May 13, 2015

Fellow Shareholders,

We are pleased to report the first quarter financial and operational results for Birchcliff Energy Ltd. ("**Birchcliff**") for the three month period ended March 31, 2015. Current production is approximately 39,000 boe per day. Birchcliff had record average quarterly production of 38,416 boe per day, which exceeded our previously announced production guidance of 37,000 to 38,000 boe per day. Production consisted of 85% natural gas, 10% light oil and 5% natural gas liquids. Production was 21% above the average production in the first quarter of 2014. Production per basic common share increased 14% from the first quarter of 2014.

It is important to note that the majority of the wells drilled in 2014 and to-date in 2015 are outperforming our internal production estimates, which in part has resulted in us exceeding our public production guidance for the first quarter of 2015, notwithstanding the myriad of issues that come with maintaining production during the winter months and interruptible service curtailments on TransCanada Corporation's NGTL system. It is our expectation that the production performance of these wells will ultimately lead to increases in reserves bookings for our current and future Montney/Doig horizontal natural gas wells.

We are on track to achieve record average annual production of approximately 38,000 to 40,000 boe per day for 2015, representing a range of 13% to 19% growth over the annual average of 33,734 boe per day in 2014. Based on the strong production results we have seen year to date, we expect our average annual production for 2015 to be on the high end of our production guidance.

With the collapse in commodity prices and the subsequent dramatic decrease in industry drilling activities, our costs to do business have quickly been reduced. In addition, the hard work of our people, implementing new technology and more efficient execution, has resulted in further long-term cost reductions in our drilling and completion projects, which in turn is expected to result in better finding and development costs at year-end and thereafter. We continue to make every effort to reduce our operating costs per boe over the long-term, which have fallen over 50% in the last five years.

Financial and Operational Highlights

	Three months ended March 31, 2015	Three months ended March 31, 2014
OPERATING		
Average daily production		
Light oil – *(barrels)*	4,017	3,977
Natural gas – *(thousands of cubic feet)*	195,935	158,456
NGLs – *(barrels)*	1,743	1,362
Total – barrels of oil equivalent *(6:1)*[(1)]	**38,416**	31,749
Average sales price *($ CDN)*[(2)]		
Light oil – *(per barrel)*	47.66	97.30
Natural gas – *(per thousand cubic feet)*	2.98	6.10
NGLs – *(per barrel)*	46.45	95.35
Total – barrels of oil equivalent *(6:1)*[(1)]	**22.27**	46.73
NETBACK AND COST *($ per barrel of oil equivalent at 6:1)*[(1)]		
Petroleum and natural gas revenue[(2)]	22.28	46.74
Royalty expense	(0.83)	(4.43)
Operating expense	(5.11)	(5.21)
Transportation and marketing expense	(2.59)	(2.48)
Netback[(3)]	**13.75**	34.62
General & administrative expense, net	(1.70)	(1.89)
Interest expense	(1.43)	(1.70)
Realized loss on financial instruments	-	(0.10)
Funds flow netback[(3)]	**10.62**	30.93
Stock-based compensation expense, net	(0.22)	(0.34)
Depletion and depreciation expense	(11.24)	(11.19)
Accretion expense	(0.16)	(0.21)
Amortization of deferred financing fees	(0.06)	(0.09)
Gain on sale of assets	0.19	-
Unrealized loss on financial instruments	-	(0.05)
Dividends on Series C preferred shares	(0.25)	(0.31)
Income tax recovery (expense)	0.11	(4.92)
Net income (loss)	**(1.01)**	13.82
Dividends on Series A preferred shares	(0.29)	(0.35)
Net income (loss) to common shareholders	**(1.30)**	13.47
FINANCIAL		
Petroleum and natural gas revenue *($000s)*[(2)]	77,026	133,558
Funds flow from operations *($000s)*[(3)]	36,720	88,369
Per common share – basic *($)*[(3)]	0.24	0.61
Per common share – diluted *($)*[(3)]	0.24	0.60
Net income (loss) *($000s)*	(3,479)	39,499
Net income (loss) to common shareholders *($000s)*	(4,479)	38,499
Per common share – basic *($)*	(0.03)	0.27
Per common share – diluted *($)*	(0.03)	0.26
Common shares outstanding *(000s)*		
End of period – basic	152,284	144,504
End of period – diluted	168,108	166,085
Weighted average common shares for period – basic	152,243	144,026
Weighted average common shares for period – diluted	154,215	147,090
Dividends on Series A preferred shares *($000s)*	1,000	1,000
Dividends on Series C preferred shares (*$000s*)	875	875
Capital expenditures, net *($000s)*	98,539	161,403
Long-term bank debt *($000s)*	536,570	453,772
Adj. working capital deficit *($000s)*[(3)]	73,600	70,948
Total debt *($000s)*[(3)]	610,170	524,720

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

(2) Excludes the effect of hedges using financial instruments.

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

INCREASE TO CREDIT FACILITIES AND REMOVAL OF FINANCIAL COVENANTS

Primarily as a result of the additions to our proved developed producing reserves during 2014, the following amendments were recently made to our syndicated bank credit facilities at our request during our annual credit review:

(i) the aggregate limit of our credit facilities was increased to $800 million from $750 million;

(ii) our credit facilities were consolidated into a single extendible borrowing base revolving term credit facility with a maturity date of May 11, 2018; and

(iii) the financial covenants contained in our credit facilities, including the covenants relating to the maintenance of debt to EBITDA and EBITDA to interest expense ratios, were removed.

These recent changes to our syndicated bank credit facilities provide us with increased financial flexibility.

UPDATE ON THE PCS GAS PLANT

Our PCS Gas Plant is currently processing approximately 165 MMcf per day of sales gas and has a processing capacity of 180 MMcf per day.

Engineering, procurement and fabrication work is underway for the Phase V expansion of our PCS Gas Plant which will increase processing capacity to 260 MMcf per day from 180 MMcf per day. We previously announced that we expected to rebid the field assembly and construction work of the Phase V expansion after the first quarter of 2015. We have not yet determined the construction schedule for this expansion and we currently expect that we will do so in the coming months after reviewing the costs associated with such expansion, having regard to the commodity price environment.

In addition, preliminary planning and permitting work has been initiated for the Phase VI expansion of our PCS Gas Plant which is designed to increase processing capacity to 320 MMcf per day from 260 MMcf per day. We had previously announced that start-up of Phase VI would occur in late 2016. As a result of our deferral of the Phase V expansion, the timing of the construction and start-up of Phase VI is currently uncertain and will be determined at a later date.

2015 FIRST QUARTER FINANCIAL AND OPERATIONAL RESULTS

PRODUCTION

Record first quarter production averaged 38,416 boe per day, an increase of 21% from production of 31,749 boe per day in the first quarter of 2014. Production per basic common share increased 14% from the first quarter of 2014. The increase in production from the first quarter of 2014 was largely due to incremental production added from new Montney/Doig horizontal natural gas wells that were tied into our PCS Gas Plant throughout 2014 and the first quarter of 2015, offset by natural production declines.

Production consisted of approximately 85% natural gas, 10% light oil and 5% natural gas liquids in the first quarter. Approximately 78% of our total corporate natural gas production and 70% of our total corporate production was processed at our PCS Gas Plant in the first quarter of 2015.

We have consistently demonstrated significant growth in first quarter production per common share. This growth has been primarily achieved through our low risk development drilling on the Montney/Doig Natural Gas Resource Play.

The following table highlights Birchcliff's first quarter production per basic common share growth since 2011 year-over-year.

	Q1 2011	Q1 2012	Q1 2013	Q1 2014	Q1 2015	Change Since 2011 *(%)*	Average Annual Growth *(%)*
Average Quarterly Production *(boe/day)*	17,742	21,061	26,108	31,749	38,416	117	29
Production per day per million common shares *(boe)*[(1)]	141.5	166.2	184.1	220.4	252.3	78	20

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

FUNDS FLOW AND NET LOSS

Funds flow decreased from the first quarter of 2014 to $36.7 million or $0.24 per basic common share. This decrease was largely due to a 51% decrease in both realized oil and natural gas wellhead prices.

We recorded a net loss to common shareholders of $4.5 million ($0.03 per basic common share) in the first quarter of 2015, a decrease from net income to common shareholders of $38.5 million ($0.27 per basic common share) in the first quarter of 2014. The decrease from the first quarter of 2014 was mainly attributable to lower funds flow.

OPERATING COSTS AND GENERAL AND ADMINISTRATIVE EXPENSE

We continue to focus on reducing our operating costs and general and administrative expense on a per boe basis. Operating costs for the first quarter of 2015 were $5.11 per boe, a decrease from $5.21 per boe in the first quarter of 2014. Corporate operating costs per boe decreased from the first quarter of 2014 largely due to the continued cost benefits achieved from processing incremental volumes of natural gas through our PCS Gas Plant and the implementation of various optimization initiatives. Operating costs averaged $2.32 per boe at our PCS Gas Plant ($0.39 per Mcfe) during the first quarter of 2015, where we processed 70% of our total corporate production.

General and administrative expense in the first quarter of 2015 was $1.70 per boe, a decrease from $1.89 per boe in the first quarter of 2014.

PCS GAS PLANT NETBACKS

Since it first became operational in March 2010, our PCS Gas Plant has resulted in a significant reduction in operating costs on a per boe basis. During the first quarter of 2015, we processed approximately 78% of our total corporate natural gas production through our PCS Gas Plant at an average operating cost of $0.39 per Mcfe ($2.32 per boe). The estimated operating netback at our PCS Gas Plant was $2.34 per Mcfe ($14.05 per boe) resulting in an operating margin of 73% in the first quarter of 2015.

The volume of higher value liquids recovered at our PCS Gas Plant, which are primarily condensate, has increased to 8.4 bbls per MMcf from 7.7 bbls per MMcf in the first quarter of 2014 and 2.8 bbls per MMcf in the first quarter 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

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

(1) See *"Non-GAAP Measures"*.

TOTAL CASH COSTS AND FUNDS FLOW NETBACK

During the first quarter of 2015, we had total cash costs of $11.66 per boe (royalties, operating, transportation and marketing, general and administrative and interest costs), a decrease from $15.71 per boe in the first quarter of 2014, and funds flow netback of $10.62 per boe, a decrease from $30.93 per boe in the first quarter of 2014.

