BIRCHCLIFF ENERGY

QUARTERLY REPORT | Q2 2019

BIRCHCLIFF ENERGY LTD. ANNOUNCES STRONG Q2 2019 RESULTS RESULTING IN AN EXPANDED 2019 CAPITAL PROGRAM

Calgary, Alberta (August 14, 2019) – Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") (TSX: BIR) is pleased to announce its financial and operational results for the three and six months ended June 30, 2019 and an expanded 2019 capital program. Birchcliff's unaudited interim condensed financial statements for the three and six months ended June 30, 2019 and related management's discussion and analysis (the "**MD&A**") will be available on its website at www.birchcliffenergy.com and on SEDAR at www.sedar.com. Birchcliff is also pleased to provide an operational update, including encouraging results from its recent well pads brought on production in Pouce Coupe and Gordondale.

"We had strong results in the second quarter, which were underpinned by the strong performance of our assets and our new oil and liquids-rich wells, the successful execution of our capital program, our record low operating costs and our natural gas market diversification initiatives. Our average production for the quarter was 78,453 boe/d, which was ahead of our internal budget and represents a 3% increase from Q2 2018. Given these production results, we expect that we would have achieved the mid-point of our 2019 annual average production guidance of 76,000 to 78,000 boe/d, before taking into account the expansion to our 2019 capital program," commented Jeff Tonken, President and Chief Executive Officer of Birchcliff. "As a result of our achievements year-to-date and our strong quarterly results and balance sheet, we have determined to drill an additional 7 (7.0 net) horizontal wells in 2019, all of which are expected to be on-stream by November 1, 2019. Accordingly, we have increased our capital budget by $38 million to $242 million. We anticipate that this additional capital will allow us to maintain production in 2020 at or near current levels and reduce the amount of capital that we will need to spend in 2020. Notwithstanding this increase, our capital expenditures in 2019 are still expected to be significantly less than our forecast of 2019 adjusted funds flow. Based on the strong performance of our wells and the expansion to our capital program, we are increasing our 2019 annual average production guidance to 77,000 to 79,000 boe/d."

Q2 2019 Highlights

- Production averaged 78,453 boe/d (6% light oil, 7% condensate, 9% NGLs and 78% natural gas), a 3% increase from Q2 2018. Liquids production weighting increased by 3% from Q1 2019 and by 8% from Q2 2018.
- Adjusted funds flow of $74.0 million, or $0.28 per basic common share, a 2% increase and a 4% increase, respectively, from Q2 2018. Birchcliff generated $6.0 million of free funds flow in Q2 2019.
- Net loss to common shareholders of $9.5 million, or $0.04 per basic common share as compared to the net income to common shareholders of $6.4 million and $0.02 per basic common share in Q2 2018. Included in the net loss is an after-tax unrealized mark-to-market loss on financial instruments of $35.7 million, or $0.13 per basic common share, and a future income tax recovery of $18.9 million, or $0.07 per basic common share, resulting from the change in Alberta's corporate income tax rate from 12% to 8% over the next four years.
- Record low operating expense of $3.17/boe, a 6% decrease from Q2 2018.
- Operating netback of $11.38/boe, a 14% decrease from Q2 2018.
- Birchcliff drilled 5 (5.0 net) wells and brought 14 (14.0 net) wells on production.
- F&D capital expenditures were $67.9 million, which were approximately $6.0 million (9%) less than Birchcliff's Q2 2019 adjusted funds flow. Total capital expenditures were $68.5 million.
- As at June 30, 2019, Birchcliff's long-term bank debt was $622.3 million and its total debt was $654.7 million, a 1% increase and a 1% decrease, respectively, from its long-term and total debt as at June 30, 2018.

Encouraging Initial Production Rates in Pouce Coupe and Gordondale

- Birchcliff's 14-06-079-12W6M six-well pad in Pouce Coupe had an aggregate average production rate of 6,350 boe/d (27.9 MMcf/d of raw natural gas and 1,690 bbls/d of condensate) during the initial 30 days of production.
- Birchcliff's 01-10-078-11W6M five-well pad in Gordondale had an aggregate average production rate of 4,446 boe/d (2,114 bbls/d of oil and 14.0 MMcf/d of raw natural gas) during the initial 30 days of production.

