Birchcliff Energy Ltd.

Growth by the drill bit

QUARTERLY REPORT

2014Q3

NINE MONTHS ENDED SEPTEMBER 30, 2014

November 12, 2014

Fellow Shareholders,

Birchcliff Energy Ltd. ("**Birchcliff**") is pleased to report its third quarter financial and operational results for the three and nine month periods ended September 30, 2014. Birchcliff achieved record average quarterly production, producing 34,235 boe per day. Our high value products, low cost structure and increased natural gas production, together with strong natural gas prices, resulted in strong revenues, funds flow and earnings during the third quarter. Total cash costs (operating, transportation and marketing, general and administrative and interest costs) were materially reduced on a per boe basis from the third quarter of 2013 as our production growth delivered the benefits of economies of scale.

We continue to improve on our profitable business by driving down operating costs, general and administrative expense and interest per boe which are at record lows. We are a low cost finder and a low cost producer with an enormous opportunity base on high quality assets.

Birchcliff is in the envious position of being opportunity rich, having a vast inventory of highly economic projects as well as being in a very secure financial position. With operatorship and essentially 100% working interest we can control our pace of activity. If oil and gas prices provide the cash flow for a rapid growth strategy we can respond or if oil and gas prices are reduced we can adjust our spending accordingly.

Outlook for 2014 Production

Record current production is approximately 38,000 boe per day.

Birchcliff confirms its 2014 exit production rate guidance of 40,000 boe per day.

Birchcliff also confirms its 2014 fourth quarter average production guidance of approximately 38,000 boe per day and its annual average production of approximately 34,000 boe per day which represents approximately 32% growth over the annual average of 25,829 boe per day in 2013 and 27**%** growth over 2013 on a production per common share basis, based on estimated 2014 annual basic weighted average common shares of 148,014,000.

Exploration Success in the Pouce Coupe area in the Montney D4 Interval on the Montney/Doig Natural Gas Resource Play – *A New Birchcliff Montney Interval Proven Commercial*

Birchcliff continues to aggressively delineate the Montney/Doig Natural Gas Resource Play both geographically and stratigraphically. To date, Birchcliff has concentrated on two intervals of the Montney/Doig Natural Gas Resource Play, the Basal Doig/Upper Montney interval and the Middle/Lower Montney interval. Birchcliff has recently successfully drilled its first horizontal well in a new Montney interval in Pouce Coupe, known as the Montney D4. Initial production rates exceed our

Financial and Operational Highlights

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
OPERATING				
Average daily production				
Light oil – *(barrels)*	3,957	3,903	3,957	3,963
Natural gas – *(thousands of cubic feet)*	172,675	119,608	162,220	121,526
NGLs – *(barrels)*	1,499	824	1,403	747
Total – barrels of oil equivalent *(6:1)*	**34,235**	24,662	**32,396**	24,965
Average sales price *($ CDN)*(1)				
Light oil – *(per barrel)*	95.94	102.82	99.30	92.90
Natural gas – *(per thousand cubic feet)*	4.37	2.60	5.07	3.26
NGLs – *(per barrel)*	87.38	95.58	92.73	90.00
Total – barrels of oil equivalent *(6:1)*	**36.95**	32.06	**41.51**	33.30
NETBACK AND COST *($ per barrel of oil equivalent at 6:1)*				
Petroleum and natural gas revenue	36.96	32.07	41.53	33.39
Royalty expense	(2.63)	(3.01)	(3.44)	(3.02)
Operating expense	(5.06)	(5.66)	(5.17)	(5.77)
Transportation and marketing expense	(2.41)	(2.44)	(2.45)	(2.43)
Netback(2)	**26.86**	20.96	**30.47**	22.17
General & administrative expense, net	(1.44)	(1.67)	(1.73)	(2.06)
Interest expense	(1.50)	(2.14)	(1.63)	(2.48)
Other Income	-	1.83	-	0.61
Realized loss on financial instruments	(0.10)	-	(0.11)	-
Funds flow netback(2)	**23.82**	18.98	**27.00**	18.24
Stock-based compensation expense, net	(0.25)	(0.39)	(0.44)	(0.46)
Depletion and depreciation expense	(10.39)	(11.40)	(11.03)	(11.48)
Accretion expense	(0.20)	(0.26)	(0.21)	(0.23)
Amortization of deferred financing fees	(0.07)	(0.11)	(0.08)	(0.09)
Unrealized gain on financial instruments	0.13	-	0.02	-
Dividends on Series C preferred shares	(0.28)	(0.46)	(0.30)	(0.15)
Income tax expense	(3.34)	(1.88)	(3.96)	(1.67)
Net income	**9.42**	4.48	**11.00**	4.16
Dividends on Series A preferred shares	(0.32)	(0.44)	(0.34)	(0.44)
Net income to common shareholders	**9.10**	4.04	**10.66**	3.72
FINANCIAL				
Petroleum and natural gas revenue *($000's)*	116,424	72,762	367,290	227,545
Funds flow from operations *($000's)*(2)	75,030	43,053	238,781	124,301
Per common share – basic *($)*(2)	0.50	0.30	1.63	0.87
Per common share – diluted *($)*(2)	0.48	0.30	1.58	0.86
Net income *($000's)*	29,665	10,156	97,251	28,355
Net income to common shareholders *($000's)*	28,665	9,156	94,251	25,355
Per common share – basic *($)*	0.19	0.06	0.64	0.18
Per common share – diluted *($)*	0.19	0.06	0.62	0.17
Common shares outstanding				
End of period – basic	152,153,906	142,752,160	152,153,906	142,752,160
End of period – diluted	166,189,610	163,395,946	166,189,610	163,395,946
Weighted average common shares for period – basic	149,593,705	142,548,847	146,275,186	142,206,017
Weighted average common shares for period – diluted	154,800,270	145,086,695	151,560,931	144,922,366
Dividends on Series A preferred shares *($000's)*	1,000	1,000	3,000	3,000
Dividends on Series C preferred shares *($000's)*	875	1,038	2,625	1,038
Capital expenditures, net *($000's)*	104,363	76,186	341,250	197,582
Long-term bank debt *($000's)*	435,545	444,719	435,545	444,719
Adj. working capital deficit *($000's)*(2)	59,762	42,988	59,762	42,988
Total debt *($000's)*(2)	495,307	487,707	495,307	487,707

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

(2) See "Non-GAAP Measures" in the Advisories section of this report.

expectations for Montney/Doig horizontal natural gas wells. Our drilling success in the Montney D4 is expected to add significant Montney D4 reserve bookings at year end as there were no reserves previously booked to this interval.

The Montney D4 interval is prospective over our Pouce Coupe land base where Birchcliff has existing infrastructure and our scalable PCS Gas Plant. This infrastructure will result in significant development efficiencies and cost savings as we develop this new Montney D4 interval.

Exploration Success in the Elmworth/Sinclair area in the Montney D4 Interval on the Montney/Doig Natural Gas Resource Play – *A New Birchcliff Exploration Area Proven Commercial*

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 Montney/Doig horizontal well development program.

Birchcliff has recently drilled its first Montney/Doig horizontal natural gas well in the Elmworth/Sinclair area in the Montney D4 interval.

In addition, Birchcliff had previously drilled three vertical stratigraphic tests in the Elmworth/Sinclair area that has helped delineate the potential of the Montney/Doig Natural Gas Resource Play in this area. Initial production rates exceed our expectations for Montney/Doig horizontal natural gas wells. Our exploration drilling success in the Montney D4 at Elmworth/Sinclair is expected to add significant reserve bookings at year end as there were no reserves previously booked to this interval.

As a result of this success in the Elmworth/Sinclair area, Birchcliff is now planning for significant operations and future growth in this area.

Significant Future Drilling Opportunities

To quantify the potential of these two mature proven plays as of September 30, 2014, Birchcliff owns 307.6 net sections which have potential for the Middle/Lower Montney Play and 287.4 net sections which have potential for the Basal Doig/Upper Montney Play. Birchcliff's total land holdings on these two mature proven plays are 595.0 net sections. On full development of four horizontal wells per section per play, Birchcliff has 2,380.2 net existing horizontal wells and future horizontal drilling locations. With 145.9 net horizontal locations drilled to September 30, 2014, there remains 2,234.3 net future horizontal drilling locations on these two plays.

The Montney D4 drilling success in Pouce Coupe and Elmworth/Sinclair areas adds a new interval to our Montney/Doig Natural Gas Resource Play and significant future drilling opportunities as we currently hold 319.1 (307.6 net) sections of Montney rights.

Birchcliff believes it now has 3,464.7 net future drilling locations, up from 2,234.3 net future locations. In its three intervals that have been proven commercial on its Montney/Doig Natural Gas Resource Play.

Pouce Coupe South Natural Gas Plant ("PCS Gas Plant") Phase IV Expansion Complete

The Phase IV expansion of the PCS Gas Plant is complete and as a result processing capacity has increased to 180 MMcf per day from 150 MMcf per day. The estimated cost of the Phase IV expansion was approximately $11.6 million. The project was completed on schedule and on budget.

Future Expansion of the PCS Gas Plant

Engineering, procurement and fabrication work is underway for the Phase V expansion of the PCS Gas Plant which will increase processing capacity to 240 MMcf per day with an expected startup late in the fourth quarter of 2015.

Preliminary planning and permitting work has been initiated for the Phase VI expansion of the PCS Gas Plant that will increase processing capacity to 300 MMcf per day with startup currently being planned for late 2016.

Preliminary Guidance for 2015

Birchcliff expects to have a very strong production growth profile for 2015. Initially, we will be targeting exit production of approximately 48,000 to 50,000 boe per day. Although our 2015 Budget has not yet been finalized, on a preliminary basis, the capital expenditure required to achieve this production target is expected to be approximately $450 million to $500 million which includes approximately $110 million of infrastructure investment.

Birchcliff expects to fund its 2015 capital program primarily using internally generated funds flow and available credit facilities and expects that the ratio of 2015 year end debt to 2016 funds flow will remain consistent with 2013 and 2014 which maintains a strong balance sheet and significant financial flexibility. These expectations are based on a forecast WTI price of US$90.00 per barrel of oil and AECO price of CDN$4.00 per GJ of natural gas during 2015. Birchcliff will adjust its 2015 capital expenditure program to maintain its strong balance sheet if commodity prices weaken or other assumptions materially change from our preliminary estimates.

