MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

This Management's Discussion and Analysis ("**MD&A**") for Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is dated March 14, 2018. This MD&A with respect to the three and twelve months ended December 31, 2017 (the "**Reporting Periods**") as compared to the three and twelve months ended December 31, 2016 (the "**Comparable Prior Periods**") 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 audited financial statements of the Corporation and the related notes for the year ended December 31, 2017. Birchcliff's audited financial statements and the related notes for the year ended December 31, 2017 have been prepared in accordance with IFRS. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

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

This MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. Such forward-looking information is based upon certain expectations and assumptions and actual results may differ materially from those expressed or implied by such forward-looking information. For further information regarding the forward-looking information contained herein, including the assumptions underlying such forward-looking information, see *"Advisories – Forward-Looking Information"* in this MD&A.

All boe amounts have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil and all Mcfe amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. For further information, see "*Advisories"* in this MD&A.

ABOUT BIRCHCLIFF

Birchcliff is a Calgary, Alberta based intermediate oil and natural gas company with operations concentrated within its one core area, the Peace River Arch of Alberta. Birchcliff's common shares and cumulative redeemable preferred shares, Series A and Series C, are listed for trading on the Toronto Stock Exchange (the "**TSX**") under the symbols "BIR", "BIR.PR.A" and "BIR.PR.C", respectively. Additional information relating to the Corporation, including its Annual Information Form for the financial year ended December 31, 2017, is available on the SEDAR website at www.sedar.com and on the Corporation's website at www.birchcliffenergy.com.

2017 FINANCIAL AND OPERATIONAL HIGHLIGHTS

During 2017, Birchcliff reduced its exposure to pricing at AECO and diversified the natural gas markets it sells to. Birchcliff entered into agreements for the firm service transportation of an aggregate of 175,000 GJ/d (approximately 152 MMcf/d) of natural gas on TCPL's Canadian Mainline for a 10-year term, whereby natural gas is transported to the Dawn trading hub located in Southern Ontario. The first tranche of this service (120,000 GJ/d) became available to Birchcliff on November 1, 2017, with additional tranches becoming available on November 1, 2018 (35,000 GJ/d) and November 1, 2019 (20,000 GJ/d).

Birchcliff also has sales agreements with a third party marketer to sell and deliver into the Alliance pipeline system: (i) approximately 40 MMcf/d of natural gas under contracts which commenced November 1, 2017 and expire March 31, 2018, 10 MMcf/d of which is sold at Alliance's Trading Pool daily index price and 30 MMcf/d of which is sold at a Chicago index price; and (ii) approximately 5 MMcf/d of natural gas under contracts which commenced April 1, 2017 and expire October 31, 2020, which is sold at Alliance's Trading Pool daily index price.

The 80 MMcf/d Phase V expansion of Birchcliff's 100% owned and operated natural gas processing plant in Pouce Coupe (the "**Pouce Coupe Gas Plant**") was successfully brought on-stream in the third quarter of 2017, increasing the total processing capacity of the plant to 260 MMcf/d from 180 MMcf/d.

During 2017, Birchcliff completed asset sales for total proceeds of approximately $148 million (before adjustments), including the disposition of its Worsley Charlie Lake Light Oil Pool (the "**Worsley Assets**") for total proceeds of approximately $100 million (before adjustments) ($90 million in cash; $10 million in securities) which closed on August 31, 2017 (the "**Worsley Disposition**").

Other highlights of 2017 include the following:

- Birchcliff achieved record annual average production of 67,963 boe/d, a 38% increase from 49,236 boe/d in 2016.
- Birchcliff had adjusted funds flow of $317.7 million, or $1.20 per basic common share, a 115% increase and a 62% increase, respectively, from $147.4 million and $0.74 per basic common share in 2016.
- Birchcliff recorded a net loss to common shareholders of $51.0 million ($0.19 per basic common share), as compared to the net loss to common shareholders of $28.3 million ($0.14 per basic common share) in 2016. The net loss included an after-tax loss of $132.3 million resulting from the Worsley Disposition.
- Birchcliff had operating costs of $4.45/boe, a 6% increase from $4.18/boe in 2016.
- Birchcliff had general and administrative expense of $1.07/boe, a 10% decrease from $1.19/boe in 2016.
- Birchcliff had interest expense of $1.14/boe, a 32% decrease from $1.68/boe in 2016.
- Birchcliff had net capital expenditures of $276.1 million and total capital expenditures of $416.8 million in 2017.
- Birchcliff's total debt at December 31, 2017 was $598.2 million, as compared to $600.0 million at December 31, 2016.
- Birchcliff began paying a quarterly dividend to its common shareholders during 2017 in the amount of $0.10 per share per year ($0.025 per share per quarter).

Highlights of the fourth quarter of 2017 include the following:

- Birchcliff had record quarterly average production of 80,103 boe/d, a 32% increase from 60,750 boe/d in the fourth quarter of 2016.
- Birchcliff had quarterly adjusted funds flow of $97.0 million, or $0.36 per basic common share, a 35% increase and a 33% increase, respectively, from $71.8 million and $0.27 per basic common share in the fourth quarter of 2016.
- Birchcliff recorded net income to common shareholders of $24.8 million ($0.09 per basic common share), as compared to net income to common shareholders of $11.1 million ($0.04 per basic common share) in the fourth quarter of 2016.
- Birchcliff had operating costs of $3.86/boe, a 15% decrease from $4.54/boe in the fourth quarter of 2016.
- Birchcliff had general and administrative expense of $1.28/boe, an 8% increase from $1.19/boe in the fourth quarter of 2016.
- Birchcliff had interest expense of $0.97/boe, a 31% decrease from $1.40/boe in the fourth quarter of 2016.
- Birchcliff had net capital expenditures of $18.7 million.

See *"Cash Flow from Operating Activities and Adjusted Funds Flow", "Net Income (Loss) to Common Shareholders", "Pouce Coupe Gas Plant Netbacks"*, "*Discussion of Operations",* "*Capital Expenditures*" and "*Capital Resources and Liquidity*" in this MD&A for further information regarding the financial and operational results for the Reporting Periods.

2018 OUTLOOK

The Board of Directors of the Corporation has approved a capital expenditure budget for 2018 of $255 million. Approximately $149.9 million has been allocated for drilling and development, $66.9 million for facilities and infrastructure and $17.1 million for sustaining and optimization. Based on the assumptions set forth in the table below, the Corporation expects that its 2018 capital expenditures will be less than its adjusted funds flow during 2018. Birchcliff's 2018 capital expenditure program (the "**2018 Capital Program**") reflects the Corporation's long-term plan to continue the exploration and development of its low-cost natural gas, crude oil and liquids-rich assets on the Montney/Doig Resource Play. The program will focus on the drilling of crude oil wells in Gordondale and a combination of liquids-rich and low-cost natural gas wells in Pouce Coupe to take advantage of the recently improved prices for oil and NGLs. The objectives of the 2018 Capital Program are to maintain a prudent pace of development and focus on rates of return, while also maintaining balance sheet strength and the payment of a sustainable quarterly dividend to Birchcliff's shareholders.

The 2018 Capital Program contemplates the drilling, completing, equipping and bringing on production of a total of 27 (27.0 net) wells during 2018 and targets an annual average production rate for 2018 in the range of 76,000 to 78,000 boe/d. In addition, the 2018 Capital Program contemplates the completion of the 80 MMcf/d Phase VI expansion of the Pouce Coupe Gas Plant, which is expected to come on-stream in October 2018. In addition, Phases V and VI of the plant are being re-configured to allow for shallow-cut capability to remove propane plus (C3+) liquids from the natural gas stream.

During 2018, Birchcliff expects that approximately 34% of its 2018 forecast annual average natural gas production will be sold at prices that are not based on AECO, with 30% being sold at the Dawn index price and 4% being marketed via the Alliance pipeline system. Birchcliff's market diversification initiatives have helped to reduce its exposure to volatility in commodity prices, including AECO prices which have been extremely volatile in recent months. The Corporation continues to actively look for further profitable market diversification opportunities.

The following table sets forth the Corporation's guidance and commodity price assumptions for 2018, as well as its 2017 results for comparative purposes:

	2018 Guidance and Assumptions(1)	2017 Annual Actuals
Production		
Annual average production (boe/d)	76,000 – 78,000	67,963
% Natural gas	80%	79%
% Oil and NGLs	20%	21%
Average Expenses ($/boe)		
Royalty	1.20 – 1.40	1.16
Operating	3.75 – 4.00	4.45
Transportation and marketing	3.80 – 4.10(2)	2.87(3)
Capital Expenditures (MM$)		
Estimated total capital	255.0	416.8
Estimated drilling and development capital	149.9	269.1
Estimated facilities and infrastructure capital	66.9	132.4
Natural Gas Market Exposure(4)		
AECO production as a % of total natural gas production	66%	58%(5)
Dawn production as a % of total natural gas production	30%	29%(5)
Commodity Prices		
Average WTI oil price (US$/bbl)	61.00	50.95
Average AECO price ($/MMBtu)(6)	1.58	2.16
Average Dawn price ($/MMBtu)(6)	3.48	3.82(5)
Average wellhead natural gas price ($/Mcf)(7)	2.32	2.72(8)

(1) For further information regarding Birchcliff's 2018 guidance, including the assumptions surrounding such guidance, please see *"Advisories – Forward-Looking Information"* in this MD&A.

(2) Includes transportation tolls for 120,000 GJ/d of natural gas sold at the Dawn price from January 1, 2018 to October 31, 2018 and 155,000 GJ/d from November 1, 2018 to December 31, 2018.

(3) Includes transportation tolls for 120,000 GJ/d of natural gas sold at the Dawn price from November 1, 2017 to December 31, 2017.

(4) Approximately 13% of total natural gas production was sold via the Alliance pipeline system in 2017. Approximately 4% of total natural gas production is expected to be sold via the Alliance pipeline system in 2018.

(5) For the months of November and December 2017 only as the Corporation's TCPL-Dawn arrangement did not commence until November 1, 2017.

(6) \$1.00 per MMBtu equals \$1.00 per Mcf based on a standard heat value of 37.4 MJ/m^3 or a heat uplift of 1.055 when converting from \$/GJ.

(7) Birchcliff receives premium pricing for its natural gas production due to its high heat content from its properties. The conversion from standard heat value in MMBtu to realized wellhead price in Mcf is based on an expected corporate average realized natural gas heat content value of 40.80 MJ/ m^3 or a heat uplift of 1.091. The total conversion is \$1.00/GJ = \$1.15/Mcf at the wellhead.

(8) Includes the effects of any commodity fixed price physical delivery contracts in the period.

The average wellhead natural gas price for 2018 of \$2.32/Mcf is based upon an annual average AECO price of \$1.58/MMBtu during 2018 (\$2.11/MMBtu during the months of January, February, March, November and December and \$1.20/MMBtu during the remaining months of 2018) and an annual Dawn price of \$3.48/MMBtu during 2018 (\$4.22/MMBtu during the months of January and February and \$3.33/MMBtu during the remaining months of 2018).

See *"Advisories – Forward-Looking Information".*

SELECTED ANNUAL INFORMATION

	2017	2016	2015
Average daily production *(boe)*	67,963	49,236	38,950
Petroleum and natural gas revenue *($000s)*[1]	556,942	337,586	317,304
Average sales price *(CDN$)*[1]			
Light oil – *(per bbl)*	61.42	51.40	53.68
Natural gas – *(per Mcf)*	2.72	2.41	2.90
NGLs – *(per bbl)*	33.39	31.23	50.76
Total – *(per boe)*	22.44	18.73	22.31
Cash flow from operating activities *($000s)*	287,660	140,514	148,797
Adjusted funds flow *($000s)*[2]	317,680	147,443	160,756
Per common share – basic *($)*	1.20	0.74	1.06
Per common share – diluted *($)*	1.19	0.73	1.04
Net loss *($000s)*	(46,980)	(24,335)	(12,160)
Net loss to common shareholders *($000s)*	(51,027)	(28,335)	(16,160)
Per common share – basic *($)*	(0.19)	(0.14)	(0.11)
Per common share – diluted *($)*	(0.19)	(0.14)	(0.11)
Capital expenditures, net *($000s)*	276,125	762,030	247,207
Operating costs *($ per boe)*	4.45	4.18	4.54
Total assets *($000s)*	2,627,108	2,710,457	2,025,373
Capital securities *($000s)*	49,225	48,916	48,606
Revolving term credit facilities *($000s)*	587,126	572,517	622,074
Adjusted working capital deficit *($000s)*	11,067	27,495	21,538
Total debt *($000s)*	598,193	600,012	643,612
Common shares outstanding *(000s)*:			
End of period – basic	265,797	264,042	152,308
End of period – diluted	282,895	279,881	167,817
Weighted average common shares for period – basic[3]	265,182	199,581	152,286
Weighted average common shares for period – diluted[3]	265,182	199,581	152,286
Common shares – dividend distribution *($000s)*	26,522	-	-
Per common share *($)*	0.10	-	-
Series A preferred shares outstanding – end of period *(000s)*	2,000	2,000	2,000
Series A – dividend distribution *($000s)*	4,047	4,000	4,000
Per Series A preferred share *($)*	2.02	2.00	2.00
Series C preferred shares outstanding – end of period *(000s)*	2,000	2,000	2,000
Series C – dividend distribution *($000s)*	3,500	3,500	3,500
Per Series C preferred share *($)*	1.75	1.75	1.75

(1) Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts.

(2) Birchcliff previously referred to adjusted funds flow as "funds flow from operations". See "*Non-GAAP Measures*".

(3) As the Corporation reported net losses for 2017, 2016 and 2015, the basic and diluted weighted average shares outstanding are the same for the respective periods.

In 2017, annual average production was 67,963 boe/d, up 38% from 2016 and up 74% from 2015. The increase in annual average production from 2015 is primarily due to the production volumes acquired pursuant to the Gordondale asset acquisition that was completed in July 2016 (the "**Gordondale Acquisition**") and the incremental production from new horizontal oil and natural gas wells brought on production in Pouce Coupe and Gordondale in connection with Birchcliff's successful 2016 and 2017 capital programs.

Birchcliff generated higher adjusted funds flow in 2017 as compared to the prior two years. The increase in adjusted funds flow from the prior two years was largely due to an increase in annual average production volumes and a higher average realized sales price. Adjusted funds flow in 2017 was also positively impacted by a $25.8 million realized cash gain on financial instruments, partially offset by increases in royalty, operating and transportation and marketing expenses primarily resulting from higher production in 2017.

Birchcliff recorded a net loss to common shareholders of $51.0 million ($0.19 per basic common share) in 2017, as compared to the net loss to common shareholders of $28.3 million ($0.14 per basic common share) in 2016 and $16.2 million ($0.11 per basic common share) in 2015. The increase in the net loss to common shareholders from the prior two years is mainly attributable to an after-tax book loss of $132.3 million resulting from the Worsley Disposition and higher stock-based compensation and depletion costs, partially offset by higher adjusted funds flow in 2017.

Net capital expenditures in 2017 were significantly lower as compared to 2016 but comparable to net capital expenditures in 2015. Net capital expenditures in 2016 included the Gordondale Acquisition for cash consideration of $613.5 million, after closing adjustments and other related costs. Excluding the Gordondale Acquisition, capital expenditures in the last three years were largely directed towards the Montney/Doig Resource Play which included: (i) the drilling and completion of new horizontal oil and natural gas wells brought on production in Pouce Coupe and Gordondale; and (ii) the Phase V expansion of the Pouce Coupe Gas Plant (including related wells and infrastructure) which increased the natural gas processing capacity from 180 MMcf/d to a licensed processing capacity of 260 MMcf/d. Net capital expenditures in 2017 also included the disposition of the Worsley Assets for total consideration of approximately $100 million before closing adjustments.

CASH FLOW FROM OPERATING ACTIVITIES AND ADJUSTED FUNDS FLOW

The following table sets forth the Corporation's cash flow from operating activities and adjusted funds flow for the Reporting Periods and the Comparable Prior Periods:

($000s)	Three months ended December 31, 2017	Three months ended December 31, 2016	Twelve months ended December 31, 2017	Twelve months ended December 31, 2016
Cash flow from operating activities	88,995	90,574	287,660	140,514
Adjusted funds flow[(1)]	**97,008**	**71,806**	**317,680**	**147,443**
Per common share – basic *($)*	0.36	0.27	1.20	0.74
Per common share – diluted *($)*	0.36	0.27	1.19	0.73

(1) Birchcliff previously referred to adjusted funds flow as "funds flow from operations". See "*Non-GAAP Measures*".

