services, major equipment items for infrastructure projects and construction materials generally. These materials and services may not be available when required at reasonable prices. A failure to secure the services and equipment necessary to the Corporation's operations for the expected price, on the expected timeline, or at all, may have an adverse effect on the Corporation's financial performance and cash flow.

## Cost Management

### ***An inability to manage costs may could have a material adverse effect on the Corporation***

The Corporation's operating costs could escalate and become uncompetitive due to supply chain disruptions, inflationary cost pressures, equipment limitations, escalating supply costs, commodity prices and additional government intervention through stimulus spending or additional regulations. The Corporation's inability to manage costs may impact project returns and future development decisions, which could have a material adverse effect on its financial performance and cash flow.

## Substantial Capital and Additional Funding Requirements

### ***The Corporation may require additional financing from time to time to fund the acquisition, exploration and development of properties and its ability to obtain such financing in a timely fashion and on acceptable terms may be negatively impacted by the current economic and global market volatility***

The Corporation anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As future capital expenditures are expected to be financed out of cash generated from operations, borrowings and possible future equity sales, the Corporation's ability to do so is dependent on, among other factors:

- the overall state of the capital markets;
- the Corporation's credit rating (if applicable);
- commodity prices;
- interest rates;
- royalty rates;
- tax burden due to current and future tax laws; and
- investor appetite for investments in the energy industry and the Corporation's securities in particular.

The Corporation's cash flow from its properties may not be sufficient to fund its ongoing activities at all times and from time to time the Corporation may require additional financing. The inability of the Corporation to access sufficient capital for its operations and activities could have a material adverse effect on the Corporation's financial condition, results of operations and prospects.

There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet the Corporation's requirements or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. To the extent that external sources of capital become limited, unavailable or available on onerous terms, the Corporation's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result. In addition, the Corporation may be required to seek additional equity financing on terms that are highly dilutive to existing shareholders. Moreover, future activities may require the Corporation to alter its capitalization significantly. Failure to obtain financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce its operations.

## Credit Facilities

### ***The Corporation's borrowing base under the Credit Facilities could be redetermined and the Corporation could fail to comply with covenants under the Credit Facilities, resulting in restricted access to capital or a requirement to repay all amounts owing thereunder***

The amount authorized under the Credit Facilities is dependent on the borrowing base determined by the Corporation's lenders. The Credit Facilities are subject to semi-annual reviews 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. The Corporation's lenders use the Corporation's reserves, commodity prices and other factors to determine the Corporation's borrowing base. A decline in commodity prices could result in a reduction in the Corporation's borrowing base, thereby reducing the funds available to the Corporation under the Credit Facilities. As the borrowing base is determined based on the lender's interpretation of the Corporation's reserves and future commodity prices, there can be no assurance as to the amount of the borrowing base determined at each review.

In addition to the semi-annual reviews of the borrowing limit, the lenders have the right to redetermine the borrowing base limit in certain other circumstances. In the event that: (i) the Corporation, any material subsidiary of the Corporation or any of its borrowing base properties become subject to an abandonment/reclamation order by an energy regulator where the aggregate estimated current cost to the Corporation and its material subsidiaries to comply with all outstanding orders exceeds 10% of the borrowing base; or (ii) the liability management rating (as such term is defined in the agreement governing the Credit Facilities) of the Corporation or any material subsidiary is less than 2.0, then, unless agreed to by all of the lenders, a redetermination of the borrowing base shall be completed within 45 days of receipt by the Corporation or the applicable material subsidiary of such order or demand in the case of (i) above, and of receipt by the agent of notice that the liability management rating is less than 2.0 in the case of (ii) above. Further, a majority of lenders have the right once per year to redetermine the borrowing base in between scheduled redeterminations and the borrowing base may also be reduced in connection with asset dispositions.

If, at the time of a borrowing base redetermination, the outstanding borrowings under the Credit Facilities were to exceed the borrowing base as a result of any such redetermination, the Corporation would be required to make principal repayments or otherwise eliminate the borrowing base shortfall. If the Corporation is forced to repay a portion of its indebtedness under the Credit Facilities, it may not have sufficient funds to make such repayments. If it does not have sufficient funds and is otherwise unable to negotiate renewals of its borrowings or arrange new financing, it may have to sell significant assets. Any such sale could have a material adverse effect on the Corporation's business and financial results.

The maturity date of the Credit Facilities is currently May 11, 2024. The Corporation may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made. In the event that either of the Credit Facilities is not extended before the maturity date, all outstanding indebtedness under such Credit Facility will be repayable at the maturity date. There is also a risk that the Credit Facilities will not be renewed for the same principal amount or on the same terms. Any of these events could adversely affect the Corporation's ability to fund its ongoing operations and to pay dividends.

The Corporation is required to comply with covenants under the Credit Facilities. In the event that the Corporation does not comply with these covenants, the Corporation's access to capital could be restricted or repayment could be required. Events beyond the Corporation's control may contribute to the failure of the Corporation to comply with such covenants. A failure to comply with covenants could result in an event of default under the Credit Facilities, which could result in the Corporation being required to repay amounts owing thereunder and may prevent the payment of dividends to shareholders. The acceleration of the Corporation's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross-default or cross-acceleration provisions. In addition, the Credit Facilities impose certain restrictions on the Corporation, including, but not limited to, restrictions on the payment of dividends, incurring of additional indebtedness, dispositions of properties and the entering into of amalgamations, mergers, plans of arrangements, reorganizations or consolidations with any person. The Credit Facilities do not currently contain any financial maintenance covenants; however, there is no assurance that the Corporation's lenders will not impose any such covenants on the Corporation in the future. Any such covenants may either affect the availability or price of additional funding.

If the Corporation's lenders require repayment of all or portion of the amounts outstanding under the Credit Facilities for any reason, including for a default of a covenant, there is no certainty that the Corporation would be in a position to make such repayment. Even if the Corporation is able to obtain new financing in order to make any required repayment under the Credit Facilities, it may not be on commercially reasonable terms or terms that are acceptable to the Corporation. If the Corporation is unable to repay amounts owing under the Credit Facilities, the lenders under the Credit Facilities could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness.

## Issuance of Debt

### ***Increased debt levels may impair the Corporation's ability to borrow additional capital on a timely basis to fund opportunities as they arise***

From time to time, the Corporation may finance its activities (including asset acquisitions) in whole or in part with debt, which may increase the Corporation's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, the Corporation may require additional debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness from time to time could impair the Corporation's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

## Alternatives to and Changing Demand for Petroleum Products

### ***Changes to the demand for oil and natural gas products and the rise of petroleum alternatives may negatively affect the Corporation's business, financial condition, results of operations and cash flow***

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas and technological advances in fuel economy and renewable energy generation systems could reduce the demand for oil, natural gas and NGLs. Recently, certain jurisdictions have implemented policies or incentives to decrease the use of fossil fuels and encourage the use of renewable fuel alternatives, which may lessen the demand for petroleum products and put downward pressure on commodity prices. Advancements in energy efficient products have a similar effect on the demand for oil and natural gas products. The Corporation cannot predict the impact of the changing demand for oil and natural gas products and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flow by decreasing the Corporation's profitability, increasing its costs, limiting its access to capital or decreasing the value of its assets.

## Risk Management Activities

### ***Risk management activities expose the Corporation to the risk of financial loss and counter-party risk***

From time to time, the Corporation may enter into physical or financial agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline. Similarly, the Corporation may enter into agreements to fix the differential or discount pricing gap which exists and may fluctuate between different grades of oil, NGLs and natural gas and the various market prices received for such products. However, to the extent that the Corporation engages in price risk management activities to protect itself from commodity price declines, it may also be prevented from realizing the full benefits of price increases above the levels of the derivative instruments used to manage price risk. In addition, the Corporation's risk management arrangements expose it to the risk of financial loss in certain circumstances, including instances in which:

- production falls short of the hedged volumes or prices fall significantly lower than projected;
- there is a widening of price-basis differentials between delivery points for production and the delivery point assumed in the hedge arrangement;
- the counterparties to the risk management contracts fail to perform under those arrangements; and/or
- a sudden unexpected material event impacts oil and natural gas prices.

Similarly, the Corporation may enter into agreements to fix the exchange rate of Canadian dollars to United States dollars or other currencies in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the other currencies. However, if the Canadian dollar declines in value compared to such fixed currencies, the Corporation will not benefit from the fluctuating exchange rate.

Further, the Corporation may enter into arrangements to fix interest rates applicable to the Corporation's debt. However, if interest rates decrease as compared to the interest rate fixed by the Corporation, the Corporation will not benefit from the lower interest rate.

## Hydraulic Fracturing

***Implementation of new regulations on hydraulic fracturing may lead to operational delays, increased costs and/or decreased production volumes, adversely affecting the Corporation's financial position. The Corporation's operations are dependent upon the availability of water and its ability to dispose of produced water from drilling and production activities***

Hydraulic fracturing involves the injection of water, sand and small amounts of additives under high pressure into tight rock formations that were previously unproductive to stimulate the production of oil, NGLs and natural gas. Concerns about seismic activity, including earthquakes, caused by hydraulic fracturing has resulted in regulatory authorities implementing additional protocols for areas that are prone to seismic activity or completely banning hydraulic fracturing in other areas. Any new laws, regulations, or permitting requirements regarding hydraulic fracturing could lead to operational delays, increased operating costs, third-party or governmental claims and could increase the Corporation's costs of compliance and doing business, as well as delay the development of oil, NGLs and natural gas resources from shale formations, which are not commercial without the use of hydraulic fracturing. Restrictions or bans on hydraulic fracturing in the areas where the Corporation operates could result in the Corporation being unable to economically recover its oil and natural gas reserves, which would result in a significant decrease in the value of the Corporation's assets.

Water is an essential component of the Corporation's drilling and hydraulic fracturing processes. Limitations or restrictions on the Corporation's ability to secure sufficient amounts of water (including limitations resulting from natural causes such as drought), could materially and adversely impact its operations. Severe drought conditions can result in local water authorities taking steps to restrict the use of water in their jurisdiction for drilling and hydraulic fracturing in order to protect the local water supply. If the Corporation is unable to obtain water to use in its operations from local sources, it may need to be obtained from new sources and transported to drilling sites, resulting in increased costs, which could have a material adverse effect on its financial condition, results of operations and cash flows.

In addition, the Corporation must dispose of the fluids produced from oil, NGLs and natural gas production operations, including produced water, which it does directly or through the use of third-party vendors. The legal requirements related to the disposal of produced water into a non-producing geologic formation by means of underground injection wells are subject to change based on concerns of the public or governmental authorities regarding such disposal activities. See "*Risk Factors – Disposal of Fluids Used in Operations*".

Another consequence of seismic events may be lawsuits alleging that disposal well operations have caused damage to neighboring properties or otherwise violated laws and regulations regarding waste disposal. These developments could result in additional regulation and restrictions on the use of injection wells by the Corporation or by commercial disposal well vendors that the Corporation may use from time to time to dispose of produced water. Increased regulation and attention given to induced seismicity could also lead to greater opposition, including litigation to limit or prohibit oil and natural gas activities utilizing injection wells for produced water disposal. Any one or more of these developments may result in the Corporation or its vendors having to limit disposal well volumes, disposal rates and pressures or locations, or require the Corporation or its vendors to shut down or curtail the injection of produced water into disposal wells, which events could have a material adverse effect on the Corporation's business, financial condition and results of operations.

## Disposal of Fluids Used in Operations

***Regulations regarding the disposal of fluids used in operations may increase costs of compliance or subject the Corporation to regulatory penalties or litigation***

The safe disposal of hydraulic fracturing fluids (including the additives) and water recovered from oil and natural gas wells is subject to ongoing regulatory review by the federal and provincial governments, including its effect on fresh water supplies and the ability of such water to be recycled, amongst other things. While it is difficult to predict the impact of any regulations that may be enacted in response to such review, the implementation of stricter regulations may increase the Corporation's costs of compliance which may impact the economics of certain projects and, in turn, impact activity levels and new capital spending on the Corporation's oil and natural gas properties.

## Competition

### ***The Corporation competes with other oil and natural gas companies, some of which have greater financial and operational resources***

The oil and natural gas industry is highly competitive in all of its phases. The Corporation competes with numerous other entities in the exploration, development, production and marketing of oil and natural gas, including land, acquisitions of reserves, access to drilling and service rigs and other equipment, access to transportation and access to skilled technical and operating personnel. The Corporation's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Corporation. Some of these companies not only explore for, develop and produce oil and natural gas, but also carry on refining operations and market oil and natural gas on an international basis. As a result of these complementary activities, some of these competitors may have greater and more diverse competitive resources to draw on than the Corporation. The Corporation's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling.

## Carbon Pricing Risk

### ***Taxes on carbon emissions affect the demand for oil and natural gas and the Corporation's operating expenses and may impair the Corporation's ability to compete***

The majority of countries across the globe have agreed to reduce their carbon emissions in accordance with the Paris Agreement. In Canada, the Federal Government has implemented legislation aimed at incentivizing the use of alternative fuels and in turn reducing carbon emissions. The federal system, which was upheld by the Supreme Court of Canada as constitutional, currently applies in provinces and territories without their own system that meets federal standards.

Any taxes placed on carbon emissions may have the effect of decreasing the demand for oil and natural gas products and at the same time, increasing the Corporation's operating expenses, each of which may have a material adverse effect on the Corporation's profitability and financial condition. Further, the imposition of carbon taxes puts companies at an economic disadvantage with their counterparts who operate in jurisdictions where there are less costly carbon regulations. See "Risk Factors – Climate Change" and "Risk Factors – Environmental".

## Uncertainty of Reserves Estimates

### ***The Corporation's estimated reserves are based on numerous factors and assumptions which may prove incorrect and which may affect the Corporation***

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and NGLs reserves and the future net revenue attributed to such reserves. In general, estimates of economically recoverable oil, natural gas and NGLs reserves and the future net revenue therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserves recovery, the timing and amount of capital expenditures, marketability of oil, natural gas and NGLs, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For these reasons, estimates of the economically recoverable oil, natural gas and NGLs reserves attributable to any particular group of properties, the classification of such reserves based on risk of recovery and estimates of future net revenue associated with reserves prepared by different engineers, or by the same engineer at different times, may vary. The Corporation's actual production, revenue, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

The estimation of proved reserves that may be developed and produced in the future is often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas are often estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws in Canada, the Corporation's independent qualified reserves evaluator has used forecast prices and costs in estimating the Corporation's reserves and future net revenue. Actual future net revenue will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulations or taxation and the impact of inflation on costs.

Actual production and cash flow derived from the Corporation's reserves will vary from the estimates contained in the Corporation's independent reserves evaluation and such variations could be material. The independent reserves evaluation is based in part on the assumed success of activities the Corporation intends to take in future years. The reserves and estimated future net revenue to be derived therefrom and contained in the Corporation's independent reserves evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the evaluation.

## Variations in Foreign Exchange Rates and Interest Rates

### ***Variations in foreign exchange rates and interest rates could adversely affect the Corporation's financial condition***

World oil and natural gas prices are quoted in United States dollars. The Canadian/United States dollar exchange rate, which fluctuates over time, consequently affects the price received by Canadian producers of oil and natural gas. Material increases in the value of the Canadian dollar relative to the United States dollar may negatively affect the Corporation's production revenue. Accordingly, Canadian/United States exchange rates could impact the future value of the Corporation's reserves as determined by independent reserves evaluators. Although a low value of the Canadian dollar relative to the United States dollar may positively affect the price the Corporation receives for its oil and natural gas production, it could also result in an increase in the price for certain goods used for the Corporation's operations, which may have a negative impact on the Corporation's financial results.

To the extent that the Corporation engages in risk management activities related to foreign exchange and interest rates, there is credit risk associated with the counterparties with whom the Corporation may contract. See "Risk Factors – Risk Management Activities".

An increase in interest rates could result in a significant increase in the amount the Corporation pays to service debt, resulting in a reduced amount available to fund its exploration and development activities and the cash available for dividends and could negatively impact the market prices of the Corporation's securities.

## Seasonality and Extreme Weather

### ***Oil and natural gas operations are subject to seasonal conditions and extreme weather and the Corporation may experience significant operational delays as a result***

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments may enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Road bans and other restrictions generally result in a reduction of drilling and exploratory activities and may also result in the shut-in of some of the Corporation's production if not otherwise tied-in. In addition, certain oil and natural gas producing properties are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Further, extreme cold weather, heavy snowfall and heavy rainfall may restrict the Corporation's ability to access its properties, cause operational difficulties and delays, damage infrastructure or equipment and contribute to personnel injury because of dangerous working conditions. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and also to volatility in commodity prices as the demand for natural gas typically fluctuates during cold winter months and hot summer months.

## Asset Concentration

### ***All of the Corporation's properties are located on the Montney/Doig Resource Play in Alberta, making the Corporation vulnerable to risks associated with having its production concentrated in one area***

All of the Corporation's producing properties are geographically concentrated on the Montney/Doig Resource Play in Alberta. As a result of this concentration, the Corporation may be disproportionately exposed to the impact of delays or interruptions of production from that area caused by transportation capacity constraints, curtailment of production, natural disasters, availability of equipment, facilities or services, adverse weather conditions or other events which impact that area. Due to the concentrated nature of the Corporation's portfolio of properties, a number of the Corporation's properties could experience any of the same conditions at the same time, resulting in a relatively greater impact on the Corporation's results of operations than they might have on other companies that have a more diversified portfolio of properties. Such delays or interruptions could have a material adverse effect on the Corporation's financial condition and results of operations.

In addition, industry activity is high in the Corporation's areas of operations, as are the demand for and costs of personnel, equipment and services. Any delay or inability to secure the necessary personnel, equipment and services could result in the Corporation's actual production volumes being below its forecasted production volumes, which could have a material adverse effect on the Corporation's financial condition, results of operations, cash flow and profitability.

## Cost of New Technologies

### ***The Corporation's ability to successfully implement new technologies into its operations in a timely and efficient manner will affect its ability to compete***

The oil and natural gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil and natural gas companies may have greater financial, technical and personnel resources that allow them to implement and benefit from new technologies before the Corporation. There can be no assurance that the Corporation will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. If the Corporation implements such technologies, there is no assurance that the Corporation will do so successfully. One or more of the technologies currently utilized by the Corporation or implemented in the future may become obsolete. In such case, the Corporation's business, financial condition, results of operations and prospects could be materially adversely affected. If the Corporation is unable to utilize the most advanced commercially available technology or is unsuccessful in implementing certain technologies, its business, financial condition, results of operations and prospects could also be materially adversely affected.

## Dividends

### ***The payment of dividends could vary***

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

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

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

Over time, the Corporation's capital and other cash needs may change significantly from its current needs, which could affect whether the Corporation pays dividends and the amount of dividends, if any, it may pay in the future. If the Corporation continues to pay dividends at the current levels, it may not retain a sufficient amount of cash to finance external growth opportunities, meet any large unanticipated liquidity requirements or fund its activities in the event of a significant business downturn.

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



## **Reliance on a Skilled Workforce and Key Personnel**

### ***An inability to recruit and retain a skilled workforce and key personnel would negatively impact the Corporation***

The operations and management of the Corporation require the recruitment and retention of a skilled workforce, including engineers, technical personnel and other professionals. The loss of key members of such workforce, or a substantial portion of the workforce as a whole, could result in the failure to implement the Corporation's business plans, which could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

There is competition for qualified personnel in the oil and natural gas industry and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Contributions of the existing management team to the immediate and near-term operations of the Corporation are likely to be of central importance. In addition, certain of the Corporation's current employees have significant institutional knowledge that must be transferred to other employees prior to their departure from the Corporation. If the Corporation is unable to: (i) retain current employees; (ii) successfully complete effective knowledge transfers; and/or (iii) recruit new employees with the requisite knowledge and experience, the Corporation could be negatively impacted. In addition, the Corporation could experience increased costs to retain and recruit these professionals.

## **Information Technology Systems and Cyber-Security**

### ***A disruption of information technology services or a cyber-security breach may adversely affect the Corporation***

The Corporation has become increasingly dependent upon the availability, capacity, reliability and security of its information technology infrastructure and its ability to expand and continually update this infrastructure to conduct daily operations. The Corporation depends on various information technology systems to estimate reserves, process and record financial data, manage its financial resources and land base, analyze seismic information, administer its contracts with its operators and lessees and communicate with employees and third-party partners.

In the event the Corporation is unable to regularly deploy software and hardware, effectively upgrade systems and network infrastructure and take other steps to maintain or improve the efficiency and efficacy of its information technology systems, the operation of such systems could be interrupted or result in the loss, corruption or release of data. Further, the Corporation is subject to a variety of information technology and system risks as a part of its normal course operations, including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of the Corporation's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to its business activities or its competitive position. In addition, cyber-phishing attempts, in which a malicious party attempts to obtain sensitive information such as usernames, passwords, and credit card details (and money) by disguising as a trustworthy entity in an electronic communication, have become more widespread and sophisticated in recent years. If the Corporation becomes a victim to a cyber-phishing attack, it could result in a loss or theft of the Corporation's financial resources or critical data and information or could result in a loss of control of the Corporation's technological infrastructure or financial resources. The Corporation's employees are often the targets of such cyber-phishing attacks, as they are and will continue to be targeted by parties using fraudulent "spoof" emails to misappropriate information or to introduce viruses or other malware through "trojan horse" programs to the Corporation's computers. These emails appear to be legitimate emails, but direct recipients to fake websites operated by the sender of the email or request recipients to send a password or other confidential information through email or to download malware.

In addition to the oversight provided by the Corporation's Information Technology Committee, there is further reporting on the Corporation's information technology and cyber-security risks to the Board of Directors. Further, the Corporation maintains policies and procedures that address and implement employee protocols with respect to electronic communications and electronic devices and the Corporation periodically conducts cyber-security risk assessments. The Corporation also employs encryption protection for some of its confidential information. Despite the Corporation's efforts to mitigate such cyber-phishing attacks through education and training, phishing activities remain a serious problem that may damage its information technology infrastructure. The Corporation applies technical and process controls in line with industry-accepted standards to protect its information assets and systems, including a written incident response plan for responding to a cyber-security incident. However, these controls may not adequately prevent cyber-security breaches. Disruption of critical information technology services, or breaches of information security, could have a negative effect on the Corporation's performance, earnings and its reputation and any damages sustained may not be adequately covered by the Corporation's current insurance coverage, or at all. The significance of any such event is difficult to quantify, but may in certain circumstances be material and could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

To date, the Corporation has not been subject to a cyber-security attack or other breach that has had a material impact on its business or operations or resulted in material losses to the Corporation; however, there is no assurance that the measures the Corporation takes to protect its business systems and operational control systems will be effective in protecting against a breach in the future and that the Corporation will not incur such losses in the future.