2019 Five Year Plan

Birchcliff updates its five year plan in the fall of each year and we have recently finalized our 2019 Five Year Plan, highlights of which include exit production in 2019 of approximately 100,000 boe per day, made up of approximately 522 MMcf per day of natural gas and 13,000 barrels per day of oil and natural gas liquids (which are comprised substantially of condensate).

As a result of Birchcliff's strong execution, production history, drilling and completion results, low finding and development costs together with low operating costs, we are materially ahead of our 2018 Five Year Plan. Our assets continue to outperform our expectations. As our wells mature, the decline rate of our base production continues to decrease each year resulting in Birchcliff having more free cash flow to grow each year.

Our 2018 Five Year Plan envisioned 2018 exit production of 62,000 boe per day. Birchcliff estimates it will surpass that production milestone in 2016 exiting at just over 64,000 boe per day, well ahead of our earlier estimates.

Birchcliff expects to fund the 2019 Five Year Plan using primarily internally generated funds flow and available credit facilities. The ratio of year end debt to one year's forward funds flow is expected to remain fairly consistent, based on the production rates and commodity price assumptions contained in the 2019 Five Year Plan which are set out in the following table.

	2015	2016	2017	2018	2019
Exit production *(boe/day)*	49,000	64,000	72,000	82,000	100,000
Light oil – WTI Cushing *($USD/bbl)*	90.00	90.00	90.00	90.00	90.00
Light oil – Edmonton Par *($CDN/bbl)*	91.00	91.00	91.00	91.00	91.00
Natural gas – AECO – C daily *($CDN/GJ)*	4.00	4.00	4.00	4.00	4.00

Birchcliff currently owns and controls the land necessary to achieve this production growth profile, allowing it to execute the program without relying on land, asset or corporate acquisitions. We are confident that we have the asset base, the people and access to the capital required to successfully execute our 2019 Five Year Plan.

Birchcliff's 2019 Five Year Plan is based on our belief that its Montney/Doig Natural Gas Resource Play has been substantially de-risked and that we are now highly confident in our ability to extract, produce and process very large volumes of natural gas from our extensive land base on this play. Our planned future growth is not contingent on success of exploration drilling. We have a massive inventory of long life natural gas resources in the Montney/Doig Natural Gas Resource Play fairway and we have developed the technical expertise to efficiently and economically extract that resource through horizontal drilling and multi-stage fracture stimulations. We have already built out the base facilities and infrastructure that allows us to operate and grow economically at very low natural gas prices.

We intend to continue to build and own our processing facilities in the Pouce Coupe area to provide room for production growth and to continue to reduce our processing costs and control our pace of drilling.

We are extremely focused on profitability irrespective of the commodity price environment we face. In our plan for each of the years in our 2019 Five Year Plan, just over 75% of the capital expenditures relates to drilling, completions, well equipment and tie-ins. We are of a size now that we should have the cash flow to continue to build out our facilities even in extremely low commodity pricing environments as they are becoming a smaller component of our capital expenditures as we grow.

As each year passes we have another group of producing wells that are entering a low stable decline phase of their lifecycle. This increases the portion of our production base with a low decline and reduces the volume of production that must be replaced each year by new drilling. As a result, each of our processing facilities we build becomes a free cash flow asset within approximately two years of start-up, so that when we stop building new processing capacity we will produce free cash flow relatively quickly.

In a low gas price environment we can prudently conserve capital and avoid increased debt by cutting back the drilling and completion component of our capital program.

In a high commodity price environment we can expand our facilities and fill them in a very short period of time. In either price environment we are profitable.

2014 THIRD QUARTER FINANCIAL AND OPERATIONAL RESULTS

Production

Record third quarter production averaged 34,235 boe per day, which is a 39% increase over production of 24,662 boe per day in the third quarter of 2013. Production per common share increased 32% from the third quarter of 2013.

Production consisted of approximately 84% natural gas and 16% crude oil and natural gas liquids in the third quarter. Approximately 78% of Birchcliff's natural gas production and 68% of corporate production was processed at our PCS Gas Plant in the first nine months of 2014.

Birchcliff has consistently demonstrated significant growth in third 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 third quarter production per common share growth since 2010.

	Q3 2010	Q3 2011	Q3 2012	Q3 2013	Q3 2014	Change Since 2010 *(%)*	Average Annualized Growth *(%)*
Production *(boe/day)*	13,109	17,648	21,426	24,662	34,235	161%	40%
Production per common share *(boe/day/share)*(1)	105.0	139.4	151.4	173.0	228.9	118%	30%

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

Funds Flow and Earnings

Funds flow increased 74% from the third quarter of 2013, to $75.0 million or $0.50 per basic common share. This increase was largely a result of a 39% increase in production and the average AECO natural gas spot price increasing by 65% to $4.02 per Mcf in the third quarter of 2014 compared to $2.44 per Mcf in the third quarter of 2013.

Birchcliff had net income of $29.7 million as compared to $10.2 million in the third quarter of 2013, a significant increase of 192%. This is Birchcliff's 20th consecutive quarter of earnings, again demonstrating that our repeatable, low-cost business continues to be successful and continues to generate positive returns for our shareholders.

Operating Costs

Operating costs were at a record low of $5.06 per boe, down 11% from $5.66 per boe in the third 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.

General and Administrative Expense

General and administrative expense of $1.44 per boe was a record low and represents a 14% decrease from $1.67 per boe in the third quarter of 2013.

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 nine months of 2014, net operating costs for natural gas processed at the PCS Gas Plant averaged $0.40 per Mcfe ($2.40 per boe) and the estimated operating netback for Birchcliff's natural gas production flowing to the PCS Gas Plant was $4.55 per Mcfe ($27.27 per boe), achieving an operating margin of 82%. Also, the volume of high value liquids recovered at the PCS Gas Plant, which are primarily condensate, has increased significantly to 8.0 bbls per MMcf from 4.9 bbls per MMcf in the comparable nine month period of 2013.

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

Production Processed through the PCS Gas Plant	**Nine months ended September 30, 2014**[1]		**Nine months ended September 30, 2013**	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		126,450		86,870
Oil & NGLs *(bbls)*		1,007		427
Total boe *(6:1)*		**22,082**		**14,905**
% of corporate natural gas production		*78%*		*71%*
% of corporate production		*68%*		*60%*
Sales liquids yield (bbls/MMcf)		*8.0*		*4.9*
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[2]	5.54	33.23	3.57	21.42
Royalty expense	(0.29)	(1.75)	(0.15)	(0.92)
Operating expense	(0.40)	(2.40)	(0.36)	(2.19)
Transportation and marketing expense	(0.30)	(1.81)	(0.27)	(1.54)
Estimated operating netback[3]	**$4.55**	**$27.27**	**2.79**	**16.77**
Operating margin[3]	**82%**	**82%**	**78%**	**78%**

(1) The PCS Gas Plant processed an average of 133 MMcf per day of gross raw gas at the inlet during the first nine months of 2014.

(2) AECO natural gas spot price averaged $4.81 per Mcf and $3.06 per Mcf for the nine months ended September 30, 2014 and 2013, respectively.

(3) See "Non-GAAP Measures" in the Advisories section of this report.

Debt and Capitalization

At September 30, 2014, Birchcliff's drawn long-term bank debt was $438.6 million from available credit facilities aggregating $750 million leaving $311.4 million of unutilized capacity which provides significant financial flexibility.

Total debt at September 30, 2014, including the working capital deficiency was $495.3 million.

At September 30, 2014, Birchcliff had outstanding 152,153,906 basic common shares.

Hedging Program

Birchcliff's natural gas production is unhedged beginning November 1, 2014 and the Corporation anticipates that it will monitor the April 1, 2015 to October 31, 2015 summer gas prices with a view to locking in forward sales contracts should the opportunities arise. Birchcliff will also review other potential hedging strategies relating to its natural gas and light oil production.

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 Charlie Lake Light Oil Resource Play. Birchcliff actively employs the evolving technology utilized by leaders in the industry regarding horizontal well drilling and the related multi-stage fracture stimulation technology.

During the third quarter of 2014, Birchcliff drilled 16 (15.5 net) wells, being 10 (10.0 net) horizontal natural gas wells and 6 (5.5 net) horizontal light oil wells. The natural gas wells are all Montney/Doig horizontal natural gas wells. The light oil wells included 5 (5.0 net) Worsley Charlie Lake horizontal light oil wells and 1 (0.5 net) Halfway horizontal light oil well.

Year-to-date Birchcliff has drilled 49 (48.5 net) wells, 31 (31.0 net) natural gas wells and 18 (17.5 net) oil wells. The natural gas wells are all Montney/Doig horizontal natural gas wells. The light oil wells included 4 (4.0 net) Montney/Doig horizontal light oil wells, 11 (11.0 net) Worsley Charlie Lake horizontal light oil wells, 2 (1.5 net) Halfway horizontal light oil wells and 1 (1.0 net) Upper Doig horizontal light oil well. All of the wells drilled to date are horizontal wells that were completed with multi-stage fracture stimulation technology.

Birchcliff currently has four drilling rigs working. Three rigs are drilling Montney/Doig horizontal natural gas wells, and one rig is currently drilling a Charlie Lake horizontal light oil well in the Progress area. Birchcliff is at various stages of drilling, completing and tying in the remaining wells in our 2014 drilling program.

Birchcliff has 13 (13.0 net) horizontal wells to bring on production before year end, including 12 (12.0 net) Montney/Doig horizontal natural gas wells, and 1 (1.0 net) Charlie Lake horizontal light oil well.

Montney/Doig Natural Gas Resource Play

In the third quarter of 2014, Birchcliff drilled 10 (10.0 net) Montney/Doig horizontal natural gas wells. Year-to-date Birchcliff has drilled 31 (31.0 net) Montney/Doig horizontal natural gas wells and 4 (4.0 net) Montney/Doig horizontal light oil wells. We also had significant exploration success as 2 (2.0 net) of the gas wells were drilled in a new interval of the Montney/Doig Natural Gas Resource Play - the Montney D4. Birchcliff continues to expand the Montney/Doig Natural Gas Resource Play both geographically and stratigraphically.