CAPITAL EXPENDITURES

During the first quarter of 2015, we had capital expenditures of $98.5 million. For details regarding these capital expenditures, please see our management's discussion and analysis for the three month period ended March 31, 2015.

DEBT AND CAPITALIZATION

At March 31, 2015, our long-term bank debt was $537 million from available credit facilities aggregating $750 million, leaving $213 million of unutilized capacity which provides for significant financial flexibility. Total debt at March 31, 2015, including the adjusted working capital deficit, was $610 million.

At March 31, 2015, we had 152,283,539 basic common shares outstanding.

OPERATIONS UPDATE

DRILLING

Birchcliff's 2015 drilling program is primarily focused on our two proven resource plays, the Montney/Doig Natural Gas Resource Play and the Charlie Lake Light Oil Resource Play. We actively employ the evolving technology utilized by leaders in the industry regarding horizontal well drilling and the related multi-stage fracture stimulations.

We drilled 12 (11.5 net) wells in the first quarter of 2015, consisting of 9 (9.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area, 1 (1.0 net) Montney/Doig horizontal natural gas well in the Elmworth area, 1 (0.5 net) Halfway horizontal light oil well in the Progress area and a 100% working interest Belloy vertical well drilled as a potential acid gas injection well in the Elmworth area.

We have drilled 17 (16.5 net) wells year to date, consisting of 14 (14.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area, 1 (1.0 net) Montney/Doig horizontal natural gas well in the Elmworth area, 1 (0.5 net) Halfway horizontal light oil well in the Progress area and a 100% working interest Belloy vertical well drilled as a potential acid gas injection well in the Elmworth area.

We currently have 2 drilling rigs at work in the Pouce Coupe area drilling Montney/Doig horizontal natural gas wells through break-up on multi-well pads.

MONTNEY/DOIG NATURAL GAS RESOURCE PLAY

Over our 10 years of focused multi-disciplinary efforts on the Montney/Doig Natural Gas Resource Play, we have learned a great deal about this complex reservoir and how to optimally drill, case, complete and produce horizontal wells utilizing multi-stage fracture stimulation technology. We have continued to improve our results by reducing our costs and increasing our production and reserves per well.

Specific completion enhancements that we have been incorporating over the past 12 to 16 months have resulted in significant individual well performance improvements. As a result, our Montney/Doig natural gas production is exceeding our internal expectations and the production forecast used by our independent reserves evaluator. We therefore expect a reserves increase on many of our existing producing wells and undeveloped future drilling locations at year-end 2015.

Drilling

In the first quarter of 2015, we drilled 9 (9.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area, 1 (1.0 net) Montney/Doig horizontal natural gas well in the Elmworth area and a 100% working interest Belloy vertical well drilled as a potential acid gas injection well in the Elmworth area. Year to date, we have drilled 14 (14.0 net) wells Montney/Doig horizontal natural gas wells in the Pouce Coupe area, 1 (1.0 net) Montney/Doig horizontal natural gas well in the Elmworth area and a 100% working interest Belloy vertical well drilled as a potential acid gas injection well in the Elmworth area. We continue 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 which allows us to drill continuously through spring break-up and reduce our per well costs. Our budget for 2015 includes drilling 22 (22.0 net) Montney/Doig horizontal natural gas wells on a total of 7 multi-well pads with 2 to 5 wells per pad.

Exploration Success in the Elmworth Area in the Montney D4 Interval on the Montney/Doig Natural Gas Resource Play

In the first quarter 2015, we drilled our second successful horizontal exploration well on the Montney/Doig Natural Gas Resource Play in our Elmworth area in the Montney D4 interval. This 100% working interest well has been completed and tested and is expected to be on production by the end of May 2015. In the fourth quarter of 2014, we drilled our first successful Montney/Doig horizontal exploration well in our Elmworth area. The success of these two new Montney D4 wells in the Elmworth area has added significant potential future drilling locations to Birchcliff's inventory and is expected to result in follow-up drilling by Birchcliff and significant future reserves additions.

Land and Potential Future Drilling Locations

Our land activities in the first quarter of 2015 on the Montney/Doig Natural Gas Resource Play were limited. As at December 31, 2014, we held 332.6 sections of land that have potential for the Montney/Doig Natural Gas Resource Play. Of these lands, 305.1 (288.4 net) sections have potential for the Basal Doig/Upper Montney interval, 316.1 (306.2 net) sections have potential for the Montney D1 interval and 288.6 (281.7 net) sections have potential for the new Montney D4 interval. As at December 31, 2014, Birchcliff's total land holdings on these three intervals were 909.9 (876.3 net) sections.

On full development of four horizontal wells per section per drilling interval, we have 3,505.2 net existing horizontal wells and potential net future horizontal drilling locations in respect of these three commercial intervals as at December 31, 2014. With 159 (158.9 net) horizontal locations drilled at the end of 2014, there remains 3,346.3 potential net future horizontal drilling locations as at December 31, 2014, up from 2,254.4 net at year-end 2013. This does not include any potential net future horizontal drilling locations for the other three prospective Montney intervals, the Montney C, the Montney D2 and the Montney D3.

Substantial upside exists with respect to the 3,505.2 net existing horizontal wells and potential net future horizontal drilling locations. The reserves estimation and economic evaluation effective December 31, 2014 (the "**2014 Reserves Evaluation**") prepared by our independent reserves evaluator attributed proved reserves to 432.2 net existing wells and potential net future horizontal drilling locations (of which 277.3 net wells are potential future locations) and proved plus probable reserves to 598.8 net existing wells and potential net future horizontal drilling locations (of which 443.9 net wells are potential future locations). The remaining 2,906.4 potential net future horizontal drilling locations have not yet had any reserves attributed to them by our independent reserves evaluator.

CHARLIE LAKE LIGHT OIL RESOURCE PLAY

We made a material discovery in the Progress area on the Charlie Lake Light Oil Resource Play in 2014. As at December 31, 2014, Birchcliff held 26.5 (25.75 net) sections of land in the Progress area on the Charlie Lake Light Oil Resource Play. Year to date, we have added 1.5 (1.5 net) sections and accordingly, Birchcliff now holds 28 (27.25 net) sections of land on this project.

In the first quarter of 2015, we acquired a new 3-D seismic program in the Progress area to help delineate our 2014 Charlie Lake Resource Play exploration success. The results of this seismic program are very encouraging and support that a significant amount of our 28 (27.25 net) sections of land have potential for this exciting new play.

We are currently doing the planning to drill our second 100% working interest well on this project in July 2015.

HALFWAY LIGHT OIL RESOURCE PLAY

In the first quarter of 2015, we drilled 1 (0.5 net) Halfway horizontal light oil well in the Progress area. This well was completed utilizing multi-stage fracture stimulation technology and was recently brought on production at rates that exceed our original expectations.

SEISMIC

Birchcliff believes seismic data, more specifically three dimensional ("**3-D**") seismic data, is a key technical tool in the development of resource plays. A high percentage of Birchcliff's drilling activities are supported by 3-D seismic data. In the first quarter of 2015, we spent $3.6 million on 3-D seismic, which included 54 square kilometres of new proprietary 3-D seismic and 151 square kilometres of trade

3-D seismic. The first new proprietary program was in the Pouce Coupe area supporting our ongoing development of the Montney/Doig Natural Gas Resource Play. The second new proprietary program was in the Progress area to help delineate our 2014 Charlie Lake Light Oil Resource Play exploration success.

The investment in geophysical data over the years has been very beneficial. In terms of both proprietary and trade data, we own approximately 3,023 kilometres of 2-D and 2,098 square kilometres of 3-D seismic data as at March 31, 2015.

This geophysical data gives a much more refined image of what the subsurface looks like, assisting in geological interpretations to delineate reservoir distribution of our resource plays and assisting in the drilling of the horizontal wells.

SHAREHOLDER SUPPORT

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

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

OUTLOOK

We are on track to achieve record average annual production of approximately 38,000 to 40,000 boe per day for 2015, representing a range of 13% to 19% growth over the annual average of 33,734 boe per day in 2014. Based on the strong production results we have seen year to date, we expect our average annual production for 2015 to be on the high end of our production guidance.

We continue 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. Pad drilling allowed us to drill continuously through spring break-up, which also improved our capital efficiencies. Due to the combination of industry conditions, cost reduction initiatives and efficient execution, we have seen a material reduction in our drilling and completion costs.

As at May 13, 2015, we have successfully drilled and cased 174 (173.9 net) Montney/Doig horizontal natural gas wells utilizing recent advancements in multi-stage fracture stimulation technology. As at December 31, 2014, our total land holdings on the Basal Doig/Upper Montney interval, the Montney D1 interval and the Montney D4 interval were 909.9 (876.3 net) sections. On full development of four horizontal wells per section per interval, we have 3,505.2 net existing horizontal wells and potential net future horizontal drilling locations in respect of these three commercial intervals as at December 31, 2014. With 174 (173.9 net) Montney/Doig horizontal wells drilled as at May 13, 2015, we have up to 3,331.3 potential net future horizontal drilling locations on the Montney/Doig Natural Gas Resource Play.

As you may be aware, the New Democratic Party was elected as a majority government in Alberta on May 5, 2015. Change can be difficult for the investment community and our shareholders as it introduces an element of uncertainty into our business model. We are committed to working with the new government and we share a common goal: a strong, prosperous Alberta that's fair to all Albertans. The Premier-Elect, Rachel Notley, has indicated that she realizes that the oil and gas industry is the key job creator in Alberta, that she intends to work collaboratively and in partnership with the industry and that she does not intend to create a situation that results in the loss of jobs for Albertans.

In summary, Birchcliff is in an enviable position. The production from our Montney/Doig horizontal natural gas wells are outperforming our internal estimates **(Record Production)**. In addition to cost reductions resulting from industry conditions, we have also initiated technical and operational advancements that we expect will reduce our structural costs on an ongoing basis **(Cost Reductions)**. We have significant financial flexibility with our new $800 million syndicated revolving credit facility including the removal of all financial covenants **(Financial Flexibility)**. We have long-term shareholders who continue to support Birchcliff notwithstanding the continuous changes in our business environment **(Seymour Schulich)**. We have a repeatable business operated by excellent people who have their personal wealth invested in Birchcliff **(Invested Staff)**.

