August 12, 2015

Fellow Shareholders,

We are pleased to report the second quarter financial and operational results for Birchcliff Energy Ltd. ("**Birchcliff**") for the three and six month periods ended June 30, 2015.

Current production is approximately 39,000 boe per day. We had record quarterly average production of 38,489 boe per day during the second quarter of 2015, notwithstanding numerous service curtailments on TransCanada's NGTL System. Production consisted of 86% natural gas, 10% light oil and 4% natural gas liquids. Production was 23% above the average production in the second quarter of 2014. The majority of the wells drilled in 2014 and 2015 are outperforming our internal production estimates, which we expect will result in a material increase in our reserves at year end.

Production per basic common share increased 18% from the second quarter of 2014.

Our operating costs were $4.53 per boe, down 11% from the first quarter of 2015 and down 14% from the second quarter of 2014, showing a continued reduction in our operating costs per boe.

Our general and administrative expense was $1.50 per boe, down 12% from the first quarter of 2015 and down 21% from $1.91 per boe in the second quarter of 2014.

Our total cash costs were also a record low of $10.58 per boe, down 9% from the first quarter of 2015 and down 28% from the second quarter of 2014.

We have achieved long-term reductions in both our operating and capital costs as a result of the hard work of our people, the implementation of new horizontal drilling and completion technologies and more efficient project execution. In addition, the collapse in oil prices has led to cost reductions in most aspects of our business.

Based on our recent multi-well pad drilling, our costs to drill, case, complete, equip and tie-in our Montney/Doig horizontal natural gas wells have decreased by approximately 22% to an average of $4.5 million per well from an average of $5.8 million per well.[1] The combination of these decreased capital costs and the improved well performance that we are now realizing, has had a positive effect on our capital efficiencies and internal rates of return.

In summary, we had record production, record low operating costs per boe and improved well performance during the second quarter of 2015. In addition, we have increased our fourth quarter average production by 2,000 boe per day to 41,000 to 42,000 boe per day while reducing our capital expenditure program to approximately $250 million from $266.7 million. Further, we are now seeing improved economics with the reductions in both our capital costs and operating costs.

[1] The average cost of $4.5 million per well assumes that there are no costs associated with an extended gathering system.

## Financial and Operational Highlights

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **OPERATING** | | | | |
| Average daily production | | | | |
| Light oil – *(barrels)* | 3,736 | 3,936 | 3,876 | 3,957 |
| Natural gas – *(thousands of cubic feet)* | 198,714 | 155,373 | 197,332 | 156,906 |
| NGLs – *(barrels)* | 1,634 | 1,346 | 1,688 | 1,354 |
| **Total – barrels of oil equivalent** *(6:1)*[(1)] | **38,489** | 31,178 | **38,453** | 31,462 |
| Average sales price *($ CDN)*[(2)] | | | | |
| Light oil – *(per barrel)* | 64.93 | 104.72 | 56.03 | 101.01 |
| Natural gas – *(per thousand cubic feet)* | 2.86 | 4.81 | 2.92 | 5.46 |
| NGLs – *(per barrel)* | 59.57 | 96.13 | 52.84 | 95.74 |
| **Total – barrels of oil equivalent** *(6:1)*[(1)] | **23.62** | 41.33 | **22.95** | 44.04 |
| **NETBACK AND COST** *($ per barrel of oil equivalent at 6:1)*[(1)] | | | | |
| Petroleum and natural gas revenue[(2)] | 23.64 | 41.35 | 22.96 | 44.05 |
| Royalty expense | (0.61) | (3.35) | (0.72) | (3.89) |
| Operating expense | (4.53) | (5.25) | (4.82) | (5.23) |
| Transportation and marketing expense | (2.46) | (2.47) | (2.52) | (2.47) |
| **Netback**[(3)] | **16.04** | 30.28 | **14.90** | 32.46 |
| General & administrative expense, net | (1.50) | (1.91) | (1.60) | (1.90) |
| Interest expense | (1.48) | (1.70) | (1.45) | (1.70) |
| Realized loss on financial instruments | - | (0.10) | - | (0.10) |
| **Funds flow netback**[(3)] | **13.06** | 26.57 | **11.85** | 28.76 |
| Stock-based compensation expense, net | (0.25) | (0.75) | (0.23) | (0.54) |
| Depletion and depreciation expense | (10.75) | (11.56) | (10.99) | (11.37) |
| Accretion expense | (0.15) | (0.22) | (0.16) | (0.22) |
| Amortization of deferred financing fees | (0.07) | (0.08) | (0.06) | (0.09) |
| Gain on sale of assets | - | - | 0.09 | - |
| Unrealized loss on financial instruments | - | (0.01) | - | (0.03) |
| Dividends on Series C preferred shares | (0.25) | (0.31) | (0.25) | (0.31) |
| Income tax expense | (2.78) | (3.74) | (1.35) | (4.33) |
| **Net income (loss)** | **(1.19)** | 9.90 | **(1.10)** | 11.87 |
| Dividends on Series A preferred shares | (0.29) | (0.35) | (0.29) | (0.35) |
| **Net income (loss) to common shareholders** | **(1.48)** | 9.55 | **(1.39)** | 11.52 |
| **FINANCIAL** | | | | |
| Petroleum and natural gas revenue *($000s)*[(2)] | 82,791 | 117,308 | 159,817 | 250,866 |
| Funds flow from operations *($000s)*[(3)] | 45,752 | 75,382 | 82,472 | 163,751 |
| Per common share – basic *($)*[(3)] | 0.30 | 0.52 | 0.54 | 1.13 |
| Per common share – diluted *($)*[(3)] | 0.30 | 0.49 | 0.53 | 1.09 |
| Net income (loss) *($000s)* | (4,174) | 28,087 | (7,653) | 67,586 |
| Net income (loss) to common shareholders *($000s)* | (5,174) | 27,087 | (9,653) | 65,586 |
| Per common share – basic *($)* | (0.03) | 0.19 | (0.06) | 0.45 |
| Per common share – diluted *($)* | (0.03) | 0.18 | (0.06) | 0.44 |
| Common shares outstanding *(000s)* | | | | |
| End of period – basic | 152,294 | 145,912 | 152,294 | 145,912 |
| End of period – diluted | 168,181 | 166,285 | 168,181 | 166,285 |
| Weighted average common shares for period – basic | 152,289 | 145,145 | 152,266 | 144,588 |
| Weighted average common shares for period – diluted | 154,650 | 152,623 | 154,422 | 149,895 |
| Dividends on Series A preferred shares *($000s)* | 1,000 | 1,000 | 2,000 | 2,000 |
| Dividends on Series C preferred shares (*$000s*) | 875 | 875 | 1,750 | 1,750 |
| Capital expenditures, net *($000s)* | 65,122 | 75,484 | 163,661 | 236,887 |
| Long-term bank debt *($000s)* | 599,998 | 452,183 | 599,998 | 452,183 |
| Working capital deficit *($000s)* | 32,308 | 62,454 | 32,308 | 62,454 |
| Total debt *($000s)*[(3)] | 632,306 | 514,637 | 632,306 | 514,637 |

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

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

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

## REDUCED 2015 CAPITAL EXPENDITURES AND REVISED 2015 CAPITAL EXPENDITURE PROGRAM

On February 11, 2015, we announced our capital budget for 2015 of $266.7 million, which included the drilling of 25 (24.5 net) wells. With capital expenditures of $266.7 million, we estimated annual average production of 38,000 to 40,000 boe per day.

In the current environment, our planned capital expenditure program for 2015 can now be achieved for approximately $220 million to $225 million as a result of significant cost savings, more efficient execution and the deferral until 2016 of approximately $17 million of capital associated with the Phase V expansion of the PCS Gas Plant. Accordingly, we have made the decision to drill an additional 7 (7.0 net) Montney/Doig horizontal natural gas wells during 2015. Our forecast of total capital expenditures during 2015 is now approximately $250 million, a reduction of $16.7 million from the $266.7 million capital budget we previously announced. These additional wells will be drilled in the Pouce Coupe area and it is anticipated that 5 of these wells will be brought on production by year end and the remaining 2 wells will be brought on production during the first quarter of 2016. We now expect that a total of 32 (31.5 net) wells will be drilled in 2015.

The following table provides the details of our revised 2015 capital expenditure program:

| ***2015 Capital Expenditure Program*** | **Gross Wells** | | **Net Wells** | | **Net Capital *(MM$)*[1]** | | **Difference in Capital *(MM$)*** |
|---|---|---|---|---|---|---|---|
| | **New** | **Old** | **New** | **Old** | **New** | **Old** | |
| Drilling & Development | | | | | | | |
| Montney D1 Horizontal Gas Wells | 18.0 | 15.0 | 18.0 | 15.0 | 86.8 | | |
| Montney D4 Horizontal Gas Wells | 5.0 | 4.0 | 5.0 | 4.0 | 27.9 | | |
| Basal Doig/Upper Montney Horizontal Gas Wells | 6.0 | 3.0 | 6.0 | 3.0 | 30.3 | | |
| Charlie Lake Horizontal Light Oil Well[2] | 1.0 | 1.0 | 1.0 | 1.0 | 7.0 | | |
| Halfway Horizontal Light Oil Well | 1.0 | 1.0 | 0.5 | 0.5 | 3.6 | | |
| Acid Gas Well | 1.0 | 1.0 | 1.0 | 1.0 | 5.2 | | |
| **Total Drilling & Development[3]** | **32.0** | **25.0** | **31.5** | **24.5** | **160.8** | | |
| Infrastructure[4] | | | | | 43.7 | | |
| Production Optimization | | | | | 21.5 | | |
| Land & Seismic | | | | | 10.6 | | |
| Acquisition & Dispositions | | | | | (0.7) | | |
| Other | | | | | 13.6 | | |
| **Total Net Capital** | | | | | **249.4** | **266.7** | **17.3** |

(1) Numbers may not add due to rounding.

(2) Includes approximately $1.9 million of drilling capital carried over from 2014.

(3) On a drill, case, complete, equip and tie-in basis.

(4) Includes approximately $33 million of capital in 2015 for the PCS Gas Plant Phase V expansion.

We expect to fund our revised 2015 capital expenditure program primarily using internally generated funds flow and available credit facilities. Our revised capital expenditure program is based on an expected annual average WTI price of US$50.00 per barrel of oil (revised from US$60.00 per barrel under our original capital expenditure program announced on February 11, 2015) and an AECO price of CDN$2.70 per GJ of natural gas (revised from CDN$3.00 per GJ under our original capital expenditure program announced on February 11, 2015) during 2015. We may adjust our 2015 capital budget or further adjust our capital expenditure program to respond to changes in commodity prices and other material changes in the assumptions underlying our capital expenditure program.

## 2015 PRODUCTION GUIDANCE

We expect to achieve record annual average production of 39,000 to 40,000 boe per day for 2015, revised upwards from our previous guidance of 38,000 to 40,000 boe per day, representing a range of 16% to 19% growth above the annual average of 33,734 boe per day in 2014.

As a result of the drilling of the 7 additional wells under our revised 2015 capital expenditure program and the improved production performance from the wells that we have drilled in 2014 and 2015, our 2015 fourth quarter average production is expected to be 41,000 to 42,000 boe per day, an increase of approximately 2,000 boe per day from our original internal expectations.

Our exit production in 2015 is expected to be 41,000 to 42,000 boe per day, setting us up for strong average production in the first quarter of 2016.

## UPDATE ON THE PCS GAS PLANT

Our PCS Gas Plant is currently processing approximately 170 MMcf per day of sales gas and has a processing capacity of 180 MMcf per day of raw gas.