## Insurance

### ***Not all risks are insurable and the occurrence of an uninsurable event may have a material adverse effect on the Corporation***

The Corporation's involvement in the exploration for and development of oil and natural gas properties may result in the Corporation becoming subject to liability for pollution, blowouts, leaks of sour natural gas, property damage, personal injury or other hazards. Although the Corporation maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, certain risks are not, in all circumstances, insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

The Corporation's insurance policies are generally renewed on an annual basis and, depending on factors such as market conditions, the premiums, policy limits and/or deductibles for certain insurance policies can vary substantially. In some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. Significantly increased costs could lead the Corporation to decide to reduce or possibly eliminate, coverage. In addition, insurance is purchased from a number of third-party insurers, often in layered insurance arrangements, some of whom may discontinue providing insurance coverage for their own policy or strategic reasons. Should any of these insurers refuse to continue to provide insurance coverage, the Corporation's overall risk exposure could be increased and the Corporation could incur significant costs.

## Litigation

### ***The Corporation may be involved in litigation in the course of its normal operations and the outcome of the litigation may adversely affect the Corporation and its reputation***

In the normal course of the Corporation's operations, it may become involved in, be named as a party to or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions. Such proceedings may develop in relation to personal injury (including claims resulting from exposure to hazardous substances), property damage, property taxes, land and access rights, royalty rights, environmental issues (including claims relating to contamination) and lease and contractual disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Corporation and, as a result, could have a material adverse effect on the Corporation's business, financial condition and results of operations. Even if the Corporation prevails in any such legal proceedings, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from the Corporation's business operations, which may adversely affect the Corporation.

Due to the rapid development of oil and natural gas technology, the Corporation may become involved in, be named as a party to or be the subject of, various legal proceedings in which it is alleged that the Corporation has infringed the intellectual property rights of others or conversely, the Corporation may commence lawsuits against others who the Corporation believes are infringing upon its intellectual property rights. The Corporation's involvement in intellectual property litigation could result in significant expense, adversely affecting the development of its assets or intellectual property or diverting the efforts of its technical and management personnel, whether or not such litigation is resolved in the Corporation's favour. In the event of an adverse outcome as a defendant in any such litigation, the Corporation may, among other things, be required to: (i) pay substantial damages; (ii) cease the use of infringing intellectual property; (iii) expend significant resources to develop or acquire non-infringing intellectual property; (iv) discontinue processes incorporating infringing technology; or (v) obtain licences to the infringing intellectual property. However, the Corporation may not be successful in such development or acquisition or such licences may not be available on reasonable terms. Any such development, acquisition or licence could require the expenditure of substantial time and other resources and could have a material adverse effect on the Corporation's business and financial results.

## Indigenous Land and Rights Claims

### ***Indigenous land and rights claims and opposition by Indigenous groups to the Corporation's operations may negatively affect the Corporation***

Opposition by Indigenous groups to the conduct of the Corporation's operations, development or exploratory activities may negatively impact the Corporation in terms of public perception, diversion of management's time and resources, legal and other advisory expenses, and could adversely impact the Corporation's progress and ability to explore and develop properties.

Some Indigenous groups have established or asserted Indigenous treaty, title and rights to portions of Canada. Although there are no Indigenous and treaty rights claims on lands where the Corporation operates, no certainty exists that any lands currently unaffected by claims brought by Indigenous groups will remain unaffected by future claims. Such claims, if successful, could have a material adverse impact on the Corporation's operations and pace of growth.

The Canadian federal and provincial governments have a duty to consult with Indigenous people when contemplating actions that may adversely affect the asserted or proven Indigenous or treaty rights and, in certain circumstances, accommodate their concerns. The scope of the duty to consult by federal and provincial governments varies with the circumstances and is often the subject of ongoing litigation. The fulfillment of the duty to consult Indigenous people and any associated accommodations may adversely affect the Corporation's ability to, or increase the timeline to, obtain or renew, permits, leases, licences and other approvals, or to meet the terms and conditions of those approvals. For example, in *Yahey v British Columbia* (the "**Blueberry Decision**"), the British Columbia Supreme Court determined that the cumulative impacts of government sanctioned industrial development on the traditional territories of the Blueberry River First Nation in Northeast British Columbia breached that group's treaty rights. Although the Corporation does not have any lands or assets in British Columbia, the Blueberry Decision may lead to similar claims of cumulative effects across Canada in other areas covered by numbered treaties. The long-term impacts of and associated risks of the Blueberry Decision on the Canadian oil and natural gas industry and the Corporation remain uncertain.

In addition, the Federal Government of Canada has passed legislation to implement the *United Nations Declaration of the Rights of Indigenous Peoples* ("**UNDRIP**"). Other Canadian jurisdictions have also introduced or passed similar legislation or begun considering the principles and objectives of UNDRIP, or may do so in the future. The means and timelines associated with UNDRIP's implementation by government is uncertain; additional processes may be created or legislation amended or introduced associated with project development and operations, further increasing uncertainty with respect to project regulatory approval timelines and requirements.

### **Credit Risk**

#### ***The Corporation is exposed to credit risk through its contractual arrangements and its third-party operators or partners of properties in which it has an interest***

The Corporation may be exposed to third-party credit risk through its contractual arrangements with joint venture partners, marketers of its oil and natural gas production and other parties. In addition, the Corporation may be exposed to third-party credit risk from operators of properties in which the Corporation has a working or royalty interest. In the event such entities fail to meet their contractual obligations to the Corporation, such failures may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. To the extent that any of such third parties go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in the Corporation being unable to collect all or a portion of any money owing from such parties. Any of these factors could materially adversely affect the Corporation's financial and operational results.

Conversely, the Corporation's counterparties may deem the Corporation to be at risk of defaulting on its contractual obligations. These counterparties may require that the Corporation provide additional credit assurance by prepaying anticipated expenses or posting letters of credit, which would decrease the Corporation's available liquidity.

### **Title to and Right to Produce from Assets**

#### ***Defects in the Corporation's title or rights to produce from its properties may result in a financial loss***

The Corporation's actual title to and interest in its properties, and its right to produce and sell the oil and natural gas therefrom, may vary from the Corporation's records. In addition, there may be valid legal challenges or legislative changes that affect the Corporation's title to and right to produce from its oil and natural gas properties, which could impair the Corporation's activities on them and result in a reduction of the revenue received by the Corporation.

If a defect exists in the chain of title or in the Corporation's right to produce, or a legal challenge or legislative change arises, it is possible that the Corporation may lose all or a portion of the properties to which the title defect relates and/or its right to produce from such properties. This may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

### **Expiration of Licences and Leases**

#### ***The Corporation, or its working interest partners, may fail to meet the requirements of a licence or lease, causing its termination or expiry***

The Corporation's properties are held in the form of licences and leases and working interests in licences and leases held by others. If the Corporation or the holder of the licence or lease fails to meet the specific requirements of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of the Corporation's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on the business, financial condition, results of operations and prospects of the Corporation.

## Operational Dependence

### ***The Corporation is subject to risk as it pertains to other parties operating assets it has an interest in***

Other companies operate some of the assets in which the Corporation has an interest. The Corporation has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect the Corporation's business, financial condition, results of operations and prospects. The Corporation's return on assets operated by others depends upon a number of factors that may be outside of the Corporation's control, including, but not limited to, the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

In addition, companies that may operate some of the assets in which the Corporation has an interest may be in or encounter financial difficulty, which could impact their ability to fund and pursue capital expenditures, carry out their operations in a safe and effective manner and satisfy regulatory requirements with respect to abandonment and reclamation obligations. If companies that operate some of the assets in which the Corporation has an interest fail to satisfy regulatory requirements with respect to abandonment and reclamation obligations, the Corporation may be required to satisfy such obligations and to seek recourse from such companies. To the extent that any of such companies go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in such assets being shut-in, the Corporation potentially becoming subject to additional liabilities relating to such assets and the Corporation having difficulty collecting revenue due to it from such operators or recovering amounts owing to the Corporation from such operators for their share of abandonment and reclamation obligations. Any of these factors could have a material adverse effect on the Corporation's financial and operational results.

## Risks Associated with Acquisitions and Dispositions

### ***The anticipated benefits of acquisitions may not be achieved and the Corporation may dispose of certain assets for less than their carrying value on the financial statements***

The Corporation considers acquisitions and dispositions of assets in the ordinary course of business. Typically, once an acquisition opportunity is identified, a review of available information relating to the assets is conducted. There is a risk that even a detailed review of records and assets may not necessarily reveal every existing or potential problem, nor will it permit the Corporation to become sufficiently familiar with the assets to fully assess their deficiencies and potential. There is no guarantee that defects in the chain of title will not arise to defeat the Corporation's title to certain assets or that environmental defects, liabilities or deficiencies do not exist or are greater than anticipated. Inspections may not always be performed on every well and environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, the Corporation may assume certain environmental and other risk liabilities in connection with acquired assets.

In addition, acquisitions of oil and natural gas properties or companies are based in large part on engineering, environmental and economic assessments. These assessments include a series of assumptions regarding such factors as recoverability and marketability of oil and natural gas, environmental restrictions and prohibitions regarding releases and emissions of various substances, future prices of oil and natural gas, future operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of the Corporation. All such assessments involve a measure of geological, engineering, environmental and regulatory uncertainty that could result in lower production and reserves or higher operating or capital expenditures than anticipated.

Achieving the benefits of acquisitions depends on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner and the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation. The integration of acquired businesses and assets may require substantial management effort, time and resources, diverting management's focus away from other strategic opportunities and operational matters.

Management continually assesses the value and contribution of the various assets within its portfolio. In this regard, certain assets may be periodically disposed of so the Corporation can focus its efforts and resources more efficiently. Depending on market conditions for such assets, there is a risk that certain assets of the Corporation could realize less than their carrying value on the Corporation's financial statements.

## Management of Growth and Integration

### ***The Corporation may not be able to effectively manage the growth of its business***

The Corporation may be subject to both integration and growth-related risks, including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to effectively manage growth and the integration of additional assets will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Corporation to effectively deal with this integration and growth could have a material adverse impact on its business, financial condition, results of operations and prospects.

## Liability Management

### ***Liability management programs enacted by regulators may prevent or interfere with the Corporation's ability to acquire properties or require a substantial cash deposited with the regulator***

Alberta has developed a liability management program designed to prevent taxpayers from incurring costs associated with the suspension, abandonment, remediation and reclamation of wells, facilities and pipelines in the event that a licensee or permit holder is unable to satisfy its regulatory obligations. The Alberta Energy Regulator continues to implement Alberta's Liability Management Framework (the "AB LM Framework"), with changes to be gradually phased in throughout 2022, replacing the current Liability Management Rating Program. The AB LM Framework or other changes to the requirements of liability management programs may result in significant increases to the security that must be posted, increased and more frequent financial disclosure obligations or the denial of licence or permit transfers, which could impact the availability of capital to be spent by the Corporation. In addition, the AB LM Framework may prevent or interfere with the Corporation's ability to acquire or dispose of assets, as both the vendor and the purchaser of oil and natural gas assets must be in compliance with the liability management programs (both before and after the transfer of the assets) for the AER to allow for the transfer of such assets.

## Internal Controls

### ***Material weaknesses in the Corporation's internal controls may negatively affect the Corporation and the market prices of the Corporation's securities***

Effective internal controls are necessary for the Corporation to provide reliable financial reports and to help prevent fraud. Although the Corporation undertakes a number of procedures in order to help ensure the reliability of its financial reports, including those imposed on it under Canadian securities laws, the Corporation cannot be certain that such measures will ensure that the Corporation will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Corporation's results of operations or cause it to fail to meet its reporting obligations. If the Corporation or its independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Corporation's financial statements and negatively impact the market prices of the Corporation's securities.

## Royalty Regimes

### ***Changes to royalty regimes may negatively impact the Corporation's cash flow***

There can be no assurance that the Government of Alberta will not adopt a new royalty regime or modify the existing royalty regime, which may have an impact on the economics of the Corporation's projects. An increase in royalties would reduce the Corporation's earnings and could make future capital investments, or the Corporation's operations, less economic or uneconomic.

## Negative Impact of Additional Sales or Issuances of Securities

### ***The Corporation may issue additional securities, diluting current shareholders***

The Corporation may issue an unlimited number of common shares without any vote or action by the shareholders, subject to the rules of any stock exchange on which the Corporation's securities may be listed. The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation. If the Corporation issues additional securities, the percentage ownership of existing shareholders will be reduced and diluted and the prices of the Corporation's securities could decrease.

## Breaches of Confidentiality

### ***Breach of confidentiality by a third party could impact the Corporation's competitive advantage or put it at risk of litigation***

While discussing potential business relationships or other transactions with third parties, the Corporation may disclose confidential information relating to its business, operations or affairs. Although confidentiality agreements are generally signed by third parties prior to the disclosure of any confidential information, a breach could put the Corporation at competitive risk and may cause significant damage to its business. The harm to the Corporation's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, the Corporation will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

## **Conflicts of Interest**

### ***Conflicts of interest may arise for the Corporation's directors and officers***

Certain directors or officers of the Corporation may also be directors or officers of other oil and natural gas companies and as such may, in certain circumstances, have a conflict of interest. Conflicts of interest, if any, will be subject to and governed by procedures prescribed by the ABCA which require a director or officer of a Corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with the Corporation to disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

## **Income Taxes**

### ***Taxation authorities may reassess the Corporation's tax returns***

The Corporation files all required income tax returns and believes that it is in full compliance with the provisions of the *Income Tax Act* (Canada) and all other applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Corporation, such reassessment may have an impact on current and future taxes payable.

Income tax laws relating to the oil and natural gas industry, such as the treatment of resource taxation or dividends, may in the future be changed or interpreted in a manner that adversely affects the Corporation. Furthermore, tax authorities having jurisdiction over the Corporation may disagree with how the Corporation calculates its income for tax purposes or could change administrative practices to the Corporation's detriment.

## **Additional Taxation Applicable to Non-Residents**

### ***Non-resident shareholders are required to pay additional taxes on their dividends***

Tax legislation in Canada may impose withholding or other taxes on the cash dividends, stock dividends or other property transferred by the Corporation to non-resident shareholders. These taxes may be reduced pursuant to tax treaties between Canada and the non-resident shareholder's jurisdiction of residence. Evidence of eligibility for a reduced withholding rate must be filed by the non-resident shareholder in prescribed form with their broker (or in the case of registered shareholders, with the transfer agent). In addition, the country in which the non-resident shareholder is resident may impose additional taxes on such dividends. Any of these taxes may change from time to time.

## **Foreign Exchange Risk for Non-Resident Shareholders**

### ***Variations in foreign exchange rates may affect the amount of cash dividends received by shareholders who receive dividends in currencies other than Canadian dollars***

The Corporation's cash dividends are declared in Canadian dollars and may be converted in certain instances to foreign denominated currencies at the spot exchange rate at the time of payment. As a consequence, non-resident shareholders and shareholders who calculate their return in currencies other than the Canadian dollar are subject to foreign exchange risk. To the extent that the Canadian dollar strengthens with respect to their currency, the amount of any dividend will be reduced when converted to the shareholder's home currency.

## **Evolving Corporate Governance, Sustainability and Reporting Framework**

### ***Evolving corporate governance, sustainability and reporting framework may increase both compliance costs and the risk of non-compliance that may have an adverse effect on the Corporation***

The Corporation's business is subject to evolving corporate governance and public disclosure regulations that have increased both compliance costs and the risk of non-compliance, which could have an adverse effect on the Corporation's costs of doing business. The Corporation is subject to changing rules and regulations promulgated by a number of governmental and self-regulated organizations, including the Canadian Securities Administrators, the TSX and the Financial Accounting Standards Board. These rules and regulations continue to evolve in scope and complexity, making compliance more difficult and uncertain. Further, the Corporation's efforts to comply with these and other new and existing rules and regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

## Social Media

### ***The Corporation faces compliance and supervisory challenges in respect of the use of social media as a means of communicating***

Increasingly, social media is used as a vehicle to carry out cyber-phishing attacks. Information posted on social media sites, for business or personal purposes, may be used by attackers to gain entry into the Corporation's systems and obtain confidential information. As social media continues to grow in influence and access to social media platforms becomes increasingly prevalent, there are significant risks that the Corporation may not be able to properly regulate social media use and preserve adequate records of business activities and client communications conducted through the use of social media platforms.

## Expansion into New Activities

### ***Expanding the Corporation's business may expose it to new risks and uncertainties***

The operations and expertise of the Corporation's management are currently focused on oil and natural gas production, exploration and development on the Montney/Doig Resource Play in Alberta. In the future, the Corporation may acquire or move into new industry-related activities or new geographical areas or may acquire different energy-related assets, and as a result, the Corporation may face unexpected risks or alternatively, the Corporation's exposure to one or more existing risk factors may be significantly increased, which may in turn result in the Corporation's future operational and financial condition being adversely affected.

## Forward-Looking Information

### ***Forward-looking information may prove inaccurate***

Shareholders and prospective investors are cautioned not to place undue reliance on the Corporation's forward-looking statements. By their nature, forward-looking statements involve numerous assumptions and known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties relating to forward-looking statements is found under the heading "Advisories – Forward-Looking Statements".

## ABBREVIATIONS

AECO	benchmark price for natural gas determined at the AECO 'C' hub in southeast Alberta
ATP	Alliance Trading Pool
bbl	barrel
bbls	barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day
condensate	pentanes plus (C5+)
F&D	finding and development
FD&A	finding, development and acquisition
G&A	general and administrative
GAAP	generally accepted accounting principles for Canadian public companies which are currently IFRS
GHG	greenhouse gas
GJ	gigajoule
GJ/d	gigajoules per day
HH	Henry Hub
IFRS	International Financial Reporting Standards as issued by the International Accounting Standards Board
LNG	liquefied natural gas
m <sup>3</sup>	cubic metres
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MJ	megajoule
MMboe	million barrels of oil equivalent
MMBtu	million British thermal units
MMBtu/d	million British thermal units per day
MMcf	million cubic feet
MSW	price for mixed sweet crude oil at Edmonton, Alberta
NGLs	natural gas liquids consisting of ethane (C2), propane (C3) and butane (C4) and specifically excluding condensate
NGTL	NOVA Gas Transmission Ltd.
NYMEX	New York Mercantile Exchange
OPEC+	Organization of the Petroleum Exporting Countries ("OPEC"), with certain non-OPEC oil exporting countries
P&NG	petroleum and natural gas
TCPL	TransCanada PipeLines Limited
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 AND OTHER FINANCIAL MEASURES

This MD&A uses various “non-GAAP financial measures”, “non-GAAP ratios”, “supplementary financial measures” and “capital management measures” (as such terms are defined in NI 52-112), which are described in further detail below. These measures facilitate management’s comparisons to the Corporation’s historical operating results in assessing its results and strategic and operational decision-making and may be used by financial analysts and others in the oil and natural gas industry to evaluate the Corporation’s performance.

### Non-GAAP Financial Measures

NI 52-112 defines a non-GAAP financial measure as a financial measure that: (i) depicts the historical or expected future financial performance, financial position or cash flow of an entity; (ii) with respect to its composition, excludes an amount that is included in, or includes an amount that is excluded from, the composition of the most directly comparable financial measure disclosed in the primary financial statements of the entity; (iii) is not disclosed in the financial statements of the entity; and (iv) is not a ratio, fraction, percentage or similar representation. The non-GAAP financial measures used in this MD&A are not standardized financial measures under GAAP and might not be comparable to similar measures presented by other companies where similar terminology is used. Investors are cautioned that non-GAAP financial measures should not be construed as alternatives to or more meaningful than the most directly comparable GAAP measures as indicators of Birchcliff’s performance. Set forth below is a description of the non-GAAP financial measures used in this MD&A.

### Adjusted Funds Flow and Free Funds Flow

Birchcliff defines “adjusted funds flow” as cash flow from operating activities before the effects of decommissioning expenditures and changes in non-cash operating working capital. Birchcliff eliminates 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 is managed with Birchcliff’s capital budgeting process which considers available adjusted funds flow. Changes in non-cash operating working capital are eliminated in the determination of adjusted funds flow as the timing of collection and payment are variable and by excluding them from the calculation, the Corporation believes that it is able to provide a more meaningful measure of its operations and ability to generate cash on a continuing basis. Adjusted funds flow can also be derived from petroleum and natural gas revenue less royalty expense, operating expense, transportation and other expense, net G&A expense, interest expense and any realized losses (plus realized gains) on financial instruments and plus any other cash income sources. Management believes that adjusted funds flow assists management and investors in assessing Birchcliff’s financial performance after deducting all operating and corporate cash costs, as well as its ability to generate the cash necessary to fund sustaining and/or growth capital expenditures, repay debt, settle decommissioning obligations, repurchase common shares and pay common share and preferred share dividends.

Birchcliff defines “free funds flow” as adjusted funds flow less F&D capital expenditures. Management believes that free funds flow assists management and investors in assessing Birchcliff’s ability to further generate shareholder returns through a number of initiatives, including but not limited to, potential debt repayment, preferred share redemptions, common share repurchases, dividend increases and acquisitions.

