BIRCHCLIFF ENERGY

QUARTERLY REPORT | 2017Q1

THREE MONTHS ENDED MARCH 31, 2017

May 10, 2017

Fellow Shareholders,

We are pleased to report the first quarter financial and operational results for Birchcliff Energy Ltd. ("**Birchcliff**") for the three month period ended March 31, 2017.

HIGHLIGHTS FOR THE FIRST QUARTER 2017

We had a successful first quarter in 2017, with record quarterly average production. In addition, we saw a return to net income as compared to the net loss recorded in the first quarter of 2016, primarily as a result of improved commodity prices and greater production. Highlights of the first quarter include the following:

- We had record quarterly average production of 61,662 boe/d, a 47% increase from 41,958 boe/d in the first quarter of 2016.
- We had funds flow from operations of $67.6 million ($0.26/basic common share), a 227% increase from $20.7 million ($0.14/basic common share) in the first quarter of 2016.
- We recorded net income to common shareholders of $28.9 million ($0.11/basic common share), as compared to the net loss to common shareholders of $13.0 million ($0.09/ basic common share) in the first quarter of 2016.
- Our operating costs were $5.22/boe, a 41% increase from $3.71/boe in the first quarter of 2016. Operating costs increased primarily as a result of the liquids-rich assets that we acquired in the Gordondale area on July 28, 2016 which have a higher cost structure but also have higher realized sales prices.
- Our general and administrative expense was $1.05/boe, a 20% decrease from $1.31/boe in the first quarter of 2016.
- We had net capital expenditures of $124.5 million. It is expected that the majority of capital under our $355 million capital expenditure program for 2017 (the "**2017 Capital Program**") will be spent during the first and second quarters of 2017 in order to complete the Phase V expansion of our 100% owned and operated natural gas plant located in the Pouce Coupe area of Alberta (the "**PC Gas Plant**") and to drill, complete, equip and tie-in the wells necessary to fill the expanded plant.
- At March 31, 2017, our long-term bank debt was $579.0 million and our total debt was $664.4 million.
- We drilled a total of 21 (21.0 net) wells in the first quarter of 2017, consisting of 13 (13.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area and 8 (8.0 net) Montney horizontal oil and natural gas wells in the Gordondale area.
- We paid our first quarterly dividend to our common shareholders in the amount of $0.025 per common share for the quarter ended March 31, 2017.
- We announced that we were initiating a sales process for our Charlie Lake Light Oil Resource Play, which includes our Worsley Charlie Lake Light Oil Pool.
- We entered into agreements with TransCanada Pipelines ("**TCPL**") for the firm service transportation of 175,000 GJ/d in aggregate of natural gas to the Dawn trading hub in Ontario.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended March 31, 2017	Three months ended March 31, 2016
OPERATING		
Average daily production		
Light oil – *(bbls)*	5,294	3,232
Natural gas – *(Mcf)*	291,770	222,478
NGLs – *(bbls)*	7,740	1,646
Total – boe	**61,662**	**41,958**
Average sales price *($ CDN)* (1)		
Light oil – *(per bbl)*	62.59	36.93
Natural gas – *(per Mcf)*	3.06	1.99
NGLs – *(per bbl)*	32.09	42.06
Total – boe	**23.90**	**15.05**
NETBACK AND COST *($/boe)*		
Petroleum and natural gas revenue(1)	23.91	15.06
Royalty expense	(1.98)	(0.67)
Operating expense	(5.22)	(3.71)
Transportation and marketing expense	(2.55)	(2.22)
Operating netback	**14.16**	**8.46**
General & administrative expense, net	(1.05)	(1.31)
Interest expense	(1.35)	(1.73)
Realized gain on financial instruments	0.43	-
Funds flow netback	**12.19**	**5.42**
Stock-based compensation expense, net	(0.14)	(0.17)
Depletion and depreciation expense	(7.59)	(8.94)
Accretion expense	(0.15)	(0.15)
Amortization of deferred financing fees	(0.06)	(0.06)
Gain on sale of assets	0.45	-
Unrealized gain on financial instruments	2.98	-
Dividends on Series C preferred shares	(0.16)	(0.23)
Income tax recovery (expense)	(2.13)	0.98
Net income (loss)	**5.39**	**(3.15)**
Dividends on Series A preferred shares	(0.18)	(0.26)
Net income (loss) to common shareholders	**5.21**	**(3.41)**
FINANCIAL		
Petroleum and natural gas revenue *($000s)* (1)	132,708	57,503
Funds flow from operations *($000s)*	67,630	20,695
Per common share – basic *($)*	0.26	0.14
Per common share – diluted *($)*	0.25	0.13
Net income (loss) *($000s)*	29,928	(12,035)
Net income (loss) to common shareholders *($000s)*	28,928	(13,035)
Per common share – basic *($)*	0.11	(0.09)
Per common share – diluted *($)*	0.11	(0.09)
Common shares outstanding *(000s)*		
End of period – basic	264,442	152,308
End of period – diluted	284,160	169,239
Weighted average common shares for period – basic	264,099	152,308
Weighted average common shares for period – diluted	268,077	153,418
Dividends on common shares *($000s)*	6,604	-
Dividends on Series A preferred shares *($000s)*	1,000	1,000
Dividends on Series C preferred shares *($000s)*	875	875
Capital expenditures, net *($000s)*	124,538	63,860
Revolving term credit facilities *($000s)*	578,954	647,359
Adjusted working capital deficit *($000s)*	85,398	42,779
Total debt *($000s)*	664,352	690,138

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

This First Quarter Report contains forward-looking information within the meaning of applicable securities laws. For further information, please see "Advisories – Forward-Looking Information". In addition, this First Quarter Report contains references to "funds flow from operations", "funds flow per common share", "operating netback", "estimated operating netback", "funds flow netback", "operating margin", "total cash costs", "adjusted working capital deficit" and "total debt", which do not have standardized meanings prescribed by GAAP. For further information, please see "Non-GAAP Measures".

Further information regarding our financial and operational results for the first quarter of 2017 is provided below under the heading *"First Quarter 2017 Financial and Operational Results".*

Update on the PC Gas Plant Expansions

Our PC Gas Plant currently has a processing capacity of 180 MMcf/d. We are actively working to further expand the processing capacity of the PC Gas Plant. Field installation of the Phase V expansion (which will increase processing capacity by 80 MMcf/d to 260 MMcf/d) commenced in January 2017. We expect to initiate commissioning of Phase V in July and to bring it on-stream by October 1, 2017. In addition, the engineering and licensing work has been completed for the Phase VI expansion (which will increase processing capacity by 80 MMcf/d to 340 MMcf/d). Fabrication of the major components has commenced and it is currently expected that Phase VI will be on-stream in October 2018.

We have commenced the planning and initial work to further expand the capacity of the PC Gas Plant in 2019 by 150 MMcf/d to 490 MMcf/d (Phase VII), which expansion would include a deep-cut capability. In addition, we have commenced the planning and initial work for a further expansion in 2020 to increase the capacity by an additional 100 MMcf/d (Phase VIII) which would bring the total processing capacity to 590 MMcf/d. An engineering and design study for Phases VII and VIII is expected to be complete by June 2017. Once we have finalized the design scope for Phases VII and VIII, we expect to commence the regulatory approval process.

Update on Credit Facilities – Extension of Maturity Dates and Unchanged Borrowing Base

Our syndicate of lenders recently completed their semi-annual review of the borrowing base limit under our extendible revolving credit facilities which have an aggregate principal amount of $950 million (the "**Credit Facilities**"). In connection therewith, Birchcliff and the lenders agreed to an extension of the maturity dates of each facility from May 11, 2018 to May 11, 2020 and to the borrowing base remaining unchanged at $950 million. In addition, subject to the terms and conditions of the agreement governing the Credit Facilities, the lenders have consented to the disposition of the Charlie Lake Light Oil Resource Play and to the borrowing base remaining at $950 million after giving effect to such disposition. The next semi-annual review is scheduled for November 2017.

Update on the Charlie Lake Light Oil Resource Play Sales Process

On March 21, 2017, we announced that we would pursue the sale of our oil and natural gas properties and related assets on the Charlie Lake Light Oil Resource Play located in the Peace River Arch of Alberta, which includes our Worsley Charlie Lake Light Oil Pool. We have engaged Scotiabank Global Banking and Markets as our marketing agent to seek potential purchasers. A virtual data room opened recently and is available for interested parties who have executed a confidentiality agreement. Further details on this opportunity are available at www.gbm.scotiabank.com.

Update on Natural Gas Transportation Capacity – Additional Firm Service

Virtually all of our natural gas production is currently transported on TCPL's NGTL System in Alberta pursuant to both firm and interruptible service agreements. We currently have in place firm service contracts that in the aggregate provide transportation capacity slightly above the processing capacity of our own processing facilities and sufficient transportation capacity to meet our processing commitments at third party processing facilities. In March 2017, we entered into agreements with TCPL for the firm service transportation of 175,000 GJ/d in aggregate (approximately 155 MMcf/d) of natural gas on TCPL's Canadian Mainline for a ten year term, whereby natural gas will be transported from the Empress receipt point in Alberta to the Dawn trading hub located in Southern Ontario. The toll for the Empress to Dawn portion of the service is $0.77/GJ plus fuel. Subject to regulatory approval, this service is expected to become available in three tranches on November 1 of each of 2017, 2018 and 2019. Provision of the service is conditional on, among other things, TCPL receiving National Energy Board approval on terms and conditions satisfactory to TCPL. The application to the National Energy Board for approval of the service was filed on April 26, 2017 and included the request to implement the service starting November 1, 2017.

FIRST QUARTER 2017 FINANCIAL AND OPERATIONAL RESULTS

Production

Production for the first quarter of 2017 averaged 61,662 boe/d, which is approximately 0.6% below our previous guidance of 62,000 boe/d. This quarterly average production represents a 47% increase over our quarterly average production of 41,958 boe/d in the first quarter of 2016. The increase in production from the first quarter of 2016 is primarily attributable to the production from our assets in Gordondale which we acquired on July 28, 2016 (the "**Gordondale Acquisition**").

Production consisted of approximately 79% natural gas, 9% light oil and 12% NGLs in the first quarter of 2017 as compared to 88% natural gas, 8% light oil and 4% NGLs in the first quarter of 2016. The increase in oil and NGLs weighting in 2016 is due to the more heavily-weighted oil and NGLs production from our assets in Gordondale.

Funds Flow from Operations, Cash Flow From Operating Activities and Net Income

Funds flow from operations was $67.6 million ($0.26/basic common share), a 227% increase from $20.7 million ($0.14/basic common share) in the first quarter of 2016. Cash flow from operating activities for the first quarter of 2017 was $70.6 million, a 241% increase from $20.7 million for the first quarter of 2016. These increases from the first quarter of 2016 were largely due to higher realized commodity prices and the production from our assets in Gordondale which we acquired pursuant to the Gordondale Acquisition.

We had net income of $29.9 million, as compared to the net loss of $12.0 million in the first quarter of 2016. We recorded net income to common shareholders of $28.9 million ($0.11/basic common share) in the first quarter of 2017, as compared to the net loss to common shareholders of $13.0 million ($0.09/basic common share) in the first quarter of 2016. The changes were largely due to: (i) higher funds flow from operations; (ii) a $2.4 million realized cash gain on financial commodity price risk management contracts; and (iii) a $16.5 million non-cash "mark to market" unrealized gain on commodity price risk management contracts.

Commodity Prices

During the first quarter of 2017, the average benchmark price for WTI oil was US$51.91/bbl, up 55% from US$33.45/bbl during the first quarter of 2016, and the average benchmark price for natural gas sold at AECO was $2.69/MMbtu, up 47% from $1.83/MMbtu during the first quarter of 2016. The average corporate realized sales price during the quarter was $23.90/boe, a 59% increase from $15.05/boe during the first quarter of 2016.

Operating Costs and General and Administrative Expense

Operating costs in the first quarter of 2017 were $5.22/boe, a 41% increase from $3.71/boe in the first quarter of 2016. The increase in operating costs per boe was largely due to the higher cost structure associated with our liquids-rich Gordondale assets that were acquired pursuant to the Gordondale Acquisition. General and administrative expense in the first quarter of 2017 was $1.05/boe, a 20% decrease from $1.31/boe in the first quarter of 2016. The decrease is largely due to the higher production as a result of the Gordondale Acquisition.

PC Gas Plant Netbacks

Approximately 59% of our total corporate natural gas production and 48% of our total corporate production was processed at the PC Gas Plant during the first quarter of 2017, as compared to 77% and 71%, respectively, during the first quarter of 2016. These decreases are primarily due to the liquids-rich production additions associated with our Gordondale assets. The average plant and field operating cost for production processed through the PC Gas Plant was $0.31/Mcfe ($1.88/boe) and the estimated operating netback at the PC Gas Plant was $2.59/Mcfe ($15.54/boe), resulting in an operating margin of 77%.

The following table details our net production and estimated operating netback for wells producing to the PC Gas Plant on a production month basis for the periods indicated:

	Three months ended March 31, 2017		Three months ended March 31, 2016		Three months ended March 31, 2015	
Average daily production, net to Birchcliff:						
Natural gas *(Mcf)*		171,605		171,659		153,633
Oil & NGLs *(bbls)*		1,052		991		1,284
Total boe		**29,653**		**29,602**		**26,890**
Sales liquids yield (bbls/MMcf)		*6.1*		*5.8*		*8.4*
% of corporate natural gas production		*59%*		*77%*		*78%*
% of corporate production		*48%*		*71%*		*70%*
AECO – C daily *($/Mcf)* [(1)]	**2.69**		**1.83**		**2.75**	
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[(2)]	3.37	20.24	2.16	12.94	3.21	19.24
Royalty expense	(0.13)	(0.77)	(0.10)	(0.60)	(0.15)	(0.91)
Operating expense[(3)]	(0.31)	(1.88)	(0.28)	(1.66)	(0.39)	(2.32)
Transportation and marketing expense	(0.34)	(2.05)	(0.30)	(1.80)	(0.33)	(1.96)
Estimated operating netback	**2.59**	**15.54**	**1.48**	**8.88**	**2.34**	**14.05**
Operating margin	**77%**	**77%**	**69%**	**69%**	**73%**	**73%**

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

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

(3) Represents plant and field operating costs.