Cash flow from operating activities for the three month Reporting Period was comparable to the three month Comparable Prior Period. Cash flow from operating activities for the twelve month Reporting Period increased 105% from the twelve month Comparable Prior Period primarily due to a higher average realized sales price and higher corporate production.

Adjusted funds flow in the three and twelve month Reporting Periods increased by 35% and 115%, respectively, from the Comparable Prior Periods. The increase in adjusted funds flow from the three month Comparable Prior Period was largely due to higher corporate production, a realized cash gain on financial instruments and lower royalty expense, partially offset by a lower average realized sales price, higher general and administrative expense and increased operating and transportation and marketing expenses primarily resulting from higher production in three month Reporting Period. Adjusted funds flow increased from the twelve month Comparable Prior Period primarily due to a higher average realized sales price, higher corporate production, a realized cash gain on financial instruments and lower interest costs, partially offset by higher royalties, operating and transportation and marketing expenses primarily resulting from higher production in the twelve month Reporting Period.

The following table sets forth a breakdown of total cash costs on a per unit basis and the percentage change period-over-period for the Reporting Periods and the Comparable Prior Periods:

	Three months ended December 31,			Twelve months ended December 31,		
($/boe)	**2017**	**2016**	***% Change***	**2017**	**2016**	***% Change***
Royalty expense	1.26	1.82	(31%)	1.16	1.16	0%
Operating expense	3.86	4.54	(15%)	4.45	4.18	6%
Transportation and marketing expense	3.52	2.42	45%	2.87	2.38	21%
General & administrative expense, net	1.28	1.19	8%	1.07	1.19	(10%)
Interest expense	0.97	1.40	(31%)	1.14	1.68	(32%)
Total cash costs	**10.89**	**11.37**	**(4%)**	**10.69**	**10.59**	**1%**

On a per unit basis, total cash costs for the three month Reporting Period decreased by 4% and for the twelve month Reporting Period increased by less than 1% as compared to the Comparable Prior Periods.

See "*Discussion of Operations*" in this MD&A for further details regarding the period-over-period movement in commodity prices, production volumes and cash costs discussed above.

NET INCOME (LOSS) TO COMMON SHAREHOLDERS

The following table sets forth the Corporation's net income (loss) and net income (loss) to common shareholders for the Reporting Periods and the Comparable Prior Periods:

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2017**	**2016**	**2017**	**2016**
Net income (loss)	25,820	12,085	(46,980)	(24,335)
Net income (loss) to common shareholders[(1)]	**24,773**	**11,085**	**(51,027)**	**(28,335)**
Per common share – basic *($)*	0.09	0.04	(0.19)	(0.14)
Per common share – diluted *($)*	0.09	0.04	(0.19)	(0.14)

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

During the three month Reporting Period, Birchcliff reported net income to common shareholders of $24.8 million as compared to $11.1 million in the three month Comparable Prior Period. The increase in net income to common shareholders from the three month Comparable Prior Period is primarily due to an increase in adjusted funds flow and an after-tax gain of $10.0 million on the sale of Birchcliff's Progress Charlie Lake assets which closed on October 2, 2017 (the "**Progress Disposition**"), partially offset by higher depletion expense resulting from higher production in the three month Reporting Period.

During the twelve month Reporting Period, Birchcliff reported a net loss to common shareholders of $51.0 million, as compared to the net loss to common shareholders of $28.3 million in the twelve month Comparable Prior Period. The increase in net loss to common shareholders from the twelve month Comparable Prior Period was mainly attributable to an after-tax book loss of $132.3 million resulting from the Worsley Disposition and higher depletion and stock-based compensation costs, partially offset by an unrealized mark-to-market gain on financial instruments and higher adjusted funds flow in the twelve month Reporting Period.

POUCE COUPE GAS PLANT NETBACKS

During the twelve month Reporting Period, Birchcliff processed approximately 60% of its total corporate natural gas production and 49% of its total corporate production through its Pouce Coupe Gas Plant as compared to 68% and 59%, respectively, during the twelve month Comparable Prior Period. These decreases are primarily due to the increased weighting of production from the Corporation's Gordondale assets as a percentage of corporate production. The average plant and field operating cost for production processed through the Pouce Coupe Gas Plant was $0.34/Mcfe ($2.07/boe) and the estimated operating netback at the Pouce Coupe Gas Plant was $2.19/Mcfe ($13.12/boe), resulting in an operating margin of 72% in the twelve month Reporting Period.

The following table sets forth Birchcliff's average daily production and estimated operating netback for wells producing to the Pouce Coupe Gas Plant for the twelve month Reporting Period and the twelve month Comparable Prior Period:

	Twelve months ended December 31, 2017		Twelve months ended December 31, 2016	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		193,417		168,444
Oil & NGLs *(bbls)*		1,316		960
Total boe		**33,552**		**29,034**
AECO – C daily *($/MMBtu)*[(1)]	**$2.16**		**$2.16**	
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[(2)]	3.04	18.24	2.54	15.21
Royalty expense	(0.07)	(0.44)	(0.06)	(0.38)
Operating expense[(3)]	(0.34)	(2.07)	(0.25)	(1.49)
Transportation and marketing expense[(4)]	(0.44)	(2.61)	(0.33)	(1.96)
Estimated operating netback	**$2.19**	**$13.12**	**$1.90**	**$11.38**
Operating margin	**72%**	**72%**	**75%**	**75%**

(1) $1.00/MMBtu = $1.00/Mcf based on a standard heat value Mcf. See "*Advisories*".

(2) Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts and higher average realized sales pricing for a portion of natural gas sold at Dawn commencing November 1, 2017. The average benchmark price for natural gas sold from November 1, 2017 to December 31, 2017 at Dawn was $3.82/MMBtu compared to $2.17/MMBtu at AECO.

(3) Represents plant and field operating costs.

(4) Includes transportation tolls for a portion of natural gas sold at Dawn from November 1, 2017 to December 31, 2017.

DISCUSSION OF OPERATIONS

The following table sets forth Birchcliff's P&NG revenues, production and percentage of production and sales price by product category for the Reporting Periods and the Comparable Prior Periods:

	Three months ended December 31, 2017				Three months ended December 31, 2016			
	Total Revenue[(1)] *($000s)*	Average Daily Production	*(%)*	Average *($/unit)*	Total Revenue[(1)] *($000s)*	Average Daily Production	*(%)*	Average *($/unit)*
Light oil *(bbls)*	33,332	5,283	7	68.58	26,018	4,656	8	60.75
Natural gas *(Mcf)*	93,647	385,280	80	2.64	88,135	289,587	79	3.31
NGLs *(bbls)*	39,114	10,607	13	40.08	21,254	7,830	13	29.50
Total P&NG sales *(boe)*	166,093	80,103	100	22.54	135,407	60,750	100	24.23
Royalty revenue	56			0.01	50			0.01
P&NG revenues	**166,149**			**22.55**	**135,457**			**24.24**

(1) Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts.

	Twelve months ended December 31, 2017				Twelve months ended December 31, 2016			
	Total Revenue[1] *($000s)*	**Average Daily Production**	*(%)*	**Average** *($/unit)*	**Total Revenue[1]** *($000s)*	**Average Daily Production**	*(%)*	**Average** *($/unit)*
Light oil *(bbls)*	134,597	6,004	9	61.42	70,144	3,729	8	51.40
Natural gas *(Mcf)*	318,790	320,927	79	2.72	218,432	247,373	83	2.41
NGLs *(bbls)*	103,244	8,471	12	33.39	48,901	4,279	9	31.23
Total P&NG sales *(boe)*	556,631	67,963	100	22.44	337,477	49,236	100	18.73
Royalty revenue	311			0.01	109			-
P&NG revenues	**556,942**			**22.45**	**337,586**			**18.73**

(1) Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts.

The increase in P&NG revenues from the Comparable Prior Periods was largely attributable to an increase in production from the Corporation's 2017 capital program which resulted in incremental production from new horizontal oil wells being brought on production in Gordondale, as well as from new horizontal natural gas wells being brought on production in Pouce Coupe in connection with the start-up of Phase V of the Pouce Coupe Gas Plant. P&NG revenues were also impacted by the average realized sales price in the Reporting Periods, which was down by 7% from the three month Comparable Prior Period and up by 20% from the twelve month Comparable Prior Period.

Petroleum and Natural Gas Revenues

Production

Production averaged 80,103 boe/d in the three month Reporting Period and 67,963 boe/d in the twelve month Reporting Period, a 32% and 38% increase, respectively, from the Comparable Prior Periods. The average production of 80,103 boe/d in the three month Reporting Period is slightly above the high end of Birchcliff's previous guidance range of 79,000 to 80,000 boe/d. The average production of 67,963 boe/d in the twelve month Reporting Period is on the high end of the Corporation's previous guidance range of 67,000 to 68,000 boe/d.

Birchcliff's oil, natural gas and NGLs production for the three month Reporting Period increased by 13%, 33% and 35%, respectively, from the three month Comparable Prior Period. During the twelve month Reporting Period, production from oil, natural gas and NGLs increased by 61%, 30% and 98%, respectively, from the twelve month Comparable Prior Period. The increase in production from the Comparable Prior Periods was primarily attributable to: (i) the Gordondale Acquisition which resulted in significant production additions subsequent to closing on July 28, 2016; (ii) incremental production from new horizontal oil wells being brought on production in Gordondale; and (iii) incremental production from new horizontal natural gas wells being brought on production in Pouce Coupe in connection with the start-up of Phase V of the Pouce Coupe Gas Plant. Production in the twelve month Reporting Period was also negatively impacted by the Worsley Disposition which was completed on August 31, 2017. During the twelve month Reporting Period, production from the Worsley Assets averaged 1,714 boe/d as compared to 2,923 boe/d in the twelve month Comparable Prior Period.

During the three month Reporting Period, production from the Montney/Doig Resource Play was comprised of 49,138 boe/d in Pouce Coupe and 30,639 boe/d in Gordondale. During the twelve month Reporting Period, production from the Montney/Doig Resource Play was comprised of 39,092 boe/d in Pouce Coupe and 26,608 boe/d in Gordondale.

Production consisted of approximately 80% natural gas, 7% light oil and 13% NGLs in the three month Reporting Period which was in line with Birchcliff's previous guidance, as compared to 79% natural gas, 8% light oil and 13% NGLs in the three month Comparable Prior Period. Production consisted of approximately 79% natural gas, 9% light oil and 12% NGLs in the twelve month Reporting Period which was in line with Birchcliff's previous guidance, as compared to 83% natural gas, 8% light oil and 9% NGLs in the twelve month Comparable Prior Period. The change in the corporate production mix from the twelve month Comparable Prior Period was a result of the more heavily-weighted oil and NGLs production attributed to the Corporation's Gordondale assets.

Commodity Prices

Birchcliff sold the majority of its light crude oil on a spot basis and its natural gas production for prices primarily based on the AECO natural gas spot price during the Reporting Periods. Commencing November 1, 2017, Birchcliff began selling its natural gas production at the Dawn index price. The average realized sales 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 and transportation and product quality differentials.

The average benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for crude oil. The principal benchmark trading exchanges that Birchcliff compares its oil price to are the WTI oil spot price and the Canadian Edmonton par spot price. The differential between the WTI oil spot price and the 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 a lack of pipeline infrastructure connecting to key consuming oil markets.

Canadian natural gas prices are mainly influenced by North American supply and demand fundamentals which can be impacted by a number of factors, including, but not limited to, weather-related conditions, changing demographics, economic growth, underground storage levels, net import and export markets, pipeline takeaway capacity, cost of competing fuels, drilling and completion rates and efficiencies in extracting natural gas from North American natural gas basins. AECO natural gas spot prices were challenged during the three month Reporting Period, with spot natural gas prices under pressure periodically due to temporary restrictions in pipeline and compressor station capacity on the Alberta NGTL system. Approximately half of Birchcliff's total corporate production was hedged during the three month Reporting Period, which reduced the pricing impact as a result of these restrictions.

During the Reporting Periods, the Corporation entered into agreements with TCPL for the firm service transportation of an aggregate of 175,000 GJ/d (approximately 152 MMcf/d) of natural gas on TCPL's Canadian Mainline for a 10-year term, whereby natural gas is transported to the Dawn trading hub located in Southern Ontario. The first tranche of this service (120,000 GJ/d) became available to Birchcliff on November 1, 2017, with additional tranches becoming available later in 2018 and in 2019. In addition, Birchcliff entered into arrangements during the Reporting Periods with third party marketers to sell and deliver natural gas into the Alliance pipeline system.

At December 31, 2017, approximately 58% of Birchcliff's natural gas production was being sold at AECO, 29% sold at the Dawn price and 13% was being sold into the Alliance pipeline system. After taking into account Birchcliff's oil and NGLs production, approximately 47% of the Corporation's total corporate production at December 31, 2017 was exposed to AECO pricing, with the remaining 53% of corporate production not exposed to AECO pricing.

The following table sets forth the average benchmark prices and Birchcliff's average corporate realized sales price for the Reporting Periods and the Comparable Prior Periods:

	Three months ended December 31,		Twelve months ended December 31,	
	2017	**2016**	**2017**	**2016**
Average benchmark index prices:				
Light oil – WTI Cushing *(US$/bbl)*	55.40	49.29	50.95	43.32
Light oil – Edmonton Par *($/bbl)*	68.62	61.66	62.52	53.90
Natural gas – AECO-C daily *($/MMBtu)*(1)	1.69	3.09	2.16	2.16
Natural gas – Union-Dawn Day Ahead *($/MMBtu)*(1)(2)	3.82	-	-	-
Exchange rate – *(US$/CDN$)*	1.27	1.33	1.29	1.33
Birchcliff's average realized sales price: (3)				
Light oil *($/bbl)*	68.58	60.75	61.42	51.40
Natural gas *($/Mcf)*	2.64	3.31	2.72	2.41
NGLs *($/bbl)*	40.08	29.50	33.39	31.23
Average corporate realized sales price *($/boe)*	**22.54**	**24.23**	**22.44**	**18.73**

(1) $1.00/MMBtu = $1.00/Mcf based on a standard heat value Mcf. See "*Advisories*".

(2) For the months of November and December 2017 only as Birchcliff's TCPL-Dawn arrangement did not commence until November 1, 2017.

(3) Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts.

The average corporate realized sales price was $22.54/boe for the three month Reporting Period and $22.44/boe for the twelve month Reporting Period, a 7% decrease and a 20% increase, respectively, from the Comparable Prior Periods.

During the three month Reporting Period: (i) Birchcliff's average realized natural gas sales price decreased 20% from the Comparable Prior Period; (ii) Birchcliff's average realized oil sales price increased 13% from the Comparable Prior Period; and (iii) Birchcliff's average realized NGLs sales price increased 36% from the Comparable Prior Period.

During the twelve month Reporting Period: (i) Birchcliff's average realized natural gas sales price increased 13% from the Comparable Prior Period; (ii) Birchcliff's average realized oil sales price increased 19% from the Comparable Prior Period; and (iii) Birchcliff's average realized NGLs sales price increased 7% from the Comparable Prior Period.

During the three month Reporting Period, the average realized oil, natural gas and NGLs sales price was $29.46/boe for the Corporation's Gordondale assets as compared to $18.27/boe for the Corporation's Pouce Coupe assets. During the twelve month Reporting Period, the average realized oil, natural gas and NGLs sales price was $26.92/boe for the Gordondale assets as compared to $18.41/boe for the Pouce Coupe assets. The Corporation's assets in Gordondale receive a higher average sales price compared to the Corporation's assets in Pouce Coupe, largely as a result of higher volume weighting of NGLs produced in the Gordondale area which receive a higher value on a per unit basis than Birchcliff's natural gas sales. The higher weighting of NGLs in the total corporate production mix improves Birchcliff's overall average realized sales price.

With respect to the Corporation's Gordondale assets, NGLs (ethane, propane, butane) are substantially recovered from the raw natural gas stream at AltaGas' owned and operated natural gas processing facility located in Gordondale (the "**AltaGas Facility**") which reduces the heat content value and realized sales price of natural gas from the area. During the three and twelve month Reporting Periods, the average realized natural gas sales price for the Gordondale assets was $2.62/Mcf and $2.67/Mcf, respectively, as compared to $2.65/Mcf and $2.74/Mcf, respectively, for the Pouce Coupe assets.