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. It is our expectation that service costs will continue to fall and accordingly, we have delayed the bid process. We currently anticipate that the Phase V expansion will be completed sometime in the fall of 2016. Accordingly, we have deferred until 2016 approximately $17 million of capital associated with the Phase V expansion of the PCS Gas Plant.

In addition, preliminary planning and permitting work has been initiated for the Phase VI expansion of our PCS Gas Plant which is being designed to increase processing capacity to 340 MMcf per day from 260 MMcf per day, increased from 320 MMcf per day which we previously announced. 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.

## FIRM NATURAL GAS TRANSPORTATION CAPACITY

We expect that we have enough firm transportation capacity to meet our production guidance. Virtually all of our natural gas production is transported on TransCanada's NGTL Alberta Pipeline System pursuant to both firm and interruptible service agreements.

In recent months, interruptible service has been suspended and transportable volumes have been curtailed from time to time to as low as 90% of firm service entitlements as a result National Energy Board ordered pipeline integrity testing procedures and other operational issues.

We have in place firm service contracts that currently provide transportation capacity slightly below the processing capacity available to us at our own facilities and at third party processing facilities that we use. On October 1, 2015, additional firm transportation service on the NGTL Alberta Pipeline System will become available to us, which will provide us with sufficient firm transportation capacity to transport the majority of our anticipated production volumes from the Phase V expansion of our PCS Gas Plant.

The recent shut down of the Alliance pipeline has only affected approximately 250 boe per day of our production.

### ELMWORTH GAS PLANT

As part of our future growth plans for our Montney/Doig Natural Gas Resource Play, we are continuing to prove up the play in the Elmworth area and we intend to construct and operate the 100% owned Elmworth Gas Plant. We have commenced the preliminary planning for this plant and a critical requirement is the nearby acid gas disposal well which we drilled in the first quarter of 2015. In the second quarter, we conducted injectivity tests on the well and we are currently evaluating its injection capability and preparing the required regulatory application.

## 2015 SECOND QUARTER FINANCIAL AND OPERATIONAL RESULTS

### PRODUCTION

Record second quarter production averaged 38,489 boe per day, an increase of 23% from production of 31,178 boe per day in the second quarter of 2014. Production per basic common share increased 18% from the second quarter of 2014. The increase in production from the second 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, offset by numerous service curtailments on TransCanada Corporation's NGTL system and natural production declines.

Production consisted of approximately 86% natural gas, 10% light oil and 4% natural gas liquids in the second quarter. Approximately 80% of our total corporate natural gas production and 72% of our total corporate production was processed at our PCS Gas Plant in the first half of 2015.

We have consistently demonstrated significant growth in second quarter production per common share. The following table highlights Birchcliff's second quarter production per basic common share growth since 2011 year-over-year:

| | **Q2 2011** | **Q2 2012** | **Q2 2013** | **Q2 2014** | **Q2 2015** | **Change Since 2011** *(%)* | **Average Annual Growth** *(%)* |
|---|---|---|---|---|---|---|---|
| Quarterly Average Production *(boe/day)* | 17,324 | 22,039 | 24,141 | 31,178 | 38,489 | 122 | 31 |
| Production per day per million common shares *(boe)*[(1)] | 137.1 | 159.2 | 169.7 | 214.8 | 252.7 | 84 | 21 |

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

### FUNDS FLOW AND NET LOSS

Funds flow was $45.8 million or $0.30 per basic common share, a decrease from $75.4 million or $0.52 per basic common share in the second quarter of 2014. This decrease was largely due to a 43% decrease in the average realized oil and natural gas wellhead price.

We would have had net income to common shareholders of $2.6 million but for the $7.8 million deferred income tax expense resulting from the recently announced increase in the Alberta corporate income tax rate to 12% from 10%.

We recorded a net loss to common shareholders of $5.2 million ($0.03 per basic common share) in the second quarter of 2015, a decrease from net income to common shareholders of $27.1 million ($0.19 per basic common share) in the second quarter of 2014. The decrease from the second quarter of 2014 was mainly attributable to lower funds flow as a result of the decrease in commodity prices. Also included in the net loss in the second quarter of 2015 was a $7.8 million deferred income tax expense resulting from the recently announced increase in the Alberta corporate income tax rate to 12% from 10%.

## OPERATING COSTS AND GENERAL AND ADMINISTRATIVE EXPENSE

Operating costs for the second quarter of 2015 were $4.53 per boe, a decrease from $5.25 per boe in the second quarter of 2014. Operating costs per boe decreased from the second 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 continued implementation of various optimization initiatives.

General and administrative expense in the second quarter of 2015 was $1.50 per boe, a decrease from $1.91 per boe in the second quarter of 2014.

We continue to focus on reducing our operating costs and general and administrative expense on a per boe basis. Subsequent to June 30, 2015, we implemented two meaningful operating cost reduction initiatives that are expected to further reduce costs over the long term at our PCS Gas Plant. The first initiative is the conversion of an existing standing vertical well near the PCS Gas Plant to a water disposal well and connecting it by pipeline to the PCS Gas Plant. This eliminates the related trucking costs and disposal fees for any produced disposable water. The second initiative is pipeline connecting the condensate stream from the PCS Gas Plant directly to Pembina's pipeline system, which is expected to be operational in the latter half of August 2015. This pipeline will eliminate related condensate trucking fees and secure continuous take away capacity for our produced condensate volumes.

## PCS GAS PLANT NETBACKS

Since the PCS Gas Plant first became operational in March 2010, we have seen a significant reduction in our corporate operating costs on a per boe basis. During the first half of 2015, we processed approximately 80% of our total corporate natural gas production through our PCS Gas Plant with an average plant and field operating cost of $2.11 per boe ($0.35 per Mcfe). The estimated operating netback at our PCS Gas Plant was $14.44 per boe ($2.41 per Mcfe) resulting in an operating margin of 75% in the first half of 2015.

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

*Production Processed through the PCS Gas Plant*

| | Six months ended June 30, 2015 | | Six months ended June 30, 2014 | | Six months ended June 30, 2013 | | Six months ended June 30, 2012 | |
|---|---|---|---|---|---|---|---|---|
| Average daily production, net to Birchcliff: | | | | | | | | |
| Natural gas *(Mcf)* | | 157,462 | | 122,277 | | 84,561 | | 57,211 |
| Oil & NGLs *(bbls)* | | 1,249 | | 982 | | 375 | | 232 |
| **Total boe *(6:1)*** | | **27,494** | | 21,361 | | 14,468 | | 9,768 |
| *Sales liquids yield (bbls/MMcf)* | | 7.9 | | *8.0* | | *4.4* | | *4.1* |
| *% of corporate natural gas production* | | *80%* | | *78%* | | *69%* | | *58%* |
| *% of corporate production* | | *72%* | | *68%* | | *58%* | | *45%* |
| **AECO – C daily *($/Mcf)*** | **$2.70** | | $5.20 | | $3.37 | | $2.02 | |
| Netback and cost: | *$/Mcfe* | *$/boe* | *$/Mcfe* | *$/boe* | *$/Mcfe* | *$/boe* | *$/Mcfe* | *$/boe* |
| Petroleum and natural gas revenue | 3.20 | 19.21 | 5.93 | 35.60 | 3.81 | 22.88 | 2.47 | 14.82 |
| Royalty expense | (0.12) | (0.74) | (0.40) | (2.38) | (0.23) | (1.39) | (0.07) | (0.42) |
| Operating expense(1) | (0.35) | (2.11) | (0.41) | (2.45) | (0.36) | (2.17) | (0.26) | (1.56) |
| Transportation and marketing expense | (0.32) | (1.92) | (0.29) | (1.82) | (0.25) | (1.50) | (0.22) | (1.32) |
| **Estimated operating netback(2)** | **2.41** | **14.44** | 4.83 | 28.95 | 2.97 | 17.82 | 1.92 | 11.52 |
| **Operating margin(2)** | **75%** | **75%** | 81% | 81% | 78% | 78% | 78% | 78% |

(1) Represents plant and field operating costs.

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

### TOTAL CASH COSTS AND FUNDS FLOW NETBACK

During the second quarter of 2015, we had total cash costs of $10.58 per boe (royalties, operating, transportation and marketing, general and administrative and interest costs), a decrease from $14.68 per boe in the second quarter of 2014, and funds flow netback of $13.06 per boe, a decrease from $26.57 per boe in the second quarter of 2014.

### CAPITAL EXPENDITURES

During the second quarter of 2015, we had capital expenditures of $65.1 million. For details regarding these capital expenditures, please see our management's discussion and analysis for the three and six month periods ended June 30, 2015.

### DEBT AND CAPITALIZATION

At June 30, 2015, our long-term drawn bank debt was $608 million from available credit facilities aggregating $800 million, leaving $192 million of unutilized capacity which provides for significant financial flexibility. Total debt at June 30, 2015, including the working capital deficit, was $632.3 million.

At June 30, 2015, we had 152,293,539 basic common shares outstanding.

### INCREASE TO CREDIT FACILITIES AND REMOVAL OF FINANCIAL COVENANTS

On May 11, 2015, the following amendments were 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 changes to our syndicated bank credit facilities provide us with increased financial flexibility.

## 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 the industry regarding horizontal well drilling and the related multi-stage fracture stimulations.

We drilled 10 (10.0 net) wells in the second quarter of 2015, consisting of 9 (9.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area and 1 (1.0 net) Charlie Lake horizontal light oil well in the Progress area.

We have drilled 25 (24.5 net) wells year to date, consisting of 21 (21.0 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 (1.0 net) Charlie Lake horizontal light oil well in the Progress area, 1 (0.5 net) Halfway horizontal light oil well in the Progress area and a 100% working interest Belloy vertical well drilled as an acid gas disposal well in the Elmworth area.

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 revised capital expenditure program for 2015 includes drilling 29 (29.0 net) Montney/Doig horizontal natural gas wells on a total of 9 multi-well pads with 2 to 5 wells per pad.

We currently have one drilling rig at work in the Pouce Coupe area drilling Montney/Doig horizontal natural gas wells on a multi-well pad.

## 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 recent horizontal drilling and multi-stage fracture stimulation technology. We have continued to improve our results by reducing our costs and increasing our production and reserves per well. We continue to expand the Montney/Doig Natural Gas Resource Play both geographically and stratigraphically.

Specific completion enhancements that we have been employing over the past 15 to 19 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 material reserves additions to our related future undeveloped drilling locations at year-end 2015.

We have achieved long-term reductions in both our operating and capital costs as a result of the hard work of our people, the implementation of new horizontal drilling and completion technologies and more efficient project execution. In addition, the collapse in oil prices has led to cost reductions in most aspects of our business.

Based on our recent multi-well pad drilling, our costs to drill, case, complete, equip and tie-in our Montney/Doig horizontal natural gas wells have decreased by approximately 22% to an average of $4.5 million per well from an average of $5.8 million per well.[2] The combination of these decreased capital costs and the improved well performance that we are now realizing, has had a positive effect on our capital efficiencies and internal rates of return.

### Exploration Success Continues 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 was drilled, completed and tested in the first quarter of 2015 and was brought on production in June 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 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.

[2] The average cost of $4.5 million per well assumes that there are no costs associated with an extended gathering system.

As part of our future growth plans for our Montney/Doig Natural Gas Resource Play, we are continuing to prove up the play in the Elmworth area and we intend to construct and operate the 100% owned Elmworth Gas Plant as discussed above.