On our Montney/Doig Natural Gas Resource Play we are currently utilizing multi-well pad drilling, allowing us to drill continuously through spring break-up. Our budget for 2014 includes drilling 41 (41.0 net) Montney/Doig horizontal wells from 13 multi-well pads and two wells on single well pads. The pads range from two to five wells per pad.

Recently, there have been some significant positive developments by industry on the Montney/Doig Natural Gas Resource Play. One general area of development is the piloting and commercialization of new stratigraphic intervals within this play. The play exists in two different geological formations the Montney and the Doig. Birchcliff has adopted a widely used industry informal nomenclature for the Montney and Doig Formations. Due to the complexity of the geology, not all of the same intervals are present in all areas of the play trend.

The Montney/Doig Natural Gas Resource Play in the Pouce Coupe area is approximately 300 meters (1,000 feet) thick. Utilizing the industry nomenclature, Birchcliff has divided the geologic column into eight intervals from youngest (top) to oldest (bottom); Doig Phosphate, Basal Doig, Montney D5, Montney D4, Montney D3, Montney D2, Montney D1 and Montney C. Prior to the recent exploration success in the Montney D4, Birchcliff commercialized and drilled wells in two plays, the Basal Doig/Upper Montney Play and the Middle/Lower Montney Play.

Birchcliff believes its wells drilled in the Basal Doig interval of the Basal Doig/Upper Montney Play access the resources in the Doig Phosphate, Basal Doig and the upper most interval of the Montney - the Montney D5. The second play Birchcliff has drilled wells in is the Middle/Lower Montney Play and the specific interval drilled is the Montney D1 interval.

To quantify the potential of these two mature proven plays as of September 30, 2014, Birchcliff owns 307.6 net sections which have potential for the Middle/Lower Montney Play and 287.4 net sections which have potential for the Basal Doig/Upper Montney Play. Birchcliff's total land holdings on these two mature proven plays are 595.0 net sections. On full development of four horizontal wells per section per play, Birchcliff has 2,380.2 net existing horizontal wells and future horizontal drilling locations. With 145.9 net horizontal locations drilled to September 30, 2014, there remains 2,234.3 net future horizontal drilling locations on these two mature proven plays.

There are four other intervals in the Montney/Doig Natural Gas Resource Play that previous to the third quarter of 2014 Birchcliff had not yet drilled wells in, but which, Birchcliff feels are highly prospective; the lowermost Montney C, the Montney D2, the Montney D3 and the Montney D4.

Recently, Birchcliff drilled two exploration horizontal wells in the Montney D4 with very positive results. The first well was at Pouce Coupe and the second was in the Elmworth/Sinclair area. These drilling results establish the commerciality of the Montney D4 in both of these areas.

Increased Future Drilling Locations

Birchcliff is very excited about this exploration success in the Montney D4. Birchcliff currently holds 319.1 (307.6 net) sections of land that have Montney rights which it interprets to be prospective in the Montney D4 interval. Assuming four wells per section, the ultimate potential of the Montney D4 interval could add 1,230.4 net future locations to Birchcliff's inventory. This in addition to the 2,234.3 net future horizontal drilling locations on Birchcliff's two mature proven intervals, totals 3,464.7 net future locations. This exploration success will also result in the booking of significant reserves in all three categories of proven, probable and possible reserves as there were no reserves booked to this Montney D4 interval previously.

Elmworth/Sinclair Area

Birchcliff has accumulated a vast land base on its Elmworth/Sinclair exploration project with 87.5 sections of land all at 100% working interest. The land is in two land blocks, Elmworth where Birchcliff has a 36 section contiguous land position and Sinclair where Birchcliff has a 51.5 section land block. Sinclair is approximately 10 kilometers to the northwest, of Elmworth.

As a result of this success in the Elmworth/Sinclair area, Birchcliff is now planning for significant operations and future growth in this area.

The Montney/Doig Natural Gas Resource Play continues to get bigger and better and Birchcliff has an extensive set of assets right in the middle of a vast sweet spot within this exciting play.

Montney C Interval Exploration Potential

Industry has also been active in other Montney intervals and with Birchcliff's recent results Birchcliff is currently planning to drill another exploration well at Pouce Coupe in a new interval this fall. The interval to be drilled is the Montney C, which is the oldest and lowest Montney interval.

PCS Gas Plant Phase IV Expansion Complete

The Phase IV expansion of the PCS Gas Plant is complete and as a result processing capacity has increased to 180 MMcf per day from 150 MMcf per day. The estimated cost of the Phase IV expansion was approximately $11.6 million. The project was completed on schedule and on budget.

Future Expansion of the PCS Gas Plant

Engineering, procurement and fabrication work is underway for the Phase V expansion of the PCS Gas Plant which will increase processing capacity to 240 MMcf per day with an expected startup late in the fourth quarter of 2015.

Preliminary planning and permitting work has been initiated for the Phase VI expansion of the PCS Gas Plant that will increase processing capacity to 300 MMcf per day with startup currently being planned for late 2016.

Worsley Charlie Lake Light Oil Resource Play

In the third quarter of 2014, Birchcliff was extremely active on the Worsley Charlie Lake Light Oil Resource Play. In the third quarter we drilled 5 (5.0 net) Worsley Charlie Lake horizontal light oil wells. To date in 2014, we have successfully drilled 11 (11.0 net) Charlie Lake horizontal light oil wells utilizing multi-stage fracture stimulation technology. We are currently drilling our last well of the 2014 Charlie Lake program, a horizontal well in the Progress area.

Our budget for 2014 includes 12 (12.0 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 water flood on our Worsley Charlie Lake pool, we are expanding the water flood area and have conducted the field operations necessary to convert two more wells to injectors and have installed the associated water injection infrastructure.

Halfway Light Oil Play

In the third quarter of 2014, Birchcliff drilled 1 (0.5 net) Halfway horizontal light oil well, which was recently brought on production. To date in 2014, we have drilled 2 (1.5 net) Halfway horizontal light oil wells. Both wells were completed utilizing multi-stage fracture stimulation technology.

SHAREHOLDER SUPPORT

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

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

OUTLOOK

Exit production in 2014 is expected to be approximately 40,000 boe per day, setting the stage for strong production in the first quarter of 2015 and beyond. 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.

We expect 2015 exit production to be between 48,000 and 50,000 boe per day, which would result in 20% to 25% year over year exit production growth. The capital expenditure required to achieve this production target is expected to be between $450 million to $500 million, which includes approximately $110 million for infrastructure.

Birchcliff will adjust its 2015 capital expenditure program to maintain its strong balance sheet if commodity prices weaken or other assumptions materially change from our preliminary estimates.

We expect to add material reserves additions at year end 2014 including material additions to our proved developed producing ("**PDP**") reserves. As a result of the reserves additions, Birchcliff expects for 2014 to report top tier finding and development costs which again will result in top tier PDP recycle ratios and profitability, given its high operating netback and funds flow netback as compared to its industry peers. Birchcliff also expects these material reserves additions will add significant credit capacity in May 2015 upon its annual bank credit facilities renewal.

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.

Birchcliff has now successfully drilled and cased 153 (152.9 net) Montney/Doig horizontal wells, utilizing the latest multi-stage fracture stimulation technology. Currently, we have up to 3,464.7 net future potential horizontal drilling locations on the Montney/Doig Natural Gas Resource Play.

We remain focused on our business – 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 and reliability in our operations.

As in the past, Birchcliff expects to release its unaudited 2014 year end financial results, and summaries of its 2014 year end reserves evaluation, 2014 year end Montney/Doig Natural Gas Resource Assessment, 2014 finding and development costs and 2015 Budget on February 11, 2015.

We are very pleased and excited with the future outlook for Birchcliff. Our production and opportunity portfolio continues to increase while our cost structure continues to decrease. Focus, high value products, low cost operations and financial flexibility has positioned Birchcliff to execute its long term strategy.

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 all of us.

With Respect,

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

Management's Discussion and Analysis

GENERAL

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

The following Management's Discussion and Analysis ("**MD&A**") is dated November 12, 2014. The unaudited interim condensed financial statements with respect to the three and nine months ended September 30, 2014 (the "**Reporting Periods**") as compared to the three and nine months ended September 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 unaudited 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.

Birchcliff uses "funds flow", "funds flow from operations", "funds flow per common share", "netback", "operating netback", "estimated operating netback", "funds flow netback", "operating margin", "adjusted working capital" and "total debt" 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. See "Advisories" section of this MD&A for further information regarding these Non-GAAP measures.

2014 OUTLOOK

We confirm our exit production rate guidance of 40,000 boe per day. We also confirm fourth quarter average production guidance of 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 based on estimated 2014 annual basic weighted average common shares of 148,014,000.

Birchcliff expects to add material reserves additions at year end 2014 including material additions to its proved developed producing ("**PDP**") reserves. As a result of the reserves additions, Birchcliff expects for 2014 to report top tier finding and development costs which will also result in top tier PDP recycle ratios and profitability, given its high operating netback and funds flow netback as compared to its industry peers. Birchcliff also expects these material reserves additions will add significant credit capacity in May 2015 upon its annual bank credit facilities renewal.

The Phase IV expansion of Birchcliff's 100% owned and operated natural gas plant in the Pouce Coupe South area (the "**PCS Gas Plant**") is online and fully functional bringing processing capacity to 180 MMcf per day, from 150 MMcf per day.

Birchcliff's natural gas production is unhedged beginning November 1, 2014 and the Corporation anticipates that it will monitor the April 1, 2015 to October 31, 2015 summer gas prices with a view to locking in forward sales contracts should the opportunities arise. Birchcliff will also review other potential hedging strategies relating to its natural gas and light oil production.

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 which is primarily dependent on commodity prices, affects the pace at which the Corporation invests in its resource plays and the rate at which its production will grow.