The following table provides a reconciliation of cash flow from operating activities, as determined in accordance with GAAP, to adjusted funds flow and free funds flow for the periods indicated:

(\$000s)	Three months ended December 31,			Twelve months ended December 31,		
	2021	2020	2019	2021	2020	2019
<b>Cash flow from operating activities</b>	<b>196,142</b>	<b>71,431</b>	<b>85,557</b>	<b>515,369</b>	<b>188,180</b>	<b>327,066</b>
Change in non-cash operating working capital	(4,255)	(6,269)	(5,058)	21,161	(5,977)	5,153
Decommissioning expenditures	1,762	1,347	442	3,203	2,323	2,285
<b>Adjusted funds flow</b>	<b>193,649</b>	<b>66,509</b>	<b>80,941</b>	<b>539,733</b>	<b>184,526</b>	<b>334,504</b>
F&D capital expenditures	(35,726)	(41,291)	(56,800)	(230,479)	(287,967)	(256,395)
<b>Free funds flow</b>	<b>157,923</b>	<b>25,218</b>	<b>24,141</b>	<b>309,254</b>	<b>(103,441)</b>	<b>78,109</b>

## Capital Resources

Birchcliff defines “capital resources” as cash flow from operating activities less the aggregate of repurchase of common shares, issuance of common shares, repurchase of capital securities, lease payments, financing fees paid, dividend distributions, net change in revolving term credit facilities, investments and changes in non-cash working capital from investing. Management believes capital resources assists management and investors in assessing Birchcliff’s ability to fund its short and long-term financial obligations. Please refer to “Capital Resources and Liquidity” in this MD&A for the reconciliation of cash flow from operating activities, as determined in accordance with GAAP, to capital resources.

## FD&A and Total Capital Expenditures

Birchcliff defines “FD&A capital expenditures” as F&D capital expenditures (see “Advisories – F&D Capital Expenditures” in this MD&A) plus acquisitions and less dispositions. Birchcliff defines “total capital expenditures” as FD&A capital expenditures plus administrative assets. Management believes that FD&A capital expenditures and total capital expenditures assist management and investors in assessing Birchcliff’s overall capital cost structure associated with its petroleum and natural gas activities. The following table provides a reconciliation of F&D capital expenditures, as determined in accordance with GAAP, to FD&A capital expenditures and total capital expenditures for the periods indicated:

(\$000s)	Three months ended December 31,			Twelve months ended December 31,		
	2021	2020	2019	2021	2020	2019
F&D capital expenditures <sup>(1)</sup>	35,726	41,291	56,800	230,479	287,967	256,395
Acquisitions	56	-	800	283	-	41,407
Dispositions	-	(12,892)	-	-	(12,877)	-
<b>FD&amp;A capital expenditures</b>	<b>35,782</b>	<b>28,399</b>	<b>57,600</b>	<b>230,762</b>	<b>275,090</b>	<b>297,802</b>
Administrative assets	293	379	536	1,718	1,695	2,444
<b>Total capital expenditures</b>	<b>36,075</b>	<b>28,778</b>	<b>58,136</b>	<b>232,480</b>	<b>276,785</b>	<b>300,246</b>

(1) Reflects exploration and development expenditures determined in accordance with GAAP.

## Transportation and Other Expense and Marketing Gain

Birchcliff defines “transportation and other expense” as transportation expense plus “marketing gain”, which denotes marketing purchases less marketing revenue. Birchcliff may enter into certain marketing purchase and sales arrangements with the objective of reducing any available transportation and/or fractionation fees associated with its take-or-pay commitments. Management believes that transportation and other expense assists management and investors in assessing Birchcliff’s total cost structure related to transportation activities. Management believes that marketing gain assists management and investors in assessing the success of Birchcliff’s marketing arrangements. The following table provides a reconciliation of transportation expense, as determined in accordance with GAAP, to transportation and other expense and marketing gain for the periods indicated:

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
Transportation expense	37,454	36,427	151,263	140,574
Marketing purchases	5,413	1,152	18,034	11,127
Marketing revenue	(6,169)	(1,889)	(20,722)	(13,687)
<b>Marketing gain</b>	<b>(756)</b>	<b>(737)</b>	<b>(2,688)</b>	<b>(2,560)</b>
<b>Transportation and other expense</b>	<b>36,698</b>	<b>35,690</b>	<b>148,575</b>	<b>138,014</b>

## Operating Netback

Birchcliff defines “operating netback” as petroleum and natural gas revenue less royalty expense, operating expense and transportation and other expense. Management believes that operating netback assists management and investors in assessing Birchcliff’s operating profits after deducting the cash costs that are directly associated with the sale of its production, which can then be used to pay other corporate cash costs or satisfy other obligations. The following table provides a breakdown of Birchcliff’s operating netback for the Pouce Coupe assets and Gordondale assets and on a corporate basis for the periods indicated:

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
Petroleum and natural gas revenue	177,900	95,183	568,253	315,428
Royalty expense	(14,716)	(2,852)	(38,721)	(7,158)
Operating expense	(12,904)	(10,425)	(45,112)	(37,560)
Transportation and other expense	(24,054)	(23,102)	(99,202)	(90,622)
<b>Operating netback – Pouce Coupe assets</b>	<b>126,226</b>	<b>58,804</b>	<b>385,218</b>	<b>180,088</b>
Petroleum and natural gas revenue	111,881	63,082	364,048	213,047
Royalty expense	(13,736)	(3,670)	(37,549)	(11,046)
Operating expense	(12,395)	(11,499)	(46,188)	(44,592)
Transportation and other expense	(12,643)	(12,585)	(49,367)	(47,389)
<b>Operating netback – Gordondale assets</b>	<b>73,107</b>	<b>35,328</b>	<b>230,944</b>	<b>110,020</b>
Petroleum and natural gas revenue	289,806	158,283	932,406	528,505
Royalty expense	(28,452)	(6,522)	(76,271)	(18,204)
Operating expense	(25,315)	(21,942)	(91,515)	(82,357)
Transportation and other expense	(36,698)	(35,690)	(148,575)	(138,014)
<b>Operating netback – Corporate</b>	<b>199,341</b>	<b>94,129</b>	<b>616,045</b>	<b>289,930</b>

## Non-GAAP Ratios

NI 52-112 defines a non-GAAP ratio as a financial measure that: (i) is in the form of a ratio, fraction, percentage or similar representation; (ii) has a non-GAAP financial measure as one or more of its components; and (iii) is not disclosed in the financial statements of the entity. The non-GAAP ratios used in this MD&A are not standardized financial measures under GAAP and might not be comparable to similar measures presented by other companies where similar terminology is used. Set forth below is a description of the non-GAAP ratios used in this MD&A.

### Adjusted Funds Flow Per Boe and Adjusted Funds Flow Per Basic and Diluted Common Share

Birchcliff calculates “adjusted funds flow per boe” as aggregate adjusted funds flow in the period divided by the production (boe) in the period. Management believes that adjusted funds flow per boe assists management and investors in assessing Birchcliff’s financial profitability and sustainability on a cash basis by isolating the impact of production volumes to better analyze its performance against prior periods on a comparable basis. The Corporation previously referred to adjusted funds flow per boe as “adjusted funds flow netback”.

Birchcliff calculates “adjusted funds flow per basic common share” and “adjusted funds flow per diluted common share” as aggregate adjusted funds flow in the period divided by the basic or diluted common shares outstanding, as the case may be, at the end of the period. Management believes that adjusted funds flow per basic common share and adjusted funds flow per diluted common share assist management and investors in assessing Birchcliff’s financial strength on a per common share basis.

### Free Funds Flow Per Basic Common Share

Birchcliff calculates “free funds flow per basic common share” as aggregate free funds flow in the period divided by the basic common shares outstanding at the end of the period. Management believes that free fund flow per basic common share assists management and investors in assessing Birchcliff’s financial strength and its ability to generate shareholder returns on a per common share basis.

### **Transportation and Other Expense Per Boe**

Birchcliff calculates “transportation and other expense per boe” as aggregate transportation and other expense in the period divided by the production (boe) in the period. Management believes that transportation and other expense per boe assists management and investors in assessing Birchcliff’s cost structure as it relates to its transportation and marketing activities by isolating the impact of production volumes to better analyze performance against prior periods on a comparable basis.

### **Marketing Gain Per Boe**

Birchcliff calculates “marketing gain per boe” as aggregate marketing gain in the period divided by the production (boe) in the period. Management believes that marketing gain per boe assists management and investors in assessing the success of Birchcliff’s marketing arrangements by isolating the impact of production volumes to better analyze performance against prior periods on a comparable basis.

### **Operating Netback Per Boe**

Birchcliff calculates “operating netback per boe” as aggregate operating netback in the period divided by the production (boe) in the period. Management believes that operating netback per boe assists management and investors in assessing Birchcliff’s operating profitability and sustainability by isolating the impact of production volumes to better analyze its performance against prior periods on a comparable basis.

### **Supplementary Financial Measures**

NI 52-112 defines a supplementary financial measure as a financial measure that: (i) is, or is intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of an entity; (ii) is not disclosed in the financial statements of the entity; (iii) is not a non-GAAP financial measure; and (iv) is not a non-GAAP ratio. The supplementary financial measures used in this MD&A are either a per unit disclosure of a corresponding GAAP measure, or a component of a corresponding GAAP measure, presented in the financial statements. Supplementary financial measures that are disclosed on a per unit basis are calculated by dividing the aggregate GAAP measure (or component thereof) by the applicable unit for the period. Supplementary financial measures that are disclosed on a component basis of a corresponding GAAP measure are a granular representation of a financial statement line item and are determined in accordance with GAAP.

### **Capital Management Measures**

NI 52-112 defines a capital management measure as a financial measure that: (i) is intended to enable an individual to evaluate an entity’s objectives, policies and processes for managing the entity’s capital; (ii) is not a component of a line item disclosed in the primary financial statements of the entity; (iii) is disclosed in the notes to the financial statements of the entity; and (iv) is not disclosed in the primary financial statements of the entity. Set forth below is a description of the capital management measure used in this MD&A.

### **Total Debt and Adjusted Working Capital Deficit (Surplus)**

Birchcliff calculates “total debt” as the amount outstanding under the Corporation’s revolving term credit facilities plus adjusted working capital deficit (surplus). “Adjusted working capital deficit (surplus)” is calculated as working capital deficit less fair value of financial instruments and capital securities. Management believes that total debt assists management and investors in assessing Birchcliff’s overall liquidity and financial position at the end of the period. Management believes that adjusted working capital deficit (surplus) assists management and investors in assessing Birchcliff’s short-term liquidity. The following table provides a reconciliation of the revolving term credit facilities and working capital deficit, as determined in accordance with GAAP, to total debt and adjusted working capital deficit (surplus), respectively:

<b>As at December 31, (\$000s)</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Revolving term credit facilities	500,870	731,372	609,177
Working capital deficit	53,312	93,988	100,199
Fair value of financial instruments	(16,517)	(23,479)	(26,949)
Capital securities	(38,268)	(39,930)	(49,845)
<b>Adjusted working capital deficit (surplus)<sup>(1)</sup></b>	<b>(1,473)</b>	<b>30,579</b>	<b>23,405</b>
<b>Total debt<sup>(1)</sup></b>	<b>499,397</b>	<b>761,951</b>	<b>632,582</b>

(1) Previously classified as a non-GAAP measure under CSA Staff Notice 52-306 (Revised) – Non-GAAP Financial Measures.

## ADVISORIES

### Currency

Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars and all references to “\$” and “CDN\$” are to Canadian dollars and all references to “US\$” are to United States dollars.

### MMBtu Pricing Conversions

\$1.00 per MMBtu equals \$1.00 per Mcf based on a standard heat value of 37.4 MJ/m<sup>3</sup> or a heat uplift of 1.055 when converting from \$/GJ.

### Boe Conversions

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

### Oil and Gas Metrics

This MD&A 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 investors with measures to compare Birchcliff's performance over time; however, such measures are not reliable indicators of Birchcliff's future performance, which may not compare to Birchcliff's performance in previous periods, and therefore should not be unduly relied upon. For additional information regarding netbacks, see “*Non-GAAP and Other Financial Measures*” in this MD&A.

### F&D Capital Expenditures

Unless otherwise stated, references in this MD&A to “F&D capital expenditures” denotes capital for land, seismic, workovers, drilling and completions and well equipment and facilities and excludes any net acquisitions and dispositions, administrative assets and the capitalized portion of annual cash incentive payments that have not been approved by the Board of Directors. Management believes that F&D capital expenditures assists management and investors in assessing Birchcliff capital cost outlay associated with its exploration and development activities for the purposes of finding and developing its reserves.

### Reserves

Birchcliff retained independent qualified reserves evaluator, Deloitte LLP (“**Deloitte**”), to evaluate and prepare reports on 100% of Birchcliff's light crude oil and medium crude oil (combined), conventional natural gas, shale gas and NGLs reserves effective December 31, 2021. Such evaluation was prepared in accordance with the standards contained in the COGE Handbook and NI 51-101. Further information regarding the Corporation's reserves can be found in the Corporation's AIF for the financial year ended December 31, 2021.

Certain terms used herein are defined in NI 51-101 or the COGE Handbook and, unless the context otherwise requires, shall have the same meanings in this MD&A as in NI 51-101 or the COGE Handbook, as the case may be.

### 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, strategy, operations, performance or financial position 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”, “focus”, “future”, “outlook”, “position”, “expect”, “project”, “intend”, “believe”, “anticipate”, “estimate”, “forecast”, “guidance”, “potential”, “proposed”, “predict”, “budget”, “continue”, “targeting”, “may”, “will”, “could”, “might”, “should”, “would”, “on track” 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, results, operations, focus, objectives, strategies, opportunities, priorities and goals;
- the information set forth under the heading "2022 Outlook and Guidance" and elsewhere in this MD&A as it relates to Birchcliff's 2022 outlook and guidance and 2022 capital program (including: that the Corporation is focused on maintaining capital discipline, maximizing free funds flow generation and significantly reducing indebtedness; that Birchcliff's F&D capital budget of \$240 million to \$260 million targets an annual average production rate of 78,000 – 80,000 boe/d in 2022; that Birchcliff's 2022 capital program contemplates the drilling of 30 (30.0 net) wells and bringing on production a total of 35 (35.0 net) wells during 2022; estimates of annual and Q4 average production, annual commodity mix, average expenses, adjusted funds flow, F&D capital expenditures, free funds flow, total debt and natural gas market exposure; and the expected impact of changes in commodity prices and the CDN/US exchange rate on Birchcliff's estimate of free funds flow);
- Birchcliff's market diversification and risk management activities and any anticipated benefits to be derived therefrom;
- estimates of reserves and future development costs;
- the Corporation's estimated income tax pools and management's expectation that future taxable income will be available to utilize the accumulated tax pools;
- the information set forth under the heading "Capital Resources and Liquidity" and elsewhere in this MD&A as it relates to the Corporation's liquidity and capital resources (including: that the capital-intensive nature of Birchcliff's operations requires it to maintain adequate sources of liquidity to fund its short-term and long-term financial obligations; that Birchcliff's capital resources primarily consist of adjusted funds flow and available Credit Facilities, which the Corporation believes are sufficient to fund its working capital requirements, capital expenditure programs and dividend payments for the foreseeable future; that Birchcliff continues to proactively look for strategic risk management and market diversification opportunities in order to potentially reduce the overall volatility of its adjusted funds flow; that Birchcliff remains committed to significantly reducing indebtedness in order to reduce the risks to its business and provide the Corporation with optionality to consider sustainable increases to its common share dividend and common share buybacks; the Corporation's belief that its anticipated 2022 adjusted funds flow of \$590 million will provide sufficient liquidity to fund its 2022 capital program, dividend distributions and working capital requirements; that free funds flow generated in 2022 will initially be prioritized towards debt reduction as the Corporation continues to focus on reducing its indebtedness; and the Corporation's expectation that counterparties will be able to meet their financial obligations);
- estimates of Birchcliff's material contractual obligations and commitments and decommissioning obligations;
- statements relating to the Corporation's 2022 NCIB (including: potential purchases under the 2022 NCIB; and the cancellation of common shares under the 2022 NCIB); and
- statements regarding potential transactions.

Statements relating to reserves are forward-looking as they involve the implied assessment, based on certain estimates and assumptions, that the reserves exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

With respect to the forward looking statements contained in this MD&A, assumptions have been made regarding, among other things: the degree to which the Corporation's results of operations and financial condition will be disrupted by circumstances attributable to the COVID-19 pandemic; prevailing and future commodity prices and differentials, 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, environmental, climate change and other laws; the Corporation's ability to comply with existing and future environmental, climate change and other laws; future cash flow, debt and dividend levels; future operating, transportation, 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 and the timing, location and extent of future drilling and other operations; results of operations; Birchcliff's ability to continue to develop its assets and obtain the anticipated benefits therefrom; the performance of existing and future wells; reserves 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 processing and transportation for its products; Birchcliff's ability to successfully market natural gas and liquids; the results of Birchcliff's risk management and market diversification activities; and Birchcliff's 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 2022 guidance assumes the following commodity prices and exchange rate: an average WTI price of US\$76.00/bbl; an average WTI-MSW differential of CDN\$5.00/bbl; an average AECO price of CDN\$3.50/Gj; an average Dawn price of US\$3.90/MMBtu; an average NYMEX HH price of US\$4.00/MMBtu; and an exchange rate (CDN\$ to US\$1) of 1.26.
- With respect to estimates of capital expenditures and Birchcliff's spending plans for 2022, such estimates and plans assume that the 2022 capital program will be carried out as currently contemplated. Birchcliff makes acquisitions and dispositions in the ordinary course of business. Any acquisitions and dispositions completed could have an impact on Birchcliff's capital expenditures, production, adjusted funds flow, free funds flow, costs and total debt, which impact could be material. The amount and allocation of capital expenditures for exploration and development activities by area and the number and types of wells to be drilled and brought on production is dependent upon results achieved and is subject to review and modification by management on an ongoing basis throughout the year. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials.
- With respect to Birchcliff's estimates of adjusted and free funds flow for 2022, such estimates assume that: the 2022 capital program will be carried out as currently contemplated and the level of capital spending for 2022 set forth herein will be achieved; and the targets for production, production commodity mix, expenses and natural gas market exposure and the commodity price and exchange rate assumptions are met.
- With respect to Birchcliff's production guidance for 2022, such guidance assumes that: the Corporation's 2022 capital program will be carried out as currently contemplated; no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that any transportation service curtailments or unplanned outages that occur will be short in duration or otherwise insignificant; the construction of new infrastructure meets timing and operational expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations.
- With respect to statements regarding future wells to be drilled and brought on production, such statements assume: the continuing validity of the geological and other technical interpretations performed by Birchcliff's technical staff, which indicate that commercially economic volumes can be recovered from Birchcliff's lands as a result of drilling future wells; and that commodity prices and general economic conditions will warrant proceeding with the drilling of such wells.
- With respect to estimates of reserves, the key assumption is the validity of the data used by Deloitte in its independent reserves evaluation.

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: the risks posed by pandemics (including COVID-19) and epidemics and their impacts on supply and demand and commodity prices; actions taken by OPEC and other major producers of crude oil and the impact such actions may have on supply and demand and commodity prices; 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 exchange and interest rates; stock market volatility; loss of market demand; an inability to access sufficient capital from internal and external sources on terms acceptable to the Corporation; risks associated with Birchcliff's Credit Facilities, including a failure to comply with covenants under the agreement governing the Credit Facilities and the risk that the borrowing base limit may be redetermined; 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, severe weather, explosions, blow-outs, equipment failures, transportation incidents and other similar events; an inability to access sufficient water or other fluids needed for operations; uncertainty that development activities in connection with Birchcliff's assets will be economic; an inability to access or implement some or all of the technology necessary to operate its assets and achieve expected future results; the accuracy of estimates of reserves, future net revenue and 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; delays or changes in plans with respect to exploration or development projects or capital expenditures; 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 to the regulatory framework in the locations where the Corporation operates, including changes to tax laws, Crown royalty rates, environmental laws, climate change laws, carbon tax regimes, incentive programs and other regulations that affect the oil and natural gas industry; actions by government authorities including those with respect to the COVID-19 pandemic; an inability of the Corporation to comply with existing and future

environmental, climate change and other laws; the cost of compliance with current and future environmental laws; political uncertainty and uncertainty associated with government policy changes; dependence on facilities, gathering lines and pipelines; uncertainties and risks associated with pipeline restrictions and outages to third-party infrastructure that could cause disruptions to production; the lack of available pipeline capacity and an inability to secure adequate and cost-effective processing and transportation for Birchcliff's products; an inability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements; 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 and climate change risks, claims and liabilities; potential litigation; default under or breach of agreements by counterparties and potential enforceability issues in contracts; claims by Indigenous peoples; the reassessment by taxing or regulatory authorities of the Corporation's prior transactions and filings; unforeseen title defects; third-party claims regarding the Corporation's right to use technology and equipment; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainties associated with counterparty credit risk; risks associated with Birchcliff's risk management and market diversification activities; risks associated with the declaration and payment of future dividends, including the discretion of Birchcliff's Board of Directors to declare dividends and change the Corporation's dividend policy; the failure to obtain any required approvals in a timely manner or at all; the failure to complete or realize the anticipated benefits of acquisitions and dispositions and the risk of unforeseen difficulties in integrating acquired assets into Birchcliff's operations; negative public perception of the oil and natural gas industry and fossil fuels; the Corporation's reliance on hydraulic fracturing; market competition, including from alternative energy sources; changing demand for petroleum products; the availability of insurance and the risk that certain losses may not be insured; breaches or failure of information systems and security (including risks associated with cyber-attacks); risks associated with the ownership of the Corporation's securities; and the accuracy of the Corporation's accounting estimates and judgments.

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 the AIF under the heading "Risk Factors" and in other reports filed with Canadian securities regulatory authorities.

This MD&A contains information that may constitute future-orientated financial information or financial outlook information (collectively, "FOFI") about Birchcliff's prospective financial performance, financial position or cash flows, all of which is subject to the same assumptions, risk factors, limitations and qualifications as set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise or inaccurate and, as such, undue reliance should not be placed on FOFI. Birchcliff's actual results, performance and achievements could differ materially from those expressed in, or implied by, FOFI. Birchcliff has included FOFI in order to provide readers with a more complete perspective on Birchcliff's future operations and management's current expectations relating to Birchcliff's future performance. Readers are cautioned that such information may not be appropriate for other purposes. FOFI contained herein was 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 FOFI statements, whether as a result of new information, future events or otherwise.

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 and management's current expectations relating to Birchcliff's future performance. 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 herein 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.



# Management's Report

To the Shareholders of Birchcliff Energy Ltd.

The annual financial statements of Birchcliff Energy Ltd. for the year ended December 31, 2021 were prepared by management within the acceptable limits of materiality and are in accordance with International Financial Reporting Standards. Management is responsible for ensuring that the financial and operating information presented in the annual report is consistent with that shown in the financial statements.

