BIRCHCLIFF ENERGY

QUARTERLY REPORT | 2018Q3

BIRCHCLIFF ENERGY LTD. ANNOUNCES STRONG THIRD QUARTER 2018 RESULTS, STRATEGIC MONTNEY LAND ACQUISITION IN POUCE COUPE AND PRELIMINARY 2019 PLANS

November 14, 2018, Calgary, Alberta – Birchcliff Energy Ltd. ("Birchcliff" or the "Corporation") (TSX: BIR) is pleased to announce its financial and operational results for the third quarter of 2018, a strategic Montney land acquisition in Pouce Coupe and its preliminary plans for 2019. The full text of Birchcliff's Third Quarter 2018 Report, which contains the unaudited interim condensed financial statements for the three and nine months ended September 30, 2018 and the related management's discussion and analysis ("**MD&A**"), will be available on Birchcliff's website at www.birchcliffenergy.com and on SEDAR at www.sedar.com.

"We had a solid third quarter in 2018 with average production of 79,331 boe/d, which represents a 22% increase from the third quarter of 2017 and was well ahead of our internal budget," commented Jeff Tonken, President and Chief Executive Officer of Birchcliff. "Subsequent to the end of the quarter, we entered into an agreement to acquire 18 gross (15.1 net) sections of Montney land contiguous with our existing Pouce Coupe and Gordondale properties, which is expected to close in early January 2019. In addition to consolidating our land position in the area, we believe that these lands are located on a significant liquids-rich trend in Pouce Coupe. During 2019, we anticipate that we will generate significant free funds flow which may be used to reduce debt, pursue additional growth, increase our common share dividend and/or to fund share buybacks."

Q3 2018 HIGHLIGHTS

- Production averaged 79,331 boe/d, a 22% increase from 65,276 boe/d in Q3 2017. Production consisted of approximately 81% natural gas, 6% light oil and 13% NGLs, as compared to 79% natural gas, 10% light oil and 11% NGLs in Q3 2017.
- Adjusted funds flow of $75.4 million, or $0.28 per basic common share, a 17% increase from $64.4 million and $0.24 per basic common share in Q3 2017.
- Net income to common shareholders of $6.7 million, or $0.03 per basic common share, as compared to the net loss to common shareholders of $121.7 million and $0.46 per basic common share in Q3 2017.
- Operating expense of $3.45/boe, a 19% decrease from $4.27/boe in Q3 2017, a 9% decrease from $3.78/boe in Q1 2018 and a 3% increase from $3.36/boe in Q2 2018.
- Total capital expenditures of $45.5 million in the quarter and $245.1 million in the first nine months of 2018. During the quarter, Birchcliff completed and brought on production a total of 9 (9.0 net) wells, consisting of 6 (6.0 net) Montney horizontal oil wells in Gordondale and 3 (3.0 net) Montney/Doig horizontal natural gas wells in Pouce Coupe.
- At September 30, 2018, Birchcliff's long-term bank debt was $635.1 million and its total debt was $641.5 million, as compared to $585.3 million and $666.8 million, respectively, at September 30, 2017.
- The 80 MMcf/d Phase VI expansion of Birchcliff's 100% owned and operated natural gas processing plant in Pouce Coupe (the "**Pouce Coupe Gas Plant**") was brought on-stream during the quarter, increasing the total processing capacity of the plant to 340 MMcf/d.

For further information on Birchcliff's financial and operational results for the third quarter of 2018, please see *"Third Quarter 2018 Financial and Operational Results"* in this Third Quarter Report.

This Third Quarter Report contains forward-looking statements within the meaning of applicable securities laws. For further information, please see "Advisories – Forward-Looking Statements". In addition, this Third Quarter Report contains references to "adjusted funds flow", "adjusted funds flow per common share", "free funds flow", "operating netback", "adjusted 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".

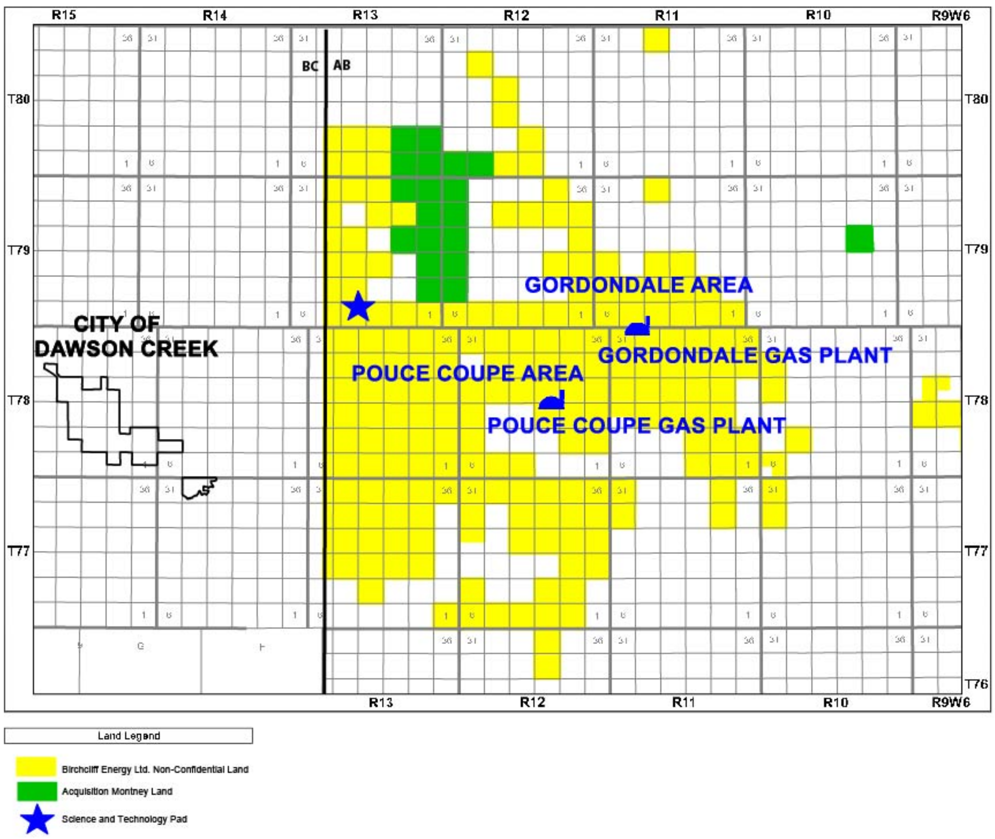
THIRD QUARTER 2018 FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
OPERATING				
Average production				
Light oil – *(bbls/d)*	4,959	6,316	4,901	6,247
Natural gas – *(Mcf/d)*	383,279	308,748	375,059	299,240
NGLs – *(bbls/d)*	10,492	7,503	9,916	7,751
Total – boe/d	**79,331**	**65,276**	**77,327**	**63,871**
Average sales price *(CDN$)*(1)				
Light oil – *(per bbl)*	80.16	55.62	77.64	59.38
Natural gas – *(per Mcf)*	2.06	2.11	2.26	2.76
NGLs – *(per bbl)*	49.17	27.67	48.38	30.31
Total – per boe	**21.45**	**18.55**	**22.10**	**22.40**
NETBACK AND COST *($/boe)*				
Petroleum and natural gas revenue(1)	21.46	18.56	22.11	22.41
Royalty expense	(1.52)	(0.63)	(1.49)	(1.12)
Operating expense	(3.45)	(4.27)	(3.53)	(4.70)
Transportation and other expense	(3.46)	(2.65)	(3.55)	(2.60)
Operating netback *($/boe)*	**13.03**	**11.01**	**13.54**	**13.99**
General & administrative expense, net	(0.67)	(0.82)	(0.80)	(0.98)
Interest expense	(0.99)	(1.15)	(0.97)	(1.22)
Realized gain (loss) on financial instruments	(1.08)	1.69	(0.83)	0.87
Other income	0.04	-	0.02	-
Adjusted funds flow netback *($/boe)*	**10.33**	**10.73**	**10.96**	**12.66**
Stock-based compensation expense, net	(0.10)	(0.22)	(0.10)	(0.18)
Depletion and depreciation expense	(7.40)	(6.99)	(7.47)	(7.33)
Accretion expense	(0.11)	(0.13)	(0.11)	(0.14)
Amortization of deferred financing fees	(0.05)	(0.07)	(0.05)	(0.06)
Loss on sale of assets	-	(30.19)	(0.40)	(11.46)
Unrealized gain (loss) on financial instruments	(1.01)	(0.36)	(0.63)	1.10
Dividends on Series C preferred shares	(0.12)	(0.15)	(0.12)	(0.15)
Income tax recovery (expense)	(0.48)	7.27	(0.65)	1.39
Net income (loss) *($/boe)*	**1.06**	**(20.11)**	**1.43**	**(4.17)**
Dividends on Series A preferred shares	(0.15)	(0.16)	(0.15)	(0.18)
Net income (loss) to common shareholders *($/boe)*	**0.91**	**(20.27)**	**1.28**	**(4.35)**
FINANCIAL				
Petroleum and natural gas revenue *($000s)*(1)	156,609	111,488	466,701	390,793
Cash flow from operating activities *($000s)*	68,556	70,584	232,234	198,665
Adjusted funds flow *($000s)*	75,378	64,430	231,405	220,672
Per common share – basic *($)*	0.28	0.24	0.87	0.83
Per common share – diluted *($)*	0.28	0.24	0.87	0.82
Net income (loss) *($000s)*	7,703	(120,743)	30,265	(72,800)
Net income (loss) to common shareholders *($000s)*	6,657	(121,743)	27,125	(75,800)
Per common share – basic *($)*	0.03	(0.46)	0.10	(0.29)
Per common share – diluted *($)*	0.02	(0.46)	0.10	(0.29)
Common shares outstanding *(000s)*				
End of period – basic	265,885	265,789	265,885	265,789
End of period – diluted	284,825	283,106	284,825	283,106
Weighted average common shares for period – basic	265,877	265,490	265,832	264,976
Weighted average common shares for period – diluted	268,605	267,988	267,307	267,946
Dividends on common shares *($000s)*	6,647	6,635	19,938	19,874
Dividends on Series A preferred shares *($000s)*	1,046	1,000	3,140	3,000
Dividends on Series C preferred shares *($000s)*	875	875	2,625	2,625
Total capital expenditures *($000s)*(2)	45,524	12,136	245,132	257,456
Long-term debt *($000s)*	635,120	585,323	635,120	585,323
Adjusted working capital deficit *($000s)*	6,364	81,485	6,364	81,485
Total debt *($000s)*	641,484	666,808	641,484	666,808

(1) Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts, if any.
(2) See *"Advisories – Capital Expenditures"* in this Third Quarter Report.

STRATEGIC MONTNEY LAND ACQUISITION IN POUCE COUPE

Birchcliff recently entered into a definitive purchase and sale agreement to acquire 18 gross (15.1 net) contiguous sections of Montney land located between the Corporation's existing Pouce Coupe and Gordondale properties, as well as various other non-Montney lands and other assets, for total cash consideration of $39 million (before customary closing adjustments) (the "**Acquisition**"). Closing of the Acquisition is expected to occur on or about January 3, 2019 and will further consolidate Birchcliff's land position in the area. After giving effect to the Acquisition, Birchcliff will have approximately 217.2 gross (206.6 net) sections of mostly contiguous Montney lands in the Pouce Coupe and Gordondale areas.



Birchcliff believes that the lands are located on a significant liquids-rich trend in Pouce Coupe and are highly prospective for natural gas, oil, condensate and other liquids in the Montney D1, D2, C and Basal Doig/Upper Montney intervals. The lands are located near Birchcliff's science and technology pad in Pouce Coupe where Birchcliff drilled four successful wells in 2018 (two in the Montney D1, one in the Montney D2 and one in the Montney C intervals).

Current production from the lands is approximately 700 boe/d (approximately 14% oil and NGLs) and is predominantly from 9 Montney horizontal wells (8 Montney D1 and 1 Upper Montney D5) which were drilled and completed using older technology. The most recent wells were drilled in 2014. The existing production is currently processed at third party facilities; however, such production is expected to be redirected to Birchcliff's Pouce Coupe Gas Plant or AltaGas' deep-cut sour gas processing facility in Gordondale (the "**Gordondale Gas Plant**") in the future.

Birchcliff currently plans to drill 5 wells from one pad on the lands in Q1 2019. The production from new wells drilled by Birchcliff on the lands is expected to be processed at the Pouce Coupe Gas Plant.

The Acquisition will be funded through the Corporation's existing credit facilities. Closing of the Acquisition is subject to the satisfaction or waiver of customary closing conditions.

PRELIMINARY 2019 PLANS

Preliminary 2019 Capital Spending Plans

Birchcliff is currently in the process of finalizing its strategy and capital spending plans for 2019, with a focus on generating free funds flow. Depending on market sentiment, economic conditions, commodity prices and other factors, preliminary F&D capital spending is currently expected to be approximately $210 million, which is anticipated to generate annual average production of approximately 76,000 to 78,000 boe/d during 2019. F&D capital spending, plus the Acquisition, is currently expected to be approximately $249 million. The following table sets forth Birchcliff's preliminary guidance for 2019, as well as its commodity price assumptions:

	2019 Preliminary Guidance(1)
Production	
Annual average production *(boe/d)*	76,000 – 78,000
% Oil and NGLs	20%
Adjusted Funds Flow *(MM$)*(2)	345
F&D Capital Expenditures *(MM$)*(2)(3)(4)	210
Free Funds Flow *(MM$)*(2)(5)	135
Acquisition Purchase Price *(MM$)*(6)	39
F&D Capital Expenditures plus the Acquisition *(MM$)*(2)(3)(4)	249
Natural Gas Market Exposure(2)(7)	
AECO exposure as a % of total natural gas production	38%
Dawn exposure as a % of total natural gas production	36%
NYMEX-Henry Hub exposure as a % of total natural gas production	25%
Commodity Price Assumptions	
Average WTI price *(US$/bbl)*	70.00
Average WTI-MSW differential *(CDN$)*	16.00
Average AECO price *(CDN$/MMBtu)*(8)	1.85
Average Dawn price *(CDN$/MMBtu)*(8)	3.69
Average NYMEX-Henry Hub price *(US$/MMBtu)*(8)	3.00
Exchange rate *(CDN$ to US$1)*	1.28

(1) The Corporation intends to finalize its 2019 capital spending plans and guidance after the completion of its 2018 capital program. Birchcliff's 2019 capital expenditure budget will be subject to approval by its board of directors. The preliminary guidance set forth herein is subject to change and, except for the Acquisition, does not take into account any potential future acquisition and disposition activity during 2019 which could have an impact on such guidance. Certain numbers presented in the table above are approximate. See *"Advisories – Forward-Looking Statements"*.

(2) Based on 77,000 boe/d, which is the mid-point of Birchcliff's preliminary annual average production guidance for 2019.

(3) See *"Advisories – Capital Expenditures"*.

(4) Includes the capital required to bring on production 26 horizontal wells, which is approximately the number of wells required by Birchcliff to achieve an annual average production rate of 77,000 boe/d in 2019. These 26 horizontal wells include 9 wells that the Corporation plans to drill in Q4 2018. None of these 9 wells will be completed in 2018. See *"Operational Update – Acceleration of 2019 Capital"*.

(5) Free funds flow is calculated as adjusted funds flow less F&D capital expenditures and is prior to administrative assets, acquisitions, dispositions, dividend payments and abandonment and reclamation obligations. See *"Non-GAAP Measures"*. Free funds flow may be used by Birchcliff to reduce debt, pursue additional growth, pay dividends, increase its common share dividend and/or to fund share buybacks under its normal course issuer bid. Any prolonged or significant decrease in commodity prices may not leave sufficient free funds flow for debt reduction or the other foregoing purposes.

(6) Represents the purchase price for the Acquisition of $39 million (before adjustments).

(7) Approximately 1% of total natural gas production is expected to be sold via the Alliance pipeline system in 2019. See *"2019 Risk Management Contracts and Market Diversification"*.

(8) $1.00 per MMBtu equals $1.00 per Mcf based on a standard heat value of 37.4 MJ/m^3 or a heat uplift of 1.055 when converting from $/GJ.

Based on the assumptions set forth in the table above, Birchcliff currently expects that it will be in a position to generate significant free funds flow during 2019. Given this anticipated free funds flow and Birchcliff's strong balance sheet, the Corporation will be well positioned to reduce debt, pursue additional growth, increase its common share dividend and/or consider share buybacks under its normal course issuer bid. The 2019 capital program will be designed with flexibility to accelerate expansion capital should economic conditions improve and defer capital should conditions deteriorate. If economic conditions and commodity prices improve, Birchcliff has the ability to increase its natural gas production as a result of available capacity at its Phase VI Pouce Coupe Gas Plant. If economic conditions and commodity prices remain the same or deteriorate, Birchcliff expects that it will choose to focus on debt reduction.

The following table illustrates the expected impact of changes in commodity prices and the CDN/US exchange rate on the Corporation's preliminary estimate of adjusted funds flow for 2019 of $345 million, after taking into account its commodity risk management contracts outstanding as at September 30, 2018:

	Estimated change to 2019 preliminary adjusted funds flow *(MM$)*(1)(2)
Change in WTI US$1.00/bbl	4
Change in NYMEX US$0.10/MMBtu	5
Change in Dawn CDN$0.10/MMBtu	5
Change in AECO CDN$0.10/MMBtu	5
Change in CDN/US exchange rate CDN$0.01	3

(1) See 2019 preliminary guidance table above.

(2) The calculated impact on adjusted funds flow is only applicable within a limited range of change indicated. Calculations are performed independently and may not be indicative of actual results. Actual results may vary materially when multiple variables change at the same time.

Birchcliff expects to release the details regarding its 2019 capital expenditure plans and guidance along with its 2018 unaudited financial results, reserves and F&D costs on February 13, 2019.

2019 Risk Management Contracts and Market Diversification

Birchcliff actively looks for profitable opportunities to diversify its natural gas markets and reduce its exposure to prices at AECO. In addition, Birchcliff maintains an ongoing hedging program and engages in various risk management activities to reduce its exposure to volatility in commodity prices.

Birchcliff has agreements for the firm service transportation of an aggregate of 175,000 GJ/d of natural gas on TCPL's Canadian Mainline for a 10-year term, whereby natural gas is transported to the Dawn trading hub located in Southern Ontario. The first tranche of this service (120,000 GJ/d) became available to Birchcliff on November 1, 2017 and the second tranche became available on November 1, 2018 (30,000 GJ/d), with the final additional tranche becoming available on November 1, 2019 (25,000 GJ/d). Birchcliff also has a sales agreement with a third party marketer to sell and deliver approximately 5 MMcf/d of natural gas from April 1, 2017 to October 31, 2020, which is sold at Alliance's Trading Pool daily index price. In addition, Birchcliff has entered into various risk management contracts with respect to 2019 and beyond, including NYMEX basis swaps which fix the basis differential between the AECO price and the NYMEX Henry Hub price.

Birchcliff currently expects that approximately 62% of its natural gas production during 2019 will effectively be sold at prices that are not based on AECO. The following table sets forth the details regarding Birchcliff's expected 2019 natural gas market exposure as a result of its market diversification initiatives undertaken at the date hereof:

Market diversification	**Preliminary 2019 natural gas production guidance** (1)			**Percentage of total 2019 natural gas production guidance**
	GJ/d	*MMBtu/d*(2)	*Mcf/d*(3)	*%*
Dawn sales	154,167	146,183	134,205	36%
NYMEX basis swaps(4)	105,462	100,000	91,806	25%
Alliance sales	5,560	5,273	5,001	1%
Natural gas sales not sold at AECO	**265,189**	**251,456**	**231,012**	**62%**
AECO sales	157,876	149,700	137,434	38%
Total natural gas sales	**423,065**	**401,156**	**368,446**	**100%**

(1) Assumes an annual average production rate of 77,000 boe/d (80% natural gas and 20% oil and NGLs) in 2019.

(2) The conversion from GJ to standard heat value in MMBtu is based on a heat content value of 37.4 MJ/m^3 or a heat conversion factor of 1 MMBtu = 1.055 GJ.

(3) The conversion from standard heat value in MMBtu to Mcf is based on Birchcliff's 2019 expected corporate average natural gas heat content value from its properties of 40.6 MJ/m^3 or a heat conversion factor of 1 Mcf = 1.089 MMBtu. The total heat content conversion factor is 1 Mcf = 1.15 GJ at the wellhead.

(4) See the *"Commodity Price Risk Management"* section in the MD&A for further details.

Effectively, 86% of Birchcliff's total revenue in 2019 is expected to be based on non-AECO benchmark prices, after taking into account Birchcliff's commodity risk management contracts and expected sales from oil and NGLs and based on the commodity price assumptions set forth in the table above under the heading *"Preliminary 2019 Capital Spending Plans".*

The foregoing guidance regarding Birchcliff's 2019 natural gas market exposure is based on the following assumptions: (i) an annual average production rate of 77,000 boe/d (which represents the mid-point of Birchcliff's preliminary annual average production guidance for 2019) and a commodity mix of 80% natural gas and 20% oil and NGLs; (ii) 150,000 GJ/d being sold at the Dawn index price from January 1, 2019 to October 31, 2019 and 175,000 GJ/d from November 1, 2019 to December 31, 2019; (iii) 5 MMcf/d being sold at Alliance's Trading Pool daily index price; and (iv) 100,000 MMBtu/d being hedged at a fixed basis differential between the AECO price and the NYMEX Henry Hub price.