Total Cash Costs and Funds Flow Netback

During the first quarter of 2017, we had total cash costs of $12.15/boe, a 26% increase from $9.64/boe in the first quarter of 2016. On a per boe basis, the increase in total cash costs in the first quarter of 2017 was primarily driven by higher royalty, operating and transportation and marketing expenses associated with our Gordondale assets, which were offset by lower general and administrative and interest expenses when compared to the first quarter of 2016.

During the first quarter of 2017, we had funds flow netback of $12.19/boe, a 125% increase from $5.42/boe in the first quarter of 2016. The increase was primarily driven by higher production and higher average realized oil and natural gas prices, offset by an increase in total cash costs per boe.

Capital Activities and Expenditures

Our 2017 Capital Program contemplates the drilling of a total of 46 (46.0 net) wells during 2017 and a continued investment in the expansions of the PC Gas Plant. In addition, our 2017 Capital Program includes capital for the various stages of the completion, equipping and tieing in of 10 wells drilled in 2016. Accordingly, it is expected that a total of 56 (56.0 net) wells will be brought on production during 2017. It is expected that the majority of capital under our 2017 Capital Program will be spent during the first and second quarters of 2017 in order to complete the Phase V expansion of our PCS Gas Plant (expected to come on-stream by October 1, 2017) and to drill, complete, equip and tie-in the wells necessary to fill the expanded plant. Accordingly, the majority of drilling is scheduled for the first half of the year.

During the first quarter of 2017, we had net capital expenditures of $124.5 million, as compared to $63.9 million during the first quarter of 2016. Our total F&D capital during the first quarter of 2017 (which excludes acquisitions, dispositions and administrative expenses) was $129.5 million, which consists of $0.7 million on land and seismic, $79.5 million on drilling and completions, $47.0 million on facilities and infrastructure and $2.3 million on other capital expenditures attributed to the execution of our 2017 Capital Program. Of the $47.0 million spent on facilities and infrastructure, approximately $25.4 million was spent on the Phase V and VI expansions of the PC Gas Plant. See *"Advisories – Capital Expenditures".*

Drilling and Completions

Our drilling and completions activities during the first quarter of 2017 were focused on our Pouce Coupe and Gordondale areas. During the quarter, we drilled a total of 21 (21.0 net) wells, with a 100% success rate. In the Pouce Coupe area, we drilled 13 (13.0 net) Montney/Doig horizontal natural gas wells, of which 9 were Montney D1 wells, 3 were Basal Doig/Upper Montney wells and 1 was a Montney D4 well. In the Gordondale area, we drilled 8 (8.0 net) Montney horizontal oil and natural gas wells, of which 5 were Montney D1 wells (3 oil and 2 natural gas) and 3 were Montney D2 oil wells. In addition, we completed and brought on production a total of 10 (10.0 net) wells that were drilled in 2016, 4 in the Pouce Coupe area and 6 in the Gordondale area.

At March 31, 2017, we have successfully drilled and cased an aggregate of 316 (310.7 net) Montney/Doig horizontal wells, which includes 87 (81.8 net) wells acquired in the Gordondale Acquisition.

Debt

At March 31, 2017, our long-term bank debt was $579.0 million (March 31, 2016: $655.8 million) from available credit facilities of approximately $950 million (March 31, 2016: $800 million), leaving $350.6 million of unutilized credit capacity after adjusting for outstanding letters of credit and unamortized interest and fees. Total debt at March 31, 2017 was $664.4 million as compared to $690.1 million at March 31, 2016. The decreases in long-term debt and total debt from March 31, 2016 are largely due to the fact that the remaining net proceeds from the equity financings completed in July 2016 (after the payment of the balance of the purchase price for the Gordondale assets acquired pursuant to the Gordondale Acquisition) were used to reduce indebtedness under the Credit Facilities.

Our Credit Facilities are comprised of an extendible revolving syndicated term credit facility of $900 million (the "**Syndicated Credit Facility**") and an extendible revolving working capital facility of $50 million (the "**Working Capital Facility**"). The Credit Facilities are subject to a semi-annual review of the borrowing base limit by our syndicate of lenders. We may each year, at our 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 connection with the recently completed semi-annual review of the borrowing base limit, we and our 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. The Credit Facilities do not contain any financial maintenance covenants.

Risk Management

At March 31, 2017, we are committed under our financial and physical hedge contracts to the sale of 189,350 GJ/d or approximately 50% of our forecast corporate natural gas production from April 1, 2017 to December 31, 2017 at an average price of $3.02/GJ. At March 31, 2017, we had the following AECO natural gas hedges outstanding on a quarterly basis:

	AECO *(GJ/d)*	AECO *($/GJ)*	Natural Gas Production Hedged *(Mcf/d)*	Estimated Average Natural Gas Wellhead Price *($/Mcf[1])*
Q2 2017	180,000	3.00	157,012	3.44
Q3 2017	180,000	3.00	157,012	3.44
Q4 2017	210,000	3.05	183,181	3.50
April 1, 2017 to December 31, 2017	**189,350**	**3.02**	**165,900**	**3.46**

(1) See *"Advisories"* for the conversion from GJ to Mcf.

We have also entered into financial derivative contracts for 1,500 bbls/d of crude oil at an average WTI price of CDN$69.90/bbl for 2017.

OPERATIONS UPDATE

Our 2017 Capital Program is progressing well, is on schedule and is meeting our expectations for capital costs. We have drilled a total of 30 (30.0 net) wells year-to-date (21 during the first quarter and an additional 9 wells subsequent to the end of the quarter), all of which were successful. Of these wells, only two have been brought on production to date. Of the 30 wells drilled year-to-date, 20 (20.0 net) wells were Montney/Doig horizontal natural gas wells drilled in the Pouce Coupe area and 10 (10.0 net) wells were Montney horizontal wells drilled in the Gordondale area. All wells were drilled on multi-well pads, which allows us to reduce our per well costs and our environmental footprint. In addition, we actively employ the evolving technology utilized by the industry regarding horizontal well drilling and the related multi-stage fracture stimulation technology.

We currently have 4 drilling rigs at work, 1 in the Gordondale area and 3 in the Pouce Coupe area. In addition to these drilling rigs, we have multiple completion rigs and pipeline crews working on various projects.

Pouce Coupe

To date in 2017, we have drilled 20 (20.0 net) Montney/Doig horizontal natural gas wells in Pouce Coupe: 14 Montney D1 wells, 4 Basal Doig/Upper Montney wells and 2 Montney D4 wells. All of these wells are in various stages of completion and equipping but only two have been brought on production to date. It is expected that the remaining 18 wells will be on production prior to the Phase V expansion coming on-stream. We have 12 wells left to drill in Pouce Coupe during the remainder of 2017: 8 Montney D1 wells, 3 Basal Doig/Upper Montney wells and 1 Montney D4 well.

Gordondale

The assets that we acquired pursuant to the Gordondale Acquisition in July 2016 continue to meet or exceed our expectations. In the fourth quarter of 2016, we drilled 6 (6.0 net) Montney horizontal wells, 3 of which were Montney D2 oil wells and 3 of which were Montney D1 liquids-rich natural gas wells. These wells were completed, equipped and brought on production in the first quarter of 2017 and continue to meet our expectations.

To date in 2017, we have drilled 10 (10.0 net) Montney horizontal wells in Gordondale: 4 Montney D2 oil wells, 4 Montney D1 oil wells and 2 Montney D1 liquids-rich natural gas wells. All of these wells are in various stages of completion and equipping but are not yet on production. We have 4 wells left to drill in

Gordondale during the remainder of 2017: 3 Montney D2 oil wells and 1 Montney D1 oil well. After the conclusion of our planned drilling program for 2017, we will have drilled, cased, completed and equipped a total of 20 wells on our Gordondale assets (10 Montney D2 wells and 10 Montney D1 wells) since they were acquired in July 2016.

ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

Our Annual and Special Meeting of Shareholders will be held tomorrow, May 11, 2017, at 3:00 p.m. (MDT) in the McMurray Room at the Calgary Petroleum Club, 319 – 5th Avenue S.W.

SHAREHOLDER SUPPORT

We thank Mr. Seymour Schulich, our largest shareholder, for his leadership, unwavering commitment and his ongoing support. It is this kind of leadership that keeps our staff motivated and focused on the execution of our business plan. Mr. Schulich recently acquired 5 million common shares and currently holds 40 million common shares, which represents 15% of the current issued and outstanding common shares.

OUTLOOK

We continue to execute on our business strategy of operating essentially all of our high working interest production, which is surrounded by large contiguous blocks of high working interest lands where we own and/or control the infrastructure. Our operatorship, land position and infrastructure ownership give us a competitive advantage over our competitors in our areas of operation and supports our low F&D costs and low operating cost structure, which helps us to maximize our funds flow. As part of our strategy, we intend to continue to develop and expand our Montney/Doig Resource Play. This resource play is large enough to provide us with an extensive inventory of repeatable, low-cost drilling opportunities that we expect will provide production and reserves growth for many years. Our strategy is based on our current ownership of large contiguous blocks of high working interest land in our operating areas and our high working interest or 100% ownership in our significant facilities and infrastructure. We have the ability to control our costs and our capital expenditures primarily because we control the infrastructure that handles the majority of our production. We continue to focus on improving our execution, reducing our costs and increasing our reserves, all leading to improved capital efficiencies and internal rates of return.

We are focused on executing the drilling program ahead of us and completing the Phase V and VI expansions of our PC Gas Plant. Our 2017 Capital Program contemplates the drilling, completing, equipping and bringing on production of a total of 46 (46.0 net) wells during 2017, as well as the completion, equipping and tieing in of 10 wells drilled in 2016. Accordingly, a total of 56 (56.0 net) wells are expected to be brought on production during 2017. With 30 wells drilled year-to-date, we have 16 wells left to drill in order to conclude our planned drilling program for 2017.

Our current production is approximately 62,500 boe/d. We expect to bring another 44 wells on production by October 1, 2017. Accordingly, production is expected to ramp up in the fourth quarter of 2017 in connection with the start-up of the Phase V expansion of the PC Gas Plant. We currently remain on target to meet our annual average production guidance for 2017 of 70,000 to 74,000 boe/d. We expect to be on the lower end of our annual average production guidance as a result of the extremely wet field conditions in the second quarter of 2017. The following table sets forth our production guidance for 2017:

2017 Production Guidance[1]	
Estimated 2017 Annual Average Production	70,000 – 74,000 boe/d
% Oil and NGLs	23%
Estimated 2017 Q4 Average Production	80,000 – 82,000 boe/d
% Oil and NGLs	21%

(1) For further information regarding Birchcliff's 2017 guidance, including the assumptions surrounding such guidance, please see *"Advisories – Forward-Looking Information"* in this First Quarter Report.

We have hedged approximately 50% of our forecast 2017 natural gas production at an estimated average wellhead price of $3.46/Mcf, which helps to protect our balance sheet and our 2017 Capital Program. Although the majority of our capital expenditures are planned to be spent during the first half of 2017, we expect that the entirety of our 2017 Capital Program will be fully funded out of our forecast 2017 funds flow from operations as such funds flow is expected to exceed our 2017 capital expenditures over the course of 2017. The foregoing is based on our previously budgeted forecast average prices of WTI US$55.00 per barrel of oil and AECO CDN$3.00 per GJ of natural gas during 2017.

On March 21, 2017, we announced that we would pursue the sale of our oil and natural gas properties and related assets on the Charlie Lake Light Oil Resource Play located in the Peace River Arch of Alberta. The data room recently opened and presentations are ongoing.

In light of our strong results for 2016 and the first quarter of 2017, we are disappointed with the current trading price of our common shares as we believe that we are currently trading well below our inherent asset value. We are of the view that the oil and gas sector has been penalized by the uncertainty in the financial markets. We intend to continue to execute on our five-year plan and we believe that we have the financial liquidity, the people and the assets to meet our objectives. We believe that over time, our share price will eventually reflect our true asset value.

Our Management Team and our employees are excited, committed and remain enthusiastic about executing our long-term plan and delivering value to our shareholders. Thank you to all of our shareholders for your support and to our employees who continue to go that extra mile for the benefit of all of us.

With Respect,

(signed) "*A. Jeffery Tonken*"

President and Chief Executive Officer
Birchcliff Energy Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

This Management's Discussion and Analysis ("**MD&A**") for Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is dated May 10, 2017. This MD&A and the unaudited interim condensed financial statements with respect to the three months ended March 31, 2017 (the "**Reporting Period**") as compared to the three months ended March 31, 2016 (the "**Comparable Prior Period**") have been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the interim condensed financial statements of the Corporation and related notes for the Reporting Period, as well as the audited financial statements of the Corporation and the related notes and MD&A for the year ended December 31, 2016. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

This MD&A uses "funds flow from operations", "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 in its one core area, the Peace River Arch of Alberta, which is centred northwest of Grande Prairie, Alberta. Birchcliff's common shares are listed for trading on the Toronto Stock Exchange (the "**TSX**") under the symbol "BIR" and are included in the S&P/TSX Composite Index. Additional information relating to the Corporation, including its Annual Information Form for the financial year ended December 31, 2016, is available on the SEDAR website at www.sedar.com and on the Corporation's website at www.birchcliffenergy.com.

2017 FIRST QUARTER FINANCIAL AND OPERATIONAL HIGHLIGHTS

Birchcliff had a successful first quarter in 2017, with record quarterly average production. In addition, the Corporation recorded net income in the Reporting Period as compared to the net loss recorded in the Comparable Prior Period, primarily as a result of improved commodity prices and greater production. Highlights of the first quarter include the following:

- Record quarterly average production of 61,662 boe/d, a 47% increase from 41,958 boe/d in the Comparable Prior Period.
- Funds flow from operations of $67.6 million ($0.26/basic common share), a 227% increase from $20.7 million ($0.14/basic common share) in the Comparable Prior Period.