During the three month Reporting Period, the NGLs production mix in Gordondale consisted of approximately 36% ethane, 30% propane, 17% butane and 17% condensate ("**C5+**"). During the twelve month Reporting Period, the NGLs production mix in Gordondale consisted of approximately 33% ethane, 32% propane, 19% butane and 16% C5+. In comparison, approximately 95% of Birchcliff's NGLs production mix in Pouce Coupe was comprised of C5+ during the Reporting Periods. The NGLs sales price averaged $32.48/boe for the Gordondale assets as compared to $70.47/boe for the Pouce Coupe assets during the three month Reporting Period. For the twelve month Reporting Period, the NGLs sales price averaged $26.01/boe for the Gordondale assets as compared to $63.09/boe for the Pouce Coupe assets.

Commodity Price Risk Management

The Corporation maintains an ongoing commodity price risk management program in order to reduce volatility in its financial results. As a part of this program, the Corporation utilizes various financial derivative and physical delivery sales contracts. The Board of Directors of the Corporation has authorized the Corporation to hedge such portion of its forecast production as is permitted by the Corporation's credit facilities, which generally permit the Corporation to hedge up to 65% of its forecast production over the following four fiscal quarters for terms not exceeding three years. Birchcliff's current strategy for 2018 is to hedge up to 50% of its estimated 2018 forecast average production using a combination of financial derivatives and physical sales contracts, depending on its outlook for commodity prices and the availability of hedges on terms acceptable to Birchcliff.

Financial Derivative Contracts

As at December 31, 2017, the Corporation had the following financial derivatives in place:

Product	Type of contract	Notional quantity	Term[1]	Contract price	Fair value *($000s)*
Crude oil	Financial swap	1,500 bbls/d	January 1, 2018 – December 31, 2018	WTI CDN $71.85/bbl	1,300
Crude oil	Financial swap	3,000 bbls/d	January 1, 2018 – December 31, 2018	WTI CDN $71.88/bbl	2,746
Fair value assets[2]					**4,046**

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

(2) Birchcliff has not designated its financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity price contracts to be effective economic hedges. As a result, all such financial derivative contracts are recorded on the statement of financial position on a "mark-to-market" fair value basis at December 31, 2017, with the changes in fair value being recognized as a non-cash unrealized gain or loss in profit or loss. These contracts are not entered into for trading or speculative purposes.

The following table sets forth a summary of the realized and unrealized gains (losses) on financial derivative contracts for the Reporting Periods and the Comparable Prior Periods:

	Three months ended December 31,				Twelve months ended December 31,			
	2017		2016		2017		2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Realized gain (loss)	10,787	1.46	(134)	(0.02)	25,785	1.03	802	0.04
Unrealized gain (loss)	(13,712)	(1.86)	(9,603)	(1.72)	5,387	0.22	(9,433)	(0.52)

There were no financial derivative contracts entered into by the Corporation subsequent to December 31, 2017.

Physical Delivery Sales Contracts

As at December 31, 2017, the Corporation had no physical delivery sales contracts in place. There were no physical delivery sales contracts entered into by the Corporation subsequent to December 31, 2017.

Royalties

The following table sets forth Birchcliff's royalty expense for the Reporting Periods and the Comparable Prior Periods:

	Three months ended December 31, 2017	Three months ended December 31, 2016	Twelve months ended December 31, 2017	Twelve months ended December 31, 2016
Oil & natural gas royalties *($000s)*(1)	9,271	10,177	28,727	20,911
Oil & natural gas royalties *($/boe)*	1.26	1.82	1.16	1.16
Effective royalty rate *(%)*(2)	6%	8%	5%	6%

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

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

Birchcliff's aggregate royalties decreased from the three month Comparable Prior Period primarily due to a 20% decrease in natural gas prices and the effect these lower prices have on the sliding scale royalty calculation, partially offset by higher corporate production and increased oil and NGLs prices.

Birchcliff's aggregate royalties increased from the twelve month Comparable Prior Period primarily due to higher average realized sales prices and higher corporate production.

During the three and twelve month Reporting Periods, the effective royalty rate for the Gordondale assets averaged 9% and 8%, respectively, and for the Pouce Coupe assets the effective royalty rate averaged 3% and 2%, respectively. The higher effective royalty rate for the Gordondale assets were due to higher oil and NGLs weighting which generally have higher sliding scale royalty rates.

Operating Costs

The following table sets forth for the Reporting Periods and the Comparable Prior Periods a breakdown of Birchcliff's operating costs:

	Three months ended December 31, 2017		Three months ended December 31, 2016		Twelve months ended December 31, 2017		Twelve months ended December 31, 2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Field operating costs	28,901	3.92	25,786	4.61	112,287	4.53	76,706	4.26
Recoveries	(523)	(0.07)	(429)	(0.08)	(1,917)	(0.08)	(1,700)	(0.09)
Field operating costs, net	28,378	3.85	25,357	4.53	110,370	4.45	75,006	4.17
Expensed workovers and other	82	0.01	28	0.01	116	-	245	0.01
Operating costs	**28,460**	**3.86**	**25,385**	**4.54**	**110,486**	**4.45**	**75,251**	**4.18**

The per unit operating costs for the three month Reporting Period were \$3.86/boe, a 15% decrease from \$4.54/boe in the three month Comparable Prior Period and in line with Birchcliff's previous guidance of less than \$4.00/boe for the quarter. The decrease in operating costs per boe from the three month Comparable Prior Period was largely due to incremental production additions brought on-stream to Phase V of the Pouce Coupe Gas Plant, the sale of the higher cost Worsley Assets and various cost reductions and infrastructure optimization initiatives implemented by Birchcliff throughout 2017.

The per unit operating costs for the twelve month Reporting Period were \$4.45/boe, a 6% increase from \$4.18/boe in the twelve month Comparable Prior Period. The increase in operating costs per boe from the twelve month Comparable Prior Period was largely due to higher operating, processing and service costs associated with the Gordondale assets which were acquired partway through 2016 and operational for the twelve month Reporting Period, partially offset by incremental production additions brought on-stream to Phase V of the Pouce Coupe Gas Plant, the sale of the higher cost Worsley Assets and various cost reductions and infrastructure optimization initiatives implemented by Birchcliff throughout 2017. The Gordondale assets have a higher cost structure primarily resulting from increased oil and NGLs production weighting and additional fees incurred to process natural gas from the Gordondale area at the AltaGas Facility.

During the three and twelve month Reporting Periods, operating costs: (i) for the Gordondale assets averaged approximately $6.15/boe and $6.32/boe, respectively; and (ii) for the Pouce Coupe assets averaged approximately $2.37/boe and $2.66/boe, respectively.

Transportation and Marketing Expense

The following table sets forth Birchcliff's transportation and marketing expense for the Reporting Periods and the Comparable Prior Periods:

	Three months ended December 31,				Twelve months ended December 31,			
	2017		2016		2017		2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Transportation and marketing expense	**25,883**	**3.52**	**13,489**	**2.42**	**71,224**	**2.87**	**42,989**	**2.38**

The increase in the aggregate and per unit transportation and marketing expense from the Comparable Prior Periods was largely due to firm service pipeline transportation tolls for natural gas transported to Dawn between November 1, 2017 and December 31, 2017 and an increase in pipeline and trucking transportation costs associated with higher weighting of oil and NGLs production from the Gordondale assets, partially offset by a reduction in trucking costs associated with the Worsley Assets which were disposed of on August 31, 2017.

During the three and twelve month Reporting Periods, transportation and marketing expense for the Gordondale assets averaged approximately $3.27/boe and $2.93/boe, respectively. For the Pouce Coupe assets, transportation and marketing expense averaged approximately $3.69/boe and $2.68/boe during the three and twelve month Reporting Periods, respectively.

Operating Netbacks

The following table sets forth Birchcliff's net production and operating netback for the Corporation's assets in Pouce Coupe and Gordondale on the Montney/Doig Resource Play and on a corporate basis for the Reporting Periods and the Comparable Prior Periods:

	Three months ended December 31,		Twelve months ended December 31,	
	2017	**2016**	**2017**	**2016**
Pouce Coupe Montney/Doig Resource Play				
Average daily production, net:				
Natural gas *(Mcf)*	282,084	199,866	224,561	200,364
Oil & NGLs *(bbls)*	2,125	1,361	1,666	1,407
Total boe	49,138	34,672	39,092	34,801
% of corporate production(1)	*61%*	*57%*	*58%*	*71%*
Netback and cost *($/boe):*				
Petroleum and natural gas revenue(2)	18.27	21.59	18.41	15.49
Royalty expense	(0.50)	(0.74)	(0.40)	(0.43)
Operating expense, net of recoveries	(2.37)	(2.26)	(2.66)	(2.39)
Transportation and marketing expense	(3.69)	(2.14)	(2.68)	(2.05)
Operating netback	11.71	16.45	12.67	10.62
Gordondale Montney/Doig Resource Play(3)				
Average daily production, net:				
Natural gas *(Mcf)*	101,385	81,814	90,599	37,076
Oil & NGLs *(bbls)*	13,742	9,482	11,508	4,331
Total boe	30,639	23,118	26,608	10,510
% of corporate production(1)	*38%*	*38%*	*39%*	*21%*
Netback and cost *($/boe):*				
Petroleum and natural gas revenue(2)	29.46	26.07	26.92	24.11
Royalty expense	(2.50)	(3.25)	(2.07)	(3.21)
Operating expense, net of recoveries	(6.15)	(6.72)	(6.32)	(7.31)
Transportation and marketing expense	(3.27)	(2.44)	(2.93)	(2.49)
Operating netback	17.54	13.66	15.60	11.10
Total Corporate				
Average daily production, net:				
Natural gas *(Mcf)*	385,280	289,587	320,927	247,373
Oil & NGLs *(bbls)*	15,890	12,484	14,475	8,007
Total boe	80,103	60,750	67,963	49,236
Netback and cost *($/boe)*				
Petroleum and natural gas revenue(2)	22.55	24.24	22.45	18.73
Royalty expense	(1.26)	(1.82)	(1.16)	(1.16)
Operating expense, net of recoveries	(3.86)	(4.54)	(4.45)	(4.18)
Transportation and marketing expense	(3.52)	(2.42)	(2.87)	(2.38)
Operating netback	13.91	15.46	13.97	11.01

(1) Production from Birchcliff's other oil and natural gas properties including the Worsley Assets was not individually significant during the Reporting Periods and Comparable Prior Periods.

(2) Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts.

(3) The Gordondale assets were acquired pursuant to the Gordondale Acquisition which was completed on July 28, 2016. As such, the production and operating netback for the Gordondale assets during the twelve month Comparable Prior Period reflect the results from July 29, 2016 to December 31, 2016.

Montney/Doig Resource Play

Birchcliff's production from the Montney/Doig Resource Play, which is comprised of the Corporation's Pouce Coupe assets and Gordondale assets, was 79,777 boe/d in the three month Reporting Period and 65,700 boe/d in the twelve month Reporting Period, a 38% and 45% increase, respectively, from the Comparable Prior Periods. The increase in production is primarily attributable to the success of Birchcliff's 2017 capital drilling program which resulted in incremental production from new Montney horizontal oil wells brought on production in Gordondale and incremental volumes from new Pouce Coupe Montney/Doig horizontal natural gas wells brought on production to Phase V of the Pouce Coupe Gas Plant which came on-stream in the third quarter of 2017.

Birchcliff's recoveries of liquids (oil and NGLs) from its Montney/Doig Resource Play were 41.4 bbls/MMcf in the three month Reporting Period and 41.8 bbls/MMcf in the twelve month Reporting Period as compared to 38.5 bbls/MMcf and 24.2 bbls/MMcf in the three and twelve month Comparable Prior Periods, respectively. The liquids recoveries averaged approximately 135.5 bbls/MMcf and 127.0 bbls/MMcf in Gordondale during the three and twelve month Reporting Periods, respectively, as compared to 7.5 bbls/MMcf and 7.4 bbls/MMcf in Pouce Coupe during the three and twelve month Reporting Periods, respectively. Any liquids not recovered from the raw natural gas stream increases the heat content value of Birchcliff's natural gas sales and the realized sales price.

Birchcliff's operating netback for the Montney/Doig Resource Play was $13.94/boe in the three month Reporting Period and $13.85/boe in the twelve month Reporting Period, a decrease of 9% and an increase of 29%, respectively, from the Comparable Prior Periods. The decrease in operating netback from the three month Comparable Prior Period was primarily driven by a lower average realized sales price received for Birchcliff's oil and natural gas production and an increase in transportation expense largely due to firm service pipeline tolls for natural gas transported to Dawn between November 1, 2017 and December 31, 2017. The increase in the operating netback from the twelve month Comparable Prior Period was primarily driven by a higher average realized sales price received for Birchcliff's oil and natural gas production, partially offset by higher per unit operating and transportation and marketing costs mainly attributed to the Corporation's Gordondale assets. The Gordondale assets have a higher cost structure primarily resulting from higher production weighting to oil and NGLs and additional fees incurred to process natural gas from the Gordondale assets at the AltaGas Facility.

Net production and operating netback for the Worsley Assets and Birchcliff's other oil and natural gas properties were not significant as they accounted for approximately 3% of Birchcliff's average corporate production during the Reporting Periods. Birchcliff completed the Worsley Disposition on August 31, 2017.

Administrative Expenses

The components of Birchcliff's net administrative expenses for the Reporting Periods and the Comparable Prior Periods are set forth in the table below:

	Three months ended December 31,				Twelve months ended December 31,			
	2017		2016		2017		2016	
	($000s)	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*
Cash:								
Salaries and benefits(1)	13,451	83	10,056	78	31,437	70	25,576	67
Other(2)	2,832	17	2,856	22	13,498	30	12,449	33
General and administrative, gross	16,283	100	12,912	100	44,935	100	38,025	100
Operating overhead recoveries	(52)	(1)	(35)	(1)	(202)	(1)	(154)	(1)
Capitalized overhead(3)	(6,781)	(41)	(6,234)	(48)	(18,229)	(40)	(16,382)	(42)
General & administrative expenses, net	9,450	58	6,643	51	26,504	59	21,489	57
General & administrative expenses, net per boe	$1.28		$1.19		$1.07		$1.19	
Non-cash:								
Stock-based compensation	2,370	100	1,583	100	9,945	100	6,053	100
Capitalized stock-based compensation(3)	(1,376)	(58)	(903)	(57)	(5,886)	(59)	(3,575)	(59)
Stock-based compensation, net	994	42	680	43	4,059	41	2,478	41
Stock-based compensation, net per boe	$0.13		$0.12		$0.16		$0.14	
Administrative expenses, net	**10,444**		**7,323**		**30,563**		**23,967**	
Administrative expenses, net per boe	**$1.41**		**$1.31**		**$1.23**		**$1.33**	

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

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

(3) Includes a portion of gross general and administrative costs and stock-based compensation directly attributable to the exploration and development activities of the Corporation which have been capitalized.

The increase in the aggregate net administrative costs in the Reporting Periods as compared to the Comparable Prior Periods was primarily driven by the additional staff needed to manage the increase in production, reserves and land base associated with the Corporation's assets in Gordondale and Pouce Coupe and higher general business expenditures. Net administrative expenses for the twelve month Reporting Period were also affected by the accelerated vesting of unvested stock options held by staff managing the Worsley Assets which resulted in additional stock-based compensation expense recorded in the third quarter of 2017.

The following table sets forth the Corporation's outstanding stock options for the Reporting Periods and the Comparable Prior Periods:

	Three months ended December 31, 2017		Three months ended December 31, 2016	
	Number	Exercise Price ($)(1)	Number	Exercise Price ($)(1)
Outstanding, beginning of period	14,378,009	6.90	13,821,239	6.43
Granted	137,000	4.96	55,000	8.48
Exercised	(8,000)	(3.35)	(971,964)	(6.23)
Forfeited	(148,734)	(6.73)	-	-
Expired	(200,168)	(7.75)	(4,500)	(10.18)
Outstanding, end of period	**14,158,107**	**6.88**	**12,899,775**	**6.45**

(1) Determined on a weighted average basis.

	Twelve months ended December 31, 2017		Twelve months ended December 31, 2016	
	Number	Exercise Price ($)(1)	Number	Exercise Price ($)(1)
Outstanding, beginning of period	12,899,775	6.45	12,569,238	7.80
Granted	4,867,400	7.67	3,356,000	3.90
Exercised	(1,754,796)	(5.33)	(1,209,363)	(6.28)
Forfeited	(1,606,437)	(7.49)	(120,400)	(6.78)
Expired	(247,835)	(7.55)	(1,695,700)	(11.46)
Outstanding, end of period	**14,158,107**	**6.88**	**12,899,775**	**6.45**

(1) Determined on a weighted average basis.