### Land and Potential Future Drilling Locations

Our land activities in the first half of 2015 on the Montney/Doig Natural Gas Resource Play included the acquisition of two 100% sections in the heart of our Pouce Coupe area and eight 100% sections in the Elmworth area. 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 drilled a 100% working interest Charlie Lake horizontal light oil exploration well in the Progress area in the second quarter of 2015 and it is expected that this well will be brought on production in August 2015. The well was drilled, cased and completed utilizing recent advancements in multi-stage fracture stimulation technology. This is the second Charlie Lake exploration success we have had in the Progress area.

In the fourth quarter of 2014, we drilled our first successful horizontal exploration well in our Progress area. 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 (1.75 net) sections and accordingly, Birchcliff now holds 28 (27.5 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 Charlie Lake Light Oil Resource Play exploration success. The results of this seismic program are very encouraging and support that a significant amount of our lands have potential for this exciting new play.

### 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 brought on production in April 2015 at rates that exceeded our original expectations.

### LAND HOLDINGS

As at June 30, 2015, our undeveloped land holdings were 422,301 gross (395,174 net) acres.

## 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

Our production is stronger than we anticipated and our costs, both operating and capital expenditures, have been further reduced. We expect to achieve record annual average production of 39,000 to 40,000 boe per day for 2015, revised upwards from our previous guidance of 38,000 to 40,000 boe per day, representing a range of 16% to 19% growth above the annual average of 33,734 boe per day in 2014.

As a result of the drilling of the 7 additional wells under our revised 2015 capital expenditure program and the improved production performance from the wells that we have drilled in 2014 and 2015, our 2015 fourth quarter average production is expected to be 41,000 to 42,000 boe per day, an increase of approximately 2,000 boe per day from our original internal expectations.

Our exit production in 2015 is expected to be 41,000 to 42,000 boe per day, setting us up for strong average production in the first quarter of 2016.

We anticipate that as a result of the strong production profiles from our Montney/Doig horizontal natural gas wells drilled in 2014 and 2015 and the success of our revised 2015 capital expenditure program, we will see a material increase in our reserves at year end.

We continue to focus on improving our execution, reducing our costs and increasing our reserves all leading to improved capital efficiency and internal rates of return. We are utilizing multi-well pad drilling on our Montney/Doig Natural Gas Resource Play to improve drilling and completion efficiencies, reduce the cost per well and minimize our environmental footprint. Due to the combination of industry conditions, cost reduction initiatives and more efficient project execution, we have seen a material reduction in our drilling and completion costs. We have also reduced our already low operating costs on a per boe basis to record low levels.

We have recently implemented two meaningful operating cost reduction initiatives that are expected to further reduce costs over the long term at our PCS Gas Plant. The first initiative is the conversion of an existing standing vertical well near the PCS Gas Plant to a water disposal well and connecting it by pipeline to the PCS Gas Plant. This eliminates the related trucking costs and disposal fees for any produced disposable water. The second initiative is pipeline connecting the condensate stream from the PCS Gas Plant directly to Pembina's pipeline system, which is expected to be operational in the latter half of August 2015. This pipeline will eliminate related condensate trucking fees and secure continuous take away capacity for our produced condensate volumes.

As at August 12, 2015, we have successfully drilled and cased 181 (180.9 net) Montney/Doig horizontal natural gas wells. We believe we have up to 3,324.3 potential net future horizontal drilling locations on the Montney/Doig Natural Gas Resource Play. 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.

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 prudently manage our business 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.

In conclusion, Birchcliff is in an enviable position. The production from our Montney/Doig horizontal natural gas wells are outperforming our internal estimates. As a result, we had record quarterly average production during the second quarter of 2015 **(Record Production)**. We had record low operating costs per boe during the second quarter of 2015 **(Record Low Operating Costs per boe)**. In addition to cost reductions resulting from industry conditions, we have also initiated technical and operational advancements that have resulted in significant cost reductions **(Cost Reductions)**. With the drilling of 7 additional wells under our revised capital expenditure program, we anticipate strong 2015 fourth quarter and 2015 exit production, setting us up for strong average production in the first quarter of 2016 **(Increased Production, Less Capital)**. We have significant financial flexibility with our $800 million syndicated revolving credit facility that now contains no financial covenants **(Financial Flexibility)**. We have long-term shareholders who continue to support Birchcliff notwithstanding the significant 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)**.

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 August 12, 2015. The unaudited interim condensed financial statements with respect to the three and six months ended June 30, 2015 (the "**Reporting Periods**") as compared to the three and six months ended June 30, 2014 (the "**Comparable Prior Periods**") and this MD&A have been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the interim condensed financial statements of the Corporation and related notes for the Reporting Periods and the 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" 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

In the current environment, the Corporation's planned capital expenditure program for 2015 can now be achieved for approximately $220 million to $225 million as a result of significant cost savings, more efficient execution and the deferral until 2016 of approximately $17 million of capital associated with the Phase V expansion of the Corporation's 100% owned natural gas plant located in the Pouce Coupe South area (the "**PCS Gas Plant**"), as disclosed in the Corporation's press release of August 12, 2015. Accordingly, the Corporation has made the decision to drill an additional 7 (7.0 net) Montney/Doig horizontal natural gas wells during 2015. Birchcliff's forecast of total capital expenditures during 2015 is now approximately $250 million, a reduction of $16.7 million from the $266.7 million capital budget it previously announced on February 11, 2015. These additional wells will be drilled in the Pouce Coupe area and it is anticipated that 5 of these wells will be brought on production by year end and the remaining 2 wells will be brought on production during the first quarter of 2016. The Corporation now expects that a total of 32 (31.5 net) wells will be drilled in 2015.

Birchcliff expects to achieve record annual average production of 39,000 to 40,000 boe per day for 2015, revised upwards from its previous guidance of 38,000 to 40,000 boe per day, representing a range of 16% to 19% growth above the annual average of 33,734 boe per day in 2014.

As a result of the drilling of the 7 additional wells under its revised 2015 capital expenditure program and the improved production performance from the wells that it has drilled in 2014 and 2015, the Corporation's 2015 fourth quarter average production is expected to be 41,000 to 42,000 boe per day, an increase of approximately 2,000 boe per day from its original internal expectations.

Birchcliff's exit production in 2015 is expected to be 41,000 to 42,000 boe per day, setting it up for strong average production in the first quarter of 2016.

The majority of the wells drilled in 2014 and 2015 are outperforming the Corporation's internal production estimates, which Birchcliff expects will result in a material increase in its reserves at year end.

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 FROM OPERATIONS

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2015** | **2014** | **2015** | **2014** |
| **Funds flow from operations** | **45,752** | 75,382 | **82,472** | 163,751 |
| **Per common share – basic *($)*** | **0.30** | 0.52 | **0.54** | 1.13 |
| **Per common share – diluted *($)*** | **0.30** | 0.49 | **0.53** | 1.09 |

Funds flow in the three and six month Reporting Periods decreased by 39% and 50%, respectively, from the Comparable Prior Periods. Lower funds flow in the three and six month Reporting Periods was largely attributable to a 43% and 48% decrease, respectively, in the average realized oil and natural gas wellhead price as compared to the Comparable Period Periods, partially offset by an increase in natural gas production and lower royalty costs. Funds flow was also negatively impacted by increased aggregate operating and transportation costs resulting from higher average daily production in the Reporting Periods.

## NET INCOME (LOSS) TO COMMON SHAREHOLDERS

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2015** | **2014** | **2015** | **2014** |
| Net income (loss) | (4,174) | 28,087 | (7,653) | 67,586 |
| **Net income (loss) to common shareholders** (1) | **(5,174)** | 27,087 | **(9,653)** | 65,586 |
| **Per common share – basic *($)*** | **(0.03)** | 0.19 | **(0.06)** | 0.45 |
| **Per common share – diluted *($)*** | **(0.03)** | 0.18 | **(0.06)** | 0.44 |

(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 \$5.2 million for the three month Reporting Period and \$9.7 million for the six month Reporting Period compared to net income of \$27.1 million and \$65.6 million for the Comparable Prior Periods. The decrease in net income to common shareholders from the Comparable Prior Periods was largely due to lower funds flow from operations and higher depletion costs resulting from increased production. Also included in the net loss to common shareholders for the Reporting Periods is a deferred income tax expense of \$7.8 million resulting from an increase in the Alberta corporate income tax rate from 10% to 12%.

## PCS GAS PLANT NETBACKS

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

***Production Processed through the PCS Gas Plant***

| | Six months ended June 30, 2015 | | Six months ended June 30, 2014 | |
|---|---|---|---|---|
| Average daily production, net to Birchcliff: | | | | |
| Natural gas *(Mcf)* | | 157,462 | | 122,277 |
| Oil & NGLs *(bbls)* | | 1,249 | | 982 |
| **Total boe *(6:1)*** | | **27,494** | | **21,361** |
| *Sales liquids yield (bbls/MMcf)* | | *7.9* | | *8.0* |
| *% of corporate natural gas production* | | *80%* | | *78%* |
| *% of corporate production* | | *72%* | | *68%* |
| **AECO – C daily *($/Mcf)*** | **$2.70** | | $5.20 | |
| Netback and cost: | *$/Mcfe* | *$/boe* | *$/Mcfe* | *$/boe* |
| Petroleum and natural gas revenue | 3.20 | 19.21 | 5.93 | 35.60 |
| Royalty expense | (0.12) | (0.74) | (0.40) | (2.38) |
| Operating expense(1) | (0.35) | (2.11) | (0.41) | (2.45) |
| Transportation and marketing expense | (0.32) | (1.92) | (0.29) | (1.82) |
| **Estimated operating netback** | **2.41** | **14.44** | **4.83** | **28.95** |
| **Operating margin** | **75%** | **75%** | **81%** | **81%** |

(1) Represents plant and field operating costs.

## 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. The $800 million revolving term credit facility contains no financial covenants.

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 June 30, 2015 | | | | Three months ended June 30, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Total Revenue** *($000s)* | **Average Daily Production** | *(%)* | **Average** *($/unit)* | Total Revenue[(1)] *($000s)* | Average Daily Production | *(%)* | Average[(1)] *($/unit)* |
| Light oil *(bbls)* | 22,072 | 3,736 | 10 | 64.93 | 37,510 | 3,936 | 13 | 104.72 |
| Natural gas *(Mcf)* | 51,797 | 198,714 | 86 | 2.86 | 67,978 | 155,373 | 83 | 4.81 |
| Natural gas liquids *(bbls)* | 8,857 | 1,634 | 4 | 59.57 | 11,777 | 1,346 | 4 | 96.13 |
| Total P&NG sales *(boe)* | 82,726 | **38,489** | 100 | 23.62 | 117,265 | 31,178 | 100 | 41.33 |
| Royalty revenue | 65 | | | 0.02 | 43 | | | 0.02 |
| **P&NG revenues** | **82,791** | | | **23.64** | 117,308 | | | 41.35 |

| | Six months ended June 30, 2015 | | | | Six months ended June 30, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Total Revenue** *($000s)* | **Average Daily Production** | *(%)* | **Average** *($/unit)* | Total Revenue[(1)] *($000s)* | Average Daily Production | *(%)* | Average[(1)] *($/unit)* |
| Light oil *(bbls)* | 39,304 | 3,876 | 10 | 56.03 | 72,337 | 3,957 | 13 | 101.01 |
| Natural gas *(Mcf)* | 104,282 | 197,332 | 86 | 2.92 | 154,983 | 156,906 | 83 | 5.46 |
| Natural gas liquids *(bbls)* | 16,145 | 1,688 | 4 | 52.84 | 23,468 | 1,354 | 4 | 95.74 |
| Total P&NG sales *(boe)* | 159,731 | **38,453** | 100 | 22.95 | 250,788 | 31,462 | 100 | 44.04 |
| Royalty revenue | 86 | | | 0.01 | 78 | | | 0.01 |
| **P&NG revenues** | **159,817** | | | **22.96** | 250,866 | | | 44.05 |

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

#### *Production*

Production averaged 38,489 boe per day in the three month Reporting Period and 38,453 boe per day in the six month Reporting Period, a 23% and 22% increase, respectively, from the Comparable Prior Periods. These increases were largely due to incremental production added from new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant, partially offset by numerous service curtailments on TransCanada's NGTL Alberta Pipeline System and natural production declines. The PCS Gas Plant processed approximately 80% of Birchcliff's total corporate natural gas production and 72% of total corporate production in the first half of 2015.