- Net income to common shareholders of $28.9 million ($0.11/basic common share), as compared to the net loss to common shareholders of $13.0 million ($0.09/ basic common share) in the Comparable Prior Period.
- Operating costs of $5.22/boe, a 41% increase from $3.71/boe in the Comparable Prior Period. Operating costs increased primarily as a result of the liquids-rich assets that the Corporation acquired in the Gordondale area on July 28, 2016 which have a higher cost structure but also have higher realized sales prices.
- General and administrative expense of $1.05/boe, a 20% decrease from $1.31/boe in the Comparable Prior Period.
- Net capital expenditures of $124.5 million. It is expected that the majority of capital under Birchcliff's $355 million capital expenditure program for 2017 (the "**2017 Capital Program**") will be spent during the first and second quarters of 2017 in order to complete the Phase V expansion of the Corporation's 100% owned and operated natural gas plant located in the Pouce Coupe area of Alberta (the "**PC Gas Plant**") and to drill, complete, equip and tie-in the wells necessary to fill the expanded plant.
- Long-term bank debt at March 31, 2017 of $579.0 million and total debt of $664.4 million.
- Birchcliff drilled a total of 21 (21.0 net) wells in the first quarter of 2017, consisting of 13 (13.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area and 8 (8.0 net) Montney horizontal oil and natural gas wells in the Gordondale area.
- Birchcliff paid its first quarterly dividend to its common shareholders in the amount of $0.025 per common share for the quarter ended March 31, 2017.
- Birchcliff announced that it was initiating a sales process for its Charlie Lake Light Oil Resource Play, which includes its Worsley Charlie Lake Light Oil Pool.
- Birchcliff entered into agreements with TransCanada Pipelines ("**TCPL**") for the firm service transportation of 175,000 GJ/d in aggregate of natural gas to the Dawn trading hub in Ontario.

See *"Funds Flow from Operations", "Net Income (Loss) to Common Shareholders", "PC 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 Period.

OUTLOOK

The Corporation is focused on executing its 2017 drilling program and completing the Phase V and VI expansions of the PC Gas Plant. The 2017 Capital Program contemplates the drilling, completing, equipping and bringing on production of a total of 46 (46.0 net) wells during 2017, as well as the completion, equipping and tieing in of 10 wells drilled in 2016. Accordingly, a total of 56 (56.0 net) wells are expected to be brought on production during 2017. With 30 wells drilled year-to-date, the Corporation has 16 wells left to drill in order to conclude its planned drilling program for 2017.

The Corporation's current production is approximately 62,500 boe/d. Birchcliff expects to bring another 44 wells on production by October 1, 2017. Accordingly, production is expected to ramp up in the fourth quarter of 2017 in connection with the start-up of the Phase V expansion of the PC Gas Plant. The Corporation currently remains on target to meet its annual average production guidance for 2017 of 70,000 to 74,000 boe/d. Birchcliff expects to be on the lower end of its annual average production guidance as a result of the extremely wet field conditions in the second quarter of 2017. The following table sets forth the Corporation's production guidance for 2017:

2017 Production Guidance(1)	
Estimated 2017 Annual Average Production	70,000 – 74,000 boe/d
% Oil and NGLs	23%
Estimated 2017 Q4 Average Production	80,000 – 82,000 boe/d
% Oil and NGLs	21%

(1) For further information regarding Birchcliff's 2017 guidance, including the assumptions surrounding such guidance, please see *"Advisories – Forward-Looking Information"* in this MD&A.

The Corporation has hedged approximately 50% of its forecast 2017 natural gas production at an estimated average wellhead price of $3.46/Mcf, which helps to protect its balance sheet and the 2017 Capital Program. Although the majority of the Corporation's capital expenditures are planned to be spent during the first half of 2017, the Corporation expects that the entirety of the 2017 Capital Program will be fully funded out of its forecast 2017 funds flow from operations as such funds flow is expected to exceed its 2017 capital expenditures over the course of 2017. The foregoing is based on the Corporation's previously budgeted forecast average prices of WTI US$55.00 per barrel of oil and AECO CDN$3.00 per GJ of natural gas during 2017.

On March 21, 2017, the Corporation announced that it would pursue the sale of its oil and natural gas properties and related assets on the Charlie Lake Light Oil Resource Play located in the Peace River Arch of Alberta, which includes the Corporation's Worsley Charlie Lake Light Oil Pool. The Corporation has engaged Scotiabank Global Banking and Markets as its marketing agent to seek potential purchasers. A virtual data room opened recently and is available for interested parties who have executed a confidentiality agreement. There can be no assurance that any agreement or transaction will occur, or if a transaction is undertaken, as to its terms or timing. The Corporation is not committed to the sale of the Charlie Lake Light Oil Resource Play assets and cannot be reasonably confident that it can complete any such transaction until appropriate legal documentation has been signed by the relevant parties.

CASH FLOW FROM OPERATING ACTIVITIES AND FUNDS FLOW FROM OPERATIONS

($000s)	**Three months ended March 31, 2017**	**Three months ended March 31, 2016**
Cash flow from operating activities	**70,614**	**20,747**
Funds flow from operations	**67,630**	**20,695**
Per common share – basic *($)*	0.26	0.14
Per common share – diluted *($)*	0.25	0.13

Cash flow from operating activities for the Reporting Period was $70.6 million as compared to $20.7 million for the Comparable Prior Period and funds flow from operations was $67.6 million as compared to $20.7 million for the Comparable Prior Period. Funds flow from operations increased 227% from the Comparable Prior Period largely due to higher average realized sales prices and production from the assets in Gordondale which the Corporation acquired on July 28, 2016 (the "**Gordondale Acquisition**"). During the Reporting Period, Birchcliff's average realized oil sales price increased 69% and its average realized natural gas sales price increased 54% from the Comparable Prior Period. Birchcliff's production for the Reporting Period averaged 61,662 boe/d, an increase of 47% from the Comparable Prior Period. Funds flow from operations was reduced by higher royalty, operating and transportation and marketing costs associated with the Corporation's assets in Gordondale.

The following table provides a breakdown of total cash costs on a per boe basis and the percentage change period-over-period:

($/boe)	**Three months ended March 31, 2017**	**Three months ended March 31, 2016**	***% Change***
Royalty expense	1.98	0.67	196%
Operating expense	5.22	3.71	41%
Transportation and marketing expense	2.55	2.22	15%
General & administrative expense, net	1.05	1.31	(20%)
Interest expense	1.35	1.73	(22%)
Total cash costs	**12.15**	**9.64**	**26%**

On a per boe basis, total cash costs for the Reporting Period increased 26% compared to the Comparable Prior Period, primarily driven by higher royalty, operating and transportation and marketing expenses largely associated with the Corporation's assets in Gordondale and partially offset by lower general and administrative and interest expenses.

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

($000s)	**Three months ended March 31, 2017**	**Three months ended March 31, 2016**
Net income (loss)	29,928	(12,035)
Net income (loss) to common shareholders(1)	**28,928**	**(13,035)**
Per common share – basic *($)*	0.11	(0.09)
Per common share – diluted *($)*	0.11	(0.09)

(1) Net income (loss) to common shareholders is calculated by adjusting net income (loss) for 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 Reporting Period, Birchcliff realized net income to common shareholders of $28.9 million compared to a net loss to common shareholders of $13.0 million in the Comparable Prior Period. The change to a net income position was primarily due to higher funds flow from operations, a $2.4 million realized cash gain on financial commodity price risk management contracts and a $16.5 million non-cash "mark to market" unrealized gain in respect of Birchcliff's commodity price risk management contracts outstanding at March 31, 2017, offset by higher depletion costs in the Reporting Period resulting from production from the Corporation's assets in Gordondale.

PC GAS PLANT NETBACKS

During the Reporting Period, Birchcliff processed approximately 59% of its total corporate natural gas production and 48% of its total corporate production through PC Gas Plant, with an average plant and field operating cost of $0.31/Mcfe ($1.88/boe). The estimated operating netback at the PC Gas Plant was $2.59/Mcfe ($15.54/boe), resulting in an operating margin of 77% in the Reporting Period.

The following table details Birchcliff's annual net production and estimated operating netback for wells producing to the PC Gas Plant:

	Three months ended March 31, 2017		Three months ended March 31, 2016	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		171,605		171,659
Oil & NGLs *(bbls)*		1,052		991
Total boe		**29,653**		**29,602**
Sales liquids yield (bbls/MMcf)		*6.1*		*5.8*
% of corporate natural gas production		*59%*		*77%*
% of corporate production		*48%*		*71%*
AECO – C daily *($/Mcf)* (1)	**$2.69**		**$1.83**	
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue(2)	3.37	20.24	2.16	12.94
Royalty expense	(0.13)	(0.77)	(0.10)	(0.60)
Operating expense(3)	(0.31)	(1.88)	(0.28)	(1.66)
Transportation and marketing expense	(0.34)	(2.05)	(0.30)	(1.80)
Estimated operating netback	**$2.59**	**$15.54**	**$1.48**	**$8.88**
Operating margin	**77%**	**77%**	**69%**	**69%**

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

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

(3) Represents plant and field operating costs.

The decrease in the percentage of corporate natural gas production and corporate production producing to the PC Gas Plant for the Reporting Period is primarily due to the increase in liquids-rich production from the Corporation's assets in Gordondale.

DISCUSSION OF OPERATIONS

The following table sets forth Birchcliff's P&NG revenues, production and percentage of production and sales price by product category:

	Three months ended March 31, 2017				Three months ended March 31, 2016			
	Total Revenue(1) *($000s)*	**Average Daily Production**	*(%)*	**Average** *($/unit)*	**Total Revenue** *($000s)*	**Average Daily Production**	*(%)*	**Average** *($/unit)*
Light oil *(bbls)*	29,821	5,294	9	62.59	10,861	3,232	8	36.93
Natural gas *(Mcf)*	80,451	291,770	79	3.06	40,316	222,478	88	1.99
NGLs *(bbls)*(2)	22,353	7,740	12	32.09	6,301	1,646	4	42.06
Total P&NG sales *(boe)*	132,625	**61,662**	100	23.90	57,478	**41,958**	100	15.05
Royalty revenue	83			0.01	25			0.01
P&NG revenues	**132,708**			**23.91**	**57,503**			**15.06**

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

(2) NGLs prices are Birchcliff's realized prices adjusted for fractionation costs associated with the Gordondale assets.

The increase in P&NG revenues from the Comparable Prior Period was largely attributable to production from the Corporation's assets in Gordondale and higher average realized sales price in the Reporting Period.

Petroleum and Natural Gas Revenues

Production

Production averaged 61,662 boe/d in the Reporting Period, a 47% increase from the Comparable Prior Period. The increase in production from the Comparable Prior Period was largely due to production from the Corporation's assets in Gordondale and the Corporation's 2016 capital drilling program which resulted in incremental production added from new Montney/Doig horizontal wells in Pouce Coupe and Gordondale in the Reporting Period, partially offset by natural production declines. During the Reporting Period, production from the Montney/Doig Resource Play included 35,201 boe/d in Pouce Coupe and 23,336 boe/d in Gordondale. Birchcliff's production was adversely impacted by unplanned downtime and maintenance activities in the Worsley area during the Reporting Period as compared to the Comparable Prior Period. See "*Operating Netbacks*" in this MD&A for further details on the production in the Montney/Doig Resource Play and the Worsley Charlie Lake Light Oil Resource Play.

Production consisted of approximately 79% natural gas, 9% light oil and 12% NGLs in the Reporting Period as compared to 88% natural gas, 8% light oil and 4% NGLs in the Comparable Prior Period. The decrease in the percentage of corporate natural gas from the Comparable Prior Period is a result of the more heavily-weighted oil and NGLs production attributed to the Gordondale assets in the Reporting Period. The higher weighting of NGLs is a reflection of the liquids-rich nature of the Montney/Doig Resource Play in the Gordondale area.

Commodity prices

Birchcliff sells the majority of its light crude oil on a spot basis and the majority of its natural gas production for prices based on the AECO natural gas spot price. The average realized 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 these commodities. 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 lack of pipeline infrastructure connecting to key consuming oil markets.

Canadian AECO 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.

The following table sets forth the average benchmark prices and Birchcliff's average corporate realized sales price:

	Three months ended March 31, 2017	**Three months ended March 31, 2016**
Average benchmark prices:		
Light oil – WTI Cushing *(US$/bbl)*	51.91	33.45
Light oil – Edmonton Par *($/bbl)*	63.54	41.68
Natural gas – AECO – C daily *($/MMbtu)*[(1)]	2.69	1.83
Exchange rate – *(US$/CDN$)*	1.32	1.35
Birchcliff's average realized sales price[(2)]*:*		
Light oil *($/bbl)*	62.59	36.93
Natural gas *($/Mcf)*	3.06	1.99
NGLs *($/bbl)*	32.09	42.06
Average corporate realized sales price *($/boe)*	23.90	15.05

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

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

The average corporate realized sales price was $23.90/boe for the Reporting Period, a 59% increase from the Comparable Prior Period. The increase from the Comparable Prior Period was largely due to higher oil and natural gas spot prices and a higher average realized sales price attributable to the liquids-rich Gordondale assets.

The Corporation's assets in Gordondale receive a higher average sales price compared to the 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 boe basis than its natural gas sales. The higher weighting of NGLs in the total corporate production mix improved Birchcliff's overall average realized sales price for the Reporting Period. During the Reporting Period, the average realized oil and natural gas sales price was $26.53/boe for the Gordondale Montney/Doig Resource Play as compared to $20.46/boe for the Pouce Coupe Montney/Doig Resource Play.

With respect to the Corporation's assets in Gordondale, NGLs (ethane, propane, butane) are substantially recovered from the raw natural gas stream at a third party deep-cut natural gas processing facility which reduces the heat content value and realized sales price of natural gas from the area. During the Reporting Period, the average realized natural gas sales price was $2.97/Mcf for the Gordondale Montney/Doig Resource Play as compared to $3.10/Mcf for the Pouce Coupe Montney/Doig Resource Play.