For further information regarding Birchcliff's guidance, please see *"Advisories – Forward-Looking Statements".*

THIRD QUARTER 2018 FINANCIAL AND OPERATIONAL RESULTS

Production

Birchcliff achieved strong average production of 79,331 boe/d during the quarter, a 22% increase from 65,276 boe/d in Q3 2017. The increase was primarily attributable to the success of Birchcliff's capital programs which resulted in incremental production from new horizontal wells brought on production in Pouce Coupe and Gordondale, partially offset by the sale of the Corporation's oil-weighted assets in the Worsley area in Q3 2017, temporary restrictions in pipeline and compressor station capacity on the Alberta NGTL system during Q3 2018 and natural production declines.

Production consisted of approximately 81% natural gas, 6% light oil and 13% NGLs, as compared to 79% natural gas, 10% light oil and 11% NGLs in Q3 2017. Of the NGLs produced in Q3 2018, approximately 56% were high-value C4+ liquids. The change in commodity mix from Q3 2017 was primarily due to the disposition of Birchcliff's oil-weighted Worsley assets and the start-up of Phase V of the Pouce Coupe Gas Plant, both of which occurred in Q3 2017, as well as the start-up of Phase VI of the Pouce Coupe Gas Plant which occurred in Q3 2018.

Adjusted Funds Flow and Net Income to Common Shareholders

Birchcliff had adjusted funds flow of $75.4 million, or $0.28 per basic common share, a 17% increase from $64.4 million and $0.24 per basic common share in Q3 2017. The increase was primarily due to higher corporate production, higher average realized oil and NGLs sales prices and lower operating expense, partially offset by a lower average realized natural gas sales price, higher aggregate royalty and transportation and other expenses and a realized loss on financial instruments.

Birchcliff recorded net income to common shareholders of $6.7 million, or $0.03 per basic common share, as compared to the net loss to common shareholders of $121.7 million and $0.46 per basic common share in Q3 2017. The change from a net loss to a net income position was primarily due to a $132.3 million after-tax loss from the sale of the Worsley assets which was recorded in Q3 2017 and higher adjusted funds flow, partially offset by an increase in depletion and income tax expenses and an unrealized mark-to-market loss on financial instruments in Q3 2018.

Operating Expense

Birchcliff's operating expense was $3.45/boe, a 19% decrease from $4.27/boe in Q3 2017. The decrease was primarily due to an incremental increase in natural gas production processed at the Pouce Coupe Gas Plant, reduced processing fees at the Gordondale Gas Plant and the sale of the higher-cost Worsley assets in Q3 2017.

Transportation and Other Expense

Birchcliff's transportation and other expense was $3.46/boe, a 31% increase from $2.65/boe in Q3 2017. The increase was primarily due to firm service transportation tolls for natural gas transported to Dawn during Q3 2018, which service commenced on November 1, 2017. The natural gas price at Dawn was significantly higher than at AECO during Q3 2018 (see "*Third Quarter 2018 Financial and Operational Results – Commodity Prices*").

G&A Expense

Birchcliff's G&A expense was $0.67/boe, an 18% decrease from $0.82/boe in Q3 2017. The decrease was primarily due to higher production without a corresponding increase in aggregate G&A expense as compared to Q3 2017.

Interest Expense

Birchcliff's interest expense was $0.99/boe, a 14% decrease from $1.15/boe in Q3 2017. The decrease was primarily due to higher corporate production, partially offset by a higher average effective interest rate and a higher average outstanding credit facilities balance in Q3 2018.

Adjusted Funds Flow Netback and Total Cash Costs

Birchcliff's adjusted funds flow netback was $10.33/boe, a 4% decrease from $10.73 in Q3 2017. The decrease was primarily due to higher total cash costs and a realized loss on financial instruments, partially offset by an increase in Birchcliff's total corporate average realized sales price.

Birchcliff's total cash costs were $10.09/boe, a 6% increase from $9.52/boe in Q3 2017. The increase was primarily due to higher royalty and transportation and other expenses on a per boe basis, partially offset by lower operating, G&A and interest expenses on a per boe basis.

Pouce Coupe Gas Plant Netbacks

During the first nine months of 2018, Birchcliff processed approximately 68% of its total corporate natural gas production and 58% of its total corporate production through the Pouce Coupe Gas Plant as compared to 58% and 47%, respectively, during the first nine months of 2017. These increases were primarily due to the incremental production from horizontal natural gas wells brought on production in Pouce Coupe. The average plant and field operating expense for production processed through the Pouce Coupe Gas Plant in the first nine months of 2018 was $0.35/Mcfe ($2.08/boe) and the operating netback at the Pouce Coupe Gas Plant was $1.91/Mcfe ($11.46/boe), resulting in an operating margin of 67% in the first nine months of 2018. The following table sets forth Birchcliff's average daily production and operating netback for wells producing to the Pouce Coupe Gas Plant for the periods indicated:

	Nine months ended September 30, 2018		**Nine months ended September 30, 2017**	
Average production:				
Natural gas *(Mcf/d)*		253,360		173,351
Condensate *(bbls/d)*(1)		2,438		1,146
Total *(boe/d)*		**44,665**		**30,038**
Liquids(1)-to-gas ratio *(bbls/MMcf)*		**9.6**		**6.6**
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue(2)	2.87	17.20	3.05	18.28
Royalty expense	(0.05)	(0.29)	(0.08)	(0.48)
Operating expense(3)	(0.35)	(2.08)	(0.35)	(2.07)
Transportation and other expense(4)	(0.56)	(3.37)	(0.34)	(2.08)
Operating netback	**$1.91**	**$11.46**	**$2.28**	**$13.65**
Operating margin	**67%**	**67%**	**75%**	**75%**

(1) Primarily condensate.

(2) Includes revenue from natural gas production sold at AECO and Dawn spot prices. Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts, if any.

(3) Represents plant and field operating expense.

(4) The increase in transportation and other expense from the comparative prior period was primarily due to transportation tolls for natural gas sold at the Dawn price during the nine months ended September 30, 2018. Birchcliff began selling natural gas at the Dawn price on November 1, 2017.

Capital Activities and Expenditures

During the quarter, Birchcliff completed and brought on production a total of 9 (9.0 net) wells, consisting of 6 (6.0 net) Montney horizontal oil wells in Gordondale and 3 (3.0 net) Montney/Doig horizontal natural gas wells in Pouce Coupe. No new wells were drilled in Q3 2018. Birchcliff's total capital expenditures for the quarter were $45.5 million and $245.1 million for the nine months ended September 30, 2018. For further information regarding Birchcliff's activities year-to-date, please see *"Operational Update"*.

Debt and Credit Facilities

At September 30, 2018, Birchcliff's long-term bank debt was $635.1 million (September 30, 2017: $585.3 million) from available credit facilities of $950 million (the "**Credit Facilities**") (September 30, 2017: $950 million), leaving $276.1 million of unutilized credit capacity after adjusting for outstanding letters of credit and unamortized interest and fees. Total debt at September 30, 2018 was $641.5 million (September 30, 2017: $666.8 million).

The Credit Facilities are subject to semi-annual reviews of the borrowing base limit by Birchcliff's syndicate of lenders, which reviews are typically completed in May and November of each year. The November semi-annual review of the borrowing base is currently underway. Birchcliff currently has no plans to increase its borrowing base under the Credit Facilities.

Risk Management

Birchcliff has financial derivative contracts that are outstanding for an aggregate of 4,500 bbls/d of crude oil at an average WTI price of CDN$71.87/bbl for the period from October 1, 2018 to December 31, 2018, which represents approximately 30% of its 2018 forecast annual average oil and NGLs production and approximately 6% of its total 2018 forecast annual average production.

Commodity Prices

The following table sets forth the average benchmark index prices and Birchcliff's average realized sales prices for the periods indicated:

	Three months ended September 30, 2018	Three months ended September 30, 2017
Average benchmark index prices:		
Light oil – WTI Cushing *(US$/bbl)*	69.50	48.21
Light oil – WTI Cushing *(CDN$/bbl)*	90.85	60.35
Light oil – MSW (Mixed Sweet) Edmonton *(CDN$/bbl)*(1)	81.59	56.44
Natural gas – NYMEX Henry Hub *(US$/MMBtu)*(2)	2.86	2.96
Natural gas – AECO 5A *(CDN$/MMBtu)*(2)	1.19	1.45
Natural gas – Dawn Day Ahead *(CDN$/MMBtu)*(2)	3.81	3.63
Natural gas – ATP 5A Day Ahead *(CDN$/MMBtu)*(2)	1.92	1.27
Natural gas – Chicago City Gate *(US$/MMBtu)*(2)	2.77	2.84
Exchange rate *(CDN$ to US$1)*	1.3070	1.2524
Birchcliff's average realized sales prices:(3)		
Light oil *($/bbl)*	80.16	55.62
Natural gas *($/Mcf)*	2.06	2.11
NGLs *($/bbl)*	49.17	27.67
Birchcliff's average realized sales price *($/boe)*	**21.45**	**18.55**

(1) Previously referred to as the "Edmonton Par price".

(2) $1.00/MMBtu = $1.00/Mcf based on a standard heat value Mcf. Please see *"Advisories – MMBtu Pricing Conversions"*.

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

The following table sets forth Birchcliff's natural gas sales, average daily production and average realized sales price by natural gas market for Q3 2018:

	Three months ended September 30, 2018						
	Natural gas sales[(1)] *($000s)*	Percentage of natural gas sales *(%)*	Natural gas production *(Mcf/d)*	Percentage of natural gas production *(%)*	Average realized natural gas sales price[(1)(2)] *($/Mcf)*	Natural gas transportation costs[(3)] *($/Mcf)*	Natural gas sales netback *($/Mcf)*
AECO	29,935	41	254,819	66	1.27	0.27	1.00
Dawn	40,248	56	109,614	29	3.99	1.30	2.69
Alliance	2,355	3	18,846	5	1.42	-[(4)]	1.42
Total	**72,538**	**100**	**383,279**	**100**	**2.06**	**0.55**	**1.51**

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

(2) Reflects the average realized natural gas wellhead price after adjusting for fuel to move natural gas from the field receipt point to the delivery sales trading hub.

(3) Reflects transportation tolls incurred for the delivery of natural gas from the field receipt point to the delivery sales trading hub.

(4) Alliance transportation tolls are recorded net of sales price.

OPERATIONAL UPDATE

Update on the 2018 Capital Program

Year-to-date, Birchcliff has been very active with the execution of its 2018 capital program which is focused on the drilling of crude oil wells in Gordondale and a combination of liquids-rich and low-cost natural gas wells in Pouce Coupe. The 2018 capital program was strategically front-end loaded and highly focused on the first half of the year, allowing Birchcliff to bring new wells on production relatively early in the year in order to optimize producing days for the capital spent in 2018. As discussed in further detail below under *"Acceleration of 2019 Capital"*, Birchcliff is drilling an additional 9 (9.0 net) horizontal wells in Gordondale and Pouce Coupe in Q4 2018 in order to help ensure the efficient execution of its 2019 capital program. None of these additional wells will be completed or brought on production in 2018.

During the first nine months of 2018, Birchcliff drilled, completed and brought on production all 27 (27.0 net) wells that were originally planned under the 2018 capital program as detailed in the table set forth below:

Area	Total wells drilled, completed and brought on production in 2018[(1)(2)]
Pouce Coupe	
Montney D1 horizontal natural gas wells	12
Montney D2 horizontal natural gas wells	1
Montney C horizontal natural gas wells	1
Total – Pouce Coupe	**14**
Gordondale	
Montney D2 horizontal oil wells	8
Montney D1 horizontal oil wells	5
Total – Gordondale	**13**
TOTAL – COMBINED	**27**

(1) The 2018 capital program also included the capital associated with 1 Montney/Doig well in Pouce Coupe that was drilled in December 2017 and subsequently completed and brought on production in 2018. Accordingly, a total of 28 (28.0 net) wells have been brought on production in 2018.

(2) Does not include the additional 9 wells to be drilled under the expanded 2018 capital program.

All of the wells drilled in 2018 were drilled on multi-well pads, which allows Birchcliff to reduce its per well costs and its environmental footprint. In addition, Birchcliff actively employs the evolving technology utilized by the industry regarding horizontal well drilling and the related multi-stage fracture stimulation technology. Birchcliff continues to spend significant time evolving its best practices for drilling and refining its engineered completions.

Gordondale

During 2018, the Corporation has been focused on the drilling of crude oil wells and the delineation of the Montney D1 and D2 intervals in Gordondale. Since Birchcliff acquired its assets in Gordondale in 2016, it has drilled a total of

36 (36.0 net) wells in Gordondale, consisting of 20 (20.0 net) Montney D2 horizontal oil wells, 11 (11.0 net) Montney D1 horizontal oil wells, 4 (4.0 net) Montney D1 liquids-rich horizontal natural gas wells and 1 (1.0 net) water disposal well. When Birchcliff first acquired its assets in Gordondale, the average production for such assets was approximately 22,000 boe/d at the date of the acquisition. The horizontal wells that Birchcliff has subsequently drilled and brought on production have replaced the natural production declines and significantly increased the production on its Gordondale assets (currently approximately 30,000 boe/d). The Montney D2 horizontal wells that Birchcliff has drilled, completed and brought on production to-date have significantly delineated, de-risked and proven the commerciality of the Montney D2 play.

Pouce Coupe

During 2018, Birchcliff has been focused on the drilling of liquids-rich natural gas wells and the pursuit of condensate and other NGLs in several different Montney/Doig intervals, including the Montney D1, D2 and C, as well as the completion of infrastructure to allow for future growth. The 80 MMcf/d Phase VI expansion of the Pouce Coupe Gas Plant was brought on-stream during Q3 2018, bringing the total processing capacity of the plant to 340 MMcf/d from 260 MMcf/d. In addition, Birchcliff completed the re-configuration of Phases V and VI in Q4 2018 to provide for shallow-cut capability, allowing Birchcliff to remove propane plus (C3+) from the natural gas stream.

As part of Birchcliff's commitment to continuous performance improvement, it designed and executed on its science and technology pad in 2018, which involved the drilling of one vertical well and four horizontal wells in three different intervals (one Montney C, one Montney D2 and two Montney D1 wells). Using the pad, Birchcliff was able to acquire high-quality subsurface and operational data. The data for the vertical well included 313 metres of core, high-resolution vertical logs, tilt meters and micro seismic. The data for the four horizontal wells included horizontal high-resolution well logs, permanent fibre optics, tracers, geochemical fluid and rock sampling and significant production flow, build up and interference testing.

Using the data, Birchcliff has been able to gain important insights into reservoir behaviour, including fracture initiation and propagation, inter-well fracture communication, well productivity by cluster, the role of natural fractures on production and optimal well spacing by and between zones. In addition, Birchcliff was also able to increase its knowledge regarding field development, including well landing depths, well spacing both laterally and vertically and completion, cluster and stage spacing. In addition, a permanent fibre optic cable installed in one of the horizontal wells allows Birchcliff to observe how wells interact in the subsurface over time. Ultimately, the knowledge gained from the science and technology pad has helped Birchcliff to improve and refine its best practices at the well, pad and field levels in order to optimize field development.

Acceleration of 2019 Capital

Given the success of its 2018 capital program and the efficiencies associated with commencing field activities outside of the most active season, Birchcliff is proceeding with the drilling of an additional 9 (9.0 net) horizontal wells in Q4 2018 that were originally targeted for 2019. As a result, Birchcliff has increased its 2018 capital expenditure budget by $33 million from $255 million to $288 million. Birchcliff expects that this additional capital investment in 2018 will positively impact 2019 by allowing for a more efficient capital spending profile and reduced capital spending in 2019, as well as providing for a more consistent production profile in 2019. This acceleration will also allow the Corporation to lock-in current service costs and avoid pre-breakup service constraints that Birchcliff experienced in Q1 2018.

Of the nine additional wells, five will be drilled in Pouce Coupe and four will be drilled in Gordondale. Birchcliff currently has two rigs at work drilling on two pads, one 4-well pad in Gordondale (two Montney D2 and two Montney D1 wells) and one 3-well pad in Pouce Coupe (all of which are Montney D1 wells).

None of these wells will be completed this year and no new production or reserves will be added in 2018. It is expected that these wells will be completed and brought on production in Q1 2019. Accordingly, as no new production will be added in 2018, the Corporation's 2018 annual average production guidance remains unchanged at 76,000 to 78,000 boe/d.

2018 GUIDANCE

Birchcliff is focused on protecting its balance sheet and expects that its 2018 adjusted funds flow will exceed its 2018 capital expenditures, based on the assumptions set forth herein. Birchcliff is maintaining its 2018 average production guidance of 76,000 to 78,000 boe/d (80% natural gas and 20% oil and NGLs) and has updated its capital expenditure guidance to reflect the acceleration of 2019 capital into 2018. The following table sets forth Birchcliff's previous and revised guidance for 2018, as well as its commodity price assumptions:

	Previous 2018 guidance and assumptions(1)	Revised 2018 guidance and assumptions
Production		
Annual average production *(boe/d)*	76,000 – 78,000	76,000 – 78,000
% Natural gas	80%	80%
% Oil and NGLs	20%	20%
Average Expenses *($/boe)*		
Royalty	1.60 – 1.80	1.60 – 1.80
Operating	3.40 – 3.60	3.40 – 3.60
Transportation and other(2)	3.80 – 4.10	3.80 – 4.10
Capital Expenditures *(MM$)*		
Total F&D capital expenditures	255.0	288.0(3)
Drilling and development capital expenditures	149.9	179.0
Facilities and infrastructure capital expenditures	66.9	70.8
Natural Gas Market Exposure(4)		
AECO exposure as a % of total natural gas production	66%	66%
Dawn exposure as a % of total natural gas production	30%	30%
Commodity Price Assumptions		
Average WTI price *(US$/bbl)*	66.67	66.67
Average AECO price *(CDN$/MMBtu)*(5)	1.63	1.63
Average Dawn price *(CDN$/MMBtu)*(5)	3.70	3.70
Average wellhead natural gas price *(CDN$/Mcf)*(6)	2.41	2.41

(1) As disclosed on August 14, 2018.

(2) Includes transportation tolls for 120,000 GJ/d of natural gas sold at the Dawn price from January 1, 2018 to October 31, 2018 and 150,000 GJ/d from November 1, 2018 to December 31, 2018.

(3) Includes the capital required for the drilling of 9 additional wells under the Corporation's expanded 2018 capital program, as well as related capital for multi-well pad and water reservoir construction and equip and tie-in activities. See *"Operational Update – Acceleration of 2019 Capital"*.

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

(5) $1.00 per MMBtu equals $1.00 per Mcf based on a standard heat value of 37.4 MJ/m^3 or a heat uplift of 1.055 when converting from $/GJ.

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

Birchcliff has made an application to the Toronto Stock Exchange (the "**TSX**") to renew its normal course issuer bid (the "**NCIB**") which currently expires on November 19, 2018. The NCIB has been approved by the Corporation's board of directors; however, it is subject to the acceptance of the TSX and, if accepted, will be made in accordance with the applicable rules and policies of the TSX and securities laws. A further press release will be issued by Birchcliff if and when the TSX accepts the renewal of the NCIB.

For further information regarding Birchcliff's guidance, including the assumptions surrounding such guidance, please see *"Advisories – Forward-Looking Statements"*.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

This Management's Discussion and Analysis ("**MD&A**") for Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is dated November 14, 2018. This MD&A with respect to the three and nine months ended September 30, 2018 (the "**Reporting Periods**") as compared to the three and nine months ended September 30, 2017 (the "**Comparable Prior Periods**") has been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the unaudited interim condensed financial statements of the Corporation and the related notes for the Reporting Periods, as well as the audited financial statements of the Corporation and the related notes for the year ended December 31, 2017. Birchcliff's unaudited interim condensed financial statements and the related notes for the Reporting Periods and the audited financial statements and the related notes for the year ended December 31, 2017 have been prepared in accordance with IFRS. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

This MD&A uses "adjusted funds flow", "adjusted funds flow per common share", "operating netback", "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 statements and information within the meaning of applicable Canadian securities laws. Such forward-looking statements and information are based upon certain expectations and assumptions and actual results may differ materially from those expressed or implied by such forward-looking statements and information. For further information regarding the forward-looking statements and information contained herein, including the assumptions underlying such forward-looking statements and information, see *"Advisories – Forward-Looking Statements"* 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 – Boe and Mcfe Conversions"* in this MD&A.

ABOUT BIRCHCLIFF

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

THIRD QUARTER 2018 FINANCIAL AND OPERATIONAL HIGHLIGHTS

- Production averaged 79,331 boe/d, a 22% increase from 65,276 boe/d in Q3 2017. Production consisted of approximately 81% natural gas, 6% light oil and 13% NGLs, as compared to 79% natural gas, 10% light oil and 11% NGLs in Q3 2017.
- Adjusted funds flow of $75.4 million, or $0.28 per basic common share, a 17% increase from $64.4 million and $0.24 per basic common share in Q3 2017.
- Net income to common shareholders of $6.7 million, or $0.03 per basic common share, as compared to the net loss to common shareholders of $121.7 million and $0.46 per basic common share in Q3 2017.
- Operating expense of $3.45/boe, a 19% decrease from $4.27/boe in Q3 2017.
- Total capital expenditures of $45.5 million in the quarter and $245.1 million in the first nine months of 2018. During the quarter, Birchcliff completed and brought on production a total of 9 (9.0 net) wells, consisting of 6 (6.0 net) Montney horizontal oil wells in Gordondale and 3 (3.0 net) Montney/Doig horizontal natural gas wells in Pouce Coupe.