At December 31, 2017, there were also 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 applicable exercise price.

Depletion and Depreciation Expenses

Depletion and depreciation ("**D&D**") expenses are a function of the estimated proved plus probable reserve additions, the finding and development costs attributable to those reserves, the associated future development costs required to recover those reserves and the actual production in the relevant period. The Corporation determines its D&D expenses on a field area basis.

The following table sets forth Birchcliff's D&D expenses for the Reporting Periods and the Comparable Prior Periods:

	Three months ended December 31,				Twelve months ended December 31,			
	2017		2016		2017		2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Depletion and depreciation expenses	**57,920**	**7.86**	**43,184**	**7.73**	**185,666**	**7.48**	**149,369**	**8.29**

D&D expenses for the Reporting Periods were higher on an aggregate basis as compared to the Comparable Prior Periods mainly due to an increase in corporate production.

Included in the depletion calculation for 2017 were 972.5 MMboe of proved plus probable reserves and $4.50 billion of future development costs required to recover those reserves as estimated by the Corporation's independent qualified reserves evaluators effective December 31, 2017.

Asset Impairment Assessment

The Corporation reviews its petroleum and natural gas assets for impairment in accordance with International Accounting Standards ("**IAS**") 36 under IFRS. Birchcliff's assets are grouped into cash generating units ("**CGU**") for the purpose of determining impairment. A CGU represents the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. In determining the Corporation's CGUs, the Corporation takes into consideration all available information, including, but not limited to: geographical proximity; geological similarities (i.e. reservoir characteristics and production profiles); degree of shared infrastructure; independent versus interdependent cash flows; operating structure; the 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 the 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 agreements governing the Corporation's bank credit facilities; deterioration in the financial and operational performance of a CGU; net assets exceeding market capitalization; and significant downward revisions of estimated 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.

In light of the current low natural gas commodity price environment, Birchcliff performed an impairment test for its petroleum and natural gas assets on a CGU basis to assess for recoverability at December 31, 2017. Management has determined that the recoverable amount of Birchcliff's CGUs exceed the carrying amount at December 31, 2017 and therefore no impairment exists. At December 31, 2016, Birchcliff performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined there were no impairment triggers identified. As a result, an impairment test was not required at December 31, 2016.

Management has determined that the calculation of the recoverable amount is most sensitive to key assumptions regarding discount rates, commodity prices and estimated quantities of proved plus probable reserves and future production profile of those reserves. Each of these underlying key assumptions are reviewed by management and corroborated independently to assess for reasonableness. The petroleum and natural gas future prices are based on period-end commodity price forecast assumptions determined by the Corporation's independent reserves evaluator.

Finance Expenses

The components of the Corporation's finance expenses for the Reporting Periods and the Comparable Prior Periods are set forth in the table below:

	Three months ended December 31,				Twelve months ended December 31,			
	2017		2016		2017		2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Cash:								
Interest on credit facilities	7,131	0.97	7,822	1.40	28,374	1.14	30,305	1.68
Non-cash:								
Accretion on decommissioning obligations	595	0.08	813	0.15	3,055	0.12	2,547	0.14
Amortization of deferred financing fees	400	0.05	330	0.06	1,510	0.06	1,088	0.06
Finance expenses	**8,126**	**1.10**	**8,965**	**1.61**	**32,939**	**1.32**	**33,940**	**1.88**

The decrease in the aggregate interest expense from the Comparable Prior Periods was largely due to a lower average outstanding total credit facilities balance in the Reporting Periods and, for the three month Reporting Period, lower average effective interest rates. The effective interest rates applicable to the drawn loans are based on a pricing margin grid and will change as a result of the ratio of outstanding indebtedness to the trailing four quarter EBITDA as calculated in accordance with the agreement governing the Corporation's extendible revolving credit facilities (the "**Credit Facilities**"). EBITDA is defined as earnings before interest and non-cash items, including (if any) 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 following table sets forth the Corporation's effective interest rates under its credit facilities for the Reporting Periods and the Comparable Prior Periods:

	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
Effective interest rates:				
Revolving working capital facility	5.0%	5.2%	5.0%	5.2%
Revolving syndicated term credit facility	4.9%	5.2%	4.8%	4.7%

Birchcliff's average outstanding total credit facilities balance was approximately $586 million and $588 million in the three and twelve month Reporting Periods, respectively, as compared to $599 million and $632 million in the Comparable Prior Periods, calculated as the simple average of the month-end amounts.

Gain (Loss) on Sale of Assets

The following table sets forth Birchcliff's gain (loss) on its sale of assets for the Reporting Periods and the Comparable Prior Periods:

	Three months ended December 31,				Twelve months ended December 31,			
	2017		2016		2017		2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Gain (loss) on sale of assets	**13,705**	**1.86**	**945**	**0.17**	**(186,143)**	**(7.50)**	**(9,489)**	**(0.53)**

On October 2, 2017, Birchcliff completed the Progress Disposition for cash consideration of $31.7 million, before closing adjustments. As a result of the disposition, Birchcliff recorded a gain on the sale of assets of approximately $13.7 million ($10.0 million, net of tax) in the three month Reporting Period.

On August 31, 2017, Birchcliff completed the Worsley Disposition for consideration of $100 million, before closing adjustments. As a result of the disposition, Birchcliff recorded a loss on the sale of assets of approximately $181.3 million ($132.3 million, net of tax) in the twelve month Reporting Period.

In May 2017, Birchcliff completed the disposition of certain miscellaneous petroleum and natural gas properties and related assets and interests in the Progress area. The cash consideration was $6.0 million, before closing adjustments. As a result of the disposition, Birchcliff recorded a loss on the sale of assets of approximately $19.8 million ($14.4 million, net of tax) in the twelve month Reporting Period.

In April 2017, Birchcliff completed the dispositions of certain miscellaneous petroleum and natural gas properties and related assets and interests in each of the Valhalla, Gordondale and Rycroft areas. The cash consideration was approximately $4.3 million, before closing adjustments. As a result of the dispositions, Birchcliff recorded a loss on the sale of assets of approximately $1.2 million ($0.9 million, net of tax) in the twelve month Reporting Period.

In March 2017, Birchcliff completed the dispositions of certain miscellaneous petroleum and natural gas properties and related assets and interests in each of the Elmworth and Rycroft areas. The cash consideration was $0.3 million, before closing adjustments. As a result of the dispositions, Birchcliff recorded a gain on the sale of assets of approximately $0.7 million ($0.5 million, net of tax) in the twelve month Reporting Period.

In February 2017, Birchcliff completed the disposition of certain assets in the Gold Creek area of Alberta for cash consideration of approximately $5.0 million. As a result of the disposition, Birchcliff recorded a gain on the sale of assets of approximately $1.8 million ($1.3 million, net of tax) in the twelve month Reporting Period.

Income Taxes

The components of the Corporation's income tax expense (recovery) for the Reporting Periods and the Comparable Prior Periods are set forth in the table below:

	Three months ended December 31,		**Twelve months ended December 31,**	
($000s)	**2017**	**2016**	**2017**	**2016**
Deferred income tax expense (recovery)	9,631	4,433	(16,906)	(9,126)
Dividend income tax expense on preferred shares	767	750	3,020	3,000
Income tax expense (recovery)	**10,398**	**5,183**	**(13,886)**	**(6,126)**
Income tax expense (recovery) per boe	**$1.42**	**$0.92**	**($0.54)**	**($0.34)**

Birchcliff recorded a deferred income tax expense of $9.6 million for the three month Reporting Period as compared to a deferred income tax expense of $4.4 million in the three month Comparable Prior Period. The increase in deferred income tax expense from the three month Comparable Prior Period was a result of a higher net income before tax recorded in the three month Reporting Period.

Birchcliff had a deferred income tax recovery in the twelve month Reporting Period of $16.9 million as compared to a deferred income tax recovery of $9.1 million in the twelve month Comparable Prior Period. The increase in deferred income tax recovery from the twelve month Comparable Prior Period was a result of a larger net loss before tax position recorded in the twelve month Reporting Period.

The Corporation's estimated income tax pools were $2.1 billion at December 31, 2017. Management expects that future taxable income will be available to utilize the accumulated tax pools. The components of the Corporation's estimated income tax pools are set forth in the table below:

($000s)	Tax pools as at December 31, 2017
Canadian oil and gas property expense	471,352
Canadian development expense	352,028
Canadian exploration expense	277,215
Undepreciated capital costs	350,115
Non-capital losses	610,920
Financing costs and other	19,010
Estimated income tax pools[1]	**2,080,640**

(1) Excludes Veracel tax pools of $39.3 million which were reassessed by the Canada Revenue Agency.

Veracel Tax Pools

Birchcliff's 2006 income tax filings were reassessed by the Canada Revenue Agency (the "**CRA**") in 2011 (the "**Reassessment**"). The Reassessment was based on the CRA's position that the tax pools available to Veracel Inc. ("**Veracel**"), prior to its amalgamation with Birchcliff, ceased to be available to Veracel after Birchcliff and Veracel amalgamated on May 31, 2005. The Veracel tax pools in dispute totalled $39.3 million. Birchcliff appealed the Reassessment to the Tax Court of Canada (the "**Trial Court**") and the trial of that appeal occurred in November 2013. On October 1, 2015, the Trial Court issued its decision (the "**Trial Decision**") and dismissed Birchcliff's appeal on the basis of the general anti-avoidance rule contained in the *Income Tax Act* (Canada). The Trial Decision was rendered by a judge based on the written record and not by the judge who conducted the trial. As a result of the Trial Decision, Birchcliff recorded a non-cash deferred income tax expense in the amount of $10.2 million in the fourth quarter of 2015.

Birchcliff appealed the Trial Decision to the Federal Court of Appeal (the "**FCA**"), which appeal was heard in January 2017. On April 28, 2017, the FCA issued its decision and allowed the appeal and set aside the Trial Decision, based on the lack of jurisdiction by the judge who rendered the Trial Decision. In setting aside the Trial Decision, the FCA referred the matter back to the judge of the Trial Court who initially conducted the trial in 2013 to render a judgement. The judge of the Trial Court rendered a decision in November 2017 and dismissed the Corporation's appeal. The Corporation has appealed that decision to the FCA.

CAPITAL EXPENDITURES

The following table sets forth a summary of the Corporation's capital expenditures for the Reporting Periods and the Comparable Prior Periods:

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2017**	**2016**	**2017**	**2016**
Land	286	1,057	1,700	4,529
Seismic	515	253	1,435	1,203
Workovers	3,328	1,770	10,279	3,809
Drilling and completions	35,457	40,039	269,142	89,111
Well equipment and facilities	9,734	17,597	132,429	66,839
Finding and development capital	49,320	60,716	414,985	165,491
Acquisitions	58	1,958	999	614,273
Dispositions[1]	(31,159)	(1,473)	(141,690)	(20,720)
Finding, development and acquisition capital	18,219	61,201	274,294	759,044
Administrative assets	450	1,281	1,831	2,986
Capital expenditures, net	**18,669**	**62,482**	**276,125**	**762,030**

(1) For further information regarding dispositions in the Reporting Periods, please see "*Gain (Loss) on Sale of Assets*" in this MD&A.

In the three month Reporting Period, Birchcliff had total capital expenditures of $49.8 million (finding and development capital plus administrative assets) and net capital expenditures of $18.7 million (net of acquisitions and dispositions). During the three month Reporting Period, Birchcliff incurred finding and development capital of $49.3 million which included approximately $22.9 million (46%) on the drilling and completion of Montney/Doig horizontal wells in Pouce Coupe and $7.9 million (16%) on the drilling and completion of Montney horizontal wells in Gordondale. Net capital expenditures in the three month Reporting Period included the Progress Disposition for cash consideration of $31.7 million, before closing adjustments. In the three month Reporting Period, Birchcliff drilled 2 (2.0 net) wells, both of which were Montney/Doig horizontal natural gas wells in the Pouce Coupe area.

In the twelve month Reporting Period, Birchcliff had total capital expenditures of $416.8 million (finding and development capital plus administrative assets) and net capital expenditures of $276.1 million (net of acquisitions and dispositions), which is 3% above and 5% above, respectively, the Corporation's previous guidance of $404 million total capital expenditures and $262 million net capital expenditures. Birchcliff's total finding and development capital in the twelve month Reporting Period was $415.0 million which included approximately $157.4 million (38%) on the drilling and completion of Montney/Doig horizontal wells in Pouce Coupe, $100.3 million (24%) on the drilling and completion of Montney horizontal wells in Gordondale, $29.7 million (7%) on the Phase V expansion of the Pouce Coupe Gas Plant (which came on-stream in the third quarter of 2017) primarily on field construction and $26.7 million (6%) on the Phase VI expansion of the Pouce Coupe Gas Plant (expected to come on-stream in October 2018) primarily on engineering, procurement and fabrication. Dispositions in the twelve month Reporting Period included the Worsley Disposition and the Progress Disposition for total consideration of approximately $131.7 million before closing adjustments. Total consideration for all dispositions completed in 2017 was approximately $148 million before closing adjustments. In the twelve month Reporting Period, Birchcliff drilled a total of 54 (54.0 net) wells consisting of 37 (37.0 net) Montney/Doig horizontal natural gas wells drilled in the Pouce Coupe area, 16 (16.0 net) Montney horizontal oil and natural gas wells drilled in the Gordondale area and 1 (1.0 net) Montney/Doig vertical science and technology well drilled in the Pouce Coupe area.

The remaining capital during the Reporting Periods was primarily attributed to land, seismic, infrastructure expansion projects and minor acquisitions and dispositions in the Montney/Doig Resource Play and on other oil and gas exploration and development projects in the Peace River Arch.

CAPITAL RESOURCES AND LIQUIDITY

Liquidity and Capital Resources

The Corporation generally relies on its adjusted funds flow and available credit under its existing credit facilities to fund its capital requirements, including its dividend payments. In addition, the Corporation may from time to time seek additional capital in the form of debt and/or equity or dispose of non-core properties to fund its on-going capital expenditure programs and protect its balance sheet.

The following table sets forth a summary of the Corporation's capital resources for the Reporting Periods and the Comparable Prior Periods:

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2017**	**2016**	**2017**	**2016**
Adjusted funds flow	97,008	71,806	317,680	147,443
Changes in non-cash working capital from operations	(7,920)	19,248	(29,226)	(5,586)
Decommissioning expenditures	(93)	(480)	(794)	(1,343)
Exercise of stock options	27	6,060	9,350	7,597
Issue of common shares	-	51	-	690,801
Share issue costs	-	(8)	-	(27,589)
Financing fees paid on credit facilities	-	-	(2,375)	(795)
Dividends paid on common shares	(6,644)	-	(26,522)	-
Dividends paid on preferred shares	(1,922)	(1,875)	(7,547)	(7,500)
Net change in revolving term credit facilities	1,479	(62,269)	15,783	(49,540)
Deposit on acquisition	-	-	-	(1,206)
Changes in non-cash working capital from investing	(63,225)	29,949	9,780	9,738
Capital resources	**18,710**	**62,482**	**286,129**	**762,020**

Birchcliff's adjusted funds flow depends on a number of factors, including, but not limited to, commodity prices, production and sales volumes, royalties, operating expenses and foreign exchange rates. The Corporation has been closely monitoring commodity prices and its capital spending and in response to continued low and volatile commodity prices, has taken proactive measures with a view to ensuring liquidity and financial flexibility in the current environment.

Birchcliff's market diversification initiatives during 2017 have helped to reduce its exposure to volatility in commodity prices, including AECO prices which have been extremely volatile in recent months. During 2017, Birchcliff entered into agreements with TCPL for the firm service transportation of an aggregate of 175,000 GJ/d (approximately 152 MMcf/d) of natural gas on TCPL's Canadian Mainline for a 10-year term, whereby natural gas is transported from the Empress receipt point in Alberta to the Dawn trading hub located in Southern Ontario. During 2018, the Corporation expects that approximately 34% of its 2018 forecast annual average natural gas production will be sold at prices that are not based on AECO, with 30% being sold at the Dawn daily index price and 4% being marketed via the Alliance pipeline system. After taking into account Birchcliff's forecasted oil and NGLs production in 2018, approximately 48% of the Corporation's total forecasted corporate production is exposed to AECO pricing, with the remaining 52% of corporate production not exposed to AECO pricing in 2018. Birchcliff continues to actively look for further profitable market diversification opportunities.