During the Reporting Period, the average realized NGLs sales price on a corporate basis was lower than the Comparable Prior Period primarily due to increased production weighting of ethane, propane and butane in respect of the Corporation's assets in Gordondale in the Reporting Period. Ethane, propane and butane typically receive a price below condensate (C5+). During the Reporting Period, the NGLs production mix in Gordondale consisted of approximately 32% ethane, 32% propane, 19% butane and 17% condensate (C5+). Approximately 94% of Birchcliff's NGLs production mix in Pouce Coupe was comprised of condensate (C5+) during the Reporting Period. The realized NGLs sales price averaged $24.49/boe for the Gordondale Montney/Doig Resource Play as compared to $64.21/boe for the Pouce Coupe Montney/Doig Resource Play during the Reporting Period.

Birchcliff's realized corporate natural gas sales price at the wellhead averaged $3.06/Mcf for the Reporting Period, a 14% premium from the posted benchmark price for the Reporting Period. Birchcliff receives premium pricing for its natural gas production primarily due to its high heat content from its properties in Pouce Coupe. The following table sets forth Birchcliff's average realized sales price and heat content premium from its natural gas production:

	Three months ended March 31, 2017	**Three months ended March 31, 2016**
AECO – C daily *($/MMbtu)*(1)	2.69	1.83
Premium	0.37	0.16
Average realized natural gas sales price *($/Mcf)*	**3.06**	**1.99**

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

Commodity Price Risk Management

The Corporation maintains an ongoing commodity price risk management program in order to reduce volatility in its financial results and to protect a portion of its funds flow from operations, its capital expenditure programs and its dividend payments. As a part of this, the Corporation utilizes various financial derivative and physical delivery sales contracts. The Board has authorized the Corporation to hedge such portion of its forecast production as is permitted by the Corporation's credit facilities, which 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 is to hedge approximately 50% of its estimated annual average natural gas production and up to 50% of its oil production using a combination of financial derivatives and physical sales contracts, depending on its outlook for commodity prices.

As at March 31, 2017, Birchcliff has committed under its financial and physical sales contracts to the sale of 189,350 GJ/d of natural gas from April 1, 2017 to December 31, 2017 at an average price of $3.02/GJ.

Financial derivative contracts

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

Product	Type of contract	Notional quantity	Term[1]	Contract price	Fair value *($000s)*
Natural gas	Financial swap	40,000 GJ/d	April 1, 2017 – December 31, 2017	AECO CDN $2.97/GJ	3,669
Natural gas	Financial swap	20,000 GJ/d	April 1, 2017 – December 31, 2017	AECO CDN $2.98/GJ	1,930
Natural gas	Financial swap	10,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN $3.35/GJ	466
Natural gas	Financial swap	10,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN $3.40/GJ	521
Crude oil	Financial swap	1,500 bbls/d	April 1, 2017 – December 31, 2017	WTI CDN $69.90/bbl	533
Fair value assets[2]					**7,119**

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

(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 March 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 provides a summary of the realized and unrealized gains on financial derivative contracts:

	Three months ended March 31, 2017		**Three months ended March 31, 2016[1]**	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*
Realized gain on derivatives	2,411	0.43	-	-
Unrealized gain on derivatives	16,552	2.98	-	-

(1) During the Comparable Prior Period, the Corporation did not have any financial derivative contracts in place.

As of March 31, 2017, if the future strip prices for AECO natural gas had been CDN$0.10/GJ higher, with all other variables held constant, the after-tax net income in the Reporting Period would have decreased by $1.6 million. As of March 31, 2017, if the future strip prices for WTI crude oil had been CDN$1.00/bbl higher, with all other variables held constant, the after-tax net income in the Reporting Period would have decreased by $0.3 million.

There were no financial derivative contracts entered into subsequent to March 31, 2017.

Physical delivery sales contracts

Birchcliff also enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value through profit or loss. At March 31, 2017, the Corporation had the following physical sales contracts in place:

Product	Type of contract	Volume	Term[(1)]	Contract price
Natural gas	Fixed price	20,000 GJ/d	April 1, 2017 – December 31, 2017	AECO CDN$2.99/GJ
Natural gas	Fixed price	20,000 GJ/d	April 1, 2017 – December 31, 2017	AECO CDN$2.98/GJ
Natural gas	Fixed price	20,000 GJ/d	April 1, 2017 – December 31, 2017	AECO CDN$3.00GJ
Natural gas	Fixed price	10,000 GJ/d	April 1, 2017 – December 31, 2017	AECO CDN$3.00/GJ
Natural gas	Fixed price	50,000 GJ/d	April 1, 2017 – December 31, 2017	AECO CDN$3.05/GJ
Natural gas	Fixed price	10,000 GJ/d	Oct 1, 2017 – December 31, 2017	AECO CDN$3.35/GJ

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

There were no physical delivery sales contracts entered into subsequent to March 31, 2017.

Royalties

The following table details Birchcliff's royalty expense:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Oil & natural gas royalties *($000s)*[(1)]	10,966	2,551
Oil & natural gas royalties *($/boe)*	1.98	0.67
Effective royalty rate *(%)*[(2)]	8%	4%

(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 effective royalty rate increased from the Comparable Prior Period primarily due to increased oil and NGLs production weighting from its assets in Gordondale and higher average realized commodity prices during the Reporting Period and the effect these higher prices have on the sliding scale royalty calculation.

During the Reporting Period, the effective royalty rate averaged approximately 14% for the Gordondale Montney/Doig Resource Play as compared to 4% for the Pouce Coupe Montney/Doig Resource Play.

Operating Costs

The following table provides a breakdown of Birchcliff's operating costs:

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*
Field operating costs	29,397	5.30	14,573	3.82
Recoveries	(448)	(0.08)	(518)	(0.14)
Field operating costs, net	28,949	5.22	14,055	3.68
Expensed workovers and other	1	-	97	0.03
Operating costs	**28,950**	**5.22**	**14,152**	**3.71**

On an aggregate and per unit basis, operating costs increased in the Reporting Period as compared to the Comparable Prior Period largely due to additional operating, processing and service costs associated with the Corporation's assets in Gordondale, offset by cost reductions and infrastructure optimization initiatives implemented by the Corporation. The assets from Gordondale which were acquired pursuant to the Gordondale Acquisition have a higher cost structure primarily resulting from higher NGLs production weighting and additional fees incurred to process natural gas from the Gordondale area at a third party deep-cut natural gas processing facility.

Operating costs averaged approximately $3.06/boe for the Pouce Coupe Montney/Doig Resource Play and $7.16/boe for the Gordondale Montney/Doig Resource Play during the Reporting Period. Operating costs at the PC Gas Plant averaged $1.88/boe in the Reporting Period. Birchcliff is currently working on reducing the overall operating cost structure of its assets in Gordondale.

Transportation and Marketing Expenses

The following table details Birchcliff's transportation and marketing expenses:

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*
Transportation and marketing expenses	**14,206**	**2.55**	**8,503**	**2.22**

The increase in aggregate transportation and marketing costs from the Comparable Prior Period was largely due to an increase in trucking and pipeline transportation costs associated with production from the Corporation's assets in Gordondale and increased firm service commitments on TransCanada's NGTL System during the Reporting Period. Transportation and marketing costs averaged approximately $2.27/boe in the Pouce Coupe Montney/Doig Resource Play and $2.58/boe in the Gordondale Montney/Doig Resource Play during the Reporting Period.

Operating Netbacks

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

	Three months ended March 31, 2017	Three months ended March 31, 2016
Montney/Doig Resource Play		
Average daily production, net:		
Natural gas *(Mcf)*	284,183	208,199
Oil & NGLs *(bbls)*	11,173	1,806
Total boe	58,537	36,506
% of corporate production[1]	*95%*	*87%*
Netback and cost *($/boe):*		
Petroleum and natural gas revenue[2]	22.88	13.44
Royalty expense	(1.88)	(0.53)
Operating expense, net of recoveries	(4.70)	(2.74)
Transportation and marketing expense	(2.39)	(1.89)
Operating netback	13.91	8.28
Worsley Charlie Lake Light Oil Resource Play		
Average daily production, net:		
Natural gas *(Mcf)*	3,597	7,676
Oil & NGLs *(bbls)*	1,763	2,539
Total boe	2,363	3,819
% of corporate production[1]	*4%*	*9%*
Netback and cost *($/boe):*		
Petroleum and natural gas revenue[2]	49.20	27.99
Royalty expense	(4.18)	(1.45)
Operating expense, net of recoveries	(16.46)	(9.66)
Transportation and marketing expense	(6.62)	(5.83)
Operating netback	21.94	11.05
Total Corporate		
Average daily production, net:		
Natural gas *(Mcf)*	291,770	222,478
Oil & NGLs *(bbls)*	13,034	4,878
Total boe	61,662	41,958
Netback and cost *($/boe)*		
Petroleum and natural gas revenue[2]	23.91	15.06
Royalty expense	(1.98)	(0.67)
Operating expense, net of recoveries	(5.22)	(3.71)
Transportation and marketing expense	(2.55)	(2.22)
Operating netback	14.16	8.46

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

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

Montney/Doig Resource Play

Birchcliff's production from the Montney/Doig Resource Play was 58,537 boe/d in the Reporting Period, a 60% increase from the Comparable Prior Period. This increase was largely due to the production volumes associated with the Corporation's assets in Gordondale which, on average for the period, accounted for approximately 40% of the total production from the Montney/Doig Resource Play during the Reporting Period.

Birchcliff's recoveries of NGLs from its Montney/Doig Resource Play were 27.0 bbls/MMcf in the Reporting Period as compared to 7.2 bbls/MMcf in the Comparable Prior Period. The increase in the NGLs yield during the Reporting Period can be attributed to higher NGLs weighting from the Corporation's assets in Gordondale. The NGLs recoveries averaged approximately 76.3 bbls/MMcf in Gordondale as compared to 7.1 bbls/MMcf in Pouce Coupe during the Reporting Period. Any NGLs not recovered from the raw natural gas stream increases the heat content value of Birchcliff's sales gas and the realized sales price.

Birchcliff's operating netback from the Montney/Doig Resource Play was $13.91/boe in the Reporting Period, an increase of 68% from the Comparable Prior Period. The increase in the operating netback from the Comparable Prior Period was largely due to higher average realized sales price received for Birchcliff's oil and natural gas production, offset by higher per boe royalties, operating and transportation and marketing costs mainly associated with the 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 assets at a third party deep-cut facility.

Worsley Charlie Lake Light Oil Resource Play

Birchcliff's production from the Worsley Charlie Lake Light Oil Resource Play was 2,363 boe/d in the Reporting Period, a decrease of 38% from the Comparable Prior Period. The decrease in production was largely due to the fact no new wells were drilled during 2017, as well as natural declines and unplanned downtime resulting from pipeline integrity issues and maintenance activities in the Worsley area. The decrease in production was partially offset by production optimization initiatives in the Worsley field that were ongoing during 2016 and into the Reporting Period.

Birchcliff's operating netback from the Worsley Charlie Lake Light Oil Resource Play was $21.94/boe in the Reporting Period, an increase of 99% from the Comparable Prior Period. The increase in the Reporting Period was largely due to higher average realized commodity prices received for Birchcliff's production, offset by increased royalty, operating and transportation and marketing costs as compared to the Comparable Prior Period.

Administrative Expenses

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

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	($000s)	*(%)*	*($000s)*	*(%)*
Cash:				
Salaries and benefits[1]	6,169	64	5,285	63
Other[2]	3,438	36	3,150	37
	9,607	100	8,435	100
Operating overhead recoveries	(40)	-	(42)	(1)
Capitalized overhead[3]	(3,714)	(39)	(3,380)	(40)
General & administrative expenses, net	5,853	61	5,013	59
General & administrative expenses, net per boe	$1.05		$1.31	
Non-cash:				
Stock-based compensation	1,808	100	1,570	100
Capitalized stock-based compensation[3]	(1,054)	(58)	(920)	(59)
Stock-based compensation, net	754	42	650	41
Stock-based compensation, net per boe	$0.14		$0.17	
Administrative expenses, net	**6,607**		**5,663**	
Administrative expenses, net per boe	**$1.19**		**$1.48**	

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

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

(3) Includes a portion of 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 aggregate net administrative costs in the Reporting Period compared to the Comparable Prior Period is primarily due to staff additions needed to manage the larger production, reserves and land base primarily resulting from the acquisition of the Gordondale assets. On a per boe basis, net administrative expenses have decreased in the Reporting Period compared to the Comparable Prior Period primarily due to the disproportionate increase in production volumes from the Gordondale assets as compared to net administrative expenses.

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

	Number	Exercise price *($)*[1]
Outstanding at beginning of period	12,899,775	6.45
Granted	4,292,900	7.85
Forfeited	(399,799)	(5.88)
Expired	(14,400)	(7.47)
Outstanding, March 31, 2017	**16,778,476**	**6.82**

(1) Determined on a weighted average basis.

At March 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 production in the period. The Corporation determines its D&D expenses on a field area basis.

The following table details Birchcliff's D&D expenses:

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*
Depletion and depreciation expenses	**42,137**	**7.59**	**34,146**	**8.94**

D&D expenses for the Reporting Period were higher on an aggregate basis compared to the Comparable Prior Period mainly due to the production acquired pursuant to the Gordondale Acquisition. On a per boe basis, D&D expenses decreased from the Comparable Prior Period mainly as a result of the significant reserves added in both Birchcliff's Pouce Coupe and Gordondale properties in 2016.

Asset impairment assessment

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

The Corporation's CGUs are reviewed at each reporting date for both internal and external indicators of potential impairment. Potential CGU impairment indicators include, but are not limited to: changes to Birchcliff's business plan; deterioration in commodity prices; negative changes in 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 recoverable proved plus probable reserves of a CGU. If impairment indicators exist, an impairment test is performed by comparing a CGU's carrying value to its recoverable amount.

Birchcliff performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined that there were no impairment indicators identified at the end of the Reporting Period. As a result, an impairment test was not required at March 31, 2017.