Production consisted of approximately 86% natural gas and 14% crude oil and natural gas liquids in the second quarter of 2015 as compared to 83% natural gas and 17% crude oil and natural gas liquids in the second 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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Average benchmark prices:** | | | | |
| Light oil – WTI Cushing *($USD/bbl)* | 57.94 | 102.99 | 53.29 | 100.84 |
| Light oil – Edmonton Par *($/bbl)* | 70.06 | 104.51 | 59.90 | 102.12 |
| Natural gas – AECO – C daily *($/MMbtu)*(1) | 2.65 | 4.69 | 2.70 | 5.20 |
| Exchange rate – *(USD$/CDN$)* | 1.23 | 1.08 | 1.25 | 1.10 |
| **Birchcliff's average realized sales price(2):** | | | | |
| Light oil *($/bbl)* | 64.93 | 104.72 | 56.03 | 101.01 |
| Natural gas *($/Mcf)* | 2.86 | 4.81 | 2.92 | 5.46 |
| NGLs *($/bbl)* | 59.57 | 96.13 | 52.84 | 95.74 |
| Barrels of oil equivalent *($/boe) (6:1)* | 23.62 | 41.33 | 22.95 | 44.04 |

(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, cost of competing fuels, 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 half of 2015. The AECO natural gas spot price averaged $2.65 per Mcf for the three month Reporting Period and averaged $2.70 per Mcf for the six month Reporting Period, a 43% and 48% decrease, respectively, from the Comparable Prior Periods. The WTI oil price in the three and six month Reporting Periods were 44% and 47% lower, respectively, than the Comparable Prior Periods.

Birchcliff's realized natural gas sales price at the wellhead averaged $2.86 per Mcf for the three month Reporting Period, 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, heat content premium and other price differentials from its natural gas production during the three month Reporting Period:

| | Three months ended June 30, 2015 | Three months ended June 30, 2014 |
|---|---|---|
| AECO – C daily *($/MMbtu)*(1) | 2.65 | 4.69 |
| Heat content premium | 0.21 | 0.48 |
| Price differential between physical sales contracts and AECO – C daily | - | (0.36) |
| **Average realized natural gas sales price *($/Mcf)*** | **2.86** | 4.81 |

(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 August 12, 2015 or during the Reporting Periods. During the Comparable Prior Periods, 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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Oil & natural gas royalties *($000s)*[(1)] | 2,138 | 9,507 | 5,024 | 22,158 |
| Oil & natural gas royalties *($/boe)* | 0.61 | 3.35 | 0.72 | 3.89 |
| Effective royalty rate *(%)*[(2)] | 3% | 8% | 3% | 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 rates from the Comparable Prior Periods was mainly due to significantly lower average oil and natural gas wellhead prices received for Birchcliff's production during the Reporting Periods 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 June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2015 | | 2014 | |
| | *($000s)* | *($/boe)* | *($000s)* | *($/boe)* | *($000s)* | *($/boe)* | *($000s)* | *($/boe)* |
| Field operating costs | 16,110 | 4.60 | 15,246 | 5.37 | 33,760 | 4.85 | 30,431 | 5.34 |
| Recoveries | (322) | (0.09) | (346) | (0.12) | (664) | (0.09) | (624) | (0.11) |
| Field operating costs, net | 15,788 | 4.51 | 14,900 | 5.25 | 33,096 | 4.76 | 29,807 | 5.23 |
| Expensed workovers and other | 67 | 0.02 | - | - | 428 | 0.06 | (8) | - |
| **Operating costs** | **15,855** | **4.53** | 14,900 | 5.25 | **33,524** | **4.82** | 29,799 | 5.23 |

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 14% and 8% from the three and six month Comparable Prior Periods, respectively, largely due to the continued cost benefits achieved from processing incremental volumes of natural gas through the PCS Gas Plant and the continued implementation of various optimization initiatives. On a production month basis, operating costs averaged $2.11 per boe at the PCS Gas Plant during the first half of 2015, where Birchcliff processed 80% of its total corporate natural gas production.

## Transportation and Marketing Expenses

Transportation and marketing expenses were $8.6 million ($2.46 per boe) for the three month Reporting Period and $17.5 million ($2.52 per boe) for the six month Reporting Period as compared to $7.0 million ($2.47 per boe) and $14.1 million ($2.47 per boe) for the Comparable Prior Periods. The increased aggregate costs are primarily due to higher transportation expenses resulting from increased production in the Reporting Periods as compared to the Comparable Prior Periods.

## Operating Netbacks

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Montney/Doig Natural Gas Resource Play**[1] | | | | |
| Average daily production, net: | | | | |
| Natural gas *(Mcf)* | 184,516 | 140,929 | 181,991 | 142,637 |
| Oil & NGLs *(bbls)* | 1,838 | 1,407 | 1,930 | 1,335 |
| Total boe *(6:1)* | **32,591** | 24,895 | **32,261** | 25,107 |
| *% of corporate production*[2] | ***85%*** | *80%* | ***84%*** | *80%* |
| Netback and cost *($/boe)*: | | | | |
| Petroleum and natural gas revenue | 19.77 | 32.80 | 19.77 | 36.17 |
| Royalty expense | (0.38) | (1.40) | (0.38) | (2.23) |
| Operating expense, net of recoveries | (3.18) | (3.65) | (3.51) | (3.72) |
| Transportation and marketing expense | (1.94) | (1.84) | (1.98) | (1.83) |
| Operating netback | **14.27** | 25.91 | **13.90** | 28.39 |
| **Worsley Charlie Lake Light Oil Resource Play**[1] | | | | |
| Average daily production, net: | | | | |
| Natural gas *(Mcf)* | 7,976 | 9,869 | 8,779 | 9,438 |
| Oil & NGLs *(bbls)* | 2,623 | 3,383 | 2,831 | 3,464 |
| Total boe *(6:1)* | **3,952** | 5,029 | **4,294** | 5,037 |
| *% of corporate production*[2] | ***10%*** | *16%* | ***11%*** | *16%* |
| Netback and cost *($/boe)*: | | | | |
| Petroleum and natural gas revenue | 48.00 | 79.34 | 41.84 | 79.42 |
| Royalty expense | (1.88) | (12.07) | (2.49) | (11.06) |
| Operating expense, net of recoveries | (10.57) | (9.52) | (10.50) | (9.82) |
| Transportation and marketing expense | (5.97) | (5.46) | (6.16) | (5.66) |
| Operating netback | **29.58** | 52.29 | **22.69** | 52.88 |
| **Total Corporate** | | | | |
| Average daily production, net: | | | | |
| Natural gas *(Mcf)* | 198,714 | 155,373 | 197,332 | 156,906 |
| Oil & NGLs *(bbls)* | 5,370 | 5,282 | 5,564 | 5,311 |
| Total boe *(6:1)* | **38,489** | 31,178 | **38,453** | 31,462 |
| Netback and cost *($/boe)* | | | | |
| Petroleum and natural gas revenue | 23.64 | 41.35 | 22.96 | 44.05 |
| Royalty expense | (0.61) | (3.35) | (0.72) | (3.89) |
| Operating expense, net of recoveries | (4.53) | (5.25) | (4.82) | (5.23) |
| Transportation and marketing expense | (2.46) | (2.47) | (2.52) | (2.47) |
| Operating netback | **16.04** | 30.28 | **14.90** | 32.46 |

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

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

### *Montney/Doig Natural Gas Resource Play*

Birchcliff's production from the Montney/Doig Natural Gas Resource Play was 32,591 boe per day in the three month Reporting Period and 32,261 boe per day in the six month Reporting Period, a 31% and 28% increase from the Comparable Prior Periods. This increase was largely due to higher incremental 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 were 10.0 bbls per MMcf in the three month Reporting Period and 10.6 bbls per MMcf in the six month Reporting Period. Of the 10 bbls per MMcf of liquids produced in the three month Reporting Period, approximately 9.7 bbls per MMcf (97%) 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 $14.27 per boe ($2.38 per Mcfe) in the three month Reporting Period and $13.90 per boe ($2.32 per Mcfe) in the six month Reporting Period, a 45% and 51% decrease, respectively, from the Comparable Prior Periods. This decrease was largely due to lower realized prices received for Birchcliff's natural gas and liquids production in the Reporting Periods as compared to the Comparable Prior Periods.

### *Worsley Charlie Lake Light Oil Resource Play*

Birchcliff's production from the Worsley Charlie Lake Light Oil Resource Play was 3,952 boe per day in the three month Reporting Period and 4,294 boe per day in the six month Reporting Period, a 21% and 15% decrease, respectively, from the Comparable Prior Periods. The decrease in production from the Comparable Prior Periods was largely due to natural production declines.

Operating netback from the Worsley Charlie Lake Light Oil Resource Play was $29.58 per boe in the three month Reporting Period and $22.69 per boe in the six month Reporting Period, a 43% and 57% decrease, respectively, from the Comparable Prior Periods. The decrease from the Comparable Prior Periods was largely due to lower realized oil prices received in the Reporting Periods.

## Administrative Expenses

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

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2015 | | 2014 | |
| | *($000s)* | *(%)* | *($000s)* | *(%)* | *($000s)* | *(%)* | *($000s)* | *(%)* |
| *Cash:* | | | | | | | | |
| Salaries and benefits[1] | 4,827 | 58 | 4,295 | 54 | 10,152 | 60 | 8,937 | 56 |
| Other[2] | 3,450 | 42 | 3,640 | 46 | 6,898 | 40 | 6,910 | 44 |
| | 8,277 | 100 | 7,935 | 100 | 17,050 | 100 | 15,847 | 100 |
| Operating overhead recoveries | (71) | (1) | (70) | (1) | (133) | (1) | (131) | (1) |
| Capitalized overhead[3] | (2,942) | (35) | (2,454) | (31) | (5,780) | (34) | (4,900) | (31) |
| General & administrative, net | 5,264 | 64 | 5,411 | 68 | 11,137 | 65 | 10,816 | 68 |
| General & administrative, net per boe | $1.50 | | $1.91 | | $1.60 | | $1.90 | |
| *Non-cash:* | | | | | | | | |
| Stock-based compensation | 2,051 | 100 | 3,837 | 100 | 4,051 | 100 | 6,000 | 100 |
| Capitalized stock-based compensation[3] | (1,181) | (58) | (1,696) | (44) | (2,424) | (60) | (2,900) | (48) |
| Stock-based compensation, net | 870 | 42 | 2,141 | 56 | 1,627 | 40 | 3,100 | 52 |
| Stock-based compensation, net per boe | $0.25 | | $0.75 | | $0.23 | | $0.54 | |
| **Administrative expenses, net** | **6,134** | | 7,552 | | **12,764** | | 13,916 | |
| **Administrative expenses, net per boe** | **$1.75** | | $2.66 | | **$1.83** | | $2.44 | |

(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:

| | Three months ended June 30, 2015 | | Six months ended June 30, 2015 | |
|---|---|---|---|---|
| | Number | Exercise price *($)*[1] | Number | Exercise price *($)*[1] |
| Outstanding at beginning of period | 12,884,505 | 7.92 | 11,147,672 | 8.45 |
| Granted | 186,000 | 7.49 | 3,257,500 | 6.63 |
| Exercised | (10,000) | (5.96) | (79,333) | (6.32) |
| Forfeited | (112,867) | (9.35) | (296,801) | (8.53) |
| Expired | - | - | (1,081,400) | (9.65) |
| **Outstanding, June 30, 2015** | **12,947,638** | **7.90** | **12,947,638** | **7.90** |

(1) Determined on a weighted average basis.