Birchcliff also has financial swaps for 4,500 bbls/d of crude oil at an average price of CDN$71.87/bbl for 2018. See "*2018 Outlook*", *"Commodity Price Risk Management"* and "*Advisories*" in this MD&A for further details.

In May 2017, Birchcliff's syndicate of lenders completed its semi-annual review of the Corporation's borrowing base limit under the Corporation's Credit Facilities. In connection with such review, the Corporation and the lenders agreed to an extension of the maturity dates from May 11, 2018 to May 11, 2020 and to the borrowing base remaining unchanged at $950 million. In November 2017, Birchcliff's syndicate of lenders completed its semi-annual review of Birchcliff's borrowing base and agreed to the borrowing base remaining unchanged at $950 million.

The 2018 Capital Program is set at $255 million with approximately $149.9 million allocated for drilling and development and $66.9 million for facilities and infrastructure. Birchcliff expects that its 2018 capital expenditures will be less than its adjusted funds flow during 2018 based on the assumptions set forth in the table under the heading "*2018 Outlook*".

Management believes that its adjusted funds flow during 2018 will be sufficient to fund the Corporation's 2018 Capital Program. Should commodity prices deteriorate materially, Birchcliff may adjust its on-going capital program, draw down on its Credit Facilities, seek additional equity financing and/or consider the potential sale of additional non-core assets to fund planned growth. The 2018 Capital Program has been designed with financial and operational flexibility with the potential to accelerate or decelerate capital expenditures throughout the year, depending on commodity prices and industry conditions. See *"Advisories".*

Working Capital

The Corporation's adjusted working capital deficit decreased to $11.1 million at December 31, 2017 from a $27.5 million deficit at December 31, 2016. The deficit at the end of the Reporting Period is largely comprised of costs incurred from the drilling and completion of new wells.

At December 31, 2017, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of December 2017 production (83%), which was subsequently received in January 2018. In contrast, current liabilities largely consisted of trade payables (56%) and accrued capital and operating costs (24%). Birchcliff routinely assesses the financial strength of its marketers. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations.

Adjusted working capital includes items expected for normal operations, including trade receivables and payables, accruals, deposits and prepaid expenses, and excludes the fair value of financial instruments. The Corporation's adjusted working capital varies from quarter to quarter primarily due to the timing of such items, as well as due to the size and timing of the Corporation's capital expenditures, volatility in commodity prices and changes in revenue, among other things. Birchcliff manages any adjusted working capital deficit using adjusted funds flow and advances under its Credit Facilities. Any adjusted working capital deficit position will not reduce the amount available under the Credit Facilities.

Bank Debt

Management of debt levels continues to be a priority for Birchcliff given its long-term growth plans and the current volatility in the commodity price environment.

As of December 31, 2017, the Credit Facilities are comprised of: (i) an extendible revolving syndicated term credit facility of $900 million (the "**Syndicated Credit Facility**"); and (ii) an extendible revolving working capital credit facility of $50 million (the "**Working Capital Facility**"). The maturity date of each of the Syndicated Credit Facility and the Working Capital Facility is May 11, 2020. The Corporation may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made.

Total debt, including the adjusted working capital deficit, was $598.2 million at December 31, 2017 as compared to $600.0 million at December 31, 2016. The decrease in total debt to $598.2 million at December 31, 2017 as compared to $600.0 million at December 31, 2016 is due to increased adjusted funds flow and the proceeds realized from the various dispositions completed during the twelve month Reporting Period, partially offset by finding and development capital spent in the twelve month Reporting Period.

The following table sets forth the Corporation's unused Credit Facilities as at December 31, 2017 and 2016:

As at, *($000s)*	**December 31, 2017**	**December 31, 2016**
Maximum borrowing base limit:		
Revolving term credit facilities	950,000	950,000
Principal amount utilized:		
Drawn revolving term credit facilities(1)	(594,823)	(580,770)
Outstanding letters of credit(2)	(12,184)	(12,310)
	(607,007)	(593,080)
Unused credit	**342,993**	**356,920**
% unused credit	**36%**	**38%**

(1) The drawn amounts are not reduced for unamortized costs and fees applicable to the Credit Facilities.

(2) Letters of credit are issued to various service providers. The letters of credit reduce the amount available under the Working Capital Facility from $50 million to approximately $37 million. There were no amounts drawn on the letters of credit during the Reporting Periods and Comparable Prior Periods.

Contractual Obligations & Commitments

The Corporation enters into various contractual obligations and commitments in the normal course of operations. The following table lists Birchcliff's estimated material contractual obligations and commitments at December 31, 2017:

($000s)	**2018**	**2019**	**2020-2022**	**Thereafter**
Accounts payable and accrued liabilities	83,039	-	-	-
Drawn revolving term credit facilities	-	-	594,823	-
Operating leases(1)	3,222	4,491	13,790	24,661
Capital commitments(2)	14,208	-	-	-
Firm transportation, processing and fractionation(3)	152,839	125,800	457,554	370,455
Estimated contractual obligations(4)	**253,308**	**130,291**	**1,066,167**	**395,116**

(1) On December 2, 2015, the Corporation entered into an operating lease commitment relating to a new office premise beginning February 1, 2018 and expiring on January 31, 2028. The commitment amount under the new 10 year office lease is estimated to be $46.2 million, which includes costs allocated to base rent, parking and building operating expenses. The office lease commitment amounts disclosed in the above table have not been reduced for any rents receivable by the Corporation.

(2) Includes drilling commitments and facility spending commitments relating to the Phase VI expansion of the Pouce Coupe Gas Plant.

(3) Includes the impacts from firm service transportation agreements on TCPL's Canadian Mainline to the Dawn trading hub. The Corporation has negotiated firm service for a 10-year period which commenced in November 2017. See *"2018 Outlook"* in this MD&A.

(4) Contractual obligations and commitments that are not material to Birchcliff are excluded from the above table. The Corporation's decommissioning obligations are excluded from the table as these obligations arose from a regulatory requirement rather than from a contractual arrangement. Birchcliff estimates the total undiscounted cash flow to settle its decommissioning obligations on its wells and facilities at December 31, 2017 to be approximately $270 million and are estimated to be incurred as follows: 2018 - $1.6 million, 2019 - $1.0 million and $267.4 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 September 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, for cash or common shares.

OFF-BALANCE SHEET TRANSACTIONS

The Corporation has certain lease arrangements, all of which are reflected in the contractual obligations and commitments table above, which were entered into in the normal course of operations. All leases have been treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. Other than the foregoing, Birchcliff was not involved in any off-balance sheet transactions during the Reporting Period and Comparable Prior Period.

OUTSTANDING SHARE INFORMATION

At March 13, 2018, Birchcliff had common shares, Series A Preferred Shares and Series C Preferred Shares that were outstanding. Birchcliff's common shares are listed on the TSX under the symbol "**BIR**" and 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 sets forth the common shares issued by the Corporation:

	Common Shares
Balance at December 31, 2015	152,307,539
Exercise of options	1,209,363
Issuance of common shares	110,525,000
Balance at December 31, 2016	264,041,902
Exercise of options	1,754,796
Balance at December 31, 2017	**265,796,698**
Exercise of options	-
Balance at March 13, 2018	**265,796,698**

At March 13, 2018, the Corporation had the following securities outstanding: 265,796,698 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 16,997,406 stock options to purchase an equivalent number of common shares; and 2,939,732 performance warrants to purchase an equivalent number of common shares.

Dividends

The following table sets forth the dividend distributions by the Corporation for each class of shares for the Reporting Periods and the Comparable Prior Periods:

	Three months ended December 31,		Twelve months ended December 31,	
	2017	**2016**	**2017**	**2016**
Common shares:				
Dividend distribution *(000s)*	6,644	-	26,522	-
Per common share *($)*	0.0250	-	0.1000	-
Preferred shares - Series A:				
Series A dividend distribution *(000s)* (1)	1,047	1,000	4,047	4,000
Per Series A preferred share *($)*(1)	0.5234	0.5000	2.0234	2.0000
Preferred shares - Series C:				
Series C dividend distribution *(000s)*	875	875	3,500	3,500
Per Series C preferred share *($)*	0.4375	0.4375	1.7500	1.7500

(1) On September 30, 2017, the annual fixed dividend rate for the Series A Preferred Shares was reset to 8.374%. Subject to the terms and conditions of the Series A Preferred Shares and Birchcliff's right to redeem such shares, the dividend rate will reset on September 30, 2022 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield plus 6.83%.

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

Normal Course Issuer Bid

On November 15, 2017, Birchcliff announced that the TSX had accepted the Corporation's notice of intention to make a normal course issuer bid (the "**NCIB**"). Pursuant to the NCIB, Birchcliff may purchase up to 20,121,747 of its outstanding common shares. The total number of common shares that Birchcliff is permitted to purchase is subject to a daily purchase limit of 280,426 common shares; provided, however, that the Corporation may make one block purchase per calendar week which exceeds the daily purchase restriction. The NCIB commenced on November 20, 2017 and will terminate on November 19, 2018, or such earlier time as the NCIB is completed or is terminated at the option of Birchcliff. Purchases under the NCIB will be effected through the facilities of the TSX and/or Canadian alternative trading systems at the prevailing market price at the time of such transaction. All common shares purchased under the NCIB will be cancelled. As at the date of this MD&A, Birchcliff has not purchased any common shares pursuant to the NCIB.

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

SUMMARY OF QUARTERLY RESULTS

The following table sets forth a summary of the Corporation's quarterly results for the eight most recently completed quarters:

Quarter ending,	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016
Average daily production *(boe)*	80,103	65,276	64,636	61,662	60,750	54,538	39,513	41,958
Realized natural gas sales price *($/Mcf)*(1)	2.64	2.11	3.13	3.06	3.31	2.53	1.48	1.99
Realized oil sales price *($/bbl)*(1)	68.58	55.62	60.38	62.59	60.75	52.12	51.20	36.93
Total revenues *($000s)*(1)	166,149	111,488	146,597	132,708	135,457	97,365	47,261	57,503
Operating costs *($/boe)*	3.86	4.27	4.67	5.22	4.54	4.65	3.45	3.71
Capital expenditures, net *($000s)*	18,669	12,136	120,782	124,538	62,482	599,715	4,722	63,860
Cash flow from operating activities *($000s)*	88,995	70,584	57,467	70,614	90,574	22,144	7,049	20,747
Adjusted funds flow *($000s)*	97,008	64,430	88,612	67,630	71,806	41,675	13,267	20,695
Per common share – basic *($)*	0.36	0.24	0.33	0.26	0.27	0.18	0.09	0.14
Per common share – diluted *($)*	0.36	0.24	0.33	0.25	0.27	0.18	0.09	0.13
Net income (loss) *($000s)*	25,820	(120,743)	18,015	29,928	12,085	(1,064)	(23,321)	(12,035)
Net income (loss) to common shareholders *($000s)*(2)	24,773	(121,743)	17,015	28,928	11,085	(2,064)	(24,321)	(13,035)
Per common share – basic *($)*	0.09	(0.46)	0.06	0.11	0.04	(0.01)	(0.16)	(0.09)
Per common share – diluted *($)*	0.09	(0.46)	0.06	0.11	0.04	(0.01)	(0.16)	(0.09)
Total assets *($ million)*	2,627	2,615	2,871	2,797	2,710	2,704	2,059	2,053
Long-term bank debt *($000s)*	587,126	585,323	628,401	578,954	572,517	634,534	709,510	647,359
Total debt *($000s)*	598,193	666,808	700,484	664,352	600,012	612,080	715,651	690,138
Dividends on common shares *($000s)*(3)	6,644	6,635	6,635	6,604	-	-	-	-
Dividends on pref. shares – Series A *($000s)*	1,047	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	875
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	265,797	265,789	265,417	264,442	264,042	263,065	152,308	152,308
Diluted	282,895	283,106	284,461	284,160	279,881	279,826	169,089	169,239
Wtd. average common shares outstanding *(000s)*								
Basic	265,792	265,490	265,326	264,099	263,396	229,287	152,308	152,308
Diluted	267,619	267,988	268,203	268,077	268,974	234,295	154,279	153,418

(1) Excludes the effects of financial hedges using financial instruments but includes the effects of fixed price physical delivery contracts.

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

(3) Birchcliff paid its first common share dividend in the first quarter of 2017.

Average daily production volumes in the last six quarters has increased largely due to incremental production volumes from both the assets acquired in Gordondale and new horizontal wells brought on-stream in Pouce Coupe and Gordondale, partially offset by natural production declines from those wells.

Quarterly variances in revenues, adjusted funds flow and net income are primarily due to fluctuations in commodity prices and production volumes. Oil and gas revenues and adjusted funds flow in the last six quarters were largely impacted by incremental production from the assets acquired in Gordondale in the third quarter of 2016 and, except for the third quarter of 2017, higher trending average realized sales prices. Birchcliff had net income in the three month Reporting Period primarily in response to increases in adjusted funds flow. Birchcliff recorded a net loss in the third quarter of 2017 primarily as a result of the after-tax book loss of $132.3 million from the Worsley Disposition. Net income or loss in the last eight quarters was also impacted by certain non-cash adjustments including depletion expense, unrealized gains and losses on financial instruments and gains and losses on the sale of assets recognized in the period.

In general, capital expenditures have fluctuated over the past eight quarters primarily as a result of the timing of the Corporation's development capital expenditures. Capital expenditures are also impacted by commodity prices and market conditions, as well as the timing of acquisitions and dispositions. In the third quarter of 2016, Birchcliff completed the Gordondale Acquisition which significantly increased net capital expenditures in that quarter in comparison to the other quarters.

Birchcliff paid a common share dividend of $6.6 million or $0.025 per common share in each of the quarters ending March 31, 2017, June 30, 2017, September 30, 2017, and December 31, 2017.

In connection with the Gordondale Acquisition, Birchcliff issued a total of 110,520,000 common shares in the third quarter of 2016 which increased both the number of common shares and the weighted average common shares outstanding at the end of the period compared to the previous quarters.

Quarterly variances in long-term debt and total debt are primarily due to fluctuations in adjusted funds flow, the amount and timing of capital expenditures (including acquisitions and dispositions) and the timing of proceeds received from equity financings in a period. The fluctuations in long-term debt and total debt in the last five quarters have been primarily impacted by the net proceeds from the equity financings in the third quarter of 2016 (after the payment of the balance of the purchase price for the assets in Gordondale) and the proceeds from the Worsley Disposition and the Progress Disposition which were used to initially reduce indebtedness under the Credit Facilities.

POTENTIAL TRANSACTIONS

Within its focus area, the Corporation is continually reviewing potential asset acquisitions and dispositions and corporate mergers and acquisitions for the purpose of determining whether any such potential transaction is of interest to the Corporation, as well as the terms on which such a potential transaction would be available. As a result, the Corporation may from time to time be involved in discussions or negotiations with other parties or their agents in respect of potential asset acquisitions and dispositions and corporate merger and acquisition opportunities.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Corporation's Chief Executive Officer and Chief Financial Officer (the "**Certifying Officers**") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("**DC&P**"), as defined in National Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings* ("**NI 52-109**"), to provide reasonable assurance that: (i) material information relating to the Corporation is made known to the Certifying Officers by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by the Corporation under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's DC&P at December 31, 2017 and have concluded that the Corporation's DC&P were effective at December 31, 2017.

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

Internal Control over Financial Reporting

The Certifying Officers have designed, or caused to be designed under their supervision, internal control over financial reporting ("**ICFR**"), as defined in NI 52-109, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the generally accepted accounting principles applicable to the Corporation. The control framework the Certifying Officers used to design the Corporation's ICFR is *"Internal Control – Integrated Framework (May 2013)"* published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's ICFR at December 31, 2017 and have concluded that the Corporation's ICFR was effective at December 31, 2017. There were no changes in the Corporation's ICFR that occurred during the period beginning on October 1, 2017 and ended on December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies, reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical Judgments in Applying Accounting Policies:

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

Identification of Cash-Generating Units

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

Identification of Impairment Indicators

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

Tax Uncertainties

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

Key Sources of Estimation Uncertainty:

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

Reserves

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

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

Share-based Payments

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

Decommissioning Obligations

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

Impairment of Non-Financial Assets

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

Income Taxes

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

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

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

FUTURE ACCOUNTING PRONOUNCEMENTS

In May 2014, the IASB issued IFRS 15: *Revenue From Contracts With Customers* ("**IFRS 15**") replacing IAS 11 Construction Contracts, IAS 18 Revenue and several revenue-related interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Birchcliff will be adopting IFRS 15 on January 1, 2018. The Corporation has substantially completed its assessment and evaluation of the underlying terms of its revenue contracts with customers and has determined that the adoption of the standard will not have a material impact on the Corporation's net income.

