Growth by the drill bit

QUARTERLY REPORT 2014Q2

SIX MONTHS ENDED JUNE 30, 2014

August 13, 2014

Fellow Shareholders,

Birchcliff Energy Ltd. ("**Birchcliff**") is pleased to report its second quarter financial and operational results for the three and six month periods ended June 30, 2014. Birchcliff had an excellent quarter, achieving our best second quarter results to date. Our low cost structure and increased natural gas production, together with strong natural gas prices resulted in record second quarter revenues, funds flow and earnings. Total cash costs (operating, transportation and marketing, general and administrative and interest costs) were materially reduced on a per boe basis from the second quarter of 2013.

Outlook for 2014 Production and Funds Flow

Record current production is approximately 34,000 boe per day**.**

As a result of our budget increase discussed below, we have increased our exit production rate guidance to approximately 40,000 boe per day from our prior guidance of 37,500 to 39,500 boe per day. Birchcliff expects strong production in the first quarter of 2015 as a result of the budget increase.

We estimate fourth quarter average production of approximately 38,000 boe per day and we expect to achieve annual average production of approximately 34,000 boe per day for 2014, representing 32% growth over the annual average of 25,829 boe per day in 2013 and 27% growth on a production per common share basis.

Estimated 2014 funds flow is approximately $331 million or $2.24 per common share, based on estimated average annual production of 34,000 boe per day, an AECO natural gas price of $4.50 per GJ ($4.75 per Mcf) and WTI oil price of US$99.50 per bbl (Edmonton Par CDN$101.00 per bbl) for 2014 and based on estimated 2014 annual basic weighted average common shares of 147,935,000.

Approximately 40% of Birchcliff's natural gas is hedged at an estimated wellhead price of $4.35 per Mcf from July 1 to October 31, 2014. Birchcliff has no other natural gas hedges in place. Birchcliff has purchased WTI put options for 1,000 barrels per day of crude oil for the calendar year 2014, comprised of 500 barrels per day with a strike price of US$90 and 500 barrels per day with a strike price of US$85.

Capital Budget Expansion

Birchcliff has increased its capital budget by $100 million to $447.1 million without increasing its expected year-end debt, as a result of strong commodity prices increasing budgeted funds flow and proceeds received from the exercise of the warrants.

The entire 2014 capital program (excluding acquisitions) of $390.7 million is expected to be funded from funds flow and the proceeds received from the exercise of warrants and options.

Financial and Operational Highlights

	Three months ended June 30, 2014	2013	Six months ended June 30, 2014	2013
OPERATING				
Average daily production				
Light oil – *(barrels)*	3,936	3,941	3,957	3,994
Natural gas – *(thousands of cubic feet)*	155,373	116,963	156,906	122,501
NGLs – *(barrels)*	1,346	706	1,354	708
Total – barrels of oil equivalent *(6:1)*	**31,178**	24,141	**31,462**	25,119
Average sales price *($ CDN)*[1]				
Light oil – *(per barrel)*	104.72	91.19	101.01	87.98
Natural gas – *(per thousand cubic feet)*	4.81	3.78	5.46	3.58
NGLs – *(per barrel)*	96.13	86.60	95.74	86.70
Total – barrels of oil equivalent *(6:1)*	**41.33**	35.74	**44.04**	33.91
NETBACK AND COST *($ per barrel of oil equivalent at 6:1)*				
Petroleum and natural gas revenue	41.35	35.99	44.05	34.04
Royalty expense	(3.35)	(3.34)	(3.89)	(3.03)
Operating expense	(5.25)	(5.89)	(5.23)	(5.82)
Transportation and marketing expense	(2.47)	(2.59)	(2.47)	(2.42)
Netback	**30.28**	24.17	**32.46**	22.77
General & administrative expense, net	(1.91)	(2.44)	(1.90)	(2.25)
Interest expense	(1.70)	(2.70)	(1.70)	(2.65)
Realized loss on financial instruments	(0.10)	-	(0.10)	-
Funds flow netback	**26.57**	19.03	**28.76**	17.87
Stock-based compensation expense, net	(0.75)	(0.42)	(0.54)	(0.49)
Depletion and depreciation expense	(11.56)	(11.53)	(11.37)	(11.52)
Accretion expense	(0.22)	(0.23)	(0.22)	(0.21)
Amortization of deferred financing fees	(0.08)	(0.08)	(0.09)	(0.08)
Unrealized loss on financial instruments	(0.01)	-	(0.03)	-
Dividends on Series C Preferred Shares	(0.31)	-	(0.31)	-
Income tax expense	(3.74)	(1.87)	(4.33)	(1.57)
Net income	**9.90**	4.90	**11.87**	4.00
Dividends on Series A Preferred Shares	(0.35)	(0.45)	(0.35)	(0.44)
Net income to common shareholders	**9.55**	4.45	**11.52**	3.56
FINANCIAL				
Petroleum and natural gas revenue *($000's)*	117,308	79,065	250,866	154,783
Funds flow from operations *($000's)*[2]	75,382	41,804	163,751	81,248
Per common share – basic *($)*[2]	0.52	0.29	1.13	0.57
Per common share – diluted *($)*[2]	0.49	0.29	1.09	0.56
Net income *($000's)*	28,087	10,775	67,586	18,199
Net income to common shareholders *($000's)*[3]	27,087	9,775	65,586	16,199
Per common share – basic *($)*[3]	0.19	0.07	0.45	0.11
Per common share – diluted *($)*[3]	0.18	0.07	0.44	0.11
Common shares outstanding				
End of period – basic	145,911,525	142,390,094	145,911,525	142,390,094
End of period – diluted	166,285,411	164,109,781	166,285,411	164,109,781
Weighted average common shares for period – basic	145,144,547	142,239,928	144,588,426	142,031,761
Weighted average common shares for period – diluted	152,622,935	145,164,527	149,895,129	144,788,757
Dividends on Series A Preferred Shares *($000's)*	1,000	1,000	2,000	2,000
Dividends on Series C Preferred Shares (*$000's*)	875	-	1,750	-
Capital expenditures, net *($000's)*	75,484	40,386	236,887	121,396
Long-term bank debt *($000's)*	452,183	409,091	452,183	409,091
Working capital deficit *($000's)*[4]	62,454	44,032	62,454	44,032
Total debt *($000's)*	514,637	453,123	514,637	453,123

(1) Average sales price excludes the effect of hedges using financial instruments.

(2) Funds flow from operations and per common share amounts are non-GAAP measures that represent cash flow from operating activities as per the statements of cash flows before the effects of changes in non-cash working capital and decommissioning expenditures. Per common share amounts are calculated by dividing funds flow from operations by the weighted average number of basic or diluted common shares outstanding for the period.

(3) Net income to common shareholders is calculated using net income as determined in accordance with GAAP, adjusted for dividends paid on Series A Preferred Shares. Per common share amounts are calculated by dividing net income to common shareholders by the weighted average number of basic or diluted common shares outstanding for the period.

(4) Excludes the fair value of financial instruments and related deferred premium.

The expanded portion of the 2014 capital budget is primarily directed toward the drilling of 9 (9.0 net) additional Montney/Doig horizontal natural gas wells, all of which will produce to our PCS Gas Plant, 3 (3.0 net) Worsley Charlie Lake horizontal light oil wells, $10 million for 100% owned facilities and $12 million for land acquisitions.

The following table sets out a detailed comparison of the new capital budget to the original capital budget.

	Gross Wells		Net Wells		Net Capital *($ millions)*		Difference in Capital
2014 Capital Budget	New	Old	New	Old	New	Old	*($ millions)*
Drilling & Development							
Basal Doig/Upper Montney Horizontal Natural Gas Wells	9	4	9.0	4.0	58.5	25.8	32.7
Middle/Lower Montney Horizontal Oil and Natural Gas Wells	29	25	29.0	25.0	176.9	155.8	21.1
Worsley Charlie Lake Horizontal Oil Wells	11	8	11.0	8.0	37.7	29.2	8.5
Halfway Oil Wells	2	2	1.5	1.5	4.4	3.5	0.9
Other Oil Wells	2	1	2.0	1.0	11.2	5.6	5.6
Total Drilling & Development(1)	**53**	**40**	**52.5**	**39.5**	**288.7**	**219.9**	**68.8**
Facilities					40.4	30.2	10.2
Production Optimization					21.6	13.1	8.5
Land and Seismic					24.9	12.9	12.0
Acquisitions & Dispositions					56.4	56.1	0.3
Other					15.1	14.9	0.2
Total Net Capital(1)					**$447.1**	**$347.1**	**$100.0**

(1) Numbers may not add due to rounding

As a result of the budget expansion, drilling capital will be spent late in 2014, resulting in increased exit production targets and strong production in the first quarter of 2015.

PCS Gas Plant Phase IV Expansion

The Phase IV expansion of the PCS Gas Plant will bring processing capacity to 180 MMcf per day, from 150 MMcf per day, by adding additional compression and sales pipeline capacity. The estimated cost of the Phase IV expansion is approximately $11.6 million. The anticipated start-up date of the Phase IV expansion is September 2014. This project remains on schedule and on budget.

2014 SECOND QUARTER FINANCIAL AND OPERATIONAL RESULTS

Production

Second quarter production averaged 31,178 boe per day, which is a 29% increase over production of 24,141 boe per day in the second quarter of 2013. Production per common share increased 27% from the second quarter of 2013.

Production consisted of approximately 83% natural gas and 17% crude oil and natural gas liquids in the second quarter. Approximately 78% of Birchcliff's natural gas production and 68% of corporate production was processed at our PCS Gas Plant in the first half of 2014.

Production in the second quarter of 2014 was negatively affected predominately by the unscheduled downtime on the Alberta TransCanada Pipeline system.

Birchcliff has consistently demonstrated significant growth in second quarter production per common share. This growth has been primarily achieved through Birchcliff's low risk development drilling on the Montney/Doig Natural Gas Resource Play and the impact of the low operating cost structure of the PCS Gas Plant and related infrastructure.

The following table highlights Birchcliff's second quarter production per common share growth since 2010.

	Q2 2010	Q2 2011	Q2 2012	Q2 2013	Q2 2014	Change Since 2010 *(%)*	Average Annualized Growth *(%)*
Average daily production *(boe/day)*	12,357	17,324	22,039	24,141	31,178	152%	38%
Average daily production per common share *(boe/day/share)*(1)	99.2	137.1	159.2	169.7	214.8	117%	29%

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

Funds Flow and Earnings

Funds flow increased 80% from the second quarter of 2013, to a record $75.4 million or $0.52 per basic common share. This increase was largely a result of the average AECO natural gas spot price increasing by 32% to $4.69 per Mcf in the second quarter of 2014 compared to $3.54 per Mcf in the second quarter of 2013.

Birchcliff had net income of $28.1 million as compared to $10.8 million in the second quarter of 2013, a significant increase of 161%. This is the 19th consecutive quarter of earnings, again demonstrating that our repeatable, low-cost business continues to be successful and earn money for our shareholders.

Operating Costs

Operating costs in the second quarter were $5.25 per boe, down 11% from the second quarter of 2013. This reduction of operating costs on a per unit basis was largely due to the cost benefits achieved from processing increased volumes of natural gas through the PCS Gas Plant and the implementation of various optimization initiatives.

PCS Gas Plant Netbacks

Processing natural gas at the PCS Gas Plant has materially improved Birchcliff's funds flow and net earnings since it first became operational in March 2010.

In the first half of 2014, net operating costs for natural gas processed at the PCS Gas Plant averaged $0.41 per Mcfe ($2.45 per boe) and the estimated operating netback for Birchcliff's natural gas production flowing to the PCS Gas Plant was $4.83 per Mcfe ($28.95 per boe), achieving an operating margin of 81%. Also, the sales liquids rate has improved significantly to 8.0 bbls per MMcf from 4.4 bbls per MMcf in the comparable six month period.

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

Production Processed through the PCS Gas Plant	Six months ended June 30, 2014[1]		Six months ended June 30, 2013	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		122,277		84,561
Oil & NGLs *(bbls)*		982		375
Total boe *(6:1)*		**21,361**		**14,468**
% of corporate natural gas production		*78%*		*69%*
% of corporate production		*68%*		*58%*
Sales liquids rate (bbls/MMcf)		*8.0*		*4.4*
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[2]	5.93	35.60	3.81	22.88
Royalty expense	(0.40)	(2.38)	(0.23)	(1.39)
Operating expense, net of recoveries	(0.41)	(2.45)	(0.36)	(2.17)
Transportation and marketing expense	(0.29)	(1.82)	(0.25)	(1.50)
Estimated operating netback	**$4.83**	**$28.95**	**$2.97**	**$17.82**
Operating margin[3]	**81%**	**81%**	**78%**	**78%**

(1) The PCS Gas Plant processed an average of 129 MMcf per day of gross raw gas at the inlet during the first half of 2014.