At June 30, 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 $37.6 million ($10.75 per boe) for the three month Reporting Period and $76.5 million ($10.99 per boe) for the six month Reporting Period as compared to $32.8 million ($11.56 per boe) and $64.8 million ($11.37 per boe) for the Comparable Prior Periods. D&D expenses were higher on an aggregate basis mainly due to a 23% and 22% increase in production from the three and six month Comparable Prior Periods, respectively.

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

### *Asset impairment assessment*

The Corporation 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 ("**CGUs**") for the purpose of determining impairment. A CGU represents the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. In determining the Corporation's CGUs, the Corporation 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 CGUs are reviewed at each reporting date for both internal and external indicators of potential impairment. Potential CGU impairment indicators include, but are not limited to: changes to Birchcliff's business plan; deterioration in commodity prices; negative changes in technological, economic, legal, capital or operating environment; adverse changes to the physical condition of a CGU; current expectations that a material CGU (or a significant component thereof) is more likely than not to be sold or otherwise disposed of before the end of its previously estimated useful life; non-compliance with the Corporation's credit facility agreement; 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 Periods. As a result, an impairment test was not required at June 30, 2015.

## Finance Expenses

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

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | | **2014** | | **2015** | | **2014** | |
| | *($000s)* | *($/boe)* | *($000s)* | *($/boe)* | *($000s)* | *($/boe)* | *($000s)* | *($/boe)* |
| *Cash:* | | | | | | | | |
| Interest on credit facilities | 5,165 | 1.48 | 4,818 | 1.70 | 10,124 | 1.45 | 9,670 | 1.70 |
| *Non-cash:* | | | | | | | | |
| Accretion on decommissioning obligations | 530 | 0.15 | 629 | 0.22 | 1,088 | 0.16 | 1,233 | 0.22 |
| Amortization of deferred financing fees | 230 | 0.07 | 233 | 0.08 | 450 | 0.06 | 491 | 0.09 |
| **Finance expenses** | **5,925** | **1.70** | 5,680 | 2.00 | **11,662** | **1.67** | 11,394 | 2.01 |

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 4.5% at the end of the Comparable Prior Period. The effective interest rate applicable to the bankers' acceptances issued under the revolving syndicated credit facility was 3.5% in the three month Reporting Period and 3.7% in the six month Reporting Period as compared to 4.1% in the Comparable Prior Periods. The effective interest rate applicable to the bankers' acceptances issued under the non-revolving term credit facilities was 3.8% and 4.0%, respectively, in the three month and six month Reporting Periods as compared to 4.7% in Comparable Prior Periods.

Birchcliff's average outstanding total credit facilities balance was approximately $533 million and $573 million in the three and six month Reporting Periods, respectively, as compared to $452 million and $449 million in the Comparable Prior Periods, calculated as the simple average of the month end amounts.

### Gain on Sale of Assets

During the six month 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 $0.09 per boe in the six month 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 are shown in the table below:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2015** | **2014** | **2015** | **2014** |
| Deferred income tax expense | 9,023 | 9,834 | 7,873 | 23,128 |
| Dividend tax expense on preferred shares | 750 | 750 | 1,500 | 1,500 |
| **Income tax expense** | 9,773 | 10,584 | 9,373 | 24,628 |
| **Income tax expense per boe** | **$2.78** | $3.74 | **$1.35** | $4.33 |

The Corporation recorded an income tax expense of $9.8 million ($2.78 per boe) for the three month Reporting Period and an income tax expense of $9.4 million ($1.35 per boe) for the six month Reporting Period as compared to an income tax expense of $10.6 million ($3.74 per boe) and $24.6 million ($4.33 per boe) for the Comparable Prior Periods. The decrease in income tax expense from the Comparable Prior Periods was largely due to lower recorded net income before taxes in the Reporting Periods. Also included in the Reporting Periods is a deferred income tax expense of $7.8 million resulting from an increase in the Alberta corporate income tax rate from 10% to 12%.

The Corporation's estimated income tax pools were $1.5 billion at June 30, 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 June 30, 2015** |
|---|---|
| Canadian oil and gas property expense | 249,597 |
| Canadian development expense | 413,906 |
| Canadian exploration expense | 284,354 |
| Undepreciated capital costs | 261,533 |
| Non-capital losses | 272,775 |
| Financing costs | 2,739 |
| **Estimated income tax pools** | **1,484,904** |

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 June 30, 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 June 30, 2015.

## CAPITAL EXPENDITURES

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

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| *($000s)* | **2015** | **2014** | **2015** | **2014** |
| Land | 4,352 | 810 | 4,923 | 9,874 |
| Seismic | 144 | 570 | 3,043 | 5,954 |
| Workovers | 1,093 | 3,102 | 3,425 | 6,054 |
| Drilling and completions | 34,941 | 50,001 | 96,110 | 116,944 |
| Well equipment and facilities | 24,257 | 20,816 | 56,341 | 41,032 |
| Finding and development capital | 64,787 | 75,299 | 163,842 | 179,858 |
| Acquisitions | - | - | - | 56,553 |
| Dispositions | - | (131) | (660) | (131) |
| Finding, development and acquisition capital | 64,787 | 75,168 | 163,182 | 236,280 |
| Administrative assets | 335 | 316 | 479 | 607 |
| **Capital expenditures, net** | **65,122** | 75,484 | **163,661** | 236,887 |

Birchcliff drilled 22 (21.5 net) wells in the first half of 2015, consisting of 18 (18.0 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 (1.0 net) Charlie Lake horizontal light oil well in the Progress 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 revised capital expenditure program of approximately $250 million and negotiating reductions in various service costs.

In the current environment, the Corporation's planned capital expenditure program for 2015 can now be achieved for approximately $220 million to $225 million as a result of significant cost savings, more efficient execution and the deferral until 2016 of approximately $17 million of capital associated with the Phase V expansion of the PCS Gas Plant as disclosed in the Corporation's press release of August 12, 2015. Accordingly, the Corporation has made the decision to drill an additional 7 (7.0 net) Montney/Doig horizontal natural gas wells during 2015. Birchcliff's forecast of total capital expenditures during 2015 is now approximately $250 million, a reduction of $16.7 million from the $266.7 million capital budget it previously announced on February 11, 2015. These additional wells will be drilled in the Pouce Coupe area and it is anticipated that 5 of these wells will be brought on production by year end and the remaining 2 wells will be brought on production during the first quarter of 2016. The Corporation now expects that a total of 32 (31.5 net) wells will be drilled in 2015.

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 revised 2015 capital expenditure program primarily using internally generated funds flow and available credit facilities. The Corporation's revised capital expenditure program is based on an expected annual average WTI price of US$50.00 per barrel of oil (revised from US$60.00 per barrel under its original capital expenditure program announced on February 11, 2015) and an AECO price of CDN$2.70 per GJ of natural gas (revised from CDN$3.00 per GJ under its original capital expenditure program announced on February 11, 2015) during 2015. Birchcliff may adjust its 2015 capital budget or further adjust its capital expenditure program to respond to changes in commodity prices and other material changes in the assumptions underlying its capital expenditure program.

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:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2015** | **2014** | **2015** | **2014** |
| Funds flow from operations | 45,752 | 75,382 | 82,472 | 163,751 |
| Changes in non-cash working capital from operations | (22,653) | 2,750 | (20,066) | (11,501) |
| Decommissioning expenditures | (48) | (99) | (328) | (907) |
| Exercise of stock options | 59 | 12,383 | 501 | 18,349 |
| Exercise of preferred warrants | - | 683 | - | 683 |
| Financing fees paid on credit facilities | (940) | (1,018) | (940) | (1,018) |
| Dividends paid on preferred shares | (1,875) | (1,875) | (3,750) | (3,750) |
| Net change in non-revolving term credit facilities | (130,000) | (366) | (129,970) | (683) |
| Net change in revolving term credit facilities | 194,216 | (1,760) | 261,579 | 58,181 |
| Changes in non-cash working capital from investing | (19,422) | (10,633) | (25,870) | 13,745 |
| **Capital resources** | **65,089** | 75,447 | **163,628** | 236,850 |

## Working Capital

The Corporation's working capital deficit (current assets minus current liabilities) decreased to $32.3 million at June 30, 2015 from $76.7 million at December 31, 2014. The deficit at June 30, 2015 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 June 30, 2015, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of June 2015 production (76%), which was subsequently received in July 2015. In contrast, current liabilities largely consisted of trade and joint venture payables (69%) and accrued capital and operating costs (27%). 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 Periods.

## Bank Debt

Total debt, including working capital deficit, was $632.3 million at June 30, 2015 as compared to $545.7 million at December 31, 2014. Total debt from the end of 2014 increased by $86.6 million, largely due to capital spent in excess of funds flow.

A significant portion of the funds drawn under Birchcliff's bank credit facilities during the Reporting Periods 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 the exploration and development of the Montney/Doig Resource Natural Gas Play and the Charlie Lake Light Oil Resource Play.

Birchcliff's available bank credit facilities limit aggregate to approximately $800 million at June 30, 2015, leaving $192 million (24%) of the Corporation's credit facilities unutilized, providing for substantial financial flexibility.

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

| **As at**, *($000s)* | **June 30, 2015** | **December 31, 2014** |
|---|---|---|
| *Maximum borrowing base limit*[(1)]*:* | | |
| Non-revolving term credit facilities | - | 130,000 |
| Revolving term credit facilities | 800,000 | 620,000 |
| | 800,000 | 750,000 |
| *Principal amount utilized:* | | |
| Drawn non-revolving term credit facilities[(2)] | - | (130,000) |
| Drawn revolving term credit facilities[(2)] | (607,798) | (342,433) |
| Outstanding letters of credit [(3)] | (184) | (184) |
| | (607,982) | (472,617) |
| **Unused credit** | **192,018** | 277,383 |
| **% unused credit** | **24%** | 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 and all financial covenants were removed.

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

(3) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit during the periods ended June 30, 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 June 30, 2015:

| *($000s)* | **2015** | **2016** | **2017 - 2019** | **Thereafter** |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | 67,751 | - | - | - |
| Drawn revolving term credit facilities | - | - | 607,798 | - |
| Office lease[(1)] | 1,810 | 3,619 | 3,318 | - |
| Purchase obligations[(2)] | 15,149 | 16,000 | - | - |
| Transportation and processing | 11,532 | 24,250 | 70,717 | 137,274 |
| **Estimated contractual obligations**[(3)] | **96,242** | **43,869** | **681,833** | **137,274** |

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

(2) As of June 30, 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.

(3) Contractual commitments that are routine in nature and form part of the normal course of operations for Birchcliff are not included. The Corporation's decommissioning obligations are excluded from the table as these obligations arose from a regulatory requirement rather than from a contractual arrangement. Birchcliff estimates the total undiscounted cash flow to settle its decommissioning obligations on its wells and facilities at June 30, 2015 to be approximately $158.5 million and will be incurred as follows: 2016 - $4.8 million, 2017 - $2.4 million and $151.3 million thereafter. The estimate for determining the undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

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

## OFF-BALANCE SHEET TRANSACTIONS

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

## OUTSTANDING SHARE INFORMATION

At June 30, 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 | 79,333 |
| **Balance at June 30, 2015** | **152,293,539** |

As of August 12, 2015, the Corporation had outstanding: 152,303,539 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 12,885,772 stock options to purchase an equivalent number of common shares; and 2,939,732 performance warrants to purchase an equivalent number of common shares.