- At September 30, 2018, Birchcliff's long-term bank debt was $635.1 million and its total debt was $641.5 million, as compared to $585.3 million and $666.8 million, respectively, at September 30, 2017.
- The 80 MMcf/d Phase VI expansion of Birchcliff's 100% owned and operated natural gas processing plant in Pouce Coupe (the "**Pouce Coupe Gas Plant**") was brought on-stream during the quarter, increasing the total processing capacity of the plant to 340 MMcf/d.
- Subsequent to the end of the quarter, Birchcliff entered into a definitive purchase and sale agreement (the "**Purchase and Sale Agreement**") to acquire 18 gross (15.1 net) contiguous sections of Montney land located between the Corporation's existing Pouce Coupe and Gordondale properties, as well as various other non-Montney lands and other assets, for total cash consideration of $39 million (before customary closing adjustments) (the "**Acquisition**"). Closing of the Acquisition is expected to occur on or about January 3, 2019 and will further consolidate Birchcliff's land position in the area.

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

OUTLOOK AND GUIDANCE

Year-to-date, Birchcliff has been very active with the execution of its 2018 capital program which is focused on the drilling of crude oil wells in Gordondale and a combination of liquids-rich and low-cost natural gas wells in Pouce Coupe. Given the success of its 2018 capital program in the first nine months of 2018, Birchcliff is proceeding with the drilling of an additional 9 (9.0 net) horizontal wells in Q4 2018 that were originally targeted for 2019. As a result, Birchcliff has increased its 2018 capital expenditure budget by $33 million from $255 million to $288 million. None of these additional wells will be completed or brought on production in 2018. Birchcliff expects that this additional capital investment in 2018 will positively impact 2019 by allowing for a more efficient capital spending profile and reduced capital spending in 2019, as well as providing for a more consistent production profile in 2019.

Birchcliff is maintaining its 2018 average production guidance of 76,000 to 78,000 boe/d (80% natural gas and 20% oil and NGLs) and has updated its capital expenditure guidance to reflect the acceleration of 2019 capital into 2018. The following table sets forth Birchcliff's previous and revised guidance for 2018, as well as its commodity price assumptions:

	Previous 2018 guidance and assumptions[1]	Revised 2018 guidance and assumptions
Production		
Annual average production *(boe/d)*	76,000 – 78,000	76,000 – 78,000
% Natural gas	80%	80%
% Oil and NGLs	20%	20%
Average Expenses *($/boe)*		
Royalty	1.60 – 1.80	1.60 – 1.80
Operating	3.40 – 3.60	3.40 – 3.60
Transportation and other[2]	3.80 – 4.10	3.80 – 4.10
Capital Expenditures *(MM$)*		
Total F&D capital expenditures	255.0	288.0[3]
Drilling and development capital expenditures	149.9	179.0
Facilities and infrastructure capital expenditures	66.9	70.8
Natural Gas Market Exposure[4]		
AECO exposure as a % of total natural gas production	66%	66%
Dawn exposure as a % of total natural gas production	30%	30%
Commodity Price Assumptions		
Average WTI price *(US$/bbl)*	66.67	66.67
Average AECO price *(CDN$/MMBtu)*[5]	1.63	1.63
Average Dawn price *(CDN$/MMBtu)*[5]	3.70	3.70
Average wellhead natural gas price *(CDN$/Mcf)*[6]	2.41	2.41

(1) As disclosed on August 14, 2018.

(2) Includes transportation tolls for 120,000 GJ/d of natural gas sold at the Dawn price from January 1, 2018 to October 31, 2018 and 150,000 GJ/d from November 1, 2018 to December 31, 2018.

(3) Includes the capital required for the drilling of 9 additional wells under the Corporation's expanded 2018 capital program, as well as related capital for multi-well pad and water reservoir construction and equip and tie-in activities.

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

(5) $1.00 per MMBtu equals $1.00 per Mcf based on a standard heat value of 37.4 MJ/m³ or a heat uplift of 1.055 when converting from $/GJ.

(6) Birchcliff receives premium pricing for its natural gas production due to the high heat content from its properties. The conversion from standard heat value in MMBtu to realized wellhead price in Mcf is based on an expected corporate average realized natural gas heat content value of 40.80 MJ/m³ or a heat uplift of 1.091. The total conversion is $1.00/GJ = $1.15/Mcf at the wellhead.

Birchcliff had previously provided guidance that its total debt at year-end 2018 would be materially lower as compared to its total debt at June 30, 2018 and that its 2018 adjusted funds flow would materially exceed its 2018 capital expenditures. Primarily as a result of the expansion to Birchcliff's 2018 capital program, Birchcliff now expects that its total debt at year-end 2018 will be modestly lower as compared to June 30, 2018 and that its 2018 adjusted funds flow will exceed its 2018 capital expenditures, although not materially.

See *"Advisories – Forward-Looking Statements"* in this MD&A.

CASH FLOW FROM OPERATING ACTIVITIES AND ADJUSTED FUNDS FLOW

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

	Three months ended September 30,		Nine months ended September 30,	
($000s)	**2018**	**2017**	**2018**	**2017**
Cash flow from operating activities	68,556	70,584	232,234	198,665
Adjusted funds flow[(1)]	**75,378**	**64,430**	**231,405**	**220,672**
Per common share – basic *($)*	0.28	0.24	0.87	0.83
Per common share – diluted *($)*	0.28	0.24	0.87	0.82

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

Adjusted funds flow in the three and nine month Reporting Periods increased by 17% and 5%, respectively, from the Comparable Prior Periods. These increases were mainly due to higher corporate production, higher average realized oil and NGLs sales prices and lower operating expense, partially offset by a lower average natural gas sales price, higher royalty and transportation and other expenses and a realized loss on financial instruments in the Reporting Periods. G&A and interest expenses have largely remained unchanged from the Comparable Prior Periods.

Cash flow from operating activities for the three and nine month Reporting Periods decreased by 3% and increased by 17%, respectively, from the Comparable Prior Periods. The reason for the changes in cash flow from operating activities from the Comparable Prior Periods is consistent with the explanation for adjusted funds flow as noted above; however, cash flow from operating activities was also impacted by changes in non-cash operating working capital and decommissioning expenditures.

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

	Three months ended September 30,			Nine months ended September 30,		
($/boe)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Royalty expense	1.52	0.63	141%	1.49	1.12	33%
Operating expense	3.45	4.27	(19)%	3.53	4.70	(25)%
Transportation and other expense	3.46	2.65	31%	3.55	2.60	37%
G&A expense, net	0.67	0.82	(18)%	0.80	0.98	(18)%
Interest expense	0.99	1.15	(14)%	0.97	1.22	(20)%
Total cash costs	**10.09**	**9.52**	**6%**	**10.34**	**10.62**	**(3)%**

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.

NET INCOME (LOSS) TO COMMON SHAREHOLDERS

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

	Three months ended September 30,		Nine months ended September 30,	
($000s)	**2018**	**2017**	**2018**	**2017**
Net income (loss)	7,703	(120,743)	30,265	(72,800)
Net income (loss) to common shareholders[1]	**6,657**	**(121,743)**	**27,125**	**(75,800)**
Per common share – basic *($)*	0.03	(0.46)	0.10	(0.29)
Per common share – diluted *($)*	0.02	(0.46)	0.10	(0.29)

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

During the three and nine month Reporting Periods, Birchcliff reported net income to common shareholders of $6.7 million and $27.1 million, respectively, compared to a net loss to common shareholders of $121.7 million and $75.8 million in the Comparable Prior Periods. The change from a net loss to a net income position was primarily due to a $132.3 million after-tax loss from the sale of the Corporation's assets in the Worsley area which was recorded in the three month Comparable Prior Period and higher adjusted funds flow, partially offset by an increase in depletion and income tax expenses and an unrealized mark-to-market loss on financial instruments in the Reporting Periods.

POUCE COUPE GAS PLANT NETBACKS

During the nine month Reporting Period, Birchcliff processed approximately 68% of its total corporate natural gas production and 58% of its total corporate production through the Pouce Coupe Gas Plant as compared to 58% and 47%, respectively, during the nine month Comparable Prior Period. These increases were primarily due to the incremental production from horizontal natural gas wells brought on production in Pouce Coupe. The average plant and field operating expense for production processed through the Pouce Coupe Gas Plant was $0.35/Mcfe ($2.08/boe) and the operating netback at the Pouce Coupe Gas Plant was $1.91/Mcfe ($11.46/boe), resulting in an operating margin of 67% in the nine month Reporting Period.

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

	Nine months ended September 30, 2018		**Nine months ended September 30, 2017**	
Average production:				
Natural gas *(Mcf/d)*		253,360		173,351
Condensate *(bbls/d)*[1]		2,438		1,146
Total *(boe/d)*		**44,665**		**30,038**
Liquids[1]-to-gas ratio *(bbls/MMcf)*		**9.6**		**6.6**
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[2]	2.87	17.20	3.05	18.28
Royalty expense	(0.05)	(0.29)	(0.08)	(0.48)
Operating expense[3]	(0.35)	(2.08)	(0.35)	(2.07)
Transportation and other expense[4]	(0.56)	(3.37)	(0.34)	(2.08)
Operating netback	**$1.91**	**$11.46**	**$2.28**	**$13.65**
Operating margin	**67%**	**67%**	**75%**	**75%**

(1) Primarily condensate.

(2) Includes revenue from natural gas production sold at AECO and Dawn spot prices. Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts, if any.

(3) Represents plant and field operating expense.

(4) The increase in transportation and other expense from the nine month Comparable Prior Period was primarily due to transportation tolls for natural gas sold at the Dawn price during the nine month Reporting Period. Birchcliff began selling natural gas at the Dawn price on November 1, 2017.

DISCUSSION OF OPERATIONS

Petroleum and Natural Gas Revenues

The following table sets forth Birchcliff's P&NG revenues by product category for the Corporation's Pouce Coupe operating assets in the Montney/Doig Resource Play (the "**Pouce Coupe assets**"), the Corporation's Gordondale operating assets in the Montney/Doig Resource Play (the "**Gordondale assets**") and on a corporate basis for the Reporting Periods and the Comparable Prior Periods:

			Three months ended September 30, 2018			Three months ended September 30, 2017
($000s)	Pouce Coupe assets	Gordondale assets	Total corporate(2)	Pouce Coupe assets	Gordondale assets	Total corporate(3)
Light oil(1)	79	36,468	36,577	40	25,649	32,319
Natural gas(1)	54,235	18,297	72,538	41,777	16,897	60,011
NGLs(1)	23,422	24,139	47,466	8,044	10,789	19,099
Total P&NG sales	77,736	78,904	156,581	49,861	53,335	111,429
Royalty revenue	5	22	28	2	47	59
Total P&NG revenues	**77,741**	**78,926**	**156,609**	**49,863**	**53,382**	**111,488**
% of corporate revenues	**50%**	**50%**		**45%**	**48%**	
			Nine months ended September 30, 2018			**Nine months ended September 30, 2017**
($000s)	**Pouce Coupe assets**	**Gordondale assets**	**Total corporate(2)**	**Pouce Coupe assets**	**Gordondale assets**	**Total corporate(3)**
Light oil(1)	204	103,414	103,885	135	75,406	101,265
Natural gas(1)	172,773	58,404	231,730	155,603	63,923	225,143
NGLs(1)	60,138	70,896	130,984	24,429	38,840	64,130
Total P&NG sales	233,115	232,714	466,599	180,167	178,169	390,538
Royalty revenue	15	82	102	9	215	255
Total P&NG revenues	**233,130**	**232,796**	**466,701**	**180,176**	**178,384**	**390,793**
% of corporate revenues	**50%**	**50%**		**46%**	**46%**	

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

(2) Includes revenue adjustments from Birchcliff's other minor oil and natural gas properties which were not individually significant during the Reporting Periods.

(3) Includes revenues from the Corporation's oil-weighted assets in the Worsley area which were sold in August 2017 and other minor oil and natural gas properties which were not individually significant during the Comparable Prior Periods.

Corporate P&NG revenues for the three and nine month Reporting Periods increased 40% and 19%, respectively, from the Comparable Prior Periods largely due to higher production from the Pouce Coupe and Gordondale assets and an increase in the Corporation's realized oil and NGLs sales prices, partially offset by a decrease in the Corporation's realized natural gas sales price in the Reporting Periods.

Production

The following table sets forth Birchcliff's production by product category for the Pouce Coupe assets, the Gordondale assets and on a corporate basis for the Reporting Periods and the Comparable Prior Periods:

	Three months ended September 30, 2018			Three months ended September 30, 2017		
	Pouce Coupe assets	Gordondale assets	Total corporate(1)	Pouce Coupe assets	Gordondale assets	Total corporate(2)
Light oil *(bbls/d)*	12	4,943	4,959	7	4,926	6,316
Natural gas *(Mcf/d)*	285,035	98,215	383,279	214,266	88,126	308,748
NGLs *(bbls/d)*	3,162	7,330	10,492	1,594	5,844	7,503
Total production *(boe/d)*	**50,680**	**28,642**	**79,331**	**37,312**	**25,458**	**65,276**
Liquids-to-gas ratio *(bbls/MMcf)*(3)	**11.1**	**125.0**	**40.3**	**7.5**	**122.2**	**44.8**
% of corporate production	**64%**	**36%**		**57%**	**39%**	
	Nine months ended September 30, 2018			**Nine months ended September 30, 2017**		
	Pouce Coupe assets	**Gordondale assets**	**Total corporate(1)**	**Pouce Coupe assets**	**Gordondale assets**	**Total corporate(2)**
Light oil *(bbls/d)*	10	4,877	4,901	9	4,575	6,247
Natural gas *(Mcf/d)*	279,114	95,067	375,059	205,175	86,964	299,240
NGLs *(bbls/d)*	2,748	7,166	9,916	1,502	6,181	7,751
Total production *(boe/d)*	**49,277**	**27,888**	**77,327**	**35,707**	**25,250**	**63,871**
Liquids-to-gas ratio *(bbls/MMcf)*(3)	**9.9**	**126.7**	**39.5**	**7.4**	**123.7**	**46.8**
% of corporate production	**64%**	**36%**		**56%**	**40%**	

(1) Includes production from Birchcliff's other minor oil and natural gas properties which were not individually significant during the Reporting Periods.

(2) Includes production from the Corporation's oil-weighted assets in the Worsley area which were sold in August 2017 and other minor oil and natural gas properties which were not individually significant during the Comparable Prior Periods.

(3) Liquids is comprised of light oil and NGLs (ethane, propane, butane and condensate).

Corporate production averaged 79,331 boe/d in the three month Reporting Period and 77,327 boe/d in the nine month Reporting Period, a 22% and 21% increase, respectively, from the Comparable Prior Periods. On a corporate basis, natural gas and NGLs production for the three month Reporting Period increased by 24% and 40%, respectively, from the three month Comparable Prior Period and oil production for the three month Reporting Period decreased by 21% from the three month Comparable Prior Period. For the nine month Reporting Period, corporate natural gas and NGLs production increased by 25% and 28%, respectively, from the nine month Comparable Prior Period and corporate oil production for the nine month Reporting Period decreased by 22% from the nine month Comparable Prior Period.

The increase in corporate production from the Comparable Prior Periods was primarily attributable to the success of Birchcliff's capital programs which resulted in incremental production from new horizontal natural gas wells brought on production in Pouce Coupe and new horizontal oil wells brought on production in Gordondale. This increase was partially offset by the sale of the Corporation's oil-weighted assets in the Worsley area in the three month Comparable Prior Period, production curtailments due to temporary restrictions in pipeline and compressor station capacity on the Alberta NGTL system during the Reporting Periods and natural production declines.

During the three month Reporting Period, Birchcliff produced a total of 15,451 bbls/d of oil and NGLs (collectively, "**liquids**") on a corporate basis, which represented 19% of the Corporation's total production and an average liquids-to-gas ratio of 40.3 bbls/MMcf. Birchcliff's liquids-to-gas ratio for the three month Reporting Period was 11.1 bbls/MMcf for the Pouce Coupe assets (of which 96% were high-value pentanes plus ("**condensate**")) and 125.0 bbls/MMcf for the Gordondale assets (of which 52% were high-value oil and condensate). Birchcliff's corporate NGLs production mix consisted of approximately 22% ethane, 22% propane, 14% butane and 42% condensate in the three month Reporting Period as compared to 24% ethane, 25% propane, 16% butane and 35% condensate in the three month Comparable Prior Period.

During the nine month Reporting Period, Birchcliff produced a total of 14,817 bbls/d of liquids on a corporate basis, which represented 19% of the Corporation's total production and an average liquids-to-gas ratio of 39.5 bbls/MMcf. During the nine month Reporting Period, Birchcliff's liquids-to-gas ratio was 9.9 bbls/MMcf for the Pouce Coupe assets (of which 96% were high-value condensate) and 126.7 bbls/MMcf for the Gordondale assets (of which 52% were high-value oil and condensate). Birchcliff's corporate NGLs production mix consisted of approximately 23% ethane, 22% propane, 14% butane and 41% condensate in the nine month Reporting Period as compared to 25% ethane, 26% propane, 16% butane and 33% condensate in the nine month Comparable Prior Period.

The following table sets forth Birchcliff's production weighting by product category for its Pouce Coupe and Gordondale assets and on a corporate basis for the Reporting Periods and the Comparable Prior Periods:

	Three months ended September 30, 2018			Three months ended September 30, 2017		
	Pouce Coupe assets	**Gordondale assets**	**Total corporate[(1)]**	**Pouce Coupe assets**	**Gordondale assets**	**Total corporate[(2)]**
% Light oil production	-	17%	6%	-	19%	10%
% Natural gas production	94%	57%	81%	96%	58%	79%
% NGLs production	6%	26%	13%	4%	23%	11%
	Nine months ended September 30, 2018			**Nine months ended September 30, 2017**		
	Pouce Coupe assets	**Gordondale assets**	**Total corporate[(1)]**	**Pouce Coupe assets**	**Gordondale assets**	**Total corporate[(2)]**
% Light oil production	-	17%	6%	-	19%	10%
% Natural gas production	94%	57%	81%	96%	57%	78%
% NGLs production	6%	26%	13%	4%	24%	12%

(1) Includes production weighting from Birchcliff's other minor oil and natural gas properties which were not individually significant during the Reporting Periods.

(2) Includes production weighting from the Corporation's oil-weighted assets in the Worsley area which were sold in August 2017 and other minor oil and natural gas properties which were not individually significant during the Comparable Prior Periods.

The changes in the corporate production mix from the Comparable Prior Periods was primarily due to natural gas production additions in connection with the start-up of Phase V of the Pouce Coupe Gas Plant in the three month Comparable Prior Period and Phase VI in the three month Reporting Period and the disposition of Birchcliff's oil-weighted assets in the Worsley area in the three month Comparable Prior Period.

During the three month Reporting Period, liquids production made up 43% of the total production from the Gordondale assets and 6% of the total production from the Pouce Coupe assets as compared to 42% and 4%, respectively, in the three month Comparable Prior Period. During the nine month Reporting Period, liquids production made up 43% of the total production from the Gordondale assets and 6% of the total production from the Pouce Coupe assets as compared to 43% and 4%, respectively, in the nine month Comparable Prior Period.

Commodity Prices

The following table sets forth the average benchmark index prices and exchange rate for the Reporting Periods and the Comparable Prior Periods:

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Light oil – WTI Cushing *(US$/bbl)*	69.50	48.21	66.75	49.47
Light oil – WTI Cushing *(CDN$/bbl)*	90.85	60.35	86.00	64.65
Light oil – MSW (Mixed Sweet) Edmonton *(CDN$/bbl)*[(1)]	81.59	56.44	77.91	60.49
Natural gas – NYMEX Henry Hub *(US$/MMBtu)*	2.86	2.96	2.85	3.05
Natural gas – AECO 5A *(CDN$/MMBtu)*[(2)]	1.19	1.45	1.48	2.31
Natural gas – Dawn Day Ahead *(CDN$/MMBtu)*[(2)]	3.81	3.63	3.73	4.02
Natural gas – ATP 5A Day Ahead *(CDN$/MMBtu)*[(2)]	1.92	1.27	2.01	2.43
Natural gas – Chicago City Gate *(US$/MMBtu)*[(2)]	2.77	2.84	2.80	2.91
Exchange rate *(CDN$ to US$1)*	1.3070	1.2524	1.2877	1.3066

(1) Previously referred to as the "Edmonton Par price".

(2) $1.00/MMBtu = $1.00/Mcf based on a standard heat value Mcf. See "*Advisories – MMBtu Pricing Conversions*".

Birchcliff sold substantially all of its light crude oil based on the MSW price during the Reporting Periods and Comparable Prior Periods. Birchcliff sold substantially all of its natural gas production for prices based on the AECO and Dawn benchmark prices during the Reporting Periods and sold substantially all of its natural gas production at the AECO benchmark price during the Comparable Priors Periods. The average realized sales prices the Corporation receives for its light crude oil and natural gas production depends on a number of factors, including the average benchmark prices for crude oil and natural gas, the US to Canadian dollar exchange rate, transportation and product quality differentials and the heat premium on it natural gas production.

The benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for crude oil. The principal benchmark trading exchanges that Birchcliff compares its oil price to are the WTI oil price and the MSW price. The differential between the WTI oil price and the MSW price can widen due to a number of factors, including, but not limited to, downtime in North American refineries, rising domestic production, high inventory levels in North America and a lack of pipeline infrastructure connecting to key consuming oil markets. The effect of improved benchmark crude light oil prices in the Reporting Periods was partially offset by the widening differential between WTI and MSW prices, which averaged CDN$9.26/bbl and CDN$8.09/bbl in the three and nine month Reporting Periods, respectively, compared to CDN$3.91/bbl and CDN$4.16/bbl in the Comparable Prior Periods.

Canadian natural gas prices are mainly influenced by North American supply and demand fundamentals which can be impacted by a number of factors, including, but not limited to, weather-related conditions in key consuming natural gas markets, changing demographics, economic growth, underground storage levels, net import and export markets, pipeline takeaway capacity, maintenance on key natural gas infrastructure, cost of competing renewable and non-renewable energy alternatives, drilling and completion rates and efficiencies in extracting natural gas from North American natural gas basins. AECO natural gas spot prices during the three month Reporting Period continued to receive a significant discount to the Dawn and NYMEX Henry Hub prices primarily due to the high natural gas supplies from Western Canada relative to the limited economic transportation and egress solutions out of Western Canadian natural gas basins. During the three month Reporting Period, AECO natural gas spot prices were additionally challenged due to temporary restrictions in pipeline egress and compressor station capacity on the Alberta NGTL system.

The following table sets forth Birchcliff's average realized oil, natural gas and NGLs sales prices for the Reporting Periods and the Comparable Prior Periods:

	Three months ended September 30,			Nine months ended September 30,		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Light oil *($/bbl)*	80.16	55.62	44%	77.64	59.38	31%
Natural gas *($/Mcf)*	2.06	2.11	(2)%	2.26	2.76	(18)%
NGLs *($/bbl)*	49.17	27.67	78%	48.38	30.31	60%
Average realized sales price *($/boe)*[(1)]	**21.45**	**18.55**	**16%**	**22.10**	**22.40**	**(1)%**

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

The changes in the average realized sales prices from the Comparable Prior Periods were primarily the result of the movement in the average benchmark index price for each respective commodity.

The average realized sales price for the Pouce Coupe assets was $16.67/boe in the three month Reporting Period and $17.33/boe in the nine month Reporting Period, a 15% increase and a 6% decrease, respectively, from the Comparable Prior Periods. The average realized sales price for the Gordondale assets was $29.95/boe in the three month Reporting Period and $30.58/boe in the nine month Reporting Period, an increase of 31% and 18%, respectively, from the Comparable Prior Periods. The Corporation's assets in Gordondale received a higher average realized sales price compared to the Corporation's assets in Pouce Coupe, largely as a result of higher volume weighting of liquids produced in the Gordondale area which received a higher value on a per unit basis than Birchcliff's natural gas sales. The higher weighting of liquids in the total corporate production mix generally improves Birchcliff's overall average realized sales price.

For further production and average realized pricing details for Birchcliff's Pouce Coupe assets and Gordondale assets, see "*Discussion of Operations – Operating Netbacks*" in this MD&A.

Natural Gas Sales, Production and Average Realized Sales Price

The following table sets forth Birchcliff's natural gas sales, production and average realized sales price by natural gas market for the Reporting Periods and the Comparable Prior Periods:

	Three months ended September 30, 2018					Three months ended September 30, 2017				
	Natural gas sales ($000s)[1]	(%)	Natural gas production (Mcf/d)	(%)	Average realized natural gas price ($/Mcf)[1][2]	Natural gas sales ($000s)[1]	(%)	Natural gas production (Mcf/d)	(%)	Average realized natural gas price ($/Mcf)[1][2]
AECO	29,935	41	254,819	66	1.27	59,161	99	293,939	95	2.19
Dawn[3]	40,248	56	109,614	29	3.99	-	-	-	-	-
Alliance[4]	2,355	3	18,846	5	1.42	850	1	14,809	5	0.62
Total	**72,538**	**100**	**383,279**	**100**	**2.06**	**60,011**	**100**	**308,748**	**100**	**2.11**

	Nine months ended September 30, 2018					Nine months ended September 30, 2017				
	Natural gas sales ($000s)[1]	(%)	Natural gas production (Mcf/d)	(%)	Average realized natural gas price ($/Mcf)[1][2]	Natural gas sales ($000s)[1]	(%)	Natural gas production (Mcf/d)	(%)	Average realized natural gas price ($/Mcf)[1][2]
AECO	98,656	43	231,231	62	1.57	223,109	99	292,555	98	2.79
Dawn[3]	117,313	51	109,667	29	3.92	-	-	-	-	-
Alliance[4]	15,761	6	34,161	9	1.69	2,034	1	6,685	2	1.11
Total	**231,730**	**100**	**375,059**	**100**	**2.26**	**225,143**	**100**	**299,240**	**100**	**2.76**

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

(2) Reflects the average realized natural gas wellhead price after adjusting for fuel to move natural gas from the field receipt point to the delivery sales trading hub.

(3) The Corporation has in place firm service transportation for an aggregate of 175,000 GJ/d of natural gas on TCPL's Canadian Mainline for a 10-year term, whereby natural gas is transported to the Dawn trading hub. The first 120,000 GJ/d tranche of service became available to Birchcliff on November 1, 2017 and the second tranche of 30,000 GJ/d became available on November 1, 2018, with an additional 25,000 GJ/d becoming available on November 1, 2019.

(4) Birchcliff has in place various natural gas delivery arrangements with third party marketers to deliver and sell natural gas on the Alliance pipeline system. Alliance sales are recorded net of transportation and other expense.

After taking into account Birchcliff's liquids production, approximately 54% of the Corporation's production was exposed to AECO pricing, with the remaining 46% of production not exposed to AECO pricing during the three month Reporting Period.

Commodity Price Risk Management

Birchcliff maintains an ongoing commodity price risk management program in part to reduce volatility in its financial results. As a part of this program, Birchcliff utilizes various financial derivative and physical delivery sales contracts. The Board of Directors has authorized the Corporation to execute a risk management strategy for a portion of its forecast production as is permitted by its credit facilities, which generally permit the Corporation to hedge up to 65% of its forecast production over the following four fiscal quarters. Birchcliff's current strategy is to hedge up to 50% of its estimated forecast annual average production using a combination of financial derivatives and physical sales contracts, depending on its outlook for commodity prices and the availability of hedges on terms acceptable to Birchcliff.

Financial Derivative Contracts

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 September 30, 2018, 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.

As at September 30, 2018, Birchcliff had the following financial derivative contracts in place in order to manage commodity price risk:

Product	Type of Contract	Notional Quantity	Term[(1)]	Contract Price/Floating Price
Crude oil	Financial swap	1,500 bbls/d	Oct. 1, 2018 – Dec. 31, 2018	WTI CDN$71.85/bbl
Crude oil	Financial swap	3,000 bbls/d	Oct. 1, 2018 – Dec. 31, 2018	WTI CDN$71.88/bbl
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Mar. 31, 2019	WTI CDN$77.00/bbl
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Mar. 31, 2019	WTI CDN$77.00/bbl
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Jun. 30, 2019	WTI CDN$78.00/bbl
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Jun. 30, 2019	WTI CDN$80.25/bbl
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Jun. 30, 2019	WTI CDN$87.00/bbl
Natural gas	AECO basis swap	30,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2023	NYMEX Henry Hub less US$1.30/MMBtu
Natural gas	AECO basis swap	10,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2023	NYMEX Henry Hub less US$1.32/MMBtu
Natural gas	AECO basis swap	30,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2023	NYMEX Henry Hub less US$1.33/MMBtu
Natural gas	AECO basis swap	15,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2024	NYMEX Henry Hub less US$1.185/MMBtu
Natural gas	AECO basis swap	5,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2024	NYMEX Henry Hub less US$1.20/MMBtu
Natural gas	AECO basis swap	5,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2024	NYMEX Henry Hub less US$1.20/MMBtu

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

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

	Three months ended September 30,				Nine months ended September 30,			
	2018		2017		2018		2017	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Realized gain (loss) on derivatives	(7,848)	(1.08)	10,103	1.69	(17,429)	(0.83)	14,998	0.87
Unrealized gain (loss) on derivatives	(7,343)	(1.01)	(2,164)	(0.36)	(13,221)	(0.63)	19,099	1.10

Birchcliff recognized a realized loss on derivatives during the Reporting Periods, due to the settlement of financial contracts with an average derivative contract price that was below the average benchmark commodity index price in those periods. During the Reporting Periods, Birchcliff recognized an unrealized mark-to-market loss on derivatives resulting from a decrease in the fair value of its derivative contracts to a net liability of $17.3 million at September 30, 2018, as compared to a net liability of $9.9 million at June 30, 2018 and a net liability of $4.0 million at December 31, 2017. The decreases in the fair value of the Corporation's outstanding derivative contracts was primarily attributable to actual cash settlement from derivative settlements and changes in the forward commodity price assumptions period-over-period. The fair value of the net derivative asset or liability is the estimated value to settle the outstanding contracts as at a point in time. As such, unrealized derivative gains or losses do not impact adjusted funds flow and the actual gains or losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices as compared to the valuation assumptions. Remaining derivative contracts will settle between October 1, 2018 and December 31, 2024. There were no financial derivative contracts entered into subsequent to September 30, 2018.

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 September 30, 2018, the Corporation had the following physical delivery sales contract in place:

Product	Type of Contract	Quantity	Term	Floating Price
Natural Gas	AECO basis swap	5,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2023	NYMEX Henry Hub less US$1.205/MMBtu

There were no long-term physical delivery sales contracts entered into subsequent to September 30, 2018.

Royalties

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Royalty expense *($000s)*(1)	11,100	3,779	31,543	19,456
Royalty expense *($/boe)*	1.52	0.63	1.49	1.12
Effective royalty rate *(%)*(2)	7%	3%	7%	5%

(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.

During the Reporting Periods, Birchcliff's aggregate and per unit royalties increased from the Comparable Prior Periods primarily due to an increase in the average realized oil and NGLs sales prices and the effect these higher prices have on the sliding scale royalty calculation, partially offset by a decrease in the average realized natural gas sales price.

See "*Discussion of Operations – Operating Netbacks*" in this MD&A for details on royalties for the Corporation's Pouce Coupe and Gordondale assets.

Operating Expense

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

	Three months ended September 30,				Nine months ended September 30,			
	2018		2017		2018		2017	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Field operating expense	26,023	3.57	26,103	4.35	76,394	3.62	83,386	4.78
Recoveries	(848)	(0.12)	(509)	(0.09)	(1,967)	(0.09)	(1,395)	(0.08)
Field operating expense, net	25,175	3.45	25,594	4.26	74,427	3.53	81,991	4.70
Expensed workovers and other	-	-	29	0.01	-	-	35	-
Operating expense	**25,175**	**3.45**	**25,623**	**4.27**	**74,427**	**3.53**	**82,026**	**4.70**

On an aggregate and per unit basis, operating costs decreased in the Reporting Periods as compared to the Comparable Prior Periods primarily due to: (i) an incremental increase in natural gas production processed at the Pouce Coupe Gas Plant; (ii) a reduction in third-party natural gas processing fees at the Gordondale natural gas processing facility (the "**Gordondale Gas Plant**") as a result of a long-term processing arrangement which became effective January 1, 2018 (the "**Processing Arrangement**"); and (iii) the sale of the higher-cost Worsley assets in August 2017. See "*Discussion of Operations – Operating Netbacks*" in this MD&A for details on operating expense for the Pouce Coupe assets and Gordondale assets.

Transportation and Other Expense

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

	Three months ended September 30,				Nine months ended September 30,			
	2018		2017		2018		2017	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Transportation	24,841	3.40	15,929	2.65	71,875	3.40	45,246	2.60
Fractionation	1,113	0.15	-	-	3,256	0.15	-	-
Other	(753)	(0.09)	31		(151)	-	95	
Transportation and other expense[1]	**25,201**	**3.46**	**15,960**	**2.65**	**74,980**	**3.55**	**45,341**	**2.60**

(1) Previously referred to as "transportation and marketing expense" in the Comparable Prior Periods.

The increase in the aggregate and per unit transportation and other expense from the Comparable Prior Periods was largely due to firm service pipeline transportation tolls for natural gas transported to Dawn which commenced November 1, 2017. Additionally, fractionation fees associated with NGLs production processed at third-party facilities were reclassified from NGLs revenue for the Reporting Periods as a result of Birchcliff's transition to IFRS 15: *Revenue from Contracts with Customers* ("**IFRS 15**") effective January 1, 2018. See "*Changes in Accounting Policies*" in this MD&A for further details.

See "*Discussion of Operations – Operating Netbacks*" in this MD&A for details on transportation and other expense for the Pouce Coupe assets and Gordondale assets.

Operating Netback

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

	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Pouce Coupe Montney/Doig Resource Play:				
Average production:				
Light oil *(bbls/d)*	12	7	10	9
Natural gas *(Mcf/d)*	285,035	214,266	279,114	205,175
NGLs *(bbls/d)*	3,162	1,594	2,748	1,502
Total *(boe/d)*	50,680	37,312	49,277	35,707
% of corporate production	64%	57%	64%	56%
Liquids-to-gas ratio *(bbls/MMcf)*(1)	11.1	7.5	9.9	7.4
Netback and cost ($/boe):				
Petroleum and natural gas revenue(2)	16.67	14.53	17.33	18.48
Royalty expense	(0.31)	(0.31)	(0.28)	(0.36)
Operating expense	(1.98)	(2.57)	(2.27)	(2.79)
Transportation and other expense	(3.45)	(2.11)	(3.40)	(2.21)
Operating netback	10.93	9.54	11.38	13.12
Gordondale Montney/Doig Resource Play:				
Average production:				
Light oil *(bbls/d)*	4,943	4,926	4,877	4,575
Natural gas *(Mcf/d)*	98,215	88,126	95,067	86,964
NGLs *(bbls/d)*	7,330	5,844	7,166	6,181
Total *(boe/d)*	28,642	25,458	27,888	25,250
% of corporate production	36%	39%	36%	40%
Liquids-to-gas ratio *(bbls/MMcf)*(3)	125.0	122.2	126.7	123.7
Netback and cost ($/boe):				
Petroleum and natural gas revenue(2)	29.95	22.79	30.58	25.88
Royalty expense	(3.68)	(0.84)	(3.64)	(1.89)
Operating expense	(6.03)	(5.99)	(5.65)	(6.39)
Transportation and other expense	(3.45)	(3.07)	(3.82)	(2.79)
Operating netback	16.79	12.89	17.47	14.81
Total Corporate:				
Average production:				
Light oil *(bbls/d)*	4,959	6,316	4,901	6,247
Natural gas *(Mcf/d)*	383,279	308,748	375,059	299,240
NGLs *(bbls/d)*	10,492	7,503	9,916	7,751
Total *(boe/d)*(4)	79,331	65,276	77,327	63,871
Liquids-to-gas ratio *(bbls/MMcf)*(3)	40.3	44.8	39.5	46.8
Netback and cost ($/boe):				
Petroleum and natural gas revenue(2)	21.46	18.56	22.11	22.41
Royalty expense	(1.52)	(0.63)	(1.49)	(1.12)
Operating expense	(3.45)	(4.27)	(3.53)	(4.70)
Transportation and other expense	(3.46)	(2.65)	(3.55)	(2.60)
Operating netback	13.03	11.01	13.54	13.99

(1) Liquids is comprised primarily of condensate.

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

(3) Liquids is comprised of light oil and NGLs (ethane, propane, butane and condensate).

(4) For the Reporting Periods, includes production from Birchcliff's other minor oil and natural gas properties which were not individually significant. For the Comparable Prior Periods, includes production from the Corporation's oil-weighted assets in the Worsley area which were sold in August 2017 and other minor oil and natural gas properties which were not individually significant.

Pouce Coupe Montney/Doig Resource Play

Birchcliff's average production from its Pouce Coupe assets was 50,680 boe/d in the three month Reporting Period and 49,277 boe/d in the nine month Reporting Period, a 36% and 38% increase, respectively, from the Comparable Prior Periods. These increases were primarily attributable to Birchcliff's capital programs which resulted in incremental production from new horizontal natural gas wells being brought on production in connection with the start-up of Phase V and Phase VI of the Pouce Coupe Gas Plant, partially offset by production curtailments due to temporary restrictions in pipeline and compressor station capacity on the Alberta NGTL system and natural production declines in the Reporting Periods.

Birchcliff's liquids-to-gas ratio for the Pouce Coupe assets was 11.1 bbls/MMcf in the three month Reporting Period and 9.9 bbls/MMcf in the nine month Reporting Period as compared to 7.5 bbls/MMcf and 7.4 bbls/MMcf, respectively, in the Comparable Prior Periods. During the three month Reporting Period, approximately 96% of the liquids produced in the Pouce Coupe area were comprised of high-value condensate which received an average price of $81.96/bbl. During the nine month Reporting Period, approximately 96% of the liquids produced in the Pouce Coupe area were comprised of high-value condensate which received an average price of $81.41/bbl.

Birchcliff's operating netback for the Pouce Coupe assets was $10.93/boe in the three month Reporting Period and $11.38/boe in the nine month Reporting Period, a 15% increase and 13% decrease, respectively, from the Comparable Prior Periods. The increase in the three month Reporting Period was largely due to a higher average realized sales price received for Birchcliff's Pouce Coupe production and lower per boe operating expense, partially offset by higher per boe transportation and other expense. The decrease in the nine month Reporting Period was largely due to a lower average realized sales price received for Birchcliff's Pouce Coupe production and higher per boe transportation and other expense, partially offset by lower per boe operating and royalty expenses during the Reporting Periods.

Operating expense for the Pouce Coupe assets was $1.98/boe in the three month Reporting Period and $2.27/boe in the nine month Reporting Period, a 23% and 19% decrease, respectively, from the Comparable Prior Periods. Operating expense per boe decreased largely due to an increase in natural gas production processed through the Pouce Coupe Gas Plant during the Reporting Periods.

Transportation and other expense for the Pouce Coupe assets was $3.45/boe in the three month Reporting Period and $3.40/boe in the nine month Reporting Period, a 64% and 54% increase, respectively, from the Comparable Prior Periods. Transportation and other expense per boe increased mainly due to firm service pipeline transportation tolls for a portion of Pouce Coupe natural gas transported to Dawn.

Gordondale Montney/Doig Resource Play

Birchcliff's average production from the Gordondale assets was 28,642 boe/d in the three month Reporting Period and 27,888 boe/d in the nine month Reporting Period, a 13% and 10% increase, respectively, from the Comparable Prior Periods. The increase in production was primarily attributable to Birchcliff's capital programs which resulted in incremental production from new horizontal oil wells being brought on production in Gordondale, partially offset by production curtailments due to temporary restrictions in pipeline and compressor station capacity on the Alberta NGTL system and natural production declines in the Reporting Periods.

Birchcliff's liquids-to-gas ratio for the Gordondale assets was 125.0 bbls/MMcf in the three month Reporting Period and 126.7 bbls/MMcf in the nine month Reporting Period as compared to 122.2 bbls/MMcf and 123.7 bbls/MMcf, respectively, in the Comparable Prior Periods. During the three month Reporting Period, approximately 52% of the liquids produced in Gordondale were comprised of high-value oil and condensate which received an average price of $82.22/bbl. Birchcliff's Gordondale NGLs production mix consisted of approximately 31% ethane, 31% propane, 18% butane and 20% condensate in the three month Reporting Period. During the nine month Reporting Period, approximately 52% of the liquids produced in Gordondale were comprised of high-value oil and condensate which received an average price of $80.77/bbl. Birchcliff's Gordondale NGLs production mix consisted of approximately 33% ethane, 30% propane, 18% butane and 19% condensate in the nine month Reporting Period.

Birchcliff's operating netback for the Gordondale assets was $16.79/boe in the three month Reporting Period and $17.47/boe in the nine month Reporting Period, a 30% and 18% increase, respectively, from the Comparable Prior

Periods. The increases were largely due to a higher average realized sales price received for Birchcliff's Gordondale production, partially offset by higher per boe royalty expense, as well as higher per boe transportation and other expense due to firm service pipeline transportation tolls for a portion of Gordondale natural gas transported to Dawn.

Operating expense for the Gordondale assets was $6.03/boe in the three month Reporting Period and $5.65/boe in the nine month Reporting Period, a 1% increase and a 12% decrease, respectively, from the Comparable Prior Periods. The increase in operating expense per boe from the three month Comparable Prior period was primarily attributable to higher production operating costs (chemical & labour), partially offset by a reduction in third-party natural gas processing fees at the Gordondale Gas Plant as a result of the Processing Arrangement. The decrease in operating expense from the nine month Comparable Prior Period was also primarily attributable to the reduction in third-party natural gas processing fees at the Gordondale Gas Plant.

Transportation and other expense for the Gordondale assets was $3.45/boe in the three month Reporting Period and $3.82/boe in the nine month Reporting Period, a 12% and 37% increase, respectively, from the Comparable Prior Periods. Transportation and other expense per boe increased mainly due to firm service pipeline transportation tolls for a portion of Gordondale natural gas transported to Dawn.