(2) AECO natural gas spot price averaged $5.20 per Mcf and $3.37 per Mcf during the six months ended June 30, 2014 and 2013, respectively

(3) Operating margin at the PCS Gas Plant is determined by dividing the estimated operating netback by petroleum and natural gas revenues in the period.

Debt and Capitalization

At June 30, 2014, Birchcliff's long-term bank debt was $452.2 million from available credit facilities aggregating $750 million. Total debt, including the working capital deficit of $62.4 million, was $514.6 million. Birchcliff has a significant amount of credit capacity and financial flexibility.

At June 30, 2014, Birchcliff had outstanding: 145,911,525 basic common shares. As a result of the exercise of warrants and options, Birchcliff has approximately 151,908,406 basic common shares as of August 13, 2014.

Increase to Credit Facilities

On May 9, 2014, Birchcliff's bank credit facilities limit increased to an aggregate of $750 million from the previous credit limit of $600 million. This increase was largely due to our material proved developed producing reserves added at December 31, 2013.

The revolving credit facilities were converted to a three-year term with a maturity date of May 9, 2017. The revolving term credit facilities include an increased credit limit to $620 million, from $470 million.

The terms of the other credit facilities, a $70 million and $60 million non-revolving five-year term credit facilities maturing on May 25, 2016 and May 25, 2018, respectively, remain essentially unchanged. The increased aggregate credit facilities amount will provide Birchcliff with increased financial flexibility.

OPERATIONS UPDATE

Drilling

Birchcliff's 2014 drilling program is focused on our two proven resource plays, the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play. During the second quarter of

2014 the Corporation focused its efforts on the Montney/Doig Natural Gas Resource Play in the Pouce Coupe area, drilling through spring break-up by utilizing multi-well pads. Birchcliff had two rigs drilling on two multi-well pads over break-up, with each pad consisting of five horizontal natural gas wells. All five wells from the first pad are now on production and three of the five wells on the second pad are on production with the last two wells coming on production shortly.

In the 2014 second quarter, Birchcliff drilled 11 (11.0 net) wells, consisting of 9 (9.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area, 1 (1.0 net) Charlie Lake horizontal light oil well in the Worsley area and 1 (1.0 net) Halfway horizontal light oil well.

Montney/Doig Natural Gas Resource Play

In the second quarter of 2014, Birchcliff drilled 9 (9.0 net) Montney/Doig horizontal natural gas wells. Year-to-date Birchcliff has successfully drilled 21 (21.0 net) Montney/Doig horizontal natural gas wells and 2 (2.0 net) Montney/Doig horizontal oil wells.

We are utilizing multi-well pad drilling on our Montney/Doig Natural Gas Resource Play to improve drilling and completion efficiencies and reduce the cost per well. The reduction in drilling and completion costs is significant. Another benefit of pad drilling is that we are able to drill continuously through spring break-up. Our increased use of pad drilling includes 11 multi-well pads in 2014 drilling two to five wells per pad.

Birchcliff continues to expand the Montney/Doig Natural Gas Resource Play both geographically and stratigraphically. In total, Birchcliff has drilled 141 (140.9 net) Montney/Doig horizontal natural gas wells. As a result, Birchcliff has a material amount of in-house technical knowledge, respecting all facets of the development of our Montney/Doig Natural Gas Resource Play. This includes geological mapping, petrophysics, 3D and micro-seismic, drilling and completion technology, production and optimization operations. The more wells we drill, the more knowledge we obtain, giving us a significant advantage over some of our competitors.

Our expanded budget for 2014 includes 38 (38.0 net) Montney/Doig horizontal wells, 36 (36.0 net) gas wells and 2 (2.0 net) oil wells. Of the 38 (38.0 net) horizontal wells, 29 (29.0 net) wells are targeting the Middle/Lower Montney Play and 9 (9.0 net) are targeting the Basal Doig/Upper Montney Play. Of the 23 (23.0 net) Montney/Doig horizontal wells drilled to date we have 15 (15.0 net) wells on production. Three drilling rigs are currently drilling on our Montney/Doig Natural Gas Resource Play, one rig is on a four-well pad and the other two rigs are drilling on three-well pads.

Birchcliff continues to aggressively delineate the Montney/Doig Natural Gas Resource Play both geographically and stratigraphically. With the expanded budget we are now planning two of the 38 horizontal wells to be drilled in new Montney layers on the play. To date, Birchcliff has concentrated on two Montney layers, the Basal Doig/Upper Montney layer and the Middle/Lower Montney layer. With success in new layers on the play, these new wells will add significant drilling opportunities as they are not included in the 2,330.3 net future locations or in our reserves and resources.

Additionally, this fall Birchcliff will be drilling its first Montney/Doig horizontal natural gas well in the Elmworth/Sinclair area. To date, Birchcliff has drilled three vertical stratigraphic tests on these lands and has proven the prospectivity of the Montney/Doig Natural Gas Resource Play in this area. The Elmworth/Sinclair area has seen significant recent industry activity including a number of successful Montney/Doig horizontal wells directly offsetting and on trend with our proposed Montney/Doig horizontal well.

PCS Gas Plant Phase IV Expansion

The Phase IV expansion of the PCS Gas Plant will bring processing capacity to 180 MMcf per day, from 150 MMcf per day, by adding additional compression and sales pipeline capacity. The estimated cost of the Phase IV expansion is approximately $11.6 million. The anticipated start-up date of the Phase IV expansion is September 2014. This project remains on schedule and on budget.

Worsley Charlie Lake Light Oil Resource Play

In the second quarter of 2014, Birchcliff's drilling activity on the Worsley Charlie Lake Light Oil Resource Play was limited due to spring break-up. In the second quarter, after break-up, we drilled 1 (1.0 net) Worsley Charlie Lake horizontal oil well. To date in 2014 we have successfully drilled 8 (8.0 net) Charlie Lake horizontal oil wells utilizing multi-stage fracture stimulation technology.

Our expanded budget for 2014 includes 11 (11.0 net) Charlie Lake horizontal light oil wells.

We have recently completed a significant facility optimization and infrastructure debottlenecking project in the northwest end of the Worsley field that will allow us to meet our exit production targets for this area and provide opportunity for growth in 2015.

With the continued positive response of the waterflood on our Worsley pool, we are expanding the waterflood area and are conducting the field operations necessary to convert two more wells to injectors and install the associated water injection infrastructure.

Halfway Light Oil Play

In the second quarter of 2014, Birchcliff drilled 1 (1.0 net) Halfway exploration horizontal light oil well, which is currently being completed.

Since the end of the second quarter, Birchcliff has drilled another 1 (0.5 net) Halfway exploration horizontal light oil well that was recently completed and will be brought on production soon.

SHAREHOLDER SUPPORT

We thank Mr. Seymour Schulich, our largest shareholder, for his leadership, unwavering commitment and his ongoing financial support. Mr. Schulich holds 40 million common shares representing 26.3% of the current issued and outstanding common shares. Recently, as the market tone turned from positive to negative, notwithstanding our excellent results, Mr. Schulich voiced his support to Birchcliff's staff. It is this kind of verbal moral support that keeps our staff motivated and focused on the execution of our business plan.

OUTLOOK

Exit production in 2014 is expected to be approximately 40,000 boe per day, setting us up for strong production in the first quarter of 2015. Our 2014 fourth quarter average production is expected to be approximately 38,000 boe per day. Annual average production for 2014 is expected to be approximately 34,000 boe per day, representing 32% growth over the 2013 annual average of 25,829 boe per day. Funds flow is expected to be approximately $331 million or $2.24 per common share.

Funds flow, together with the proceeds received from the exercise of warrants, is expected to fund the $100 million capital budget increase and not increase our debt. The increase in production without increasing debt will improve what is already a strong balance sheet as we move forward into 2015.

Birchcliff continues to be focused on improving capital efficiency. We are utilizing multi-well pad drilling on our Montney/Doig Natural Gas Resource Play to improve drilling and completion efficiencies and reduce the cost per well. The reduction in drilling and completion costs is significant. Further, pad drilling allowed us to drill continuously through spring break-up, which improves our capital efficiencies.

In the fourth quarter of 2014 we plan to drill new layers within our Montney/Doig Natural Gas Resource Play, which we expect will increase our potential future drilling locations, reserves and resources. Currently, we have up to 2,330.3 net future potential horizontal drilling locations on the Montney/Doig Natural Gas Resource Play. Birchcliff has now successfully drilled and cased 141 (140.9 net) Montney/Doig horizontal natural gas wells, utilizing the latest multi-stage fracture stimulation technology.

2015 Activity

We are currently planning for the further expansion of processing capacity at our PCS Gas Plant in 2015. The 2014 budget expansion includes seed capital for the modeling required to determine the size of the processing capacity expansion together with the number of wells required to be drilled to replace declines and fill the new processing capacity. The results of our planning will ultimately lead to our preliminary 2015 budget, which will be announced in fall of 2014. The expansion of processing capacity will allow Birchcliff to have material, low-cost, profitable production growth in 2015 and beyond.

2019 Five Year Plan

We are currently updating our 2018 Five Year Plan, which estimated exit production exceeding 61,000 boe per day in December of 2018. As a result of our excellent results and higher commodity prices, we are well ahead of meeting this target. Birchcliff expects to announce its 2019 Five Year Plan in the fall of 2014.

Conclusion

We are very pleased and excited with the current and future outlook for Birchcliff. Our production and opportunity portfolio continues to increase while our cost structure continues to decrease. To date in 2014, we have added a significant amount of contiguous land and additional drilling locations in the heart of our Pouce Coupe area on the Montney/Doig Natural Gas Resource Play, near our PCS Gas Plant and existing infrastructure.

We remain focused on our business – consistent, continuous, material growth by the drill bit, in our core area of the Peace River Arch of Alberta. We continue to use the same services, in the same area, directed by the same experienced Birchcliff personnel, which provides consistency, repeatability, reliability and safety in our operations.

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

With Respect,

(signed) "*A. Jeffery Tonken*"
A. Jeffery Tonken, President and Chief Executive Officer

Management's Discussion and Analysis

GENERAL

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

The following Management's Discussion and Analysis ("**MD&A**") is dated August 13, 2014. The unaudited interim condensed financial statements with respect to the three and six months ended June 30, 2014 (the "**Reporting Periods**") as compared to the three and six months ended June 30, 2013 (the "**Comparable Prior Periods**") and this MD&A have been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the interim condensed financial statements of the Corporation and related notes for the Reporting Periods and the 2013 Annual Report. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

2014 OUTLOOK

Birchcliff's capital budget for 2014 increased by $100 million, to $447.1 million. The $100 million budget increase is expected to be wholly funded by budgeted funds flow and proceeds received from the exercise of warrants. The entire 2014 budgeted capital expenditure program (excluding acquisitions) of $390.7 million, is expected to be funded wholly as of internally generated funds flow and proceeds received from the exercise of warrants and options.

The expanded portion of the 2014 capital budget is primarily directed toward the drilling of 9 (9.0 net) additional Montney/Doig horizontal natural gas wells, all of which will produce to our Pouce Coupe South Natural Gas Plant ("**PCS Gas Plant**"), 3 (3.0 net) Worsley Charlie Lake horizontal light oil wells, $10 million for 100% owned facilities and $12 million for land acquisitions.

We have increased our exit production rate guidance to approximately 40,000 boe per day from our prior guidance of 37,500 to 39,500 boe per day. Birchcliff expects strong production in the first quarter of 2015 as a result of the budget increase.

We estimate fourth quarter average production of approximately 38,000 boe per day and we expect to achieve annual average production of approximately 34,000 boe per day for 2014, representing 32% growth over the annual average of 25,829 boe per day in 2013 and 27% growth on a production per common share basis.

Estimated 2014 funds flow is approximately $331 million or $2.24 per common share, based on estimated average annual production of 34,000 boe per day, an AECO natural gas price of $4.50 per GJ ($4.75 per Mcf) and WTI oil price of US$99.50 per bbl (Edmonton Par CDN$101.00 per bbl) for 2014 and based on estimated 2014 annual basic weighted average common shares of 147,935,000.

Proceeds of $49.7 million were realized from the exercise of warrants, which expired August 8, 2014, resulting in the issuance of 5,986,699 common shares.

The Phase IV expansion of the PCS Gas Plant will bring processing capacity to 180 MMcf per day, from 150 MMcf per day, by adding additional compression and sales pipeline capacity. The estimated cost of the Phase IV expansion is approximately $11.6 million. The anticipated start-up date of the Phase IV expansion is September 2014. This project remains on schedule and on budget.