FUNDS FLOW 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 September 30,		Nine months ended September 30,	
($000's)	**2014**	**2013**	**2014**	**2013**
Cash flow from operating activities	81,045	33,882	232,388	118,147
Adjustments:				
Decommissioning expenditures	493	350	1,400	485
Changes in non-cash working capital	(6,508)	8,821	4,993	5,669
Funds flow from operations[(1)]	**75,030**	43,053	**238,781**	124,301
Per common share – basic *($)*[(1)]	0.50	0.30	1.63	0.87
Per common share – diluted *($)*[(1)]	0.48	0.30	1.58	0.86

(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 they 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 74% from the third quarter of 2013, to $75.0 million or $0.50 per basic common share. Funds flow, when compared to the third quarter of 2013, was positively impacted by a 68% increase in realized natural gas wellhead prices and a 44% increase in natural gas production and negatively offset by an increase in royalty, production and transportation costs resulting from higher production in the current quarter.

Net Income to Common Shareholders

	Three months ended September 30,		Nine months ended September 30,	
($000's)	**2014**	**2013**	**2014**	**2013**
Net income	29,665	10,156	97,251	28,355
Net income to common shareholders[(1)]	**28,665**	9,156	**94,251**	25,355
Per common share – basic *($)*[(1)]	**0.19**	0.06	**0.64**	0.18
Per common share – diluted *($)*[(1)]	**0.19**	0.06	**0.62**	0.17

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

In the third quarter of 2014, Birchcliff had net income to common shareholders of $28.7 million, an increase of 213% from $9.2 million in the third quarter of 2013. This increase was mainly attributable to higher funds flow from operations in the third quarter of 2014, offset by higher 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 through the PCS Gas Plant	Nine months ended September 30, 2014[(1)]		Nine months ended September 30, 2013	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		126,450		86,870
Oil & NGLs *(bbls)*		1,007		427
Total boe *(6:1)*		**22,082**		**14,905**
Percentage of corporate natural gas production		*78%*		*71%*
Percentage of corporate production		*68%*		*60%*
Sales liquids yield (bbls/MMcf)		*8.0*		*4.9*
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[(2)]	5.54	33.23	3.57	21.42
Royalty expense	(0.29)	(1.75)	(0.15)	(0.92)
Operating expense	(0.40)	(2.40)	(0.36)	(2.19)
Transportation and marketing expense	(0.30)	(1.81)	(0.27)	(1.54)
Estimated operating netback[(3)]	**$4.55**	**$27.27**	**$2.79**	**$16.77**
Operating margin[(3)]	**82%**	**82%**	**78%**	**78%**

(1) The PCS Gas Plant processed an average of 133 MMcf per day of gross raw gas at the inlet for the first nine months of 2014.

(2) AECO natural gas spot price averaged $4.81 per Mcf and $3.06 per Mcf during the nine months ended September 30, 2014 and 2013, respectively.

(3) See "Non-GAAP Measures" in the Advisories section of this report.

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 (collectively, the "**non-revolving term credit facilities**"), remain essentially unchanged.

Exercise of Preferred Warrants

During the nine month Reporting Period there were 5,986,699 preferred warrants exercised at $8.30 for total proceeds of approximately $49.7 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. The proceeds were used to reduce outstanding indebtedness under the revolving term credit facilities.

DISCUSSION OF OPERATIONS

Petroleum and Natural Gas Revenues

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

	Three months ended September 30, 2014				Three months ended September 30, 2013			
	Total Revenue *($000)*	**Average Daily Production**	*(%)*	**Average[1]** *($/unit)*	Total Revenue *($000)*	Average Daily Production	*(%)*	Average[1] *($/unit)*
Light oil *(bbls)*	34,928	3,957	12	95.94	36,917	3,903	16	102.82
Natural gas *(Mcf)*	69,390	172,675	84	4.37	28,572	119,608	81	2.60
Natural gas liquids *(bbls)*	12,052	1,499	4	87.38	7,249	824	3	95.58
Total P&NG sales *(boe)*	116,370	**34,235**	100	36.95	72,738	24,662	100	32.06
Royalty revenue	54			0.01	24			0.01
P&NG revenues	**116,424**			**36.96**	72,762			32.07

	Nine months ended September 30, 2014				Nine months ended September 30, 2013			
	Total Revenue *($000)*	**Average Daily Production**	*(%)*	**Average[1]** *($/unit)*	Total Revenue *($000)*	Average Daily Production	*(%)*	Average[1] *($/unit)*
Light oil *(bbls)*	107,264	3,957	12	99.30	100,517	3,963	16	92.90
Natural gas *(Mcf)*	224,373	162,220	84	5.07	108,048	121,526	81	3.26
Natural gas liquids *(bbls)*	35,520	1,403	4	92.73	18,363	747	3	90.00
Total P&NG sales *(boe)*	367,157	**32,396**	100	41.51	226,928	24,965	100	33.30
Royalty revenue	133			0.02	617			0.09
P&NG revenues	**367,290**			**41.53**	227,545			33.39

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

Production

Production averaged 34,235 boe per day in the three month Reporting Period and 32,396 boe per day in the nine month Reporting Period, a 39% and 30% increase from the Comparable Prior Periods, respectively. These increases were largely due to incremental production added from new Montney/Doig horizontal natural gas wells that were drilled, completed and tied into the PCS Gas Plant during 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 the first quarter of 2014, offset by natural production declines.

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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Average benchmark prices:				
Light oil – WTI Cushing *($USD/bbl)*	97.15	105.83	99.61	98.14
Light oil – Edmonton Par *($/bbl)*	96.11	104.69	100.12	95.13
Natural gas – AECO – C daily *($/MMbtu)*(1)	4.02	2.44	4.81	3.06
Exchange rate – *(USD$/CDN$)*	1.10	0.96	1.10	0.98
Birchcliff's average realized sales price(2):				
Light oil *($/bbl)*	95.94	102.82	99.30	92.90
Natural gas *($/Mcf)*	4.37	2.60	5.07	3.26
NGLs *($/bbl)*	87.38	95.58	92.73	90.00
Barrels of oil equivalent *($/boe)*	36.95	32.06	41.51	33.30

(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 spot price can widen due to a number of factors including, but not limited to, downtime in North American refineries, rising domestic production, high inventory levels in North America and lack of pipeline infrastructure connecting key consuming oil markets.

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

The AECO natural gas spot price averaged $4.02 per Mcf for the three month Reporting Period, a 65% increase from the same period in 2013. Birchcliff's realized natural gas sales price at the wellhead averaged $4.37 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 Birchcliff's average realized sales price, heat content premium and other price differentials from its natural gas production during the three month Reporting Period:

	Three months ended September 30,	
	2014	2013
Average natural gas – AECO – C daily *($/MMbtu)*(1)	4.02	2.44
Heat content premium	0.40	0.16
Price differential between physical sales contracts and AECO – C daily	(0.05)	-
Average realized natural gas sales price *($/Mcf)*	**4.37**	2.60

(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 derivative contracts

As at September 30, 2014, the Corporation had the following financial derivative contracts in place:

Product	Option traded	Notional quantity	Term	Strike price	Fair value[(1)] *($000's)*
Crude oil	Put option	500 bbls/day	October 1, 2014 – December 31, 2014	WTI USD $90/bbl	110
Crude oil	Put option	500 bbls/day	October 1, 2014 – December 31, 2014	WTI USD $85/bbl	38
Fair value assets[(2)]					**148**

(1) The Corporation also recorded approximately $0.3 million as a deferred premium on financial instruments, which represents the amount payable to the counterparty to these contracts at September 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 September 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 (September 30, 2013 - NIL) lower.

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

	Three months ended September 30,				**Nine months ended September 30,**			
	2014		**2013**		**2014**		**2013**	
	($000's)	*($/boe)*	*($000's)*	*($/boe)*	*($000's)*	*($/boe)*	*($000's)*	*($/boe)*
Realized loss on derivatives	(315)	(0.10)	-	-	(931)	(0.11)	-	-
Unrealized gain on derivatives	396	0.13	-	-	207	0.02	-	-

There were no financial derivative contracts entered into subsequent to September 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 through profit or loss. As at September 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	October 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 September 30, 2014 is summarized below:

Product	Term[(1)]	Average production hedged[(2)]	Estimated average wellhead price[(2)]
Natural gas	October 1, 2014 to October 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 September 30, 2014.

Royalties

The following table details the Corporation's royalty expense:

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
Oil & natural gas royalties *($000)*[(1)]	8,269	6,820	30,427	20,579
Oil & natural gas royalties *($/boe)*	2.63	3.01	3.44	3.02
Effective royalty rate *(%)*[(2)]	7%	9%	8%	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 Comparable Prior Periods was mainly due to production royalty incentives for a number of Montney/Doig horizontal natural gas wells that are receiving a 5% royalty rate, offset by higher average natural gas wellhead prices received for Birchcliff's production in the Reporting Periods and the effect these higher natural gas prices have on the sliding scale royalty calculation.

Operating Costs

The following table provides a breakdown of operating costs:

	Three months ended September 30,				Nine months ended September 30,			
	2014		2013		2014		2013	
	($000's)	*($/boe)*	*($000's)*	*($/boe)*	*($000's)*	*($/boe)*	*($000's)*	*($/boe)*
Field operating costs	16,163	5.13	14,729	6.49	46,594	5.27	44,146	6.48
Recoveries	(320)	(0.10)	(1,945)	(0.86)	(944)	(0.11)	(5,304)	(0.78)
Field operating costs, net	15,843	5.03	12,784	5.63	45,650	5.16	38,842	5.70
Expensed workovers and other	89	0.03	52	0.03	81	0.01	476	0.07
Operating costs	**15,932**	**5.06**	12,836	5.66	**45,731**	**5.17**	39,318	5.77

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 from the Comparable Prior Periods largely due to the continued cost benefits achieved from processing 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 $2.40 per boe at the PCS Gas Plant during the first nine months of 2014.