Administrative Expense

The following table sets forth the components of Birchcliff's net administrative expense for the Reporting Periods and the Comparable Prior Periods:

	Three months ended September 30,				**Nine months ended September 30,**			
	2018		**2017**		**2018**		**2017**	
	($000s)	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*
Cash:								
Salaries and benefits[1]	5,420	65	5,645	65	17,487	64	17,986	63
Other[2]	2,879	35	3,020	35	9,646	36	10,665	37
	8,299	100	8,665	100	27,133	100	28,651	100
Operating overhead recoveries	(34)	(1)	(57)	(1)	(117)	(1)	(150)	(1)
Capitalized overhead[3]	(3,400)	(40)	(3,694)	(42)	(10,032)	(36)	(11,448)	(39)
G&A expense, net	4,865	59	4,914	57	16,984	63	17,053	60
G&A expense, net per boe	$0.67		$0.82		$0.80		$0.98	
Non-cash:								
Stock-based compensation	1,620	100	3,358	100	5,090	100	7,575	100
Capitalized stock-based compensation[3]	(926)	(57)	(2,017)	(60)	(2,886)	(57)	(4,509)	(60)
Stock-based compensation, net	694	43	1,341	40	2,204	43	3,066	40
Stock-based compensation, net per boe	$0.10		$0.22		$0.10		$0.18	
Administrative expense, net	**5,559**		**6,255**		**19,188**		**20,119**	
Administrative expense, net per boe	**$0.77**		**$1.04**		**$0.90**		**$1.16**	

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

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

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

On an aggregate basis, administrative expense for the three and nine month Reporting Periods decreased 11% and 5%, respectively, from the Comparable Prior Periods. These decreases were primarily due to lower net stock-based compensation expense in the Reporting Periods, which reflects stock options with a lower fair value being expensed in the Reporting Periods as compared to the Comparable Prior Periods. Birchcliff uses the fair-value method for the determination of non-cash related share-based payments expense.

Depletion and Depreciation Expense

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

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

	Three months ended September 30,				Nine months ended September 30,			
	2018		2017		2018		2017	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Depletion and depreciation expense	**53,985**	**7.40**	**42,006**	**6.99**	**157,594**	**7.47**	**127,746**	**7.33**

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

Asset Impairment Assessment

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

The Corporation's CGUs are reviewed at each reporting date for both internal and external indicators of potential impairment. Potential CGU impairment indicators include, but are not limited to: changes to Birchcliff's business plan; deterioration in commodity prices; negative changes in the technological, economic, legal, capital or operating environment; adverse changes to the physical condition of a CGU; current expectations that a material CGU (or a significant component thereof) is more likely than not to be sold or otherwise disposed of before the end of its previously estimated useful life; non-compliance with the agreements governing the Corporation's bank credit facilities; deterioration in the financial and operational performance of a CGU; net assets exceeding market capitalization; and significant downward revisions of estimated proved plus probable reserves of a CGU. If impairment indicators exist, an impairment test is performed by comparing a CGU's carrying value to its recoverable amount.

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 Periods. As a result, an impairment test was not required at September 30, 2018.

Finance Expense

The following table sets forth the components of the Corporation's finance expense for the Reporting Periods and the Comparable Prior Periods:

	Three months ended September 30,				Nine months ended September 30,			
	2018		2017		2018		2017	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Cash:								
Interest expense on credit facilities	7,241	0.99	6,885	1.15	20,531	0.97	21,243	1.22
Non-cash:								
Accretion on decommissioning obligations	808	0.11	784	0.13	2,397	0.11	2,460	0.14
Amortization of deferred financing fees	375	0.05	401	0.07	1,159	0.05	1,110	0.06
Finance expense	**8,424**	**1.15**	**8,070**	**1.35**	**24,087**	**1.13**	**24,813**	**1.42**

The increase in the aggregate interest expense from the three month Comparable Prior Period was primarily due to an increase in the average effective interest rate and a higher average outstanding balance under the Corporation's revolving syndicated term credit facility in the three month Reporting Period. The decrease in the aggregate interest expense from the nine month Comparable Prior Period was primarily due to a lower average effective interest rate, partially offset by a higher average outstanding balance under the Corporation's revolving syndicated term credit facility in the nine month 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 working capital facility (the "**Working Capital Facility**") and the extendible revolving syndicated term credit facility (the "**Syndicated Credit Facility**" and together with the Working Capital Facility, the "**Credit Facilities**"). EBITDA is defined as earnings before interest and non-cash items, including (if any) income taxes, stock-based compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments and depletion, depreciation and amortization.

The following table sets forth the Corporation's effective interest rates under its Credit Facilities for the Reporting Periods and the Comparable Prior Periods:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revolving working capital facility	5.0%	5.0%	5.0%	5.0%
Revolving syndicated term credit facility	4.6%	4.5%	4.6%	4.8%

Birchcliff's average outstanding total credit facilities balance was approximately $636 million and $602 million in the three and nine month Reporting Periods, respectively, as compared to $604 million and $588 million in the Comparable Prior Periods, calculated as the simple average of the month-end amounts. See *"Capital Resources and Liquidity – Bank Debt"* in this MD&A for further details regarding the period-over-period movement in outstanding total credit facilities balance.

Loss on Sale of Assets

The following table details Birchcliff's loss on sale of assets in the Reporting Periods and Comparable Prior Periods:

	Three months ended September 30,				Nine months ended September 30,			
	2018		2017		2018		2017	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Loss on sale of assets	-	-	**181,298**	**30.19**	**8,361**	**0.40**	**199,848**	**11.46**

In June 2018, Birchcliff completed the dispositions of certain non-core miscellaneous petroleum and natural gas properties and related assets and interests. The total cash consideration was $5.3 million, before customary closing adjustments. As a result of the dispositions, Birchcliff recorded a loss on sale of assets of approximately $8.4 million ($6.1 million, net of tax) in the Reporting Periods. These dispositions are considered non-core as they represented less than 1% of both Birchcliff's production during the Reporting Periods and proved plus probable reserves at September 30, 2018 and therefore were not significant to the Corporation's financial results or operational performance.

In August 2017, Birchcliff completed the sale of the Worsley assets for total consideration of $100 million, before closing adjustments. As a result of the disposition, Birchcliff recorded a loss on the sale of assets of approximately $181.3 million ($132.3 million, net of tax) in the three month Comparable Prior Period.

Income Taxes

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

	Three months ended September 30,		Nine months ended September 30,	
($000s)	2018	2017	2018	2017
Deferred income tax expense (recovery)	2,826	(44,446)	11,273	(26,534)
Dividend income tax expense on preferred shares	769	750	2,306	2,250
Income tax expense (recovery)	3,595	**(43,696)**	**13,579**	**(24,284)**
Income tax expense (recovery) per boe	$0.48	**($7.27)**	**$0.65**	**($1.39)**

Birchcliff had an income tax expense in the Reporting Periods resulting from net income before tax recorded in the respective periods as compared to an income tax recovery in Comparable Prior Periods largely resulting from the accounting loss on the sale of the Worsley assets.

The Corporation's estimated income tax pools were $2.1 billion at September 30, 2018. 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 September 30, 2018**
Canadian oil and gas property expense	434,310
Canadian development expense	404,514
Canadian exploration expense	285,479
Undepreciated capital costs	353,893
Non-capital losses	609,312
Financing costs and other	16,304
Estimated income tax pools[(1)]	**2,103,812**

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

Veracel Tax Pools

Birchcliff's 2006 income tax filings were reassessed by 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 judgment. The judge of the Trial Court rendered a decision in November 2017 and dismissed the Corporation's appeal. The Corporation has appealed that decision to the FCA. The appeal has now been scheduled to be heard by the FCA on December 10, 2018.

CAPITAL EXPENDITURES

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

	Three months ended September 30,		**Nine months ended September 30,**	
($000s)	**2018**	**2017**	**2018**	**2017**
Land	489	533	1,836	1,414
Seismic	83	385	978	921
Workovers	322	1,541	4,477	6,951
Drilling and completions	26,995	70,388	152,557	233,687
Well equipment and facilities	17,095	32,860	87,484	122,692
Finding and development capital	44,984	105,707	247,332	365,665
Acquisitions	19	18	1,534	941
Dispositions	-	(94,115)	(5,184)	(110,531)
Finding, development and acquisition capital	45,003	11,610	243,682	256,075
Administrative assets	521	526	1,450	1,381
Total capital expenditures[(1)]	**45,524**	**12,136**	**245,132**	**257,456**

(1) Birchcliff previously referred to total capital expenditures as "net capital expenditure" or "capital expenditures, net". See "*Advisories – Capital Expenditures*".

During the three month Reporting Period, Birchcliff had total capital expenditures of $45.5 million which included approximately $12.0 million (26%) on the drilling and completion of Montney/Doig horizontal wells in Pouce Coupe,

$15.0 million (33%) on the drilling and completion of Montney horizontal wells in Gordondale and $3.4 million (7%) on the Phase VI expansion of the Pouce Coupe Gas Plant which was brought on-stream in August 2018.

During the nine month Reporting Period, Birchcliff had total capital expenditures of $245.1 million which included approximately $83.9 million (34%) on the drilling and completion of Montney/Doig horizontal wells in Pouce Coupe, $68.6 million (28%) on the drilling and completions of Montney horizontal wells in Gordondale and $21.4 million (9%) on the Phase VI expansion of the Pouce Coupe Gas Plant.

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

During the three month Reporting Period, Birchcliff completed and brought on production a total of 9 (9.0 net) wells, consisting of 6 (6.0 net) Montney horizontal oil wells in Gordondale and 3 (3.0 net) Montney/Doig horizontal natural gas wells in Pouce Coupe. No new wells were drilled in the three month Reporting Period.

CAPITAL RESOURCES AND LIQUIDITY

Liquidity and Capital Resources

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

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

	Three months ended September 30,		**Nine months ended September 30,**	
($000s)	**2018**	**2017**	**2018**	**2017**
Adjusted funds flow	75,378	64,430	231,405	220,672
Changes in non-cash working capital from operations	(6,395)	6,484	1,753	(21,306)
Decommissioning expenditures	(427)	(330)	(924)	(701)
Exercise of stock options	135	1,303	297	9,323
Financing fees paid on credit facilities	-	-	(950)	(2,375)
Dividends paid on common shares	(6,647)	(6,635)	(19,938)	(19,874)
Dividends paid on preferred shares	(1,921)	(1,875)	(5,765)	(5,625)
Net change in revolving term credit facilities	17,531	(43,405)	48,017	14,300
Changes in non-cash working capital from investing	(32,130)	2,163	(8,758)	73,007
Capital resources	**45,524**	**22,135**	**245,137**	**267,421**

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

Birchcliff's market diversification initiatives have helped to reduce its exposure to volatility in commodity prices, including AECO prices which have been extremely volatile in recent months. Birchcliff has entered into agreements with TCPL for the firm service transportation of an aggregate of 175,000 GJ/d (approximately 152 MMcf/d) of natural gas on TCPL's Canadian Mainline for a 10-year term, whereby natural gas is transported from the Empress receipt point in Alberta to the Dawn trading hub located in Southern Ontario commenced November 1, 2017. The benchmark spot prices at Dawn outperformed AECO spot prices during the Reporting Periods. See *"Discussion of Operations – Petroleum and Natural Gas Revenue"* in this MD&A for further details. Birchcliff also has various financial and physical derivative contracts outstanding to help protect its adjusted funds flow and capital expenditure programs. See *"Discussion of Operations – Commodity Price Risk Management"* in this MD&A for further details.

In addition to its adjusted funds flow, the Corporation's other main source of liquidity is its Credit Facilities in the aggregate principal amount of $950 million, of which $276.1 million remains available at September 30, 2018. See

"*Bank Debt*" in this MD&A for further details. The Corporation may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made. In the second quarter of 2018, Birchcliff's syndicate of lenders completed its semi-annual review of Birchcliff's borrowing base limit under its Credit Facilities. In connection with such review, Birchcliff and its syndicate of lenders agreed to: (i) an extension of the maturity dates of each of the Syndicated Credit Facility and the Working Capital Facility from May 11, 2020 to May 11, 2021; (ii) the borrowing base remaining unchanged at $950 million; and (iii) increasing the Working Capital Facility to $100 million (from $50 million) with a corresponding reduction in the Syndicated Credit Facility to $850 million (from $900 million).

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

Working Capital

The Corporation's adjusted working capital deficit decreased to $6.4 million at September 30, 2018 from an $11.1 million deficit at December 31, 2017. The deficit at September 30, 2018 was largely comprised of costs incurred from the completion of wells in Pouce Coupe and Gordondale.

At September 30, 2018, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of September 2018 production (80%), which was subsequently received in October 2018. In contrast, current liabilities largely consisted of trade payables (48%) and accrued capital and operating costs (20%). Birchcliff routinely assesses the financial strength of its marketers. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations.

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

Bank Debt

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

Total debt, including the adjusted working capital deficit, was $641 million at September 30, 2018 as compared to $598 million at December 31, 2017. Total debt has increased from December 31, 2017 primarily due to capital expenditures incurred on the drilling and completion of new horizontal wells in Pouce Coupe and Gordondale, the Phase VI expansion of the Pouce Coupe Gas Plant and the payment of dividends on common and preferred shares, partially offset by higher adjusted funds flow in the Reporting Periods.

The following table sets forth the Corporation's unused Credit Facilities as at September 30, 2018 and December 31, 2017:

As at, *($000s)*	**September 30, 2018**	**December 31, 2017**
Maximum borrowing base limit:		
Revolving term credit facilities	950,000	950,000
Principal amount utilized:		
Drawn revolving term credit facilities(1)	(639,692)	(594,823)
Outstanding letters of credit(2)	(34,184)	(12,184)
	(673,876)	(607,007)
Unused credit	**276,124**	**342,993**
% unused credit	**29%**	**36%**

(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.

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 September 30, 2018:

($000s)	**2018**	**2019**	**2020-2022**	**Thereafter**
Accounts payable and accrued liabilities	67,247	-	-	-
Drawn revolving term credit facilities	-	-	639,692	-
Operating leases(1)	1,123	4,491	13,790	24,661
Capital commitments(2)	840	-	-	-
Firm transportation and fractionation(3)	24,136	92,096	355,335	445,086
Natural gas processing(4)	5,477	17,155	51,512	171,691
Estimated contractual obligations(5)	**98,823**	**113,742**	**1,060,329**	**641,438**

(1) On December 2, 2015, the Corporation entered into an operating lease commitment relating to a new office premise beginning February 1, 2018 and expiring on January 31, 2028. The commitment amount under the new 10 year office lease is estimated to be $44.1 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.

(2) Includes drilling commitments.

(3) Includes firm transportation service arrangements with various terms on TCPL's Alberta NGTL System and on TCPL's Canadian Mainline to the AECO and Dawn trading hubs and fractionation commitments associated with NGLs production processed at third-party facilities in Gordondale.

(4) Includes natural gas processing commitments at third-party facilities.

(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 September 30, 2018 to be approximately $273.9 million and are estimated to be incurred as follows: 2018 - $1.6 million, 2019 - $0.7 million and $271.6 million thereafter. The estimate for determining the undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

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

OFF-BALANCE SHEET TRANSACTIONS

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

OUTSTANDING SHARE INFORMATION

At November 14, 2018, Birchcliff had common shares, Series A Preferred Shares and Series C Preferred Shares that were outstanding. Birchcliff's common shares are listed on the TSX under the symbol "BIR" and are included in the S&P/TSX Composite Index. Birchcliff's Series A Preferred Shares and Series C Preferred Shares are individually listed on the TSX under the symbols "BIR.PR.A" and "BIR.PR.C", respectively.

The following table sets forth the common shares issued by the Corporation:

	Common Shares
Balance at December 31, 2017	265,796,698
Exercise of options	88,664
Balance at September 30, 2018	**265,885,362**
Exercise of options	26,000
Balance at November 14, 2018	**265,911,362**

At November 14, 2018, the Corporation had the following securities outstanding: 265,911,362 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 15,891,070 stock options to purchase an equivalent number of common shares; and 2,939,732 performance warrants to purchase an equivalent number of common shares.

Dividends

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Common shares:				
Dividend distribution *($000s)*	6,647	6,635	19,938	19,874
Per common share *($)*	0.0250	0.0250	0.0750	0.0750
Preferred shares - Series A:				
Series A dividend distribution *($000s)*	1,046	1,000	3,140	3,000
Per Series A preferred share *($)*	0.5234	0.5000	1.5702	1.5000
Preferred shares - Series C:				
Series C dividend distribution *($000s)*	875	875	2,625	2,625
Per Series C preferred share *($)*	0.4375	0.4375	1.3125	1.3125

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

SUMMARY OF QUARTERLY RESULTS

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

Quarter ending,	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016
Average production *(boe/d)*	79,331	76,296	76,323	80,103	65,276	64,636	61,662	60,750
Realized natural gas sales price *($/Mcf)*(1)	2.06	2.01	2.72	2.64	2.11	3.13	3.06	3.31
Realized oil sales price *($/bbl)*(1)	80.16	79.55	71.92	68.58	55.62	60.38	62.59	60.75
Realized NGLs sales price *($/bbl)*(1)	49.17	47.81	48.09	40.08	27.67	31.10	32.09	33.39
Total revenues *($000s)*(1)	156,609	150,561	159,531	166,149	111,488	146,597	132,708	135,457
Operating costs *($/boe)*	3.45	3.36	3.78	3.86	4.27	4.67	5.22	4.54
Total capital expenditures *($000s)*	45,524	66,464	133,144	18,669	12,136	120,782	124,538	62,482
Cash flow from operating activities *($000s)*	68,556	71,825	91,853	88,995	70,584	57,467	70,614	90,574
Adjusted funds flow *($000s)*	75,378	72,369	83,658	97,008	64,430	88,612	67,630	71,806
Per common share – basic *($)*	0.28	0.27	0.31	0.36	0.24	0.33	0.26	0.27
Per common share – diluted *($)*	0.28	0.27	0.31	0.36	0.24	0.33	0.25	0.27
Net income (loss) *($000s)*	7,703	7,437	15,125	25,820	(120,743)	18,015	29,928	12,085
Net income (loss) to common shareholders *($000s)*(2)	6,657	6,390	14,078	24,773	(121,743)	17,015	28,928	11,085
Per common share – basic *($)*	0.03	0.02	0.05	0.09	(0.46)	0.06	0.11	0.04
Per common share – diluted *($)*	0.02	0.02	0.05	0.09	(0.46)	0.06	0.11	0.04
Total assets *($ million)*	2,707	2,715	2,697	2,627	2,615	2,871	2,797	2,710
Long-term bank debt *($000s)*	635,120	617,291	573,935	587,126	585,323	628,401	578,954	572,517
Total debt *($000s)*	641,484	661,409	657,732	598,193	666,808	700,484	664,352	600,012
Dividends on common shares *($000s)*(3)	6,647	6,646	6,645	6,644	6,635	6,635	6,604	-
Dividends on pref. shares – Series A *($000s)*	1,046	1,047	1,047	1,047	1,000	1,000	1,000	1,000
Dividends on pref. shares – Series C *($000s)*	875	875	875	875	875	875	875	875
Pref. shares outstanding – Series A *(000s)*	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Pref. shares outstanding – Series C *(000s)*	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Common shares outstanding *(000s)*								
Basic	265,885	265,845	265,805	265,797	265,789	265,417	264,442	264,042
Diluted	285,825	285,253	285,692	282,895	283,106	284,461	284,160	279,881
Wtd. avg. common shares outstanding *(000s)*								
Basic	265,877	265,820	265,797	265,792	265,490	265,326	264,099	263,396
Diluted	268,605	267,773	266,179	267,619	267,988	268,203	268,077	268,974

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

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

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

Average daily production volumes from the third quarter of 2017 to the fourth quarter of 2017 increased largely due to production volumes from new horizontal natural gas wells being brought on production in Pouce Coupe in connection with the start-up of Phase V of the Pouce Coupe Gas Plant and new horizontal oil wells being brought on production in Gordondale, partially offset by the sale of the Corporation's Worsley assets and natural production declines. Average daily production volumes for the first three quarters of 2018 decreased compared to the fourth quarter of 2017 mainly due to temporary restrictions in pipeline and compressor station capacity on the Alberta NGTL system and natural production declines, partially offset by new horizontal wells brought on production in Pouce Coupe and Gordondale during the Reporting Periods.

Quarterly variances in revenues, adjusted funds flow and net income (loss) are primarily due to fluctuations in commodity prices and production volumes. Oil and gas revenues and adjusted funds flow in the last eight quarters were largely impacted by incremental production additions in Pouce Coupe in the second half of 2017 and, except for the third quarter of 2017 and the second quarter of 2018, higher trending average realized sales prices. Birchcliff recorded a net loss in the third quarter of 2017 primarily as a result of the after-tax book loss of $132.3 million from the disposition of its Worsley assets. Net income or loss in the last eight quarters was also impacted by certain non-cash adjustments including depletion expense, unrealized gains and losses on financial instruments and gains and losses on the sale of non-core assets recognized in those periods.

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. Quarterly variances in long-term debt and total debt are primarily due to fluctuations in adjusted funds flow, the amount and timing of capital expenditures (including acquisitions and dispositions) and payment of common and preferred share dividends in a period.

SUBEQUENT EVENT

On November 2, 2018, Birchcliff entered into the Purchase and Sale Agreement with respect to the Acquisition. Total cash consideration for the Acquisition is $39 million (before customary closing adjustments). The Corporation paid a deposit of $3.9 million in connection with the Acquisition, the full amount of which was drawn under the Credit Facilities subsequent to September 30, 2018. Closing of the Acquisition is expected to occur on or about January 3, 2019 and is subject to the satisfaction or waiver of customary closing conditions.