Approximately 40% of Birchcliff's natural gas is hedged at an estimated wellhead price of $4.35 per Mcf from July 1 to October 31, 2014. Birchcliff has no other natural gas hedges in place.

The Corporation does not foresee any liquidity issues with respect to the operation of its oil and natural gas business in 2014 and expects to meet its future obligations as they become due. The Corporation's two established resource plays provide it with a long-term and operationally reliable production base. Funds flow from this production is primarily dependent on commodity prices, which affect the pace at which the Corporation invests in its resource plays and the rate at which its production will grow.

Birchcliff's low cost structure and increased natural gas production, together with strong natural gas prices has given Birchcliff tremendous momentum for strong financial results and production growth in 2014.

FUNDS FLOW AND NET INCOME

Funds Flow from Operations

Funds flow from operations and funds flow per common share are non-GAAP measures defined as cash flow from operating activities before the effects of changes in non-cash working capital and decommissioning expenditures. Birchcliff's calculation of funds flow from operations is considered to be a key measure of the ability to generate the cash necessary to fund future growth through capital investments, pay dividends on preferred shares and repay debt.

The following schedule sets out the reconciliation of cash flow from operating activities, as determined in accordance with International Financial Reporting Standards ("**IFRS**"), to funds flow from operations:

	Three months ended June 30,		Six months ended June 30,	
($000's)	**2014**	**2013**	**2014**	**2013**
Cash flow from operating activities	78,033	48,955	151,343	84,265
Adjustments:				
Decommissioning expenditures	99	94	907	135
Changes in non-cash working capital	(2,750)	(7,245)	11,501	(3,152)
Funds flow from operations[(1)]	**75,382**	41,804	**163,751**	81,248
Per common share – basic *($)*[(1)]	**0.52**	0.29	**1.13**	0.57
Per common share – diluted *($)*[(1)]	**0.49**	0.29	**1.09**	0.56

(1) Funds flow from operations and funds flow per common share amounts as presented do not have any standardized meaning prescribed by IFRS and therefore it may not be comparable with the calculations of similar measures for other issuers. Funds flow from operations is not intended to represent cash flow from operating activities, net income or other measures of financial performance calculated in accordance with IFRS. Per common share amounts are calculated by dividing funds flow from operations by the weighted average number of basic or diluted common shares outstanding for the period.

Funds flow increased 80% from the second quarter of 2013, to $75.4 million or $0.52 per basic common share. Funds flow, when compared to the second quarter of 2013, was positively impacted by a 27% increase in realized natural gas wellhead prices, a 15% increase in realized oil wellhead prices, a 33% increase in natural gas production and lower interest costs and negatively offset by an increase in royalty, production and transportation costs resulting from higher production in the second quarter of 2014.

Net Income to Common Shareholders

($000's)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Net income	28,087	10,775	67,586	18,199
Net income to common shareholders[1]	**27,087**	9,775	**65,586**	16,199
Per common share – basic *($)*[1]	**0.19**	0.07	**0.45**	0.11
Per common share – diluted *($)*[1]	**0.18**	0.07	**0.44**	0.11

(1) Net income to common shareholders is calculated using net income as determined in accordance with IFRS, adjusted for dividends paid on Series A Preferred Shares of $1.0 million and $2.0 million in the three and six month Reporting Periods (Comparable Prior Periods - $1.0 million and $2.0 million). Per common share amounts are calculated by dividing net income to common shareholders by the weighted average number of basic or diluted common shares outstanding for the period.

In the second quarter of 2014, Birchcliff had net income to common shareholders of $27.1 million, an increase of 177% from $9.8 million in the second quarter of 2013. This increase was mainly attributable to higher funds flow from operations in the second quarter of 2014, offset by higher net stock-based compensation expense, income taxes and depletion expense.

PCS GAS PLANT NETBACKS

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

Production Processed at the PCS Gas Plant	Six months ended June 30, 2014[1]		Six months ended June 30, 2013	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		122,277		84,561
Oil & NGLs *(bbls)*		982		375
Total boe *(6:1)*		**21,361**		**14,468**
Percentage of corporate natural gas production		*78%*		*69%*
Percentage of corporate production		*68%*		*58%*
Sales liquids rate (bbls/MMcf)		*8.0*		*4.4*
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[2]	5.93	35.60	3.81	22.88
Royalty expense	(0.40)	(2.38)	(0.23)	(1.39)
Operating expense	(0.41)	(2.45)	(0.36)	(2.17)
Transportation and marketing expense	(0.29)	(1.82)	(0.25)	(1.50)
Estimated operating netback	**$4.83**	**$28.95**	**$2.97**	**$17.82**
Operating margin[3]	**81%**	**81%**	**78%**	**78%**

(1) The PCS Gas Plant processed an average of 129 MMcf per day of gross raw gas at the inlet during the first half of 2014.

(2) AECO natural gas spot price averaged $5.20 per Mcf and $3.37 per Mcf during the six months ended June 30, 2014 and 2013, respectively.

(3) Operating margin at the PCS Gas Plant is determined by dividing the estimated operating netback by petroleum and natural gas revenue in the period.

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

Credit Facilities

On May 9, 2014, Birchcliff's bank credit facilities limit increased to an aggregate of $750 million from the previous credit limit of $600 million.

Birchcliff's bank syndicate approved an increase of the revolving credit facilities to an aggregate limit of $620 million from $470 million. The revolving credit facilities were converted to a three-year term with a maturity date of May 9, 2017 (the "**revolving term credit facilities**"). The revolving term credit facilities include an increased credit limit for the extendible revolving syndicated term credit facility (the "**syndicated credit facility**") of $580 million from $440 million and an increased credit limit for the extendible revolving working capital facility (the "**working capital facility**") of $40 million from $30 million. Birchcliff may each year, at its option, request an extension to the maturity date of the syndicated credit facility and the working capital facility for an additional period of up to three years from May 9 of the year in which the extension request is made.

The terms of the other credit facilities, a $70 million non-revolving five-year term credit facility maturing on May 25, 2016 and a $60 million non-revolving five-year term credit facility maturing on May 25, 2018, remain essentially unchanged. After May 9, 2014, Birchcliff is no longer required to make quarterly installment repayments of $350,000 under the $70 million credit facility.

DISCUSSION OF OPERATIONS

Petroleum and Natural Gas Revenues

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

	Three months ended June 30, 2014				Three months ended June 30, 2013			
	Total Revenue *($000)*	**Average Daily Production**	*(%)*	**Average[(1)]** *($/unit)*	Total Revenue *($000)*	Average Daily Production	*(%)*	Average[(1)] *($/unit)*
Light oil *(bbls)*	37,510	3,936	13	104.72	32,703	3,941	16	91.19
Natural gas *(Mcf)*	67,978	155,373	83	4.81	40,247	116,963	81	3.78
Natural gas liquids *(bbls)*	11,777	1,346	4	96.13	5,564	706	3	86.60
Total P&NG sales *(boe)*	117,265	**31,178**	100	41.33	78,514	24,141	100	35.74
Royalty revenue	43			0.02	551			0.25
P&NG revenues	**117,308**			**41.35**	79,065			35.99

	Six months ended June 30, 2014				Six months ended June 30, 2013			
	Total Revenue *($000)*	**Average Daily Production**	*(%)*	**Average[(1)]** *($/unit)*	Total Revenue *($000)*	Average Daily Production	*(%)*	Average[(1)] *($/unit)*
Light oil *(bbls)*	72,337	3,957	13	101.01	63,599	3,994	16	87.98
Natural gas *(Mcf)*	154,983	156,906	83	5.46	79,476	122,501	81	3.58
Natural gas liquids *(bbls)*	23,468	1,354	4	95.74	11,114	708	3	86.70
Total P&NG sales *(boe)*	250,788	**31,462**	100	44.04	154,189	25,119	100	33.91
Royalty revenue	78			0.01	594			0.13
P&NG revenues	**250,866**			**44.05**	154,783			34.04

(1) Average sales price excludes the effect of hedges using financial instruments.

The increase in P&NG revenues from the Comparable Prior Periods was largely due to increased natural gas production and an increase in both realized oil and natural gas wellhead prices in the Reporting Periods.

Production

Production averaged 31,178 boe per day in the three month Reporting Period and 31,462 boe per day in the six month Reporting Period, a 29% and 25% increase respectively, from the Comparable Prior Periods. These increases were largely due to incremental production added from new Montney/Doig horizontal natural gas multi-well pads that were drilled, completed and tied into the PCS Gas Plant throughout 2013 and into the Reporting Periods and the acquisition of approximately 1,600 boe per day of production from a partner's working interest in joint lands during the first quarter of 2014. These increases were offset by natural production declines and outages related to unscheduled downtime on the Alberta TransCanada Pipeline ("**TCPL**") system for several days in early June.

Production consisted of approximately 83% natural gas and 17% crude oil and natural gas liquids in the second quarter of 2014 as compared to 81% natural gas and 19% crude oil and natural gas liquids in the second quarter of 2013.

Commodity prices

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

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

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Average benchmark prices:				
Light oil – WTI Cushing *($USD/bbl)*	102.99	94.22	100.84	94.30
Light oil – Edmonton Par *($/bbl)*	104.51	92.55	102.12	90.36
Natural gas – AECO – C daily *($/MMbtu)*(1)	4.69	3.54	5.20	3.37
Exchange rate – *(USD$/CAD$)*	1.08	0.98	1.10	0.98
Birchcliff's average sales price(2):				
Light oil *($/bbl)*	104.72	91.19	101.01	87.98
Natural gas *($/Mcf)*	4.81	3.78	5.46	3.58
NGLs *($/bbl)*	96.13	86.60	95.74	86.70
Barrels of oil equivalent *($/boe)*	41.33	35.74	44.04	33.91

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

(2) Average sales price excludes the effect of hedges using financial instruments.

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

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

The AECO natural gas spot price averaged $4.69 per Mcf for the three month Reporting Period, a 32% increase from the same period in 2013. Birchcliff's realized natural gas sales price at the wellhead averaged $4.81 per Mcf in the three month Reporting Period which is higher than the posted benchmark prices for that period. Birchcliff receives premium pricing for its natural gas production due to its high heat content. The following table details the average realized sales price, heat content premium and other price differentials from Birchcliff's natural gas production during the three month Reporting Period:

	Three months ended June 30, 2014	Three months ended June 30, 2013
Average natural gas – AECO – C daily *($/MMbtu)*(1)	4.69	3.54
Heat content premium	0.48	0.24
Price differential between physical sales contracts and AECO – C daily	(0.36)	-
Average realized natural gas sales price *($/Mcf)*	**4.81**	3.78

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

Risk Management Contracts

The Corporation has outstanding certain commodity price risk management contracts for 2014 in order to reduce volatility in its financial results and protect its funds flow and capital expenditure program. Birchcliff's current strategy is to hedge a portion of its oil and natural gas using a combination of financial derivatives and physical sales contracts to manage commodity price risk.

Financial derivatives

As at June 30, 2014, the Corporation had the following financial derivatives in place:

Product	Option traded	Notional quantity	Term	Strike price	Fair value *($000's)*
Crude oil	Put option	500 bbls/day	July 1, 2014 – December 31, 2014	WTI USD $90/bbl	30
Crude oil	Put option	500 bbls/day	July 1, 2014 – December 31, 2014	WTI USD $85/bbl	12
Fair value assets(1)					**42**

(1) The Corporation also recorded approximately $0.6 million as a deferred premium on financial instruments, which represents the amount payable to the counterparty to these contracts at June 30, 2014.

As of June 30, 2014, if the future strip prices for WTI crude oil had been $1.00 USD per bbl higher, with all other variables held constant, after tax net income would have been $0.1 million (June 30, 2013 - NIL) lower.

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

	Three months ended June 30,				Six months ended June 30,			
	2014		2013		2014		2013	
	($000's)	*($/boe)*	*($000's)*	*($/boe)*	*($000's)*	*($/boe)*	*($000's)*	*($/boe)*
Realized loss on derivatives	307	0.10	-	-	616	0.10	-	-
Unrealized loss on derivatives	38	0.01	-	-	189	0.03	-	-

There were no financial derivative contracts entered into subsequent to June 30, 2014.

Physical sales contracts

Birchcliff also enters into physical delivery sales contracts to manage commodity risk. These contracts are considered normal executory sales contracts and are not recorded at fair value in the financial statements. As at June 30, 2014, the Corporation had the following physical sales contracts in place:

Product	Type of contract	Volume	Term[1]	Contract price
Natural gas	AECO fixed price	75,000 GJ/day	July 1, 2014 to October 31, 2014	$3.82 CDN/GJ

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

Birchcliff's total natural gas hedge position as at June 30, 2014 is summarized below:

Product	Term[1]	Average production hedged[2]	Estimated average wellhead price[2]
Natural gas	July 1, 2014 to Oct. 31, 2014	65,908 Mcf/day	$4.35 CDN/Mcf

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

(2) The conversion from GJ to Mcf is based on estimated average natural gas heat content for Birchcliff's Pouce Coupe area of 40.4 MJ/m^3.