Transportation and Marketing Expenses

Transportation and marketing expenses were $7.6 million ($2.41 per boe) for the three month Reporting Period and $21.7 million ($2.45 per boe) for the nine month Reporting Period compared to $5.6 million ($2.44 per boe) and $16.6 million ($2.43 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 September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
Montney/Doig Natural Gas Resource Play[(1)]				
Average daily production, net:				
Natural gas *(Mcf)*	157,840	106,438	147,760	107,562
Oil & NGLs *(bbls)*	1,626	676	1,432	576
Total boe *(6:1)*	**27,932**	18,415	**26,059**	18,503
% of corporate production[(2)]	***82%***	75%	***80%***	*74%*
Netback and cost *($/boe):*				
Petroleum and natural gas revenue	29.95	18.66	33.93	21.80
Royalty expense	(0.77)	(0.10)	(1.70)	(0.64)
Operating expense, net of recoveries	(3.73)	(3.62)	(3.73)	(3.84)
Transportation and marketing expense	(1.78)	(1.65)	(1.81)	(1.55)
Operating netback	**23.67**	13.29	**26.69**	15.77
Worsley Charlie Lake Light Oil Resource Play[(1)]				
Average daily production, net:				
Natural gas *(Mcf)*	9,676	7,783	9,518	7,918
Oil & NGLs *(bbls)*	3,303	3,206	3,410	3,215
Total boe *(6:1)*	**4,916**	4,503	**4,996**	4,535
% of corporate production[(2)]	***14%***	18%	***15%***	*18%*
Netback and cost *($/boe):*				
Petroleum and natural gas revenue	72.57	77.32	77.15	72.03
Royalty expense	(11.93)	(12.12)	(11.35)	(10.46)
Operating expense, net of recoveries	(9.91)	(9.35)	(9.85)	(9.35)
Transportation and marketing expense	(5.81)	(5.78)	(5.71)	(6.23)
Operating netback	**44.92**	50.07	**50.24**	45.99
Total Corporate				
Average daily production, net:				
Natural gas *(Mcf)*	172,675	119,608	162,220	121,526
Oil & NGLs *(bbls)*	5,456	4,727	5,360	4,710
Total boe *(6:1)*	**34,235**	24,662	**32,396**	24,965
Netback and cost *($/boe)*				
Petroleum and natural gas revenue	36.96	32.07	41.53	33.39
Royalty expense	(2.63)	(3.01)	(3.44)	(3.02)
Operating expense, net of recoveries	(5.06)	(5.66)	(5.17)	(5.77)
Transportation and marketing expense	(2.41)	(2.44)	(2.45)	(2.43)
Operating netback	**26.86**	20.96	**30.47**	22.17

(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 27,932 boe per day in the three month Reporting Period, a 52% 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 third quarter of 2014, Birchcliff's recoveries of liquids from its Montney/Doig natural gas production increased to 10.3 bbls per MMcf, which is an increase of 61% from 6.4 bbls per MMcf in the third quarter of 2013. Of the 1,626 bbls of liquids produced, approximately 1,566 bbls (96%) is high value oil and condensate (C5+), which averaged $92.57 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 $23.67 per boe ($3.95 per Mcfe) in the three month Reporting Period, a 78% 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 third quarter of 2014.

Worsley Charlie Lake Light Oil Resource Play

Birchcliff's production from the Worsley Charlie Lake Light Oil Resource Play was 4,916 boe per day in the three month Reporting Period, a 9% increase from the three month Comparable Prior Period.

Operating netback from the Worsley Charlie Lake Light Oil Resource Play was $44.92 per boe in the three month Reporting Period, a 10% decrease from the three month Comparable Prior Period. This decrease was largely due to lower average realized petroleum and natural gas prices received in the current quarter.

Administrative Expenses

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

	Three months ended September 30,				Nine months ended September 30,			
	2014		2013		2014		2013	
	($000's)	*(%)*	*($000's)*	*(%)*	*($000's)*	*(%)*	*($000's)*	*(%)*
Cash:								
Salaries and benefits[1]	4,296	60	3,818	62	13,233	57	11,608	56
Other[2]	2,901	40	2,316	38	9,811	43	9,241	44
	7,197	100	6,134	100	23,044	100	20,849	100
Operating overhead recoveries	(60)	(1)	(208)	(3)	(191)	(1)	(720)	(3)
Capitalized overhead[3]	(2,611)	(36)	(2,126)	(35)	(7,511)	(33)	(6,094)	(29)
General & administrative, net	4,526	63	3,800	62	15,342	66	14,035	68
General & administrative, net per boe	$1.44		$1.67		$1.73		$2.06	
Non-cash:								
Stock-based compensation	1,930	100	1,249[4]	100	7,931[5]	100	5,571	100
Capitalized stock-based compensation[3]	(1,144)	(59)	(367)	(29)	(4,045)	(51)	(2,459)	(44)
Stock-based compensation, net	786	41	882	71	3,886	49	3,112	56
Stock-based compensation, net per boe	$0.25		$0.39		$0.44		$0.46	
Administrative expenses, net	**5,312**		4,682		**19,228**		17,147	
Administrative expenses, net per boe	**$1.69**		$2.06		**$2.17**		$2.52	

(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) Stock-based compensation expense was lower compared to the three month Reporting Period mainly due to a higher number of options forfeited in the three month Comparable Prior Period.

(5) 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 Corporation recorded a non-cash stock-based compensation expense of approximately $1.7 million relating to the extension of the performance warrants in the nine month Reporting Period.

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

	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	Number	Exercise price[1]	Number	Exercise price[1]
Outstanding at beginning of period	11,516,472	$8.44	10,931,520	$8.31
Granted	71,000	$12.61	2,899,500	$9.07
Exercised	(338,000)	($8.62)	(2,490,546)	($8.54)
Forfeited	(153,500)	($7.75)	(244,502)	($7.88)
Outstanding, September 30, 2014	**11,095,972**	**$8.47**	**11,095,972**	**$8.47**

(1) Determined on a weighted average basis.

At September 30, 2014, there were 2,939,732 performance warrants outstanding with an exercise price of $3.00.

During the nine month Reporting Period there were 5,986,699 preferred warrants exercised at $8.30 for total proceeds of approximately $49.7 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 and performance warrant entitles the holder to purchase one common share at the exercise price.

Depletion and Depreciation Expenses

Depletion and depreciation ("**D&D**") expenses were $32.7 million ($10.39 per boe) for the three month Reporting Period and $97.5 million ($11.03 per boe) for the nine month Reporting Period as compared to $25.9 million ($11.40 per boe) and $78.2 million ($11.48 per boe) for the Comparable Prior Periods. D&D expenses were higher on an aggregate basis mainly due to a 39% and 30% increase in production from the three and nine month Comparable Prior Periods, respectively.

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

Asset impairment assessment

The Corporation'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 indicators identified at the end of the reporting period. As a result, no impairment test was required at September 30, 2014.

Finance Expenses

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

	Three months ended September 30,				Nine months ended September 30,			
	2014		2013		2014		2013	
	($000's)	*($/boe)*	*($000's)*	*($/boe)*	*($000's)*	*($/boe)*	*($000's)*	*($/boe)*
Cash:								
Interest on credit facilities	4,739	1.50	4,850	2.14	14,409	1.63	16,893	2.48
Non-cash:								
Accretion on decommissioning obligations	645	0.20	579	0.26	1,878	0.21	1,556	0.23
Amortization of deferred financing fees	220	0.07	259	0.11	711	0.08	630	0.09
Finance expenses	**5,604**	**1.77**	5,688	2.51	**16,998**	**1.92**	19,079	2.80

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 September 30, 2014 as compared to 5.0% at September 30, 2013. The effective interest rates applicable to the bankers' acceptances issued under the revolving syndicated credit facility were 3.9% in the three month Reporting Period and 4.0% in the nine month Reporting Period, respectively, as compared to 4.2% and 5.2% in the Comparable Prior Periods. The effective interest rates applicable to the bankers' acceptances issued under the non-revolving term credit facilities were 4.3% in the three month Reporting Period and 4.6% in the nine month Reporting Period as compared to 5.1% and 5.4%, respectively in the Comparable Prior Periods.

Birchcliff's average outstanding total credit facilities balance was approximately $437 million and $444 million in the three and nine month Reporting Periods, respectively, as compared to $431 million and $438 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 September 30,		Nine months ended September 30,	
($000's)	**2014**	**2013**	**2014**	**2013**
Deferred income tax expense	9,746	3,459	32,872	9,761
Dividend tax expense on preferred shares	749	815	2,251	1,615
Income tax expenses	**10,495**	4,274	**35,123**	11,376

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

The Corporation's estimated income tax pools were $1.35 billion at September 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 September 30, 2014**
Canadian oil and gas property expense	268,301
Canadian development expense	343,435
Canadian exploration expense	177,770
Undepreciated capital costs	235,364
Non-capital losses	318,355
Financing costs	3,992
Estimated income tax pools	**1,347,217**

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 its amalgamation with Birchcliff, ceased to be available to the Corporation 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 September 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 September 30, 2014.

CAPITAL EXPENDITURES

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

	Three months ended September 30,		Nine months ended September 30,	
($000's)	**2014**	**2013**	**2014**	**2013**
Land	3,170	9,877	13,044	34,994
Seismic	408	221	6,362	574
Workovers	515	2,127	6,569	5,860
Drilling and completions	74,414	48,435	191,357	120,644
Well equipment and facilities	25,548	14,778	66,581	33,374
Finding and development capital	104,055	75,438	283,913	195,446
Acquisitions	124	451	56,677	451
Dispositions	-	-	(131)	(4)
Finding, development and acquisition capital	104,179	75,889	340,459	195,893
Administrative assets	184	297	791	1,689
Capital expenditures, net	**104,363**	76,186	**341,250**	197,582

During the three month Reporting Period, Birchcliff drilled 16 (15.5 net) wells, being 10 (10.0 net) horizontal natural gas wells and 6 (5.5 net) horizontal light oil wells. The natural gas wells are all Montney/Doig horizontal natural gas wells. The light oil wells included 5 (5.0 net) Worsley Charlie Lake horizontal light oil wells and 1 (0.5 net) Halfway horizontal light oil well.