Finance Expenses

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

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*
Cash:				
Interest on credit facilities	7,514	1.35	6,589	1.73
Non-cash:				
Accretion on decommissioning obligations	830	0.15	565	0.15
Amortization of deferred financing fees	331	0.06	234	0.06
Finance expenses	**8,675**	**1.56**	**7,388**	**1.94**

The increase in the aggregate interest expense from the Comparable Prior Period was largely due to higher average effective interest rates offset by lower average outstanding total credit facilities balance during the Reporting Period. 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 details the Corporation's effective interest rates under its credit facilities:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Effective interest rates:		
Revolving working capital facility	5.2%	4.7%
Revolving syndicated term credit facility	5.4%	4.2%

Birchcliff's average outstanding total credit facilities balance was approximately $569 million in the Reporting Period as compared to $631 million in the Comparable Prior Period, calculated as the simple average of the month-end amounts.

Gain on Sale of Assets

The following table details Birchcliff's gain on sale of assets:

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*
Gain on sale of assets	**2,480**	**0.45**	-	-

In February 2017, Birchcliff completed the disposition of non-core 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 approximately $1.8 million ($1.3 million, net of tax) in the Reporting Period.

In March 2017, Birchcliff completed the disposition of certain non-core miscellaneous petroleum and natural gas properties and related assets and interests in the Rycroft area. The cash consideration was $100,000, before customary closing adjustments. As a result of the disposition, Birchcliff recorded a gain on sale of assets of approximately $0.5 million ($0.4 million, net of tax) for the Reporting Period.

All dispositions noted above were considered non-core asset dispositions as they collectively represented less than 1% of both Birchcliff's production for the Reporting Period and proved plus probable reserves at March 31, 2017 and therefore were not significant to the Corporation's financial results and operational performance.

Income Taxes

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

($000s)	**Three months ended March 31, 2017**	**Three months ended March 31, 2016**
Deferred income tax expense (recovery)	11,057	(4,490)
Dividend income tax expense on preferred shares	750	750
Income tax expense (recovery)	**11,807**	**(3,740)**
Income tax expense (recovery) per boe	**$2.13**	**($0.98)**

Birchcliff had an income tax expense in the Reporting Period resulting from net income before tax recorded in that period. In the Comparable Prior Period, Birchcliff had an income tax recovery due to a net loss before tax recorded in that period.

The Corporation's estimated income tax pools were $2.17 billion at March 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 March 31, 2017**
Canadian oil and gas property expense	600,827
Canadian development expense	303,717
Canadian exploration expense	265,002
Undepreciated capital costs	362,641
Non-capital losses	615,043
Financing costs and other	21,602
Estimated income tax pools[(1)]	**2,168,832**

(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.

SUBSEQUENT EVENTS

Birchcliff's syndicate of lenders recently completed their semi-annual review of the borrowing base limit under the Credit Facilities which have an aggregate principal amount of $950 million. In connection therewith, the Corporation and the lenders agreed to an extension of the maturity dates of each facility included in the Credit Facilities from May 11, 2018 to May 11, 2020 and to the borrowing base remaining unchanged at $950 million. In addition, subject to the terms and conditions of the agreement governing the Credit Facilities, the lenders have consented to the disposition of the Charlie Lake Light Oil Resource Play and to the borrowing base remaining at $950 million after giving effect to such disposition. The next semi-annual review is scheduled for November 2017.

See *"Capital Resources and Liquidity – Bank Debt"* in this MD&A for further information regarding the Credit Facilities.

CAPITAL EXPENDITURES

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

($000s)	**Three months ended March 31, 2017**	**Three months ended March 31, 2016**
Land	419	860
Seismic	309	797
Workovers	2,291	664
Drilling and completions	79,476	30,290
Well equipment and facilities	47,004	31,121
Finding and development capital	129,499	63,732
Acquisitions	6	-
Dispositions	(5,348)	(31)
Finding, development and acquisition capital	124,157	63,701
Administrative assets	381	159
Capital expenditures, net	**124,538**	**63,860**

During the Reporting Period, Birchcliff had net capital expenditures of $124.5 million which included approximately $43.6 million (35%) on the drilling and completion of Montney/Doig horizontal wells in Pouce Coupe, $34.6 million (28%) on the drilling and completions of Montney horizontal wells in Gordondale, $10.8 million (9%) on the field construction of Phase V of the PC Gas Plant which will increase processing capacity from 180 MMcf/d to 260MMcf/d and $14.6 million (12%) on the fabrication of the major components of Phase VI of the PC Gas Plant which will increase processing capacity from 260 MMcf/d to 340MMcf/d. Field installation of the Phase V expansion commenced in January 2017 and it is expected that Phase V will be on-stream by October 1, 2017. It is currently expected that Phase VI will be on-stream in October 2018.

During the Reporting Period, Birchcliff drilled a total of 21 (21.0 net) wells, consisting of 13 (13.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area and 8 (8.0 net) Montney horizontal oil and natural gas wells in the Gordondale area.

The remaining capital during the Reporting Period was spent on land and seismic, infrastructure and expansion projects in the Montney/Doig Resource Play and the Worsley Charlie Lake Light Oil 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 funds flow from operations 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:

($000s)	**Three months ended March 31, 2017**	**Three months ended March 31, 2016**
Funds flow from operations	67,630	20,695
Changes in non-cash working capital from operations	3,285	629
Decommissioning expenditures	(301)	(577)
Exercise of stock options	2,349	-
Dividends paid on common shares(1)	(6,604)	-
Dividends paid on preferred shares	(1,875)	(1,875)
Net change in revolving term credit facilities	6,184	25,128
Changes in non-cash working capital from investing	53,870	19,860
Capital resources	**124,538**	**63,860**

(1) Birchcliff paid its first common share dividend during the Reporting Period.

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

The 2017 Capital Program is set at approximately $355 million and the Corporation expects that its funds flow from operations will exceed its 2017 capital expenditures over the course of 2017 based on a forecast average WTI price of US$55.00 per barrel of oil and a forecast average AECO price of CDN$3.00 per GJ of natural gas during 2017. Birchcliff has hedged approximately 50% of its 2017 forecast natural gas production at $3.02/GJ to help protect its funds flow from operations and capital expenditure programs. Birchcliff has also entered into financial swaps for 1,500 bbls/d of crude oil at an average price of CDN$69.90/bbl for 2017. See *"Commodity Price Risk Management".*

Birchcliff's syndicate of lenders also recently 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.

Management believes that its funds flow from operations and available credit under the Credit Facilities will be sufficient to fund the Corporation's planned capital expenditures for the remainder of 2017 and to meet its current and future working capital requirements as they become due. Should commodity prices deteriorate materially, Birchcliff may adjust the 2017 Capital Program accordingly and/or consider the potential sale of non-core assets to fund planned growth. See *"Advisories".*

Working Capital

The Corporation's adjusted working capital deficit increased to $85.4 million at March 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 in Pouce Coupe and

Gordondale during the Reporting Period. The Corporation's adjusted working capital deficit increased from December 31, 2016 primarily as a result of increased capital spending during the Reporting Period.

At March 31, 2017, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of March 2017 production (65%), which was subsequently received in April 2017. In contrast, current liabilities largely consisted of trade payables (59%) and accrued capital and operating costs (32%). 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 funds flow from operations and advances under its Credit Facilities. Any adjusted working capital deficit position will not reduce the amount available under the Credit Facilities. Management believes that its funds flow from operations and, if needed, available credit under the Credit Facilities will be sufficient to fund the Corporation's current and future working capital requirements throughout 2017.

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 March 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 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 connection with the recently completed semi-annual review of the borrowing base limit, the lenders consented to an extension of the maturity dates of the Syndicated Credit Facility and Working Capital Facility from May 11, 2018 to May 11, 2020 and to the borrowing base remaining unchanged at $950 million.

Total debt, including the adjusted working capital deficit, was $664.4 million at March 31, 2017 as compared to $600.0 million at December 31, 2016. A significant portion of the funds drawn under the Credit Facilities in the Reporting Period was used to pay costs relating to the drilling and completion of Montney/Doig horizontal wells in Pouce Coupe and Gordondale, including related facilities and infrastructure.

The following table sets forth the Corporation's unused Credit Facilities:

As at, *($000s)*	March 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)]	(586,340)	(580,770)
Outstanding letters of credit[(2)]	(13,050)	(12,310)
	(599,390)	(593,080)
Unused credit	**350,610**	**356,920**
% unused credit	**37%**	**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 periods ended March 31, 2017 and December 31, 2016.

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 March 31, 2017:

($000s)	2017	2018	2019 - 2021	Thereafter
Accounts payable and accrued liabilities	143,135	-	-	-
Drawn revolving term credit facilities[(1)]	-	-	586,340	-
Operating leases[(2)]	2,332	4,117	13,625	29,317
Capital commitments[(3)]	34,328	16,849	-	-
Firm transportation, processing and fractionation[(4)]	82,021	99,541	274,659	211,138
Estimated contractual obligations[(5)]	**261,816**	**120,507**	**874,624**	**240,455**

(1) The maturity dates of the Credit Facilities were recently extended to 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.

(2) The Corporation is committed under an existing operating lease relating to its office premises, beginning December 1, 2007 and expiring on November 30, 2017. 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 $47.1 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.

(3) Includes drilling commitments and facility spending commitments relating to the Phase V and VI expansions of the PC Gas Plant.

(4) As a result of the assets the Corporation acquired pursuant to the Gordondale Acquisition, Birchcliff's firm transportation, processing and fractionation obligations have increased. Amounts exclude the potential impacts from firm service transportation agreements on TCPL's Canadian Mainline to the Southern Ontario Dawn trading hub. The Corporation has negotiated firm service for a 10-year period estimated to commence in November 2017; however, provision of the service is conditional on, among other factors, TCPL receiving approval from the National Energy Board.

(5) 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 March 31, 2017 to be approximately $270.2 million and will be incurred as follows: 2017 - $2.2 million, 2018 - $2.0 million and $266.0 million thereafter. The estimate for determining the undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

Birchcliff's Series C Preferred Shares, which are redeemable by their holders after June 30, 2020, have not been included in this table as they are not contractual obligations of the Corporation at the end of the Reporting Period. Upon receipt of a notice of redemption, the Corporation has an obligation to redeem the Series C Preferred Shares, at its option, 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 31, 2017, 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 summarizes the common shares issued by the Corporation:

	Common Shares
Balance at December 31, 2016	**264,041,902**
Exercise of options	399,799
Balance at March 31, 2017	**264,441,701**

At May 10, 2017, the Corporation had the following securities outstanding: 265,383,967 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 15,940,710 stock options to purchase an equivalent number of common shares; and 2,939,732 performance warrants to purchase an equivalent number of common shares.

On March 1, 2017, the Board of Directors declared its first quarterly cash dividend of $6.6 million or $0.025 per common share for the calendar quarter ending March 31, 2017. This dividend was payable on March 31, 2017 to shareholders of record on March 15, 2017 and has been designated as an "eligible dividend" for the purposes of the *Income Tax Act* (Canada).

On March 1, 2017, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A Preferred Share and $0.875 million or $0.4375 per Series C Preferred Share for the calendar quarter ending March 31, 2017. These dividends were payable on March 31, 2017 to shareholders of record on March 15, 2017 and have been designated as "eligible dividends" for the purposes of the *Income Tax Act* (Canada).

SUMMARY OF QUARTERLY RESULTS

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

Quarter ending,	Mar. 31, 2017	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015
Average daily production *(boe)*	61,662	60,750	54,538	39,513	41,958	40,445	38,433	38,489
Realized natural gas sales price *($/Mcf)*(1)	3.06	3.31	2.53	1.48	1.99	2.67	3.12	2.86
Realized oil sales price *($/bbl)*(1)	62.59	60.75	52.12	51.20	36.93	49.36	52.91	64.93
Total revenues *($000s)*(1)	132,708	135,457	97,365	47,261	57,503	75,476	82,011	82,791
Operating costs *($/boe)*	5.22	4.54	4.65	3.45	3.71	4.16	4.39	4.53
Capital expenditures, net *($000s)*	124,538	62,482	599,716	35,972	63,860	33,533	50,013	65,122
Cash flow from operating activities *($000s)*	70,614	90,574	22,144	7,049	20,747	44,786	41,933	23,051
Funds flow from operations *($000s)*	67,630	71,806	41,675	13,267	20,695	33,697	44,587	45,752
Per common share – basic *($)*	0.26	0.27	0.18	0.09	0.14	0.22	0.29	0.30
Per common share – diluted *($)*	0.25	0.27	0.18	0.09	0.13	0.22	0.29	0.30
Net income (loss) *($000s)*	29,928	12,085	(1,064)	(23,321)	(12,035)	(9,322)	4,815	(4,174)
Net income (loss) to common shareholders *($000s)*(2)	28,928	11,085	(2,064)	(24,321)	(13,035)	(10,322)	3,815	(5,174)
Per common share – basic *($)*	0.11	0.04	(0.01)	(0.16)	(0.09)	(0.07)	0.03	(0.03)
Per common share – diluted *($)*	0.11	0.04	(0.01)	(0.16)	(0.09)	(0.07)	0.02	(0.03)
Total assets *($ million)*	2,797	2,710	2,704	2,059	2,053	2,025	2,022	2,009
Long-term bank debt *($000s)*	578,954	572,517	634,534	709,510	647,359	622,074	626,839	599,998
Total debt *($000s)*	664,352	600,012	612,080	715,651	690,138	643,612	640,751	632,306
Dividends on common shares *($000s)*(3)	6,604	-	-	-	-	-	-	-
Dividends on pref. shares – Series A *($000s)*	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Dividends on pref. shares – Series C *($000s)*	875	875	875	875	875	875	875	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	264,442	264,042	263,065	152,308	152,308	152,308	152,308	152,294
Diluted	284,160	279,881	279,826	169,089	169,239	167,817	168,112	168,181
Wtd. average common shares outstanding *(000s)*								
Basic	264,099	263,396	229,287	152,308	152,308	152,308	152,303	152,289
Diluted	268,077	268,974	234,295	154,279	153,418	153,627	153,916	154,650

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

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

(3) Birchcliff paid its first common share dividend on March 31, 2017.

Average daily production volumes in the last three quarters has increased largely due to production volumes added from the acquisition of the Gordondale assets in July 2016 and incremental production added from new Montney/Doig horizontal wells in Pouce Coupe and Gordondale, partially offset by natural production declines from those wells.