There were no physical sales contracts entered into subsequent to June 30, 2014.

Royalties

The following table details the Corporation's royalty expense:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Oil & natural gas royalties *($000)*[1]	9,507	7,332	22,158	13,759
Oil & natural gas royalties *($/boe)*	3.35	3.34	3.89	3.03
Effective royalty rate *(%)*[2]	8%	9%	9%	9%

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

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

The decrease in the effective royalty rate from the three month Comparable Prior Period was mainly due to production royalty incentives for a number of wells that are receiving a 5% royalty rate, offset by higher average oil and natural gas wellhead prices received for Birchcliff's production in the current quarter and the effect these higher prices have on the sliding scale royalty calculation.

Operating Costs

The following table provides a breakdown of operating costs:

	Three months ended June 30,				Six months ended June 30,			
	2014		2013		2014		2013	
	($000's)	*($/boe)*	*($000's)*	*($/boe)*	*($000's)*	*($/boe)*	*($000's)*	*($/boe)*
Field operating costs	15,246	5.37	14,562	6.63	30,431	5.34	29,417	6.47
Recoveries	(346)	(0.12)	(1,680)	(0.77)	(624)	(0.11)	(3,360)	(0.74)
Field operating costs, net	14,900	5.25	12,882	5.86	29,807	5.23	26,057	5.73
Expensed workovers and other	-	-	48	0.03	(8)	-	425	0.09
Operating costs	**14,900**	**5.25**	12,930	5.89	**29,799**	**5.23**	26,482	5.82

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

Corporate operating costs per boe decreased by 11% from the second quarter of 2013 largely due to the continued cost benefits achieved from processing increased incremental volumes of natural gas through the PCS Gas Plant and the implementation of various optimization initiatives, offset by reduced third-party recoveries as a result of the acquisition of a partner's 30% working interest in land and production in the Pouce Coupe area in January 2014.

On a production month basis, operating costs averaged $2.45 per boe at the PCS Gas Plant during the first half of 2014, where Birchcliff processed 78% of its total natural gas production.

Transportation and Marketing Expenses

Transportation and marketing expenses were $7.0 million ($2.47 per boe) for the three month Reporting Period and $14.1 million ($2.47 per boe) for the six month Reporting Period as compared to $5.7 million ($2.59 per boe) and $11.0 million ($2.42 per boe) for the Comparable Prior Periods. The increased aggregate costs are primarily due to higher transportation expenses resulting from increased condensate trucking from the PCS Gas Plant due to liquids yields improving and higher production in the Reporting Periods as compared to the Comparable Prior Periods.

Operating Netbacks

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

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Montney/Doig Natural Gas Resource Play[(1)]				
Average daily production, net:				
Natural gas *(Mcf)*	140,929	103,083	142,637	108,134
Oil & NGLs *(bbls)*	1,407	537	1,335	525
Total boe *(6:1)*	**24,895**	17,718	**25,107**	18,547
% of corporate production[(2)]	***80%***	73%	***80%***	*74%*
Netback and cost *($/Mcfe):*				
Petroleum and natural gas revenue	5.47	4.11	6.03	3.90
Royalty expense	(0.23)	(0.17)	(0.37)	(0.15)
Operating expense, net of recoveries	(0.61)	(0.65)	(0.62)	(0.66)
Transportation and marketing expense	(0.31)	(0.26)	(0.31)	(0.25)
Operating netback	**4.32**	3.03	**4.73**	2.84
Worsley Charlie Lake Light Oil Resource Play[(1)]				
Average daily production, net:				
Natural gas *(Mcf)*	9,869	7,809	9,438	7,986
Oil & NGLs *(bbls)*	3,383	3,185	3,464	3,221
Total boe *(6:1)*	**5,029**	4,486	**5,037**	4,551
% of corporate production[(2)]	***16%***	19%	***16%***	*18%*
Netback and cost *($/boe):*				
Petroleum and natural gas revenue	79.34	73.11	79.42	69.37
Royalty expense	(12.07)	(10.51)	(11.06)	(9.63)
Operating expense, net of recoveries	(9.52)	(9.64)	(9.82)	(9.35)
Transportation and marketing expense	(5.46)	(6.89)	(5.66)	(6.46)
Operating netback	**52.29**	46.07	**52.88**	43.93
Total Corporate				
Average daily production, net:				
Natural gas *(Mcf)*	155,373	116,963	156,906	122,501
Oil & NGLs *(bbls)*	5,282	4,647	5,311	4,702
Total boe *(6:1)*	**31,178**	24,141	**31,462**	25,119
Netback and cost *($/boe)*				
Petroleum and natural gas revenue	41.35	35.99	44.05	34.04
Royalty expense	(3.35)	(3.34)	(3.89)	(3.03)
Operating expense, net of recoveries	(5.25)	(5.89)	(5.23)	(5.82)
Transportation and marketing expense	(2.47)	(2.59)	(2.47)	(2.42)
Operating netback	**30.28**	24.17	**32.46**	22.77

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

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

Montney/Doig Natural Gas Resource Play

Birchcliff's production from the Montney/Doig Natural Gas Resource Play was 24,895 boe per day in the three month Reporting Period, a 41% increase from the three month Comparable Prior Period. This increase was largely due to higher production of natural gas and liquids from new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant.

During the second quarter of 2014, Birchcliff's recoveries of liquids from its Montney/Doig natural gas production increased to 10.0 bbls per MMcf, which is an increase of 92% from 5.2 bbls per MMcf in the second quarter of 2013. Of the 10.0 bbls of liquids approximately 9.7 bbls (98%) is high value oil and condensate (C5+), which averaged $100.89 per bbl at the wellhead in the three month Reporting Period. Any natural gas liquids not recovered from the raw natural gas stream increases the heating value of our sales gas and the resulting sales price.

Birchcliff's operating netback from the Montney/Doig Natural Gas Resource Play was $4.32 per Mcfe ($25.92 per boe) in the three month Reporting Period, a 43% increase from the three month Comparable Prior Period. This increase was largely due to higher realized prices received for Birchcliff's natural gas and liquids production in the second quarter of 2014.

Worsley Charlie Lake Light Oil Resource Play

Birchcliff's production from the Worsley Charlie Lake Light Oil Resource Play was 5,029 boe per day in the three month Reporting Period, a 12% increase from the three month Comparable Prior Period. The increase in production from the three month Comparable Prior Period is due to prior year infrastructure limitations in a portion of the Worsley field that were resolved in the second half of 2013.

Operating netback from the Worsley Charlie Lake Light Oil Resource Play was $52.29 per boe in the three month Reporting Period, a 14% increase from the three month Comparable Prior Period. On a per boe basis, the increase in operating netback was largely due to higher realized petroleum and natural gas prices, offset by an increase in royalty costs in the current quarter.

Administrative Expenses

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

	Three months ended June 30,				Six months ended June 30,			
	2014		2013		2014		2013	
	($000's)	*(%)*	*($000's)*	*(%)*	*($000's)*	*(%)*	*($000's)*	*(%)*
Cash:								
Salaries and benefits(1)	4,295	54	3,801	50	8,937	56	7,790	53
Other(2)	3,640	46	3,844	50	6,910	44	6,924	47
	7,935	100	7,645	100	15,847	100	14,714	100
Operating overhead recoveries	(70)	(1)	(292)	(4)	(131)	(1)	(512)	(3)
Capitalized overhead(3)	(2,454)	(31)	(1,997)	(26)	(4,900)	(31)	(3,966)	(27)
General & administrative, net	5,411	68	5,356	70	10,816	68	10,236	70
General & administrative, net per boe	$1.91		$2.44		$1.90		$2.25	
Non-cash:								
Stock-based compensation(4)	3,837	100	1,954	100	6,000	100	4,322	100
Capitalized stock-based compensation(3)	(1,696)	(44)	(1,028)	(53)	(2,900)	(48)	(2,093)	(48)
Stock-based compensation, net	2,141	56	926	47	3,100	52	2,229	52
Stock-based compensation, net per boe	$0.75		$0.42		$0.54		$0.49	
Administrative expenses, net	**7,552**		6,282		**13,916**		12,465	
Administrative expenses, net per boe	**$2.66**		$2.86		**$2.44**		$2.74	

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

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

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

(4) On May 15, 2014, the Corporation's outstanding performance warrants were amended to extend the ultimate expiration date from January 31, 2015 to January 31, 2020 (the "**Extension**"). The Corporation recorded a non-cash stock-based compensation expense of approximately $1.7 million relating to the Extension of the performance warrants in the Reporting Periods.

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

	Three months ended June 30, 2014		Six months ended June 30, 2014	
	Number	Exercise price(1)	Number	Exercise price(1)
Outstanding at beginning of period	12,641,836	$8.45	10,931,520	$8.31
Granted	233,000	$12.67	2,828,500	$8.98
Exercised	(1,325,430)	($9.34)	(2,152,546)	($8.52)
Forfeited	(32,934)	($7.72)	(91,002)	($8.11)
Outstanding, June 30, 2014	**11,516,472**	**$8.44**	**11,516,472**	**$8.44**

(1) Determined on a weighted average basis.

At June 30, 2014, there were 2,939,732 performance warrants outstanding with an exercise price of $3.00 (January 31, 2020 expiry) and 5,917,682 preferred warrants outstanding (issued in conjunction with the August 2012 preferred share equity offering) with an exercise price of $8.30 (August 8, 2014 expiry).

During the second quarter of 2014 there were 82,318 preferred warrants exercised for proceeds of approximately $683,000 and subsequent to the quarter there were 5,904,381 preferred warrants exercised for proceeds of $49.0 million. Of the 6,000,000 preferred warrants issued, there were 13,301 preferred warrants that were not exercised prior to expiring on August 8, 2014.

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

Depletion and Depreciation Expenses

Depletion and depreciation ("**D&D**") expenses were $32.8 million ($11.56 per boe) for the three month Reporting Period and $64.8 million ($11.37 per boe) for the six month Reporting Period as compared to $25.3 million ($11.53 per boe) and $52.4 million ($11.52 per boe) for the Comparable Prior Periods. D&D expenses were higher on an aggregate basis mainly due to a 29% and 25% increase in production from the three and six month Comparable Prior Periods, respectively.

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

Asset impairment assessment

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

Birchcliff performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined there were no impairment triggers identified at the end of the reporting period. As a result, no impairment test was required at June 30, 2014.

Finance Expenses

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

	Three months ended June 30,				Six months ended June 30,			
	2014		**2013**		**2014**		**2013**	
	($000's)	*($/boe)*	*($000's)*	*($/boe)*	*($000's)*	*($/boe)*	*($000's)*	*($/boe)*
Cash:								
Interest on credit facilities	4,818	1.70	5,939	2.70	9,670	1.70	12,043	2.65
Non-cash:								
Accretion on decommissioning obligations	629	0.22	516	0.23	1,233	0.22	977	0.21
Amortization of deferred financing fees	233	0.08	182	0.08	491	0.09	371	0.08
Finance expenses	**5,680**	**2.00**	6,637	3.01	**11,394**	**2.01**	13,391	2.94

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

The effective interest rate applicable to the revolving working capital facility was 4.5% at June 30, 2014 as compared to 6.0% at June 30, 2013. The effective interest rate applicable to the bankers' acceptances issued under the revolving term credit facilities was 4.1% in both the three month and six month Reporting Periods, respectively, as compared to 5.7% and 5.6% in the Comparable Prior Periods. The effective interest rate applicable to the bankers' acceptances issued under the non-revolving term credit facilities was 4.7% in both the three month and six month Reporting Periods as compared to 5.6% in the Comparable Prior Periods.

Birchcliff's average outstanding total credit facilities balance was approximately $452 million and $449 million in the three and six month Reporting Periods, respectively, as compared to $446 million and $441 million in the Comparable Prior Periods, calculated as the simple average of the month end amounts.

Income Taxes

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

	Three months ended June 30,		Six months ended June 30,	
($000's)	**2014**	**2013**	**2014**	**2013**
Deferred income tax expense	9,834	3,669	23,128	6,302
Dividend tax expense on preferred shares	750	400	1,500	800
Income tax expense	**10,584**	4,069	**24,628**	7,102

The increase in income tax expense from the Comparable Prior Periods was largely due to higher recorded net income before taxes, which resulted in increased deferred income tax expense in the Reporting Periods.