During the nine month Reporting Period, Birchcliff drilled 49 (48.5 net) wells, 31 (31.0 net) natural gas wells and 18 (17.5 net) oil wells. The natural gas wells are all Montney/Doig horizontal natural gas wells. The light oil wells included 4 (4.0 net) Montney/Doig horizontal light oil wells, 11 (11.0 net) Worsley Charlie Lake horizontal light oil wells, 2 (1.5 net) Halfway horizontal light oil wells and 1 (1.0 net) Upper Doig horizontal light oil well. All of the wells drilled to date are horizontal wells that were completed with multi-stage fracture stimulation technology.

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources

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

	Three months ended September 30,		Nine months ended September 30,	
($000's)	**2014**	**2013**	**2014**	**2013**
Funds flow from operations	75,030	43,053	238,781	124,301
Changes in non-cash working capital from operations	6,508	(8,821)	(4,993)	(5,669)
Decommissioning expenditures	(493)	(350)	(1,400)	(485)
Exercise of stock options	2,914	1,931	21,262	6,560
Exercise of preferred warrants	49,006	-	49,690	-
Issue of capital securities	-	-	-	50,000
Share issue costs	-	-	-	(2,169)
Financing fees paid on credit facilities	-	-	(1,018)	(945)
Dividends paid on preferred shares	(1,875)	(2,038)	(5,625)	(4,038)
Net change in non-revolving term credit facilities	1,416	(272)	733	60,226
Net change in revolving term credit facilities	(18,197)	35,718	39,984	(46,979)
Changes in non-cash working capital from investing	(9,951)	7,045	3,794	16,830
Capital resources	**104,358**	76,266	**341,208**	197,632

Working Capital

A summary of the reconciliation of working capital in accordance with IFRS to adjusted working capital is set forth below:

As at, *($000's)*	**September 30, 2014**	**December 31, 2013**
Working capital deficit	59,934	60,450
Fair value of financial instruments	148	826
Deferred premium on financial instruments	(320)	(1,205)
Adjusted working capital deficit	**59,762**	60,071

The adjusted working capital deficit at September 30, 2014 is largely comprised of costs incurred from the drilling and completion of new horizontal wells.

At September 30, 2014, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of September 2014 production (80%), which was subsequently received in October 2014. In contrast, current liabilities largely consisted of trade and joint venture payables (71%) and accrued capital and operating costs (28%).

Birchcliff routinely assesses the financial strength of its marketers and joint venture partners in accordance with the Corporation's credit risk guidelines. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations.

Birchcliff manages its working capital deficit using funds flow from operations and advances under its bank credit facilities. The Corporation's working capital deficit does not reduce the 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

A summary of the reconciliation of total debt is set forth below:

As at, *($000's)*	**September 30, 2014**	**December 31, 2013**
Non-revolving term credit facilities	129,449	127,144
Revolving term credit facilities	306,096	266,823
Long-term bank debt	435,545	393,967
Adjusted working capital deficit	59,762	60,071
Total debt	**495,307**	454,038

Total debt, including the adjusted working capital deficit, was $495.3 million at September 30, 2014 as compared to $454.0 million at December 31, 2013. Total debt from the end of 2013 increased by $41.3 million, largely due to capital spent in excess of funds flow offset by proceeds from the exercise of preferred warrants and stock options during the nine month Reporting Period.

Birchcliff's available bank credit facilities limit aggregate to approximately $750 million at September 30, 2014 compared to current utilized facilities of $438.6 million which is a 58% utilization rate, leaving 42% of the Corporation's credit facilities unutilized for substantial financial flexibility. The following table shows the Corporation's unused bank credit facilities:

As at, *($000's)*	**September 30, 2014**	**December 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)	(130,000)	(129,300)
Drawn revolving term credit facilities(3)	(308,454)	(268,411)
Outstanding letters of credit(4)	(184)	(184)
	(438,638)	(397,895)
Unused credit	**311,362**	201,405
% unused credit	**42%**	34%

(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 September 30, 2014, Birchcliff's EBITDA to interest expense was 11.6:1.0 and debt to EBITDA was 1.4:1.0. The Corporation was compliant with all financial covenants under its credit facilities as at September 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 September 30, 2014 and December 31, 2013.

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 September 30, 2014:

($000's)	**2014**	**2015**	**2016 - 2018**	**Thereafter**
Accounts payable and accrued liabilities	105,473	-	-	-
Drawn non-revolving term credit facilities	-	-	130,000	-
Drawn revolving term credit facilities	-	-	308,454	-
Office lease(1)	873	3,490	6,690	-
Transportation and processing	4,734	18,721	59,193	74,608
Deferred premium on risk management contracts	320	-	-	-
Estimated contractual obligations(2)	**111,400**	**22,211**	**504,337**	**74,608**

(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 September 30, 2014 to be approximately $157.9 million and will be incurred as follows: 2015 - $6.9 million and $151.0 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 September 30, 2014, Birchcliff had outstanding common shares, Series A Preferred Shares and Series C Preferred Shares. Birchcliff's common shares began trading on the TSX on July 21, 2005 under the symbol "**BIR**" and were at the same time de-listed from the TSX Venture Exchange where they were trading under the same symbol prior to such time. Birchcliff's common shares are included in the S&P/TSX Composite Index. Birchcliff's Series A Preferred Shares and Series C Preferred Shares are individually listed on the TSX under the symbols "**BIR.PR.A**"and "**BIR.PR.C**", respectively.

The following table summarizes the common shares issued:

	Common shares
Balance at December 31, 2013	143,676,661
Exercise of options	2,490,546
Exercise of preferred warrants	5,986,699
Balance at September 30, 2014	152,153,906

As of November 12, 2014, the Corporation had outstanding: 152,159,406 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 11,185,972 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 September 8, 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 September 30, 2014. Both dividends are designated as an eligible dividend for purposes of the *Income Tax Act* (Canada).

SUMMARY OF QUARTERLY RESULTS

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

Quarter ending,	**Sep. 30, 2014**	**Jun. 30, 2014**	**Mar. 31 2014**	**Dec. 31, 2013**	**Sep. 30, 2013**	**Jun. 30, 2013**	**Mar. 31, 2013**	**Dec. 31, 2012**
Average daily production *(boe 6:1)*	**34,235**	31,178	31,749	28,391	24,662	24,141	26,108	26,655
Realized natural gas price *($/Mcf)*	**4.37**	4.81	6.10	3.81	2.60	3.78	3.40	3.43
Realized oil price *($/bbl)*	**95.94**	104.72	97.30	81.52	102.82	91.19	84.82	83.38
Total revenues *($000's)*	**116,424**	117,308	133,558	89,092	72,762	79,065	75,718	78,001
Operating costs *($/boe)*	**5.06**	5.25	5.21	5.44	5.66	5.89	5.77	5.88
Capital expenditures, net *($000's)*	**104,363**	75,484	161,403	18,188	76,186	40,386	81,010	32,137
Funds flow from operations *($000's)*	**75,030**	75,382	88,369	50,060	43,053	41,804	39,444	39,848
Per common share – basic *($)*	**0.50**	0.52	0.61	0.35	0.30	0.29	0.28	0.28
Per common share – diluted *($)*	**0.48**	0.49	0.60	0.34	0.30	0.29	0.27	0.28
Net income *($000's)*	**29,665**	28,087	39,499	37,062	10,156	10,775	7,424	6,305
Net income to common shareholders *($000's)*[(1)]	**28,665**	27,087	38,499	36,062	9,156	9,775	6,424	5,305
Per common share – basic *($)*	**0.19**	0.19	0.27	0.25	0.06	0.07	0.05	0.04
Per common share – diluted *($)*	**0.19**	0.18	0.26	0.25	0.06	0.07	0.04	0.04
Total assets *($ million)*	**1,846**	1,771	1,730	1,587	1,558	1,514	1,499	1,430
Long-term bank debt *($000's)*	**435,545**	452,183	453,772	393,967	444,719	409,091	451,371	432,563
Total debt *($000's)*	**495,307**	514,637	524,720	454,038	487,707	453,123	502,291	462,130
Dividends on pref. shares - Series A *($000's)*	**1,000**	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Dividends on pref. shares - Series C *($000's)*	**875**	875	875	875	1,038	-	-	-
Pref. shares outstanding - Series A *(000's)*	**2,000**	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Pref. shares outstanding - Series C *(000's)*	**2,000**	2,000	2,000	2,000	2,000	2,000	-	-
Common shares outstanding *(000's)*								
Basic	**152,154**	145,912	144,504	143,677	142,752	142,390	142,096	141,596
Diluted	**166,190**	166,285	166,085	163,548	163,396	164,110	164,107	162,997
Wtd. average common shares outstanding *(000's)*								
Basic	**149,594**	145,145	144,026	143,063	142,549	142,240	141,821	141,585
Diluted	**154,800**	152,623	147,090	145,319	145,087	145,165	144,366	144,239

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

Production was higher compared to the second quarter of 2014 and the third quarter of 2013 mainly due to incremental production added from new Montney/Doig horizontal natural gas wells that were drilled, completed and tied into the PCS Gas Plant, offset by natural production declines. Year over year third quarter production was also higher due to the acquisition of approximately 1,600 boe per day of production from a partner's working interest in joint lands in January 2014.

Funds flow was comparable to the second quarter of 2014 and was largely impacted by a 9% decrease in realized natural gas prices and an 8% decrease in realized oil prices offset by a 10% increase in production in the third quarter of 2014.

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

Funds flow compared to the first quarter of 2014 was lower mainly due to a 28% decrease in realized natural gas prices, offset by an 8% increase in production in the third quarter of 2014.

Compared to the previous quarter, net income to common shareholders increased by 6% to $28.7 million mainly due to lower net stock-based compensation expense and an unrealized gain on financial instruments, offset by slightly lower funds flow in the three month Reporting Period.

Compared to the third quarter of 2013, net income to common shareholders increased by 213%. This increase was mainly attributable to a 74% increase in funds flow in the third quarter of 2014, offset by higher 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 and Internal Controls over Financial Reporting

The Corporation’s Chief Executive Officer and Chief Financial Officer have certified the matters prescribed by Form 52-109F2 required to be filed pursuant to National Instrument 52-109.

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 the unaudited interim condensed financial statements for the Reporting Periods.

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 - *Standards of Disclosure 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.

RISK FACTORS

See “Risk Factors” in the Corporation’s most recent Annual Information Form for additional information regarding the risks to which the Corporation and its business and operations are subject.