Quarterly variances in revenues, funds flow from operations and net income are primarily due to fluctuations in commodity prices and production volumes. Oil and gas revenues and funds flow from operations in the last three quarters are higher largely due to an increase in the average realized oil and natural gas prices and production volumes acquired pursuant to the Gordondale Acquisition. Birchcliff had net income in the two most recently completed quarters primarily in response to increases in funds flow from operations. Net income or loss in the last eight quarters was also impacted by certain non-cash adjustments including depletion expense, non-recurring tax expenses, unrealized gains and losses on commodity price risk management contracts 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 July 2016, Birchcliff completed the Gordondale Acquisition for $613.5 million which significantly increased net capital expenditures in comparison to the other quarters.

Total debt has increased in the Reporting Period as compared to the Comparable Prior Period which was used to pay costs relating to the drilling and completion of Montney/Doig horizontal wells in Pouce Coupe and Gordondale including related facilities and infrastructure and the exploration and development of the Montney/Doig Resource Play.

Birchcliff paid its first common share dividend on March 31, 2017 in respect of the quarter ending March 31, 2017 in the amount of $6.6 million or $0.025 per common share.

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.

POTENTIAL TRANSACTIONS

Within its focus area, the Corporation is continually reviewing potential property 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 property acquisitions and dispositions and corporate merger and acquisition opportunities.

On March 21, 2017, the Corporation announced that it would pursue the sale of its oil and natural gas properties and related assets on the Charlie Lake Light Oil Resource Play located in the Peace River Arch of Alberta, which includes the Corporation's Worsley Charlie Lake Light Oil Pool. There can be no assurance that any agreement or transaction will occur, or if a transaction is undertaken, as to its terms or timing. The Corporation is not committed to the sale of the Charlie Lake Light Oil Resource Play assets and cannot be reasonably confident that it can complete any such transaction until appropriate legal documentation has been signed by the relevant parties.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Corporation's internal control over financial reporting ("**ICFR**") that occurred during the period beginning on January 1, 2017 and ending on March 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies, reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The Corporation's use of estimates, judgments and assumptions in preparing the interim condensed financial statements for the Reporting Period is discussed in Note 3 of the annual audited financial statements for the year ended December 31, 2016.

FUTURE ACCOUNTING PRONOUNCEMENTS

Future accounting pronouncements with a potential impact on the Corporation are summarized in Note 4 of the Corporation's annual audited financial statements for the year ended December 31, 2016.

RISK FACTORS AND RISK MANAGEMENT

The Corporation's financial and operational performance is potentially affected by a number of factors, including, but not limited to, financial risks, risks relating to economic conditions, business and operational risks, environmental and regulatory risks and other risks. The impact of any risk or a combination of risks may adversely affect the Corporation's business, financial condition, results of operations, prospects, cash flow and reputation, which may reduce or restrict the Corporation's ability to pay common share and preferred share dividends and may materially affect the market price of the Corporation's securities. The Corporation's approach to risk management includes an ongoing review of principal and emerging risks, an analysis of the severity and likelihood of each risk and an evaluation of the effectiveness of current mitigation procedures. A more detailed discussion of the risk factors affecting the Corporation is presented under the headings *"Risk Factors and Risk Management"* in the MD&A for the year ended December 31, 2016 and *"Risk Factors"* in the Annual Information Form for the year ended December 31, 2016.

ABBREVIATIONS

AECO	physical storage and trading hub for natural gas on the TransCanada Alberta transmission system which is the delivery point for various benchmark Alberta index prices
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
Mcf	thousand cubic feet
Mcfe	thousand cubic feet of gas equivalent
MMbtu	million British thermal units
MMcf	million cubic feet
MMcf/d	million cubic feet per day
NGLs	natural gas liquids
P&NG	petroleum and natural gas
WTI	West Texas Intermediate oil at Cushing, Oklahoma, the benchmark for North American crude oil pricing
000s	thousands
$000s	thousands of dollars

NON-GAAP MEASURES

This MD&A uses "funds flow from operations", "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.

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

($000s)	Three months ended March 31, 2017	Three months ended March 31, 2016
Cash flow from operating activities	70,614	20,747
Adjustments:		
Decommissioning expenditures	301	577
Change in non-cash working capital	(3,285)	(629)
Funds flow from operations	**67,630**	**20,695**

"Operating netback" denotes petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. "Estimated operating netback" of the PC Gas Plant (and the components thereof) is based upon certain cost allocations and accruals directly attributable to the PC Gas Plant and related wells and infrastructure on a production month basis. All netbacks are calculated on a per boe 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 for the Reporting Period and Comparable Prior Period:

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	($000s)	*($/boe)*(1)	*($000s)*	*($/boe)*(1)
Petroleum and natural gas revenue	132,708	23.91	57,503	15.06
Royalty expense	(10,966)	(1.98)	(2,551)	(0.67)
Operating expense	(28,950)	(5.22)	(14,152)	(3.71)
Transportation and marketing expense	(14,206)	(2.55)	(8,503)	(2.22)
Operating netback	**78,586**	**14.16**	**32,297**	**8.46**

(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 PC 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 PC Gas Plant and Birchcliff's ability to generate operating cash flows (equal to petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses).

"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 boe 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 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)*	March 31, 2017	December 31, 2016	March 31, 2016
Working capital deficit	78,279	36,928	42,779
Fair value of financial instruments	7,119	(9,433)	-
Adjusted working capital deficit	**85,398**	**27,495**	**42,779**

"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)*	**March 31, 2017**	**December 31, 2016**	**March 31, 2016**
Revolving term credit facilities	578,954	572,517	647,359
Adjusted working capital deficit	85,398	27,495	42,779
Total debt	**664,352**	**600,012**	**690,138**

ADVISORIES

Unaudited Numbers

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

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".*

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", "estimated", "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 operations, focus, objectives, strategies, opportunities, priorities and goals; the 2017 Capital Program and Birchcliff's proposed exploration and development activities and the timing thereof, including the amount of capital expenditures, Birchcliff's expectation that the majority of capital will be spent during the first and second quarters of 2017, the focus of the 2017 Capital Program, Birchcliff's plan to drill a total of 46 (46.0 net) wells during 2017, the timing for wells to be brought on production, Birchcliff's expectation that the entirety of the 2017 Capital Program will be fully funded out of the Corporation's forecast funds flow from operations for 2017 and Birchcliff's expectation that its funds flow from operations for 2017 will exceed its 2017 capital expenditures over the course of 2017; proposed expansions of the PC Gas Plant, including the anticipated processing capacities of the PC Gas Plant after such expansions and the anticipated timing of such expansions; Birchcliff's production guidance, including its estimates of its annual average and fourth quarter average production and commodity mix in 2017, Birchcliff's expectation that production is expected to ramp up in the fourth quarter of 2017 and Birchcliff's expectation that it will be on the lower end of its annual average production guidance for 2017; the potential disposition of the Corporation's Charlie Lake Light Oil Resource Play; firm service on TCPL's Canadian Mainline; the performance characteristics of Birchcliff's oil and natural gas properties; Birchcliff's hedging strategy and the use of risk-management techniques, including that it expects to hedge approximately 50% of its forecast natural gas production in 2017; the timing of the next semi-annual review under the Corporation's Credit Facilities; 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 Birchcliff's financial flexibility, the sources of funding for the Corporation's activities and 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 funds flow from operations and available credit under the Credit Facilities will be sufficient to fund the Corporation's planned capital expenditures for the remainder of 2017 and to meet its current and future working capital requirements and the Corporation's expectation that counterparties will be able to meet their financial obligations; and estimates of contractual and decommissioning obligations.

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 funds flow from operations; 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 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 timing of 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 2017 Capital Program, such program is based on the following commodity price and exchange rate assumptions during 2017: an annual average WTI price of approximately US$55.00 per bbl of oil; an AECO price of approximately CDN $3.00 per GJ of natural gas; and an exchange rate of CDN$/US$ of 1.29. With respect to statements that Birchcliff expects that the entirety of the 2017 Capital Program will be fully funded out of its forecast 2017 funds flow from operations and that 2017 funds flow from operations is expected to exceed its 2017 capital expenditures over the course of 2017, such statements assume that: the 2017 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. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials.
- With respect to statements of 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 economic conditions will warrant proceeding with the drilling of such wells.
- With respect to statements regarding proposed expansions of the PC Gas Plant, including the anticipated processing capacities of the PC Gas Plant after such expansions and the anticipated timing of such expansions, the key assumptions are that: future drilling is successful; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund those projects; the key components of the plant will operate as designed; and commodity prices and general economic conditions will warrant proceeding with the construction of such facilities and the drilling of associated wells.
- With respect to Birchcliff's production guidance, the key assumptions are that: Birchcliff's capital expenditure programs 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. The production guidance contained herein does not take into account the potential disposition of the Corporation's Charlie Lake Light Oil Resource Play.

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: 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; 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; 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; uncertainties related to Birchcliff's future potential drilling locations; fluctuations in the costs of borrowing; 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; 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; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; 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; risks and uncertainties associated with the sales process and the potential disposition of the Corporation's Charlie Lake Light Oil Resource Play, including whether the sales process will result in a transaction and the terms of a transaction; the failure to obtain any required approvals in a timely manner or at all; the failure to realize the anticipated benefits of acquisitions and dispositions; unforeseen difficulties in integrating acquired assets into Birchcliff's operations; and variances in Birchcliff's actual capital costs, operating costs and economic returns from those anticipated.

With respect to the sales process for the Corporation's Charlie Lake Light Oil Resource Play, there can be no assurance that any agreement or transaction will occur, or if a transaction is undertaken, as to its terms or timing. No decision on any particular transaction structure has been reached at this time. Birchcliff does not intend to make further announcements or disclose developments with respect to the sales process until the board of directors has approved a definitive transaction, unless otherwise required by applicable laws or Birchcliff otherwise determines that disclosure is appropriate.

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 in Birchcliff's most recent Annual Information Form and in other reports filed with Canadian securities regulatory authorities.

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.

The forward-looking information and FOFI contained herein do not include or account for the potential disposition of the Corporation's Charlie Lake Light Oil Resource Play.

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.

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF FINANCIAL POSITION

Unaudited (Expressed in thousands of Canadian dollars)

As at,	March 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash	47	47
Accounts receivable	55,812	62,572
Prepaid expenses and deposits	1,878	2,001
Fair value of financial instruments *(Note 10)*	7,119	-
	64,856	64,620
Non-current assets:		
Exploration and evaluation *(Note 3)*	53	53
Petroleum and natural gas properties and equipment *(Note 4)*	2,732,397	2,645,784
	2,732,450	2,645,837
Total assets	**2,797,306**	**2,710,457**
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	143,135	92,115
Fair value of financial instruments *(Note 10)*	-	9,433
	143,135	101,548
Non-current liabilities:		
Revolving term credit facilities *(Note 5)*	578,954	572,517
Decommissioning obligations *(Note 6)*	134,678	133,470
Deferred income taxes	110,658	99,599
Capital securities	48,993	48,916
	873,283	854,502
Total liabilities	**1,016,418**	**956,050**
SHAREHOLDERS’ EQUITY		
Share capital *(Note 7)*		
Common shares	1,467,889	1,464,567
Preferred shares *(perpetual)*	41,434	41,434
Contributed surplus	64,682	63,847
Retained earnings	206,883	184,559
	1,780,888	1,754,407
Total shareholders’ equity and liabilities	**2,797,306**	**2,710,457**

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

Approved by the Board

(signed) “*Larry A. Shaw*”
Larry A. Shaw
Director

(signed) “*A. Jeffery Tonken*”
A. Jeffery Tonken
Director

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

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

Three months ended,	March 31, 2017	March 31, 2016
REVENUE		
Petroleum and natural gas sales	132,708	57,503
Royalties	(10,966)	(2,551)
Net revenue from oil and natural gas sales	121,742	54,952
Realized gain on financial instruments *(Note 10)*	2,411	-
Unrealized gain on financial instruments *(Note 10)*	16,552	-
	140,705	54,952
EXPENSES		
Operating	28,950	14,152
Transportation and marketing	14,206	8,503
Administrative, net	6,607	5,663
Depletion and depreciation *(Note 4)*	42,137	34,146
Finance	8,675	7,388
Dividends on capital securities *(Note 7)*	875	875
Gain on sale of assets	(2,480)	-
	98,970	70,727
Net income (loss) before taxes	41,735	(15,775)
Income tax recovery (expense)	(11,807)	3,740
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**29,928**	**(12,035)**
Net income (loss) per common share *(Note 7)*		
Basic	$0.11	($0.09)
Diluted	$0.11	($0.09)

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

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Unaudited (Expressed in thousands of Canadian dollars)

	Share Capital				
	Common Shares	**Preferred Shares**	**Contributed Surplus**	**Retained Earnings**	**Total**
As at December 31, 2015	783,481	41,434	60,625	212,894	1,098,434
Dividends on perpetual preferred shares	-	-	-	(1,000)	(1,000)
Stock-based compensation	-	-	1,570	-	1,570
Net loss and comprehensive loss	-	-	-	(12,035)	(12,035)
As at March 31, 2016	783,481	41,434	62,195	199,859	1,086,969
As at December 31, 2016	1,464,567	41,434	63,847	184,559	1,754,407
Dividends on common shares *(Note 7)*	-	-	-	(6,604)	(6,604)
Dividends on perpetual preferred shares *(Note 7)*	-	-	-	(1,000)	(1,000)
Exercise of stock options *(Note 8)*	3,322	-	(973)	-	2,349
Stock-based compensation *(Note 8)*	-	-	1,808	-	1,808
Net income and comprehensive income	-	-	-	29,928	29,928
As at March 31, 2017	**1,467,889**	**41,434**	**64,682**	**206,883**	**1,780,888**

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

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF CASH FLOWS

Unaudited (Expressed in thousands of Canadian dollars)

Three months ended,	**March 31, 2017**	**March 31, 2016**
Cash provided by (used in):		
OPERATING		
Net income (loss) and comprehensive income (loss)	29,928	(12,035)
Adjustments for items not affecting operating cash:		
Unrealized gain on financial instruments	(16,552)	-
Depletion and depreciation	42,137	34,146
Stock-based compensation	754	650
Finance	8,675	7,388
Gain on sale of assets	(2,480)	-
Income taxes expense (recovery)	11,807	(3,740)
Interest paid	(7,514)	(6,589)
Dividends on capital securities	875	875
Decommissioning expenditures	(301)	(577)
Changes in non-cash working capital	3,285	629
	70,614	20,747
FINANCING		
Exercise of stock options	2,349	-
Dividends on common shares	(6,604)	-
Dividends on perpetual preferred shares	(1,000)	(1,000)
Dividends on capital securities	(875)	(875)
Net change in revolving term credit facilities	6,184	25,128
	54	23,253
INVESTING		
Petroleum and natural gas properties and equipment	(129,880)	(63,886)
Exploration and evaluation assets	-	(5)
Acquisition of petroleum and natural gas properties	(6)	-
Sale of petroleum and natural gas properties and equipment	5,348	31
Changes in non-cash working capital	53,870	19,860
	(70,668)	(44,000)
Net change in cash	-	-
Cash, beginning of period	47	57
CASH, END OF PERIOD	**47**	**57**

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

BIRCHCLIFF ENERGY LTD.
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2017

Unaudited (Expressed In thousands Of Canadian Dollars, Unless Otherwise Stated)

1. NATURE OF OPERATIONS

Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is domiciled and incorporated in Alberta, Canada. Birchcliff is engaged in the exploration for and the development, production and acquisition of petroleum and natural gas reserves in Western Canada. The Corporation's financial year end is December 31. The address of the Corporation's registered office is Suite 1000, 600 – 3rd Avenue S.W., Calgary, Alberta, Canada T2P 0G5. Birchcliff's common shares, Series A Preferred Shares and Series C Preferred Shares are listed for trading on the Toronto Stock Exchange under the symbols "**BIR**", "**BIR.PR.A**" and "**BIR.PR.C**", respectively.