The Corporation's estimated income tax pools were $1.3 billion at June 30, 2014. Management expects that future taxable income will be available to utilize the accumulated tax pools. The components of the Corporation's estimated income tax pools are shown in the table below:

($000's)	**Tax pools as at June 30, 2014**
Canadian oil and gas property expense	272,796
Canadian development expense	314,908
Canadian exploration expense	177,324
Undepreciated capital costs	226,607
Non-capital losses	318,355
Financing costs	4,400
Estimated income tax pools	**1,314,390**

The Corporation's 2006 and 2007 income tax filings were reassessed by the Canada Revenue Agency ("**CRA**") in 2011. The reassessments are based on the CRA's determination that the tax pools available to Veracel Inc. ("**Veracel**"), prior to the amalgamation, ceased to be available to Birchcliff after the amalgamation.

The Veracel tax pools in dispute totaled $39.3 million and include approximately $16.2 million in non-capital losses, $15.6 million in scientific research and experimental development expenditures and $7.5 million in investment tax credits. The disputed assessments are outstanding at June 30, 2014. A trial of the matter was held in the Federal Court of Canada in November 2013 and Birchcliff is now awaiting the Court's decision.

The resolution of the disputed assessments may impact future income tax expense but will not impact cash taxes payable by the Corporation. Management believes that it will be successful in defending its tax position respecting the Veracel transaction, and as such, the Corporation has not recognized a related provision for the deferred income tax liability at June 30, 2014.

CAPITAL EXPENDITURES

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

	Three months ended June 30,		Six months ended June 30,	
($000's)	**2014**	**2013**	**2014**	**2013**
Land	810	852	9,874	25,116
Seismic	570	232	5,954	353
Workovers	3,102	1,789	6,054	3,733
Drilling and completions	50,001	30,064	116,944	72,209
Well equipment and facilities	20,816	6,558	41,032	18,596
Finding and development costs (F&D)	75,299	39,495	179,858	120,007
Acquisitions	-	-	56,553	-
Dispositions	(131)	-	(131)	(4)
Finding, development and acquisition costs (FD&A)	75,168	39,495	236,280	120,003
Administrative assets	316	891	607	1,393
Capital expenditures, net	**75,484**	40,386	**236,887**	121,396

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources

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

	Three months ended June 30,		Six months ended June 30,	
($000's)	**2014**	**2013**	**2014**	**2013**
Funds flow from operations	75,382	41,804	163,751	81,248
Changes in non-cash working capital from operations	2,750	7,245	(11,501)	3,152
Decommissioning expenditures	(99)	(94)	(907)	(135)
Exercise of stock options	12,383	1,594	18,349	4,629
Exercise of preferred warrants	683	-	683	-
Issue of capital securities	-	50,000	-	50,000
Share issue costs	-	(2,169)	-	(2,169)
Financing fees paid on credit facilities	(1,018)	(945)	(1,018)	(945)
Dividends paid on preferred shares	(1,875)	(1,000)	(3,750)	(2,000)
Net change in non-revolving term credit facilities	(366)	60,454	(683)	60,498
Net change in revolving term credit facilities	(1,760)	(101,623)	58,181	(82,697)
Changes in non-cash working capital from investing	(10,633)	(14,910)	13,745	9,785
Capital resources	**75,447**	40,356	**236,850**	121,366

Working Capital

The Corporation's working capital deficit (current assets minus current liabilities, excluding the fair value of financial instruments and related deferred premium) increased to $62.5 million at June 30, 2014 from $60.1 million at December 31, 2013. The deficit at June 30, 2014 is largely comprised of costs incurred from the drilling and completion of new wells.

At June 30, 2014, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of June 2014 production (81%), which was subsequently received in July 2014. In contrast, current liabilities largely consisted of trade and joint venture payables (57%) and accrued capital and operating costs (35%). Birchcliff routinely assesses the financial strength of its marketers and joint venture partners in accordance with the Corporation's credit risk guidelines. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations.

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

Bank Debt

Birchcliff's available bank credit facilities limit aggregate to approximately $750 million at June 30, 2014 compared to $600 million at December 31, 2013.

At June 30, 2014, the amount outstanding under the Corporation's long-term bank credit facilities was $452.2 million (December 31, 2013 - $394.0 million), which is net of $3.4 million (December 31, 2013 - $2.3 million) in unamortized interest and fees.

Total debt, including the working capital deficit, was $514.6 million at June 30, 2014 as compared to $454.0 million at December 31, 2013. Total debt from the end of 2013 increased by $60.6 million, largely due to capital spent in excess of funds flow offset by proceeds from the exercise of options in the six month Reporting Period.

Subsequent to the quarter, there were 5,904,381 preferred warrants exercised prior to their expiry on August 8, 2014 for proceeds of $49.0 million. The proceeds were used to reduce outstanding indebtness under its revolving term credit facilities.

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

As at, *($000's)*	June 30, 2014	Dec. 31, 2013
Maximum borrowing base limit[(1)(2)]:		
Non-revolving term credit facilities	130,000	129,300
Revolving term credit facilities	620,000	470,000
	750,000	599,300
Principal amount utilized:		
Drawn non-revolving term credit facilities[(3)]	(128,600)	(129,300)
Drawn revolving term credit facilities[(3)]	(327,018)	(268,411)
Outstanding letters of credit[(4)]	(184)	(184)
	(455,802)	(397,895)
Unused credit	**294,198**	201,405
Unused credit after preferred warrant exercises - Pro Forma June 30, 2014[(5)]	**343,204**	n/a

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

(2) The quarterly financial covenants applicable to the Corporation's credit facilities include (i) an interest coverage ratio, which is calculated on a historical rolling four quarter basis, as earnings before interest and non-cash items including income taxes, stock-based compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments and depletion, depreciation and amortization ("**EBITDA**") divided by interest expense; and (ii) a debt to EBITDA ratio. Interest expense for this purpose means total interest charges on borrowings with respect to all outstanding indebtedness and all preferred share dividends declared and paid in the period. Debt for this purpose means indebtedness for borrowed money, as determined at the end of the reporting period, and includes outstanding debt under the Corporation's credit facilities as shown on the statements of financial position before unamortized deferred financing fees and including outstanding letters of credit, but does not include working capital deficiency and capital securities.

The Corporation is required to ensure that on the last day of each quarter, the ratio of EBITDA to interest expense, determined on a historical rolling four quarter basis equals or exceeds 3.5:1.0 and the ratio of debt to EBITDA, determined on a historical rolling four quarter basis does not exceed 4.0:1.0. At June 30, 2014, Birchcliff's EBITDA to interest expense was 10.3:1.0 and debt to EBITDA was 1.6:1.0. The Corporation was compliant with all financial covenants under its credit facilities as at June 30, 2014 and December 31, 2013.

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

(4) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit during the periods ended June 30, 2014 and December 31, 2013.

(5) On a pro forma basis, total unused credit at June 30, 2014 was $343.2 million after giving effect to the exercise of 5,904,381 preferred warrants subsequent to the quarter for proceeds of $49.0 million.

Contractual Obligations

The Corporation enters into contractual obligations in the ordinary course of conducting its day-to-day business. The following table lists Birchcliff's estimated material contractual obligations at June 30, 2014:

($000's)	2014	2015	2016 - 2018	Thereafter
Accounts payable and accrued liabilities	107,622	-	-	-
Drawn non-revolving term credit facilities	-	-	128,600	-
Drawn revolving term credit facilities	-	-	327,018	-
Office lease[(1)]	1,745	3,490	6,690	-
Transportation and processing	9,783	16,114	41,714	72,964
Deferred premium on risk management contracts	610	-	-	-
Estimated contractual obligations[(2)]	**119,760**	**19,604**	**504,022**	**72,964**

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

(2) Contractual commitments that are routine in nature and form part of the normal course of operations for Birchcliff are not included. The Corporation's decommissioning obligations are excluded from the table as these obligations arose from a regulatory requirement rather than from a contractual arrangement. Birchcliff estimates the total undiscounted cash flow to settle its decommissioning obligations on its wells and facilities at June 30, 2014 to be approximately $155.0 million and will be incurred as follows: 2015 - $7.0 million and $148.0 million thereafter. The estimate for determining the undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

Birchcliff's Series C Preferred Shares, which are redeemable by their holders after June 30, 2020, have not been included in this table as they are not contractual obligations of the Corporation at the end of the Reporting Period. Upon receipt of a notice of redemption, the Corporation has an obligation to redeem the Series C Preferred Shares, at its option, in cash or common shares.

Off-Balance Sheet Transactions

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

OUTSTANDING SHARE INFORMATION

At June 30, 2014, Birchcliff had outstanding common shares, Series A Preferred Shares, Series C Preferred Shares and warrants issued in conjunction with the Series A Preferred Shares. Birchcliff's common shares began trading on the TSX on July 21, 2005 under the symbol "**BIR**" and were at the same time de-listed from the TSX Venture Exchange where they were trading under the same symbol prior to such time. Birchcliff's common shares are included in the S&P/TSX Composite Index. Birchcliff's Series A Preferred Shares and Series C Preferred Shares are individually listed on the TSX under the symbols "**BIR.PR.A**"and "**BIR.PR.C**",respectively. Birchcliff's preferred warrants, which were previously listed on the TSX under the symbol "**BIR.WT**", expired on August 8, 2014.

The following table summarizes the common shares issued:

	Common shares
Balance at December 31, 2013	143,676,661
Exercise of options	2,152,546
Exercise of preferred warrants(1)	82,318
Balance at June 30, 2014	145,911,525
Exercise of options	92,500
Exercise of preferred warrants(1)	5,904,381
Balance at August 13, 2014	**151,908,406**

(1) Of the 6,000,000 preferred warrants issued, there were 13,301 preferred warrants that were not exercised prior to their expiry.

As of August 13, 2014, the Corporation had outstanding: 151,908,406 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 11,453,972 stock options to purchase an equivalent number of common shares; and 2,939,732 performance warrants to purchase an equivalent number of common shares.

On June 3, 2014, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A Preferred Share and $0.875 million or $0.4375 per Series C Preferred Share for the calendar quarter ending June 30, 2014. Both dividends are designated as an eligible dividend for purposes of the *Income Tax Act* (Canada).

SUBSEQUENT EVENT

Subsequent to the quarter, Birchcliff received proceeds of $49.0 million from the exercise of 5,904,381 preferred warrants at $8.30, which expired on August 8, 2014. The proceeds were used to reduce outstanding indebtedness under the revolving term credit facilities.

SUMMARY OF QUARTERLY RESULTS

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

Quarter ending,	Jun. 30, 2014	Mar. 31 2014	Dec. 31, 2013	Sep. 30, 2013	Jun. 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sep. 30, 2012
Average daily production *(boe 6:1)*	**31,178**	31,749	28,391	24,662	24,141	26,108	26,655	21,426
Realized natural gas price *($/Mcf)*	**4.81**	6.10	3.81	2.60	3.78	3.40	3.43	2.47
Realized oil price *($/bbl)*	**104.72**	97.30	81.52	102.82	91.19	84.82	83.38	82.45
Total revenues *($000's)*	**117,308**	133,558	89,092	72,762	79,065	75,718	78,001	58,643
Operating costs *($/boe)*	**5.25**	5.21	5.44	5.66	5.89	5.77	5.88	6.01
Capital expenditures, net *($000's)*	**75,484**	161,403	18,188	76,186	40,386	81,010	32,137	88,099
Funds flow from operations *($000's)*	**75,382**	88,369	50,060	43,053	41,804	39,444	39,848	28,230
Per common share – basic *($)*	**0.52**	0.61	0.35	0.30	0.29	0.28	0.28	0.20
Per common share – diluted *($)*	**0.49**	0.60	0.34	0.30	0.29	0.27	0.28	0.20
Net income *($000's)*	**28,087**	39,499	37,062	10,156	10,775	7,424	6,305	2,744
Net income to common shareholders *($000's)*[(1)]	**27,087**	38,499	36,062	9,156	9,775	6,424	5,305	2,165
Per common share – basic *($)*	**0.19**	0.27	0.25	0.06	0.07	0.05	0.04	0.02
Per common share – diluted *($)*	**0.18**	0.26	0.25	0.06	0.07	0.04	0.04	0.02
Total assets *($000's)*	**1,771,268**	1,729,994	1,586,531	1,558,456	1,513,772	1,498,753	1,430,324	1,420,582
Long-term bank debt *($000's)*	**452,183**	453,772	393,967	444,719	409,091	451,371	432,563	390,541
Total debt *($000's)*[(2)]	**514,637**	524,720	454,038	487,707	453,123	502,291	462,130	468,184
Dividends on preferred shares (Series A) *($000's)*	**1,000**	1,000	1,000	1,000	1,000	1,000	1,000	579
Dividends on preferred shares (Series C) *($000's)*	**875**	875	875	1,038	-	-	-	-
Preferred shares outstanding (Series A) *(000's)*	**2,000**	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Preferred shares outstanding (Series C) *(000's)*	**2,000**	2,000	2,000	2,000	2,000	-	-	-
Common shares outstanding *(000's)*								
Basic	**145,912**	144,504	143,677	142,752	142,390	142,096	141,596	141,535
Diluted	**166,285**	166,085	163,548	163,396	164,110	164,107	162,997	162,946
Wtd. average common shares outstanding *(000's)*								
Basic	**145,145**	144,026	143,063	142,549	142,240	141,821	141,585	141,474
Diluted	**152,623**	147,090	145,319	145,087	145,165	144,366	144,239	143,572

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

(2) Includes the aggregate amounts outstanding under Birchcliff's long-term bank debt and working capital deficit at the end of the period and excludes the fair value of financial instruments and related deferred premium.