In July 2014, the IASB issued the final version of IFRS 9: *Financial Instruments* ("**IFRS 9**") to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 aligns hedge accounting more closely with risk management. The new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness. However, under the new standard, more hedging strategies that are used for risk management will qualify for hedge accounting. IFRS 9 is effective for years beginning on or after January 1, 2018. Birchcliff has determined that the adoption of IFRS 9 will result in changes to the Corporation's investments in securities which, upon adoption of IFRS 9, will be measured at fair value through profit or loss.

In January 2016, the IASB issued IFRS 16: *Leases* ("**IFRS 16**"). The standard will be effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided IFRS 15 has been applied, or is applied at the same date as IFRS 16. Birchcliff is currently evaluating the impact of adopting IFRS 16 on the financial statements.

RISK FACTORS AND RISK MANAGEMENT

The Corporation's operations are exposed to a number of risks, some that impact the oil and natural gas industry as a whole and others that are unique to the Corporation. The impact of any risk or a combination of risks may adversely affect the Corporation's business, financial condition, results of operations, prospects, cash flows and reputation, which may reduce or restrict the Corporation's ability to pay dividends and may materially affect the market price of the Corporation's securities.

Investors should carefully consider the risk factors set out below and consider all other information contained herein and in the Corporation's other public filings before making an investment decision. The risks set out below are not an exhaustive list and should not be taken as a complete summary or description of all the risks associated with the Corporation's business and the oil and natural gas business generally.

Financial Risks and Risks Relating to Economic Conditions

Commodity Price Volatility

The Corporation's revenues, operating results and financial condition depend substantially on prevailing prices for oil and natural gas. Prices for oil and natural gas are subject to wide fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors that are beyond the Corporation's control. These factors include, but are not limited to, the following:

- global energy supply and demand, production and policies, including (without limitation) the ability of Organization of the Petroleum Exporting Countries ("**OPEC**") to set, maintain and reduce production levels in order to influence prices for crude oil;
- political conditions, instability and hostilities;
- domestic and foreign supplies of crude oil, NGLs and natural gas;
- the level of consumer demand, including demand for different qualities and types of crude oil and liquids;
- the production and storage levels of North American natural gas and crude oil and the supply and price of imported oil;

- the ability to export oil and liquefied natural gas and NGLs from North America;
- the availability, proximity and capacity of gathering, transportation, processing and/or refining facilities in regional or localized areas that may affect the realized price for oil and natural gas;
- weather conditions;
- government regulations, including existing and proposed changes to such regulations;
- the effect of world-wide environmental regulations and energy conservation and greenhouse gas ("**GHG**") reduction measures;
- the price and availability of alternative energy supplies; and
- global and domestic economic conditions, including currency fluctuations.

Oil and natural gas prices are expected to remain volatile for the near future because of market uncertainties over the supply and demand of these commodities due to the current state of the world economy, increased growth of shale oil production in the United States and other concerns of over-supply, OPEC actions, sanctions imposed on certain oil producing nations by other countries and ongoing credit and liquidity concerns. Volatile oil, NGLs and natural gas prices make it difficult to estimate the value of producing properties for acquisitions and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

A material decline in oil and natural gas prices could result in a reduction of the Corporation's net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas. The Corporation might also elect not to produce from certain wells at lower prices. In addition, any prolonged period of low crude oil or natural gas prices could result in a decision by the Corporation to suspend or slow exploration and development activities or the construction or expansion of new or existing facilities or reduce its production levels. Any substantial and prolonged decline in the price of oil and natural gas would have an adverse effect on the carrying value of the Corporation's assets, borrowing capacity, revenues, profitability and cash flows from operations and may have a material adverse effect on the Corporation's business, financial condition, results of operations, prospects, its ability to pay dividends and ultimately on the market prices of the Corporation's securities.

Lower commodity prices may also affect the volume and value of the Corporation's reserves, rendering certain reserves uneconomic. The Corporation's reserves at December 31, 2017 are estimated using forecast prices and costs. If crude oil and natural gas prices stay at current levels, the Corporation's reserves may be substantially reduced as economic limits of developed reserves are reached earlier and undeveloped reserves become uneconomic at such prices. Even if some reserves remain economic at lower price levels, sustained low prices may compel the Corporation to re-evaluate its development plans and reduce or eliminate various projects with marginal economics. Any decrease in the value of the Corporation's reserves may reduce the borrowing base under the Credit Facilities, which, depending on the level of the Corporation's indebtedness, could result in the Corporation having to repay a portion of its indebtedness. See *"Risk Factors – Financial Risks and Risks Relating to Economic Conditions – Credit Facilities".*

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

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

Weakness in the Oil and Natural Gas Industry

Recent market events and conditions, including global excess oil and natural gas supply, actions taken by OPEC, slowing growth in emerging economies, market volatility and disruptions in Asia, sovereign debt levels and political upheavals in various countries have caused significant weakness and volatility in commodity prices. These events and conditions have caused a significant decrease in the valuation of oil and natural gas companies and a decrease in the confidence in the oil and natural gas industry. These difficulties have been exacerbated in Canada by political and other actions resulting in uncertainty surrounding regulatory, tax, royalty changes and environmental regulation. In addition, the inability to get the necessary approvals to build pipelines, liquefied natural gas plants and other facilities to provide better access to markets for the oil and natural gas industry in Western Canada has led to additional downward price pressure on oil and gas produced in Western Canada and uncertainty and reduced confidence in the oil and natural gas industry in Western Canada. Given the current market conditions and the lack of confidence in the Canadian oil and natural gas industry, the Corporation may have difficulty raising additional funds or if it is able to do so, it may be on unfavourable and highly dilutive terms.

Substantial Capital and Additional Funding Requirements

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

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

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

Due to the conditions in the oil and natural gas industry and/or global economic and political volatility, the Corporation may from time to time have restricted access to capital and increased borrowing costs. The current conditions in the oil and natural gas industry have negatively impacted the ability of oil and natural gas companies to access additional financing. Failure to obtain financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations.

There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet the Corporation's requirements or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. To the extent that external sources of capital become limited, unavailable or available on onerous terms, the Corporation's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result. In addition, the future development of the Corporation's petroleum properties may require additional financing and there are no assurances that such financing will be available or, if available, will be available upon acceptable terms. The Corporation may be required to seek additional equity financing on terms that are highly dilutive to existing shareholders. Moreover, future activities may require the Corporation to alter its capitalization significantly.

Issuance of Debt

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

Credit Facilities

The amount authorized under the Credit Facilities is dependent on the borrowing base determined by the Corporation's lenders. The Credit Facilities are subject to a semi-annual review of the borrowing base limit by Birchcliff's syndicate of lenders, which limit is directly impacted by the value of Birchcliff's oil and natural gas reserves. The Corporation's lenders use the Corporation's reserves, commodity prices and other factors to determine the Corporation's borrowing base. Commodity prices continue to be depressed and have fallen dramatically since 2014. Continued depressed commodity prices or further declines in commodity prices could result in a reduction in the Corporation's borrowing base, thereby reducing the funds available to the Corporation under the Credit Facilities. As the borrowing base is determined based on the lender's interpretation of the Corporation's reserves and future commodity prices, there can be no assurance as to the amount of the borrowing base determined at each review. In addition, the lenders are able to request one additional borrowing base redetermination in between scheduled redeterminations and the borrowing base may be reduced in connection with asset dispositions. If, at the time of a borrowing base redetermination, the outstanding borrowings under the Credit Facilities were to exceed the borrowing base as a result of any such redetermination, the Corporation would be required to eliminate this excess. If the Corporation is forced to repay a portion of its indebtedness under the Credit Facilities, it may not have sufficient funds to make such repayments. If it does not have sufficient funds and is otherwise unable to negotiate renewals of its borrowings or arrange new financing, it may have to sell significant assets. Any such sale could have a material adverse effect on the Corporation's business and financial results.

The maturity date of the Credit Facilities is May 11, 2020. The Corporation may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made. In the event that either of the Credit Facilities is not extended before the maturity date, all outstanding indebtedness under such Credit Facility will be repayable at the maturity date. There is also a risk that the Credit Facilities will not be renewed for the same principal amount or on the same terms. Any of these events could adversely affect the Corporation's ability to fund its ongoing operations and to pay dividends.

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

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

Dividends

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

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

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

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

Hedging

From time to time, the Corporation may enter into agreements that fix the prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline. However, to the extent that the Corporation engages in fixed price risk management activities to protect it from commodity price declines, the Corporation may also be prevented from realizing the full benefits of commodity price increases above the prices established by the Corporation's hedging contracts. In addition, the Corporation's hedging arrangements may expose it to the risk of financial loss in certain circumstances, including instances in which:

- production falls short of the hedged volumes or prices fall significantly lower than projected;

- there is a widening of price-basis differentials between delivery points for production and the delivery point assumed in the hedge arrangement;
- the counterparties to the hedging arrangements or other price risk management contracts fail to perform under those arrangements; and/or
- a sudden unexpected event materially increases oil and natural gas prices.

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

Credit Risk

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

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

Variations in Foreign Exchange Rates and Interest Rates

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

To the extent that the Corporation engages in risk management activities related to foreign exchange rates, there is a credit risk associated with the counterparties with whom the Corporation may contract. Please see *"Risk Factors – Financial Risks and Risks Relating to Economic Conditions – Hedging"*.

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

Business and Operational Risks

Exploration, Development and Production Risks

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

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

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

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

Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. The Corporation also remains subject to the risk that the production rate of a significant well may decrease in an unpredictable and uncontrollable manner, which could result in a decrease in the Corporation's overall production and associated cash flows.

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

Project Risks

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

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

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

Gathering and Processing Facilities, Pipeline Systems and Rail

The Corporation delivers its products through gathering and processing facilities, pipeline systems and, in certain circumstances, by rail. The amount of oil and natural gas that the Corporation can produce and sell is subject to the accessibility, availability, proximity and capacity of these gathering and processing facilities, pipeline systems and railway lines. The lack of availability of capacity in any of the gathering and processing facilities, pipeline systems and railway lines could result in the Corporation's inability to realize the full economic potential of its production or in a reduction of the price offered for the Corporation's production. Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and market oil and natural gas production. In addition, the pro-rationing of capacity on pipeline systems continues to affect the ability to export oil and natural gas. Unexpected shut-downs or curtailment of capacity of pipelines for maintenance or integrity work or because of actions taken by regulators could also affect the Corporation's production, operations and financial results. As a result, producers are increasingly turning to rail as an alternative means of transportation. In recent years, the volume of crude oil shipped by rail in North America has increased dramatically. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays in constructing new infrastructure systems and facilities could harm the Corporation's business and, in turn, the Corporation's financial condition, results of operations and cash flows. Announcements and actions taken by the governments of British Columbia and Alberta relating to approvals of infrastructure projects may continue to intensify, leading to increased challenges to interprovincial and international infrastructure projects moving forward. In addition, while the federal government has recently introduced draft legislation to overhaul the existing environmental assessment process and replace the NEB with a new regulatory agency, the impact of the new proposed regulatory scheme on proponents and the timing of receipt of approvals of major projects remains unclear.

Following major accidents in Lac-Megantic, Quebec and North Dakota, the Transportation Safety Board of Canada and the U.S. National Transportation Board recommended additional regulations for railway tank cars carrying crude oil. In June 2015, as a result of these recommendations, the Government of Canada passed the *Safe and Accountable Rail Act* which increased insurance obligations on the shipment of crude oil by rail and imposed a per tonne levy of $1.65 on crude oil shipped by rail to compensate victims and for environmental cleanup in the event of a railway accident. In addition to this legislation, new regulations have implemented the TC-117 standard for all rail tank cars carrying flammable liquids which formalized the commitment to retrofit, and phase out DOT-111 tank cars carrying crude oil. The increased regulation of rail transportation may reduce the ability of railway lines to alleviate pipeline capacity issues and adds additional costs to the transportation of crude oil by rail. On July 13, 2016, the Minister of Transport (Canada) issued Protective Direction No. 38, which directed that the shipping of crude oil on DOT-111 tank cars end by November 1, 2016. Tank cars entering Canada from the United States will be monitored to ensure they are compliant with Protective Direction No. 38.

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

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

Uncertainty of Reserves and Resource Estimates

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

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

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

Actual production and cash flows derived from the Corporation's reserves will vary from the estimates contained in the Corporation's independent reserves evaluations and such variations could be material. The independent reserves evaluations are based in part on the assumed success of the Corporation's forecast operations. The reserves and estimated future net revenue to be derived therefrom and contained in the Corporation's independent reserves evaluations may be reduced to the extent that such activities do not achieve the level of success assumed in the evaluations.

Costs and Availability of Equipment and Services

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties) and skilled personnel trained to use such equipment in the areas where such activities will be conducted. Demand for such limited equipment and skilled personnel, or access restrictions, may affect the availability of such equipment and skilled personnel to the Corporation and may delay exploration and development activities.

Hydraulic Fracturing

Some of the Corporation's operations use hydraulic fracturing. Hydraulic fracturing involves the injection of water, sand and small amounts of additives under pressure into rock formations to stimulate the production of oil and natural gas. Specifically, hydraulic fracturing enables the production of commercial quantities of oil and natural gas from reservoirs that were previously unproductive. While hydraulic fracturing has been in use for many years, there has been increased focus on the environmental aspects of hydraulic fracturing practices in recent years. Increased regulation and attention given to the hydraulic fracturing process could lead to greater opposition (including litigation) to oil and natural gas production activities using hydraulic fracturing techniques. Any new laws, regulations or permitting requirements regarding hydraulic fracturing could lead to operational delays, increased operating costs, third-party or governmental claims and could increase the Corporation's costs of compliance and doing business, as well as delay the development of oil and natural gas resources from certain formations which are not commercial without the use of hydraulic fracturing. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that the Corporation is ultimately able to produce from its reserves and, therefore, could adversely affect the Corporation's business, financial condition, results of operations and prospects.

Potential Future Drilling Locations

The Corporation's identified potential future drilling locations represent a significant part of the Corporation's future growth. Birchcliff's ability to drill and develop these locations and the drilling locations on which Birchcliff actually drills wells depends on a number of uncertainties and factors, including, but not limited to, the availability of capital, equipment and personnel, oil and natural gas prices, capital and operating costs, inclement weather, seasonal restrictions, drilling results, additional geological, geophysical and reservoir information that is obtained, production rate recovery, gathering system and transportation constraints, net prices received for commodities produced, regulatory approvals and regulatory changes. As a result of these uncertainties, there can be no assurance that the potential future drilling locations that the Corporation has identified will ever be drilled or if Birchcliff will be able to produce oil, NGLs or natural gas from these or any other potential drilling locations. As such, Birchcliff's actual drilling activities may differ materially from those presently identified, which could adversely affect Birchcliff's business.

Operational Dependence

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

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

Cost of New Technologies

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

Alternatives to and Changing Demand for Petroleum Products

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

Seasonality and Extreme Weather Conditions

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

Expiration of Licences and Leases

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

Competition

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

All Assets in One Area

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

Expansion into New Activities

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

Environmental, Regulatory and Political Risks

Political Uncertainty

In the last several years, the United States and certain European countries have experienced significant political events that have cast uncertainty on global financial and economic markets. During the 2016 presidential campaign, a number of election promises were made and the American administration has begun taking steps to implement certain of these promises. The administration has announced the withdrawal of the United States from the Trans-Pacific Partnership and Congress has passed sweeping tax reforms, which, among other things, significantly reduces U.S. corporate tax rates. This may affect the competitiveness of other jurisdictions, including Canada. The North American Free Trade Agreement is currently under renegotiation and the result is uncertain at this time. The administration has also taken action with respect to the reduction of regulation which may also affect the relative competitiveness of other jurisdictions. It is unclear exactly what other actions the administration in the United States will implement, and if implemented, how these actions may impact Canada and in particular the oil and natural gas industry. Any actions taken by the American administration may have a negative impact on the Canadian economy and on the businesses, financial conditions, results of operations and the valuation of Canadian oil and natural gas companies, including the Corporation.