We remain focused on our strategy – growth by the drill bit in our core area of the Peace River Arch of Alberta. As our production and capital expenditures programs have grown over the years, the ownership and control of our infrastructure has become more important to Birchcliff. We continue to reduce our costs, control our capital expenditures, accurately forecast our production and manage our business prudently because we control our own infrastructure. 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.

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

With Respect,

(signed) "*A. Jeffery Tonken*"

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 (the "**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 May 13, 2015. The unaudited interim condensed financial statements with respect to the three months ended March 31, 2015 (the "**Reporting Period**") as compared to the three months ended March 31, 2014 (the "**Comparable Prior Period**") and this MD&A have been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the interim condensed financial statements of the Corporation and related notes for the Reporting Period and the 2014 Annual Report. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

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

This MD&A may contain forward-looking information within the meaning of applicable Canadian securities laws. For further information, see *"Advisories"* in this MD&A.

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

2015 OUTLOOK

Average annual production in 2015 is expected to be approximately 38,000 to 40,000 boe per day, representing a range of 13% to 19% growth over the annual average of 33,734 boe per day in 2014.

The Corporation does not foresee any liquidity issues with respect to the operation of its oil and natural gas business in 2015 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

($000s)	Three months ended March 31, 2015	Three months ended March 31, 2014
Funds flow from operations	**36,720**	88,369
Per common share – basic *($)*	**0.24**	0.61
Per common share – diluted *($)*	**0.24**	0.60

Aggregate funds flow, when compared to the first quarter of 2014, was lower due to a 51% decrease in both realized oil and natural gas wellhead prices, partially offset by a 24% increase in natural gas production and lower royalty costs in the first quarter of 2015. Aggregate funds flow was also negatively impacted by slightly higher general and administrative and interest costs and increased operating and transportation expenses resulting from higher average daily production in the first quarter of 2015.

Net Income (Loss) to Common Shareholders

($000s)	Three months ended March 31, 2015	Three months ended March 31, 2014
Net income (loss)	(3,479)	39,499
Net income (loss) to common shareholders(1)	**(4,479)**	38,499
Per common share – basic *($)*	**(0.03)**	0.27
Per common share – diluted *($)*	**(0.03)**	0.26

(1) Net income (loss) to common shareholders is calculated by adjusting net income (loss) by dividends paid on Series A Preferred Shares during the period.

Birchcliff recorded a net loss to common shareholders of $4.5 million in the first quarter of 2015, a decrease from net income to common shareholders of $38.5 million in the first quarter of 2014. The decrease from the comparative quarter was mainly attributable to lower funds flow.

PCS GAS PLANT NETBACKS

The following table details Birchcliff's net production and estimated operating netback for wells producing to the Corporation's 100% owned natural gas plant located in the Pouce Coupe South area (the "**PCS Gas Plant**"), on a production month basis:

Production Processed through the PCS Gas Plant

	Three months ended March 31, 2015		Three months ended March 31, 2014	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		153,633		120,316
Oil & NGLs *(bbls)*		1,284		923
Total boe *(6:1)*		**26,890**		20,975
Sales liquids yield (bbls/MMcf)		*8.4*		*7.7*
% of corporate natural gas production		*78%*		*76%*
% of corporate production		*70%*		*66%*
AECO – C daily *($/Mcf)*	**$2.75**		$5.71	
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue	3.21	19.24	6.51	39.08
Royalty expense	(0.15)	(0.91)	(0.53)	(3.19)
Operating expense	(0.39)	(2.32)	(0.43)	(2.61)
Transportation and marketing expense	(0.33)	(1.96)	(0.30)	(1.78)
Estimated operating netback	**$2.34**	**$14.05**	$5.25	$31.50
Operating margin	**73%**	**73%**	81%	81%

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

On May 11, 2015, the aggregate limit of Birchcliff's credit facilities was increased to $800 million from $750 million primarily as a result of the material increase in the Corporation's proved developed producing reserves at December 31, 2014.

In addition to the increase in the credit facilities limit, Birchcliff's bank syndicate also approved the consolidation of the Corporation's $750 million credit facilities comprised of a $620 million revolving term credit facility, a $70 million non-revolving five-year term credit facility and a $60 million non-revolving five-year term credit facility into a single $800 million three-year term extendible revolving credit facility with a maturity date of May 11, 2018. Concurrently, the financial covenants contained in the credit facilities which previously required the Corporation 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 equaled or exceeded 3.5:1.0, and the ratio of debt to EBITDA, determined on a historical rolling four quarter basis did not exceed 4.0:1.0, were removed.

Effective May 11, 2015, the $800 million extendible borrowing base revolving term credit facility is comprised of an extendible revolving syndicated term credit facility of $760 million and an extendible revolving working capital facility of $40 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, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made.

The increase and consolidation of the credit facilities along with the removal of the foregoing financial covenants provide Birchcliff with increased financial flexibility.

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 March 31, 2015				Three months ended March 31, 2014			
	Total Revenue *($000s)*	**Average Daily Production**	*(%)*	**Average** *($/unit)*	Total Revenue[1] *($000s)*	Average Daily Production	*(%)*	Average[1] *($/unit)*
Light oil *(bbls)*	17,232	4,017	10	47.66	34,826	3,977	13	97.30
Natural gas *(Mcf)*	52,485	195,935	85	2.98	87,004	158,456	83	6.10
Natural gas liquids *(bbls)*	7,288	1,743	5	46.45	11,692	1,362	4	95.35
Total P&NG sales *(boe)*	77,005	**38,416**	100	22.27	133,522	31,749	100	46.73
Royalty revenue	21			0.01	36			0.01
P&NG revenues	**77,026**			**22.28**	133,558			46.74

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

Production

The 21% increase in production from the Comparable Prior Period was largely due to incremental production added from new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant throughout 2014 and the Reporting Period, offset by natural production declines. The PCS Gas Plant processed approximately 78% of Birchcliff's total corporate natural gas production and 70% of total corporate production in the first quarter of 2015.

Production consisted of approximately 85% natural gas and 15% crude oil and natural gas liquids in the first quarter of 2015 as compared to 83% natural gas and 17% crude oil and natural gas liquids in the first quarter of 2014.

Commodity prices

Birchcliff sells its light crude oil on a spot basis and 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 March 31, 2015	**Three months ended March 31, 2014**
Average benchmark prices:		
Light oil – WTI Cushing *($USD/bbl)*	48.63	98.68
Light oil – Edmonton Par *($/bbl)*	49.74	99.73
Natural gas – AECO – C daily *($/MMbtu)*[1]	2.75	5.71
Exchange rate – *(USD$/CDN$)*	1.26	1.10
Birchcliff's average realized sales price[2]:		
Light oil *($/bbl)*	47.66	97.30
Natural gas *($/Mcf)*	2.98	6.10
NGLs *($/bbl)*	46.45	95.35
Barrels of oil equivalent *($/boe) (6:1)*	22.27	46.73

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

(2) 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 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.

In late 2014, the WTI oil spot price and AECO natural gas spot price were significantly reduced due to the supply/demand imbalance in North America which impacted reported revenues in the first quarter of 2015. The AECO natural gas spot price averaged $2.75 per Mcf for the Reporting Period, a 52% decrease from the Comparable Prior Period. The WTI oil price in the Reporting Period was 51% lower than the Comparable Prior Period.

Birchcliff's realized natural gas sales price at the wellhead averaged $2.98 per Mcf in the first quarter of 2015, an 8% premium from the posted benchmark prices for the period. Birchcliff receives premium pricing for its natural gas production due to its high heat content. The following table details Birchcliff's average realized sales price and heat content premium from its natural gas production during the Reporting Period:

	Three months ended March 31, 2015	Three months ended March 31, 2014
AECO – C daily *($/MMbtu)*(1)	2.75	5.71
Heat content premium	0.23	0.39
Average realized natural gas sales price *($/Mcf)*	**2.98**	6.10

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

Risk Management Contracts

Birchcliff had no risk management contracts in place as at May 13, 2015 or during the first quarter of 2015. During the Comparable Prior Period, the Corporation did have certain commodity price risk management contracts in place which expired on December 31, 2014. The Corporation actively monitors the market to determine whether any additional commodity price risk management contracts are warranted.

Royalties

The following table details the Corporation's royalty expense:

	Three months ended March 31, 2015	Three months ended March 31, 2014
Oil & natural gas royalties *($000s)*(1)	2,886	12,651
Oil & natural gas royalties *($/boe)*	0.83	4.43
Effective royalty rate *(%)*(2)	4%	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 Period was mainly due to significantly lower average oil and natural gas wellhead prices received for Birchcliff's production during the Reporting Period and the effect these lower prices have on the sliding scale royalty calculation.

Operating Costs

The following table provides a breakdown of operating costs:

	Three months ended March 31, 2015		Three months ended March 31, 2014	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*
Field operating costs	17,650	5.10	15,185	5.31
Recoveries	(342)	(0.09)	(277)	(0.09)
Field operating costs, net	17,308	5.01	14,908	5.22
Expensed workovers and other	361	0.10	(9)	(0.01)
Operating costs	**17,669**	**5.11**	14,899	5.21

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 Period 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. On a production month basis, operating costs averaged $2.32 per boe at the PCS Gas Plant during the first quarter of 2015, where Birchcliff processed 70% of its total corporate production.

Transportation and Marketing Expenses

Transportation and marketing expenses were $8.9 million ($2.59 per boe) for the Reporting Period compared to $7.1 million ($2.48 per boe) for the Comparable Prior Period. 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 Period as compared to the Comparable Prior Period.