Production during the second quarter of 2014 was lower than the first quarter of 2014 largely due to outages related to unscheduled downtime on the Alberta TCPL system for several days in early June, offset by new Montney/Doig horizontal natural gas multi-well pads that were tied into the PCS Gas Plant in the three month Reporting Period.

Production was higher compared to the second quarter of 2013 largely due to incremental production gains from new Montney/Doig horizontal natural gas multi-well pads that were drilled, completed and tied into the PCS Gas Plant during 2013 and into the Reporting Periods and the acquisition of approximately 1,600 boe per day of production from a partner's working interest in joint lands in January 2014, offset by natural production declines.

Funds flow in the second quarter of 2014 decreased compared to the first quarter of 2014 mainly as a result of the 21% decrease in realized natural gas wellhead prices offset by higher realized oil prices and lower royalty expenses.

Compared to the second quarter of 2013, funds flow was higher due to an increase in realized oil and natural gas prices, an increase in natural gas production and lower interest costs and negatively offset by an increase in royalty, production and transportation costs resulting from higher production in the second quarter of 2014.

Net income to common shareholders was down 30% from the previous quarter mainly due to lower funds flow and increased net stock-based compensation expense, offset by lower income tax expense in the three month Reporting Period.

Compared to the second quarter of 2013, net income to common shareholders is up 177% to $27.1 million in the second quarter of 2014. This increase was mainly attributable to higher funds flow from operations in the second quarter of 2014, offset by higher net stock-based compensation expense, income taxes and depletion costs.

POTENTIAL TRANSACTIONS

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Corporation has established and maintained disclosure control and procedures ("**DC&P**") that have been designed by, or under the supervision of, the Corporation's Chief Executive Officer and the Chief Financial Officer ("**Certifying Officers**") to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosure. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's DC&P at June 30, 2014 and have concluded that the Corporation's DC&P are appropriately designed and operating effectively to provide reasonable assurance that information required by securities legislation to be disclosed is made known to them by others, to allow timely decisions regarding the required disclosure.

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 Controls over Financial Reporting

The Corporation has established and maintains internal controls over financial reporting ("**ICFR**") that have been designed using the "Internal Control Over Financial Reporting - Guidance for Smaller Public Companies", which is based on the framework in "Internal Control – Integrated Framework (1992)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. The control framework was designed by, or under the supervision of, the Corporation's Certifying Officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the generally accepted accounting principles applicable to the Corporation and to provide reasonable assurance that all assets are safeguarded and transactions are appropriately authorized and recorded to facilitate the preparation of relevant, reliable and timely information. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's ICFR at June 30, 2014 and have concluded that the Corporation's ICFR was effective at June 30, 2014 for the purposes described above. No changes were made to the Corporation's ICFR during the Reporting Periods that have materially affected, or are reasonably likely to materially affect the Corporation's ICFR.

While the Certifying Officers believe that the Corporation's ICFR provide a reasonable level of assurance and are 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 preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies; reported amounts of assets and liabilities; and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical Judgements in Applying Accounting Policies

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

Identification of cash-generating units

Birchcliff's assets are aggregated into CGU's for the purpose of calculating impairment based on their ability to generate largely independent cash inflows. CGU's 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 judgement 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 indicators that its assets may be impaired. Birchcliff is required to consider information from both external sources (such as negative downturn in 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 reserves, 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 judgement and may impact the carrying value of the Corporation's assets in future periods.

Tax uncertainties

IFRS requires Birchcliff, at each reporting date, to make certain judgements on uncertain tax positions by relevant tax authorities. Judgements 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 judgement and may impact the carrying value of the Corporation's deferred tax assets and liabilities at the end of the reporting period.

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 reserves requires estimation regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. 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 reserves may change from period to period. Changes in reported 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 recoverable quantities of reserves and estimated cash flows from Birchcliff's petroleum and natural gas interests are independently evaluated by reserve engineers at least annually.

The Corporation's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and natural gas liquids 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 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 proven and probable if producibility is supported by either production or conclusive formation tests. Birchcliff's oil and gas reserves are determined in accordance with the standards contained in National Instrument 51-101 - *Standard of Disclosures for Oil and Gas Activities* and the Canadian Oil and Gas Evaluation 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 cash flows.

Impairment of non-financial assets

For the purposes of determining the extent of any impairment or its reversal, estimates must be made regarding future cash flows taking into account key assumptions including future petroleum and natural gas prices, expected forecasted production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. 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 balance sheet date could be impacted.

ADOPTION OF NEW ACCOUNTING STANDARD

Effective January 1, 2014, the Corporation adopted IFRIC 21 *Levies*, which addresses payments made to government bodies. There was no impact to the Corporation's interim condensed financial statements as a result of adopting this new standard.

ADVISORIES

Unaudited numbers: *All financial amounts referred to in this MD&A and the Corporation's second quarter report for the Reporting Periods and the Comparable Prior Periods ("**Q2 Report**") are management's best estimates and are unaudited.*

Non-GAAP measures: *This MD&A and the Q2 Report uses "funds flow", "funds flow from operations", "funds flow netback", "funds flow per common share", "netback", "operating netback", "estimated operating netback" and "operating margin", which do not have standardized meanings prescribed by generally accepted accounting principles ("**GAAP**") and therefore may not be comparable measures to other companies where similar terminology is used. Netback or operating netback denotes petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. Estimated operating netback of the PCS Gas Plant (and the components thereof) are based upon certain cost allocations and accruals directly related to the PCS Gas Plant and the related wells and infrastructure, and is calculated on a production month basis. Funds flow, funds flow netback or funds flow from operations denotes cash flow from operating activities as it appears on the Corporation's statements of cash flows before decommissioning expenditures and changes in non-cash working capital. Funds flow per common share denotes funds flow divided by the basic or diluted weighted average number of common shares. Operating margin is calculated by dividing the estimated operating netback for the period by the petroleum and natural gas revenue for the period.*

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

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

MMbtu pricing conversions: *$1.00 per MMbtu equals $1.00 per Mcf based on a standard heat value Mcf.*

Forward-Looking Information: *This MD&A and the Q2 Report contains forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking information relates to future events or future performance and is based upon the Corporation's current internal expectations, estimates, projections, assumptions and beliefs. All information other than historical fact is forward-looking information. Information relating to reserves and resources is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves and resources exist in the quantities estimated and that they will be commercially viable to produce in the future. Words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "estimated", "forecast', "may", "will", "potential", "proposed" and other similar words that convey certain events or conditions "may" or "will" occur are intended to identify forward-looking information. In particular, this MD&A and the Q2 Report contains forward-looking information relating to estimated 2014 exit, average fourth quarter and average annual production; planned 2014 capital spending and sources of funding; anticipated strong 2015 first quarter* *production; estimated 2014 funds flow; the intention to drill and complete future wells; and an expansion of the PCS Gas Plant.*

The forward-looking information is based upon assumptions as to future commodity prices, currency exchange rates, inflation rates, well production rates, well drainage areas, success rates for future drilling and availability of labour and services. With respect to estimates of reserves and resource volumes, a key assumption is the validity of the data used by Deloitte in their independent reserves evaluation and resource assessments. With respect to numbers of future wells to be drilled, a key assumption is that geological and other technical interpretations performed by the Corporation's technical staff, which indicates that commercially economic volumes can be recovered from the Corporation's lands as a result of drilling future wells, are valid. Estimates as to 2014 exit production, average fouth quarter and average annual production rates assume that no unexpected outages occur in the infrastructure that the Corporation relies on to produce its wells, that existing wells continue to meet production expectations and future wells scheduled to come on production in 2014 meet timing and production expectations. Estimates of 2014 funds flow assume average annual production of 34,000 boe per day, an AECO natural gas price of $4.50 per GJ ($4.75 per Mcf) and WTI oil price of US$99.50 per bbl (Edmonton Par CDN$101.00 per bbl) for 2014 and 2014 annual basic weighted average common shares of 147,935,000.

Undue reliance should not be placed on forward-looking information, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. Although the Corporation 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. As a consequence, actual results may differ materially from those anticipated.

Forward-looking information necessarily involves both known and unknown risks associated with oil and gas exploration, production, transportation and marketing such as uncertainty of geological and technical data, imprecision of reserves and resource estimates, operational risks, environmental risks, loss of market demand, general economic conditions affecting ability to access sufficient capital, changes in governmental regulation of the oil and gas industry and competition from others for scarce resources.

The foregoing list of risk factors is not exhaustive. Additional information on these and other risk factors that could affect operations or financial results are included in the Corporation's most recent Annual Information Form and in other reports filed with Canadian securities regulatory authorities. Forward-looking information is based on estimates and opinions of management at the time the information is presented. The Corporation is not under any duty to update the forward-looking information after the date of this MD&A and the Q2 Report to conform such information to actual results or to changes in the Corporation's plans or expectations, except as otherwise required by applicable securities laws.

Birchcliff Energy Ltd.
Condensed Statements of Financial Position

Unaudited (Expressed in thousands of Canadian dollars)

As at,	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash	59	96
Accounts receivable	40,534	37,022
Prepaid expenses and deposits	4,575	1,138
Fair value of financial instruments *(Note 11)*	42	826
	45,210	39,082
Non-current assets:		
Exploration and evaluation *(Note 3)*	2,214	2,264
Petroleum and natural gas properties and equipment *(Note 4)*	1,723,844	1,545,185
	1,726,058	1,547,449
Total assets	1,771,268	1,586,531
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	107,622	96,927
Non-revolving term credit facilities *(Note 5)*	-	1,400
Deferred premium on financial instruments *(Note 11)*	610	1,205
	108,232	99,532
Non-current liabilities:		
Non-revolving term credit facilities *(Note 5)*	127,975	127,144
Revolving term credit facilities *(Note 6)*	324,208	266,823
Decommissioning obligations *(Note 7)*	77,355	73,433
Deferred income taxes	80,253	57,127
Capital securities *(Note 8)*	48,141	47,986
	657,932	572,513
Total liabilities	766,164	672,045
SHAREHOLDERS' EQUITY		
Share capital *(Note 8)*		
Common shares	721,634	694,183
Preferred shares *(perpetual)*	41,434	41,434
Contributed surplus	57,700	60,119
Retained earnings	184,336	118,750
	1,005,104	914,486
Total shareholders' equity and liabilities	1,771,268	1,586,531

Subsequent event *(Note 13)*

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

Approved by the Board

(signed) "Kenneth N. Cullen"
Kenneth N. Cullen
Director

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

Birchcliff Energy Ltd.
Condensed Statements of Net Income and Comprehensive Income

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
REVENUE				
Petroleum and natural gas sales	**117,308**	79,065	**250,866**	154,783
Royalties	**(9,507)**	(7,332)	**(22,158)**	(13,759)
Net revenue from oil and natural gas sales	**107,801**	71,733	**228,708**	141,024
Realized loss on financial instruments *(Note 11)*	**(307)**	-	**(616)**	-
Unrealized loss on financial instruments *(Note 11)*	**(38)**	-	**(189)**	-
	107,456	71,733	**227,903**	141,024
EXPENSES				
Operating	**14,900**	12,930	**29,799**	26,482
Transportation and marketing	**6,983**	5,704	**14,056**	11,015
Administrative, net	**7,552**	6,282	**13,916**	12,465
Depletion and depreciation *(Note 4)*	**32,795**	25,336	**64,774**	52,370
Finance	**5,680**	6,637	**11,394**	13,391
Dividends on capital securities *(Note 8)*	**875**	-	**1,750**	-
	68,785	56,889	**135,689**	115,723
INCOME BEFORE TAXES	**38,671**	14,844	**92,214**	25,301
Income tax expense	**10,584**	4,069	**24,628**	7,102
NET INCOME AND COMPREHENSIVE INCOME	**28,087**	10,775	**67,586**	18,199
Net income per common share *(Note 8)*				
Basic	**$0.19**	$0.07	**$0.45**	$0.11
Diluted	**$0.18**	$0.07	**$0.44**	$0.11