POTENTIAL TRANSACTIONS

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

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 July 1, 2018 and ended on September 30, 2018 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 Periods and the Comparable Prior Periods is discussed in Note 3 of the annual audited financial statements for the year ended December 31, 2017.

CHANGES IN ACCOUNTING POLICIES

Accounting Pronouncements Adopted

On January 1, 2018, Birchcliff adopted IFRS 15 using the cumulative effect method. Under this method, the comparative periods were not restated and the cumulative effect on net earnings of the application of IFRS 15 to revenue contracts in progress at January 1, 2018 was nil. The Corporation reviewed its revenue streams and major contracts with customers using the IFRS 15 five step model and there were no changes to net earnings or timing of petroleum and natural gas sales recognized. It should be noted, however, that certain Income Statement line item reclassifications were made. Refer to the interim condensed financial statements of the Corporation and related notes for the Reporting Periods for more information, including additional disclosure requirements.

On January 1, 2018, Birchcliff adopted IFRS 9: *Financial Instruments* ("**IFRS 9**") to replace IAS 39: *Financial Instruments: Recognition and Measurement* ("**IAS 39**"). IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss. The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 bases the classification of financial assets on the contractual cash flow characteristics and the company's business model for managing the financial asset. Additionally, embedded derivatives are not separated if the host contract is a financial asset within the scope of IFRS 9. Instead, the entire hybrid contract is assessed for classification and measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The adoption of IFRS 9 has resulted in changes to the Corporation's investment in securities which, upon adoption of IFRS 9, are measured at fair value through profit or loss. Under the previous IAS 39 standard, Birchcliff's investment in securities were categorized as available for sale which required the securities to be fair valued at the end of each reporting period with any gains or losses recognized in other comprehensive income. There were no changes to the treatment of distributions declared on the investment in securities which are recorded to profit or loss. The adoption of IFRS 9 had no impact on the amounts recorded in the financial statements as at January 1, 2018 or on the comparative periods.

Future Accounting Pronouncements

In January 2016, the International Accounting Standards Board issued IFRS 16: *Leases* ("**IFRS 16**") which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("**lessee**") and the supplier ("**lessor**") and replaces the previous leases standard, IAS 17: *Leases* and IFRIC 4: *Determining whether an Arrangement contains a Lease*. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. The standard is required to be adopted either retrospectively or using a modified retrospective approach. The Corporation anticipates it will adopt IFRS 16 using the modified retrospective approach. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on multiple factors and conditions, including but not limited to, the Corporation's borrowing rate at January 1, 2019, the composition of the Corporation's lease portfolio at that date, the Corporation's latest assessment of whether it will exercise any lease renewal options, and the extent to which the Corporation chooses to use practical expedients and recognition exemptions.

The Corporation continues to review all existing contracts in detail. The full extent of the impact has not yet been determined. For the remainder of the year, the Corporation will also be focused on developing and implementing changes to policies, internal controls, information systems and business and accounting processes.

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, 2017 and *"Risk Factors"* in the Annual Information Form for the year ended December 31, 2017.

ABBREVIATIONS

AECO	benchmark price for natural gas determined at the AECO ‘C’ hub in southeast Alberta
bbl	barrel
bbls	barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day
F&D	finding and development
G&A	general and administrative
GAAP	generally accepted accounting principles for Canadian public companies which are currently IFRS
GJ	gigajoule
GJ/d	gigajoules per day
IFRS	International Financial Reporting Standards as issued by the International Accounting Standards Board
m^3	cubic metres
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mcfe	thousand cubic feet of gas equivalent
MJ	megajoule
MM$	millions of dollars
MMBtu	million British thermal units
MMBtu/d	million British thermal units per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
MSW	price for mixed sweet crude oil at Edmonton, Alberta
NGLs	natural gas liquids
NGTL	NOVA Gas Transmission Ltd.
NYMEX	New York Mercantile Exchange
P&NG	petroleum and natural gas
TCPL	TransCanada PipeLines
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma, for crude oil of standard grade
000s	thousands
$000s	thousands of dollars

NON-GAAP MEASURES

This MD&A uses “adjusted funds flow”, “adjusted funds flow per common share”, “operating netback”, “operating margin”, “total cash costs”, “adjusted working capital deficit” and “total debt”. These measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Management believes that these non-GAAP measures assist management and investors in assessing Birchcliff’s profitability, efficiency, liquidity and overall performance. Each of these measures is discussed in further detail below.

“Adjusted funds flow” denotes cash flow from operating activities before the effects of decommissioning expenditures and changes in non-cash working capital and “adjusted funds flow per common share” denotes adjusted funds flow divided by the basic or diluted weighted average number of common shares outstanding for the period. The Corporation eliminates changes in non-cash working capital and settlements of decommissioning expenditures from cash flow from operating activities as the amounts can be discretionary and may vary from period-to-period depending on its capital programs and the maturity of its operating areas. The settlement of decommissioning expenditures are managed with Birchcliff’s capital budgeting process which considers available adjusted funds flow. Management believes that adjusted funds flow and adjusted funds flow per common share assist management and investors in assessing Birchcliff’s profitability, as well as its ability to generate the cash necessary to fund future growth through capital investments, decommission its assets, pay dividends and repay debt. Investors are cautioned that adjusted funds flow should not be construed as an alternative to or more meaningful than cash flow from operating activities or net income or loss as determined in accordance with GAAP as an indicator of Birchcliff’s performance. Birchcliff previously referred to adjusted funds flow as “funds flow from operations”.

The following table provides a reconciliation of cash flow from operating activities, as determined in accordance with GAAP, to adjusted funds flow for the Reporting Periods and Comparable Prior Periods:

	Three months ended September 30,		Nine months ended September 30,	
($000s)	**2018**	**2017**	**2018**	**2017**
Cash flow from operating activities	68,556	70,584	232,234	198,665
Add back:				
Change in non-cash working capital	6,395	(6,484)	(1,753)	21,306
Funds flow	74,951	64,100	230,481	219,971
Adjustments:				
Decommissioning expenditures	427	330	924	701
Adjusted funds flow	**75,378**	**64,430**	**231,405**	**220,672**

"Operating netback" denotes petroleum and natural gas revenue less royalties, less operating expense and less transportation and other expense. All netbacks are calculated on a per unit basis, unless otherwise indicated. Management believes that operating 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 Birchcliff's operating netback for the Reporting Periods and Comparable Prior Periods:

	Three months ended September 30,				Nine months ended September 30,			
	2018		**2017**		**2018**		**2017**	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Petroleum and natural gas revenue	156,609	21.46	111,488	18.56	466,701	22.11	390,793	22.41
Royalty expense	(11,100)	(1.52)	(3,779)	(0.63)	(31,543)	(1.49)	(19,456)	(1.12)
Operating expense	(25,175)	(3.45)	(25,623)	(4.27)	(74,427)	(3.53)	(82,026)	(4.70)
Transportation and other expense	(25,201)	(3.46)	(15,960)	(2.65)	(74,980)	(3.55)	(45,341)	(2.60)
Operating netback[(1)]	**95,133**	**13.03**	**66,126**	**11.01**	**285,751**	**13.54**	**243,970**	**13.99**

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

The reconciliation for the operating netback of the Pouce Coupe Gas Plant is provided under the heading *"Pouce Coupe Gas Plant Netbacks"*.

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

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

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

As at, *($000s)*	**September 30, 2018**	**December 31, 2017**	**September 30, 2017**
Working capital deficit (surplus)	11,372	15,113	53,566
Financial instrument – asset	8,616	-	9,666
Financial instrument – liability	(13,624)	(4,046)	-
Assets held for sale including associated liabilities	-	-	18,253
Adjusted working capital deficit	**6,364**	**11,067**	**81,485**

"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 GAAP, to total debt:

As at, *($000s)*	**September 30, 2018**	**December 31, 2017**	**September 30, 2017**
Revolving term credit facilities	635,120	587,126	585,323
Adjusted working capital deficit	6,364	11,067	81,485
Total debt	**641,484**	**598,193**	**666,808**

ADVISORIES

Unaudited Numbers

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

Boe 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. As such, they should not be used to make comparisons. Management uses these oil and gas metrics for its own performance measurements and to provide shareholders with measures to compare Birchcliff's performance over time; 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 should not be unduly relied upon. For further information regarding netbacks, please see *"Non-GAAP Measures".*

Capital Expenditures

Unless otherwise stated, references in this MD&A to: (i) "F&D capital" denotes capital for land, seismic, workovers, drilling and completions and well equipment and facilities; and (ii) "total capital expenditures" denotes F&D capital plus acquisitions, less any dispositions, plus administrative assets. Birchcliff previously referred to total capital expenditures as "net capital expenditures" or "capital expenditures, net".

Forward-Looking Statements

Certain statements contained in this MD&A constitute forward-looking statements and forward-looking information (collectively referred to as "**forward-looking statements**") within the meaning of applicable Canadian securities laws. The forward-looking statements contained in this MD&A relate to future events or Birchcliff's future plans, operations or performance and are based on Birchcliff's current expectations, estimates, projections, beliefs and assumptions. Such forward-looking statements have been made by Birchcliff in light of the information available to it at the time the statements were made and reflect its experience and perception of historical trends. All statements and information other than historical fact may be forward-looking statements. Such forward-looking statements are often, but not always, identified by the use of words such as "seek", "plan", "expect", "project", "intend", "believe", “anticipate”, “estimate”, “forecast”, “potential”, “proposed”, “predict”, “budget”, “continue”, “targeting”, “may”, “will”, “could”, “might”, “should” and other similar words and expressions.

By their nature, forward-looking statements involve 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 statements. Accordingly, readers are cautioned not to place undue reliance on such forward-looking statements. Although Birchcliff believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct and Birchcliff makes no representation that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements.

In particular, this MD&A contains forward-looking statements relating to the following: Birchcliff’s plans and other aspects of its anticipated future financial performance, operations, focus, objectives, strategies, opportunities, priorities and goals; the Acquisition (including the anticipated closing date of the Acquisition and the expected benefits of the Acquisition); Birchcliff’s guidance regarding its capital programs and its proposed exploration and development activities and the timing thereof (including the number and types of wells to be drilled, completed and brought on production, estimates of capital expenditures in 2018 and capital allocation, the focus of, the objectives of and the anticipated results from the capital program, including the expected benefits of the acceleration of 2019 capital into 2018, statements that its 2018 adjusted funds flow is expected to exceed its 2018 capital expenditures and statements that the capital program has been designed with financial and operational flexibility with the potential to accelerate or decelerate capital expenditures throughout the year); Birchcliff’s production and other guidance for 2018 (including its estimates of its annual average production and commodity mix in 2018, its estimates of royalty, operating and transportation and other expenses in 2018 and its estimates of its natural gas production that is expected to be sold at or via AECO, Dawn and Alliance during 2018); Birchcliff’s expectation that its total debt at year-end 2018 will be modestly lower as compared to June 30, 2018; Birchcliff’s marketing and transportation arrangements (including that an additional tranche of service on TCPL’s Canadian Mainline will become available later in 2019); Birchcliff’s market diversification and hedging activities, strategies and use of risk management techniques (including statements that Birchcliff maintains an ongoing commodity price risk management program and that Birchcliff’s current strategy is to hedge up to 50% of its estimated forecast annual average production using a combination of financial derivatives and physical sales contracts); the Corporation’s estimated income tax pools and management’s expectation that future taxable income will be available to utilize the accumulated tax pools; the Corporation’s liquidity (including the Corporation’s financial flexibility, the sources of funding for the Corporation’s activities and capital requirements, that the Corporation generally relies on its adjusted funds flow and available credit under its existing credit facilities to fund its capital requirements, statements that the Corporation may from time to time seek additional capital in the form of debt and/or equity or dispose of non-core properties to fund its on-going capital expenditure programs and protect its balance sheet, management’s belief that its adjusted funds flow will be sufficient to fund the Corporation’s ongoing capital program, statements that Birchcliff may adjust its on-going capital program, draw down on its Credit Facilities, seek additional equity financing and/or consider the potential sale of additional non-core assets to fund planned growth should commodity prices deteriorate materially and the Corporation’s expectation that counterparties will be able to meet their financial obligations); statements that management of debt levels continues to be a priority for Birchcliff; estimates of Birchcliff’s material contractual obligations and commitments and decommissioning obligations; and statements regarding future accounting pronouncements (including the timing for adoption by the Corporation and the impact on the Corporation’s financial statements).

With respect to the forward-looking statements contained in this MD&A, assumptions have been made regarding, among other things: prevailing and future commodity prices and differentials, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; the state of the economy, financial markets and the exploration, development and production business; the political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes and environmental laws; future cash flow, debt and dividend levels; future operating, transportation, marketing, G&A and other expenses; Birchcliff’s ability to access capital and obtain financing on acceptable terms; the timing and amount of capital expenditures and the sources of funding for capital expenditures and other activities; the sufficiency of budgeted capital expenditures to carry out planned operations; the successful and timely implementation of capital projects; results of future operations; Birchcliff’s ability to continue to develop its assets and obtain the anticipated benefits therefrom; the performance of existing and future wells, well production rates and well decline rates; success rates for future drilling; reserves and resource volumes and Birchcliff's ability to replace and expand reserves through acquisition, development or exploration; the impact of competition on Birchcliff; the availability of, demand for and cost of labour, services and materials; the ability to obtain any necessary regulatory or other approvals in a timely manner; the satisfaction by third parties of their obligations to Birchcliff; 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 natural gas market exposure. In addition to the foregoing assumptions, Birchcliff has made the following assumptions with respect to certain forward-looking statements contained in this MD&A:

- With respect to the Acquisition, Birchcliff has assumed that the closing conditions to the Acquisition will be satisfied or waived and that the Acquisition will be completed on the terms and the timing anticipated. In addition, Birchcliff has made assumptions regarding the performance and other characteristics of the assets to be acquired and the expected benefits of the Acquisition.
- Birchcliff's 2018 guidance (as updated November 14, 2018) assumes the following commodity prices during 2018: an average WTI price of US$66.67/bbl; an average AECO price of $1.63/MMBtu; an average Dawn price of $3.70/MMBtu; and an average wellhead natural gas price of $2.41/Mcf.
- With respect to estimates of 2018 capital expenditures and statements that Birchcliff's 2018 adjusted funds flow is expected to exceed its 2018 capital expenditures and that its adjusted funds flow will be sufficient to fund its ongoing capital program, such estimates and statements are based on the following:
  - Estimates of capital expenditures and any allocation thereof assume that Birchcliff's capital program will be carried out as currently contemplated.
  - Statements that Birchcliff's 2018 adjusted funds flow is expected to exceed its 2018 capital expenditures and that its adjusted funds flow will be sufficient to fund its ongoing capital program assume that: the 2018 capital program will be carried out as currently contemplated; and the production targets, commodity mix, natural gas market exposure and commodity price assumptions set forth herein are met.
  - Birchcliff makes acquisitions and dispositions in the ordinary course of business. Any acquisitions and dispositions completed could have an impact on Birchcliff's capital expenditures, production, adjusted funds flow, costs and total debt, which impact could be material. The amount and allocation of capital expenditures for exploration and development activities by area and the number and types of wells to be drilled is dependent upon results achieved and is subject to review and modification by management on an ongoing basis throughout the year. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials. Birchcliff will monitor economic conditions and commodity prices and, where deemed prudent, will adjust its capital programs to respond to changes in commodity prices and other material changes in the assumptions underlying such programs.
- With respect to statements that Birchcliff expects that its total debt at year-end 2018 will be lower as compared to June 30, 2018, such statements assume that: the 2018 capital program will be carried out as currently contemplated; and the production targets, commodity mix, natural gas market exposure and commodity price assumptions set forth herein are met.
- With respect to Birchcliff's production guidance, such guidance assumes that: Birchcliff's capital program will be carried out as currently contemplated; no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that any transportation service curtailments or unplanned outages that occur will be short in duration or otherwise insignificant; the construction of new infrastructure meets timing and operational expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations. Birchcliff's production guidance may be affected by acquisition and disposition activity and acquisitions and dispositions could occur that may impact expected production.

- With respect to statements 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.

Birchcliff's actual results, performance or achievements could differ materially from those anticipated in the forward-looking statements 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; stock market volatility; loss of market demand; an inability to access sufficient capital from internal and external sources; fluctuations in the costs of borrowing; operational risks and liabilities inherent in oil and natural gas operations; the occurrence of unexpected events such as fires, equipment failures and other similar events affecting Birchcliff or other parties whose operations or assets directly or indirectly affect Birchcliff; uncertainty that development activities in connection with its assets will be economical; uncertainties associated with estimating oil and natural gas reserves and resources; the accuracy of oil and natural gas reserves estimates and estimated production levels; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; horizontal drilling and completions techniques and the failure of drilling results to meet expectations for reserves or production; uncertainties related to Birchcliff's future potential drilling locations; potential delays or changes in plans with respect to exploration or development projects or capital expenditures, including delays in the completion of Birchcliff's gas plants and other facilities; the accuracy of cost estimates and variances in Birchcliff's actual costs and economic returns from those anticipated; incorrect assessments of the value of acquisitions (including the Acquisition) and exploration and development programs; changes in tax laws, Crown royalty rates, environmental laws, carbon tax regimes, incentive programs and other regulations that affect the oil and natural gas industry and other actions by government authorities; 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 inability to secure adequate production transportation for Birchcliff's products; the inability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements or other agreements; shortages in equipment and skilled personnel; the absence or loss of key employees; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; management of Birchcliff's growth; environmental risks, claims and liabilities; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainties associated with credit facilities and counterparty credit risk; non-performance or default by counterparties; 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 and change the Corporation's dividend policy; the failure to obtain any required approvals in a timely manner or at all; the risks that the closing conditions to the Acquisition may not be satisfied or that the Acquisition may not be completed as contemplated or at all; the failure to realize the anticipated benefits of acquisitions (including the Acquisition) and dispositions and the risk of unforeseen difficulties in integrating acquired assets into Birchcliff's operations; negative public perception of the oil and natural gas industry, including transportation, hydraulic fracturing and fossil fuels; and the availability of insurance and the risk that certain losses may not be insured.

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.

Management has included the above summary of assumptions and risks related to forward-looking statements 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 statements contained in this MD&A are expressly qualified by the foregoing cautionary statements. The forward-looking statements contained herein are made as of the date of this MD&A. Unless required by applicable laws, Birchcliff does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF FINANCIAL POSITION

Unaudited (Expressed in thousands of Canadian dollars)

As at,	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash	53	48
Accounts receivable	55,070	69,302
Prepaid expenses and deposits	5,760	2,622
Financial instruments *(Note 12)*	8,616	-
	69,499	71,972
Non-current assets:		
Petroleum and natural gas properties and equipment *(Note 4)*	2,627,623	2,545,131
Investment in securities *(Note 5)*	10,005	10,005
	2,637,628	2,555,136
Total assets	**2,707,127**	**2,627,108**
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	67,247	83,039
Financial instruments *(Note 12)*	13,624	4,046
	80,871	87,085
Non-current liabilities:		
Revolving term credit facilities *(Note 6)*	635,120	587,126
Financial instruments *(Note 12)*	12,259	-
Decommissioning obligations *(Note 7)*	126,727	124,825
Deferred income taxes	93,965	82,694
Capital securities	49,458	49,225
	917,529	843,870
Total liabilities	**998,400**	**930,955**
SHAREHOLDERS' EQUITY		
Share capital *(Note 8)*		
Common shares	1,478,146	1,477,750
Preferred shares *(perpetual)*	41,434	41,434
Contributed surplus	74,950	69,959
Retained earnings	114,197	107,010
	1,708,727	1,696,153
Total shareholders' equity and liabilities	**2,707,127**	**2,627,108**

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

Subsequent event (*Note 13)*

Approved by the Board

(signed) "*Dennis A. Dawson*"
Dennis A. Dawson
Lead Independent 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 September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
REVENUE				
Petroleum and natural gas sales *(Note 9)*	156,609	111,488	466,701	390,793
Royalties	(11,100)	(3,779)	(31,543)	(19,456)
Net revenue from petroleum and natural gas sales	145,509	107,709	435,158	371,337
Other income *(Note 5)*	199	-	598	-
Realized gain (loss) on financial instruments *(Note 12)*	(7,848)	10,103	(17,429)	14,998
Unrealized gain (loss) on financial instruments *(Note 12)*	(7,343)	(2,164)	(13,221)	19,099
	130,517	115,648	405,106	405,434
EXPENSES				
Operating	25,175	25,623	74,427	82,026
Transportation and other	25,201	15,960	74,980	45,341
Administrative, net	5,559	6,255	19,188	20,119
Depletion and depreciation *(Note 4)*	53,985	42,006	157,594	127,746
Finance	8,424	8,070	24,087	24,813
Dividends on capital securities *(Note 8)*	875	875	2,625	2,625
Loss on sale of assets *(Note 4)*	-	181,298	8,361	199,848
	119,219	280,087	361,262	502,518
Net income (loss) before taxes	11,298	(164,439)	43,844	(97,084)
Income tax expense (recovery)	3,595	(43,696)	13,579	(24,284)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**7,703**	**(120,743)**	**30,265**	**(72,800)**
Net income (loss) per common share *(Note 8)*				
Basic	$0.03	($0.46)	$0.10	($0.29)
Diluted	$0.02	($0.46)	$0.10	($0.29)

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, 2016	1,464,567	41,434	63,847	184,559	1,754,407
Dividends on common shares	-	-	-	(19,874)	(19,874)
Dividends on perpetual preferred shares	-	-	-	(3,000)	(3,000)
Exercise of stock options	13,148	-	(3,825)	-	9,323
Stock-based compensation	-	-	7,575	-	7,575
Net loss and comprehensive loss	-	-	-	(72,800)	(72,800)
As at September 30, 2017	1,477,715	41,434	67,597	88,885	1,675,631
As at December 31, 2017	1,477,750	41,434	69,959	107,010	1,696,153
Dividends on common shares *(Note 8)*	-	-	-	(19,938)	(19,938)
Dividends on perpetual preferred shares *(Note 8)*	-	-	-	(3,140)	(3,140)
Exercise of stock options *(Note 10)*	396	-	(99)	-	297
Stock-based compensation *(Note 10)*	-	-	5,090	-	5,090
Net income and comprehensive income	-	-	-	30,265	30,265
As at September 30, 2018	**1,478,146**	**41,434**	**74,950**	**114,197**	**1,708,727**

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

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF CASH FLOWS

Unaudited (Expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Cash provided by (used in):				
OPERATING				
Net income (loss) and comprehensive income (loss)	7,703	(120,743)	30,265	(72,800)
Adjustments for items not affecting operating cash:				
Unrealized (gain) loss on financial instruments	7,343	2,164	13,221	(19,099)
Depletion and depreciation	53,985	42,006	157,594	127,746
Stock-based compensation	694	1,341	2,204	3,066
Finance	8,424	8,070	24,087	24,813
Loss on sale of assets	-	181,298	8,361	199,848
Income taxes expense (recovery)	3,595	(43,696)	13,579	(24,284)
Interest paid	(7,241)	(6,885)	(20,531)	(21,243)
Dividends on capital securities	875	875	2,625	2,625
Decommissioning expenditures	(427)	(330)	(924)	(701)
Changes in non-cash working capital	(6,395)	6,484	1,753	(21,306)
	68,556	70,584	232,234	198,665
FINANCING				
Exercise of stock options	135	1,303	297	9,323
Financing fees paid on credit facilities	-	-	(950)	(2,375)
Dividends on common shares	(6,647)	(6,635)	(19,938)	(19,874)
Dividends on perpetual preferred shares	(1,046)	(1,000)	(3,140)	(3,000)
Dividends on capital securities	(875)	(875)	(2,625)	(2,625)
Net change in revolving term credit facilities	17,531	(43,405)	48,017	14,300
	9,098	(50,612)	21,661	(4,251)
INVESTING				
Petroleum and natural gas properties and equipment	(45,505)	(106,233)	(248,782)	(367,046)
Acquisition of petroleum and natural gas properties and equipment	(19)	(18)	(1,534)	(941)
Sale of petroleum and natural gas properties and equipment	-	84,110	5,184	100,526
Changes in non-cash working capital	(32,130)	2,163	(8,758)	73,007
	(77,654)	(19,978)	(253,890)	(194,454)
Net change in cash	-	(6)	5	(40)
Cash, beginning of period	53	13	48	47
CASH, END OF PERIOD	**53**	**7**	**53**	**7**

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

BIRCHCLIFF ENERGY LTD.
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

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 unaudited interim condensed financial statements were approved and authorized for issuance by the Board of Directors on November 14, 2018.