On June 2, 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 June 30, 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, | Jun. 30, 2015 | Mar. 31, 2015 | Dec. 31, 2014 | Sep. 30, 2014 | Jun. 30, 2014 | Mar. 31 2014 | Dec. 31, 2013 | Sep. 30, 2013 |
|---|---|---|---|---|---|---|---|---|
| Average daily production *(boe 6:1)* | **38,489** | 38,416 | 37,704 | 34,235 | 31,178 | 31,749 | 28,391 | 24,662 |
| Realized natural gas price *($/Mcf)* | **2.86** | 2.98 | 3.91 | 4.37 | 4.81 | 6.10 | 3.81 | 2.60 |
| Realized oil price *($/bbl)*[(1)] | **64.93** | 47.66 | 71.87 | 95.94 | 104.72 | 97.30 | 81.52 | 102.82 |
| Total revenues *($000s)*[(1)] | **82,791** | 77,026 | 105,598 | 116,424 | 117,308 | 133,558 | 89,092 | 72,762 |
| Operating costs *($/boe)* | **4.53** | 5.11 | 5.33 | 5.06 | 5.25 | 5.21 | 5.44 | 5.66 |
| Capital expenditures, net *($000s)* | **65,122** | 98,539 | 109,682 | 104,363 | 75,484 | 161,403 | 18,188 | 76,186 |
| Funds flow from operations *($000s)* | **45,752** | 36,720 | 61,717 | 75,030 | 75,382 | 88,369 | 50,060 | 43,053 |
| Per common share – basic *($)* | **0.30** | 0.24 | 0.41 | 0.50 | 0.52 | 0.61 | 0.35 | 0.30 |
| Per common share – diluted *($)* | **0.30** | 0.24 | 0.40 | 0.48 | 0.49 | 0.60 | 0.34 | 0.30 |
| Net income (loss) *($000s)* | **(4,174)** | (3,479) | 17,053 | 29,665 | 28,087 | 39,499 | 37,062 | 10,156 |
| Net income (loss) to common shareholders *($000s)*[(2)] | **(5,174)** | (4,479) | 16,053 | 28,665 | 27,087 | 38,499 | 36,062 | 9,156 |
| Per common share – basic *($)* | **(0.03)** | (0.03) | 0.11 | 0.19 | 0.19 | 0.27 | 0.25 | 0.06 |
| Per common share – diluted *($)* | **(0.03)** | (0.03) | 0.10 | 0.19 | 0.18 | 0.26 | 0.25 | 0.06 |
| Total assets *($ million)* | **2,009** | 1,983 | 1,919 | 1,846 | 1,771 | 1,730 | 1,587 | 1,558 |
| Long-term bank debt *($000s)* | **599,998** | 536,570 | 469,033 | 435,545 | 452,183 | 453,772 | 393,967 | 444,719 |
| Total debt *($000s)* | **632,306** | 610,170 | 545,745 | 495,307 | 514,637 | 524,720 | 454,038 | 487,707 |
| 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 | 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 | **152,294** | 152,284 | 152,214 | 152,154 | 145,912 | 144,504 | 143,677 | 142,752 |
| Diluted | **168,181** | 168,108 | 166,302 | 166,190 | 166,285 | 166,085 | 163,548 | 163,396 |
| Wtd. average common shares outstanding *(000s)* | | | | | | | | |
| Basic | **152,289** | 152,243 | 152,183 | 149,594 | 145,145 | 144,026 | 143,063 | 142,549 |
| Diluted | **154,650** | 154,215 | 155,304 | 154,800 | 152,623 | 147,090 | 145,319 | 145,087 |

(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 primarily due to changes in funds flow from operations and a gain on sale of assets that occurred during the three months ended December 31, 2013.

Average daily production volumes have generally increased over the past eight quarters, which can be attributed primarily to the Corporation's exploration and development activities on the Montney/Doig Natural Gas Resource Play.

Capital expenditures have fluctuated over the past eight quarters as a result of the timing of the Corporation's development capital expenditures as well as an asset divestiture and an asset acquisition that occurred during the fourth quarter of 2013 and first quarter of 2014, respectively.

## 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 April 1, 2015 and ended on June 30, 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.

The New Democratic Party was elected as a majority government in Alberta on May 5, 2015. The new government has announced that it is proceeding with plans to study, and potentially modify, Alberta's royalty structure. Although the outcome of this review is not yet known, any change in Alberta's provincial royalty structure could have a significant impact on the Corporation's future financial results, cost of capital and capital investment plans. In addition, the new government has announced an increase in the provincial corporate tax rate to 12% from 10% and a doubling of carbon levies to $30 per tonne. The impact of the change in the corporate tax rate is reflected in the unaudited interim condensed financial statements with respect to the three and six months ended June 30, 2015 and this MD&A. Birchcliff is not currently subject to carbon levies; however, that may change in the future and the resultant impact of any such change is currently unknown.

The Corporation's results of operations may be adversely affected by pipeline interruptions and apportionments and/or the actions or inactions of third party operators, any of which could cause delays in the Corporation receiving its revenues and cause it to incur additional expenses.

### 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" 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 total debt as a key measure 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:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2015** | **2014** | **2015** | **2014** |
| Cash flow from operating activities | 23,051 | 78,033 | 62,078 | 151,343 |
| Adjustments: | | | | |
| Decommissioning expenditures | 48 | 99 | 328 | 907 |
| Changes in non-cash working capital | 22,653 | (2,750) | 20,066 | 11,501 |
| **Funds flow from operations** | **45,752** | 75,382 | **82,472** | 163,751 |

"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 attributable 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.

"Total debt" is calculated as the revolving term credit facilities plus non-revolving term credit facilities as they appear on the Corporation's Condensed Statements of Financial Position plus 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)* | **June 30, 2015** | **December 31, 2014** |
|---|---|---|
| Non-revolving term credit facilities | - | 129,476 |
| Revolving term credit facilities | 599,998 | 339,557 |
| Long-term bank debt | 599,998 | 469,033 |
| Working capital deficit | 32,308 | 76,712 |
| **Total debt** | **632,306** | 545,745 |

## ADVISORIES

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

***Boe 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 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 MD&A contains forward-looking information relating to: Birchcliff's plans and other aspects of its anticipated future operations, management focus, strategies and priorities; expected results from Birchcliff's portfolio of oil and gas assets and results of operations; the flexibility and sustainability of the Corporation; the Corporation's liquidity and the Corporation's belief 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; statements with respect to expected reserves increases; statements regarding Birchcliff's 2015 capital budget and its revised capital expenditure program, including the anticipated sources of funding for its capital expenditure program and its plan to drill a total of 32 (31.5 net) 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 its annual average production for 2015, 2015 annual average production growth, 2015 fourth quarter average production and 2015 exit production; Birchcliff's expectation that it will have strong average production in the first quarter of 2016; the proposed expansion of the PCS Gas Plant, including the anticipated processing capacity of the PCS Gas Plant after such expansion and the anticipated timing of such expansion; the future impact of changes in the royalty and carbon tax regimes; 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 estimated income tax pools and its expectation that future taxable income will be available to utilize accumulated 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, royalty rates and tax rates; the state of the economy and the exploration and production business; the economic and political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes and environmental laws; anticipated timing and results of capital expenditures; the sufficiency of budgeted capital expenditures to carry out planned operations; results of operations; operating, transportation, marketing 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; reserves and resource volumes and Birchcliff's ability to replace and expand oil and gas reserves through acquisition, development or exploration; the impact of competition; the* *availability of, demand for and cost of labour, services and materials; Birchcliff's ability to access capital; the ability to obtain any necessary regulatory approvals in a timely manner; the ability of Birchcliff to secure adequate transportation for its products; Birchcliff's ability to market oil and gas; and abandonment costs and timing of decommissioning obligations. In addition, Birchcliff has made the following key assumptions with respect to certain forward-looking information contained in this MD&A:*

- *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 statements of future wells to be drilled and brought on production, 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 statements regarding Birchcliff's 2015 capital budget and its revised capital expenditure program, the key assumption is that Birchcliff realizes the annual average production target of 39,000 to 40,000 boe/d and the commodity prices upon which Birchcliff's revised capital expenditure program is based, being an expected annual average WTI price of US$50.00 per barrel of oil and an AECO price of CDN$2.70 per GJ of natural gas during 2015. Birchcliff may adjust its 2015 capital budget or further adjust its capital expenditure program to respond to changes in commodity prices and other material changes in the assumptions underlying its 2015 capital expenditure program.*
- *With respect to estimates as to Birchcliff's annual average production for 2015, 2015 annual average production growth, 2015 fourth quarter average production and 2015 exit production and statements that Birchcliff expects strong average production in the first quarter of 2016, 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 the Corporation's liquidity and sources of funding for the Corporation's capital expenditure program, the key assumption is that the Corporation's forecasts of production, commodity prices and funds flow are valid.*
- *With respect to statements regarding the proposed expansion of the PCS Gas Plant, the anticipated processing capacity of the PCS Gas Plant after such expansion and the anticipated timing of such expansion, 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 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 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; uncertainty of geological and technical data; imprecision of reserves and resource estimates; operational risks; environmental risks; loss of market demand; stock market volatility; general economic conditions affecting ability to access sufficient capital; commodity price fluctuations; changes in governmental regulation of the oil and gas industry, including changes to the royalty and carbon tax regimes; 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 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 MD&A to conform such information to actual results or to changes in Birchcliff's plans or expectations, except as otherwise required by applicable securities laws.*

*The Corporation is required to disclose events and circumstances that occurred during the period to which this MD&A relates that are reasonably likely to cause actual results to differ materially from material forward-looking statements for a period that is not yet complete that the Corporation has previously disclosed to the public and the expected differences thereto. Such disclosure can be found in the Corporation's press release dated August 12, 2015, which is available on the Corporation's website at www.birchcliffenergy.com and on SEDAR at www.sedar.com.*