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

Birchcliff Energy Ltd.
Condensed Statements of Changes in Shareholders' Equity

Unaudited (Expressed in thousands of Canadian dollars)

	Share Capital				
	Common Shares	Preferred Shares	Contributed Surplus	Retained Earnings	Total
As at December 31, 2012	677,802	41,434	57,678	57,333	834,247
Dividends on perpetual preferred shares	-	-	-	(2,000)	(2,000)
Exercise of stock options	6,751	-	(2,122)	-	4,629
Stock-based compensation	-	-	4,321	-	4,321
Net income and comprehensive income	-	-	-	18,199	18,199
As at June 30, 2013	684,553	41,434	59,877	73,532	859,396
As at December 31, 2013	694,183	41,434	60,119	118,750	914,486
Dividends on perpetual preferred shares *(Note 8)*	-	-	-	(2,000)	(2,000)
Exercise of stock options *(Notes 8 and 9)*	26,670	-	(8,321)	-	18,349
Exercise of preferred warrants *(Note 8)*	781	-	(98)	-	683
Stock-based compensation *(Note 9)*	-	-	6,000	-	6,000
Net income and comprehensive income	-	-	-	67,586	67,586
As at June 30, 2014	**721,634**	**41,434**	**57,700**	**184,336**	**1,005,104**

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

Birchcliff Energy Ltd.
Condensed Statements of Cash Flows

Unaudited (Expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Cash provided by (used in):				
OPERATING				
Net income and comprehensive income	**28,087**	10,775	**67,586**	18,199
Adjustments for items not affecting operating cash:				
Unrealized loss on financial instruments	**38**	-	**189**	-
Depletion and depreciation	**32,795**	25,336	**64,774**	52,370
Stock-based compensation	**2,141**	926	**3,100**	2,229
Finance	**5,680**	6,637	**11,394**	13,391
Income taxes	**10,584**	4,069	**24,628**	7,102
Interest paid	**(4,818)**	(5,939)	**(9,670)**	(12,043)
Dividends on capital securities	**875**	-	**1,750**	-
Decommissioning expenditures *(Note 7)*	**(99)**	(94)	**(907)**	(135)
Changes in non-cash working capital	**2,750**	7,245	**(11,501)**	3,152
	78,033	48,955	**151,343**	84,265
FINANCING				
Exercise of stock options	**12,383**	1,594	**18,349**	4,629
Exercise of preferred warrants	**683**	-	**683**	-
Issue of capital securities	**-**	50,000	**-**	50,000
Share issue costs	**-**	(2,169)	**-**	(2,169)
Financing fees paid on credit facilities	**(1,018)**	(945)	**(1,018)**	(945)
Dividends on perpetual preferred shares *(Note 8)*	**(1,000)**	(1,000)	**(2,000)**	(2,000)
Dividends on capital securities *(Note 8)*	**(875)**	-	**(1,750)**	-
Net change in non-revolving term credit facilities	**(366)**	60,454	**(683)**	60,498
Net change in revolving term credit facilities	**(1,760)**	(101,623)	**58,181**	(82,697)
	8,047	6,311	**71,762**	27,316
INVESTING				
Petroleum and natural gas properties and equipment	**(75,598)**	(40,358)	**(180,384)**	(121,295)
Exploration and evaluation assets	**(17)**	(28)	**(81)**	(101)
Acquisition of petroleum and natural gas properties *(Note 4)*	**-**	-	**(56,553)**	-
Sale of exploration and evaluation assets *(Note 3)*	**131**	-	**131**	-
Changes in non-cash working capital	**(10,633)**	(14,910)	**13,745**	9,785
	(86,117)	(55,296)	**(223,142)**	(111,611)
NET CHANGE IN CASH	**(37)**	(30)	**(37)**	(30)
CASH, BEGINNING OF PERIOD	**96**	46	**96**	46
CASH, END OF PERIOD	**59**	16	**59**	16

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

1. NATURE OF OPERATIONS

Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is domiciled and incorporated in Canada. Birchcliff is engaged in the exploration for and the development, production and acquisition of petroleum and natural gas reserves in Western Canada. The Corporation's financial year end is December 31. The address of the Corporation's registered office is 500, 630 – 4th Avenue SW, Calgary, Alberta, Canada T2P 0J9. Birchcliff's common shares, Series A Preferred Shares and Series C Preferred Shares are listed for trading on the Toronto Stock Exchange under the symbols "**BIR**", "**BIR.PR.A**" and "**BIR.PR.C**", respectively. Birchcliff's preferred warrants, which were previously listed on the TSX under the symbol "**BIR.WT**", expired on August 8, 2014.

These financial statements were approved and authorized for issuance by the Board of Directors on August 13, 2014.

2. BASIS OF PREPARATION

These unaudited interim condensed financial statements present Birchcliff's financial results of operations and financial position under International Financial Reporting Standards ("**IFRS**") as at and for the three and six months ended June 30, 2014, including the 2013 comparative periods. The financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**").

These financial statements have been prepared following the same IFRS accounting policies and methods of computation as disclosed in the annual audited financial statements for the year ended December 31, 2013, except as detailed below. Certain information and disclosures normally required to be included in the notes to the annual audited financial statements have been condensed, omitted or have been disclosed on an annual basis only. Accordingly, these financial statements should be read in conjunction with the annual audited financial statements and the notes thereto for the year ended December 31, 2013.

Effective January 1, 2014, the Corporation adopted IFRIC 21 *Levies*, which addresses payments made to government bodies. There was no impact to the Corporation's interim condensed financial statements as a result of adopting this new standard.

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

3. EXPLORATION AND EVALUATION ASSETS

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

($000's)	**E&E**[1]
As at December 31, 2012	2,106
Additions	158
As at December 31, 2013	2,264
Additions	81
Disposals	(131)
As at June 30, 2014[2]	**2,214**

(1) E&E assets consist of the Corporation's exploration activities which are pending the determination of economic quantities of commercially producible proven reserves. Additions represent the Corporation's net share of costs incurred on E&E activities during the period. A review of each exploration project by area is carried out at each reporting date to ascertain whether economical quantities of proven reserves have been discovered and whether such costs should be transferred to depletable petroleum and natural gas components. There were no exploration costs reclassified from the E&E category to petroleum and natural gas properties and equipment category during the three and six months ended June 30, 2014.

(2) The Corporation performed an impairment assessment of its E&E assets and determined there were no impairment triggers identified at the end of the reporting period. As a result, no impairment test was required at June 30, 2014.

4. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

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

($000's)	**P&NG Assets**	**Corporate Assets**	**Total**
Cost:			
As at December 31, 2012	1,609,760	6,848	1,616,608
Additions	280,899	1,954	282,853
Dispositions[1]	(34,667)	-	(34,667)
As at December 31, 2013	1,855,992	8,802	1,864,794
Additions	184,420	695	185,115
Acquisitions[2]	58,318	-	58,318
As at June 30, 2014[3]	2,098,730	9,497	2,108,227
Accumulated depletion and depreciation:			
As at December 31, 2012	(214,030)	(4,339)	(218,369)
Depletion and depreciation expense	(107,856)	(945)	(108,801)
Dispositions[1]	7,561	-	7,561
As at December 31, 2013	(314,325)	(5,284)	(319,609)
Depletion and depreciation expense	(64,209)	(565)	(64,774)
As at June 30, 2014	(378,534)	(5,849)	(384,383)
Net book value:			
As at December 31, 2013	1,541,667	3,518	1,545,185
As at June 30, 2014[4]	1,720,196	3,648	**1,723,844**

(1) Mainly consists of an asset disposition in the Progress area with a net book value of $27.0 million for net proceeds of $54.7 million.

(2) Mainly consists of Birchcliff acquiring a partner's 30% working interest in land and production for cash proceeds of approximately $56.0 million.

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

(4) Birchcliff performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined there were no impairment triggers identified at the end of the reporting period. As a result, no impairment test was required at June 30, 2014.

5. NON-REVOLVING TERM CREDIT FACILITIES

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

As at, *($000's)*	June 30, 2014	Dec. 31, 2013
Current portion of non-revolving term credit facilities	-	1,400
Non-current portion of non-revolving term credit facilities	128,600	127,900
Drawn non-revolving term credit facilities	128,600	129,300
Unamortized prepaid interest on bankers' acceptances	(16)	(33)
Unamortized deferred financing fees	(609)	(723)
Non-revolving term credit facilities(1)	**127,975**	128,544

(1) The debt covenants applicable to the Corporation's credit facilities are disclosed in Note 10 to these financial statements.

The Corporation has a $60 million non-revolving five-year term credit facility with a maturity date of May 25, 2018. This facility is provided by a syndicate of banks and is fully drawn at June 30, 2014.

The Corporation also has a $70 million non-revolving five-year term credit facility with a maturity date of May 25, 2016. After May 9, 2014, Birchcliff is no longer required to make quarterly repayments of $350,000 under this facility.

6. REVOLVING TERM CREDIT FACILITIES

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

As at, *($000's)*	June 30, 2014	Dec. 31, 2013
Syndicated credit facility	307,000	251,000
Working capital facility	20,018	17,411
Drawn revolving term credit facilities	327,018	268,411
Unamortized prepaid interest on bankers' acceptances	(1,849)	(1,424)
Unamortized deferred financing fees	(961)	(164)
Revolving term credit facilities(1)	**324,208**	266,823

(1) The debt covenants applicable to the Corporation's credit facilities are disclosed in Note 10 to these financial statements.

On May 9, 2014, Birchcliff's bank syndicate approved an increase of the revolving credit facilities to an aggregate limit of $620 million from $470 million. The revolving credit facilities were converted to a three year term with a maturity date of May 9, 2017 (the "**revolving term credit facilities**"). The revolving term credit facilities include an increased credit limit for the extendible revolving syndicated term credit facility of $580 million from $440 million and an increased credit limit for the extendible revolving working capital facility of $40 million from $30 million. Birchcliff may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility for an additional period of up to three years from May 9 of the year in which the extension request is made.

7. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is provided below:

As at, *($000's)*	June 30, 2014	Dec. 31, 2013
Balance, beginning	73,433	68,967
Obligations incurred	1,831	3,260
Obligations acquired	1,765	90
Obligations divested	-	(6,104)
Changes in estimated future cash flows	-	5,602
Accretion expense	1,233	2,175
Actual expenditures	(907)	(557)
Balance, ending[(1)]	**77,355**	73,433

(1) A risk-free rate of 3.2% and an inflation rate of 2% were used to calculate the discounted fair value of decommissioning liabilities at June 30, 2014 (December 31, 2013 – 3.2% and 2.0%, respectively).

8. CAPITAL STOCK

Share Capital

(a) Authorized:

Unlimited number of voting common shares, with no par value

Unlimited number of preferred shares, with no par value

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

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

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

	June 30, 2014	Dec. 31, 2013
Common Shares:		
Outstanding at beginning of period - Jan 1	143,676,661	141,596,279
Exercise of stock options	2,152,546	2,080,382
Exercise of preferred warrants	82,318	-
Outstanding at end of period	**145,911,525**	143,676,661
Series A Preferred Shares (perpetual):		
Outstanding at beginning of period - Jan 1	2,000,000	2,000,000
Outstanding at end of period	**2,000,000**	2,000,000

Capital Securities

The issuance of Series C Preferred Shares, which are presented as "capital securities" on the statements of financial position, are classified as "other financial liabilities" under IFRS. 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.

The Corporation has outstanding 2,000,000 Series C Preferred Shares at June 30, 2014 and December 31, 2013.

Dividends

On June 3, 2014, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A Preferred Share and $0.875 million or $0.4375 per Series C Preferred Share for the calendar quarter ending June 30, 2014. Both dividends are designated as an eligible dividend for purposes of the *Income Tax Act* (Canada).

Preferred Warrants

Birchcliff issued 6,000,000 warrants in conjunction with the offering of Series A Preferred Share in August 2012 (the "**preferred warrants**"). Each preferred warrant was exercisable until August 8, 2014 at a price of $8.30 to purchase one common share of Birchcliff. There were 82,318 preferred warrants exercised during the three months ended June 30, 2014 and 5,917,682 preferred warrants outstanding and exercisable at June 30, 2014.