The financial statements have been prepared by management in accordance with the accounting policies as described in the notes to the financial statements. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. When necessary, such estimates are based on informed judgments made by management.

Management has designed and maintains an appropriate system of internal controls to provide reasonable assurance that all assets are safeguarded and financial records properly maintained to facilitate the preparation of financial statements for reporting purposes.

KPMG LLP, an independent firm of Chartered Professional Accountants appointed by shareholders, have conducted an examination of the corporate and accounting records in order to express their opinion on the financial statements.

The Audit Committee, consisting of non-management directors, has met with representatives of KPMG LLP and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

Respectfully,

(signed) *"Bruno P. Geremia"*

**Bruno P. Geremia**

Executive Vice President and Chief Financial Officer

(signed) *"A. Jeffery Tonken"*

**A. Jeffery Tonken**

Chief Executive Officer

Calgary, Canada

March 16, 2022

# Independent Auditors' Report

To the Shareholders of Birchcliff Energy Ltd.

## **Opinion**

We have audited the financial statements of Birchcliff Energy Ltd. (the "Company"), which comprise:

- the statements of financial position as at December 31, 2021 and December 31, 2020
- the statements of net income (loss) and comprehensive income (loss) for the years then ended
- the statements of changes in shareholders' equity for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and December 31, 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

## **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matters to be communicated in our auditors' report.

### **Assessment of indicators of impairment for the cash generating unit**

#### **Description of the matter**

We draw attention to notes 3 and 4 to the financial statements. The Company assesses at each reporting date whether there are any internal or external indicators that its petroleum and natural gas properties and equipment within a cash generating unit (the "CGU") may be impaired. The Company is required to consider information from both external sources and internal sources (such as revisions in the estimate of proved and probable oil and gas reserves and the related cash flows). By their nature, these assumptions are subject to management's judgment. As at December 31, 2021, Birchcliff determined there were no indicators of impairment and therefore an impairment test was not required.

Management judgment is required to assess when external and internal indicators of impairment exist with the estimate of proved and probable oil and gas reserves and the related cash flows being critical to the assessment.

The estimate of proved and probable oil and gas reserves and the related cash flows includes significant assumptions related to:

- Forecasted oil and gas commodity prices
- Forecasted production
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Company engages independent third-party reserves evaluators to estimate the proved and probable oil and gas reserves and the related cash flows at least annually.

### ***Why the matter is a key audit matter***

We identified the assessment of indicators of impairment for the CGU as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures with respect to the internal and external indicators of impairment including the estimate of proved and probable oil and gas reserves and the related cash flows.

### ***How the matter was addressed in the audit***

The following are the primary procedures we performed to address this key audit matter:

We evaluated the Company's assessment of internal and external indicators of impairment by considering whether quantitative and qualitative information in the analysis was consistent with external market and industry data, the Company's press releases and certain minutes of the meetings of the Board of Directors and the estimate of proved and probable oil and gas reserves and the related cash flows.

With respect to the estimate of proved and probable oil and gas reserves and the related cash flows as at December 31, 2021:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserves evaluators engaged by the Company
- We compared forecasted oil and gas commodity prices to those published by independent third-party reserve evaluators
- We compared the 2021 actual production, operating costs, royalty costs and development costs of the Company to those estimates used in the prior year's estimate of proved oil and gas reserves and the related cash flows to assess the Company's ability to accurately forecast
- We evaluated the appropriateness of forecasted production, forecasted operating costs, forecasted royalty costs and forecasted future development costs assumptions by comparing to 2021 actual results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "2021 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and the information, other than financial statements and the auditors' report thereon, included in a document entitled "2021 Annual Report" as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.  
The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is Timothy Arthur Richards.

(signed) "KPMG LLP"

Chartered Professional Accountants

Calgary, Canada

March 16, 2022

# Birchcliff Energy Ltd.

## Statements of Financial Position

(Expressed in thousands of Canadian dollars)

As at December 31,	2021	2020
<b>ASSETS</b>		
Current assets:		
Cash	63	60
Accounts receivable	92,414	64,691
Prepaid expenses and deposits	5,732	2,177
Financial Instruments (Note 18)	69	-
	98,278	66,928
Non-current assets:		
Investments (Note 5)	9,457	1,805
Petroleum and natural gas properties and equipment (Note 4)	2,852,232	2,833,310
	2,861,689	2,835,115
<b>Total assets</b>	<b>2,959,967</b>	<b>2,902,043</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	96,736	97,507
Financial instruments (Note 18)	16,586	23,479
Capital securities (Note 9)	38,268	39,930
	151,590	160,916
Non-current liabilities:		
Revolving term credit facilities (Note 6)	500,870	731,372
Decommissioning obligations (Note 7)	140,603	146,232
Deferred income taxes (Note 8)	156,695	65,192
Other liabilities (Note 14)	25,329	26,207
Financial instruments (Note 18)	67,277	144,557
	890,774	1,113,560
<b>Total liabilities</b>	<b>1,042,364</b>	<b>1,274,476</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)		
Common shares	1,463,424	1,478,294
Preferred shares (perpetual)	41,434	41,434
Contributed surplus	90,924	89,868
Retained earnings	321,821	17,971
	1,917,603	1,627,567
<b>Total shareholders' equity and liabilities</b>	<b>2,959,967</b>	<b>2,902,043</b>

Commitments and contingencies (Note 19)

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

Approved by the Board

(signed) "Debra A. Gerlach"

**Debra A. Gerlach**

Independent Director

(signed) "A. Jeffery Tonken"

**A. Jeffery Tonken**

Director

# Birchcliff Energy Ltd.

## Statements of Net Income (Loss) and Comprehensive Income (Loss)

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

Years Ended December 31,	2021	2020
<b>REVENUE</b>		
Petroleum and natural gas revenue (Note 11)	932,406	528,505
Marketing revenue (Note 11)	20,722	13,687
Royalties	(76,271)	(18,204)
Realized loss on financial instruments (Note 18)	(21,451)	(59,665)
Unrealized gain (loss) on financial instruments (Note 18)	84,242	(35,446)
Other income	2,182	4,943
	941,830	433,820
<b>EXPENSES</b>		
Operating (Note 12)	91,515	82,357
Transportation	151,263	140,574
Marketing purchases (Note 11)	18,034	11,127
Administrative, net (Note 13)	30,676	27,044
Depletion and depreciation (Note 4)	212,757	212,404
Finance (Note 15)	33,238	30,111
Dividends on capital securities (Note 9)	2,718	3,467
Other gains (Notes 4 & 5)	(7,312)	(2,026)
	532,889	505,058
Net income (loss) before taxes	408,941	(71,238)
Income tax recovery (expense) (Note 8)	(94,265)	13,417
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)</b>	<b>314,676</b>	<b>(57,821)</b>
Net income (loss) per common share (Note 10)		
Basic	\$1.17	(\$0.23)
Diluted	\$1.13	(\$0.23)

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

# Birchcliff Energy Ltd.

## Statements of Changes in Shareholders' Equity

(Expressed in thousands of Canadian dollars)

	Share Capital				Total
	Common Shares	Preferred Shares	Contributed Surplus	Retained Earnings	
As at December 31, 2019	1,478,356	41,434	84,884	90,947	1,695,621
Dividends on common shares (Note 9)	-	-	-	(10,968)	(10,968)
Dividends on perpetual preferred shares (Note 9)	-	-	-	(4,187)	(4,187)
Exercise of stock options (Note 16)	18	-	(4)	-	14
Conversion of Series C preferred shares (Note 9)	530	-	-	-	530
Repurchase of common shares (Note 9)	(610)	-	-	-	(610)
Stock-based compensation (Notes 13 & 16)	-	-	4,988	-	4,988
Net loss and comprehensive loss	-	-	-	(57,821)	(57,821)
<b>As at December 31, 2020</b>	<b>1,478,294</b>	<b>41,434</b>	<b>89,868</b>	<b>17,971</b>	<b>1,627,567</b>
As at December 31, 2020	1,478,294	41,434	89,868	17,971	1,627,567
Dividends on common shares (Note 9)	-	-	-	(6,639)	(6,639)
Dividends on perpetual preferred shares (Note 9)	-	-	-	(4,187)	(4,187)
Exercise of stock options (Note 16)	16,636	-	(3,995)	-	12,641
Repurchase of common shares (Note 9)	(31,506)	-	-	-	(31,506)
Stock-based compensation (Notes 13 & 16)	-	-	5,051	-	5,051
Net income and comprehensive income	-	-	-	314,676	314,676
<b>As at December 31, 2021</b>	<b>1,463,424</b>	<b>41,434</b>	<b>90,924</b>	<b>321,821</b>	<b>1,917,603</b>

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

# Birchcliff Energy Ltd.

## Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

Years Ended December 31,	2021	2020
Cash provided by (used in):		
<b>OPERATING</b>		
Net income (loss)	314,676	(57,821)
Adjustments for items not affecting operating cash:		
Unrealized loss (gain) on financial instruments (Note 18)	(84,242)	35,446
Depletion and depreciation (Note 4)	212,757	212,404
Other compensation (Note 13)	2,430	2,429
Finance (Note 15)	33,238	30,111
Other gains (Notes 4 & 5)	(7,312)	(2,026)
Income tax (recovery) expense (Note 8)	94,265	(13,417)
Interest paid (Note 15)	(28,797)	(26,067)
Dividends on capital securities (Note 9)	2,718	3,467
Decommissioning expenditures (Note 7)	(3,203)	(2,323)
Changes in non-cash working capital (Note 20)	(21,161)	5,977
	515,369	188,180
<b>FINANCING</b>		
Repurchase of common shares (Notes 9 & 16)	(31,506)	(610)
Issuance of common shares (Notes 9 & 16)	12,641	14
Repurchase of capital securities (Note 9)	(1,662)	(9,141)
Lease payments (Note 14)	(2,444)	(2,292)
Financing fees paid	(3,454)	-
Dividend distributions (Note 9)	(13,544)	(18,622)
Net change in revolving term credit facilities (Note 6)	(228,015)	121,120
	(267,984)	90,469
<b>INVESTING</b>		
Exploration and development of petroleum and natural gas assets (Note 4)	(230,479)	(287,967)
Dispositions (Note 4)	-	12,877
Acquisitions (Note 4)	(283)	-
Administrative Assets (Note 4)	(1,718)	(1,695)
Investments	(1,252)	-
Changes in non-cash working capital (Note 20)	(13,650)	(1,874)
	(247,382)	(278,659)
Net change in cash	3	(10)
Cash, beginning of year	60	70
<b>CASH, END OF YEAR</b>	<b>63</b>	<b>60</b>

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



# Birchcliff Energy Ltd.

## Notes to the Financial Statements

### For the Years Ended December 31, 2021 and 2020

(Expressed in 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 oil and 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, cumulative redeemable preferred shares, Series A (the “**Series A Preferred Shares**”) and cumulative redeemable preferred shares, Series C (the “**Series C Preferred Shares**”) are listed for trading on the Toronto Stock Exchange (the “**TSX**”) 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 March 16, 2022.

#### 2. BASIS OF PREPARATION

These financial statements present Birchcliff’s financial results of operations and financial position under International Financial Reporting Standards (“**IFRS**”) as at and for the years ended December 31, 2021 and December 31, 2020. The financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Note 3.

Operating and transportation and other expenses in profit or loss are presented as a combination of function and nature in conformity with industry practices. Depletion and depreciation, finance, dividends on capital securities and other gains and losses in profit or loss are presented in a separate line by their nature, while net administrative expenses are presented on a functional basis. Significant expenses such as salaries and benefits and other compensation are presented by their nature in the notes to the financial statements.

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. Certain comparative figures have been adjusted to conform with the current year presentation.

##### Current Environment and Estimation Uncertainty

The outbreak of the COVID-19 pandemic had a significant negative impact on global economic conditions in 2020. This included a sharp decrease in crude oil demand which, combined with other macro-economic conditions, resulting in significant volatility in oil and natural gas commodity prices, as well as economic uncertainty. In 2021, the global economy has continued to recover from the impacts of the COVID-19 pandemic and an improved oil and natural gas supply and demand balance in the global markets, resulting in significant increases in benchmark commodity prices.

The Corporation continues to closely monitor the recommendations of applicable government and health authorities and has established procedures to ensure business continuity and the reliability of its operations in the event of future restrictions or lockdowns.

The COVID-19 pandemic remains an evolving situation that has had, and may continue to have, a significant impact on Birchcliff’s business, results of operations, financial condition and the environment in which it operates. Management cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption will impact the Corporation long-term.

##### Climate Change and Environmental Reporting Regulations

Regulations relating to climate and climate-related matters continue to evolve and may have additional disclosure requirements in the future. The International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim to develop an environment sustainability disclosure framework that is accepted globally. In addition, the Canadian Securities Administrators have proposed National Instrument 51-107 – *Disclosure of Climate-related Matters*, with additional climate-related disclosure requirements for Canadian Public Companies. If the Corporation is unable to meet future sustainability reporting

requirements of regulators or current and future expectations of stakeholders, its business and ability to attract and retain skilled employees, obtain regulatory permits, licenses, registrations, approvals and authorizations from various government authorities, and raise capital may be adversely affected. The cost to comply with these standards, and others that may be developed or evolved over time, has not yet been quantified.

The Corporation has considered the impact of the evolving worldwide demand for energy and the global advancement of alternative sources of energy that are not derived from fossil fuels in its assessment of impairment on its petroleum and natural gas properties in the preparation of these financial statements. The Corporation engaged an independent third-party reserves evaluator to prepare its reserve report at December 31, 2021. The reserves report includes anticipated impacts from emissions related taxes, most notably the estimated carbon tax related to the Corporation's operations.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Revenue Recognition

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 customer. 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.

#### (b) Cash and Cash Equivalents

Cash may consist of cash on hand, deposits and term investments held with a financial institution, with an original maturity of three months or less. Restricted cash is not considered part of cash and cash equivalents.

#### (c) Jointly Owned Assets

Certain activities of the Corporation are conducted jointly with others where the participants have a direct ownership interest in the related assets. Accordingly, the accounts of Birchcliff reflect only its working interest share of revenues, expenses and capital expenditures related to these jointly owned assets. The relationship with jointly owned asset partners have been referred to as jointly owned assets in the remainder of the financial statements as this is common terminology in the Canadian oil and natural gas industry.

#### (d) Exploration and Evaluation Assets

Costs incurred prior to obtaining the right to explore a mineral resource are recognized as an expense in the period incurred.

Intangible exploration and evaluation expenditures are initially capitalized and may include mineral license acquisitions, geological and geophysical evaluations, technical studies, exploration drilling and testing and other directly attributable administrative costs. Tangible assets acquired which are consumed in developing an intangible exploration asset are recorded as part of the cost of the exploration asset. These costs are accumulated in cost centres by exploration area pending the determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a mineral resource in an exploration area is considered to be determinable when economic quantities of proved reserves are determined to exist. A review of each exploration project by area is carried out at each reporting date to ascertain whether such reserves have been discovered. Upon determination of commercial proved reserves, associated exploration costs are transferred from exploration and evaluation to developed and producing petroleum and natural gas asset category. Exploration and evaluation assets are reviewed for impairment prior to any such transfer. Assets classified as exploration and evaluation are not subject to depletion and depreciation until they are reclassified to developed and producing petroleum and natural gas assets.

## **(e) Petroleum and Natural Gas Properties and Equipment**

### ***(i) Recognition and measurement***

Developed and producing petroleum and natural gas assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses, if any. Such assets consists of the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Developed and producing petroleum and natural gas asset interests include mineral lease acquisitions, geological and geophysical costs, facility and production equipment and associated turnarounds, other directly attributable administrative costs and the initial estimate of the costs of dismantling and removing an asset and restoring the site on which it was located.

### ***(ii) Subsequent costs***

Costs incurred subsequent to the determination of technical feasibility and commercial viability are recognized as developed and producing petroleum and natural gas interests when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized developed and producing petroleum and natural gas interests generally represent costs incurred in developed proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on an area basis. The cost of day-to-day servicing of an item of petroleum and natural gas properties and equipment is expensed in profit or loss as incurred.

Petroleum and natural gas properties and equipment are de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal of an asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

### ***(iii) Asset exchanges***

For exchanges or parts of exchanges that involve only exploration and evaluation assets, the exchange is accounted for at carrying value. Exchanges of development and production assets are measured at fair value, unless the exchange transaction lacks commercial substance or the fair value of the assets given up or the assets received cannot be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more reliable. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gain or loss on the de-recognition of the asset given up is recognized in profit and loss.

### ***(iv) Depletion and depreciation***

The net carrying value of developed and producing petroleum and natural gas assets, net of estimated residual value, is depleted on an area basis using the unit of production method. This depletion calculation includes actual production in the period and total estimated proved and probable oil and gas reserves attributable to the assets being depreciated, taking into account total capitalized costs plus estimated future development costs necessary to bring those reserves into production. Relative volumes of reserves and production (before royalties) are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. These estimates are reviewed by the Corporation's independent reserves evaluator at least annually.

Capitalized plant turnaround costs are depreciated on a straight-line basis over the estimated time until the next turnaround is completed. Corporate assets, which include office furniture and equipment, software, computer equipment and leasehold improvements, are depreciated on a straight-line basis over the estimated useful lives of the assets, which are estimated to be four years.

When significant parts of property and equipment, including petroleum and natural gas interests, have different useful lives, they are accounted for as separate items (major components). Depreciation methods, useful lives and residual values for petroleum and natural gas properties and equipment are reviewed at each reporting date.

## **(f) Provisions**

Provisions are recognized when the Corporation has a present obligation (legal or constructive), as a result of a past event, if it is probable that the Corporation will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is significant).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third-party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are not recognized for future operating losses.

### **(g) Decommissioning Obligations**

The Corporation's activities give rise to dismantling, restoration and site disturbance remediation activities. Costs related to abandonment activities are estimated by management in consultation with the Corporation's independent reserves evaluators based on risk-adjusted current costs which take into consideration current technology in accordance with existing legislation and industry practices.

Decommissioning obligations are measured at the present value of the best estimate of expenditures required to settle the future obligations at the reporting date. When the best estimate of the liability is initially measured, the estimated risk-adjusted cost, discounted using a pre-tax risk-free discount rate, is capitalized by increasing the carrying amount of the related petroleum and natural gas properties and equipment. The increase in the provision due to the passage of time, which is referred to as accretion, is recognized as a finance expense. Actual costs incurred upon settlement of the liability are charged against the obligation to the extent that the obligation was previously established. The carrying amount capitalized in petroleum and natural gas properties and equipment is depleted in accordance with the Corporation's depletion and depreciation policy. The Corporation reviews the obligation at each reporting date and revisions to the estimated timing of cash flows, discount rates and estimated costs result in an increase or decrease to the obligations and the related petroleum and natural gas properties and equipment. Any difference between the actual costs incurred upon settlement of the obligation and the recorded liability is recognized as a gain or loss in profit or loss.

### **(h) Share-Based Payments**

Equity-settled share-based awards granted by the Corporation include stock options and performance warrants granted to officers and employees. The fair value determined at the grant date of an award is expensed on a graded basis over the vesting period of each respective tranche of an award with a corresponding increase to contributed surplus. In calculating the expense of share-based awards, the Corporation revises its estimate of the number of equity instruments expected to vest by applying an estimated forfeiture rate for each vesting tranche and subsequently revising this estimate throughout the vesting period, as necessary, with a final adjustment to reflect the actual number of awards that vest. Upon the exercise of share-based awards, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. In the event that vested share-based awards expire without being exercised, previously recognized compensation costs associated with such awards are not reversed. The expense related to share-based awards is included within administrative expenses in profit or loss.

The fair value of equity-settled share-based awards is measured using the Black-Scholes option-pricing model taking into account the terms and conditions upon which the awards were granted. Measurement inputs as at the grant date include: share price, exercise price, expected volatility (based on weighted average historical traded daily volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds) applicable to the term of the award.

A portion of share-based compensation expense directly attributable to the exploration and development of the Corporation's assets are capitalized.

### **(i) Finance Income and Expenses**

Finance expenses include interest expense on borrowings, accretion of the discount on decommissioning, lease and post-employment benefit obligations, amortization of deferred charges and impairment losses (if any) recognized on financial assets. Interest and dividend income is recognized as it is earned and is presented as "other income" in profit and loss.

### **(j) Borrowing Costs**

Borrowing costs incurred for the acquisition, construction or production of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Assets are considered to be qualifying assets when this period of time is substantial. The capitalization rate, used to determine the amount of borrowing costs to be capitalized, is the weighted average interest rate applicable to the Corporation's outstanding borrowings during the period. All other borrowing costs are charged to profit or loss using the effective interest method.

## **(k) Financial Instruments**

### ***(i) Non-derivative financial instruments***

Non-derivative financial instruments are comprised of cash, accounts receivable, deposits, investment in securities, accounts payable and accrued liabilities, revolving term credit facilities and capital securities. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured based on their classification. The Corporation has made the following classifications:

- Cash, accounts receivable, and deposits are classified as loans and receivables and are measured at amortized cost using the effective interest method. Typically, the fair value of these balances approximates their carrying value due to their short-term to maturity.
- Investment in securities have been categorized as fair value through profit and loss which requires the securities to be fair valued at the end of each reporting period with any gains or losses recognized in profit and loss. Distributions declared are recorded to profit or loss and presented as an operating activity on the statement of cash flow.
- Accounts payable and accrued liabilities and revolving term credit facilities are measured at amortized cost using the effective interest method. Due to the short-term nature of accounts payable and accrued liabilities, their carrying values approximate their fair values. The Corporation's revolving term credit facilities bear interest at a floating rate and accordingly the fair market value approximates the carrying value before the carrying value is reduced for any remaining unamortized costs. Any interest costs and financing fees associated with the Corporation's credit facilities have been deferred and netted against the amounts drawn, and are being amortized to profit or loss using the effective interest method over the applicable term.
- The proceeds from the issuance of Series C Preferred Shares, which are presented as "capital securities" on the statement of financial position, are measured at amortized cost. The incremental costs directly attributable to the issuance of Series C Preferred Shares are initially recognized as a reduction to capital securities and subsequently amortized to profit and loss, using the effective interest rate method, as a finance expense. Dividend distributions on capital securities are recorded as an expense directly to profit and loss and presented as a financing activity on the statements of cash flows.