In addition to the political disruption in the United States, the citizens of the United Kingdom voted to withdraw from the European Union and the Government of the United Kingdom has begun taking steps to implement such withdrawal. Some European countries have also experienced the rise of anti-establishment political parties and public protests held against open-door immigration policies, trade and globalization. To the extent that certain political actions taken in North America, Europe and elsewhere in the world result in a marked decrease in free trade, access to personnel and freedom of movement, it could have an adverse effect on the Corporation's ability to market its products internationally, increase costs for goods and services required for the Corporation's operations, reduce access to skilled labour and as a result, negatively impact the Corporation's business, operations, financial condition and the market value of the Corporation's securities.

A change in federal, provincial or municipal governments in Canada may have an impact on the directions taken by such governments on matters that may impact the oil and natural gas industry, including the balance between economic development and environmental policy such as the potential impact of the recent change of government in British Columbia and announcements and actions by the Government of British Columbia that may impact the completion of the Trans-Mountain Pipeline project and other infrastructure projects.

Geopolitical Risks

Political events throughout the world that cause disruptions in the supply of oil and natural gas continuously affect the marketability and price of oil and natural gas acquired or discovered by the Corporation. Conflicts, or conversely peaceful developments, arising outside of Canada, including changes in political regimes or the parties in power, have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and result in a reduction of the Corporation's revenue.

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

Regulatory

Various levels of governments impose extensive controls and regulations on oil and natural gas operations (including exploration, development, production, pricing, marketing and transportation). Governments may regulate or intervene with respect to exploration and production activities, prices, taxes, royalties and the exportation of oil and natural gas. Amendments to these controls and regulations may occur from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce the demand for crude oil and natural gas and increase the Corporation's costs or make certain projects uneconomic, which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. Recently, the Government of Canada and certain provincial governments have taken steps to initiate protocols and regulations to limit the release of methane from oil and natural gas operations. Such draft regulations and protocols may require additional expenditures or otherwise negatively impact the Corporation's operations and may affect the Corporation's revenues.

In order to conduct oil and natural gas operations, the Corporation requires regulatory permits, licences, registrations, approvals and authorizations from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all of the permits, licences, registrations, approvals and authorizations that may be required to conduct operations that it may wish to undertake. In addition, the Corporation may have to comply with the requirements of certain federal legislation such as the *Competition Act* (Canada) and the *Investment Canada Act* (Canada), which may adversely affect its business and financial condition and the market value of its securities or assets, particularly when undertaking, or attempting to undertake, an acquisition or disposition.

Environmental

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

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

Political and economic events may significantly affect the scope and timing of climate change measures that are put in place. Some of the Corporation's facilities may be subject to existing or future provincial or federal climate change regulations to manage emissions and there can be no assurance that the compliance costs will be immaterial. The implementation of new environmental regulations or the modification of existing environmental regulations affecting the oil and natural gas industry generally could reduce demand for oil and natural gas and increase costs. Please also see *"Risk Factors – Environmental, Regulatory and Political Risks – Climate Change Regulation"*.

Climate Change Regulation

The Corporation's exploration and production facilities and other operations and activities emit GHG which requires the Corporation to comply with applicable GHG emissions legislation. Climate change policy is evolving at regional, national and international levels and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. As a signatory to the United Nations Framework Convention on Climate Change and the Paris Agreement, the Government of Canada pledged to cut its GHG emissions by 30% from 2005 levels by 2030. One of the pertinent policies announced to date by the Government of Canada to reduce GHG emission is the planned implementation of a nation-wide price on carbon emissions. Provincially, the Government of Alberta has already implemented a carbon levy on almost all sources of GHG emissions, now at a rate of $30 per tonne. The direct or indirect costs of compliance with GHG-related legislation may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. Adverse impacts to the Corporation's business as a result of GHG legislation may include, but are not limited to, increased compliance costs, permitting delays, increased operating costs and capital expenditures and reduced demand for the oil, natural gas and NGLs that the Corporation produces. In addition, the Pouce Coupe Gas Plant is subject to the *Carbon Competitiveness Incentive Regulation* (Alberta) and some of the Corporation's other significant facilities may ultimately become subject to future regional, provincial and/or federal climate change regulations to manage GHG emissions. In addition, concerns about climate change have resulted in a number of environmental activists and members of the public opposing the continued exploitation and development of fossil fuels. Given the evolving nature of the debate related to climate change and the control of GHG and resulting requirements, it is expected that current and future climate change regulations will have the effect of increasing the Corporation's operating expenses and in the long-term reducing the demand for oil and gas production resulting in a decrease in the Corporation's profitability and a reduction in the value of its assets or asset write-offs.

Carbon Pricing Risk

The majority of countries across the globe have agreed to reduce their carbon emissions in accordance with the Paris Agreement. In Canada, the federal and certain provincial governments have implemented legislation aimed at incentivizing the use of alternatives fuels and in turn reducing carbon emissions. The taxes placed on carbon emissions may have the effect of decreasing the demand for oil and natural gas products and at the same time, increasing the Corporation's operating expenses, each of which may have a material adverse effect on the Corporation's profitability and financial condition. Further, the imposition of carbon taxes puts the Corporation at a disadvantage with its counterparts who operate in jurisdictions where there are less costly carbon regulations.

Liability Management Programs

Alberta has developed the Licensee Liability Rating Program (the "**Alberta LLR Program**") which is designed to prevent taxpayers from incurring costs associated with the suspension, abandonment, remediation and reclamation of wells, facilities and pipelines in the event that a licensee or permit holder is unable to satisfy its regulatory obligations. This program involves an assessment of the ratio of a licensee's deemed assets to deemed liabilities. If a licensee's deemed liabilities exceed its deemed assets, a security deposit is generally required. Changes to the required ratio of the Corporation's deemed assets to deemed liabilities or other changes to the requirements of the Alberta LLR Program may result in the requirement for security to be posted in the future and may result in significant increases to the Corporation's compliance obligations. In addition, the Alberta LLR Program may prevent or interfere with the Corporation's ability to acquire or dispose of assets as both the vendor and the purchaser of oil and gas assets must be in compliance with the Alberta LLR Program (both before and after the transfer of the assets) for the applicable regulatory agency to allow for the transfer of such assets.

The decision of the Court of Queen's Bench of Alberta in *Redwater Energy Corporation (Re)* ("**Redwater**") found an operational conflict between the *Bankruptcy and Insolvency Act* (Canada) and the Alberta Energy Regulator's ("**AER**") abandonment and reclamation powers when the licensee is insolvent, which was affirmed by a majority of the Alberta Court of Appeal and has been appealed by the AER to the Supreme Court of Canada for final determination. In response to the decision, the AER issued interim rules to administer the Alberta LLR Program until the Government of Alberta can develop new regulatory measures to adequately address environmental liabilities. There remains a great deal of uncertainty as to what new regulatory measures will be developed by the provinces or in concert with the federal government, as the final ruling will become binding in all Canadian jurisdictions. While the impact on Birchcliff of any legislative, regulatory or policy decisions as a result of the Redwater decision and its pending appeal cannot be reliably or accurately estimated, any cost recovery or other measures taken by applicable regulatory bodies may impact Birchcliff and materially and adversely affect, among other things, Birchcliff's business, financial condition, results of operations and cash flows.

Royalty Regimes

The Corporation's cash flows are directly affected by changes to royalty regimes. There can be no assurance that the Government of Alberta will not adopt a new royalty regime or modify the existing royalty regime, which may have an impact on the economics of the Corporation's projects. An increase in the royalty rates in Alberta would reduce the Corporation's earnings and could make future capital investments, or the Corporation's operations, less economic or uneconomic. On January 29, 2016, the Government of Alberta adopted a new royalty regime which took effect on January 1, 2017.

Disposal of Fluids Used in Operations

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

Other Risks

Volatility in the Market Prices of the Corporation's Securities

The trading price of securities of oil and natural gas issuers is subject to substantial volatility often based on factors related and unrelated to the financial performance or prospects of the issuers involved. The market price of the Corporation's securities may be volatile, which may affect the ability of holders to sell such securities at an advantageous price. Factors unrelated to the Corporation's performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices or current perceptions of the oil and natural gas market. In certain jurisdictions, institutions, including government-sponsored entities, have determined to decrease their ownership in oil and gas entities which may impact the liquidity of certain securities and may put downward pressure on the trading price of those securities. Similarly, the market prices of the Corporation's securities could be subject to significant fluctuations in response to variations in the Corporation's operating results, financial condition, liquidity and other internal factors. In addition, market price fluctuations in the Corporation's securities may also be due to the Corporation's results failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates and material public announcements by the Corporation, along with a variety of additional factors, including, without limitation, those set forth under the heading "*Advisories*". Accordingly, the prices at which the Corporation's securities will trade cannot be accurately predicted.

Reliance on Key Personnel

The Corporation's success depends, in large measure, on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on the Corporation. The Corporation does not have "key person" insurance in effect for the Corporation. The contributions of the existing management team to the immediate and near-term operations of the Corporation are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all of the personnel necessary for the development and operation of its business. Shareholders must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the Corporation's management.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

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

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

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

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

Management of Growth and Integration

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

Reputational Risk Associated with the Corporation's Operations

Any environmental damage, loss of life, injury or damage to property caused by the Corporation's operations could damage its reputation in the areas in which it operates. Negative sentiment towards the Corporation could result in a lack of willingness of municipal authorities being willing to grant the necessary licenses or permits for the Corporation to operate its business. In addition, negative sentiment towards the Corporation could result in the residents of the areas where the Corporation is doing business opposing further operations in the area by the Corporation. If the Corporation develops a reputation of having an unsafe work site, this may impact its ability to attract and retain the necessary skilled employees and consultants to operate its business. Further, the Corporation's reputation could be affected by actions and activities of other corporations operating in the oil and natural gas industry, over which it has no control. In addition, environmental damage, loss of life, injury or damage to property caused by the Corporation's operations could result in negative investor sentiment towards it, which may result in limiting the Corporation's access to capital, increasing the cost of capital, and decreasing the price and liquidity of the Corporation's securities.

Changing Investor Sentiment

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

Information Technology Systems and Cyber-security

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

In the event the Corporation is unable to regularly deploy software and hardware, effectively upgrade systems and network infrastructure and take other steps to maintain or improve the efficiency and efficacy of its information technology systems, the operation of such systems could be interrupted or result in the loss, corruption, or release of data. Further, the Corporation is subject to a variety of information technology and system risks as a part of its normal course operations, including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of the Corporation's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to its business activities or its competitive position. In addition, cyber-phishing attempts, in which a malicious party attempts to obtain sensitive information such as usernames, passwords, and credit card details (and money) by disguising as a trustworthy entity in an electronic communication, have become more widespread and sophisticated in recent years. If the Corporation becomes a victim to a cyber-phishing attack it could result in a loss or theft of the Corporation's financial resources or critical data and information or could result in a loss of control of the Corporation's technological infrastructure or financial resources. The Corporation applies technical and process controls in line with industry-accepted standards to protect its information assets and systems; however, these controls may not adequately prevent cyber-security breaches. Disruption of critical information technology services, or breaches of information security, could have a negative effect on the Corporation's performance and earnings, as well as on its reputation. The significance of any such event is difficult to quantify, but may in certain circumstances be material and could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

In addition to the oversight provided by the Corporation's Information Technology Committee, there is further reporting on the Corporation's information technology and cyber-security risks to the Board of Directors. To date, the Corporation has not been subject to a cyber-security attack or other breach that has had a material impact on its business or operations or resulted in material losses to the Corporation;

however, there is no assurance that the measures the Corporation takes to protect its business systems and operational control systems will be effective in protecting against a breach in the future and that the Corporation will not incur such losses in the future.

Insurance

Although the Corporation maintains insurance in accordance with industry standards to address certain risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, certain risks are not, in all circumstances, insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Litigation

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

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

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights in portions of Western Canada. The Corporation is not aware that any claims have been made in respect of its properties or assets; however, the legal basis of an aboriginal land claim and aboriginal rights is a matter of considerable legal complexity and the impact of the assertion of such a claim, or the possible effect of a settlement of such claim, upon the Corporation cannot be predicted with any degree of certainty at this time. In addition, no assurance can be given that any recognition of aboriginal rights or claims whether by way of a negotiated settlement or by judicial pronouncement (or through the grant of an injunction prohibiting exploration or development activities pending resolution of any such claim) would not delay or even prevent the Corporation's exploration and development activities. If a claim arose and was successful, such claim may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In addition, the process of addressing such claims, regardless of the outcome, may be expensive and time consuming and could result in delays which could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Internal Controls

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

Title to Assets

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that a defect in the chain of title will not arise to defeat the Corporation's ownership claim. The actual interest of the Corporation in properties may accordingly vary from the Corporation's records. If a title defect does exist, it is possible that the Corporation may lose all or a portion of the properties to which the title defect relates, which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. There may be valid challenges to title, or legislative changes which affect the Corporation's title, to the oil and natural gas properties the Corporation controls that could impair the Corporation's activities on them and result in a reduction of the revenue received by the Corporation.

Income Taxes

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

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

Breaches of Confidentiality

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

Negative Impact of Additional Sales or Issuances of Securities

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

Additional Taxation Applicable to Non-Residents

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

Foreign Exchange Risk for Non-Resident Shareholders

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

Conflicts of Interest

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

Forward-Looking Information May Prove Inaccurate

Shareholders and prospective investors are cautioned not to place undue reliance on the Corporation's forward-looking information. By its nature, forward-looking information involves numerous assumptions and known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. For additional information, see *"Advisories – Forward-Looking Information"*.

ABBREVIATIONS

AECO	Benchmark price for natural gas determined at the AECO 'C' hub in southeast Alberta
bbl	barrel
bbls	barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
boe/d	barrels of oil equivalent per day
GAAP	generally accepted accounting principles
GJ	gigajoule
GJ/d	gigajoules per day
IFRS	International Financial Reporting Standards
m^3	cubic meters
Mcf	thousand cubic feet
Mcfe	thousand cubic feet of gas equivalent
MJ	megajoule
MM$	millions of dollars
MMBtu	million British thermal units
MMcf	million cubic feet
MMcf/d	million cubic feet per day
NGLs	natural gas liquids
NGTL	NOVA Gas Transmission Ltd.
P&NG	petroleum and natural gas
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma, for crude oil of standard grade
TCPL	TransCanada Pipelines
000s	thousands
$000s	thousands of dollars

NON-GAAP MEASURES

This MD&A uses "adjusted funds flow", "adjusted funds flow per common share", "operating netback", "estimated operating netback", "operating margin", "total cash costs", "adjusted working capital deficit" and "total debt". These measures 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 believes that these non-GAAP measures assist management and investors in assessing Birchcliff's profitability, efficiency, liquidity and overall performance. Each of these measures is discussed in further detail below.

"Adjusted funds flow" denotes cash flow from operating activities before the effects of decommissioning expenditures and changes in non-cash working capital. "Adjusted funds flow per common share" denotes adjusted funds flow divided by the basic or diluted weighted average number of common shares outstanding for the period. The Corporation eliminates changes in non-cash working capital and settlements of decommissioning expenditures from cash flow from operations as the amounts can be discretionary and may vary from period to period depending on its capital programs and the maturity of its operating areas. The settlement of decommissioning expenditures are managed with the Corporation's capital budgeting process which considers available adjusted funds flow. Management believes that adjusted funds flow and adjusted funds flow per common share assist management and investors in assessing Birchcliff's profitability, as well as its ability to generate the cash necessary to fund future growth through capital investments, pay dividends and repay debt. Birchcliff previously referred to adjusted funds flow as "funds flow from operations".