Operating Netbacks

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

	Three months ended March 31, 2015	Three months ended March 31, 2014
Montney/Doig Natural Gas Resource Play[(1)]		
Average daily production, net:		
Natural gas *(Mcf)*	179,438	144,364
Oil & NGLs *(bbls)*	2,022	1,261
Total boe *(6:1)*	**31,928**	25,322
% of corporate production[(2)]	***83%***	*80%*
Netback and cost *($/boe):*		
Petroleum and natural gas revenue	19.78	39.54
Royalty expense	(0.40)	(3.06)
Operating expense, net of recoveries	(3.85)	(3.78)
Transportation and marketing expense	(2.01)	(1.86)
Operating netback	**13.52**	30.84
Worsley Charlie Lake Light Oil Resource Play[(1)]		
Average daily production, net:		
Natural gas *(Mcf)*	9,590	9,003
Oil & NGLs *(bbls)*	3,042	3,545
Total boe *(6:1)*	**4,640**	5,046
% of corporate production[(2)]	***12%***	*16%*
Netback and cost *($/boe):*		
Petroleum and natural gas revenue	36.53	79.50
Royalty expense	(3.02)	(10.05)
Operating expense, net of recoveries	(10.43)	(10.13)
Transportation and marketing expense	(6.32)	(5.84)
Operating netback	**16.76**	53.48
Total Corporate		
Average daily production, net:		
Natural gas *(Mcf)*	195,935	158,456
Oil & NGLs *(bbls)*	5,760	5,339
Total boe *(6:1)*	**38,416**	31,749
Netback and cost *($/boe)*		
Petroleum and natural gas revenue	22.28	46.74
Royalty expense	(0.83)	(4.43)
Operating expense, net of recoveries	(5.11)	(5.21)
Transportation and marketing expense	(2.59)	(2.48)
Operating netback	**13.75**	34.62

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

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

Montney/Doig Natural Gas Resource Play

Birchcliff's production from the Montney/Doig Natural Gas Resource Play was 31,928 boe per day in the Reporting Period, a 26% increase from the same period in 2014. 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.

Birchcliff's recoveries of liquids from its Montney/Doig natural gas production increased to 11.3 bbls per MMcf in the Reporting Period which is an increase of 30% from the Comparable Prior Period. Of the 11.3 bbls per MMcf of liquids produced in the Reporting Period, approximately 10.8 bbls per MMcf (96%) is oil and condensate (C5+). Any natural gas liquids not recovered from the raw natural gas stream increases the heating value of Birchcliff's sales gas and the resulting realized sales price.

Birchcliff's operating netback from the Montney/Doig Natural Gas Resource Play was $13.52 per boe ($2.25 per Mcfe) in the Reporting Period, a 56% decrease from the same period in 2014. This decrease was largely due to lower realized prices received for Birchcliff's natural gas and liquids production in the Reporting Period as compared to the Comparable Prior Period.

Worsley Charlie Lake Light Oil Resource Play

Birchcliff's production from the Worsley Charlie Lake Light Oil Resource Play was 4,640 boe per day in the Reporting Period, an 8% decrease from the Comparable Prior Period. The decrease in production from the Comparable Prior Period was largely due to natural production declines.

Operating netback from the Worsley Charlie Lake Light Oil Resource Play was $16.76 per boe in the Reporting Period, a 69% decrease from the Comparable Prior Period. The decrease from the Comparable Prior Period was largely due to lower realized oil prices received in the Reporting Period.

Administrative Expenses

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

	Three months ended March 31, 2015		**Three months ended March 31, 2014**	
	($000s)	*(%)*	*($000s)*	*(%)*
Cash:				
Salaries and benefits[1]	5,325	61	4,642	59
Other[2]	3,448	39	3,270	41
	8,773	100	7,912	100
Operating overhead recoveries	(62)	(1)	(62)	(1)
Capitalized overhead[3]	(2,838)	(32)	(2,445)	(31)
General & administrative, net	5,873	67	5,405	68
General & administrative, net per boe	$1.70		$1.89	
Non-cash:				
Stock-based compensation	2,000	100	2,164	100
Capitalized stock-based compensation[3]	(1,243)	(62)	(1,205)	(56)
Stock-based compensation, net	757	38	959	44
Stock-based compensation, net per boe	$0.22		$0.34	
Administrative expenses, net	**6,630**		6,364	
Administrative expenses, net per boe	**$1.92**		$2.23	

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

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

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

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

	Number	Exercise price ($)[1]
Outstanding, December 31, 2014	11,147,672	8.45
Granted	3,071,500	6.58
Exercised	(69,333)	(6.37)
Forfeited	(183,934)	(8.02)
Expired	(1,081,400)	(9.65)
Outstanding, March 31, 2015	**12,884,505**	**7.92**

(1) Determined on a weighted average basis.

At March 31, 2015, there were 2,939,732 performance warrants outstanding with an exercise price of $3.00 which expire on January 31, 2020. Each stock option and performance warrant entitles the holder to purchase one common share at the exercise price.

Depletion and Depreciation Expenses

Depletion and depreciation ("**D&D**") expenses were $38.8 million ($11.24 per boe) for the Reporting Period as compared to $32.0 million ($11.19 per boe) for the Comparable Prior Period. D&D expenses were higher on an aggregate basis mainly due to a 21% increase in production from the Comparable Prior Period.

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

Asset impairment assessment

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

The Corporation's 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 expectations that a material CGU (or a significant component thereof) is more likely than not to be sold or otherwise disposed of before the end of its previously estimated useful life; non-compliance with financial debt covenants; deterioration in the financial and operational performance of a CGU; net assets exceeding market capitalization; and significant downward revisions of estimated recoverable proved plus probable reserves of a CGU. If impairment indicators exist, an impairment test is performed by comparing a CGU's carrying value to its recoverable amount.

Birchcliff performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined there were no impairment triggers identified at the end of the Reporting Period. As a result, an impairment test was not required at March 31, 2015.

Finance Expenses

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

	Three months ended March 31, 2015		Three months ended March 31, 2014	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*
Cash:				
Interest on credit facilities	4,959	1.43	4,852	1.70
Non-cash:				
Accretion on decommissioning obligations	557	0.16	603	0.21
Amortization of deferred financing fees	221	0.06	259	0.09
Finance expenses	**5,737**	**1.65**	5,714	2.00

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 working capital facility was 4.1% at the end of the Reporting Period as compared to 4.8% at the end of the Comparable Prior Period. The effective interest rate applicable to the bankers' acceptances issued under the syndicated credit facility was 3.9% in the Reporting Period as compared to 4.1% in the Comparable Prior Period. The effective interest rate applicable to the bankers' acceptances issued under the non-revolving term credit facilities was 4.1% in the Reporting Period as compared to 4.7% in the Comparable Prior Period.

Birchcliff's average outstanding total credit facilities balance was approximately $504 million in the Reporting Period as compared to $447 million in the Comparable Prior Period, calculated as the simple average of the month end amounts.

Gain on Sale of Assets

During the Reporting Period, Birchcliff completed transactions whereby it disposed of minor assets in the Gold Creek and Sturgeon Lake areas of Alberta in exchange for cash. As a result of these dispositions, Birchcliff recorded a gain on sale of assets of approximately $0.7 million ($0.5 million, net of tax) or $0.19 per boe in the Reporting Period.

The sale of assets in the Gold Creek and Sturgeon Lake areas are not significant to the Corporation's financial results and operational performance and, as such, are considered minor assets to Birchcliff.

Income Taxes

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

($000s)	Three months ended March 31, 2015	Three months ended March 31, 2014
Deferred income tax expense (recovery)	(1,150)	13,294
Dividend tax expense on preferred shares	750	750
Income tax expense (recovery)	**(400)**	14,044
Income tax expense (recovery) per boe	**$(0.11)**	$4.92

The Corporation recorded an income tax recovery of $0.4 million for the Reporting Period as compared to an expense of $14.0 million for the Comparable Prior Period. The realized income tax recovery was largely due to the net loss recorded during the Reporting Period mainly resulting from lower commodity prices.

The Corporation's estimated income tax pools were $1.5 billion at March 31, 2015. 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:

($000s)	**Tax pools as at March 31, 2015**
Canadian oil and gas property expense	252,208
Canadian development expense	402,780
Canadian exploration expense	274,654
Undepreciated capital costs	256,461
Non-capital losses	272,775
Financing costs	3,143
Estimated income tax pools	**1,462,021**

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 includes 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 March 31, 2015. 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 March 31, 2015.

CAPITAL EXPENDITURES

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

($000s)	**Three months ended March 31, 2015**	**Three months ended March 31, 2014**
Land	571	9,064
Seismic	2,900	5,384
Workovers	2,332	2,952
Drilling and completions	61,169	66,942
Well equipment and facilities	32,084	20,230
Finding and development capital	99,056	104,572
Acquisitions	-	56,553
Dispositions	(660)	-
Finding, development and acquisition capital	98,396	161,125
Administrative assets	143	278
Capital expenditures, net	**98,539**	161,403

Birchcliff drilled 12 (11.5 net) wells in the first quarter of 2015, consisting of 9 (9.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area, 1 (1.0 net) Montney/Doig horizontal natural gas well in the Elmworth area, 1 (0.5 net) Halfway horizontal light oil well in the Progress area and a 100% working interest Belloy vertical well drilled as a potential acid gas injection well in the Elmworth area.

CAPITAL RESOURCES AND LIQUIDITY

In response to the current low commodity price environment, the Corporation initiated proactive measures in 2015 with a view to ensuring financial flexibility and long-term sustainability in a low commodity price environment including establishing a capital budget of $266.7 million well below the Corporation's original expectation for 2015 and negotiating reductions in various service costs.

Effective May 11, 2015, Birchcliff's credit facilities were consolidated and increased into a single $800 million extendible revolving term credit facility with a maturity date of May 11, 2018 from credit facilities previously in the aggregate amount of $750 million. The $800 million extendible revolving term credit facility is no longer subject to the quarterly financial covenants review (interest coverage & debt to EBITDA), which further improves Birchcliff's financial flexibility.

The Corporation expects to fund its 2015 capital program primarily using internally generated funds flow and available credit facilities. Birchcliff will adjust its 2015 capital budget to respond to changes in commodity prices and other material changes in the assumptions underlying its 2015 budget. The Corporation believes that its internally generated funds flow, supplemented by its increased available credit facilities, will provide sufficient liquidity to sustain its operations, its dividends on preferred shares and its planned capital expenditures in the short and long-term.

Capital Resources

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

($000s)	**Three months ended March 31, 2015**	**Three months ended March 31, 2014**
Funds flow from operations	36,720	88,369
Changes in non-cash working capital from operations	2,587	(14,251)
Decommissioning expenditures	(280)	(808)
Exercise of stock options	442	5,966
Dividends paid on preferred shares	(1,875)	(1,875)
Net change in non-revolving term credit facilities	30	(317)
Net change in revolving term credit facilities	67,363	59,941
Changes in non-cash working capital from investing	(6,448)	24,378
Capital resources	**98,539**	161,403

Working Capital

The Corporation's adjusted working capital deficit decreased to $73.6 million at March 31, 2015 from $76.7 million at December 31, 2014. The deficit at the end of the Reporting Period is largely comprised of costs incurred from the drilling and completion of new Montney/Doig wells and the Phase V expansion of the PCS Gas Plant to a processing capacity of 260 MMcf per day.