*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, | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash | 21 | 54 |
| Accounts receivable | 29,745 | 34,931 |
| Prepaid expenses and deposits | 5,677 | 1,612 |
| | 35,443 | 36,597 |
| Non-current assets: | | |
| Exploration and evaluation *(Note 3)* | 820 | 2,235 |
| Petroleum and natural gas properties and equipment *(Note 4)* | 1,972,797 | 1,879,848 |
| | 1,973,617 | 1,882,083 |
| **Total assets** | 2,009,060 | 1,918,680 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | 67,751 | 113,309 |
| | 67,751 | 113,309 |
| Non-current liabilities: | | |
| Revolving term credit facilities *(Note 5)* | 599,998 | 339,557 |
| Non-revolving term credit facilities *(Note 6)* | - | 129,476 |
| Decommissioning obligations *(Note 7)* | 87,870 | 85,824 |
| Deferred income taxes | 103,814 | 95,941 |
| Capital securities | 48,451 | 48,296 |
| | 840,133 | 699,094 |
| **Total liabilities** | 907,884 | 812,403 |
| **SHAREHOLDERS’ EQUITY** | | |
| Share capital *(Note 8)* | | |
| Common shares | 783,358 | 782,671 |
| Preferred shares *(perpetual)* | 41,434 | 41,434 |
| Contributed surplus | 56,983 | 53,118 |
| Retained earnings | 219,401 | 229,054 |
| | 1,101,176 | 1,106,277 |
| **Total shareholders’ equity and liabilities** | 2,009,060 | 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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **REVENUE** | | | | |
| Petroleum and natural gas sales | **82,791** | 117,308 | **159,817** | 250,866 |
| Royalties | **(2,138)** | (9,507) | **(5,024)** | (22,158) |
| Net revenue from oil and natural gas sales | **80,653** | 107,801 | **154,793** | 228,708 |
| Realized loss on financial instruments | - | (307) | - | (616) |
| Unrealized loss on financial instruments | - | (38) | - | (189) |
| | **80,653** | 107,456 | **154,793** | 227,903 |
| **EXPENSES** | | | | |
| Operating | **15,855** | 14,900 | **33,524** | 29,799 |
| Transportation and marketing | **8,617** | 6,983 | **17,536** | 14,056 |
| Administrative, net | **6,134** | 7,552 | **12,764** | 13,916 |
| Depletion and depreciation *(Note 4)* | **37,648** | 32,795 | **76,493** | 64,774 |
| Finance | **5,925** | 5,680 | **11,662** | 11,394 |
| Dividends on capital securities | **875** | 875 | **1,750** | 1,750 |
| (Gain) on sale of assets | - | - | **(656)** | - |
| | **75,054** | 68,785 | **153,073** | 135,689 |
| **INCOME BEFORE TAXES** | **5,599** | 38,671 | **1,720** | 92,214 |
| Income tax expense | **9,773** | 10,584 | **9,373** | 24,628 |
| **NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)** | **(4,174)** | 28,087 | **(7,653)** | 67,586 |
| Net income (loss) per common share *(Note 8)* | | | | |
| Basic | **($0.03)** | $0.19 | **($0.06)** | $0.45 |
| Diluted | **($0.03)** | $0.18 | **($0.06)** | $0.44 |

*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 | - | - | - | (2,000) | (2,000) |
| Exercise of stock options | 26,670 | - | (8,321) | - | 18,349 |
| Exercise of preferred warrants | 781 | - | (98) | - | 683 |
| Stock-based compensation | - | - | 6,000 | - | 6,000 |
| Net income and comprehensive income | - | - | - | 67,586 | 67,586 |
| As at June 30, 2014 | 721,634 | 41,434 | 57,700 | 184,336 | 1,005,104 |
| As at December 31, 2014 | 782,671 | 41,434 | 53,118 | 229,054 | 1,106,277 |
| Dividends on perpetual preferred shares *(Note 8)* | - | - | - | (2,000) | (2,000) |
| Exercise of stock options *(Notes 8 and 9)* | 687 | - | (186) | - | 501 |
| Stock-based compensation *(Note 9)* | - | - | 4,051 | - | 4,051 |
| Net loss and comprehensive loss | - | - | - | (7,653) | (7,653) |
| **As at June 30, 2015** | **783,358** | **41,434** | **56,983** | **219,401** | **1,101,176** |

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

## Birchcliff Energy Ltd.
## Condensed Statements of Cash Flows

*Unaudited (Expressed in thousands of Canadian dollars)*

| | Three months ended June 30, 2015 | Three months ended June 30, 2014 | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|---|---|---|---|---|
| Cash provided by (used in): | | | | |
| **OPERATING** | | | | |
| Net income (loss) and comprehensive income (loss) | (4,174) | 28,087 | (7,653) | 67,586 |
| Adjustments for items not affecting operating cash: | | | | |
| Unrealized loss on financial instruments | - | 38 | - | 189 |
| Depletion and depreciation | 37,648 | 32,795 | 76,493 | 64,774 |
| Stock-based compensation | 870 | 2,141 | 1,627 | 3,100 |
| Finance | 5,925 | 5,680 | 11,662 | 11,394 |
| (Gain) on sale of assets | - | - | (656) | - |
| Income tax expense | 9,773 | 10,584 | 9,373 | 24,628 |
| Interest paid | (5,165) | (4,818) | (10,124) | (9,670) |
| Dividends on capital securities | 875 | 875 | 1,750 | 1,750 |
| Decommissioning expenditures *(Note 7)* | (48) | (99) | (328) | (907) |
| Changes in non-cash working capital | (22,653) | 2,750 | (20,066) | (11,501) |
| | 23,051 | 78,033 | 62,078 | 151,343 |
| **FINANCING** | | | | |
| Exercise of stock options | 59 | 12,383 | 501 | 18,349 |
| Exercise of preferred warrants | - | 683 | - | 683 |
| Financing fees paid on credit facilities | (940) | (1,018) | (940) | (1,018) |
| Dividends on perpetual preferred shares *(Note 8)* | (1,000) | (1,000) | (2,000) | (2,000) |
| Dividends on capital securities *(Note 8)* | (875) | (875) | (1,750) | (1,750) |
| Net change in non-revolving term credit facilities | (130,000) | (366) | (129,970) | (683) |
| Net change in revolving term credit facilities | 194,216 | (1,760) | 261,579 | 58,181 |
| | 61,460 | 8,047 | 127,420 | 71,762 |
| **INVESTING** | | | | |
| Petroleum and natural gas properties and equipment | (65,113) | (75,598) | (164,307) | (180,384) |
| Exploration and evaluation assets | (9) | (17) | (14) | (81) |
| 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 | - | 131 | 60 | 131 |
| Changes in non-cash working capital | (19,422) | (10,633) | (25,870) | 13,745 |
| | (84,544) | (86,117) | (189,531) | (223,142) |
| **NET CHANGE IN CASH** | (33) | (37) | (33) | (37) |
| **CASH, BEGINNING OF PERIOD** | 54 | 96 | 54 | 96 |
| **CASH, END OF PERIOD** | 21 | 59 | 21 | 59 |

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

# Birchcliff Energy Ltd.
# Notes to the Interim Condensed Financial Statements
# For the Three and Six Months Ended June 30, 2015

*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 August 12, 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 and six months ended June 30, 2015, including the 2014 comparative periods. The financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**").

These financial statements have been prepared following the same IFRS accounting policies and methods of computation as disclosed in the annual audited financial statements for the year ended December 31, 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 | 14 |
| Disposals | (1) |
| Lease expiries[2] | (1,428) |
| **As at June 30, 2015** | **820** |

(1) E&E assets consist of the Corporation's exploration activities which are pending the determination of economic quantities of commercially producible proven reserves. Additions represent the Corporation's net share of costs incurred on E&E activities during the period. A review of each exploration project by area is carried out at each reporting date to ascertain whether economical quantities of proven reserves have been discovered and whether such costs should be transferred to depletable petroleum and natural gas components. There were no exploration costs reclassified from the E&E category to petroleum and natural gas properties and equipment category during the three and six months ended June 30, 2015.

(2) During the six months ended June 30, 2015, the Corporation incurred an expense of approximately $1.4 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 | 167,549 | 469 | 168,018 |
| Dispositions | (3) | - | (3) |
| As at June 30, 2015[1] | 2,493,047 | 10,689 | 2,503,736 |
| | | | |
| *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 | (74,483) | (583) | (75,066) |
| As at June 30, 2015 | (523,892) | (7,047) | (530,939) |
| | | | |
| *Net book value:* | | | |
| As at December 31, 2014 | 1,876,092 | 3,756 | 1,879,848 |
| **As at June 30, 2015**[2] | **1,969,155** | **3,642** | **1,972,797** |

(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 June 30, 2015.

## 5. REVOLVING TERM CREDIT FACILITIES

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

| **As at,** *($000s)* | **June 30, 2015** | **December 31, 2014** |
|---|---|---|
| Syndicated credit facility | 585,000 | 319,000 |
| Working capital facility | 22,798 | 23,433 |
| Drawn revolving term credit facilities | 607,798 | 342,433 |
| Unamortized prepaid interest on bankers' acceptances | (5,870) | (2,084) |
| Unamortized deferred financing fees | (1,930) | (792) |
| **Revolving term credit facilities** | **599,998** | 339,557 |

On May 11, 2015, the aggregate limit of Birchcliff's credit facilities was increased to $800 million from $750 million. 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. The $800 million extendible borrowing base revolving term credit facility has no financial covenants.

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 revolving term credit facilities allow for prime rate loans, US base rate loans, bankers' acceptances, letters of credit and LIBOR loans. The interest rates applicable to the drawn loans are based on a pricing grid and will change as a result of the ratio of outstanding indebtedness to EBITDA. EBITDA is defined 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. The revolving term credit facilities are subject to the Syndicate's redetermination of the borrowing base once each year as of November 15. Upon any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall, Birchcliff must eliminate the borrowing base shortfall amount. The revolving term credit facilities are secured by a fixed and floating charge debenture, an instrument of pledge and a general security agreement encompassing all of the Corporation's assets.

## 6. NON-REVOLVING TERM CREDIT FACILITIES

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

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

(1) On May 11, 2015, Birchcliff's non-revolving term credit facilities were consolidated and included in the $800 million three-year term revolving credit facility as described in Note 5 in these financial statements.

## 7. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is provided below:

| **As at,** *($000s)* | **June 30, 2015** | **December 31, 2014** |
|---|---|---|
| Balance, beginning | 85,824 | 73,433 |
| Obligations incurred | 1,129 | 5,751 |
| Obligations acquired | - | 1,788 |
| Changes in estimated future cash flows | 157 | 4,091 |
| Accretion expense | 1,088 | 2,424 |
| Actual expenditures | (328) | (1,663) |
| **Balance, ending(1)** | **87,870** | 85,824 |

(1) As at June 30, 2015, Birchcliff applied a risk-free rate of 2.42% to calculate the discounted fair value of decommissioning liabilities (December 31, 2014 – 2.43%).

## 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:

| **As at,** *(000s)* | **June 30, 2015** | **December 31, 2014** |
|---|---|---|
| **Common Shares:** | | |
| Outstanding at beginning of period - Jan 1 | 152,215 | 143,677 |
| Exercise of stock options | 79 | 2,551 |
| Exercise of preferred warrants | - | 5,987 |
| Outstanding at end of period | **152,294** | 152,215 |
| **Series A Preferred Shares** *(perpetual)* **:** | | |
| Outstanding at beginning of period - Jan 1 | 2,000 | 2,000 |
| Outstanding at end of period | **2,000** | 2,000 |

### Capital Securities

The Corporation has outstanding 2,000,000 Series C Preferred Shares at June 30, 2015 (December 31, 2014 - 2,000,000).

### Dividends

On June 2, 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 June 30, 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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Net income (loss) and comprehensive income (loss) *($000's)* | (4,174) | 28,087 | (7,653) | 67,586 |
| Dividends on Series A Preferred Shares *($000's)* | (1,000) | (1,000) | (2,000) | (2,000) |
| Net income (loss) to common shareholders *($000's)* | (5,174) | 27,087 | (9,653) | 65,586 |
| Weighted average common shares *(000's)*: | | | | |
| Weighted average basic common shares outstanding | 152,289 | 145,145 | 152,266 | 144,588 |
| Effects of dilutive securities | - | 7,478 | - | 5,307 |
| Weighted average diluted common shares outstanding[(1)] | 152,289 | 152,623 | 152,266 | 149,895 |
| **Net income (loss) per common share** *($/share)* | | | | |
| **Basic** | **($0.03)** | $0.19 | **($0.06)** | $0.45 |
| **Diluted** | **($0.03)** | $0.18 | **($0.06)** | $0.44 |

(1) As the Corporation reported a loss for the three and six months ended June 30, 2015 the basic and diluted weighted average shares outstanding are the same for the period. The weighted average diluted common shares outstanding at June 30, 2015 excludes 15,887,370 stock options and performance warrants that were anti-dilutive (June 30, 2014 – 4,590,400).