2. BASIS OF PREPARATION

These unaudited interim condensed financial statements present Birchcliff's financial results of operations and financial position under International Financial Reporting Standards ("**IFRS**") as at and for the three and nine months ended September 30, 2018, including the 2017 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 unaudited interim condensed 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, 2017, except as described in Note 3. 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, 2017.

Birchcliff's unaudited interim condensed 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 unaudited interim condensed financial statements include the accounts of Birchcliff only and are expressed in Canadian dollars, unless otherwise stated. Birchcliff does not have any subsidiaries.

3. CHANGES IN ACCOUNTING POLICIES

Accounting Pronouncements Adopted

On January 1, 2018, Birchcliff adopted IFRS 15: *Revenue from Contracts with Customers* ("**IFRS 15**") using the cumulative effect method. Under this method, the comparative periods have not been restated and the cumulative effect on net earnings and the change in opening retained earnings as a result of the application of IFRS 15 to revenue contracts in progress at January 1, 2018 is nil. The Corporation reviewed its revenue streams and major contracts with customers using the IFRS 15 five step model and there were no changes to net earnings or timing of petroleum and natural gas sales recognized. It should be noted, however, that certain Income Statement line item reclassifications were made. Refer to Note 9 for more information, including additional disclosure requirements.

On January 1, 2018, Birchcliff adopted IFRS 9: *Financial Instruments* ("**IFRS 9**") to replace IAS 39: *Financial Instruments: Recognition and Measurement* ("**IAS 39**"). IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss. The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 bases the classification of financial assets on the contractual cash flow characteristics and the Corporation's business model for managing the financial asset. Additionally, embedded derivatives are not separated if the host contract is a financial asset within the scope of IFRS 9. Instead, the entire hybrid contract is assessed for classification and measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The adoption of IFRS 9 has resulted in changes to the Corporation's investment in securities which, upon adoption of IFRS 9, are measured at fair value through profit or loss. Under the previous IAS 39 standard, Birchcliff's investment in securities were categorized as available for sale which required the securities to be fair valued at the end of each reporting period with any gains or losses recognized in other comprehensive income. There were no changes to the treatment of distributions declared on the investment in securities which are recorded to profit or loss. The adoption of IFRS 9 had no impact on the amounts recorded in the financial statements as at January 1, 2018 or on the comparative periods.

Future Accounting Pronouncements

In January 2016, the IASB issued IFRS 16: *Leases* ("**IFRS 16**") which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("**lessee**") and the supplier ("**lessor**") and replaces the previous leases standard, IAS 17: *Lease*s and IFRIC 4: *Determining whether an Arrangement contains a Lease*. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. The standard is required to be adopted either retrospectively or using a modified retrospective approach. The Corporation anticipates it will adopt IFRS 16 using the modified retrospective approach. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on multiple factors and conditions, including but not limited to, the Corporation's borrowing rate at January 1, 2019, the composition of the Corporation's lease portfolio at that date, the Corporation's latest assessment of whether it will exercise any lease renewal options, and the extent to which the Corporation chooses to use practical expedients and recognition exemptions.

The Corporation continues to review all existing contracts in detail. The full extent of the impact has not yet been determined. For the remainder of the year, the Corporation will also be focused on developing and implementing changes to policies, internal controls, information systems and business and accounting processes.

4. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

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

($000s)	Exploration & Evaluation Assets	Developed & Producing Assets	Corporate Assets	Total
Cost:				
As at December 31, 2016	53	3,376,236	13,950	3,390,239
Additions	28	455,894	1,774	457,696
Acquisitions	-	999	-	999
Dispositions	-	(542,027)	-	(542,027)
As at December 31, 2017	81	3,291,102	15,724	3,306,907
Additions	-	253,048	1,450	254,498
Acquisitions	-	2,167	-	2,167
Dispositions(1)	-	(53,308)	-	(53,308)
As at September 30, 2018(2)	81	3,493,009	17,174	3,510,264
Accumulated depletion and depreciation:				
As at December 31, 2016	-	(735,221)	(9,181)	(744,402)
Depletion and depreciation expense	-	(183,831)	(1,835)	(185,666)
Dispositions	-	168,292	-	168,292
As at December 31, 2017	-	(750,760)	(11,016)	(761,776)
Depletion and depreciation expense	-	(156,116)	(1,478)	(157,594)
Dispositions(1)	-	36,729	-	36,729
As at September 30, 2018	-	(870,147)	(12,494)	(882,641)
Net book value:				
As at December 31, 2017	81	2,540,342	4,708	2,545,131
As at September 30, 2018(3)	**81**	**2,622,862**	**4,680**	**2,627,623**

(1) Consists mainly of two asset dispositions with a combined net book value of $16.6 million for total consideration of $5.3 million.

(2) 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.

(3) 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 and the comparative prior period. As a result, no impairment test was required as at September 30, 2018 or September 30, 2017.

5. INVESTMENT IN SECURITIES

The Corporation received on August 31, 2017 (the "**Issuance Date**") securities consisting of 4,500,000 common A units (the "**Common A LP Units**") in a limited partnership (the "**Limited Partnership**") affiliated with the purchaser and 10,000,000 preferred units (the "**Preferred Trust Units**") in a trust (the "**Trust**") affiliated with the purchaser (collectively, the "**Securities**") at a combined value of $10 million. The Securities acquired are not publicly listed and do not constitute significant investments of the Corporation.

The Securities have limited voting rights and, in the case of the Common A LP Units, no redemption rights and limited participation rights in the event of the liquidation, dissolution or wind-up of the Limited Partnership. Holders of the Securities are entitled to, if and when declared, non-cumulative, quarterly dividend distributions for each three month period ending March 31, June 30, September 30 and December 31. The Preferred Trust Units are redeemable on demand by Birchcliff. For each Preferred Trust Unit redeemed by Birchcliff within the first five years of the Issuance Date, the redemption price will be equal to the lesser of (i) 90% of the fair market value of each redeemed Preferred Trust Unit at the date the redemption and (ii) $0.90 per redeemed Preferred Trust Unit. For each Preferred Trust Unit redeemed on a date that is later than five years from the Issuance Date, being after August 31, 2022 (the "**Fifth Anniversary Date**"), the redemption price will be equal to the lesser of (i) the fair market value of each redeemed Preferred Trust Unit at the date the redemption and (ii) $1.00 per redeemed Preferred Trust Unit.

Payment of the redemption price by the Trust is limited to a maximum cash amount of $10,000 per month (or a greater amount, if the trustees of the Trust so decide) and any portion of the redemption price in excess of such cash amount (the "**Balance**") will be repaid through the Trust's issuance of a redemption note or an *in specie* distribution of the Trust's property. If the Preferred Trust Units are redeemed by Birchcliff before the Fifth

Anniversary Date, the Balance is paid by the Trust through the issuance of redemption notes due and payable prior to the sixth anniversary of the Issuance Date, being August 31, 2023. If the Preferred Trust Units are redeemed by Birchcliff after the Fifth Anniversary Date, the Balance is paid by the Trust through the issuance of redemption notes due and payable within less than a year of the date the redemption notes are issued.

The Securities had a fair value of $10 million as of September 30, 2018. During the first nine months of 2018, Birchcliff recorded $0.6 million in dividend distributions in respect of the Securities that are included in other income. There were no distributions declared on the Securities during the three and nine months ended September 30, 2017.

6. REVOLVING TERM CREDIT FACILITIES

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

As at, *($000s)*	**September 30, 2018**	**December 31, 2017**
Syndicated credit facility	624,000	578,000
Working capital facility	15,692	16,823
Drawn revolving term credit facilities	639,692	594,823
Unamortized prepaid interest on bankers' acceptances	(1,742)	(4,891)
Unamortized deferred financing fees	(2,830)	(2,806)
Revolving term credit facilities	**635,120**	**587,126**

At September 30, 2018, 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, 2021 (the "**Credit Facilities**"). At September 30, 2018, the Credit Facilities were comprised of: (i) an extendible revolving syndicated term credit facility (the "**Syndicated Credit Facility**") of $850 million; and (ii) an extendible revolving working capital facility (the "**Working Capital Facility**") of $100 million.

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. In connection with the most recently completed semi-annual review of the Corporation's borrowing base limit under its credit facilities, the Corporation and the lenders agreed to the borrowing base remaining unchanged at $950 million.

7. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is set forth below:

As at, *($000s)*	**September 30, 2018**	**December 31, 2017**
Balance, beginning	124,825	133,470
Obligations incurred	2,787	8,468
Obligations acquired	633	626
Obligations divested	(2,948)	(45,902)
Changes in estimated future cash flows	(43)	25,902
Accretion expense	2,397	3,055
Actual expenditures	(924)	(794)
Balance, ending[(1)]	**126,727**	**124,825**

(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 September 30, 2018 and December 31, 2017.

8. CAPITAL STOCK

Share Capital

(a) Authorized:

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

Unlimited number of preferred shares, with no par value.

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

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

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

As at, *(000s)*	**September 30, 2018**	**December 31, 2017**
Common Shares:		
Outstanding at beginning of period	265,797	264,042
Exercise of stock options	88	1,755
Outstanding at end of period[1]	**265,885**	**265,797**
Series A Preferred Shares (perpetual):		
Outstanding at beginning of period	2,000	2,000
Outstanding at end of period	**2,000**	**2,000**

(1) On November 15, 2017, Birchcliff announced that the TSX had accepted the Corporation's notice of intention to make a normal course issuer bid (the "**NCIB**"). Pursuant to the NCIB, Birchcliff may purchase up to 20,121,747 of its outstanding common shares. The total number of Common Shares that Birchcliff is permitted to purchase is subject to a daily purchase limit of 280,426 common shares; provided, however, that the Corporation may make one block purchase per calendar week which exceeds the daily purchase restriction. The NCIB commenced on November 20, 2017 and will terminate on November 19, 2018, or such earlier time as the NCIB is completed or is terminated at the option of Birchcliff. Purchases under the NCIB will be effected through the facilities of the TSX and/or Canadian alternative trading systems at the prevailing market price at the time of such transaction. All common shares purchased under the NCIB will be cancelled. Birchcliff did not purchase any common shares pursuant to the NCIB in 2017 or in the nine months ended September 30, 2018.

Capital Securities

The Corporation has outstanding 2,000,000 Series C Preferred Shares at September 30, 2018 (December 31, 2017 – 2,000,000).

Dividends

The following table sets forth the dividend distributions by the Corporation for each class of shares:

	Three months ended September 30,		**Nine months ended September 30,**	
	2018	**2017**	**2018**	**2017**
Common shares:				
Dividend distribution *($000s)*	6,647	6,635	19,938	19,874
Per common share *($)*	0.0250	0.0250	0.0750	0.0750
Preferred shares - Series A:				
Series A dividend distribution *($000s)*	1,046	1,000	3,140	3,000
Per Series A preferred share *($)*	0.5234	0.5000	1.5702	1.5000
Preferred shares - Series C:				
Series C dividend distribution *($000s)*	875	875	2,625	2,625
Per Series C preferred share *($)*	0.4375	0.4375	1.3125	1.3125

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

Per Common Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income (loss) *($000s)*	7,703	(120,743)	30,265	(72,800)
Dividends on Series A preferred shares *($000s)*	(1,046)	(1,000)	(3,140)	(3,000)
Net income (loss) to common shareholders *($000s)*	6,657	(121,743)	27,125	(75,800)
Weighted average common shares (000s):				
Weighted average basic common shares outstanding	265,877	265,490	265,832	264,976
Effects of dilutive securities	2,728	-	1,475	-
Weighted average diluted common shares outstanding[(1)]	268,605	265,490	267,307	264,976
Net income (loss) per common share:				
Basic	**$0.03**	**($0.46)**	**$0.10**	**($0.29)**
Diluted	**$0.02**	**($0.46)**	**$0.10**	**($0.29)**

(1) The weighted average diluted common shares outstanding as of September 30, 2018 excludes 9,638,701 common shares issuable pursuant to outstanding stock options that are anti-dilutive in the three and nine month reporting periods. As the Corporation reported a loss for the three and nine months ended September 30, 2017, the basic and diluted weighted average shares outstanding are the same for the periods and all stock options and warrants were anti-dilutive.

9. PETROLEUM AND NATURAL GAS SALES

The following table sets forth Birchcliff's petroleum and natural gas sales:

	Three months ended September 30,		Nine months ended September 30,	
($000s)	2018	2017	2018	2017
Light oil sales	36,577	32,319	103,885	101,265
Natural gas sales	72,538	60,011	231,730	225,143
NGLs sales	47,466	19,099	130,984	64,130
Total P&NG sales[(1)]	156,581	111,429	466,599	390,538
Royalty income	28	59	102	255
Total P&NG sales	**156,609**	**111,488**	**466,701**	**390,793**

(1) Excludes the effects of hedges using financial instruments but includes the effects of any fixed price physical delivery contracts outstanding during the period, if any.

Revenue from the sale of crude oil, natural gas and natural gas liquids ("**NGLs**") is measured based on the consideration specified in contracts with marketers and other third parties. Birchcliff recognizes revenue when it transfers control of the product to the contract counterparty. In making this evaluation, management considers if Birchcliff has the ability to direct the use of, and obtain substantially all of the remaining benefits from the delivery of the product.

Birchcliff evaluates its arrangements with marketers and other third parties to determine if the Corporation acts as the principal or as an agent. In making this evaluation, the Corporation considers if it obtains control of the product delivered or services provided, which is indicated by the Corporation having the primary responsibility for the delivery of the product or rendering of the service, having the ability to establish prices or having inventory risk. If the Corporation acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Corporation from the transaction.

10. SHARE-BASED PAYMENTS

Stock Options

At September 30, 2018, the Corporation's Amended and Restated Stock Option Plan (the "**Option Plan**") permitted the grant of options in respect of a maximum of 26,588,536 (September 30, 2017 – 26,578,870) common shares. At September 30, 2018, there remained available for issuance options in respect of 10,588,466 (September 30, 2017 – 12,200,861) common shares. During the three months ended September 30, 2018, the weighted average common share trading price on the Toronto Stock Exchange was $4.90 (September 30, 2017 – $5.96) per common share.

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

	Three months ended September 30, 2018		Nine months ended September 30, 2018	
	Number	Price (*$*)[2]	Number	Price (*$*)[2]
Outstanding, beginning of period	16,468,569	5.84	14,158,107	6.88
Granted[1]	207,500	4.72	4,594,400	3.18
Exercised	(40,332)	(3.35)	(88,664)	(3.35)
Forfeited	(175,568)	(4.81)	(473,405)	(5.60)
Expired	(460,099)	(8.03)	(2,190,368)	(7.59)
Outstanding, September 30, 2018	**16,000,070**	**5.78**	**16,000,070**	**5.78**

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

(2) Exercise price is calculated on a weighted average basis.

The weighted average fair value per option granted during the three months ended September 30, 2018 was $1.68 (September 30, 2017 – $2.10). In determining the stock-based compensation expense for options issued during the three months ended September 30, 2018, the Corporation applied a weighted average estimated forfeiture rate of 10% (September 30, 2017 – 11%).

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

Three months ended,	**September 30, 2018**	**September 30, 2017**
Risk-free interest rate	2.1%	1.5%
Expected life *(years)*	4.1	4.1
Expected volatility	50.7%	49.2%
Dividend yield	2.1%	1.7%

A summary of the stock options outstanding and exercisable under the Option Plan at September 30, 2018 is set forth below:

Exercise Price (*$*)		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life *(years)*	Weighted Average Exercise Price (*$*)	Quantity	Weighted Average Remaining Contractual Life *(years)*	Weighted Average Exercise Price (*$*)
3.00	6.00	6,951,869	3.7	3.32	1,578,846	2.3	3.45
6.01	9.00	8,925,201	2.1	7.63	6,178,271	1.5	7.56
9.01	12.00	123,000	1.3	10.07	100,333	0.9	10.28
		16,000,070	**2.8**	**5.78**	**7,857,450**	**1.6**	**6.77**

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 September 30, 2018 (September 30, 2017 – 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.

11. 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 business 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 and nine months ended September 30, 2018.

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

As at, *($000s)*	**September 30, 2018**	**December 31, 2017**
Maximum borrowing base limit[(1)]:		
Revolving term credit facilities	950,000	950,000
Principal amount utilized:		
Drawn revolving term credit facilities	(639,692)	(594,823)
Outstanding letters of credit[(2)]	(34,184)	(12,184)
	(673,876)	(607,007)
Unused credit	**276,124**	**342,993**

(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 letters of credit reduced the amount available under the Working Capital Facility.

The capital structure of the Corporation is as follows:

As at, *($000s)*	**September 30, 2018**	**December 31, 2017**	**% Change**
Shareholders' equity[(1)]	1,708,727	1,696,153	
Capital securities	49,458	49,225	
Shareholders' equity & capital securities	1,758,185	1,745,378	1%
Shareholders' equity & capital securities as a % of total capital[(2)]	73%	74%	
Working capital deficit[(3)]	6,364	11,067	
Drawn revolving term credit facilities	639,692	594,823	
Drawn debt	646,056	605,890	7%
Drawn debt as a % of total capital	27%	26%	
Total capital	**2,404,241**	**2,351,268**	2%

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

(2) Of the 73%, approximately 95% relates to common capital stock and 5% relates to preferred capital stock.

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

12. 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, 2017.