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 third quarter report for the Reporting Periods and the Comparable Prior Periods ("**Q3 Report**") are management's best estimates and are unaudited.*

Non-GAAP Measures: *This MD&A and the Q3 Report use "funds flow", "funds flow from operations", "funds flow per common share", "netback", "operating netback", "estimated operating netback", "funds flow netback", "operating margin", "adjusted working capital" and "total debt" which do not have standardized meanings prescribed by GAAP and therefore may not be comparable measures to other companies where similar terminology is used. Funds flow 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. 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) is 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 netback denotes petroleum and natural gas revenue less royalties, less operating expenses, less transportation and marketing expenses, less net general and administrative expenses, less interest expenses and less any realized losses (plus realized gains) on financial instruments. Operating margin for the PCS Gas Plant is calculated by dividing the estimated operating netback for the period by the petroleum and natural gas revenue for the period. Adjusted working capital is calculated as current assets minus current liabilities, excluding the fair value of financial instruments and related deferred premium. Total debt is calculated as revolving term credit facilities plus non-revolving term credit facilities as they appear on the Corporation's statement of financial position plus adjusted working capital deficit.*

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 Q3 Report contain 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 Q3 Report contain forward-looking information relating to estimated 2014 exit, average fourth quarter and average annual production; anticipated strong 2015 first quarter production; 2015 exit production; the Corporation’s 2019 Five Year Plan production targets and sources of funding; planned 2015 capital spending and sources of funding; the expected ratios of year end debt to one year’s forward funds flow; the intention to drill, complete, equip and tie-in future wells; the intention to complete proposed expansions of the PCS Gas Plant and to build other processing facilities; expected material reserves additions at year end which would result in top tier finding and development costs, top tier PDP recycle ratios and add significant credit capacity in May 2015; estimated 2014 annual basic weighted average common shares outstanding; estimates of net future locations; statements as to future decline rates of well production; and management’s expectation that Birchcliff will be successful in defending its tax position respecting the Veracel transaction.*

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.

Statements as to the addition of material reserves at year-end 2014 assume that in conducting its reserves evaluation, the independent reserves evaluator will concur with Birchcliff’s internal technical interpretations.

Statements as to expected top tier finding and development costs and top tier PDP recycle ratios assume that Birchcliff’s capital costs for the remainder of 2014 will be consistent with our internal estimates.

Statements as to the addition of significant credit capacity in May 2015 assume that the criteria applied by Birchcliff’s syndicate of bank lenders remains consistent with historical practice and that commodity prices are consistent with the forecast contained with Birchcliff’s 2019 Five Year Plan.

With respect to statements of future wells to be drilled, completed, equipped and tied-in, and estimates of future drilling locations, the key assumption is the validity of the 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.

With respect to statements of future decline rates of well production, the key assumption is that geological and other technical interpretations performed by the Corporation’s technical staff are valid.

Estimates as to 2014 exit production, average fourth quarter and average annual production rates, 2015 first quarter production and 2015 exit production rates and the estimated production targets in the 2019 Five Year Plan assume that: no unexpected outages occur in the infrastructure that the Corporation relies on to produce its wells; construction of new infrastructure meets timing expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing and production expectations.

Estimates as to future capital spending, sources of funding and future debt ratios assume the Corporation realizes the production targets and commodity prices as set forth in the disclosures relating to preliminary guidance for 2015 and the Corporation’s 2019 Five Year Plan.

Statements as to the Corporation's intention to complete proposed expansions of the PCS Gas Plant and to build other processing facilities, the anticipated processing of the PCS Gas Plant and the anticipated timing thereof assume that future drilling is successful, the availability of sufficient labour, services and equipment and that the Corporation will have access to sufficient capital to fund those projects.

Estimates of 2014 annual basic weighted common shares outstanding assume that grants, exercises and forfeitures of stock options remain consistent with past history.

Management's expectation with respect to the successful future outcome of the Veracel tax litigation assumes the validity of the Corporation's interpretation of how the Income Tax Act applies to the Veracel transaction.

Any "financial outlook" contained in this MD&A and the Q3 Report, as such term is defined by applicable securities laws, is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes.

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 and uncertainties that could cause actual results to differ materially from those anticipated including 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, commoditiy price fluctuations, 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 Q3 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,	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash	54	96
Accounts receivable	42,563	37,022
Prepaid expenses and deposits	3,094	1,138
Fair value of financial instruments *(Note 11)*	148	826
	45,859	39,082
Non-current assets:		
Exploration and evaluation *(Note 3)*	2,233	2,264
Petroleum and natural gas properties and equipment *(Note 4)*	1,797,593	1,545,185
	1,799,826	1,547,449
Total assets	1,845,685	1,586,531
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	105,473	96,927
Non-revolving term credit facilities *(Note 5)*	-	1,400
Deferred premium on financial instruments *(Note 11)*	320	1,205
	105,793	99,532
Non-current liabilities:		
Non-revolving term credit facilities *(Note 5)*	129,449	127,144
Revolving term credit facilities *(Note 6)*	306,096	266,823
Decommissioning obligations *(Note 7)*	78,511	73,433
Deferred income taxes	89,997	57,127
Capital securities *(Note 8)*	48,219	47,986
	652,272	572,513
Total liabilities	758,065	672,045
SHAREHOLDERS' EQUITY		
Share capital *(Note 8)*		
Common shares	781,846	694,183
Preferred shares *(perpetual)*	41,434	41,434
Contributed surplus	51,339	60,119
Retained earnings	213,001	118,750
	1,087,620	914,486
Total shareholders' equity and liabilities	1,845,685	1,586,531

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

Approved by the Board

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

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

Birchcliff Energy Ltd.

Condensed Statements of Net Income and Comprehensive Income

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
REVENUE				
Petroleum and natural gas sales	**116,424**	72,762	**367,290**	227,545
Royalties	**(8,269)**	(6,820)	**(30,427)**	(20,579)
Other income	**-**	4,157		4,157
Net revenue from oil and natural gas sales	**108,155**	70,099	**336,863**	211,123
Realized loss on financial instruments *(Note 11)*	**(315)**	-	**(931)**	-
Unrealized gain on financial instruments *(Note 11)*	**396**	-	**207**	-
	108,236	70,099	**336,139**	211,123
EXPENSES				
Operating	**15,932**	12,836	**45,731**	39,318
Transportation and marketing	**7,613**	5,560	**21,669**	16,575
Administrative, net	**5,312**	4,682	**19,228**	17,147
Depletion and depreciation *(Note 4)*	**32,740**	25,865	**97,514**	78,235
Finance	**5,604**	5,688	**16,998**	19,079
Dividends on capital securities *(Note 8)*	**875**	1,038	**2,625**	1,038
	68,076	55,669	**203,765**	171,392
INCOME BEFORE TAXES	**40,160**	14,430	**132,374**	39,731
Income tax expense	**10,495**	4,274	**35,123**	11,376
NET INCOME AND COMPREHENSIVE INCOME	**29,665**	10,156	**97,251**	28,355
Net income per common share *(Note 8)*				
Basic	**$0.19**	$0.06	**$0.64**	$0.18
Diluted	**$0.19**	$0.06	**$0.62**	$0.17

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

Birchcliff Energy Ltd.
Condensed Statements of Changes in Shareholders' Equity
Unaudited (Expressed in thousands of Canadian dollars)

	Share Capital				
	Common Shares	Preferred Shares	Contributed Surplus	Retained Earnings	Total
As at December 31, 2012	677,802	41,434	57,678	57,333	834,247
Dividends on perpetual preferred shares	-	-	-	(3,000)	(3,000)
Exercise of stock options	9,469	-	(2,909)	-	6,560
Stock-based compensation	-	-	5,571	-	5,571
Net income and comprehensive income	-	-	-	28,355	28,355
As at September 30, 2013	687,271	41,434	60,340	82,688	871,733
As at December 31, 2013	694,183	41,434	60,119	118,750	914,486
Dividends on perpetual preferred shares *(Note 8)*	-	-	-	(3,000)	(3,000)
Exercise of stock options *(Notes 8 and 9)*	30,880	-	(9,618)	-	21,262
Exercise of preferred warrants *(Note 8)*	56,783	-	(7,093)	-	49,690
Stock-based compensation *(Note 9)*	-	-	7,931	-	7,931
Net income and comprehensive income	-	-	-	97,251	97,251
As at September 30, 2014	**781,846**	**41,434**	**51,339**	**213,001**	**1,087,620**

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

Birchcliff Energy Ltd.
Condensed Statements of Cash Flows

Unaudited (Expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Cash provided by (used in):				
OPERATING				
Net income and comprehensive income	**29,665**	10,156	**97,251**	28,355
Adjustments for items not affecting operating cash:				
Unrealized gain on financial instruments	**(396)**	-	**(207)**	-
Depletion and depreciation	**32,740**	25,865	**97,514**	78,235
Stock-based compensation	**786**	882	**3,886**	3,111
Finance	**5,604**	5,688	**16,998**	19,079
Income taxes	**10,495**	4,274	**35,123**	11,376
Interest paid	**(4,739)**	(4,850)	**(14,409)**	(16,893)
Dividends on capital securities	**875**	1,038	**2,625**	1,038
Decommissioning expenditures *(Note 7)*	**(493)**	(350)	**(1,400)**	(485)
Changes in non-cash working capital	**6,508**	(8,821)	**(4,993)**	(5,669)
	81,045	33,882	**232,388**	118,147
FINANCING				
Exercise of stock options	**2,914**	1,931	**21,262**	6,560
Exercise of preferred warrants	**49,006**	-	**49,690**	-
Issue of capital securities	**-**	-	**-**	50,000
Share issue costs	**-**	-	**-**	(2,169)
Financing fees paid on credit facilities	**-**	-	**(1,018)**	(945)
Dividends on perpetual preferred shares *(Note 8)*	**(1,000)**	(1,000)	**(3,000)**	(3,000)
Dividends on capital securities *(Note 8)*	**(875)**	(1,038)	**(2,625)**	(1,038)
Net change in non-revolving term credit facilities	**1,416**	(272)	**733**	60,226
Net change in revolving term credit facilities	**(18,197)**	35,718	**39,984**	(46,979)
	33,264	35,339	**105,026**	62,655
INVESTING				
Petroleum and natural gas properties and equipment	**(104,220)**	(76,149)	**(284,604)**	(197,444)
Exploration and evaluation assets	**(19)**	(37)	**(100)**	(138)
Acquisition of petroleum and natural gas properties *(Note 4)*	**(124)**	-	**(56,677)**	-
Sale of exploration and evaluation assets *(Note 3)*	**-**	-	**131**	-
Changes in non-cash working capital	**(9,951)**	7,045	**3,794**	16,830
	(114,314)	(69,141)	**(337,456)**	(180,752)
NET CHANGE IN CASH	**(5)**	80	**(42)**	50
CASH, BEGINNING OF PERIOD	**59**	16	**96**	46
CASH, END OF PERIOD	**54**	96	**54**	96