## 9. SHARE-BASED PAYMENTS

### Stock Options

At June 30, 2015, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of a maximum of 15,229,354 (June 30, 2014 – 14,591,153) common shares. At June 30, 2015, there remained available for issuance options in respect of 2,281,716 (June 30, 2014 – 3,074,681) common shares. For stock options exercised during the three months ended June 30, 2015, the weighted average share trading price was $7.93 (June 30, 2014 – $12.85) per common share.

A summary of the outstanding stock options at June 30, 2015 is presented below:

| | Three months ended June 30, 2015 | | Six months ended June 30, 2015 | |
|---|---|---|---|---|
| | Number | Exercise price *($)*[(1)] | Number | Exercise price *($)*[(1)] |
| Outstanding at beginning of period | 12,884,505 | 7.92 | 11,147,672 | 8.45 |
| Granted | 186,000 | 7.49 | 3,257,500 | 6.63 |
| Exercised | (10,000) | (5.96) | (79,333) | (6.32) |
| Forfeited | (112,867) | (9.35) | (296,801) | (8.53) |
| Expired | - | - | (1,081,400) | (9.65) |
| **Outstanding, June 30, 2015** | **12,947,638** | **7.90** | **12,947,638** | **7.90** |

(1) Determined on a weighted average basis.

The weighted average fair value per option granted during the three months ended June 30, 2015 was $2.45 (June 30, 2014 – $4.04). In determining the stock-based compensation expense for options issued during the three months ended June 30, 2015, the Corporation applied a weighted average estimated forfeiture rate of 13% (June 30, 2014 – 13%).

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

| Three months ended, | June 30, 2015 | June 30, 2014 |
|---|---|---|
| Risk-free interest rate | 0.7% | 1.4% |
| Expected life *(years)* | 4.0 | 3.9 |
| Expected volatility | 41.3% | 38.4% |

A summary of the stock options outstanding and exercisable under the plan at June 30, 2015 is presented below:

| Exercise Price | | Awards Outstanding | | | Awards Exercisable | | |
|---|---|---|---|---|---|---|---|
| Low | High | Quantity | Weighted Average Remaining Contractual Life *(years)* | Weighted Average Exercise Price | Quantity | Weighted Average Remaining Contractual Life *(years)* | Weighted Average Exercise Price |
| $5.96 | $6.00 | 2,165,235 | 1.82 | $5.96 | 2,165,235 | 1.82 | $5.96 |
| $6.01 | $9.00 | 8,560,203 | 3.67 | $7.50 | 2,426,994 | 2.94 | $7.84 |
| $9.01 | $12.00 | 1,961,200 | 1.02 | $11.14 | 1,744,533 | 0.64 | $11.26 |
| $12.01 | $14.56 | 261,000 | 2.66 | $13.07 | 143,000 | 1.55 | $12.95 |
| | | **12,947,638** | **2.94** | **$7.90** | **6,479,762** | **1.92** | **$8.24** |

### 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 June 30, 2015 (June 30, 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 six months ended June 30, 2015.

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

| **As at,** *($000s)* | **June 30, 2015** | **December 31, 2014** |
|---|---|---|
| *Maximum borrowing base limit*[1]: | | |
| Non-revolving term credit facilities | - | 130,000 |
| Revolving term credit facilities | 800,000 | 620,000 |
| | 800,000 | 750,000 |
| *Principal amount utilized*: | | |
| Drawn non-revolving term credit facilities | - | (130,000) |
| Drawn revolving term credit facilities | (607,798) | (342,433) |
| Outstanding letters of credit[2] | (184) | (184) |
| | (607,982) | (472,617) |
| **Unused credit** | **192,018** | **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. On May 11, 2015, the aggregate limit of Birchcliff's credit facilities was increased to $800 million from $750 million.

(2) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit during the three months ended June 30, 2015.

The capital structure of the Corporation is as follows:

| **As at,** *($000s)* | **June 30, 2015** | **December 31, 2014** | **Change** |
|---|---|---|---|
| Shareholders' equity[1] | 1,101,176 | 1,106,277 | |
| Capital securities | 48,451 | 48,296 | |
| Shareholders' equity & capital securities | 1,149,627 | 1,154,573 | 0% |
| Shareholders' equity & capital securities as a % of total capital[2] | 64% | 68% | |
| Working capital deficit | 32,308 | 76,712 | |
| Drawn non-revolving term credit facilities | - | 130,000 | |
| Drawn revolving term credit facilities | 607,798 | 342,433 | |
| Drawn debt | 640,106 | 549,145 | 17% |
| Drawn debt as a % of total capital | 36% | 32% | |
| **Capital** | **1,789,733** | 1,703,718 | 5% |

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

(2) Of the 64%, approximately 59% 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 month and six months ended June 30, 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 June 30, 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 June 30, 2015.

## Non-GAAP Measures

This Second Quarter Report uses "funds flow", "funds flow from operations", "funds flow per common share", "netback", "operating netback", "estimated operating netback", "operating margin" 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 and six months ended June 30, 2015.

In addition, this Second 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 Second Quarter Report for the three and six months ended June 30, 2015 and three and six months ended June 30, 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 Second Quarter Report to "operating costs" excludes transportation and marketing costs.*

***Drilling Locations***: *This Second 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.*

***Initial Production Rates**: Any references in this Second Quarter Report to initial production rates for any wells are not determinative of the rates at which such wells will continue to produce and decline thereafter and are not necessarily indicative of the long-term performance or the ultimate recovery of such wells. Such rates may be based on field estimates and may be based on limited data available at the time.*

***Forward-Looking Information**: This Second 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 Second Quarter Report contains forward-looking information relating to: Birchcliff's plans and other aspects of its anticipated future operations, management focus, strategies and priorities, including Birchcliff's intention to construct and operate the Elmworth Gas Plant; expected results from Birchcliff's portfolio of oil and gas assets and results of operations; statements with respect to expected reserves increases; statements regarding Birchcliff's 2015 capital budget and its revised capital expenditure program, including the anticipated sources of funding for its capital expenditure program and its plan to drill a total of 32 (31.5 net) 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 its annual average production for 2015, 2015 annual average production growth, 2015 fourth quarter average production and 2015 exit production; Birchcliff's expectation that it will have strong average production in the first quarter of 2016; Birchcliff's expectation that service costs will continue to fall; 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 it has enough firm transportation capacity to meet its production guidance and that additional firm transportation will become available to Birchcliff; Birchcliff's expectation that the operating cost reductions that it has implemented will further reduce costs over the long-term at the PCS Gas Plant; estimates of potential future drilling locations and opportunities; and Birchcliff's* *expectation that the success of its two Montney D4 wells in the Elmworth area will result in follow-up drilling by Birchcliff and significant future reserves additions. In addition, this Second Quarter Report includes the forward-looking information identified in the Management's Discussion and Analysis for the three and six months ended June 30, 2015 under the heading "Advisories – Forward-Looking Information".*

*The forward-looking information contained in this Second Quarter Report is based upon certain expectations and assumptions, including: prevailing and future commodity prices, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; the state of the economy and the exploration and production business; the economic and political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes and environmental laws; anticipated timing and results of capital expenditures; the sufficiency of budgeted capital expenditures to carry out planned operations; results of operations; operating, transportation, marketing 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; reserves and resource volumes and Birchcliff's ability to replace and expand oil and gas reserves through acquisition, development or exploration; the impact of competition; the availability of, demand for and cost of labour, services and materials; Birchcliff's ability to access capital; the ability to obtain any necessary regulatory approvals in a timely manner; the ability of Birchcliff to secure adequate transportation for its products; 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 Second Quarter Report:*

- *With respect to statements regarding Birchcliff's intention to construct and operate the Elmworth Gas Plant, the key assumptions are that: future drilling in the Elmworth area is successful; the acid gas disposal well drilled by Birchcliff is capable of handling the volumes of acid gas to be produced at the plant and complies with all regulatory requirements; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund the Elmworth Gas Plant; and commodity prices warrant proceeding with the construction of the Elmworth Gas Plant and the drilling of associated wells.*

- *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 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 statements regarding Birchcliff's 2015 capital budget and its revised capital expenditure program, the key assumption is that Birchcliff realizes the annual average production target of 39,000 to 40,000 boe/d and the commodity prices upon which Birchcliff's revised capital expenditure program is based, being an expected annual average WTI price of US$50.00 per barrel of oil and an AECO price of CDN$2.70 per GJ of natural gas during 2015. Birchcliff may adjust its 2015 capital budget or further adjust its capital expenditure program to respond to changes in commodity prices and other material changes in the assumptions underlying its 2015 capital expenditure program.*

- *With respect to estimates as to Birchcliff's annual average production for 2015, 2015 annual average production growth, 2015 fourth quarter average production and 2015 exit production and statements that Birchcliff expects strong average production in the first quarter of 2016, 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 the sources of funding for Birchcliff's capital expenditure program, the key assumption is that Birchliff's forecasts of production, commodity prices and funds flow are valid.*

- *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 Birchcliff's two 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.*

*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; uncertainty of geological and technical data; imprecision of reserves and resource estimates; operational risks; environmental risks; loss of market demand; stock market volatility; general economic conditions affecting ability to access sufficient capital; commodity price fluctuations; changes in governmental regulation of the oil and gas industry, including changes to the royalty and carbon tax regimes; 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 Second 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.*

*Birchcliff previously disclosed in its press release of November 12, 2014 that it was initially targeting exit production for 2015 of approximately 48,000 to 50,000 boe per day and that the capital expenditure required to achieve this production target was expected to be approximately \$450 million to \$500 million. Commodity prices have declined significantly since the latter half of 2014. In addition, the Corporation announced on February 11, 2015 its 2015 capital expenditure budget of \$266.7 million and has since further revised its 2015 capital expenditure program to approximately \$250 million as disclosed in the Corporation's press release dated August 12, 2015. Primarily as a result of the decline in commodity prices and the revisions to Birchcliff's capital expenditure program, Birchcliff has revised its 2015 exit production guidance to 41,000 to 42,000 boe per day.*

*Any "financial outlook" contained in this Second 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

### OFFICERS

**A. Jeffery Tonken**
President & Chief Executive Officer

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

**Chris A. Carlsen**
Vice-President, Engineering

**Bruno P. Geremia**
Vice-President & Chief Financial Officer

**David M. Humphreys**
Vice-President, Operations

**James W. Surbey**
Vice-President, Corporate Development

### DIRECTORS

**Larry A. Shaw (Chairman)**
Calgary, Alberta

**Kenneth N. Cullen**
Calgary, Alberta

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

### MANAGEMENT

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Manager, General Accounting

**Perry Billard**
Asset Team Lead – North

**Robyn Bourgeois**
General Counsel

**Wayne Brown**
Production Manager

**Jesse Doenz**
Controller

**George Fukushima**
Manager of Engineering

**Andrew Fulford**
Surface Land Manager

**Robert (Bob) Grisack**
Land Manager

### MANAGEMENT CONT'D

**Paul Messer**
Manager of IT

**Bruce Palmer**
Manager of Geology

**Bill Partridge**
Asset Team Lead – East

**Michelle Rodgerson**
Office Manager

**Jeff Rogers**
Facilities Manager

**Randy Rousson**
Drilling & Completions Manager

**Theo van der Werken**
Asset Team Lead – West

### SOLICITORS

Borden Ladner Gervais LLP
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### AUDITORS

KPMG LLP, Chartered Accountants
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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

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Canadian Imperial Bank of Commerce

Business Development Bank of Canada

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