Financial Derivative Contracts

As of September 30, 2018, 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 September 30, 2018, Birchcliff had the following financial derivative contracts in place in order to manage commodity price risk:

Product	Type of Contract	Notional Quantity	Term[1]	Contract Price/Floating Price	Fair Value *($000s)*
Crude oil	Financial swap	1,500 bbls/d	Oct. 1, 2018 – Dec. 31, 2018	WTI CDN$71.85/bbl	(3,071)
Crude oil	Financial swap	3,000 bbls/d	Oct. 1, 2018 – Dec. 31, 2018	WTI CDN$71.88/bbl	(6,131)
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Mar. 31, 2019	WTI CDN$77.00/bbl	(729)
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Mar. 31, 2019	WTI CDN$77.00/bbl	(726)
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Jun. 30, 2019	WTI CDN$78.00/bbl	(1,334)
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Jun. 30, 2019	WTI CDN$80.25/bbl	(1,116)
Crude oil	Financial swap	500 bbls/d	Jan. 1, 2019 – Jun. 30, 2019	WTI CDN$87.00/bbl	(518)
Natural gas	AECO basis swap	30,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2023	NYMEX Henry Hub less US$1.30/MMBtu	(1,795)
Natural gas	AECO basis swap	10,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2023	NYMEX Henry Hub less US$1.32/MMBtu	(1,093)
Natural gas	AECO basis swap	30,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2023	NYMEX Henry Hub less US$1.33/MMBtu	(3,348)
Natural gas	AECO basis swap	15,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2024	NYMEX Henry Hub less US$1.185/MMBtu	1,726
Natural gas	AECO basis swap	5,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2024	NYMEX Henry Hub less US$1.20/MMBtu	372
Natural gas	AECO basis swap	5,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2024	NYMEX Henry Hub less US$1.20/MMBtu	496
Fair Value Assets (Liability)					**(17,267)**

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

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

	Three months ended September 30,		Nine months ended September 30,	
($000s)	**2018**	**2017**	**2018**	**2017**
Realized gain (loss) on derivatives	(7,848)	10,103	(17,429)	14,998
Unrealized gain (loss) on derivatives	(7,343)	(2,164)	(13,221)	19,099

As of September 30, 2018, if the future strip prices for WTI crude oil had been CDN$1.00/bbl higher, with all other variables held constant, after tax net income in the nine month reporting Period would have decreased by $0.6 million. As of September 30, 2018, if the future strip prices for AECO was US$0.10/MMBtu higher, with all other variables held constant, after tax net income in the nine month reporting Period would have decreased by $11.1 million.

There were no financial derivative contracts entered into subsequent to September 30, 2018.

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 September 30, 2018, the Corporation had the following physical delivery sales contract in place:

Product	Type of Contract	Quantity	Term	Floating Price
Natural Gas	AECO basis swap	5,000 MMBtu/d	Jan. 1, 2019 – Dec. 31, 2023	NYMEX Henry Hub less US$1.205/MMBtu

There were no long-term physical delivery sales contracts entered into subsequent to September 30, 2018.

13. SUBEQUENT EVENT

On November 2, 2018, Birchcliff entered into a definitive purchase and sale agreement to acquire 18 gross (15.1 net) contiguous sections of Montney land located between the Corporation's existing Pouce Coupe and Gordondale properties, as well as various other non-Montney lands and other assets, for total cash consideration of $39 million (before customary closing adjustments) (the "**Acquisition**"). The Corporation paid a deposit of $3.9 million in connection with the Acquisition, the full amount of which was drawn under the Credit Facilities subsequent to September 30, 2018. Closing of the Acquisition is expected to occur on or about January 3, 2019 and is subject to the satisfaction or waiver of customary closing conditions.

ABBREVIATIONS

AECO	benchmark price for natural gas determined at the AECO 'C' hub in southeast Alberta
bbl	barrel
bbls	barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day
C4+	butanes plus
F&D	finding and development
G&A	general and administrative
GAAP	generally accepted accounting principles for Canadian public companies which are currently International Financial Reporting Standards as issued by the International Accounting Standards Board
GJ	gigajoule
GJ/d	gigajoules per day
m^3	cubic metres
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mcfe	thousand cubic feet of gas equivalent
MJ	megajoule
MM$	millions of dollars
MMBtu	million British thermal units
MMBtu/d	million British thermal units per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
MSW	price for mixed sweet crude oil at Edmonton, Alberta
NGLs	natural gas liquids
NGTL	NOVA Gas Transmission Ltd.
NYMEX	New York Mercantile Exchange
P&NG	petroleum and natural gas
TCPL	TransCanada PipeLines
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma, for crude oil of standard grade
000s	thousands
$000s	thousands of dollars

NON-GAAP MEASURES

This Third Quarter Report uses "adjusted funds flow", "adjusted funds flow per common share", "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 and nine months ended September 30, 2018.

In addition, this Third Quarter Report uses "adjusted funds flow netback" and "free funds flow" 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. "Adjusted funds flow netback" denotes petroleum and natural gas revenue less royalties, less operating expense, less transportation and other expense, less net general and administrative expense, less interest expense and less any realized losses (plus realized gains) on financial instruments and plus any other cash income sources. Birchcliff previously referred to adjusted funds flow netback as "funds flow netback". Adjusted funds flow netback is calculated on a per unit basis, unless otherwise indicated. Management believes that adjusted 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 Birchcliff's adjusted funds flow netback for the periods indicated:

	Three months ended September 30,				Nine months ended September 30,			
	2018		2017		2018		2017	
	($000s)	($/boe)	($000s)	($/boe)	($000s)	($/boe)	($000s)	($/boe)
Petroleum and natural gas revenue	156,609	21.46	111,488	18.56	466,701	22.11	390,793	22.41
Royalty expense	(11,100)	(1.52)	(3,779)	(0.63)	(31,543)	(1.49)	(19,456)	(1.12)
Operating expense	(25,175)	(3.45)	(25,623)	(4.27)	(74,427)	(3.53)	(82,026)	(4.70)
Transportation and other expense	(25,201)	(3.46)	(15,960)	(2.65)	(74,980)	(3.55)	(45,341)	(2.60)
General & administrative expense, net	(4,865)	(0.67)	(4,914)	(0.82)	(16,984)	(0.80)	(17,053)	(0.98)
Interest expense	(7,241)	(0.99)	(6,885)	(1.15)	(20,531)	(0.97)	(21,243)	(1.22)
Realized gain (loss) on financial instruments	(7,848)	(1.08)	10,103	1.69	(17,429)	(0.83)	14,998	0.87
Other income	199	0.04	-	-	598	0.02	-	-
Adjusted funds flow netback(1)	**75,378**	**10.33**	**64,430**	**10.73**	**231,405**	**10.96**	**220,672**	**12.66**

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

"Free funds flow" denotes adjusted funds flow less F&D capital expenditures. Management believes that free funds flow assists management and investors in assessing Birchcliff's ability to generate the cash necessary to repay debt, pay dividends, fund a portion of its future growth investments and/or fund share buybacks.

ADVISORIES

Unaudited Information

All financial and operating information contained in this Third Quarter Report for the three and nine months ended September 30, 2018 and 2017 is unaudited.

Currency

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

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 Third Quarter Report contains metrics commonly used in the oil and natural gas industry, including netbacks. 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. As such, they should not be used to make comparisons. Management uses these oil and gas metrics for its own performance measurements and to provide shareholders with measures to compare Birchcliff's performance over time; 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 should not be unduly relied upon. For further information regarding netbacks, please see *"Non-GAAP Measures"* in the management's discussion and analysis for the three and nine months ended September 30, 2018 and in this Third Quarter Report.

Capital Expenditures

Unless otherwise stated, references in this Third Quarter Report: (i) "F&D capital" denotes capital for land, seismic, workovers, drilling and completions and well equipment and facilities; and (ii) "total capital expenditures" denotes

F&D capital plus acquisitions, less any dispositions, plus administrative assets. Birchcliff previously referred to total capital expenditures as “net capital expenditures” or “capital expenditures, net”.

Forward-Looking Statements

Certain statements contained in this Third Quarter Report constitute forward-looking statements and forward-looking information (collectively referred to as “**forward-looking statements**”) within the meaning of applicable Canadian securities laws. The forward-looking statements contained in this Third Quarter Report relate to future events or Birchcliff’s future plans, operations or performance and are based on Birchcliff’s current expectations, estimates, projections, beliefs and assumptions. Such forward-looking statements have been made by Birchcliff in light of the information available to it at the time the statements were made and reflect its experience and perception of historical trends. All statements and information other than historical fact may be forward-looking statements. Such forward-looking statements are often, but not always, identified by the use of words such as “seek”, “plan”, “expect”, “project”, “intend”, “believe”, “anticipate”, “estimate”, “forecast”, “potential”, “proposed”, “predict”, “budget”, “continue”, “targeting”, “may”, “will”, “could”, “might”, “should” and other similar words and expressions.

By their nature, forward-looking statements involve 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 statements. Accordingly, readers are cautioned not to place undue reliance on such forward-looking statements. Although Birchcliff believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct and Birchcliff makes no representation that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements.

In particular, this Third Quarter Report contains forward-looking statements relating to the following: Birchcliff’s plans and other aspects of its anticipated future financial performance, operations, focus, objectives, strategies, opportunities, priorities and goals (including that Birchcliff is focused on protecting its balance sheet and generating free funds flow); the Acquisition (including the anticipated closing date of the Acquisition, the expected characteristics of the assets, the expected benefits of the Acquisition, Birchcliff’s land position after giving effect to the Acquisition, Birchcliff’s plans for drilling and processing arrangements and the funding of the Acquisition); Birchcliff’s preliminary plans and guidance for 2019 (including Birchcliff’s estimates of capital spending, annual average production, natural gas production, commodity mix, adjusted and free funds flow, and natural gas market exposure during 2019, the number of wells required to achieve an annual average production rate of 77,000 boe/d in 2019, Birchcliff’s expectation that it will generate significant free funds flow during 2019, the possible uses of such free funds flow and that Birchcliff will be well positioned to reduce debt, pursue additional growth, increase its common share dividend and/or consider share buybacks under its NCIB, the flexibility of the 2019 capital program should economic conditions improve or deteriorate, that Birchcliff has the ability to increase its natural gas production as a result of available capacity at its Phase VI Pouce Coupe Gas Plant, Birchcliff’s expectation that it will choose to focus on debt reduction if economic conditions and commodity prices remain the same or deteriorate, and the expected impact of changes to commodity prices and the CDN/US exchange rate on Birchcliff’s preliminary estimate of adjusted funds flow); the anticipated timing for the finalization of Birchcliff’s 2019 capital spending plans and guidance and its expectation that it will release the details regarding such capital expenditure plans and guidance and its 2018 unaudited financial results, reserves and F&D costs on February 13, 2019; Birchcliff’s estimates of natural gas market exposure in 2019 (including that Birchcliff currently expects that 62% of its natural gas production during 2019 will be sold at prices that are not based on AECO and that 86% of Birchcliff’s total revenue in 2019 is expected to be based on non-AECO benchmark prices); Birchcliff’s market diversification and hedging activities, strategies and use of risk management techniques (including statements that Birchcliff maintains an ongoing hedging program and engages in various risk management activities to reduce its exposure to volatility in commodity prices and the percentages of its forecast 2018 production that is hedged); Birchcliff’s marketing and transportation arrangements (including that additional tranches of service on TCPL’s Canadian Mainline will become available later in 2019); statements regarding Birchcliff’s Credit Facilities (including the timing of semi-annual reviews and that Birchcliff currently has no plans to increase its borrowing base); Birchcliff’s guidance regarding its capital programs and its proposed exploration and development activities and the timing thereof (including the number and types of wells to be drilled, completed and brought on production, estimates of capital expenditures in 2018 and capital allocation, the focus of, the objectives of and the anticipated results from the capital programs, including the expected benefits of the acceleration of 2019 capital into 2018, and statements that its 2018 adjusted funds flow is expected to exceed its 2018 capital expenditures); Birchcliff's production and other guidance for 2018 (including its estimates of its annual average production and commodity mix in 2018, its estimates of royalty, operating and transportation and other expenses in 2018 and its estimates of its natural gas production that is expected to be sold at or via AECO, Dawn and Alliance during 2018); the performance and other characteristics of Birchcliff's oil and natural gas properties and expected results from its assets (including statements regarding the potential or prospectivity of Birchcliff's properties); and statements regarding the NCIB. In addition, forward-looking statements in this Third Quarter Report include the forward-looking statements identified in the management's discussion and analysis for the three and nine months ended September 30, 2018 under the heading *"Advisories – Forward-Looking Statements".*

With respect to the forward-looking statements contained in this Third Quarter Report, assumptions have been made regarding, among other things: prevailing and future commodity prices and differentials, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; the state of the economy, financial markets and the exploration, development and production business; the political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes and environmental laws; future cash flow, debt and dividend levels; future operating, transportation, marketing, G&A and other expenses; Birchcliff's ability to access capital and obtain financing on acceptable terms; the timing and amount of capital expenditures and the sources of funding for capital expenditures and other activities; the sufficiency of budgeted capital expenditures to carry out planned operations; the successful and timely implementation of capital projects; results of future operations; Birchcliff's ability to continue to develop its assets and obtain the anticipated benefits therefrom; the performance of existing and future wells, well production rates and well decline rates; success rates for future drilling; reserves and resource volumes and Birchcliff's ability to replace and expand reserves through acquisition, development or exploration; the impact of competition on Birchcliff; the availability of, demand for and cost of labour, services and materials; the ability to obtain any necessary regulatory or other approvals in a timely manner; the satisfaction by third parties of their obligations to Birchcliff; 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 natural gas market exposure. In addition to the foregoing assumptions, Birchcliff has made the following assumptions with respect to certain forward-looking statements contained in this Third Quarter Report:

- With respect to the Acquisition, Birchcliff has assumed that the closing conditions to the Acquisition will be satisfied or waived and that the Acquisition will be completed on the terms and the timing anticipated. In addition, Birchcliff has made assumptions regarding the performance and other characteristics of the assets to be acquired and the expected benefits of the Acquisition.
- Birchcliff's preliminary 2019 guidance (as announced on November 14, 2018) assumes the following commodity prices during 2019: an average WTI price of US$70.00/bbl; an average WTI-MSW differential of $16.00; an average AECO price of $1.85/MMBtu; an average Dawn price of $3.69/MMBtu; an average NYMEX-Henry Hub price of US$3.00/MMBtu; and an exchange rate (CDN$ to US$1) of 1.28.
- Birchcliff's 2018 guidance (as updated November 14, 2018) assumes the following commodity prices during 2018: an average WTI price of US$66.67/bbl; an average AECO price of $1.63/MMBtu; an average Dawn price of $3.70/MMBtu; and an average wellhead natural gas price of $2.41/Mcf.
- With respect to estimates of 2018 capital expenditures, statements that Birchcliff's 2018 adjusted funds flow is expected to exceed its 2018 capital expenditures and Birchcliff's preliminary spending plans for 2019, such estimates, statements and plans are based on the following:
    - Estimates of capital expenditures and any allocation thereof assume that Birchcliff's capital programs will be carried out as currently contemplated. In addition, Birchcliff's estimate of 2019 F&D capital spending plus the Acquisition assumes that the Acquisition is completed as currently contemplated.
    - Statements that Birchcliff's 2018 adjusted funds flow is expected to exceed its 2018 capital expenditures assume that: the 2018 capital program will be carried out as currently contemplated; and the production

targets, commodity mix, natural gas market exposure and commodity price assumptions set forth herein are met.

  - Birchcliff makes acquisitions and dispositions in the ordinary course of business. Any acquisitions and dispositions completed could have an impact on Birchcliff's capital expenditures, production, adjusted funds flow, free funds flow, costs and total debt, which impact could be material. The amount and allocation of capital expenditures for exploration and development activities by area and the number and types of wells to be drilled is dependent upon results achieved and is subject to review and modification by management on an ongoing basis throughout the year. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials. Birchcliff will monitor economic conditions and commodity prices and, where deemed prudent, will adjust its capital programs to respond to changes in commodity prices and other material changes in the assumptions underlying such programs.

- With respect to Birchcliff's production guidance for 2018 and 2019, such guidance assumes that: Birchcliff's capital spending 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. Birchcliff's production guidance may be affected by acquisition and disposition activity and acquisitions and dispositions could occur that may impact expected production.

- With respect to Birchcliff's estimates of adjusted and free funds flow for 2019 and statements that Birchcliff expects to generate significant free funds flow during 2019, such estimates and statements assume that: the level of capital spending for 2019 set forth herein will be achieved; and the production targets, commodity mix, natural gas market exposure and commodity price assumptions set forth herein are met.

- 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 the future potential and prospectivity of properties and assets, such statements assume: the continuing validity of the geological and other technical interpretations determined by Birchcliff's technical staff with respect to such properties; and that, over the long-term, commodity prices and general economic conditions will warrant proceeding with the exploration and development of such properties.

Birchcliff's actual results, performance or achievements could differ materially from those anticipated in the forward-looking statements 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; stock market volatility; loss of market demand; an inability to access sufficient capital from internal and external sources; fluctuations in the costs of borrowing; operational risks and liabilities inherent in oil and natural gas operations; the occurrence of unexpected events such as fires, equipment failures and other similar events affecting Birchcliff or other parties whose operations or assets directly or indirectly affect Birchcliff; uncertainty that development activities in connection with its assets will be economical; uncertainties associated with estimating oil and natural gas reserves and resources; the accuracy of oil and natural gas reserves estimates and estimated production levels; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; horizontal drilling and completions techniques and the failure of drilling results to meet expectations for reserves or production; uncertainties related to Birchcliff's future potential drilling locations; potential delays or changes in plans with respect to exploration or development projects or capital expenditures, including delays in the completion of Birchcliff's gas plants and other facilities; the accuracy of cost estimates and variances in Birchcliff's actual costs and economic returns from those anticipated; incorrect assessments of the value of acquisitions (including the Acquisition) and exploration and development programs; changes in tax laws, Crown royalty rates, environmental laws, carbon tax regimes, incentive programs and other regulations that affect the oil and natural gas industry and other actions by government authorities; 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 inability to secure adequate production transportation for Birchcliff's products; the inability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements or other agreements; shortages in equipment and skilled personnel; the absence or loss of key employees; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; management of Birchcliff's growth; environmental risks, claims and liabilities; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainties associated with credit facilities and counterparty credit risk; non-performance or default by counterparties; 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 and change the Corporation's dividend policy; the failure to obtain any required approvals in a timely manner or at all; the risks that the closing conditions to the Acquisition may not be satisfied or that the Acquisition may not be completed as contemplated or at all; the failure to realize the anticipated benefits of acquisitions (including the Acquisition) and dispositions and the risk of unforeseen difficulties in integrating acquired assets into Birchcliff's operations; negative public perception of the oil and natural gas industry, including transportation, hydraulic fracturing and fossil fuels; and the availability of insurance and the risk that certain losses may not be insured.

The Corporation has disclosed certain expected details relating to its preliminary 2019 plans and guidance, including current expectations for capital spending in 2019. The board of directors of the Corporation has not approved a capital expenditure budget for 2019 and as such, the details relating to 2019 capital spending and guidance are subject to change and are intended only to illustrate Birchcliff's current expectations based on information and conditions known as of the date hereof. The Corporation's actual 2019 capital expenditure budget once approved may differ from the details disclosed herein for a variety of reasons, including as a result of any change in conditions and information known to Birchcliff prior to the date the 2019 capital expenditure budget is approved and/or as a result of Birchcliff's management and board of directors allocating capital differently than currently expected. The actual 2019 capital expenditure budget may impact the other information regarding the Corporation's preliminary 2019 plans and guidance provided herein.

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.

This Third Quarter Report contains information that may constitute future-orientated financial information or financial outlook information (collectively, "**FOFI**") about Birchcliff's prospective results of operations including, without limitation, adjusted funds flow and free funds flow, all of which is subject to the same assumptions, risk factors, limitations and qualifications as set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise or inaccurate and, as such, undue reliance should not be placed on FOFI. Birchcliff's actual results, performance and achievements could differ materially from those expressed in, or implied by, the FOFI. Birchcliff has included the FOFI in order to provide readers with a more complete perspective on Birchcliff's future operations and Birchcliff's current expectations relating to its future performance. Such information may not be appropriate for other purposes and readers are cautioned that any FOFI contained herein should not be used for purposes other than those for which it has been disclosed herein. FOFI contained herein was made as of the date of this Third Quarter Report. Unless required by applicable laws, Birchcliff does not undertake any obligation to publicly update or revise any FOFI statements, whether as a result of new information, future events or otherwise.

Management has included the above summary of assumptions and risks related to forward-looking statements provided in this Third 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 statements contained in this Third Quarter Report are expressly qualified by the foregoing cautionary statements. The forward-looking statements contained herein are made as of the date of this Third Quarter Report. Unless required by applicable laws, Birchcliff does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

CORPORATE INFORMATION

EXECUTIVE 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

DIRECTORS

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

Dennis A. Dawson
Lead Independent Director
Calgary, Alberta

Debra A. Gerlach
Independent Director
Calgary, Alberta

Rebecca J. Morley
Independent Director
Calgary, Alberta

James W. Surbey
Non-Independent Director
Calgary, Alberta

MANAGEMENT

Gates Aurigemma
Manager, General Accounting

Robyn Bourgeois
General Counsel & Corporate Secretary

Jesse Doenz
Controller & Investor Relations Manager

George Fukushima
Manager of Engineering

Andrew Fulford
Surface Land Manager

MANAGEMENT CONT'D

Paul Messer
Manager of IT

Tyler Murray
Mineral Land Manager

Bruce Palmer
Manager of Geology

Brian Ritchie
Asset Manager – Gordondale

Michelle Rodgerson
Manager of Human Resources & Corporate Services

Jeff Rogers
Facilities Manager

Randy Rousson
Drilling & Completions Manager

Vic Sandhawalia
Manager of Finance

Ryan Sloan
Health, Safety & Environment Manager

Duane Thompson
Production Manager

Hue Tran
Business Development Manager

Theo van der Werken
Asset Manager – Pouce Coupe

SOLICITORS

Borden Ladner Gervais LLP
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AUDITORS

KPMG LLP, Chartered Professional Accountants
Calgary, Alberta

RESERVES EVALUATORS

Deloitte LLP
Calgary, Alberta

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

BANKERS

The Bank of Nova Scotia
Canadian Imperial Bank of Commerce
Bank of Montreal
The Toronto-Dominion Bank
HSBC Bank Canada
National Bank of Canada
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