At March 31, 2015, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of March 2015 production (74%), which was subsequently received in April 2015. In contrast, current liabilities largely consisted of trade and joint venture payables (83%) and accrued capital and operating costs (16%). 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 amounts 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 Period.

Bank Debt

Total debt, including adjusted working capital deficit, was $610.2 million at March 31, 2015 as compared to $545.7 million at December 31, 2014. Total debt from the end of 2014 increased by $64.5 million, largely due to capital spent in excess of funds flow.

A significant portion of the funds drawn under Birchcliff's bank credit facilities in the Reporting Period was to pay costs relating to the drilling and completion of new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant, the Phase V expansion of the PCS Gas Plant and on the exploration and development of the Montney/Doig Resource Natural Gas Play and the Worsley Charlie Lake Light Oil Resource Play.

Birchcliff's available bank credit facilities limit aggregate to approximately $750 million at March 31, 2015, leaving $210 million (28%) of the Corporation's credit facilities unutilized for substantial financial flexibility.

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

As at, *($000s)*	**March 31, 2015**	**December 31, 2014**
Maximum borrowing base limit[1][2]:		
Non-revolving term credit facilities	130,000	130,000
Revolving term credit facilities	620,000	620,000
	750,000	750,000
Principal amount utilized:		
Drawn non-revolving term credit facilities[3]	(130,000)	(130,000)
Drawn revolving term credit facilities[3]	(410,037)	(342,433)
Outstanding letters of credit[4]	(184)	(184)
	(540,221)	(472,617)
Unused credit	**209,779**	277,383
% unused credit	**28%**	37%

(1) The Corporation's credit facilities are subject to an annual review of the borrowing base limit, which is directly impacted by the value of Birchcliff's petroleum and natural gas reserves. Effective May 11, 2015, Birchcliff's bank credit facilities were consolidated and increased into a single $800 million extendible revolving term credit facility from credit facilities previously in the aggregate amount of $750 million.

(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.

As at March 31, 2015, 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 March 31, 2015, Birchcliff's EBITDA to interest expense was 9.9:1.0 and debt to EBITDA was 2.0:1.0. The Corporation was compliant with all financial covenants under its credit facilities as at March 31, 2015 and December 31, 2014.

(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 March 31, 2015 and December 31, 2014.

Contractual Obligations

The Corporation enters into contractual obligations in the ordinary course of conducting its day-to-day business. The following table lists Birchcliff's estimated material contractual obligations at March 31, 2015:

($000s)	2015	2016	2017 - 2019	Thereafter
Accounts payable and accrued liabilities	108,614	-	-	-
Drawn non-revolving term credit facilities(1)	-	70,000	60,000	-
Drawn revolving term credit facilities(1)	-	-	410,037	-
Office lease(2)	2,714	3,619	3,318	-
Purchase obligations(3)	15,149	16,000	-	-
Transportation and processing	15,094	21,011	58,231	70,729
Estimated contractual obligations(4)	**141,571**	**110,630**	**531,586**	**70,729**

(1) Effective May 11, 2015, Birchcliff's aggregate credit facilities were consolidated into a single $800 million extendible revolving term credit facility from credit facilities previously in the aggregate amount of $750 million. The Corporation's $800 million extendible revolving term credit facility has a maturity date of May 11, 2018.

(2) 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.

(3) As of March 31, 2015, the Corporation is committed to spend approximately $31.1 million in 2015 and 2016 under a purchasing agreement relating to the construction of Phase V of the PCS Gas Plant.

(4) Contractual commitments that are routine in nature and form part of the normal course of operations for Birchcliff are not included. The Corporation's decommissioning obligations are excluded from the table as these obligations arose from a regulatory requirement rather than from a contractual arrangement. Birchcliff estimates the total undiscounted cash flow to settle its decommissioning obligations on its wells and facilities at March 31, 2015 to be approximately $157.8 million and will be incurred as follows: 2016 - $4.8 million, 2017-$2.4 million and $150.6 million thereafter. The estimate for determining the undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

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

OFF-BALANCE SHEET TRANSACTIONS

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

OUTSTANDING SHARE INFORMATION

At March 31, 2015, 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, 2014	152,214,206
Exercise of options	69,333
Balance at March 31, 2015	**152,283,539**

As of May 13, 2015, the Corporation had outstanding: 152,290,039 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 12,889,072 stock options to purchase an equivalent number of common shares; and 2,939,732 performance warrants to purchase an equivalent number of common shares.

On March 5, 2015, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A Preferred Share and $0.875 million or $0.4375 per Series C Preferred Share for the calendar quarter ending March 31, 2015. Both dividends are designated as an eligible dividend for purposes of the *Income Tax Act* (Canada).

SUMMARY OF QUARTERLY RESULTS

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

Quarter ending,	**Mar. 31, 2015**	**Dec. 31, 2014**	**Sep. 30, 2014**	**Jun. 30, 2014**	**Mar. 31 2014**	**Dec. 31, 2013**	**Sep. 30, 2013**	**Jun. 30, 2013**
Average daily production *(boe 6:1)*	**38,416**	37,704	34,235	31,178	31,749	28,391	24,662	24,141
Realized natural gas price *($/Mcf)*	**2.98**	3.91	4.37	4.81	6.10	3.81	2.60	3.78
Realized oil price *($/bbl)*[(1)]	**47.66**	71.87	95.94	104.72	97.30	81.52	102.82	91.19
Total revenues *($000s)*[(1)]	**77,026**	105,598	116,424	117,308	133,558	89,092	72,762	79,065
Operating costs *($/boe)*	**5.11**	5.33	5.06	5.25	5.21	5.44	5.66	5.89
Capital expenditures, net *($000s)*	**98,539**	109,682	104,363	75,484	161,403	18,188	76,186	40,386
Funds flow from operations *($000s)*	**36,720**	61,717	75,030	75,382	88,369	50,060	43,053	41,804
Per common share – basic *($)*	**0.24**	0.41	0.50	0.52	0.61	0.35	0.30	0.29
Per common share – diluted *($)*	**0.24**	0.40	0.48	0.49	0.60	0.34	0.30	0.29
Net income (loss) *($000s)*	**(3,479)**	17,053	29,665	28,087	39,499	37,062	10,156	10,775
Net income (loss) to common shareholders *($000s)*[(2)]	**(4,479)**	16,053	28,665	27,087	38,499	36,062	9,156	9,775
Per common share – basic *($)*	**(0.03)**	0.11	0.19	0.19	0.27	0.25	0.06	0.07
Per common share – diluted *($)*	**(0.03)**	0.10	0.19	0.18	0.26	0.25	0.06	0.07
Total assets *($ million)*	**1,983**	1,919	1,846	1,771	1,730	1,587	1,558	1,514
Long-term bank debt *($000s)*	**536,570**	469,033	435,545	452,183	453,772	393,967	444,719	409,091
Total debt *($000s)*	**610,170**	545,745	495,307	514,637	524,720	454,038	487,707	453,123
Dividends on pref. shares - Series A *($000s)*	**1,000**	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Dividends on pref. shares - Series C *($000s)*	**875**	875	875	875	875	875	1,038	-
Pref. shares outstanding - Series A *(000s)*	**2,000**	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Pref. shares outstanding - Series C *(000s)*	**2,000**	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Common shares outstanding *(000s)*								
Basic	**152,284**	152,214	152,154	145,912	144,504	143,677	142,752	142,390
Diluted	**168,108**	166,302	166,190	166,285	166,085	163,548	163,396	164,110
Wtd. average common shares outstanding *(000s)*								
Basic	**152,243**	152,183	149,594	145,145	144,026	143,063	142,549	142,240
Diluted	**154,215**	155,304	154,800	152,623	147,090	145,319	145,087	145,165

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

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

Over the past eight quarters, the Corporation's successful drilling program along with fluctuations in commodity prices have contributed to the fluctuations in oil and gas revenues and funds flow from operations. Net income has fluctuated due to changes in funds flow from operations. In addition, average daily production volumes have generally increased over the past eight quarters, which production growth can be attributed primarily to the Corporation's exploration and development activities.

Production was higher compared to the fourth quarter of 2014 and the first quarter of 2014 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 during 2014 and into the Reporting Period, offset by natural production declines.

Compared to the fourth quarter of 2014 funds flow decreased largely due to a decrease in realized oil and natural gas wellhead prices, offset by lower royalty, operating and general and administrative costs in the first quarter of 2015.

Funds flow, when compared to the first quarter of 2014, decreased largely due to lower realized oil and natural gas wellhead prices, offset by an increase in natural gas production and lower royalty costs in the first quarter of 2015.

Birchcliff had a net loss to common shareholders of $4.5 million in the first quarter of 2015, a decrease from net income to common shareholders of $16.1 million recorded in the fourth quarter of 2014 and $38.5 million recorded in the first quarter of 2014. The decrease from the fourth quarter of 2014 and first quarter of 2014 was largely driven by lower funds flow (attributed to the decrease in oil and natural gas spot prices).

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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

There were no changes in the Corporation's internal controls over financial reporting ("**ICFR**") that occurred during the period beginning on January 1, 2015 and ended on March 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies; reported amounts of assets and liabilities; and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The Corporation's use of estimates, judgments and assumptions in preparing the interim condensed financial statements for the Reporting Period is discussed in note 3 of the annual audited financial statements for the year ended December 31, 2014.

RISK FACTORS AND RISK MANAGEMENT

The Corporation's financial and operational performance is potentially affected by a number of factors, including, but not limited to, financial risks, risks relating to economic conditions, business and operational risks, environmental and regulatory risks, and other risks. A more detailed discussion of the risk factors affecting the Corporation is presented in the Risk Factors section of the Corporation's Annual Management's Discussion and Analysis and Annual Information Form for the year ended December 31, 2014.

NON-GAAP MEASURES

This MD&A uses "funds flow", "funds flow from operations", "funds flow per common share", "netback", "operating netback", "estimated operating netback", "operating margin", "adjusted working capital deficit" and "total debt" which do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Management utilizes funds flow, funds flow from operations, funds flow per common share, netback, operating netback, estimated operating netback and operating margin as key measures to assess the Corporation's efficiency and its ability to generate the cash necessary to fund future growth through capital investments, pay dividends on preferred shares and repay debt. Management uses adjusted working capital deficit and total debt as key measures to assess the liquidity of the Corporation.