### ***(ii) Derivative financial instruments***

Derivatives may be used by the Corporation to manage economic exposure to market risk relating to commodity prices, interest rates and foreign exchange. Birchcliff's policy is not to utilize derivative financial instruments for speculative purposes. The Corporation does not designate its financial derivative contracts as hedges, and as such does not apply hedge accounting. As a result, financial derivatives are classified at fair value through profit or loss and are recorded on the statements of financial position at fair value.

The fair value of risk management contracts is determined by discounting the difference between the contracted prices/rates and published forward price/rates as at the statement of financial position date. The fair value of options and costless collars, if any, is based on option models that use published information with respect to volatility, prices and interest rates.

The Corporation accounts for any forward physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items, in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statements of financial position. Settlements on physical commodity sales contracts are recognized in petroleum and natural gas revenue in profit and loss.

### ***(iii) Share capital***

Common shares and perpetual preferred shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a reduction in share capital, net of any tax effects.

## (I) Impairment

### (i) Impairment of financial assets

Impairment of financial assets is determined by measuring the assets' expected credit loss ("ECL"). Birchcliff's financial assets are not considered to have a significant financing component and a lifetime ECL is measured at the date of initial recognition of the financial asset. ECL allowances have not been recognized for cash and cash equivalents due to the virtual certainty associated with their collection. The ECL pertaining to accounts receivable is assessed at initial recognition and this provision is re-assessed at each reporting date. ECLs are a probability-weighted estimate of all possible default events related to the financial asset (over the lifetime or within 12 months after the reporting period, as applicable) and are measured as the difference between the present value of the cash flows due to Birchcliff and the cash flows the Corporation expects to receive, including cash flows expected from collateral and other credit enhancements that are a part of contractual terms. In making an assessment as to whether financial assets are credit-impaired, the Corporation considers historically realized bad debts, evidence of a debtor's present financial condition and whether a debtor has breached certain contracts, the probability that a debtor will enter bankruptcy or other financial reorganization, changes in economic conditions that correlate to increased levels of default, the number of days a debtor is past due in making a contractual payment, and the term to maturity of the specified receivable. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized within general and administrative expense in profit and loss.

Based on contractual terms and conditions, the Corporation considers its financial assets to be in default when the counterparty fails to make contractual payments as required. Once the Corporation has pursued collection activities and it has been determined that the incremental cost of pursuing collection outweighs the benefits, Birchcliff derecognizes the gross carrying amount of the financial asset and the associated allowance from the statement of financial position.

### (ii) Impairment of non-financial assets

The Corporation's petroleum and natural gas properties and equipment are grouped into Cash Generating Units ("CGUs") for the purpose of assessing 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.

CGUs are reviewed at each reporting date for internal and external indicators of impairment. Such indicators may include, but are not limited to, changes in the Corporation's business plan, deterioration in forecasted oil and gas commodity prices or a significant downward revision of the estimated recoverable amount from proved and probable oil and gas reserves and the related cash flows. If indicators of impairment exist, an impairment test is performed by comparing a CGU's carrying value to its estimated recoverable amount. A CGU's recoverable amount is the greater of its fair value less cost to sell and its current value in use. The estimated recoverable amount involves significant assumptions including the estimate of proved and probable oil and gas reserves and the related cash flows and the discount rates. The estimate of proved and probable oil and gas reserves and the related cash flows is sensitive to the significant assumptions regarding forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, forecasted royalty costs and forecasted future development costs. Any excess of carrying value over recoverable amount is recognized as impairment loss in profit or loss.

In assessing the value in use, the estimated future cash flows from proved and probable oil and gas reserves are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. The forecasted oil and gas commodity prices used in the impairment test are based on period-end forecasted oil and gas commodity prices estimated by the Corporation's independent third-party reserves evaluators.

Where circumstances change such that an impairment no longer exists or is less than the amount previously recognized, the carrying amount of the CGU is increased to the revised estimate of its recoverable amount as long as the revised estimate does not exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the CGU in prior periods. A reversal of an impairment loss is recognized immediately through profit or loss.

Exploration and evaluation assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability of an exploration area, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to the respective CGUs.

### **(m) Income Taxes**

Birchcliff is a corporation as defined under the *Income Tax Act* (Canada) and is subject to Canadian Federal and provincial taxes. Birchcliff is subject to provincial taxes in Alberta as the Corporation operates in this jurisdiction. The Corporation's income tax expenses include current and/or deferred tax. Income tax expense is recognized through profit or loss except to the extent that it relates to items recognized directly in equity, in which case the related income taxes are also recognized in equity.

Current tax is the expected tax payable on taxable income and Part VI.I dividend tax payable on taxable preferred shares for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is expected to be settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Birchcliff expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### **(n) Per Common Share**

The Corporation calculates per common share amounts using net income available to Birchcliff's shareholders, reduced for perpetual preferred share dividends and divided by the weighted average number of common shares outstanding. Basic per share information is computed using the weighted average number of basic common shares outstanding during the period. Diluted per share information is calculated using the treasury stock method, which assumes that any proceeds from the exercise of "in-the-money" stock options and performance warrants, plus the unamortized stock-based compensation expense amounts, would be used to purchase common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of these calculations is anti-dilutive. The average market value of the Corporation's shares for the purpose of calculating the dilutive effect is based on average quoted market prices for the time that the stock options and performance warrants were outstanding during the period.

### **(o) Business Combinations**

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

### **(p) Post-Employment Benefit Obligation**

Birchcliff's post-employment benefits are defined benefit obligations under IFRS. The cost of the post-employment benefit obligation is determined using the projected unit credit method. The obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related liability. Post-employment benefit obligation is presented on the statements of financial position as other liabilities. Past service cost is the change in the present value of the obligation and can arise from the introduction, amendment or curtailment of a plan. Current service cost is the increase in the present value of the obligation resulting from the service provided by an employee in the current period. Current and past service costs are recognized as post-employment benefit expenses of the Corporation when incurred and presented in profit and loss as an administrative expense. The unwinding of the present value of the post-employment benefit obligation is recorded as accretion (interest) expense and is presented in profit and loss as a finance expense.

Remeasurements of the post-employment benefit obligation will result in gains and losses and will be included in other comprehensive income. Remeasurements result from increases or decreases in the present value of the obligation as a result of changes in assumptions including unexpectedly high or low rates of employee turnover, early retirement, change in expected future salaries and benefits and revision to the discount rate. Settlements will be recorded as a reduction to the obligation in the period incurred. Any difference between the actual costs incurred upon settlement of the obligation and the recorded liability is recognized as a gain or loss in profit or loss.

## **(q) Lease Obligation**

When Birchcliff is a party to a lease arrangement as the lessee, a lease liability, herein referred to as a “lease obligation”, and corresponding right-of-use asset, herein referred to as a “lease asset”, for each identified lease is recognized under IFRS. The lease obligation is determined by discounting the remaining lease payments using the interest rate implicit in the lease, if available, or the Corporation’s incremental borrowing rate. The lease obligation is reduced by actual cash lease payments made during the period. Lease obligations are presented as other liabilities on the statements of financial position. The lease assets are included in petroleum and natural gas properties and equipment on the statements of financial position. Lease assets are depreciated over the remaining term of the lease and included in depletion and depreciation expense in profit and loss. The unwinding of the present value of the lease obligation is recorded as accretion (interest) and included in finance expense in profit and loss. Cash lease payments are classified as a financing activity and accretion expense classified as an operating activity in the statements of cash flows.

Remeasurements of the lease obligation will result in an adjustment to the right-of-use asset. Remeasurements result from increases or decreases in the present value of the obligation as a result of changes in assumptions including lease term, payment or discount rate.

## **(r) Critical Accounting Judgments and Key Sources of Estimation Uncertainty**

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and 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.

### ***Critical judgments in applying accounting policies:***

The following are the critical judgments that management has made in the process of applying the Corporation’s accounting policies and that have the most significant effect on the amounts recognized in these financial statements:

#### ***(i) Identification of Cash-Generating Units***

Birchcliff’s assets are required to be aggregated into CGUs for the purpose of calculating impairment based on their ability to generate largely independent cash inflows. CGUs have been determined based on similar geological structure, shared infrastructure, geographical proximity, operating structure, commodity type and similar exposures to market risks. By their nature, these assumptions are subject to management’s judgment and may impact the carrying value of the Corporation’s assets in future periods.

#### ***(ii) Identification of Impairment Indicators***

IFRS requires Birchcliff to assess, at each reporting date, whether there are any internal or external indicators that its petroleum and natural gas properties and equipment within a CGU may be impaired. Birchcliff is required to consider information from both external sources (such as negative downturn in forecasted oil and gas commodity prices, significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in the estimate of proved and probable oil and gas reserves and the related cash flows, significant adverse effect on the financial and operational performance of a CGU, evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management’s judgment.

#### ***(iii) Tax Uncertainties***

IFRS requires Birchcliff, at each reporting date, to make certain judgments on uncertain tax positions by relevant tax authorities. Judgments include determining whether the Corporation will “more likely than not” be successful in defending its tax positions by considering information from relevant tax interpretations and tax laws in Canada. As such, this recognition threshold is subject to management’s judgment and may impact the carrying value of the Corporation’s deferred tax assets and liabilities at the end of the reporting period.

#### ***(iv) Lease Obligation***

IFRS requires Birchcliff to make certain judgements in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.



### **Key sources of estimation uncertainty:**

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities within the next financial year:

#### **(i) Reserves**

Reported recoverable quantities of proved and probable oil and gas reserves and the related cash flows requires estimation and are subject to assumptions regarding forecasted production profile, forecasted oil and gas commodity prices, forecasted operating costs, forecasted royalty costs and forecasted future development costs. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economical, geological and technical factors used to estimate proved and probable oil and gas reserves may change from period to period. Changes in reported proved and probable oil and gas reserves can impact the carrying values of the Corporation's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The estimated recoverable quantities of proved and probable oil and gas reserves and the related cash flows from Birchcliff's petroleum and natural gas interests are evaluated by independent third-party reserves evaluators at least annually.

The Corporation's proved and probable oil and gas reserves represent the estimated quantities of petroleum, natural gas and NGLs which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such proved and probable oil and gas reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proved and probable if producibility is supported by either production or conclusive formation tests. Birchcliff's proved and probable oil and gas reserves are determined in accordance with the standards contained in National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* and the *Canadian Oil and Gas Evaluation Handbook*.

#### **(ii) Share-Based Payments**

All equity-settled, share-based awards issued by the Corporation are fair valued using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

#### **(iii) Decommissioning Obligations**

The Corporation estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires an estimate regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these risk-free cash flows.

#### **(iv) Post-Employment Benefit Obligation**

The Corporation estimates the post-employment benefit obligation at the end of each reporting period. In most instances, the obligation occurs many years into the future. The Corporation uses estimates related to the initial measurement of the obligation for eligible employees including expected age of employee retirement, employee turnover, probability of early retirement, discount rate and inflation rate on salary and benefits. From time to time, these estimates may change causing the obligation recorded by the Corporation to change.

#### **(v) Lease Obligation**

Lease obligations are estimated using the rate implicit in the lease, unless this rate is not readily determinable, in which case a discount rate equal to the Corporation's incremental borrowing rate is used. This rate represents the rate that the Corporation would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

**(vi) Impairment of Non-Financial Assets**

For the purposes of determining the extent of any impairment or its reversal, estimates must be made regarding proved and probable oil and gas reserves and the related cash flows considering significant assumptions including forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, forecasted royalty costs and forecasted future development costs. These significant assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the discount rate estimate used to discount the cash flow estimates related to proved and probable oil and gas reserves. Changes in the aforementioned assumptions could affect the carrying amount of the Corporation's assets, and impairment charges and reversal will affect profit or loss.

**(vii) Income Taxes**

Birchcliff files corporate income tax, goods and services tax and other tax returns with various provincial and federal taxation authorities in Canada. There can be differing interpretations of applicable tax laws and regulations. The resolution of these tax positions through negotiations or litigation with tax authorities can take several years to complete. The Corporation does not anticipate that there will be any material impact upon the results of its operations, financial position or liquidity.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. Estimates of future taxable income are based on forecasted cash flows from operations. To the extent that any interpretation of tax law is challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability of Birchcliff to realize the deferred tax assets recorded at the statement of financial position date could be impacted.

**(s) Governments Grants**

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. If a grant is received but reasonable assurance and compliance with conditions is not achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the grant relates to an expense item in nature, it is recognized as "other income" in profit or loss on a systematic basis in the period in which the costs are incurred.

## 4. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

The continuity for petroleum and natural gas (“P&NG”) properties and equipment is as follows:

(\$000s)	Exploration & Evaluation Assets <sup>(4)</sup>	Developed & Producing Assets	Lease Assets	Corporate Assets	Total
<i>Cost:</i>					
As at December 31, 2019	321	3,850,089	19,931	20,217	3,890,558
Additions	33	315,200	-	1,713	316,946
Dispositions <sup>(1)</sup>	-	(17,563)	-	-	(17,563)
As at December 31, 2020	354	4,147,726	19,931	21,930	4,189,941
Additions	35	228,913	147	1,718	230,813
Acquisitions	-	866	-	-	866
As at December 31, 2021 <sup>(2)</sup>	389	4,377,505	20,078	23,648	4,421,620
<i>Accumulated depletion and depreciation:</i>					
As at December 31, 2019	-	(1,130,238)	(1,925)	(15,317)	(1,147,480)
Dispositions <sup>(1)</sup>	-	3,253	-	-	3,253
Depletion and depreciation expense <sup>(3)</sup>	-	(208,137)	(2,021)	(2,246)	(212,404)
As at December 31, 2020	-	(1,335,122)	(3,946)	(17,563)	(1,356,631)
Depletion and depreciation expense <sup>(3)</sup>	-	(208,821)	(2,035)	(1,901)	(212,757)
As at December 31, 2021	-	(1,543,943)	(5,981)	(19,464)	(1,569,388)
<i>Net book value:</i>					
<b>As at December 31, 2020</b>	<b>354</b>	<b>2,812,604</b>	<b>15,985</b>	<b>4,367</b>	<b>2,833,310</b>
<b>As at December 31, 2021</b>	<b>389</b>	<b>2,833,562</b>	<b>14,097</b>	<b>4,184</b>	<b>2,852,232</b>

(1) Birchcliff completed the disposition of various Gordondale lands and assets on December 22, 2020, with a net book value totaling \$14.3 million, relinquished \$5.9 million related to decommissioning obligations (see Note 7) and received cash consideration of \$12.7 million. Birchcliff recognized a gain on sale of \$4.3 million for the year ended December 31, 2020.

(2) The Corporation’s P&NG properties and equipment were pledged as security for its revolving term 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) Future development costs required to develop and produce proved and probable oil and gas reserves totalled \$4.3 billion at December 31, 2021 (December 31, 2020 – \$4.4 billion) and are included in the depletion expense calculation.

(4) E&E assets consist of the Corporation’s exploration activities which are pending the determination of economic quantities of commercially producible proved reserves. Additions represent the Corporation’s net share of costs incurred on E&E activities during the year. A review of each exploration project by area is carried out at each reporting date to ascertain whether economical quantities of proved reserves have been discovered and whether such costs should be transferred to depletable petroleum and natural gas components. There were no exploration costs reclassified from the E&E category to petroleum and natural gas properties and equipment category during 2021 and 2020.

### Impairment Assessment

In accordance with IFRS, an impairment test is performed if Birchcliff identifies indicators of impairment at the end of a reporting period. At December 31, 2021 and December 31, 2020, Birchcliff determined there were no impairment indicators present and therefore an impairment test was not required.

Birchcliff determined there were indicators of impairment at March 31, 2020 due to the decline in forecasted oil and gas commodity prices and reduction in market capitalization since its previously completed impairment assessment at December 31, 2019. An impairment is recognized if the carrying value of a Cash Generating Unit (“CGU”) exceeds the estimated recoverable amount for that CGU. A CGU’s estimated recoverable amount is the greater of its fair value less cost to sell and its current value in use. The estimated recoverable amount involves significant estimates including the estimate of proved and probable oil and gas reserves and the related cash flows and the discount rate. The estimate of proved and probable oil and gas reserves and the related cash flows is sensitive to the significant forecasted assumptions regarding oil and gas commodity prices, production, operating costs, royalty costs and future development costs.

At March 31, 2020, the Corporation used value in use derived from the estimate of proved and probable oil and gas reserves and the related cash flows estimated by the Corporation’s independent third-party reserves evaluators at December 31, 2019, which were internally updated to forecasted period-end oil and gas commodity prices, future development costs and production. The estimated future cash flows are discounted at pre-tax rates between 8% and 17.5% depending on the risk profile of the reserves category. Birchcliff’s P&NG properties and equipment were not impaired at March 31, 2020.

The following forecasted oil and gas commodity prices and exchange rate were used in determining whether an impairment to the carrying value of the P&NG properties and equipment existed at March 31, 2020:

Year	WTI Oil	AECO	NYMEX	Dawn Gas	Foreign
	(US\$/bbl) <sup>(1)</sup>	Natural Gas (CDN\$/mcf) <sup>(1)</sup>	Henry Hub Gas (US\$/mcf) <sup>(1)</sup>		Exchange Rate (CDN\$/US\$) <sup>(1)</sup>
2020	30.00	1.78	2.08	1.93	0.71
2021	41.18	2.22	2.54	2.40	0.73
2022	49.88	2.42	2.79	2.65	0.75
2023	55.87	2.54	2.92	2.78	0.76
2024	57.98	2.61	2.99	2.85	0.76
2025	59.22	2.69	3.05	2.92	0.76
2026	60.39	2.75	3.11	2.98	0.76
2027	61.60	2.81	3.18	3.04	0.76
2028	62.84	2.86	3.24	3.10	0.76
2029	65.38	3.00	3.30	3.16	0.76
Thereafter	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	0.76

(1) The forecast commodity prices, inflation and exchange rates were determined using the average forecasts from Deloitte, McDaniel, GLJ Petroleum Consultants Ltd. and Sproule Associates Ltd. effective April 1, 2020.

Birchcliff and its independent third-party reserves evaluators also assess many other forecasted financial estimates regarding operating costs, royalty costs and future development costs along with several other non-financial assumptions that affect reserves volumes. Birchcliff has considered these assumptions for the impairment test at March 31, 2020, however, it should be noted that all estimates are subject to uncertainty. For the period ended March 31, 2020, a 1% increase in the assumed discount rate or a 5% decrease in the future cash flows would not have resulted in an impairment.

## 5. INVESTMENTS

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 \$10.0 million. The Securities acquired are not publicly listed and do not constitute significant investments of the entities.

The Securities have limited voting rights, certain participation rights in the event of the liquidation, dissolution or wind-up of the Limited Partnership or the Trust, as the case may be, and, in the case of the Common A LP Units, no redemption rights. Holders of the Securities are entitled to, if, as and when declared, quarterly distributions for each three month period ending March 31, June 30, September 30 and December 31.

The Preferred Trust Units are redeemable on demand by Birchcliff. For each Preferred Trust Unit redeemed by Birchcliff, the redemption price will be equal to the redemption proceeds received by the Trust from the Limited Partnership with respect to a redemption by the Trust of a corresponding unit of the Limited Partnership that was acquired by the Trust with the proceeds the Trust received from the issuance of such Preferred Trust Unit. Payment of the redemption price by the Trust is limited to an aggregate maximum amount of \$10,000 in cash in respect of all redemptions per calendar month, unless the trustees of the Trust determine a greater amount. Any portion of the redemption price in excess of such cash amount (the “**Balance**”) will be repaid through the Trust’s issuance of redemption notes (“**Redemption Note**”) and/or distribution, *in specie*, of Trust property. Redemption Notes shall be due and payable on or prior to the fifth anniversary of the date of issuance.

As at December 31, 2021, the Corporation’s investments primarily consisted of Securities that had a fair value of \$8.2 million (December 31, 2020 – \$1.8 million). Birchcliff recorded a gain on investment of \$6.4 million during 2021 compared to a loss on investment of \$2.6 million during 2020. Birchcliff did not receive any dividend distributions in respect to the Securities in 2021 or 2020.

## 6. REVOLVING TERM CREDIT FACILITIES

The components of the Corporation's credit facilities include:

As at December 31, (\$000s)	2021	2020
Syndicated credit facility	477,958	727,645
Working capital facility	26,630	4,958
Drawn revolving term credit facilities	504,588	732,603
Unamortized deferred financing fees	(3,718)	(1,231)
<b>Revolving term credit facilities</b>	<b>500,870</b>	<b>731,372</b>

At December 31, 2021, the aggregate principal amount of the Corporation's credit facilities was \$850.0 million with maturity dates of May 11, 2024 which were comprised of: (i) an extendible revolving syndicated term credit facility (the "**Syndicated Credit Facility**") of \$750.0 million; and (ii) an extendible revolving working capital facility (the "**Working Capital Facility**") of \$100.0 million (collectively, the "**Credit Facilities.**") Birchcliff has outstanding \$4.2 million in letters of credit at December 31, 2021. The letters of credit reduce the amount available under the Working Capital Facility from \$100.0 million to approximately \$95.8 million.

Effective May 6, 2021, the agreement governing the Credit Facilities was amended to: (i) extend the maturity dates of each of the Syndicated Credit Facility and the Working Capital Facility from May 11, 2022 to May 11, 2024; and (ii) reduce the borrowing base limit to \$850.0 million from \$1.0 billion, with the Syndicated Credit Facility being reduced to \$750.0 million and the Working Capital Facility remaining at \$100.0 million. Birchcliff's Credit Facilities include a provision giving the lenders the right to redetermine the borrowing base if the Corporation's liability management rating ("**LMR**") is less than 2.0. Birchcliff's LMR at December 31, 2021 was 17.8. Upon any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall, Birchcliff must eliminate the borrowing base shortfall amount. In December 2021, Birchcliff's syndicate of lenders completed its semi-annual review and the borrowing base limit was confirmed at \$850.0 million.

The maturity date of the Credit Facilities may, at the request of the Corporation and with consent of the lenders, be extended on an annual basis, for an additional period of up to three years from May 11 of the year in which the extension request is made. The Credit Facilities are secured by a fixed and floating charge debenture and pledge charging substantially all of the Corporation's assets. No fixed charges have been granted pursuant to such debenture. The Credit Facilities do not contain any financial maintenance covenants.