Per Common Share

The Corporation calculates basic and diluted per common share amounts by dividing net income, which has been reduced for any dividends paid on perpetual preferred shares, by the weighted average number of basic or diluted common shares outstanding. The following table presents the computation of net income per common share:

	Three months ended June 30,		**Six months ended June 30,**	
	2014	2013	**2014**	2013
Net income and comprehensive income *($000's)*	28,087	10,775	67,586	18,199
Dividends on Series A Preferred Shares *($000's)*	(1,000)	(1,000)	(2,000)	(2,000)
Net income to common shareholders *($000's)*	27,087	9,775	65,586	16,199
Weighted average common shares *(000's)*:				
Weighted average basic common shares outstanding	145,145	142,240	144,588	142,032
Effects of dilutive securities	7,478	2,925	5,307	2,757
Weighted average diluted common shares outstanding(1)	152,623	145,165	149,895	144,789
Net income per common share *($/share)*				
Basic	**$0.19**	$0.07	**$0.45**	$0.11
Diluted	**$0.18**	$0.07	**$0.44**	$0.11

(1) The weighted average diluted common shares outstanding excludes 4,590,400 (June 30, 2013 – 8,190,101) stock options and NIL (June 30, 2013 – 6,000,000) warrants that are anti-dilutive in the six month reporting period.

9. SHARE-BASED PAYMENTS

Stock Options

At June 30, 2014, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of a maximum of 14,591,153 (June 30, 2013 – 14,239,009) common shares. At June 30, 2014, there remained available for issuance options in respect of 3,074,681 (June 30, 2013 – 1,459,054) common shares. For stock options exercised during the three months ended June 30, 2014, the weighted average share trading price was $12.85 (June 30, 2013 – $8.20) per common share.

A summary of the outstanding stock options at June 30, 2014 is presented below:

	Three months ended June 30, 2014		Six months ended June 30, 2014	
	Number	Exercise price(1)	Number	Exercise price(1)
Outstanding at beginning of period	12,641,836	$8.45	10,931,520	$8.31
Granted	233,000	$12.67	2,828,500	$8.98
Exercised	(1,325,430)	($9.34)	(2,152,546)	($8.52)
Forfeited	(32,934)	($7.72)	(91,002)	($8.11)
Outstanding, June 30, 2014	**11,516,472**	**$8.44**	**11,516,472**	**$8.44**

(1) Determined on a weighted average basis.

The weighted average fair value per option granted during the three months ended June 30, 2014 was $4.04 (June 30, 2013 – $2.98). In determining the stock-based compensation expense for options issued during the three months ended June 30, 2014, the Corporation applied a weighted average estimated forfeiture rate of 13% (June 30, 2013 – 13%). The weighted average assumptions used in calculating the Black-Scholes fair values are set forth below:

Three months ended,	June 30, 2014	June 30, 2013
Risk-free interest rate	1.4%	1.3%
Expected life *(years)*	3.9	3.9
Expected volatility	38.4%	45.5%

A summary of the stock options outstanding and exercisable under the plan at June 30, 2014 is presented below:

Exercise Price		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$5.96	$6.00	2,353,735	2.82	$5.96	1,498,055	2.82	$5.96
$6.01	$9.00	5,669,137	4.05	$8.01	754,530	3.24	$7.52
$9.01	$12.00	3,208,600	1.31	$10.60	3,077,100	1.16	$10.60
$12.01	$14.56	285,000	3.72	$13.07	105,666	1.89	$12.79
		11,516,472	**3.02**	**$8.44**	**5,435,351**	**1.92**	**$8.94**

Performance Warrants

On January 14, 2005, Birchcliff issued 4,049,665 performance warrants as part of the Corporation's initial restructuring to become a public entity. Each performance warrant is exercisable at a price of $3.00 to purchase one common share of Birchcliff. There are 2,939,732 performance warrants outstanding and exercisable at June 30, 2014 (June 30, 2013 – 2,939,732).

On May 15, 2014, the Corporation's outstanding performance warrants were amended to extend the ultimate expiration date of January 31, 2015 to January 31, 2020 (the "**Extension**"). The Corporation recorded non-cash stock-based compensation expense of approximately $1.7 million relating to the Extension of the performance warrants for the three and six month periods ending June 30, 2014. This amount represents the fair value of the Extension determined by the difference between the fair value of the outstanding performance warrants with the expiration date of January 31, 2020 (the "**extended term**") and the fair value of the outstanding performance warrants with the expiration date of January 31, 2015 (the "**original term**"). The fair value in each case was estimated as at May 15, 2014 using the Black-Scholes option-pricing model that takes into account: exercise price, expected life, current price, expected volatility, expected dividends, and risk-free interest rates. The assumptions used in calculating the fair value of the extended and original term performance warrants at May 15, 2014 are set forth below:

	Extended Term	Original Term
Risk-free interest rate	1.7%	1.0%
Expected life *(years)*	5.7	0.7
Expected volatility	51.5%	27.0%

Using the Black-Scholes option-pricing model, the fair value of each extended term and original term performance warrant was $9.75 and $9.15, respectively.

10. CAPITAL MANAGEMENT

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations, including potential obligations arising from additional acquisitions; to maintain a capital structure that allows Birchcliff to finance its growth strategy using primarily internally-generated cash flow and its available debt capacity; and to optimize the use of its capital to provide an appropriate investment return to its shareholders. There were no changes in the Corporation's approach to capital management during the three months ended June 30, 2014.

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

As at, *($000's)*	June 30, 2014	Dec. 31, 2013
Maximum borrowing base limit(1)(2):		
Non-revolving term credit facilities	130,000	129,300
Revolving term credit facilities	620,000	470,000
	750,000	599,300
Principal amount utilized:		
Drawn non-revolving term credit facilities	(128,600)	(129,300)
Drawn revolving term credit facilities	(327,018)	(268,411)
Outstanding letters of credit(3)	(184)	(184)
	(455,802)	(397,895)
Unused credit(2)	**294,198**	201,405

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

(2) The quarterly financial covenants applicable to the Corporation's credit facilities include (i) an interest coverage ratio, which is calculated on a historical rolling four quarter basis, as earnings before interest and non-cash items including income taxes, stock-based compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments and depletion, depreciation and amortization ("**EBITDA**") divided by interest expense; and (ii) a debt to EBITDA ratio. Interest expense for this purpose means total interest charges on borrowings with respect to all outstanding indebtedness and all preferred share dividends declared and paid in the period. Debt for this purpose means indebtedness for borrowed money, as determined at the end of the reporting period, and includes outstanding debt under the Corporation's credit facilities as shown on the statements of financial position before unamortized deferred financing fees and including outstanding letters of credit, but does not include working capital deficiency and capital securities.

The Corporation is required to ensure that on the last day of each quarter, the ratio of EBITDA to interest expense, determined on a historical rolling four quarter basis equals or exceeds 3.5:1.0 and the ratio of debt to EBITDA, determined on a historical rolling four quarter basis does not exceed 4.0:1.0. At June 30, 2014, Birchcliff's EBITDA to interest expense was 10.3:1.0 and debt to EBITDA was 1.6:1.0. The Corporation was compliant with all financial covenants under its credit facilities as at June 30, 2014.

(3) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit during the three months ended June 30, 2014.

The capital structure of the Corporation is as follows:

As at, *($000's)*	June 30, 2014	Dec. 31, 2013	Change
Shareholders' equity[1]	1,005,104	914,486	
Capital securities	48,141	47,986	
Shareholders' equity & capital securities	1,053,245	962,472	9%
Shareholders' equity & capital securities as a % of total capital[2]	67%	68%	
Working capital deficit[3]	62,454	60,071	
Drawn non-revolving term credit facilities	128,600	127,900	
Drawn revolving term credit facilities	327,018	268,411	
Drawn debt	518,072	456,382	14%
Drawn debt as a % of total capital	33%	32%	
Capital	**1,571,317**	1,418,854	11%

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

(2) Of the 67%, approximately 61% relates to common capital stock and 6% relates to preferred capital stock.

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

11. FINANCIAL RISK MANAGEMENT

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

As at June 30, 2014, Birchcliff has outstanding certain financial derivative and physical delivery sales contracts in order to manage commodity price risk. These instruments are not used for trading or speculative purposes. Birchcliff has not designated its financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity contracts to be effective economic hedges. As a result, all such financial derivative contracts are recorded on the statement of financial position at fair value, with the changes in fair value being recognized as an unrealized gain or loss in profit or loss.

Financial Derivatives

As at June 30, 2014, the Corporation had the following financial derivatives in place:

Product	Option traded	Notional quantity	Term	Strike price	Fair value[1] *($000's)*
Crude oil	Put option	500 bbls/day	July 1, 2014 – December 31, 2014	WTI USD $90/bbl	30
Crude oil	Put option	500 bbls/day	July 1, 2014 – December 31, 2014	WTI USD $85/bbl	12
Fair value assets[2]					**42**

(1) The Corporation recorded approximately $0.6 million as a deferred premium on financial instruments which represents the amount payable to the counterparty to these contracts at June 30, 2014.

(2) The fair value of financial derivative contracts are based on option models that use published information with respect to quoted forward prices, volatility and interest rates. These instruments are considered level two under the fair value hierarchy.

As of June 30, 2014, if the future strip prices for WTI crude oil had been $1.00 USD per bbl higher, with all other variables held constant, after tax net income would have been $0.1 million (June 30, 2013 – NIL) lower.

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

	Three months ended June 30, 2014	Six months ended June 30, 2014
Realized loss on financial instruments *($000's)*	307	616
Unrealized loss on financial instruments *($000's)*	38	189

There were no financial derivative contracts entered into subsequent to June 30, 2014.

Physical Sales Contracts

The Corporation also enters into physical delivery sales contracts to manage commodity risk. These contracts are considered normal executory sales contracts and are not recorded at fair value in the financial statements. As at June 30, 2014, the Corporation had the following physical delivery sales contracts in place:

Product	Type of contract	Volume	Term[1]	Contract price
Natural gas	AECO fixed price	75,000 GJ/day	July 1, 2014 to October 31, 2014	$3.82 CDN/GJ

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

There were no physical sales contracts entered into subsequent to June 30, 2014.

12. CONTINGENT LIABILITY

The Corporation's 2006 and 2007 income tax filings were reassessed by the Canada Revenue Agency ("**CRA**") in 2011. The reassessments are based on the CRA's determination that the tax pools available to Veracel Inc. ("**Veracel**"), prior to the amalgamation, ceased to be available to Birchcliff after the amalgamation. The Veracel tax pools in dispute totaled $39.3 million and include approximately $16.2 million in non-capital losses, $15.6 million in scientific research and experimental development expenditures and $7.5 million in investment tax credits. The disputed assessments are outstanding at June 30, 2014. The resolution of the disputed assessments may impact future income tax expense but will not impact cash taxes payable by the Corporation. Management believes that it will be successful in defending its tax position respecting the Veracel transaction, and as such, the Corporation has not recognized a related provision for deferred income tax liability at June 30, 2014.

13. SUBSEQUENT EVENT

Subsequent to the reporting period, Birchcliff received approximately $49.0 million in proceeds from the exercise of 5,904,381 preferred warrants at $8.30 which expired on August 8, 2014. The proceeds were used to reduce outstanding indebtedness under the revolving term credit facilities.

Corporate Information

OFFICERS

A. Jeffery Tonken
President & Chief Executive Officer

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

Chris A. Carlsen
Vice President, Engineering

Bruno P. Geremia
Vice President & Chief Financial Officer

David M. Humphreys
Vice President, Operations

James W. Surbey
Vice President, Corporate Development

DIRECTORS

Larry A. Shaw (Chairman)
Calgary, Alberta

Kenneth N. Cullen
Calgary, Alberta

Werner A. Siemens
Calgary, Alberta

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

SOLICITORS

Borden Ladner Gervais LLP
Calgary, Alberta

AUDITORS

KPMG LLP, Chartered Accountants
Calgary, Alberta

RESERVES EVALUATOR

Deloitte LLP
Calgary, Alberta

BANKERS

The Bank of Nova Scotia

HSBC Bank Canada

Union Bank

Alberta Treasury Branch

National Bank of Canada

The Toronto Dominion Bank

Canadian Imperial Bank of Commerce

Business Development Bank of Canada

United Overseas Bank

ICICI Bank Canada

TRANSFER AGENT

Olympia Trust Company
Calgary, Alberta and
Toronto, Ontario
TSX: BIR, BIR.PR.A, BIR.PR.C

HEAD OFFICE

500, 630 – 4th Avenue S.W.
Calgary, Alberta T2P 0J9
Phone: 403-261-6401
Fax: 403-261-6424

SPIRIT RIVER OFFICE

5604 – 49th Avenue
Spirit River, Alberta T0H 3G0
Phone: 780-864-4624
Fax: 780-864-4628

Email: info@birchcliffenergy.com

www.birchcliffenergy.com

www.birchcliffenergy.com