These financial statements were approved and authorized for issuance by the Board of Directors on May 10, 2017.

2. BASIS OF PREPARATION

These unaudited interim condensed financial statements present Birchcliff's financial results of operations and financial position under International Financial Reporting Standards ("**IFRS**") as at and for the three months ended March 31, 2017, including the 2016 comparative periods. The financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**").

These financial statements have been prepared following the same IFRS accounting policies and methods of computation as disclosed in the annual audited financial statements for the year ended December 31, 2016. Certain information and disclosures normally required to be included in the notes to the annual audited financial statements have been condensed, omitted or have been disclosed on an annual basis only. Accordingly, these financial statements should be read in conjunction with the annual audited financial statements and the notes thereto for the year ended December 31, 2016.

Birchcliff's financial statements are prepared on a historical cost basis, except for certain financial and non-financial assets and liabilities which have been measured at fair value. The Corporation's financial statements include the accounts of Birchcliff only and are expressed in Canadian dollars, unless otherwise stated. Birchcliff does not have any subsidiaries.

3. EXPLORATION AND EVALUATION ASSETS

The continuity for exploration and evaluation ("**E&E**") assets are as follows:

($000s)	**E&E**(1)
As at December 31, 2015	247
Additions	46
Lease expiries	(240)
As at December 31, 2016 and March 31, 2017	**53**

(1) E&E assets consist of the Corporation's exploration activities which are pending the determination of economic quantities of commercially producible proved reserves. Additions represent the Corporation's net share of costs incurred on E&E activities during the period. A review of each exploration project by area is carried out at each reporting date to ascertain whether economical quantities of proved reserves have been discovered and whether such costs should be transferred to depletable petroleum and natural gas components. There were no exploration costs reclassified from the E&E category to petroleum and natural gas properties and equipment category during 2017 and 2016.

4. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

The continuity for petroleum and natural gas ("**P&NG**") properties and equipment are as follows:

($000s)	P&NG Assets	Corporate Assets	Total
Cost:			
As at December 31, 2015	2,588,350	10,969	2,599,319
Additions	190,546	2,981	193,527
Acquisitions	634,345	-	634,345
Dispositions	(37,005)	-	(37,005)
As at December 31, 2016	3,376,236	13,950	3,390,186
Additions	132,574	382	132,956
Acquisitions	6	-	6
Dispositions	(5,045)	-	(5,045)
As at March 31, 2017[(1)]	3,503,771	14,332	3,518,103
Accumulated depletion and depreciation:			
As at December 31, 2015	(592,590)	(7,649)	(600,239)
Depletion and depreciation expense	(147,837)	(1,532)	(149,369)
Dispositions	5,206	-	5,206
As at December 31, 2016	(735,221)	(9,181)	(744,402)
Depletion and depreciation expense	(41,668)	(469)	(42,137)
Disposition	833	-	833
As at March 31, 2017	(776,056)	(9,650)	(785,706)
Net book value:			
As at December 31, 2016	2,641,015	4,769	2,645,784
As at March 31, 2017[(2)]	**2,727,715**	**4,682**	**2,732,397**

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

(2) Birchcliff performed an impairment assessment of its P&NG assets on a CGU basis and determined there were no impairment indicators identified at the end of the reporting period. As a result, no impairment test was required as at March 31, 2017.

5. REVOLVING TERM CREDIT FACILITIES

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

As at, *($000s)*	**March 31, 2017**	**December 31, 2016**
Syndicated credit facility	558,000	569,000
Working capital facility	28,340	11,770
Drawn revolving term credit facilities	586,340	580,770
Unamortized prepaid interest on bankers' acceptances	(6,008)	(6,621)
Unamortized deferred financing fees	(1,378)	(1,632)
Revolving term credit facilities	**578,954**	**572,517**

At March 31, 2017, the Corporation's credit facilities consisted of extendible revolving credit facilities in the aggregate principal amount of $950 million with maturity dates of May 11, 2018 (the "**Credit Facilities**"). 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 facility of $50 million (the "**Working Capital Facility**").

The Credit Facilities allow for prime rate loans, LIBOR loans, U.S. base rate loans, bankers' acceptances and, in the case of the Working Capital Facility only, letters of credit. The 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 EBITDA as calculated in accordance with the agreement governing 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 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. In addition, pursuant to the terms of the credit agreement governing the Credit Facilities, the borrowing base of the Credit Facilities may be adjusted in certain other circumstances. Upon any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall, Birchcliff must eliminate the borrowing base shortfall amount. Birchcliff may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made.

Birchcliff's syndicate of lenders recently completed their semi-annual review of the Corporation's borrowing base limit under its 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.

The Credit Facilities are secured by a fixed and floating charge debenture and pledge charging substantially all of the Corporation's assets. No fixed charges have been granted pursuant to such debenture. The Credit Facilities do not contain any financial maintenance covenants.

6. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is set forth below:

As at, *($000s)*	**March 31, 2017**	**December 31, 2016**
Balance, beginning	133,470	92,504
Obligations incurred	1,753	2,772
Obligations acquired	269	20,072
Obligations divested	(1,343)	(1,579)
Change in discount rate on acquisition	-	22,599
Changes in estimated future cash flows	-	(4,102)
Accretion expense	830	2,547
Actual expenditures	(301)	(1,343)
Balance, ending[1]	**134,678**	**133,470**

(1) Birchcliff applied a risk-free rate of 2.36% and an inflation rate of 2.0% to calculate the discounted fair value of its decommissioning liabilities as at March 31, 2017 and December 31, 2016.

7. CAPITAL STOCK

Share Capital

(a) Authorized:

Unlimited number of voting common shares, with no par value.

Unlimited number of preferred shares, with no par value.

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

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

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

As at, *(000s)*	March 31, 2017	December 31, 2016
Common Shares:		
Outstanding at beginning of period - Jan 1	264,042	152,308
Issue of common shares	-	110,525
Exercise of stock options	400	1,209
Outstanding at end of period	264,442	264,042
Series A Preferred Shares (perpetual):		
Outstanding at beginning of period - Jan 1	2,000	2,000
Outstanding at end of period	2,000	2,000

Capital Securities

The Corporation has outstanding 2,000,000 Series C Preferred Shares at March 31, 2017 (December 31, 2016 – 2,000,000).

Dividends

On March 1, 2017, the Board of Directors declared its first quarterly cash dividend of $6.6 million or $0.025 per common share for the calendar quarter ending March 31, 2017. The dividend was payable on March 31, 2017 to shareholders of record on March 15, 2017. These preferred share dividends have been designated as "eligible dividends" for the purposes of the *Income Tax Act* (Canada).

On March 1, 2017, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A Preferred Share and $0.875 million or $0.4375 per Series C Preferred Share for the calendar quarter ending March 31, 2017. This dividend was payable on March 31, 2017 to shareholders of record on March 15, 2017 and has been designated as an "eligible dividend" for the purposes of the *Income Tax Act* (Canada).

Per Common Share

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

Three months ended,	March 31, 2017	March 31, 2016
Net income (loss) *($000s)*	29,928	(12,035)
Dividends on Series A preferred shares *($000s)*	(1,000)	(1,000)
Net income (loss) to common shareholders *($000s)*	28,928	(13,035)
Weighted average common shares *(000s)*:		
Weighted average basic common shares outstanding	264,099	152,308
Effects of dilutive securities	3,978	-
Weighted average diluted common shares outstanding(1)	268,077	152,308
Net income (loss) per common share		
Basic	**$0.11**	**($0.09)**
Diluted	**$0.11**	**($0.09)**

(1) The weighted average diluted common shares outstanding as of March 31, 2017 excludes 8,023,239 common shares issuable pursuant to outstanding stock options that are anti-dilutive in the three month reporting period (March 31, 2016 – 11,967,886). As the Corporation reported a loss for the three months ended March 31, 2016, the basic and diluted weighted average shares outstanding are the same for the period.

8. SHARE-BASED PAYMENTS

Stock Options

At March 31, 2017, the Corporation's Amended and Restated Stock Option Plan (the "**Option Plan**") permitted the grant of options in respect of a maximum of 26,444,170 (March 31, 2016 – 15,230,754) common shares. At March 31, 2017, there remained available for issuance options in respect of 9,665,694 (March 31, 2016 – 1,239,049) common shares. During the three months ended March 31, 2017, the weighted average common share trading price on the Toronto Stock Exchange was $7.69 (March 31, 2016 – $4.85) per common share.

A summary of the outstanding stock options is set forth below:

	Number	Weighted Average Exercise Price *($)*
Outstanding, December 31, 2016	12,899,775	6.45
Granted[1]	4,292,900	7.85
Exercised	(399,799)	(5.88)
Forfeited	(14,400)	(7.47)
Outstanding, March 31, 2017	**16,778,476**	**6.82**

(1) Each stock option granted entitles the holder to purchase one common share at the exercise price.

The weighted average fair value per option granted during the three months ended March 31, 2017 was $3.06 (March 31, 2016 – $1.20). In determining the stock-based compensation expense for options issued during the three months ended March 31, 2017, the Corporation applied a weighted average estimated forfeiture rate of 11% (March 31, 2016 – 12%).

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

Three months ended,	**March 31, 2017**	**March 31, 2016**
Risk-free interest rate	1.0%	0.6%
Expected life *(years)*	4.0	4.0
Expected volatility	49.3%	44.9%

A summary of the stock options outstanding and exercisable under the Option Plan at March 31, 2017 is set forth below:

Exercise Price		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$3.35	$6.00	3,861,001	2.98	$3.99	1,887,365	2.12	$4.57
$6.01	$9.00	12,686,475	2.99	$7.63	6,935,082	1.79	$7.62
$9.01	$12.00	228,000	2.68	$9.86	152,665	2.27	$10.01
$12.01	$12.31	3,000	2.06	$12.31	2,000	2.06	$12.31
		16,778,476	**2.98**	**$6.82**	**8,977,112**	**1.86**	**$7.02**

Performance Warrants

On January 14, 2005, Birchcliff issued 4,049,665 performance warrants as part of the Corporation's initial restructuring to become a public entity. There are 2,939,732 performance warrants outstanding and exercisable at March 31, 2017 (March 31, 2016 – 2,939,732). Each performance warrant is exercisable at a price of $3.00 to purchase one common share of Birchcliff and expires on January 31, 2020.

9. CAPITAL MANAGEMENT

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations (including potential obligations arising from additional acquisitions), to maintain a capital structure that allows Birchcliff to finance its growth strategy using primarily internally-generated cash flow and its available debt capacity and to optimize the use of its capital to provide an appropriate investment return to its shareholders. There were no changes in the Corporation's approach to capital management during the three months ended March 31, 2017.

The following table sets forth the Corporation's total available credit:

As at, *($000s)*	**March 31, 2017**	**December 31, 2016**
Maximum borrowing base limit(1):		
Revolving term credit facilities	950,000	950,000
Principal amount utilized:		
Drawn revolving term credit facilities	(586,340)	(580,770)
Outstanding letters of credit(2)	(13,050)	(12,310)
	(599,390)	(593,080)
Unused credit	**350,610**	**356,920**

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

(2) Letters of credit are issued to various service providers. The aforementioned letters of credit has reduced 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 three months ended March 31, 2017.

The capital structure of the Corporation is as follows:

As at, *($000s)*	**March 31, 2017**	**December 31, 2016**	**% Change**
Shareholders' equity(1)	1,780,888	1,754,407	
Capital securities	48,993	48,916	
Shareholders' equity & capital securities	1,829,881	1,803,323	1%
Shareholders' equity & capital securities as a % of total capital(2)	73%	75%	
Working capital deficit(3)	85,398	27,495	
Drawn revolving term credit facilities	586,340	580,770	
Drawn debt	671,738	608,265	10%
Drawn debt as a % of total capital	27%	25%	
Capital	**2,501,619**	**2,411,588**	**4%**

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

(2) Of the 73%, approximately 68% relates to common capital stock and 5% relates to preferred capital stock.

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

10. FINANCIAL RISK MANAGEMENT

Birchcliff is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and periodically reviews the results of all risk management activities and all outstanding positions. Birchcliff's exposure to credit risk, liquidity risk and market risk are consistent with those disclosed in the annual audited financial statements for the year ended December 31, 2016.