The amended agreement governing the Credit Facilities allow for prime rate loans, LIBOR loans, U.S. base rate loans, bankers' acceptances and, in the case of the Working Capital Facility only, letters of credit, plus applicable margins. Effective December 31, 2021, U.S. dollar LIBOR benchmarks will begin phasing out. The Corporation expects the U.S. LIBOR benchmarks to be replaced with an alternative benchmark that will apply to Birchcliff's U.S. dollar borrowings to be used at its option. The interest rates applicable to the drawn loans are based on a pricing margin grid and will change as a result of the ratio of outstanding indebtedness to EBITDA as calculated in accordance with the agreement governing the Credit Facilities. EBITDA is defined as earnings before interest and non-cash items including (if any) income taxes, other compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments, gains and losses on investments, depletion, depreciation and amortization and impairment charges.

## 7. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning obligations result from its net ownership interests in petroleum and natural gas assets, including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted (inflated) amount of cash flow required to settle its decommissioning obligations is approximately \$245.0 million at December 31, 2021 (December 31, 2020 – \$221.3 million) and is expected to be incurred up until 2071. A reconciliation of the decommissioning obligations is set forth below:

<b>As at December 31, (\$000s)</b>	<b>2021</b>	<b>2020</b>
Balance, beginning	146,232	128,128
Obligations incurred	4,907	3,624
Obligations acquired	582	258
Obligations divested <sup>(1)</sup>	(620)	(5,867)
Changes in estimated future cash flows <sup>(2)</sup>	(9,611)	20,512
Accretion	2,608	1,900
Decommissioning expenditures <sup>(3)</sup>	(3,495)	(2,323)
<b>Balance, ending<sup>(4)</sup></b>	<b>140,603</b>	<b>146,232</b>

(1) Includes decommissioning obligations from the disposition of various Gordondale lands and assets in December 2020.

(2) Primarily relates to changes in the nominal risk-free rate, inflation rate, abandonment cost and abandonment date estimates of future obligations used to calculate the present value of the decommissioning obligation.

(3) Includes \$0.3 million of funding from the Alberta Site Rehabilitation Program in 2021.

(4) Birchcliff applied a nominal risk-free rate of 1.68% and an inflation rate of 1.82% to calculate the present value of the decommissioning obligation at December 31, 2021 and a nominal risk-free rate of 1.26% and an inflation rate of 1.54% at December 31, 2020.

## 8. INCOME TAXES

Included in income tax expense is a deferred income tax expense of \$91.5 million in 2021 as compared to deferred income tax recovery of \$16.5 million in 2020. Part VI.I dividend tax totalling \$2.8 million in 2021 (2020 – \$3.1 million) resulted from preferred share dividends paid during the year. For the purposes of determining the current and deferred income taxes, the Corporation applied a combined Canadian federal and provincial income tax rate of 23% in 2021 (2020 – 24%). On July 1, 2020, the Alberta Government, as part of Alberta's Recovery Plan, accelerated the planned reduction of the corporate tax rate to 8% resulting in a combined Canadian federal and provincial income tax rate of 23%.

The components of income tax recovery are set forth below:

<b>Years ended December 31, (\$000s)</b>	<b>2021</b>	<b>2020</b>
Net (income) loss before taxes	(408,941)	71,238
Computed expected income tax expense (recovery)	94,056	(17,097)
Increase (decrease) in taxes resulting from:		
Non-deductible stock-based compensation	822	872
Non-deductible dividends on capital securities	625	867
Non-deductible expenses and other	234	580
Change in tax rate	-	763
Change in deferred tax assets not recognized	(1,472)	598
<b>Balance, ending</b>	<b>94,265</b>	<b>(13,417)</b>

The components of net deferred income tax liabilities are set forth below:

<b>As at December 31, (\$000s)</b>	<b>2021</b>	<b>2020</b>
<i>Deferred income tax liabilities:</i>		
P&NG properties and equipment and E&E assets	381,349	372,456
Deferred financing fees	855	283
<i>Deferred income tax assets:</i>		
Decommissioning obligations	(32,496)	(33,633)
Other obligations	(3,550)	(3,917)
Risk management contracts	(19,273)	(38,648)
Bank financing and share issue costs	(873)	(960)
Non-capital losses and other	(169,317)	(230,389)
<b>Deferred income tax liabilities</b>	<b>156,695</b>	<b>65,192</b>

A continuity of the net deferred income tax liabilities is set forth below:

<i>(\$000s)</i>	Balance Jan. 1, 2021	Recognized in Profit or Loss	<b>Balance Dec. 31, 2021</b>
P&NG and E&E assets	372,456	8,893	381,349
Deferred financing fees	283	572	855
Decommissioning obligations	(33,633)	1,137	(32,496)
Other obligations	(3,917)	367	(3,550)
Risk management contracts	(38,648)	19,375	(19,273)
Bank financing and share issue costs	(960)	87	(873)
Non-capital losses and other	(230,389)	61,072	(169,317)
	65,192	91,503	<b>156,695</b>

<i>(\$000s)</i>	Balance Jan. 1, 2020	Recognized in Profit or Loss	<b>Balance Dec. 31, 2020</b>
P&NG and E&E assets	303,058	69,398	372,456
Deferred financing fees	530	(247)	283
Decommissioning obligations	(29,470)	(4,163)	(33,633)
Other Obligations	(4,267)	350	(3,917)
Risk management contracts	(30,496)	(8,152)	(38,648)
Bank financing and share issue costs	(2,672)	1,712	(960)
Non-capital losses and other	(155,011)	(75,378)	(230,389)
	81,672	(16,480)	<b>65,192</b>

As at December 31, 2021, the Corporation had approximately \$1.9 billion (2020 – \$2.2 billion) in tax pools available for deduction against future taxable income. Included in this tax basis are estimated non-capital loss carry forwards of approximately \$703.2 million that expire between 2030 and 2041 and unrecognized temporary differences on marketable securities of \$1.5 million. Discretionary tax deductions, including Canadian Development Expenses, Canadian Oil and Gas Property Expense and Capital Cost Allowance, were maximized in the respective tax years in order to reduce Birchcliff's accounting profits into a loss position for tax purposes.

## 9. 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 and outstanding:

As at December 31, (000s)	2021	2020
<i>Common shares:</i>		
Outstanding at beginning of year	265,943	265,935
Conversion of Series C Preferred Shares <sup>(1)</sup>	-	465
Repurchase of common shares <sup>(2)</sup>	(5,243)	(465)
Exercise of stock options	4,090	8
<b>Outstanding at end of year<sup>(1)</sup></b>	<b>264,790</b>	<b>265,943</b>
<i>Series A Preferred Shares (perpetual):</i>		
Outstanding at beginning of year	2,000	2,000
<b>Outstanding at end of year<sup>(3)</sup></b>	<b>2,000</b>	<b>2,000</b>

(1) See "Capital Securities" below.

(2) On November 17, 2021, Birchcliff announced that the TSX had accepted the Corporation's notice of intention to make a normal course issuer bid (the "2022 NCIB"). Pursuant to the 2022 NCIB, Birchcliff may purchase up to 13,267,554 of its outstanding common shares over the period from November 25, 2021 to November 24, 2022. Under the NCIB, common shares may be purchased in open market transactions on the TSX and/or alternative Canadian trading systems at the prevailing market price at the time of such transaction. Pursuant to the rules of the TSX, the total number of common shares that Birchcliff is permitted to purchase is subject to a daily purchase limit of 382,548 common shares. However, Birchcliff may make one block purchase per calendar week which exceeds the daily purchase restriction. All common shares under the 2022 NCIB will be cancelled. The 2022 NCIB effectively renewed the Corporation's previous normal course issuer bid under which the Corporation was permitted to purchase 13,296,936 of its outstanding common shares over the period from November 25, 2020 to November 24, 2021 (the "2021 NCIB"). The 2021 NCIB effectively renewed the Corporation's previous normal course issuer bid under which the Corporation was permitted to purchase up to 13,296,761 common shares over the period from November 25, 2019 to November 24, 2020 (the "2020 NCIB"). During 2020, Birchcliff purchased 464,562 common shares under the 2020 NCIB at an average price of \$1.31 for an aggregate value of approximately \$610,000, before fees. All such common shares were cancelled. During 2021, the Corporation purchased 5,242,700 common shares under the 2021 & 2022 NCIB at an average price of \$6.00 for an aggregate value of \$31.5 million, before fees. All such common shares were cancelled.

(3) The holders of the Series A Preferred Shares are entitled to receive, as and when declared by the Board of Directors of Birchcliff, fixed cumulative preferential cash dividends, payable quarterly. The dividend rate of the Series A Preferred Shares reset on September 30, 2017 and will reset every five years thereafter at a rate equal to the then current five-year Government of Canada bond yield plus 6.83%. The dividend rate for the five-year period from and including September 30, 2017 to, but excluding September 30, 2022, is 8.374% (\$2.0935 per annum or \$0.523375 quarterly). The Series A Preferred Shares are redeemable by the Corporation on September 30, 2022 and on September 30 in every fifth year thereafter at a redemption price of \$25.00 per share, plus all accrued and unpaid dividends. In addition, the holders of the Series A Preferred Shares have the right, subject to certain conditions, to convert their Series A Preferred Shares into cumulative redeemable floating rate Series B Preferred Shares on September 30, 2022 and on September 30 in every fifth year thereafter. The holders of the Series B Preferred Shares will be entitled to receive quarterly floating rate cumulative preferential cash dividends, if declared by Birchcliff's Board of Directors, at a rate equal to the sum of the then current 90 day Government of Canada Treasury Bill rate plus 6.83%.

### Capital Securities

The following table sets forth the number and amount of capital securities outstanding:

As at December 31, (000s)	2021		2020	
	Number	Amount (\$)	Number	Amount (\$)
Outstanding at beginning of year	1,597	39,930	2,000	49,845
Conversion of Series C Preferred Shares <sup>(1)(2)</sup>	-	-	(37)	(929)
Cash redemption of Series C Preferred Shares <sup>(1)</sup>	(66)	(1,662)	(366)	(9,141)
Amortization	-	-	-	155
<b>Outstanding at end of year<sup>(3)</sup></b>	<b>1,531</b>	<b>38,268</b>	<b>1,597</b>	<b>39,930</b>

(1) Subject to the provisions of the *Business Corporations Act* (Alberta) and the provisions governing the Series C Preferred Shares (the "Provisions"), a holder of Series C Preferred Shares may, at its option, upon giving notice in accordance with the Provisions (the "Notice of Redemption"), redeem for cash, all or any number of Series C Preferred Shares held by such holder on the last day of a financial quarter at \$25.00 per share, together with all accrued and unpaid dividends to but excluding the date fixed for redemption.

Upon receipt of the Notice of Redemption, the Corporation may, at its option (subject, if required, to stock exchange approval), upon not less than 20 days' prior written notice, elect to convert all such Series C Preferred Shares into common shares. The number of common shares into which each Series C Preferred Share may be so converted will be determined by dividing the amount of \$25.00, together with all accrued and unpaid dividends to but excluding the date fixed for conversion, by the greater of \$2.00 and 95% of the "Current Market Price" (as determined in accordance with the Provisions) of the common shares.

(2) For the year ended December 31, 2020, the Corporation elected to convert 37,165 Series C Preferred Shares into common shares and accordingly issued a total of 464,562 common shares.

This increased share capital by approximately \$530,000 using an implied value of \$1.14 per common share based on the closing price of the common shares on the TSX at the date of conversion.

(3) Each outstanding Series C Preferred Share is recorded at its redemption value of \$25.00 per share.



## Dividends

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

Years ended December 31,	2021	2020
<i>Common shares:</i>		
Dividend distribution (\$000s)	6,639	10,968
Per common share (\$)	0.0250	0.0413
<i>Series A Preferred Shares:</i>		
Series A dividend distribution (\$000s)	4,187	4,187
Per Series A Preferred Share (\$)	2.0935	2.0935
<i>Series C Preferred Shares:</i>		
Series C dividend distribution (\$000s)	2,718	3,467
Per Series C Preferred Share (\$)	1.7500	1.7500

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

## 10. EARNINGS (LOSS) PER SHARE

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

Years ended December 31, (\$000s, except for per share information)	2021	2020
Net income (loss)	314,676	(57,821)
Dividends on Series A Preferred Shares	(4,187)	(4,187)
Net income (loss) to common shareholders	310,489	(62,008)
<i>Weighted average common shares (000s):</i>		
Weighted average basic common shares outstanding	265,990	265,936
Dilutive securities	8,369	-
Weighted average diluted common shares outstanding <sup>(1)</sup>	274,359	265,936
<i>Net income (loss) per common share:</i>		
<b>Basic</b>	<b>\$1.17</b>	<b>(\$0.23)</b>
<b>Diluted</b>	<b>\$1.13</b>	<b>(\$0.23)</b>

(1) The weighted average diluted common shares outstanding excludes 7,709,600 common shares that were anti-dilutive for year ended December 31, 2021. As the Corporation reported a loss for the year ended December 31, 2020, the basic and diluted weighted average common shares outstanding are the same for the period and all dilutive securities were considered anti-dilutive.

## 11. REVENUE

The following table sets forth Birchcliff’s revenue by source:

Years ended December 31, (\$000s)	2021	2020
Light oil sales	83,836	68,498
Condensate <sup>(1)</sup>	178,651	102,397
NGLs sales <sup>(2)</sup>	85,891	38,123
Natural gas sales	583,991	319,473
P&NG sales <sup>(3)(4)</sup>	932,369	528,491
Royalty income	37	14
P&NG revenue	932,406	528,505
Marketing revenue <sup>(5)</sup>	20,722	13,687
<b>Revenue from contracts with customers</b>	<b>953,128</b>	<b>542,192</b>

(1) Includes pentanes plus.

(2) Includes ethane, propane and butane.

(3) Excludes the effects of financial instruments but includes the effects of any physical delivery contracts outstanding during the year.

(4) Included in accounts receivable at December 31, 2021 was \$88.8 million (December 31, 2020 – \$58.1 million) in P&NG sales to be received from its marketers in respect of December 2021 production, which was subsequently received in January 2022.

(5) Marketing revenue primarily represents the sale of commodities purchased from third parties less applicable fees. Birchcliff enters into certain marketing purchase and sales arrangements to reduce its take-or-pay fractionation fees associated with third-party commitments. For the year ended December 31, 2021, the Corporation had marketing purchases from third parties of \$18.0 million (December 31, 2020 – \$11.1 million).

## 12. OPERATING EXPENSE

The Corporation's operating expenses include all costs with respect to day-to-day production operations. The components of operating expenses are set forth below:

Years ended December 31, (\$000s)	2021	2020
Field operating costs	96,533	87,120
Recoveries	(5,018)	(4,763)
<b>Operating expense</b>	<b>91,515</b>	<b>82,357</b>

## 13. ADMINISTRATIVE EXPENSE

The components of administrative expenses are set forth below:

Years ended December 31, (\$000s)	2021	2020
<i>Cash:</i>		
Salaries and benefits <sup>(1)</sup>	35,504	33,404
Other <sup>(2)</sup>	12,426	11,633
General and administrative, gross	47,930	45,037
Operating overhead recoveries	(144)	(133)
Capitalized overhead <sup>(3)</sup>	(19,540)	(20,289)
General and administrative, net	28,246	24,615
<i>Non-cash:</i>		
Other compensation <sup>(4)</sup>	5,605	5,527
Capitalized compensation <sup>(3)</sup>	(3,175)	(3,098)
Other compensation, net	2,430	2,429
<b>Administrative expense, net</b>	<b>30,676</b>	<b>27,044</b>

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

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

(3) Includes a portion of gross general and administrative expenses and other compensation directly attributable to the exploration and development activities of the Corporation, which have been capitalized.

(4) Includes stock-based compensation expense of \$5.1 million and post-employment benefit expense of \$0.5 million in 2021 (2020 – \$5.0 million and \$0.5 million, respectively) (Notes 14 & 16).

Gross compensation for the Corporation's executive officers and directors are comprised of the following:

Years ended December 31, (\$000s)	2021	2020
Salaries and benefits <sup>(1)</sup>	7,325	7,267
Stock-based compensation <sup>(2)</sup>	1,237	1,027
Post-employment benefit <sup>(3)</sup>	554	539
<b>Executive officer's and director's compensation</b>	<b>9,116</b>	<b>8,833</b>

(1) Includes salaries, benefits and other incentives paid to officers of the Corporation and directors' fees and benefits paid to the directors of the Corporation.

(2) Represents stock-based compensation expense associated with options granted to the executive officers.

(3) Represents service costs associated with post-employment benefits of the Corporation's executive officers (Note 14).

## 14. OTHER LIABILITIES

### Post-Employment Benefit Obligation

The Corporation has established a post-employment benefit plan for eligible participants, which provides for post-employment benefits based upon the age at retirement and their period of service with Birchcliff (the "Retirement Plan"). The Retirement Plan is not funded and as such no plan assets exist. The post-employment benefit obligation arising from the Retirement Plan is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related liability. The expenses associated with the Retirement Plan are comprised of current and past service costs and the interest (accretion) on the unwinding of the present value of the post-employment benefit obligation.

The Corporation estimates the total undiscounted (inflated) amount of cash flow required to settle its obligations for all participants meeting the eligibility requirements under the post-employment benefit plan is approximately \$14.8 million at December 31, 2021 (December 31, 2020 – \$14.8 million).

A reconciliation of the discounted post-employment benefit obligation is set forth below:

<b>As at December 31, (\$000s)</b>	<b>2021</b>	<b>2020</b>
Balance, beginning	9,177	8,494
Obligations incurred <sup>(1)</sup>	554	539
Accretion	164	144
<b>Balance, ending<sup>(2)</sup></b>	<b>9,895</b>	<b>9,177</b>
Current portion	-	-
Long-term portion	9,895	9,177

(1) Represents the service costs associated with post-employment benefits.

(2) Birchcliff applied a discount rate of 2.8% and an inflation rate of 3.0% to calculate the present value of the post-employment benefit obligation at December 31, 2021 and 2020.

### Lease Obligation

The Corporation's total undiscounted (inflated) amount of cash flow required to settle its lease obligations is approximately \$17.7 million at December 31, 2021 (December 31, 2020 – \$20.0 million) and is expected to be settled by 2029. A reconciliation of the discounted lease obligation is set forth below:

<b>As at December 31, (\$000s)</b>	<b>2021</b>	<b>2020</b>
Balance, beginning	17,030	18,552
Lease payments	(2,444)	(2,292)
Change in estimate	147	-
Accretion	701	770
<b>Balance, ending<sup>(1)</sup></b>	<b>15,434</b>	<b>17,030</b>
Current portion	1,841	1,596
Long-term portion	13,593	15,434

(1) Birchcliff applied a discount rate of 4.7% to calculate the discounted value of the lease obligation at December 31, 2021 and 2020.

## 15. FINANCE EXPENSE

The components of finance expenses are set forth below:

<b>Years ended December 31, (\$000s)</b>	<b>2021</b>	<b>2020</b>
<i>Cash:</i>		
Interest on credit facilities	28,797	26,067
<i>Non-cash:</i>		
Accretion <sup>(1)</sup>	3,473	2,815
Amortization of deferred financing fees	968	1,229
<b>Finance expense</b>	<b>33,238</b>	<b>30,111</b>

(1) Includes accretion on decommissioning obligations, lease obligations and post-employment benefits.

## 16. SHARE-BASED PAYMENT

### Stock Option

At December 31, 2021, the Corporation's stock option plan (the "Option Plan") permitted the grant of options in respect of a maximum of 26,479,040 (December 31, 2020 – 26,594,273) common shares. At December 31, 2021, there remained available for issuance options in respect of 3,362,121 (December 31, 2020 – 460,072) common shares. For the stock options exercised during 2021, the weighted average common share trading price on the TSX was \$4.67 (2020 – \$1.50) per common share.

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

	2021		2020	
	Number	Price (\$) <sup>(1)</sup>	Number	Price (\$) <sup>(1)</sup>
Outstanding, beginning	26,134,201	3.56	23,483,368	4.28
Granted <sup>(2)</sup>	5,689,100	6.45	5,403,200	1.79
Exercised	(4,090,375)	(3.09)	(7,500)	(1.91)
Forfeited	(2,082,940)	(7.53)	(194,067)	(2.92)
Expired	(2,533,067)	(3.90)	(2,550,800)	(6.52)
<b>Outstanding, ending</b>	<b>23,116,919</b>	<b>3.96</b>	<b>26,134,201</b>	<b>3.56</b>

(1) Calculated on a weighted average basis.

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

The weighted average fair value per option granted during 2021 was \$3.03 (2020 – \$0.78). In determining the stock-based compensation expense for options issued during 2021, the Corporation applied a weighted average estimated forfeiture rate of 7.8% (2020 – 9.0%).

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

Years ended December 31,	2021	2020
Risk-free interest rate	1.2%	0.4%
Expected life (years)	4.2	4.2
Expected volatility	61.4%	61.1%
Dividend yield	0.3%	1.2%

A summary of the stock options outstanding and exercisable under the Option Plan at December 31, 2021 is set forth below:

Grant Price (\$)		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$)	Quantity	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$)
0.78	3.00	9,663,277	3.32	2.04	4,737,713	3.02	2.11
3.01	6.00	6,067,042	1.77	3.49	4,445,337	1.53	3.44
6.01	9.03	7,386,600	3.71	6.85	1,929,500	0.18	7.72
		<b>23,116,919</b>	<b>3.04</b>	<b>3.96</b>	<b>11,112,550</b>	<b>1.93</b>	<b>3.62</b>

### Performance Warrants

On January 18, 2005, Birchcliff issued 4,049,665 performance warrants as part of its initial restructuring to become a public entity. There are 2,939,732 performance warrants outstanding to purchase an equivalent number of common shares and exercisable at December 31, 2021 (December 31, 2020 – 2,939,732) with an expiry date of January 31, 2025. Each performance warrant is exercisable at a price of \$3.00 to purchase one common share of Birchcliff.

## 17. 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, to maintain a capital structure that allows Birchcliff to finance its business 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 year ended December 31, 2021.