"Funds flow" and "funds flow from operations" denote cash flow from operating activities before the effects of decommissioning expenditures and changes in non-cash working capital. "Funds flow per common share" denotes funds flow divided by the basic or diluted weighted average number of common shares outstanding for the period. The following table sets out the reconciliation of cash flow from operating activities, as determined in accordance with IFRS, to funds flow from operations:

($000s)	**Three months ended March 31, 2015**	**Three months ended March 31, 2014**
Cash flow from operating activities	39,027	73,310
Adjustments:		
Decommissioning expenditures	280	808
Changes in non-cash working capital	(2,587)	14,251
Funds flow from operations	**36,720**	88,369

"Netback" and "operating netback" denote petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. "Estimated operating netback" of the PCS Gas Plant (and the components thereof) is based upon certain cost allocations and accruals directly related to the PCS Gas Plant and related wells and infrastructure on a production month basis.

"Operating margin" for the PCS Gas Plant is calculated by dividing the estimated operating netback for the period by the petroleum and natural gas revenue for the period.

"Adjusted working capital deficit" is calculated as current assets minus current liabilities excluding the effects of financial instruments. The following table reconciles current assets minus current liabilities to adjusted working capital deficit.

As at, *($000s)*	**March 31, 2015**	**December 31, 2014**	**March 31, 2014**
Working capital deficit	73,600	76,712	71,477
Fair value of financial instruments	-	-	415
Deferred premium on financial instruments	-	-	(944)
Adjusted working capital deficit	**73,600**	76,712	70,948

"Total debt" is calculated as the revolving term credit facilities plus non-revolving term credit facilities as they appear on the Corporation's statements of financial position plus adjusted working capital deficit. The following table reconciles the non-revolving term credit facilities plus the revolving term credit facilities to total debt.

As at, *($000s)*	March 31, 2015	December 31, 2014	March 31, 2014
Non-revolving term credit facilities	129,564	129,476	126,884
Revolving term credit facilities	407,006	339,557	326,888
Long-term bank debt	536,570	469,033	453,772
Adjusted working capital deficit	73,600	76,712	70,948
Total debt	**610,170**	545,745	524,720

ADVISORIES

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

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

Mcfe Conversions*: Thousands of cubic feet of gas equivalent ("****Mcfe****") amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. 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.*

Operating Costs*: References in this MD&A to "operating costs" excludes transportation and marketing costs.*

Forward-Looking Information*: This MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking information relates to future events or future performance and is based upon 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 contains forward-looking information relating to: the Corporation's plans and other aspects of its anticipated future operations, management focus, strategies and priorities; Birchcliff's estimates of average annual production for 2015 and its average annual production growth; the flexibility and sustainability of the Corporation; the Corporation's liquidity and the Corporation's belief that the Corporation's internally generated funds flow, supplemented by its credit facilities, will provide sufficient liquidity in the short and long-term; the proposed expansion of the PCS Gas Plant and the anticipated processing capacity of the PCS Gas Plant after such expansion; the Corporation's 2015 capital budget including the anticipated sources of funding for the Corporation's 2015 capital budget; the Corporation's expectation that it will adjust its capital expenditure program to respond to changes in commodity prices and other material changes in the assumptions underlying its 2015 budget; the Corporation's expectation that counterparties will be able to meet their financial obligations to Birchcliff; estimates of contractual and decommissioning obligations; the Corporation's future taxable income and *tax pools; and management's expectation that the Corporation will be successful in defending its tax position respecting the Veracel transaction.*

The forward-looking information contained in this MD&A is based upon certain expectations and assumptions including: prevailing and future commodity prices, currency exchange rates, interest rates, inflation rates and applicable royalty rates and tax laws; the state of the economy and the exploration and production business; reserves and resource volumes; anticipated timing and results of capital expenditures; the sufficiency of budgeted capital expenditures to carry out planned operations; results of operations; operating and general and administrative costs; the performance of existing and future wells, well production rates and well decline rates; well drainage areas; success rates for future drilling; abandonment costs and timing of decommissioning obligations; the impact of competition; the availability and demand for labour, services and materials; the Corporation's ability to access capital; and the Corporation's ability to market oil and gas. In addition, the Corporation has made the following key assumptions with respect to certain forward-looking information contained in this MD&A:

- *With respect to estimates as to the Corporation's average annual production for 2015 and annual production growth, the key assumptions are that: no unexpected outages occur in the infrastructure that the Corporation relies on to produce its wells; the construction of new infrastructure meets timing expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations.*
- *With respect to statements regarding the Corporation's liquidity and sources of funding for the Corporation's capital budget, the key assumption is that Corporation's forecasts of production, commodity prices and funds flow are valid.*
- *With respect to statements regarding Birchcliff's 2015 capital budget, the key assumption is that Birchcliff realizes the average annual production target of 38,000 to 40,000 boe/d and the commodity prices upon which Birchcliff's 2015 capital budget is based, being a forecast average WTI price of US$60.00 per barrel of oil and an AECO price of CDN$3.00 per GJ of natural gas during 2015. Birchcliff will adjust its 2015 capital budget to respond to changes in commodity prices and other material changes in the assumptions underlying its 2015 budget.*
- *With respect to statements regarding the proposed expansion of the PCS Gas Plant and the anticipated processing capacity of the PCS Gas Plant after such expansion, the key assumptions are that: future drilling is successful; there is sufficient labour, services and equipment available; the Corporation will have access to sufficient capital to fund those projects; and commodity prices warrant proceeding with the construction of such facility and the drilling of associated wells.*
- *With respect to statements regarding management's expectation that the Corporation will be successful in defending its tax position respecting the Veracel transaction, the key assumption is the validity of the Corporation's interpretation of how the Income Tax Act (Canada) applies to the Veracel transaction.*

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

Forward-looking information necessarily involves both known and unknown risks and uncertainties that could cause actual results to differ materially from those anticipated including, but not limited to: 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, commodity price fluctuations, changes in governmental regulation of the oil and gas industry, competition from others for scarce resources and the other factors set forth under the heading "Risk Factors and Risk Management" in this MD&A.

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 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.

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

Birchcliff Energy Ltd.
Condensed Statements of Financial Position

Unaudited (Expressed in thousands of Canadian dollars)

As at,	**March 31, 2015**	**December 31, 2014**
ASSETS		
Current assets:		
Cash	**54**	54
Accounts receivable	**33,553**	34,931
Prepaid expenses and deposits	**1,407**	1,612
	35,014	36,597
Non-current assets:		
Exploration and evaluation *(Note 3)*	**953**	2,235
Petroleum and natural gas properties and equipment *(Note 4)*	**1,947,282**	1,879,848
	1,948,235	1,882,083
Total assets	**1,983,249**	1,918,680
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	**108,614**	113,309
	108,614	113,309
Non-current liabilities:		
Non-revolving term credit facilities *(Note 5)*	**129,564**	129,476
Revolving term credit facilities *(Note 6)*	**407,006**	339,557
Decommissioning obligations *(Note 7)*	**90,660**	85,824
Deferred income taxes	**94,791**	95,941
Capital securities	**48,374**	48,296
	770,395	699,094
Total liabilities	**879,009**	812,403
SHAREHOLDERS' EQUITY		
Share capital *(Note 8)*		
Common shares	**783,270**	782,671
Preferred shares *(perpetual)*	**41,434**	41,434
Contributed surplus	**54,961**	53,118
Retained earnings	**224,575**	229,054
	1,104,240	1,106,277
Total shareholders' equity and liabilities	**1,983,249**	1,918,680

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 (loss) and Comprehensive Income (Loss)

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

Three months ended,	March 31, 2015	March 31, 2014
REVENUE		
Petroleum and natural gas sales	77,026	133,558
Royalties	(2,886)	(12,651)
Net revenue from oil and natural gas sales	74,140	120,907
Realized loss on financial instruments	-	(309)
Unrealized loss on financial instruments	-	(151)
	74,140	120,447
EXPENSES		
Operating	17,669	14,899
Transportation and marketing	8,919	7,073
Administrative, net	6,630	6,364
Depletion and depreciation *(Note 3 and 4)*	38,845	31,979
Finance	5,737	5,714
Dividends on capital securities	875	875
(Gain) on sale of assets	(656)	-
	78,019	66,904
INCOME (LOSS) BEFORE TAXES	(3,879)	53,543
Income tax expense (recovery)	(400)	14,044
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	(3,479)	39,499
Net income (loss) per common share *(Note 8)*		
Basic	$(0.03)	$0.27
Diluted	$(0.03)	$0.26

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, 2013	694,183	41,434	60,119	118,750	914,486
Dividends on perpetual preferred shares	-	-	-	(1,000)	(1,000)
Exercise of stock options	8,749	-	(2,783)	-	5,966
Stock-based compensation	-	-	2,164	-	2,164
Net income and comprehensive income	-	-	-	39,499	39,499
As at March 31, 2014	702,932	41,434	59,500	157,249	961,115
As at December 31, 2014	782,671	41,434	53,118	229,054	1,106,277
Dividends on perpetual preferred shares *(Note 8)*	-	-	-	(1,000)	(1,000)
Exercise of stock options *(Notes 8 and 9)*	599	-	(157)	-	442
Stock-based compensation *(Note 9)*	-	-	2,000	-	2,000
Net loss and comprehensive loss	-	-	-	(3,479)	(3,479)
As at March 31, 2015	**783,270**	**41,434**	**54,961**	**224,575**	**1,104,240**

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

Birchcliff Energy Ltd.
Condensed Statements of Cash Flows

Unaudited (Expressed in thousands of Canadian dollars)

Three months ended,	March 31, 2015	March 31, 2014
Cash provided by (used in):		
OPERATING		
Net income (loss) and comprehensive income (loss)	(3,479)	39,499
Adjustments for items not affecting operating cash:		
Unrealized loss on financial instruments	-	151
Depletion and depreciation	38,845	31,979
Stock-based compensation	757	959
Finance	5,737	5,714
(Gain) on sale of assets	(656)	-
Income tax expense (recovery)	(400)	14,044
Interest paid	(4,959)	(4,852)
Dividends on capital securities	875	875
Decommissioning expenditures *(Note 7)*	(280)	(808)
Changes in non-cash working capital	2,587	(14,251)
	39,027	73,310
FINANCING		
Exercise of stock options	442	5,966
Dividends on perpetual preferred shares *(Note 8)*	(1,000)	(1,000)
Dividends on capital securities *(Note 8)*	(875)	(875)
Net change in non-revolving term credit facilities	30	(317)
Net change in revolving term credit facilities	67,363	59,941
	65,960	63,715
INVESTING		
Petroleum and natural gas properties and equipment	(99,194)	(104,786)
Exploration and evaluation assets	(5)	(64)
Acquisition of petroleum and natural gas properties	-	(56,553)
Sale of petroleum and natural gas properties and equipment	600	-
Sale of exploration and evaluation assets	60	-
Changes in non-cash working capital	(6,448)	24,378
	(104,987)	(137,025)
NET CHANGE IN CASH	-	-
CASH, BEGINNING OF PERIOD	54	96
CASH, END OF PERIOD	54	96

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

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.