Financial derivative contracts

As of March 31, 2017, Birchcliff had certain financial derivative contracts outstanding in order to manage commodity price risk. These instruments are not used for trading or speculative purposes. Birchcliff has not designated its financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity contracts to be effective economic hedges. As a result, all such financial derivative contracts are recorded on the statement of financial position at fair value, with the changes in fair value being recognized as an unrealized gain or loss in profit or loss.

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

Product	Type of Contract	Notional quantity	Term(1)	Contract price	Fair value ($000s)
Natural gas	Financial swap	40,000 GJ/d	April 1, 2017 – December 31, 2017	AECO CDN $2.97/GJ	3,669
Natural gas	Financial swap	20,000 GJ/d	April 1, 2017 – December 31, 2017	AECO CDN $2.98/GJ	1,930
Natural gas	Financial swap	10,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN $3.35/GJ	466
Natural gas	Financial swap	10,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN $3.40/GJ	521
Crude oil	Financial swap	1,500 bbls/d	April 1, 2017 – December 31, 2017	WTI CDN $69.90/bbl	533
Fair value assets					**7,119**

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

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

As at, *($000s)*	**March 31, 2017**	**March 31, 2016**
Realized gain on derivatives	2,411	-
Unrealized gain on derivatives	16,552	-

As of March 31, 2017, if the future strip prices for AECO natural gas had been CDN$0.10/GJ higher, with all other variables held constant, the after-tax net income in the quarter ended March 31, 2017 would have decreased by $1.6 million. As of March 31, 2017, if the future strip prices for WTI crude oil had been CDN$1.00/bbl higher, with all other variables held constant, the after-tax net income in the quarter ended March 31, 2017 would have decreased by $0.3 million.

There were no financial derivative contracts entered into subsequent to March 31, 2017.

Physical sales contracts

Birchcliff also enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value through profit or loss. At March 31, 2017, the Corporation had the following physical sales contracts in place:

Product	Type of Contract	Volume	Term(1)	Contract price
Natural gas	Fixed price	20,000 GJ/d	April 1, 2017 – December 31, 2017	AECO CDN$2.99/GJ
Natural gas	Fixed price	20,000 GJ/d	April 1, 2017 – December 31, 2017	AECO CDN$2.98/GJ
Natural gas	Fixed price	20,000 GJ/d	April 1, 2017 – December 31, 2017	AECO CDN$3.00GJ
Natural gas	Fixed price	10,000 GJ/d	April 1, 2017 – December 31, 2017	AECO CDN$3.00/GJ
Natural gas	Fixed price	50,000 GJ/d	April 1, 2017 – December 31, 2017	AECO CDN$3.05/GJ
Natural gas	Fixed price	10,000 GJ/d	Oct 1, 2017 – December 31, 2017	AECO CDN$3.35/GJ

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

There were no physical delivery sales contracts entered into subsequent to March 31, 2017.

ABBREVIATIONS

AECO	physical storage and trading hub for natural gas on the TransCanada Alberta transmission system which is the delivery point for various benchmark Alberta index prices
bbl	barrel
bbls	barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
boe/d	barrels of oil equivalent per day
F&D	finding and development
GAAP	generally accepted accounting principles
GJ	gigajoule
GJ/d	gigajoules per day
IFRS	International Financial Reporting Standards
m^3	cubic metres
Mcf	thousand cubic feet
Mcfe	thousand cubic feet of gas equivalent
MJ	megajoules
MMbtu	million British thermal units
MMcf	million cubic feet
MMcf/d	million cubic feet per day
NGLs	natural gas liquids
WTI	West Texas Intermediate oil at Cushing, Oklahoma, the benchmark for North American crude oil pricing
000s	thousands
$000s	thousands of dollars

NON-GAAP MEASURES

This First Quarter Report uses "funds flow from operations", "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. For further details on these non-GAAP measures, please see *"Non-GAAP Measures"* in the management's discussion and analysis for the three months ended March 31, 2017.

In addition, this First Quarter Report uses "funds flow netback" which does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. "Funds flow netback" denotes petroleum and natural gas revenue less royalties, less operating expenses, less transportation and marketing expenses, less net general and administrative expenses, less interest expenses and less any realized losses (plus realized gains) on financial instruments and plus any other cash income sources. Funds flow netback is calculated on a per boe basis, unless otherwise indicated. Management believes that funds flow netback assists 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 funds flow netback for the periods indicated:

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	($000s)	*($/boe)*[1]	*($000s)*	*($/boe)*[1]
Petroleum and natural gas revenue	132,708	23.91	57,503	15.06
Royalty expense	(10,966)	(1.98)	(2,551)	(0.67)
Operating expense	(28,950)	(5.22)	(14,152)	(3.71)
Transportation and marketing expense	(14,206)	(2.55)	(8,503)	(2.22)
General & administrative expense, net	(5,853)	(1.05)	(5,013)	(1.31)
Interest expense	(7,514)	(1.35)	(6,589)	(1.73)
Realized gain on financial instruments	2,411	0.43	-	-
Funds flow netback	**67,630**	**12.19**	**20,695**	**5.42**

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

ADVISORIES

UNAUDITED INFORMATION

All financial and operating information contained in this First Quarter Report for the three months ended March 31, 2017 is unaudited.

CURRENCY

All amounts in this First Quarter Report are stated in Canadian dollars unless otherwise specified.

OPERATING COSTS

References in this First Quarter Report 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.

CONVERSION FROM GJ TO MCF – WELLHEAD PRICE

Birchcliff receives premium pricing for its natural gas production due to its high heat content from its properties. With respect to Birchcliff’s natural gas hedging contracts outstanding as of March 31, 2017, the prices have been presented in both AECO CDN $/GJ and $/Mcf, with the latter representing the average expected natural gas wellhead price under contract. The conversion from GJ to Mcf is based on an expected corporate average natural gas heat content value of 40.66 MJ/m^3 for the period from April 1, 2017 to December 31, 2017.

INITIAL PRODUCTION RATES

Any references in this First Quarter Report to initial production rates and other short-term production rates are useful in confirming the presence of hydrocarbons; however, such rates are not determinative of the rates at which such wells will continue to produce and decline thereafter and are not indicative of the long-term performance or of the ultimate recovery of such wells.

OIL AND GAS METRICS

This First Quarter Report contains metrics commonly used in the oil and natural gas industry, including "operating netback" and "funds flow 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 such netbacks are calculated, please see *"Non-GAAP Measures"*.

CAPITAL EXPENDITURES

Unless otherwise stated, "net capital expenditures" denotes F&D costs plus administrative expenses plus acquisition costs, less any dispositions.

FORWARD-LOOKING INFORMATION

Certain statements contained in this First Quarter Report 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", "estimated", "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 First Quarter Report should not be unduly relied upon.

In particular, this First Quarter Report contains forward-looking information relating to the following: Birchcliff's plans and other aspects of its anticipated future operations, focus, objectives, strategies, opportunities, priorities and goals; the 2017 Capital Program and Birchcliff's proposed exploration and development activities and the timing thereof, including the amount of capital expenditures, Birchcliff's expectation that the majority of capital will be spent during the first and second quarters of 2017, the focus of the 2017 Capital Program, Birchcliff's plan to drill a total of 46 (46.0 net) wells during 2017, the timing for wells to be brought on production, Birchcliff's expectation that the entirety of the 2017 Capital Program will be fully funded out of the Corporation's forecast funds flow from operations for 2017 and Birchcliff's expectation that its funds flow from operations for 2017 will exceed its 2017 capital expenditures over the course of 2017; proposed expansions of the PC Gas Plant, including the anticipated processing capacities of the PC Gas Plant after such expansions, the anticipated timing of such expansions and the proposed design and capabilities of such expansions; the timing of the next semi-annual review under the Corporation's Credit Facilities; firm service on TCPL's Canadian Mainline, including the anticipated timing of such service; the performance characteristics of Birchcliff's oil and natural gas properties and expected results from its assets, including that the Montney/Doig Resource Play is large enough to provide the Corporation with an extensive inventory of repeatable, low-cost drilling opportunities that are expected to provide production and reserves growth for many years; Birchcliff's production guidance, including its estimates of its annual average and fourth quarter average production and commodity mix in 2017, Birchcliff's expectation that production is expected to ramp up in the fourth quarter of 2017 and Birchcliff's expectation that it will be on the lower end of its annual average production guidance for 2017; the potential disposition of the Corporation's Charlie Lake Light Oil Resource Play; Birchcliff's competitive position; the Corporation's ability to control its costs and capital expenditures; that the Corporation intends to continue to execute on its five-year plan; the Corporation's belief that it has the financial liquidity, the people and the assets to meet its objectives; and the Corporation's belief that over time its share price will reflect its true asset value. In addition, this First Quarter Report includes the forward-looking information identified in the management's discussion and analysis for the three months ended March 31, 2017 under the heading *"Advisories – Forward-Looking Information".*

With respect to forward-looking information contained in this First Quarter Report, 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 funds flow from operations; 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 approvals in a timely manner, including the ability of TCPL to obtain the approval of the National Energy Board for the proposed service on the Canadian Mainline; the ability of Birchcliff to secure adequate transportation for its products; Birchcliff's ability to market oil and gas; and the availability of hedges on terms acceptable to Birchcliff.

In addition to the foregoing assumptions, Birchcliff has made the following assumptions with respect to certain forward-looking information contained in this First Quarter Report:

- With respect to statements regarding the 2017 Capital Program, such program is based on the following commodity price and exchange rate assumptions during 2017: an annual average WTI price of approximately US$55.00 per bbl of oil; an AECO price of approximately CDN $3.00 per GJ of natural gas; and an exchange rate of CDN$/US$ of 1.29. With respect to statements that Birchcliff expects that the entirety of the 2017 Capital Program will be fully funded out of its forecast 2017 funds flow from operations and that 2017 funds flow from operations is expected to exceed its 2017 capital expenditures over the course of 2017, such statements assume that: the 2017 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. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials.
- With respect to statements of 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 economic conditions will warrant proceeding with the drilling of such wells.

- With respect to statements regarding proposed expansions of the PC Gas Plant, including the anticipated processing capacities of the PC Gas Plant after such expansions and the anticipated timing of such expansions, the key assumptions are that: future drilling is successful; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund those projects; the key components of the plant will operate as designed; and commodity prices and general economic conditions will warrant proceeding with the construction of such facilities and the drilling of associated wells.
- With respect to Birchcliff's production guidance, the key assumptions are that: Birchcliff's capital expenditure programs 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. The production guidance contained herein does not take into account the potential disposition of the Corporation's Charlie Lake Light Oil Resource Play.

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: 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; 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; 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; uncertainties related to Birchcliff's future potential drilling locations; fluctuations in the costs of borrowing; 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; 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; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; 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; risks and uncertainties associated with the sales process and the potential disposition of the Corporation's Charlie Lake Light Oil Resource Play, including whether the sales process will result in a transaction and the terms of a transaction; the failure to obtain any required approvals in a timely manner or at all; the failure to realize the anticipated benefits of acquisitions and dispositions; unforeseen difficulties in integrating acquired assets into Birchcliff's operations; and variances in Birchcliff's actual capital costs, operating costs and economic returns from those anticipated.

With respect to the sales process for the Corporation's Charlie Lake Light Oil Resource Play, there can be no assurance that any agreement or transaction will occur, or if a transaction is undertaken, as to its terms or timing. No decision on any particular transaction structure has been reached at this time. Birchcliff does not intend to make further announcements or disclose developments with respect to the sales process until the board of directors has approved a definitive transaction, unless otherwise required by applicable laws or Birchcliff otherwise determines that disclosure is appropriate.

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 in Birchcliff's most recent Annual Information Form and in other reports filed with Canadian securities regulatory authorities.

Any future-orientated financial information and financial outlook information (collectively, "**FOFI**") contained in this First Quarter Report, 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 First Quarter Report was made as of the date of this First Quarter Report and Birchcliff disclaims any intention or obligation to update or revise any FOFI contained in this First Quarter Report, 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.

The forward-looking information and FOFI contained herein do not include or account for the potential disposition of the Corporation's Charlie Lake Light Oil Resource Play.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this First Quarter Report 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 First Quarter Report is expressly qualified by the foregoing cautionary statements. The forward-looking information contained in this First Quarter Report is made as of the date of this First Quarter Report. Birchcliff is not under any duty to update or revise any of the forward-looking information except as expressly required by applicable securities laws.

CORPORATE INFORMATION

OFFICERS

A. Jeffery Tonken
President & Chief Executive Officer

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

Chris A. Carlsen
Vice-President, Engineering

Bruno P. Geremia
Vice-President & Chief Financial Officer

David M. Humphreys
Vice-President, Operations

James W. Surbey
Vice-President, Corporate Development

DIRECTORS

Larry A. Shaw (Chairman)
Calgary, Alberta

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Calgary, Alberta

Dennis A. Dawson
Calgary, Alberta

Rebecca J. Morley
Calgary, Alberta

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

MANAGEMENT

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Perry Billard
Asset Manager – Worsley

Robyn Bourgeois
General Counsel

Jesse Doenz
Controller & Investor Relations Manager

George Fukushima
Manager of Engineering

Andrew Fulford
Surface Land Manager

MANAGEMENT CONT'D

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Tyler Murray
Land Manager

Bruce Palmer
Manager of Geology

Bill Partridge
Engineering Lead

Brian Ritchie
Asset Manager – Gordondale

Michelle Rodgerson
Office Manager

Jeff Rogers
Facilities Manager

Randy Rousson
Drilling & Completions Manager

Vic Sandhawalia
Manager of Financial Accounting, Taxation & Insurance

Ryan Sloan
Health, Safety and Environment Manager

Hue Tran
Joint Venture and Marketing Manager

Theo van der Werken
Asset Manager – Pouce Coupe

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AUDITORS

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RESERVES EVALUATORS

Deloitte LLP
Calgary, Alberta

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

BANKERS

The Bank of Nova Scotia

HSBC Bank Canada

National Bank of Canada

Canadian Imperial Bank of Commerce

Bank of Montreal

The Toronto-Dominion Bank

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Wells Fargo Bank, N.A., Canadian Branch

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