The following table provides a reconciliation of cash flow from operating activities, as determined in accordance with IFRS, to adjusted funds flow:

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2017**	**2016**	**2017**	**2016**
Cash flow from operating activities	88,995	90,574	287,660	140,514
Adjustments:				
Decommissioning expenditures	93	480	794	1,343
Change in non-cash working capital	7,920	(19,248)	29,226	5,586
Adjusted funds flow	**97,008**	**71,806**	**317,680**	**147,443**

"Operating netback" denotes petroleum and natural gas revenue less royalties, less operating expense and less transportation and marketing expense. "Estimated operating netback" of the Pouce Coupe Gas Plant (and the components thereof) is based upon certain cost allocations and accruals directly attributable to the Pouce Coupe Gas Plant and related wells and infrastructure. All netbacks are calculated on a per unit basis, unless otherwise indicated. Management believes that operating netback and estimated operating netback assist management and investors in assessing Birchcliff's profitability and its operating results on a per unit basis to better analyze its performance against prior periods on a comparable basis. The following table provides a breakdown of operating netback:

	Three months ended December 31,				Twelve months ended December 31,			
	2017		**2016**		**2017**		**2016**	
	($000s)	*($/boe)*[(1)]	*($000s)*	*($/boe)*[(1)]	*($000s)*	*($/boe)*[(1)]	*($000s)*	*($/boe)*[(1)]
Petroleum and natural gas revenue	166,149	22.55	135,457	24.24	556,942	22.45	337,586	18.73
Royalty expense	(9,271)	(1.26)	(10,177)	(1.82)	(28,727)	(1.16)	(20,911)	(1.16)
Operating expense	(28,460)	(3.86)	(25,385)	(4.54)	(110,486)	(4.45)	(75,251)	(4.18)
Transportation and marketing expense	(25,883)	(3.52)	(13,489)	(2.42)	(71,224)	(2.87)	(42,989)	(2.38)
Operating netback	**102,535**	**13.91**	**86,406**	**15.46**	**346,505**	**13.97**	**198,435**	**11.01**

(1) All per boe figures are calculated by dividing each aggregate financial amount by the production (boe) in the respective period.

"Operating margin" for the Pouce Coupe Gas Plant is calculated by dividing the estimated operating netback for the period by the petroleum and natural gas revenue for the period. Management believes that operating margin assists management and investors in assessing the profitability and efficiency of the Pouce Coupe Gas Plant and Birchcliff's ability to generate operating cash flows (equal to petroleum and natural gas revenue less royalties, less operating expense and less transportation and marketing expense).

"Total cash costs" are comprised of royalty, operating, transportation and marketing, general and administrative and interest expenses. Total cash costs are calculated on a per unit basis. Management believes that total cash costs assists management and investors in assessing Birchcliff's efficiency and overall cash cost structure.

"Adjusted working capital deficit" is calculated as current assets minus current liabilities excluding the effects of any financial instruments. Management believes that adjusted working capital deficit assists management and investors in assessing Birchcliff's liquidity. The following table reconciles working capital deficit (current assets minus current liabilities), as determined in accordance with IFRS, to adjusted working capital deficit:

As at, *($000s)*	**December 31, 2017**	**December 31, 2016**
Working capital deficit	15,113	36,928
Fair value of financial instruments	(4,046)	(9,433)
Adjusted working capital deficit	**11,067**	**27,495**

"Total debt" is calculated as the revolving term credit facilities plus adjusted working capital deficit. Management believes that total debt assists management and investors in assessing Birchcliff's liquidity. The following table provides a reconciliation of the revolving term credit facilities, as determined in accordance with IFRS, to total debt:

As at, *($000s)*	**December 31, 2017**	**December 31, 2016**
Revolving term credit facilities	587,126	572,517
Adjusted working capital deficit	11,067	27,495
Total debt	**598,193**	**600,012**

ADVISORIES

Operating Costs

References in this MD&A to "operating costs" exclude transportation and marketing costs.

Boe and Mcfe Conversions

Boe amounts have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil and Mcfe amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. Boe and Mcfe amounts may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl and an Mcfe conversion ratio of 1 bbl: 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. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

MMBtu Pricing Conversions

$1.00 per MMBtu equals $1.00 per Mcf based on a standard heat value Mcf.

Oil and Gas Metrics

This MD&A contains metrics commonly used in the oil and natural gas industry, including "operating netback". These oil and gas metrics do not have any standardized meanings or standard methods of calculation and therefore may not be comparable to similar measures presented by other companies where similar terminology is used and should not be used to make comparisons. Such metrics have been included herein to provide readers with additional measures to evaluate Birchcliff's performance; however, such measures are not reliable indicators of Birchcliff's future performance and future performance may not compare to Birchcliff's performance in previous periods and therefore such metrics should not be unduly relied upon. For information on how operating netback is calculated, please see *"Non-GAAP Measures"*.

Capital Expenditures

Unless otherwise stated, references in this MD&A to: (i) “net capital expenditures” and “capital expenditures, net” denote F&D costs (which includes land, seismic, workovers, drilling and completions and well equipment and facilities) plus administrative assets, plus acquisition costs, less any dispositions; and (ii) “total capital expenditures” denotes F&D costs plus administrative assets.

Reserves

Birchcliff retained two independent qualified reserves evaluators, Deloitte LLP and McDaniel & Associates Consultants Ltd., to evaluate and prepare reports on 100% of Birchcliff’s light crude oil and medium crude oil (combined), conventional natural gas, shale gas and NGLs reserves effective December 31, 2017. Such evaluations were prepared in accordance with the standards contained in the COGE Handbook and NI 51-101. Further information regarding the Corporation’s reserves can be found in the Corporation’s Annual Information Form for the financial year ended December 31, 2017.

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

Forward-Looking Information

Certain statements contained in this MD&A constitute forward-looking statements and information (collectively referred to as “**forward-looking information**”) within the meaning of applicable Canadian securities laws. Such forward-looking information relates to future events or Birchcliff’s future performance. All information other than historical fact may be forward-looking information. Such forward-looking information is often, but not always, identified by the use of words such as “seek”, “plan”, “expect”, “project”, “intend”, “believe”, “anticipate”, “estimate”, “forecast”, “potential”, “proposed”, “predict”, “budget”, “continue”, “targeting”, “may”, “will”, “could”, “might”, “should” and other similar words and expressions. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Birchcliff believes that the expectations reflected in the forward-looking information are reasonable in the current circumstances but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this MD&A should not be unduly relied upon.

In particular, this MD&A contains forward-looking information relating to the following: Birchcliff’s plans and other aspects of its anticipated future financial performance, operations, focus, objectives, strategies, opportunities, priorities and goals; Birchcliff’s guidance regarding its 2018 Capital Program and its proposed exploration and development activities and the timing thereof (including estimates of capital expenditures in 2018, planned capital expenditures and capital allocation, the focus of, the objectives of and the anticipated results from the 2018 Capital Program, the number and types of wells to be drilled and brought on production, Birchcliff’s expectation that its 2018 capital expenditures will be less than its adjusted funds flow during 2018, the financial and operational flexibility of the 2018 Capital Program and the potential to accelerate or decelerate capital expenditures); Birchcliff’s other guidance for 2018 (including its estimates of its annual average production and commodity mix, its estimates of royalty, operating and transportation and marketing expenses, its estimates of AECO and Dawn production levels and forecasts of commodity prices); the proposed Phase VI expansion of the Pouce Coupe Gas Plant (including the anticipated processing capacity of the Pouce Coupe Gas Plant after such expansion and the anticipated timing thereof); statements regarding the re-configuring of Phases V and VI of the Pouce Coupe Gas Plant to provide for shallow-cut capability; the performance characteristics of Birchcliff's oil and natural gas properties and expected results from its assets; Birchcliff's marketing and transportation arrangements (including its expectation that approximately 34% of its 2018 forecast annual average natural gas production will be sold at prices that are not based on AECO, with 30% expected to be sold at the Dawn index price and 4% expected to be marketed via the Alliance pipeline system during 2018, that additional tranches of service on TCPL's Canadian Mainline will become available later in 2018 and 2019 and that approximately 48% of the Corporation's total forecasted corporate production is exposed to AECO pricing, with the remaining 52% of corporate production not exposed to AECO pricing in 2018); Birchcliff's hedging strategy, activities and the use of risk-management techniques (including that its current hedging strategy for 2018 is to hedge up to 50% of its estimated 2018 forecast average production using a combination of financial derivatives and physical delivery sales contracts); estimates of reserves and future development costs; the Corporation's estimated income tax pools and management's expectation that future taxable income will be available to utilize the accumulated tax pools; the Corporation's liquidity (including the Corporation's financial flexibility, the sources of funding for the Corporation's activities and capital requirements, that the Corporation generally relies on its adjusted funds flow and available credit under its existing credit facilities to fund its capital requirements, statements that the Corporation may from time to time seek additional capital in the form of debt and/or equity or dispose of non-core properties to fund its on-going capital expenditure programs and protect its balance sheet, management's belief that its adjusted funds flow during 2018 will be sufficient to fund the Corporation's 2018 Capital Program, statements that Birchcliff may adjust its on-going capital program, draw down on its Credit Facilities, seek additional equity financing and/or consider the potential sale of additional non-core assets to fund planned growth should commodity prices deteriorate materially and the Corporation's expectation that counterparties will be able to meet their financial obligations); statements that management of debt levels continues to be a priority for Birchcliff; estimates of Birchcliff's material contractual obligations and commitments; statements regarding Birchcliff's decommissioning obligations; the payment of dividends (including statements regarding the timing thereof and the sustainability of dividends); statements relating to the NCIB (including potential purchases under the NCIB and the cancellation of common shares purchased under the NCIB); and the treatment under and impact of existing and proposed governmental regulatory regimes (including the impact of climate change and GHG legislation on the Corporation). Information relating to reserves is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves exist in the quantities predicted or estimated and that the reserves can profitably be produced in the future.

With respect to forward-looking information contained in this MD&A, assumptions have been made regarding, among other things: Birchcliff's ability to continue to develop its assets and obtain the anticipated benefits therefrom; prevailing and future commodity prices and differentials, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; expected adjusted funds flow; Birchcliff's future debt levels; 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; the sources of funding for Birchcliff's capital expenditure programs and other activities; anticipated timing and results of capital expenditures; the sufficiency of budgeted capital expenditures to carry out planned operations; results of future operations; future 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 on Birchcliff; the availability of, demand for and cost of labour, services and materials; Birchcliff's ability to access capital; the ability to obtain financing on acceptable terms; the ability to obtain any necessary regulatory or other approvals in a timely manner; the ability of Birchcliff to secure adequate transportation for its products; Birchcliff's ability to market oil and gas; the availability of hedges on terms acceptable to Birchcliff; and abandonment costs and decommissioning obligations.

In addition to the foregoing assumptions, Birchcliff has made the following assumptions with respect to certain forward-looking information contained in this MD&A:

- With respect to statements regarding the 2018 Capital Program (including estimates of 2018 capital expenditures, statements that the Corporation's 2018 capital expenditures will be less than its adjusted funds flow during 2018 and statements that its adjusted funds flow during 2018 will be sufficient to fund the 2018 Capital Program), such estimates and statements are based on the assumptions set forth in the table under the heading *"2018 Outlook".*

    - With respect to estimates of capital expenditures, such estimates assume that the 2018 Capital Program will be carried out as currently contemplated.

    - With respect to statements that the Corporation's 2018 capital expenditures will be less than its adjusted funds flow during 2018 and that its adjusted funds flow during 2018 will be sufficient to fund the 2018 Capital Program, such statements assume that: the 2018 Capital Program will be carried out as currently contemplated; the production targets and commodity price assumptions set forth herein are achieved; and Birchcliff's forecast commodity mix is achieved.

    - The amount and allocation of capital expenditures for exploration and development activities by area and the number and types of wells to be drilled is dependent upon results achieved and is subject to review and modification by management on an ongoing basis throughout the year. Actual spending may vary due to a variety of factors, including commodity prices, industry conditions, results of operations and costs of labour, services and materials. In addition, any acquisitions and dispositions completed during the 2018 could have an impact on Birchcliff's capital expenditures, production and adjusted funds flow for 2018, which impact could be material.

    - Birchcliff will monitor industry conditions and commodity prices and, where deemed prudent, will adjust the 2018 Capital Program to respond to changes in commodity prices and other material changes in the assumptions underlying the 2018 Capital Program.

- With respect to Birchcliff's production guidance, the key assumptions are that: Birchcliff's capital expenditure program will be carried out as currently contemplated; no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that any transportation service curtailments or unplanned outages that occur will be short in duration or otherwise insignificant; the construction of new infrastructure meets timing and operational expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations. In addition, Birchcliff's production guidance may be affected by acquisition and disposition activity and acquisitions and dispositions could occur that may impact expected production.

- With respect to statements regarding future wells to be drilled and brought on production, the key assumptions are: the continuing validity of the geological and other technical interpretations performed by Birchcliff's technical staff, which indicate that commercially economic volumes can be recovered from Birchcliff's lands as a result of drilling future wells; and that commodity prices and general industry conditions will warrant proceeding with the drilling of such wells.

- With respect to statements regarding the proposed Phase VI expansion of the Pouce Coupe Gas Plant, including the anticipated processing capacity of the Pouce Coupe 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; the key components of the plant will operate as designed; and commodity prices and general industry conditions will warrant proceeding with the construction of such facilities and the drilling of associated wells.
- With respect to estimates of reserves, the key assumption is the validity of the data used by the Corporation's independent qualified reserves evaluators in their independent reserves evaluations.

Birchcliff's actual results, performance or achievements could differ materially from those anticipated in the forward-looking information as a result of both known and unknown risks and uncertainties including, but not limited to: the failure to realize the anticipated benefits of acquisitions and dispositions; general economic, market and business conditions which will, among other things, impact the demand for and market prices of Birchcliff's products and Birchcliff's access to capital; an inability to access sufficient capital from internal and external sources; fluctuations in the costs of borrowing; volatility of crude oil and natural gas prices; fluctuations in currency and interest rates; operational risks and liabilities inherent in oil and natural gas operations; the occurrence of unexpected events such as fires, equipment failures and other similar events affecting Birchcliff or other parties whose operations or assets directly or indirectly affect Birchcliff; uncertainties associated with estimating oil and natural gas reserves and resources; the accuracy of oil and natural gas reserves estimates and estimated production levels as they are affected by exploration and development drilling and estimated decline rates; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; horizontal drilling and completions techniques and the failure of drilling results to meet expectations for reserves or production; uncertainties related to Birchcliff's future potential drilling locations; changes in tax laws, Crown royalty rates, environmental laws and incentive programs relating to the oil and natural gas industry and other actions by government authorities, including changes to the royalty and carbon tax regimes and the imposition or reassessment of taxes; the cost of compliance with current and future environmental laws; political uncertainty and uncertainty associated with government policy changes; uncertainties and risks associated with pipeline restrictions and outages to third-party infrastructure that could cause disruptions to production; the ability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements; the inability to secure adequate production transportation for Birchcliff's products; potential delays or changes in plans with respect to exploration or development projects or capital expenditures, including delays in the completion of Birchcliff's gas plants and other facilities; stock market volatility; loss of market demand; environmental risks, claims and liabilities; incorrect assessments of the value of acquisitions and exploration and development programs; shortages in equipment and skilled personnel; the absence or loss of key employees; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainty that development activities in connection with its assets will be economical; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; uncertainties associated with credit facilities; counterparty credit risk; risks associated with Birchcliff's hedging program and the risk that hedges on terms acceptable to Birchcliff may not be available; risks associated with the declaration and payment of dividends, including the discretion of Birchcliff's Board of Directors to declare dividends; the failure to obtain any required approvals in a timely manner or at all; unforeseen difficulties in integrating acquired assets into Birchcliff's operations; variances in Birchcliff's actual capital costs, operating costs and economic returns from those anticipated; negative public perception of the oil and natural gas industry, including transportation, hydraulic fracturing and fossil fuels; management of Birchcliff's growth; the availability of insurance and the risk that certain losses may not be insured; and cyber-security issues.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other risk factors that could affect results of operations, financial performance or financial results are included under the heading *"Risk Factors and Risk Management"* in this MD&A, under the heading *"Risk Factors"* in Birchcliff's most recent Annual Information Form and in other reports filed with Canadian securities regulatory authorities from time to time.

Any future-orientated financial information and financial outlook information (collectively, "**FOFI"**) contained in this MD&A, as such terms are defined by applicable securities laws, is provided for the purpose of providing information about management's current expectations and plans relating to the future and is subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs. FOFI contained in this MD&A was made as of the date of this MD&A and Birchcliff disclaims any intention or obligation to update or revise any FOFI contained in this MD&A, whether as a result of new information, future events or otherwise, unless required by applicable law. Readers are cautioned that any FOFI contained herein should not be used for purposes other than those for which it has been disclosed herein.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide readers with a more complete perspective on Birchcliff's future operations. Readers are cautioned that this information may not be appropriate for other purposes.

The forward-looking information contained in this MD&A is expressly qualified by the foregoing cautionary statements. The forward-looking information contained in this MD&A is made as of the date of this MD&A. Birchcliff is not under any duty to update or revise any of the forward-looking information except as expressly required by applicable securities laws.