These financial statements were approved and authorized for issuance by the Board of Directors on May 13, 2015.

2. BASIS OF PREPARATION

These unaudited interim condensed financial statements present Birchcliff's financial results of operations and financial position under International Financial Reporting Standards ("**IFRS**") as at and for the three months ended March 31, 2015, including the 2014 comparative period. The financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**").

These financial statements have been prepared following the same IFRS accounting policies and methods of computation as disclosed in the annual audited financial statements for the year ended December 31, 2014. 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, 2014.

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

3. EXPLORATION AND EVALUATION ASSETS

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

($000s)	**E&E**(1)
As at December 31, 2013	2,264
Additions	102
Disposals	(131)
As at December 31, 2014	2,235
Additions	5
Disposals	(1)
Lease Expiries(2)	(1,286)
As at March 31, 2015	**953**

(1) E&E assets consist of the Corporation's exploration activities which are pending the determination of economic quantities of commercially producible proven reserves. Additions represent the Corporation's net share of costs incurred on E&E activities during the period. A review of each exploration project by area is carried out at each reporting date to ascertain whether economical quantities of proven

reserves have been discovered and whether such costs should be transferred to depletable petroleum and natural gas components. There were no exploration costs reclassified from the E&E category to petroleum and natural gas properties and equipment category during the three months ended March 31, 2015.

(2) During the three months ended March 31, 2015, the Corporation incurred an expense of $1.3 million related to lease expiries on undeveloped land that has been included in depletion and depreciation expense.

4. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

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

($000s)	P&NG Assets	Corporate Assets	Total
Cost:			
As at December 31, 2013	1,855,992	8,802	1,864,794
Additions	411,579	1,418	412,997
Acquisitions	58,465	-	58,465
Dispositions	(535)	-	(535)
As at December 31, 2014	2,325,501	10,220	2,335,721
Additions	104,861	135	104,996
Dispositions	(3)	-	(3)
As at March 31, 2015(1)	2,430,359	10,355	2,440,714
Accumulated depletion and depreciation:			
As at December 31, 2013	(314,325)	(5,284)	(319,609)
Depletion and depreciation expense	(135,098)	(1,180)	(136,278)
Dispositions	14	-	14
As at December 31, 2014	(449,409)	(6,464)	(455,873)
Depletion and depreciation expense	(37,265)	(294)	(37,559)
As at March 31, 2015	(486,674)	(6,758)	(493,432)
Net book value:			
As at December 31, 2014	1,876,092	3,756	1,879,848
As at March 31, 2015(2)	**1,943,685**	**3,597**	**1,947,282**

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

(2) Birchcliff performed an impairment assessment of its P&NG assets on a CGU basis and determined there were no impairment triggers identified at the end of the reporting period. As a result, no impairment test was required at March 31, 2015.

5. NON-REVOLVING TERM CREDIT FACILITIES

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

As at, *($000s)*	**March 31, 2015**	**December 31, 2014**
$70 million non-revolving five-year term credit facility (due May 2016)	70,000	70,000
$60 million non-revolving five-year term credit facility (due May 2018)	60,000	60,000
Drawn non-revolving term credit facilities	130,000	130,000
Unamortized prepaid interest on bankers' acceptances	-	(30)
Unamortized deferred financing fees	(436)	(494)
Non-revolving term credit facilities(1)	**129,564**	129,476

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

6. REVOLVING TERM CREDIT FACILITIES

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

As at, *($000s)*	**March 31, 2015**	**December 31, 2014**
Syndicated credit facility[1]	387,000	319,000
Working capital facility[1]	23,037	23,433
Drawn revolving term credit facilities	410,037	342,433
Unamortized prepaid interest on bankers' acceptances	(2,325)	(2,084)
Unamortized deferred financing fees	(706)	(792)
Revolving term credit facilities[2]	**407,006**	339,557

(1) As at March 31, 2015, the revolving term credit facilities consisted of a syndicated credit facility with an authorized limit of $580 million and a working capital facility with an authorized limit of $40 million.

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

7. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is provided below:

As at, *($000s)*	**March 31, 2015**	**December 31, 2014**
Balance, beginning	85,824	73,433
Obligations incurred	882	5,751
Obligations acquired	-	1,788
Changes in estimated future cash flows[1]	3,677	4,091
Accretion expense	557	2,424
Actual expenditures	(280)	(1,663)
Balance, ending	**90,660**	85,824

(1) The increase in estimated future cash flows during the three months ended March 31, 2015 was due to a decrease in the risk-free rate. As at March 31, 2015, Birchcliff applied a risk-free rate of 2.1% to calculate the discounted fair value of decommissioning liabilities (December 31, 2014 – 2.4%).

8. CAPITAL STOCK

Share Capital

(a) Authorized:

Unlimited number of voting common shares, with no par value

Unlimited number of preferred shares, with no par value

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

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

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

	March 31, 2015	**December 31, 2014**
Common Shares:		
Outstanding at beginning of period - Jan 1	152,214,206	143,676,661
Exercise of stock options	69,333	2,550,846
Exercise of preferred warrants	-	5,986,699
Outstanding at end of period	**152,283,539**	152,214,206
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 Corporation has outstanding 2,000,000 Series C Preferred Shares at March 31, 2015 (December 31, 2014 - 2,000,000).

Dividends

On March 5, 2015, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A Preferred Share and $0.875 million or $0.4375 per Series C Preferred Share for the calendar quarter ending March 31, 2015. Both dividends are designated as an eligible dividend for purposes of the *Income Tax Act* (Canada).

Per Common Share

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

Three months ended,	**March 31, 2015**	**March 31, 2014**
Net income (loss) and comprehensive income (loss) *($000s)*	(3,479)	39,499
Dividends on Series A Preferred Shares *($000s)*	(1,000)	(1,000)
Net income (loss) to common shareholders *($000s)*	(4,479)	38,499
Weighted average common shares *(000s)*:		
Weighted average basic common shares outstanding	152,243	144,026
Effects of dilutive securities	-	3,064
Weighted average diluted common shares outstanding(1)	152,243	147,090
Net income (loss) per common share *($/share)*		
Basic	**$(0.03)**	$0.27
Diluted	**$(0.03)**	$0.26

(1) As the Corporation reported a loss for the three months ended March 31, 2015 the basic and diluted weighted average shares outstanding are the same for the period. The weighted average diluted common shares outstanding at March 31, 2014 excludes 7,472,968 stock options that were anti-dilutive.

9. SHARE-BASED PAYMENTS

Stock Options

At March 31, 2015, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of a maximum of 15,228,354 (March 31, 2014 – 14,450,378) common shares. At March 31, 2015, there remained available for issuance options in respect of 2,343,849 (March 31, 2014 – 1,808,542) common shares. For stock options exercised during the three months ended March 31, 2015, the weighted average share trading price was $7.01 (March 31, 2014 – $9.29) per common share.

A summary of the outstanding stock options is presented below:

	Number	**Weighted Average Exercise Price** *($)*
Outstanding, December 31, 2014	11,147,672	8.45
Granted	3,071,500	6.58
Exercised	(69,333)	(6.37)
Forfeited	(183,934)	(8.02)
Expired	(1,081,400)	(9.65)
Outstanding, March 31, 2015	**12,884,505**	**7.92**

The weighted average fair value per option granted during the three months ended March 31, 2015 was $2.12 (March 31, 2014 – $2.80). In determining the stock-based compensation expense for options issued during the three months ended March 31, 2015, the Corporation applied a weighted average estimated forfeiture rate of 13% (March 31, 2014 – 14%). The weighted average assumptions used in calculating the Black-Scholes fair values are set forth below:

Three months ended,	March 31, 2015	March 31, 2014
Risk-free interest rate	0.7%	1.4%
Expected life *(years)*	4.0	3.9
Expected volatility	40.8%	39.6%

A summary of the stock options outstanding and exercisable under the plan at March 31, 2015 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	2,175,235	2.07	$5.96	1,382,222	2.07	$5.96
$6.01	$9.00	8,412,070	3.90	$7.50	2,344,427	3.20	$7.83
$9.01	$12.00	2,036,200	1.23	$11.11	1,799,533	0.83	$11.22
$12.01	$14.56	261,000	2.91	$13.07	112,000	1.15	$12.80
		12,884,505	**3.15**	**$7.92**	**5,638,182**	**2.13**	**$8.55**

Performance Warrants

Performance warrants were issued on January 14, 2005 as part of the Corporation's initial restructuring to become a public entity. Birchcliff issued 4,049,665 performance warrants with an exercise price of $3.00 with an amended expiration date of January 31, 2020. There are 2,939,732 performance warrants outstanding and exercisable at March 31, 2015 (March 31, 2014 – 2,939,732).

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

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 March 31, 2015.

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

As at, *($000s)*	**March 31, 2015**	**December 31, 2014**
Maximum borrowing base limit[(1)(2)]:		
Non-revolving term credit facilities	130,000	130,000
Revolving term credit facilities	620,000	620,000
	750,000	750,000
Principal amount utilized:		
Drawn non-revolving term credit facilities	(130,000)	(130,000)
Drawn revolving term credit facilities	(410,037)	(342,433)
Outstanding letters of credit[(3)]	(184)	(184)
	(540,221)	(472,617)
Unused credit[(2)]	**209,779**	**277,383**

(1) The Corporation's credit facilities are subject to an 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 March 31, 2015, Birchcliff's EBITDA to interest expense was 9.9:1.0 and debt to EBITDA was 2.0:1.0. The Corporation was compliant with all financial covenants under its credit facilities as at March 31, 2015.