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

Birchcliff Energy Ltd.
Notes to the Interim Condensed Financial Statements
For the Three And Nine Months Ended September 30, 2014
(Expressed In Thousands Of Canadian Dollars, Unless Otherwise Stated) (Unaudited)

1. NATURE OF OPERATIONS

Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is domiciled and incorporated in Canada. Birchcliff is engaged in the exploration for and the development, production and acquisition of petroleum and natural gas reserves in Western Canada. The Corporation's financial year end is December 31. The address of the Corporation's registered office is 500, 630 – 4th Avenue SW, Calgary, Alberta, Canada T2P 0J9. Birchcliff's common shares, Series A Preferred Shares and Series C Preferred Shares are listed for trading on the Toronto Stock Exchange under the symbols "**BIR**", "**BIR.PR.A**" and "**BIR.PR.C**", respectively. 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 November 12, 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 nine months ended September 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	100
Disposals	(131)
As at September 30, 2014[(2)]	**2,233**

(1) E&E assets consist of the Corporation's exploration activities which are pending the determination of economic quantities of commercially producible proven reserves. Additions represent the Corporation's net share of costs incurred on E&E activities during the period. A review of each exploration project by area is carried out at each reporting date to ascertain whether economical quantities of proven reserves have been discovered and whether such costs should be transferred to depletable petroleum and natural gas components. There were no exploration costs reclassified from the E&E category to petroleum and natural gas properties and equipment category during the three and nine months ended September 30, 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 September 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	290,636	845	291,481
Acquisitions[(2)]	58,441	-	58,441
As at September 30, 2014[(3)]	2,205,069	9,647	2,214,716
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	(96,654)	(860)	(97,514)
As at September 30, 2014	(410,979)	(6,144)	(417,123)
Net book value:			
As at December 31, 2013	1,541,667	3,518	1,545,185
As at September 30, 2014[(4)]	**1,794,090**	**3,503**	**1,797,593**

(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 indicators identified at the end of the reporting period. As a result, no impairment test was required at September 30, 2014.

5. NON-REVOLVING TERM CREDIT FACILITIES

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

As at, *($000's)*	September 30, 2014	December 31, 2013
Current portion of non-revolving term credit facilities	-	1,400
Non-current portion of non-revolving term credit facilities	130,000	127,900
Drawn non-revolving term credit facilities	130,000	129,300
Unamortized prepaid interest on bankers' acceptances	-	(33)
Unamortized deferred financing fees	(551)	(723)
Non-revolving term credit facilities[1]	**129,449**	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 September 30, 2014.

The Corporation also has a $70 million non-revolving five-year term credit facility with a maturity date of May 25, 2016 and is fully drawn at September 30, 2014. After May 9, 2014, Birchcliff was 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)*	September 30, 2014	December 31, 2013
Syndicated credit facility	270,000	251,000
Working capital facility	38,454	17,411
Drawn revolving term credit facilities	308,454	268,411
Unamortized prepaid interest on bankers' acceptances	(1,482)	(1,424)
Unamortized deferred financing fees	(876)	(164)
Revolving term credit facilities[1]	**306,096**	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)*	September 30, 2014	December 31, 2013
Balance, beginning	73,433	68,967
Obligations incurred	2,835	3,260
Obligations acquired	1,765	90
Obligations divested	-	(6,104)
Changes in estimated future cash flows	-	5,602
Accretion expense	1,878	2,175
Actual expenditures	(1,400)	(557)
Balance, ending(1)	**78,511**	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 September 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.

	September 30, 2014	December 31, 2013
Common Shares:		
Outstanding at beginning of period - Jan 1	143,676,661	141,596,279
Exercise of stock options	2,490,546	2,080,382
Exercise of preferred warrants	5,986,699	-
Outstanding at end of period	**152,153,906**	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 September 30, 2014 and December 31, 2013.

Dividends

On September 8, 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 September 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 5,986,699 preferred warrants exercised during the nine months ended September 30, 2014 for total proceeds of approximately $49.7 million. The remaining 13,301 preferred warrants that were not exercised expired on August 8, 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 September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Net income and comprehensive income *($000's)*	29,665	10,156	97,251	28,355
Dividends on Series A Preferred Shares *($000's)*	(1,000)	(1,000)	(3,000)	(3,000)
Net income to common shareholders *($000's)*	28,665	9,156	94,251	25,355
Weighted average common shares *(000's)*:				
Weighted average basic common shares outstanding	149,594	142,549	146,275	142,206
Effects of dilutive securities	5,206	2,538	5,286	2,716
Weighted average diluted common shares outstanding[1]	154,800	145,087	151,561	144,922
Net income per common share *($/share)*				
Basic	**$0.19**	$0.06	**$0.64**	$0.18
Diluted	**$0.19**	$0.06	**$0.62**	$0.17

(1) The weighted average diluted common shares outstanding excludes 2,112,300 (September 30, 2013 – 7,716,268) stock options and NIL (September 30, 2013 – 6,000,000) warrants that are anti-dilutive in the nine month reporting period.

9. SHARE-BASED PAYMENTS

Stock Options

At September 30, 2014, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of a maximum of 15,215,391 (September 30, 2013 – 14,275,216) common shares. At September 30, 2014, there remained available for issuance options in respect of 4,119,419 (September 30, 2013 – 2,571,162) common shares. For stock options exercised during the three months ended September 30, 2014, the weighted average share trading price was $11.73 (September 30, 2013 – $7.46) per common share.

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

	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	Number	Exercise price[(1)]	Number	Exercise price[(1)]
Outstanding at beginning of period	11,516,472	$8.44	10,931,520	$8.31
Granted	71,000	$12.61	2,899,500	$9.07
Exercised	(338,000)	($8.62)	(2,490,546)	($8.54)
Forfeited	(153,500)	($7.75)	(244,502)	($7.88)
Outstanding, September 30, 2014	**11,095,972**	**$8.47**	**11,095,972**	**$8.47**

(1) Determined on a weighted average basis.

The weighted average fair value per option granted during the three months ended September 30, 2014 was $3.86 (September 30, 2013 – $2.93). In determining the stock-based compensation expense for options issued during the three months ended September 30, 2014, the Corporation applied a weighted average estimated forfeiture rate of 13% (September 30, 2013 – 13%). The weighted average assumptions used in calculating the Black-Scholes fair values are set forth below:

Three months ended,	September 30, 2014	September 30, 2013
Risk-free interest rate	1.4%	1.5%
Expected life *(years)*	3.9	3.9
Expected volatility	37.3%	44.3%

A summary of the stock options outstanding and exercisable under the plan at September 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	2,256,735	2.57	$5.96	1,429,555	2.57	$5.96
$6.01	$9.00	5,420,637	3.85	$8.00	783,027	3.36	$7.47
$9.01	$12.00	3,077,600	1.08	$10.62	2,931,100	0.91	$10.62
$12.01	$14.56	341,000	3.70	$13.05	112,000	1.65	$12.80
		11,095,972	**2.82**	**$8.47**	**5,255,682**	**1.74**	**$8.93**

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 September 30, 2014 (September 30, 2013 – 2,939,732).

In May 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 nine month period ending September 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 September 30, 2014.

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

As at, *($000's)*	**September 30, 2014**	**December 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	(130,000)	(129,300)
Drawn revolving term credit facilities	(308,454)	(268,411)
Outstanding letters of credit[(3)]	(184)	(184)
	(438,638)	(397,895)
Unused credit[(2)]	**311,362**	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 September 30, 2014, Birchcliff's EBITDA to interest expense was 11.6:1.0 and debt to EBITDA was 1.4:1.0. The Corporation was compliant with all financial covenants under its credit facilities as at September 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 September 30, 2014.

The capital structure of the Corporation is as follows:

As at, *($000's)*	September 30, 2014	December 31, 2013	Change
Shareholders' equity[1]	1,087,620	914,486	
Capital securities	48,219	47,986	
Shareholders' equity & capital securities	1,135,839	962,472	18%
Shareholders' equity & capital securities as a % of total capital[2]	70%	68%	
Working capital deficit[3]	59,762	60,071	
Drawn non-revolving term credit facilities	130,000	127,900	
Drawn revolving term credit facilities	308,454	268,411	
Drawn debt	498,216	456,382	9%
Drawn debt as a % of total capital	30%	32%	
Capital	**1,634,055**	1,418,854	15%

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

(2) Of the 70%, approximately 64% 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 September 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 September 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	October 1, 2014 – December 31, 2014	WTI USD $90/bbl	110
Crude oil	Put option	500 bbls/day	October 1, 2014 – December 31, 2014	WTI USD $85/bbl	38
Fair value assets[2]					**148**

(1) The Corporation recorded approximately $0.3 million as a deferred premium on financial instruments which represents the amount payable to the counterparty to these contracts at September 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 September 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 (September 30, 2013 – NIL) lower.

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

	Three months ended September 30, 2014	Nine months ended September 30, 2014
Realized loss on financial instruments *($000's)*	(315)	(931)
Unrealized gain on financial instruments *($000's)*	396	207

There were no financial derivative contracts entered into subsequent to September 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 September 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	October 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 September 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 its amalgamation with Birchcliff, ceased to be available to the Corporation 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 September 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 September 30, 2014.

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

Computershare Trust Company of Canada
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