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

As at December 31, (\$000s)	2021	2020
<i>Maximum borrowing base limit<sup>(1)</sup>:</i>		
Revolving term credit facilities	850,000	1,000,000
<i>Principal amount utilized:</i>		
Drawn revolving term credit facilities	(504,588)	(732,603)
Outstanding letters of credit <sup>(2)</sup>	(4,185)	(4,185)
	(508,773)	(736,788)
<b>Unused credit</b>	<b>341,227</b>	<b>263,212</b>

(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 oil and gas reserves.

In connection with the most recent semi-annual review of the borrowing base limit under the Credit Facilities, which was completed by the Corporation's syndicate of lenders in May 2021, the borrowing base limit under the Credit Facilities was reduced from \$1.0 billion to \$850.0 million and the maturity date was extended to May 11, 2024.

(2) Letters of credit are issued to various service providers. The letters of credit reduce the amount available under the Corporation's Working Capital Facility.

The capital structure of the Corporation is as follows:

As at December 31, (\$000s)	2021	2020	% Change
Shareholders' equity <sup>(1)</sup>	1,917,603	1,627,567	
Capital securities	38,268	39,930	
<b>Shareholders' equity &amp; capital securities</b>	<b>1,955,871</b>	<b>1,667,497</b>	<b>17%</b>
Shareholders' equity & capital securities as a % of total capital <sup>(2)</sup>	80%	69%	
Revolving term credit facilities	500,870	731,372	
Working capital deficit	53,312	93,988	
Fair value of financial instruments	(16,517)	(23,479)	
Capital securities	(38,268)	(39,930)	
Adjusted working capital (surplus) deficit <sup>(3)</sup>	(1,473)	30,579	
<b>Total debt</b>	<b>499,397</b>	<b>761,951</b>	<b>(34)%</b>
Total debt as a % of total capital	20%	31%	
<b>Total capital</b>	<b>2,455,268</b>	<b>2,429,448</b>	<b>1%</b>

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

(2) Of the 80%, approximately 96% relates to common capital stock and 4% relates to preferred capital stock.

(3) Includes items related to the day-to-day operations of Birchcliff and excludes any non-operational items such as financial instruments and capital securities.

## 18. 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.

### Credit Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial asset fails to meet its contractual obligation, and arises principally from Birchcliff's receivables from its oil and natural gas marketers. Cash is comprised of bank balances. Historically, the Corporation has not carried short-term investments. Should this change in the future, counterparties will be selected based on credit ratings, management will monitor all investments to ensure a stable return and complex investment vehicles with higher risk will be avoided. The Corporation's exposure to cash credit risk at the statement of financial position date is low.

The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers. The following table illustrates the Corporation's maximum exposure for accounts receivable:

As at December 31, (\$000s)	2021	2020
Marketers <sup>(1)</sup>	88,843	58,075
Jointly owned assets	2,143	5,363
Other	1,428	1,253
<b>Accounts receivable</b>	<b>92,414</b>	<b>64,691</b>

(1) At December 31, 2021, approximately 23% was due from one marketer (2020 – 29%, one marketer). During 2021, the Corporation received 23%, 13% and 10% of its revenue, respectively, from three marketers (2020 – 29%, 13% and 16% of its revenue, respectively, from three marketers).

Typically, Birchcliff's maximum credit exposure from its marketers is revenue from its commodity sales. Receivables from marketers are normally collected on the 25th day of the month following production. Birchcliff mitigates the credit risk associated with these receivables by establishing marketing relationships with credit worthy purchasers, obtaining guarantees from their ultimate parent companies and obtaining letters of credit, if and when appropriate. The Corporation historically has not experienced any material collection issues with its marketers.

Birchcliff's accounts receivables are aged as follows:

As at December 31, (\$000s)	2021	2020
Current (less than 30 days)	88,062	58,057
30 to 60 days	2,315	3,477
61 to 90 days	1,505	2,392
Over 90 days	532	765
<b>Accounts receivable</b>	<b>92,414</b>	<b>64,691</b>

At December 31, 2021, approximately \$0.5 million or 0.6% (2020 – \$0.8 million or 1.2%) of Birchcliff's total accounts receivable are aged over 90 days. The majority of these accounts are due from various partners of jointly owned assets. Birchcliff attempts to mitigate the credit risk of receivables from jointly owned assets by obtaining pre-approval of significant capital expenditures. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with partners of jointly owned assets as disagreements occasionally arise that increases the potential for non-collection. The Corporation does not typically obtain collateral from partners of jointly owned assets; however, the Corporation does have the ability to withhold production or proceeds from the eventual sale of jointly owned assets in the event of non-payment. Birchcliff determined that the ultimate collection of accounts receivable were not in doubt and therefore no allowance to profit or loss was recorded in 2021 and 2020.

### Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations associated with financial liabilities that are settled by cash as they become due. Birchcliff's approach to managing liquidity is to ensure, as much as possible, that it will have sufficient liquidity to meet its short-term and long-term financial obligations when due, under both normal and unusual conditions without incurring unacceptable losses or risking harm to the Corporation's reputation. Birchcliff actively manages its liquidity using cash and debt management programs. Strategies include monitoring forecast and actual cash flows from operating, financing, and investing activities and managing available credit and working capital under its Credit Facilities.

All of the Corporation's contractual financial liabilities can be settled in cash. Typically, the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations. To achieve this objective, the Corporation prepares annual capital expenditure budgets, which are approved by the Board of Directors and are regularly reviewed and updated as considered necessary. Petroleum and natural gas production is monitored daily and is used to provide monthly cash flow estimates. Further, the Corporation utilizes authorizations for expenditures on both operated and non-operated projects to manage capital expenditure. The Corporation also attempts to match its payment cycle with collection of petroleum and natural gas revenue on the 25th of each month. Should commodity prices deteriorate materially, Birchcliff may adjust its capital spending accordingly to ensure that it is able to service its short-term financial obligations.

To facilitate the capital expenditure program, the Corporation has an aggregate \$850.0 million reserve-based bank credit facilities at the end of 2021 (2020 – \$1.0 billion) which are reviewed semi-annually by its lenders. The principal amount drawn under the Corporation's total credit facilities including letters of credit at December 31, 2021 was \$508.8 million (2020 – \$736.8 million) and \$341.2 million in unused credit was available at the end of 2021 (2020 – \$263.2 million) to fund future obligations.

The following table details the undiscounted cash flows of the Corporation's significant contractual financial liabilities at December 31, 2021 in the period they are due:

(\$000s)	2022	2023	2024-2026	Thereafter
Accounts payable and accrued liabilities	96,736	-	-	-
Drawn revolving credit facilities	-	-	504,588	-
Capital securities	38,268	-	-	-
Lease payments	3,174	3,174	8,126	3,273
<b>Financial liabilities</b>	<b>138,178</b>	<b>3,174</b>	<b>512,714</b>	<b>3,273</b>

### Market Risk

Market risk is the risk that changes in market conditions, such as commodity prices, exchange rates and interest rates, will affect the Corporation's net income or the value of its financial instruments, if any. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. These risks are consistent with prior years. All risk management transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

### Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can materially impact cash flows and the Corporation's borrowing base limit. Lower commodity prices can also reduce the Corporation's ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by Canadian ("CDN") and United States ("US") demand, but also by world events that dictate the levels of supply and demand.

### Financial Derivative Contracts

At December 31, 2021, 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 instruments as effective accounting hedges, even though the Corporation considers all commodity contracts to be effective economic hedges. As a result, all such financial instruments are recorded on the statements of financial position at fair value, with the changes in fair value being recognized as an unrealized gain or loss in profit or loss and realized upon settlement.

At December 31, 2021, Birchcliff had the following financial derivative contracts in place in order to manage commodity price risk:

Product	Type of Contract	Notional Quantity	Remaining Term <sup>(1)</sup>	Contract Price	Liability (\$000s)
Natural gas	AECO 7A basis swap <sup>(2)</sup>	30,000 MMBtu/d	Jan. 1, 2022 – Dec. 31, 2023	NYMEX HH less US\$1.298/MMBtu	8,826
Natural gas	AECO 7A basis swap <sup>(2)</sup>	10,000 MMBtu/d	Jan. 1, 2022 – Dec. 31, 2023	NYMEX HH less US\$1.320/MMBtu	3,062
Natural gas	AECO 7A basis swap <sup>(2)</sup>	30,000 MMBtu/d	Jan. 1, 2022 – Dec. 31, 2023	NYMEX HH less US\$1.330/MMBtu	9,217
Natural gas	AECO 7A basis swap <sup>(2)</sup>	15,000 MMBtu/d	Jan. 1, 2022 – Dec. 31, 2024	NYMEX HH less US\$1.185/MMBtu	5,302
Natural gas	AECO 7A basis swap <sup>(2)</sup>	5,000 MMBtu/d	Jan. 1, 2022 – Dec. 31, 2024	NYMEX HH less US\$1.200/MMBtu	1,903
Natural gas	AECO 7A basis swap <sup>(2)</sup>	5,000 MMBtu/d	Jan. 1, 2022 – Dec. 31, 2024	NYMEX HH less US\$1.200/MMBtu	1,815
Natural gas	AECO 7A basis swap <sup>(2)</sup>	12,500 MMBtu/d	Jan. 1, 2022 – Dec. 31, 2025	NYMEX HH less US\$1.108/MMBtu	5,472
Natural gas	AECO 7A basis swap <sup>(2)</sup>	10,000 MMBtu/d	Jan. 1, 2022 – Dec. 31, 2025	NYMEX HH less US\$1.115/MMBtu	4,326
Natural gas	AECO 7A basis swap <sup>(2)</sup>	10,000 MMBtu/d	Jan. 1, 2022 – Dec. 31, 2025	NYMEX HH less US\$1.050/MMBtu	3,212
Natural gas	AECO 7A basis swap <sup>(2)</sup>	5,000 MMBtu/d	Jan. 1, 2022 – Dec. 31, 2025	NYMEX HH less US\$1.178/MMBtu	2,806
Natural gas	AECO 7A basis swap <sup>(2)</sup>	10,000 MMBtu/d	Jan. 1, 2022 – Dec. 31, 2025	NYMEX HH less US\$1.175/MMBtu	5,595
Natural gas	AECO 7A basis swap <sup>(2)</sup>	5,000 MMBtu/d	Jan. 1, 2022 – Dec. 31, 2025	NYMEX HH less US\$1.190/MMBtu	2,841
Natural gas	AECO 7A basis swap <sup>(2)</sup>	30,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US\$1.114/MMBtu	9,649
Natural gas	AECO 7A basis swap <sup>(2)</sup>	35,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US\$1.081/MMBtu	10,284
Natural gas	AECO 7A basis swap <sup>(2)</sup>	5,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US\$1.013/MMBtu	1,108
Natural gas	AECO 7A basis swap <sup>(2)</sup>	20,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US\$1.005/MMBtu	2,743
Natural gas	AECO 7A basis swap <sup>(2)</sup>	5,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US\$0.990/MMBtu	654
<b>Fair value</b>					<b>78,815</b>

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

(2) Birchcliff sold AECO basis swap.

At December 31, 2021 if the future AECO/NYMEX basis changed by US\$0.10/MMBtu, with all other variables held constant, after-tax net income in 2021 would have changed by approximately \$18.9 million.

There were no financial derivative contracts entered into subsequent to December 31, 2021.

#### Physical Delivery Contracts

Birchcliff also enters into physical delivery 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 December 31, 2021 the Corporation had the following physical delivery contract in place:

Product	Type of Contract	Quantity	Remaining Term	Contract Price
Natural gas	AECO 7A basis swap <sup>(1)</sup>	5,000 MMBtu/d	Jan. 1, 2022 – Dec. 31, 2023	NYMEX HH less US\$1.205/MMBtu

(1) Birchcliff sold AECO basis swap.

There were no physical delivery contracts entered into subsequent to December 31, 2021.

#### Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation's Credit Facilities are exposed to interest rate risk. The remainder of Birchcliff's financial assets and liabilities are not directly exposed to interest rate risk.

At December 31, 2021, Birchcliff had the following financial derivative contracts in place in order to manage interest rate risk:

Type of Contract	Index	Remaining Term <sup>(1)</sup>	Notional Amount (\$million)	Fixed Rate (%)	Fair Value Liability (\$000s)
Interest rate swap	One-month banker's acceptance – CDOR <sup>(2)</sup>	Jan. 1, 2022 – Mar. 1, 2024	350	2.215	4,979

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

(2) Canadian Dollar Offered Rate ("CDOR").

At December 31, 2021 if the one-month banker's acceptance CDOR index changed by 0.10%, with all other variables held constant, after-tax net income in 2021 would have changed by approximately \$0.1 million.

The following table provides a summary of the realized and unrealized gains and losses on financial instruments:

Years ended December 31, (\$000s)	2021	2020
Realized loss on derivatives	(21,451)	(59,665)
Unrealized gain (loss) on derivatives	84,242	(35,446)

The fair value liability of the Corporation's financial derivative contracts at December 31, 2021 was \$83.8 million (2020 – \$168.0 million).

#### Foreign Currency Risk

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The exchange rate effect cannot be quantified but generally an increase in the value of the CDN dollar as compared to the US dollar will reduce the CDN dollar prices received by Birchcliff for its petroleum and natural gas sales. The Corporation had no long-term forward exchange rate contracts in place as at or during the year ended December 31, 2021.

#### Fair Value of Financial Instruments

Birchcliff's financial instruments include cash, accounts receivable, deposits, investment in securities, accounts payable and accrued liabilities, financial derivative contracts, outstanding revolving term credit facilities and capital securities. Substantially all of Birchcliff's financial instruments are transacted in active markets. Financial instruments carried at fair value are assessed using the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.



The carrying value and fair value of the Corporation's financial assets and liabilities at December 31, 2021 are set forth below:

(\$000s)	Carrying Value	Fair Value
<i>Loans and receivables:</i>		
Cash	63	63
Accounts receivable	92,414	92,414
Deposits	3,785	3,785
Investments <sup>(1)</sup>	9,457	9,457
<i>Other liabilities:</i>		
Accounts payable and accrued liabilities	96,736	96,736
Capital Securities	38,268	39,094
Drawn revolving term credit facilities	504,588	504,588
Financial derivatives <sup>(2)</sup>	83,794	83,794

(1) Investments are fair valued based on level 3.

(2) Financial derivative contracts are fair valued based on level 2.

## 19. COMMITMENTS AND CONTINGENCIES

The Corporation enters into contracts and commitments in the normal course of operations. The following table lists Birchcliff's commitments at December 31, 2021:

(\$000s)	2022	2023	2024-2026	Thereafter
Operating commitments <sup>(1)</sup>	2,033	2,033	6,099	2,202
Capital commitments <sup>(2)</sup>	3,586	2,560	-	-
Firm transportation and fractionation <sup>(3)</sup>	146,554	130,837	321,367	107,133
Natural gas processing <sup>(4)</sup>	19,327	17,155	51,512	103,024
<b>Commitments</b>	<b>171,500</b>	<b>152,585</b>	<b>378,978</b>	<b>212,359</b>

(1) Includes variable operating components associated with Birchcliff's head office premises.

(2) Includes drilling commitments.

(3) Includes firm transportation service arrangements and fractionation commitments with third parties.

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

The Corporation may be involved in litigation and disputes arising in the normal course of operations. Management is of the opinion that any potential litigation will not have a material adverse impact on the Corporation's financial position or results of operations at December 31, 2021.

## 20. SUPPLEMENTARY CASH FLOW INFORMATION

Years ended December 31, (\$000s)	2021	2020
<i>Provided by (used in):</i>		
Accounts receivable	27,723	56
Prepaid expenses and deposits	3,555	2,209
Accounts payable and accrued liabilities	771	4,913
Dividend tax	2,762	(3,075)
	<b>34,811</b>	<b>4,103</b>
<i>Provided by (used in):</i>		
Operating	21,161	5,977
Investing	13,650	(1,874)
	<b>34,811</b>	<b>4,103</b>

# Abbreviations

<b>AECO</b>	benchmark price for natural gas determined at the AECO 'C' hub in southeast Alberta
<b>bbl</b>	barrel
<b>bbls/d</b>	barrels per day
<b>boe</b>	barrel of oil equivalent
<b>boe/d</b>	barrel of oil equivalent per day
<b>condensate</b>	pentanes plus (C5+)
<b>F&amp;D</b>	finding and development
<b>FD&amp;A</b>	finding, development and acquisition
<b>G&amp;A</b>	general and administrative
<b>GAAP</b>	generally accepted accounting principles for Canadian public companies, which are currently International Financial Reporting Standards as issued by the International Accounting Standards Board
<b>GHG</b>	greenhouse gas
<b>GJ</b>	gigajoule
<b>HH</b>	Henry Hub
<b>m</b>	metres
<b>Mcf</b>	thousand cubic feet
<b>Mcf/d</b>	thousand cubic feet per day
<b>MMBtu</b>	million British thermal units
<b>MSW</b>	price for mixed sweet crude oil at Edmonton, Alberta
<b>NGLs</b>	natural gas liquids consisting of ethane (C2), propane (C3) and butane (C4) and specifically excluding condensate
<b>NYMEX</b>	New York Mercantile Exchange
<b>OPEC</b>	Organization of the Petroleum Exporting Countries
<b>WTI</b>	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma, for crude oil of standard grade
<b>000s</b>	thousands
<b>\$000s</b>	thousands of dollars

# Non-GAAP and Other Financial Measures

This report uses various “non-GAAP financial measures”, “non-GAAP ratios”, “supplementary financial measures” and “capital management measures” (as such terms are defined in NI 52-112), which are described in further detail below. These measures facilitate management’s comparisons to the Corporation’s historical operating results in assessing its results and strategic and operational decision-making and may be used by financial analysts and others in the oil and natural gas industry to evaluate the Corporation’s performance.

## NON-GAAP FINANCIAL MEASURES

NI 52-112 defines a non-GAAP financial measure as a financial measure that: (i) depicts the historical or expected future financial performance, financial position or cash flow of an entity; (ii) with respect to its composition, excludes an amount that is included in, or includes an amount that is excluded from, the composition of the most directly comparable financial measure disclosed in the primary financial statements of the entity; (iii) is not disclosed in the financial statements of the entity; and (iv) is not a ratio, fraction, percentage or similar representation. The non-GAAP financial measures used in this report are not standardized financial measures under GAAP and might not be comparable to similar measures presented by other companies where similar terminology is used. Investors are cautioned that non-GAAP financial measures should not be construed as alternatives to or more meaningful than the most directly comparable GAAP measures as indicators of Birchcliff’s performance. Set forth below is a description of the non-GAAP financial measures used in this report.

### Adjusted Funds Flow and Free Funds Flow

Birchcliff defines “adjusted funds flow” as cash flow from operating activities before the effects of decommissioning expenditures and changes in non-cash operating working capital. Birchcliff eliminates 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 is managed with Birchcliff’s capital budgeting process which considers available adjusted funds flow. Changes in non-cash operating working capital are eliminated in the determination of adjusted funds flow as the timing of collection and payment are variable and by excluding them from the calculation, the Corporation believes that it is able to provide a more meaningful measure of its operations and ability to generate cash on a continuing basis. Adjusted funds flow can also be derived from petroleum and natural gas revenue less royalty expense, operating expense, transportation and other expense, net G&A expense, interest expense and any realized losses (plus realized gains) on financial instruments and plus any other cash income sources. Management believes that adjusted funds flow assists management and investors in assessing Birchcliff’s financial performance after deducting all operating and corporate cash costs, as well as its ability to generate the cash necessary to fund sustaining and/or growth capital expenditures, repay debt, settle decommissioning obligations, repurchase common shares and pay common share and preferred share dividends.

Birchcliff defines “free funds flow” as adjusted funds flow less F&D capital expenditures. Management believes that free funds flow assists management and investors in assessing Birchcliff’s ability to further generate shareholder returns through a number of initiatives, including but not limited to, potential debt repayment, preferred share redemptions, common share repurchases, dividend increases and acquisitions.

The following table provides a reconciliation of cash flow from operating activities, as determined in accordance with GAAP, to adjusted funds flow and free funds flow for the periods indicated:

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
<b>Cash flow from operating activities</b>	<b>196,142</b>	<b>71,431</b>	<b>515,369</b>	<b>188,180</b>
Change in non-cash operating working capital	(4,255)	(6,269)	21,161	(5,977)
Decommissioning expenditures	1,762	1,347	3,203	2,323
<b>Adjusted funds flow</b>	<b>193,649</b>	<b>66,509</b>	<b>539,733</b>	<b>184,526</b>
F&D capital expenditures	(35,726)	(41,291)	(230,479)	(287,967)
<b>Free funds flow</b>	<b>157,923</b>	<b>25,218</b>	<b>309,254</b>	<b>(103,441)</b>

### Transportation and Other Expense

Birchcliff defines “transportation and other expense” as transportation expense plus marketing purchases less marketing revenue. Birchcliff may enter into certain marketing purchase and sales arrangements with the objective of reducing any available transportation and/or fractionation fees associated with its take-or-pay commitments. Management believes that transportation and other expense assists management and investors in assessing Birchcliff’s total cost structure related to transportation activities. The following table provides a reconciliation of transportation expense, as determined in accordance with GAAP, to transportation and other expense for the periods indicated:

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
Transportation expense	37,454	36,427	151,263	140,574
Marketing purchases	5,413	1,152	18,034	11,127
Marketing revenue	(6,169)	(1,889)	(20,722)	(13,687)
<b>Transportation and other expense</b>	<b>36,698</b>	<b>35,690</b>	<b>148,575</b>	<b>138,014</b>

### Operating Netback

Birchcliff defines “operating netback” as petroleum and natural gas revenue less royalty expense, operating expense and transportation and other expense. Management believes that operating netback assists management and investors in assessing Birchcliff’s operating profits after deducting the cash costs that are directly associated with the sale of its production, which can then be used to pay other corporate cash costs or satisfy other obligations. The following table provides a breakdown of Birchcliff’s operating netback for the periods indicated:

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
Petroleum and natural gas revenue	289,806	158,283	932,406	528,505
Royalty expense	(28,452)	(6,522)	(76,271)	(18,204)
Operating expense	(25,315)	(21,942)	(91,515)	(82,357)
Transportation and other expense	(36,698)	(35,690)	(148,575)	(138,014)
<b>Operating netback</b>	<b>199,341</b>	<b>94,129</b>	<b>616,045</b>	<b>289,930</b>

### Total Capital Expenditures

Birchcliff defines “total capital expenditures” as FD&A capital expenditures plus administrative assets. Birchcliff defines “FD&A capital expenditures” as F&D capital expenditures (see “Advisories – F&D Capital Expenditures”) plus acquisitions and less dispositions. Management believes that total capital expenditures and FD&A capital expenditures assist management and investors in assessing Birchcliff’s overall capital cost structure associated with its petroleum and natural gas activities. The following table provides a reconciliation of F&D capital expenditures, as determined in accordance with GAAP, to FD&A capital expenditures and total capital expenditures for the periods indicated:

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2021	2020	2021	2020
F&D capital	35,726	41,291	230,479	287,967
Acquisitions	56	10	175	10
Dispositions	-	(12,902)	108	(12,887)
<b>FD&amp;A capital</b>	<b>35,782</b>	<b>28,399</b>	<b>230,762</b>	<b>275,090</b>
Administrative assets	293	379	1,718	1,695
<b>Total capital expenditures</b>	<b>36,075</b>	<b>28,778</b>	<b>232,480</b>	<b>276,785</b>

## NON-GAAP RATIOS

NI 52-112 defines a non-GAAP ratio as a financial measure that: (i) is in the form of a ratio, fraction, percentage or similar representation; (ii) has a non-GAAP financial measure as one or more of its components; and (iii) is not disclosed in the financial statements of the entity. The non-GAAP ratios used in this report are not standardized financial measures under GAAP and might not be comparable to similar measures presented by other companies where similar terminology is used. Set forth below is a description of the non-GAAP ratios used in this report.