(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 March 31, 2015.

The capital structure of the Corporation is as follows:

As at, *($000s)*	**March 31, 2015**	**December 31, 2014**	**Change**
Shareholders' equity[(1)]	1,104,240	1,106,277	
Capital securities	48,374	48,296	
Shareholders' equity & capital securities	1,152,614	1,154,573	0%
Shareholders' equity & capital securities as a % of total capital[(2)]	65%	68%	
Working capital deficit	73,600	76,712	
Drawn non-revolving term credit facilities	130,000	130,000	
Drawn revolving term credit facilities	410,037	342,433	
Drawn debt	613,637	549,145	12%
Drawn debt as a % of total capital	35%	32%	
Capital	**1,766,251**	1,703,718	4%

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

(2) Of the 65%, approximately 60% relates to common capital stock and 5% relates to preferred capital stock.

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. Birchcliff's exposure to credit risk, liquidity risk and market risk are consistent with those disclosed in the annual audited financial statements for the year ended December 31, 2014.

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

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 includes 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 March 31, 2015. 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 March 31, 2015.

Non-GAAP Measures

This First Quarter Report uses "funds flow", "funds flow from operations", "funds flow per common share", "netback", "operating netback", "estimated operating netback", "operating margin", "adjusted working capital deficit" and "total debt" which do not have standardized meanings prescribed by generally accepted accounting principles and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. For further details on these Non-GAAP measures, please see *"Non-GAAP Measures"* in the Management's Discussion and Analysis for the three months ended March 31, 2015.

In addition, this First Quarter Report uses: (i) "funds flow netback" which denotes petroleum and natural gas revenue less royalties, less operating expenses, less transportation and marketing expenses, less net general and administrative expenses, less interest expenses and less any realized losses (plus realized gains) on financial instruments and plus any other cash income sources: and (ii) "total cash costs" which are comprised of royalties, operating, transportation and marketing, general and administrative and interest costs. Such measures do not have standardized meanings prescribed by generally accepted accounting principles and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Management utilizes funds flow netback and total cash costs as key measures to assess Birchcliff's efficiency and its ability to generate the cash necessary to fund future growth through capital investments, pay dividends on preferred shares and repay debt.

Advisories

Unaudited numbers: *All financial amounts referred to in this First Quarter Report for the three months ended March 31, 2015 and three months ended March 31, 2014 are management's best estimates and are unaudited.*

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.*

Operating Costs*: References in this First Quarter Report to "operating costs" excludes transportation and marketing costs.*

Drilling Locations*: This First Quarter Report discloses potential drilling locations in three categories: (i) proved locations; (ii) probable locations; and (iii) unbooked locations. Proved locations and probable locations are proposed drilling locations identified in the 2014 Reserves Evaluation that have proved and/or probable reserves, as applicable, attributed to them in the 2014 Reserves Evaluation. Unbooked locations are internal estimates based on Birchcliff's prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal technical analysis review. Unbooked locations do not have attributed reserves. Of the 3,505.2 net existing horizontal wells and potential net future horizontal drilling locations identified herein, 432.2 are proved locations, 166.6* *are probable locations and 2,906.4 are unbooked locations. Unbooked locations are potential locations that have been identified by management based on evaluation of applicable geologic, seismic, engineering, production and reserves information. There is no certainty that Birchcliff will drill all unbooked drilling locations and if drilled, there is no certainty that such locations will result in additional oil and gas reserves, resources or production. The drilling locations on which Birchcliff actually drills wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional geological, geophysical and reservoir information that is obtained and other factors. While certain of the unbooked drilling locations have been derisked by drilling existing wells in relative close proximity to such unbooked drilling locations, some of the other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.*

Forward-Looking Information*: This First Quarter Report contains forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking information relates to future events or future performance and is based upon Birchcliff's current internal expectations, estimates, projections, assumptions and beliefs. All information other than historical fact is forward-looking information. 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 First Quarter Report contains forward-looking information relating to: Birchcliff's plans and other aspects of its anticipated future operations, management focus, strategies and priorities; Birchcliff's expectation that it expects to record income to common shareholders for the 2015 financial year if commodity prices continue to improve modestly during the remainder of 2015; expected results from Birchcliff's portfolio of oil and gas assets and results of operations; statements with respect to expected reserves increases; Birchcliff's expectation that it will have better finding and development costs at year-end and thereafter; estimates of potential future drilling locations and opportunities; Birchcliff's capital budget for 2015 including its plan to drill 22 (22.0 net) Montney/Doig horizontal natural gas wells; Birchcliff's proposed exploration and development activities and the timing thereof including wells to be drilled and brought on production; Birchcliff's estimates of average annual production for 2015 and its average annual production growth as well as Birchcliff's expectation that it will be on the high end of its production guidance; proposed expansions of the PCS Gas Plant including the anticipated processing capacities of the PCS Gas Plant after such expansions and the anticipated timing of such expansions; Birchcliff's expectation that the success of its two new Montney D4 wells in the Elmworth area will result in follow-up drilling by Birchcliff and significant future reserves additions; and Birchcliff's expectation that its structural costs will be reduced on an ongoing basis. In addition, forward-looking information in this First Quarter Report includes the forward-looking information identified in the Management's Discussion and Analysis for the three months ended March 31, 2015 under the heading "Advisories – Forward-Looking Information".

The forward-looking information contained in this First Quarter Report is based upon certain expectations and assumptions including: prevailing and future commodity prices, currency exchange rates, interest rates, inflation rates and applicable royalty rates and tax laws; the state of the economy and the exploration and production business; reserves and resource volumes; anticipated timing and *results of capital expenditures; the sufficiency of budgeted capital expenditures to carry out planned operations; results of operations; operating and general and administrative costs; the performance of existing and future wells, well production rates and well decline rates; well drainage areas; success rates for future drilling; the impact of competition; the availability and demand for labour, services and materials; Birchcliff's ability to access capital; and Birchcliff's ability to market oil and gas. In addition, Birchcliff has made the following key assumptions with respect to certain forward-looking information contained in this First Quarter Report:*

- *With respect to Birchcliff's expectation that it expects to record income to common shareholders for the 2015 financial year, the key assumption is that commodity prices continue to improve modestly during the remainder of 2015.*
- *With respect to statements regarding expected reserves increases, the key assumptions are that: the production from Birchcliff's wells meet or exceed expectations; and in conducting its reserves evaluation, Birchcliff's independent reserves evaluator will concur with Birchcliff's internal technical interpretations.*
- *With respect to Birchcliff's expectation that it will have better finding and development costs at year-end and thereafter, the key assumption is that Birchcliff will continue to attain cost reductions resulting from technical and operational advancements in Birchcliff's drilling and completion projects that is has recently experienced.*
- *With respect to statements of future wells to be drilled and brought on production and estimates of potential future drilling locations and opportunities, the key assumption is the validity of the geological and other technical interpretations performed by Birchcliff's technical staff, which indicate that commercially economic volumes can be recovered from Birchcliff's lands as a result of drilling such future wells.*
- *With respect to estimates as to Birchcliff's average annual production for 2015 and annual production growth and Birchcliff's expectation that it will be on the high end of its production guidance, the key assumptions are that: no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells; the construction of new infrastructure meets timing expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations.*
- *With respect to statements regarding Birchcliff's 2015 capital budget, the key assumption is that Birchcliff realizes the average annual production target of 38,000 to 40,000 boe/d and the commodity prices upon which Birchcliff's 2015 capital budget is based, being a forecast average WTI price of US$60.00 per barrel of oil and an AECO price of CDN$3.00 per GJ of natural gas during 2015. Birchcliff will adjust its 2015 capital budget to respond to changes in commodity prices and other material changes in the assumptions underlying its 2015 budget.*
- *With respect to statements regarding proposed expansions of the PCS Gas Plant, the anticipated processing capacities of the PCS Gas Plant after such expansions and the anticipated timing of such expansions, the key assumptions are that: future drilling is successful; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund those projects; and commodity prices warrant proceeding with the construction of such facilities and the drilling of associated wells.*

- *With respect to statements that the success of two new Montney D4 wells in the Elmworth area is expected to result in follow-up drilling by Birchcliff and significant future reserves additions, the key assumptions are that: future drilling is successful; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund such future drilling; and commodity prices warrant proceeding with such future drilling. In addition, statements regarding future reserve additions assume that in conducting its reserves evaluation, Birchcliff's independent reserves evaluator will concur with Birchcliff's internal technical interpretations.*
- *With respect to Birchcliff's expectation that its structural costs will be reduced on an ongoing basis, the key assumptions are that: Birchcliff will continue to attain cost reductions resulting from technical and operational advancements in Birchcliff's drilling and completion projects that is has recently experienced and Birchcliff will develop further technical and operational advancements that will reduce costs.*

Undue reliance should not be placed on forward-looking information, as there can be no assurance that the plans, intentions, expectations or assumptions upon which they are based will occur. Although Birchcliff believes that the expectations and assumptions reflected in the forward-looking information are reasonable, there can be no assurance that such expectations will prove to be correct. As a consequence, actual results may differ materially from those anticipated.

Forward-looking information necessarily involves both known and unknown risks and uncertainties that could cause actual results to differ materially from those anticipated including, but not limited to: 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, commodity 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 Birchcliff's most recent Annual Information Form and in other reports filed with Canadian securities regulatory authorities. Forward-looking information is based on estimates and opinions of management at the time the information is presented. Birchcliff is not under any duty to update the forward-looking information after the date of this First Quarter Report to conform such information to actual results or to changes in Birchcliff's plans or expectations, except as otherwise required by applicable securities laws.

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

Corporate Information

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Vice-President & Chief Financial Officer

David M. Humphreys
Vice-President, Operations

James W. Surbey
Vice-President, Corporate Development

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President & Chief Executive Officer
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RESERVES EVALUATOR

Deloitte LLP
Calgary, Alberta

BANKERS

The Bank of Nova Scotia

HSBC Bank Canada

Union Bank, Canada Branch

Alberta Treasury Branches

National Bank of Canada

The Toronto-Dominion Bank

Canadian Imperial Bank of Commerce

Business Development Bank of Canada

United Overseas Bank Limited

ICICI Bank Canada

Wells Fargo Bank, N.A., Canadian Branch

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