### ***Adjusted Funds Flow Per Boe and Adjusted Funds Flow Per Basic Common Share***

Birchcliff calculates “adjusted funds flow per boe” as aggregate adjusted funds flow in the period divided by the production (boe) in the period. Management believes that adjusted funds flow per boe assists management and investors in assessing Birchcliff’s financial profitability and sustainability on a cash basis by isolating the impact of production volumes to better analyze its performance against prior periods on a comparable basis. The Corporation previously referred to adjusted funds flow per boe as “adjusted funds flow netback”.

Birchcliff calculates “adjusted funds flow per basic common share” as aggregate adjusted funds flow in the period divided by the basic common shares outstanding at the end of the period. Management believes that adjusted funds flow per basic common share assists management and investors in assessing Birchcliff’s financial strength on a per common share basis.

### ***Free Funds Flow Per Basic Common Share***

Birchcliff calculates “free funds flow per basic common share” as aggregate free funds flow in the period divided by the basic common shares outstanding at the end of the period. Management believes that free fund flow per basic common share assists management and investors in assessing Birchcliff’s financial strength and its ability to generate shareholder returns on a per common share basis.

### ***Transportation and Other Expense Per Boe***

Birchcliff calculates “transportation and other expense per boe” as aggregate transportation and other expense in the period divided by the production (boe) in the applicable period. Management believes that transportation and other expense per boe assists management and investors in assessing Birchcliff’s cost structure as it relates to its transportation and marketing activities by isolating the impact of production volumes to better analyze performance against prior periods on a comparable basis.

### ***Operating Netback Per Boe***

Birchcliff calculates “operating netback per boe” as aggregate operating netback in the period divided by the production (boe) in the period. Management believes that operating netback per boe assists management and investors in assessing Birchcliff’s operating profitability and sustainability by isolating the impact of production volumes to better analyze its performance against prior periods on a comparable basis.

### ***Operating Netback Recycle Ratio***

Birchcliff calculates “operating netback recycle ratio” as operating netback per boe in the period divided by F&D costs in the period. Management believes that operating netback recycle ratio assists management and investors in assessing Birchcliff’s ability to profitably find and develop its PDP reserves.

## SUPPLEMENTARY FINANCIAL MEASURES

NI 52-112 defines a supplementary financial measure as a financial measure that: (i) is, or is intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of an entity; (ii) is not disclosed in the financial statements of the entity; (iii) is not a non-GAAP financial measure; and (iv) is not a non-GAAP ratio. The supplementary financial measures used in this report are either a per unit disclosure of a corresponding GAAP measure, or a component of a corresponding GAAP measure, presented in the financial statements. Supplementary financial measures that are disclosed on a per unit basis are calculated by dividing the aggregate GAAP measure (or component thereof) by the applicable unit for the period. Supplementary financial measures that are disclosed on a component basis of a corresponding GAAP measure are a granular representation of a financial statement line item and are determined in accordance with GAAP.

## CAPITAL MANAGEMENT MEASURES

NI 52-112 defines a capital management measure as a financial measure that: (i) is intended to enable an individual to evaluate an entity's objectives, policies and processes for managing the entity's capital; (ii) is not a component of a line item disclosed in the primary financial statements of the entity; (iii) is disclosed in the notes to the financial statements of the entity; and (iv) is not disclosed in the primary financial statements of the entity. Set forth below is a description of the capital management measure used in this report.

### Total Debt

Birchcliff calculates "total debt" as the amount outstanding under the Corporation's revolving term credit facilities plus adjusted working capital deficit (surplus). Management believes that total debt assists management and investors in assessing Birchcliff's overall liquidity and financial position at the end of the period. The following table provides a reconciliation of the revolving term credit facilities, as determined in accordance with GAAP, to total debt:

As at December 31, (\$000s)	2021	2020
Revolving term credit facilities	500,870	731,372
Working capital deficit	53,312	93,988
Fair value of financial instruments	(16,517)	(23,479)
Capital securities	(38,268)	(39,930)
Adjusted working capital deficit (surplus) <sup>(1)(2)</sup>	(1,473)	30,579
<b>Total debt<sup>(2)</sup></b>	<b>499,397</b>	<b>761,951</b>

(1) Capital management measure. Management believes that adjusted working capital deficit (surplus) assists management and investors in assessing Birchcliff's short-term liquidity requirements.

(2) Previously classified as a non-GAAP measure under CSA Staff Notice 52-306 (Revised) – *Non-GAAP Financial Measures*.

## Advisories

### CURRENCY

Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars and all references to "\$" and "CDN\$" are to Canadian dollars and all references to "US\$" are to United States dollars.

### BOE CONVERSIONS

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

### RESERVES INFORMATION

In this report, references to "reserves" are to Birchcliff's gross reserves (Birchcliff's working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of Birchcliff). The information contained herein relating to reserves is based upon the evaluation by Deloitte LLP, independent qualified reserves evaluator, with an effective date of December 31, 2021 as contained in the report of Deloitte dated February 9, 2022 (the "**Deloitte Report**"). The Deloitte Report was prepared in accordance with National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**") and the Canadian Oil and Gas Evaluation Handbook. There are numerous uncertainties inherent in estimating quantities of reserves and the future net revenue attributed to such reserves. See "*Risk Factors – Uncertainty of Reserves Estimates*" in the Corporation's management's discussion and analysis for the year ended December 31, 2021 (the "**MD&A**").

## OIL AND GAS METRICS

This report contains metrics commonly used in the oil and natural gas industry, including F&D costs, operating netback recycle ratio and netbacks, which have been determined by Birchcliff as set out below. 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 investors with measures to compare Birchcliff's performance over time; however, such measures are not reliable indicators of Birchcliff's future performance, which may not compare to Birchcliff's performance in previous periods, and therefore should not be unduly relied upon.

- F&D costs for PDP reserves are calculated by dividing exploration and development costs (F&D capital expenditures) incurred in the period by the change to PDP reserves before production during the period. F&D costs exclude the effects of acquisitions and dispositions. In calculating the amounts of F&D costs for a year, the changes during the year in estimated PDP reserves are based upon the evaluation of Birchcliff's reserves prepared by its independent qualified reserves evaluator effective December 31 of such year. The aggregate of the exploration and development costs incurred in the most recent financial year generally will not reflect total F&D costs related to changes to PDP reserves for that year. PDP F&D costs may be used as a measure of Birchcliff's efficiency with respect to finding and developing its PDP reserves.
- For information regarding operating netback recycle ratio and operating netback and how such metrics are calculated, see "*Non-GAAP and Other Financial Measures*".

## PRODUCTION

With respect to the disclosure of Birchcliff's production contained in this report: (i) references to "light oil" mean "light crude oil and medium crude oil" as such term is defined in NI 51-101; and (ii) references to "natural gas" mean "shale gas", which also includes an immaterial amount of "conventional natural gas", as such terms are defined in NI 51-101. In addition, NI 51-101 includes condensate within the product type of natural gas liquids. In certain cases, Birchcliff has disclosed condensate separately from other natural gas liquids as the price of condensate as compared to other natural gas liquids is currently significantly higher and Birchcliff believes presenting the two commodities separately provides a more accurate description of its operations and results therefrom.

## F&D CAPITAL EXPENDITURES

Unless otherwise stated, references in this report to "F&D capital expenditures" denotes capital for land, seismic, workovers, drilling and completions and well equipment and facilities and excludes any net acquisitions and dispositions, administrative assets and the capitalized portion of annual cash incentive payments that have not been approved by the Board of Directors. Management believes that F&D capital expenditures assists management and investors in assessing Birchcliff capital cost outlay associated with its exploration and development activities for the purposes of finding and developing its reserves.

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this 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 report relate to future events or Birchcliff's future plans, strategy, operations, performance or financial position 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", "focus", "future", "outlook", "position", "expect", "project", "intend", "believe", "anticipate", "estimate", "forecast", "guidance", "potential", "proposed", "predict", "budget", "continue", "targeting", "may", "will", "could", "might", "should", "would", "on track" 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 report contains forward-looking statements relating to the following: Birchcliff's plans and other aspects of its anticipated future financial performance, results of operations, focus, objectives, strategies, opportunities, priorities and goals; that Birchcliff is well-positioned for the future, minimizing risks and maximizing long-term gains; that Birchcliff remains committed to increasing shareholder value, which it intends to accomplish by maximizing free funds flow generation and significantly reducing indebtedness; that Birchcliff's five year plan for 2022 to 2026 (the "**Five Year Plan**") provides for significant free funds flow and the potential to reduce the Corporation's total debt to zero in 2023; Birchcliff's belief that significantly reducing its indebtedness will reduce the risks to its business and create optionality when considering sustainable increases to its common share dividend and common share buybacks as it moves forward; that Birchcliff's 2022 F&D capital budget of \$240 million to \$260 million is designed to maximize free funds flow generation and significantly reduce indebtedness, while maintaining capital discipline and a flat annual average production profile year-over-year; that based on its targeted annual average production of 78,000 to 80,000 boe/d, Birchcliff expects to generate approximately \$590 million of adjusted funds flow and \$330 million to \$350 million of free funds flow in 2022; that free funds flow generated in 2022 will be primarily allocated towards debt reduction; that Birchcliff is targeting total debt of approximately \$175 million to \$195 million at December 31, 2022, which represents a reduction of up to \$587 million (77%) from its total debt of \$762 million at December 31, 2020 and a reduction of up to \$324 million (65%) from its total debt of \$499.4 million at December 31, 2021; that the skills, expertise and perspectives of the three new executives will enhance Birchcliff's ability to continuously improve the execution of its business and create value for its shareholders; the performance and other characteristics of Birchcliff's oil and natural gas properties and expected results from its assets (including statements regarding the potential or prospectivity of Birchcliff's properties); the anticipated benefits of multi-well pad drilling; and that all wells planned to be drilled in 2022 are expected to be drilled on large multi-well pads. In addition, forward-looking statements in this report include the forward-looking statements identified in the MD&A under the heading "*Advisories – Forward-Looking Statements*". Information relating to reserves is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

With respect to the forward-looking statements contained in this report, assumptions have been made regarding, among other things: the degree to which the Corporation's results of operations and financial condition will be disrupted by circumstances attributable to the COVID-19 pandemic; prevailing and future commodity prices and differentials, 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, environmental, climate change and other laws; the Corporation's ability to comply with existing and future environmental, climate change and other laws; future cash flow, debt and dividend levels; future operating, transportation, 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 and the timing, location and extent of future drilling and other operations; results of operations; Birchcliff's ability to continue to develop its assets and obtain the anticipated benefits therefrom; the performance of existing and future wells; reserves 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 processing and transportation for its products; Birchcliff's ability to successfully market natural gas and liquids; the results of the Corporation's risk management and market diversification activities; and Birchcliff's 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 report:

- Birchcliff's 2022 guidance and Five Year Plan assume the following commodity prices and exchange rate: an average WTI price of US\$76.00/bbl; an average WTI-MSW differential of CDN\$5.00/bbl; an average AECO price of CDN\$3.50/GJ; an average Dawn price of US\$3.90/MMBtu; an average NYMEX HH price of US\$4.00/MMBtu; and an exchange rate (CDN\$ to US\$1) of 1.26.
- With respect to the statement that Birchcliff has the potential to reduce its total debt to zero in 2023 and Birchcliff's estimate of total debt at December 31, 2022, such statement and estimate assume that: (i) any free funds flow remaining after the payment of dividends, asset retirement obligations and other amounts for administrative assets, financing fees and capital lease obligations is allocated towards debt reduction; (ii) the timing of common share and preferred share dividends paid by the Corporation remains consistent with previous years, with the dividend rates and applicable taxes remaining unchanged; (iii) there are approximately 265 million common, 2,000,000 series A preferred shares and 1,530,709 series C preferred shares outstanding, with no redemptions of the Series A or the Series C preferred shares or buybacks of common shares occurring during 2022 or 2023; (iv) no significant acquisitions are completed by the Corporation and there is no repayment of debt using the proceeds from asset dispositions or equity issuances; (v) there are no proceeds received from the exercise of stock options or performance warrants during 2022 or 2023; (vi) the Corporation's capital programs in 2022 and 2023 will be carried out as currently contemplated and the Corporation's targeted levels of capital spending will be achieved; and (vii) the targets



for production, production commodity mix, capital expenditures, adjusted funds flow, free funds flow and natural gas market exposure and the commodity price and exchange rate assumptions are met. In addition, Birchcliff's 2022 total debt estimate does not include the payment of annual cash incentive payments that have not been approved by Birchcliff's Board of Directors.

- With respect to the estimate of capital expenditures for 2022, such estimate assumes that the Corporation's 2022 capital program will be carried out as currently contemplated. The amount and allocation of capital expenditures for exploration and development activities by area and the number and types of wells to be drilled and brought on production is dependent upon results achieved and is subject to review and modification by management on an ongoing basis throughout the year. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials.
- With respect to Birchcliff's production guidance for 2022, such guidance assumes that: the Corporation's 2022 capital program will be carried out as currently contemplated; no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that any transportation service curtailments or unplanned outages that occur will be short in duration or otherwise insignificant; the construction of new infrastructure meets timing and operational expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations.
- With respect to Birchcliff's estimates of adjusted and free funds flow for 2022, such estimates assume that: the Corporation's 2022 capital program will be carried out as currently contemplated and the level of capital spending for 2022 set forth herein will be achieved; and the Corporation's targets for production, production commodity mix, expenses and natural gas market exposure and the commodity price and exchange rate assumptions are met. In addition: (i) Birchcliff's estimate of adjusted funds flow for 2022 is based on an annual average production rate of 79,000 boe/d during 2022, which is the mid-point of Birchcliff's annual average production guidance range for 2022; and (ii) Birchcliff's estimate of free funds flow for 2022 is based on its targeted F&D capital spending and adjusted funds flow in 2022.
- With respect to statements regarding the future potential and prospectivity of properties and assets, such statements assume: the continuing validity of the geological and other technical interpretations performed 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.

Changes in assumed commodity prices and variances in production estimates can have an impact on the Corporation's estimates of adjusted and free funds flow and the Corporation's other guidance, which impact may be material. In addition, any acquisitions and dispositions completed over the course of the Five Year Plan could have an impact on Birchcliff's production, adjusted funds flow, free funds flow, expenses and total debt, which impact may be material. 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: the risks posed by pandemics (including COVID-19) and epidemics and their impacts on supply and demand and commodity prices; actions taken by OPEC and other major producers of crude oil and the impact such actions may have on supply and demand and commodity prices; 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 exchange and interest rates; stock market volatility; loss of market demand; an inability to access sufficient capital from internal and external sources on terms acceptable to the Corporation; risks associated with Birchcliff's credit facilities, including a failure to comply with covenants under the agreement governing the credit facilities and the risk that the borrowing base limit may be redetermined; 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, severe weather, explosions, blow-outs, equipment failures, transportation incidents and other similar events; an inability to access sufficient water or other fluids needed for operations; uncertainty that development activities in connection with Birchcliff's assets will be economic; an inability to access or implement some or all of the technology necessary to operate its assets and achieve expected future results; the accuracy of estimates of reserves, future net revenue and 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; delays or changes in plans with respect to exploration or development projects or capital expenditures; 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 to the regulatory framework in the locations where the Corporation operates, including changes to tax laws, Crown royalty rates, environmental laws, climate change laws, carbon tax regimes, incentive programs and other regulations that affect the oil and natural gas industry; actions by government authorities, including those with respect to the COVID-19 pandemic; an inability of the Corporation to comply with existing and future environmental, climate change and other laws; the cost of compliance with current and future environmental laws; political uncertainty and uncertainty associated with government policy changes; dependence on facilities, gathering lines and pipelines; uncertainties and risks associated with

pipeline restrictions and outages to third-party infrastructure that could cause disruptions to production; the lack of available pipeline capacity and an inability to secure adequate and cost-effective processing and transportation for Birchcliff's products; an inability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements; 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 and climate change risks, claims and liabilities; potential litigation; default under or breach of agreements by counterparties and potential enforceability issues in contracts; claims by Indigenous peoples; the reassessment by taxing or regulatory authorities of the Corporation's prior transactions and filings; unforeseen title defects; third-party claims regarding the Corporation's right to use technology and equipment; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainties associated with counterparty credit risk; risks associated with Birchcliff's risk management and market diversification activities; risks associated with the declaration and payment of future dividends, including the discretion of Birchcliff's Board of Directors to declare dividends and change the Corporation's dividend policy; the failure to obtain any required approvals in a timely manner or at all; the failure to complete or realize the anticipated benefits of acquisitions and dispositions and the risk of unforeseen difficulties in integrating acquired assets into Birchcliff's operations; negative public perception of the oil and natural gas industry and fossil fuels; the Corporation's reliance on hydraulic fracturing; market competition, including from alternative energy sources; changing demand for petroleum products; the availability of insurance and the risk that certain losses may not be insured; breaches or failure of information systems and security (including risks associated with cyber-attacks); risks associated with the ownership of the Corporation's securities; and the accuracy of the Corporation's accounting estimates and judgments.

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 the MD&A under the heading "Risk Factors" and in other reports filed with Canadian securities regulatory authorities.

This report contains information that may constitute future-orientated financial information or financial outlook information (collectively, "FOFI") about Birchcliff's prospective financial performance, financial position or cash flows, all of which is subject to the same assumptions, risk factors, limitations and qualifications as set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise or inaccurate and, as such, undue reliance should not be placed on FOFI. Birchcliff's actual results, performance and achievements could differ materially from those expressed in, or implied by, FOFI. Birchcliff has included FOFI in order to provide readers with a more complete perspective on Birchcliff's future operations and management's current expectations relating to Birchcliff's future performance. Readers are cautioned that such information may not be appropriate for other purposes. FOFI contained herein was made as of the date of this report. Unless required by applicable laws, Birchcliff does not undertake any obligation to publicly update or revise any FOFI statements, whether as a result of new information, future events or otherwise.

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

The forward-looking statements contained in this report are expressly qualified by the foregoing cautionary statements. The forward-looking statements contained herein are made as of the date of this 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

## EXECUTIVE TEAM

### Jeff Tonken

Chief Executive Officer

### Chris Carlsen

President and Chief Operating Officer

### Bruno Geremia

Executive Vice President and  
Chief Financial Officer

### Myles Bosman

Executive Vice President, Exploration

### David Humphreys

Executive Vice President, Operations

### Theo van der Werken

Vice President, Engineering

### Robyn Bourgeois

Vice President, Legal, General Counsel  
and Corporate Secretary

### Hue Tran

Vice President, Business Development  
and Marketing

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## DIRECTORS

### Jeff Tonken

Chairman of the Board  
Calgary, Alberta

### Dennis Dawson

Lead Independent Director  
Calgary, Alberta

### Debra Gerlach

Independent Director  
Calgary, Alberta

### Stacey McDonald

Independent Director  
Calgary, Alberta

### James Surbey

Non-Independent Director  
Calgary, Alberta

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## MANAGEMENT TEAM

### Gates Aurigemma

Manager, General Accounting

### Jesse Doenz

Controller and Investor Relations Manager

### Andrew Fulford

Surface Land Manager

### Paul Messer

Manager of Information Technology

### Tyler Murray

Mineral Land Manager

### Landon Poffenroth

Montney Asset Manager

### Michelle Rodgeron

Manager, Human Resources  
and Corporate Services

### Jeff Rogers

Facilities Manager

### Randy Rousson

Drilling and Completions Manager

### Victor Sandhawalia

Manager of Finance

### Daniel Sharp

Manager of Geology

### Ryan Sloan

Health and Safety Manager

### Duane Thompson

Production Manager

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## AUDITORS

KPMG LLP,  
Chartered Professional Accountants  
Calgary, Alberta

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## RESERVES EVALUATOR

Deloitte LLP  
Calgary, Alberta

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## BANK SYNDICATE

The Bank of Nova Scotia  
HSBC Bank Canada  
National Bank of Canada  
Canadian Imperial Bank of Commerce  
Bank of Montreal  
ATB Financial  
Business Development Bank of Canada  
Wells Fargo Bank, N.A., Canadian Branch  
United Overseas Bank Limited  
ICICI Bank Canada

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## HEAD OFFICE

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Phone: 403-261-6401  
Email: [info@birchcliffenergy.com](mailto:info@birchcliffenergy.com)

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## SPIRIT RIVER OFFICE

5604 – 49th Avenue  
Spirit River, Alberta T0H 3G0  
Phone: 780-864-4624  
Fax: 780-864-4628

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## TRANSFER AGENT

Computershare Trust Company of Canada  
Calgary, Alberta & Toronto, Ontario

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

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# 2021 ANNUAL REPORT

## **BIRCHCLIFF ENERGY LTD.**

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