Expanded 2019 Capital Program and Revised Guidance

- Birchcliff has expanded its 2019 capital program (the "**2019 Capital Program**") to include the drilling and bringing on production of an additional 7 (7.0 net) HZ wells in 2019. F&D capital expenditures are now expected to be $242 million.
- Birchcliff expects to generate approximately $335 million of adjusted funds flow and $93 million of free funds flow (adjusted funds flow less F&D capital expenditures) in 2019.

SECOND QUARTER 2019 FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended June 30,		Six months ended June 30,	
	2019	2018[5]	2019	2018[5]
OPERATING				
Average production				
Light oil – *(bbls/d)*	4,853	5,599	4,827	4,872
Condensate – *(bbls/d)*[1]	5,505	3,934	4,963	3,808
NGLs – *(bbls/d)*[1]	6,923	6,036	6,834	5,816
Natural gas – *(Mcf/d)*	367,033	364,360	360,327	370,880
Total – boe/d	**78,453**	**76,296**	**76,678**	**76,309**
Average realized sales price *(CDN$)*[2]				
Light oil – *(per bbl)*	72.25	79.55	69.20	76.33
Condensate – *(per bbl)*[1]	71.69	87.52	68.93	85.35
NGLs – *(per bbl)*[1]	11.13	21.94	14.36	23.46
Natural gas – *(per Mcf)*	1.95	2.01	2.73	2.37
Total – per boe	**19.59**	**21.68**	**22.92**	**22.45**
NETBACK AND COST *($/boe)*				
Petroleum and natural gas revenue[2]	19.59	21.69	22.93	22.45
Royalty expense	(0.75)	(1.53)	(0.98)	(1.48)
Operating expense	(3.17)	(3.36)	(3.28)	(3.57)
Transportation and other expense	(4.29)	(3.64)	(4.45)	(3.60)
Operating netback *($/boe)*	**11.38**	**13.16**	**14.22**	**13.80**
G&A expense, net	(0.87)	(0.88)	(0.89)	(0.88)
Interest expense	(0.92)	(0.96)	(0.97)	(0.96)
Realized gain (loss) on financial instruments	0.74	(0.93)	1.34	(0.69)
Other income	0.03	0.03	0.03	0.03
Adjusted funds flow netback *($/boe)*	**10.36**	**10.42**	**13.73**	**11.30**
Depletion and depreciation expense	(7.40)	(7.60)	(7.47)	(7.50)
Unrealized gain (loss) on financial instruments	(6.50)	0.36	(6.14)	(0.43)
Other expenses[3]	(1.17)	(1.47)	(0.76)	(0.90)
Dividends on Series C preferred shares	(0.12)	(0.13)	(0.13)	(0.13)
Income tax recovery (expense)	3.65	(0.51)	1.37	(0.71)
Net income (loss) *($/boe)*	**(1.18)**	**1.07**	**0.60**	**1.63**
Dividends on Series A preferred shares	(0.15)	(0.15)	(0.15)	(0.15)
Net income (loss) to common shareholders *($/boe)*	**(1.33)**	**0.92**	**0.45**	**1.48**
FINANCIAL				
Petroleum and natural gas revenue *($000s)*[2]	139,857	150,561	318,212	310,092
Cash flow from operating activities *($000s)*	97,857	71,825	192,601	163,678
Adjusted funds flow *($000s)*	73,957	72,369	190,605	156,027
Per common share – basic *($)*	0.28	0.27	0.72	0.59
Per common share – diluted *($)*	0.28	0.27	0.72	0.58
Net income (loss) *($000s)*	(8,458)	7,437	8,388	22,562
Net income (loss) to common shareholders *($000s)*	(9,505)	6,390	6,294	20,468
Per common share – basic *($)*	(0.04)	0.02	0.02	0.08
Per common share – diluted *($)*	(0.04)	0.02	0.02	0.08
Common shares outstanding *(000s)*				
End of period – basic	265,935	265,845	265,935	265,845
End of period – diluted	287,381	285,253	287,381	285,253
Weighted average common shares for period – basic	265,933	265,820	265,924	265,809
Weighted average common shares for period – diluted	265,933	267,773	266,297	266,793
Dividends on common shares *($000s)*	6,981	6,646	13,961	13,291
Dividends on Series A preferred shares *($000s)*	1,047	1,047	2,094	2,094
Dividends on Series C preferred shares *($000s)*	875	875	1,750	1,750
Total capital expenditures *($000s)*[4]	68,532	66,464	200,490	199,608
Long-term debt *($000s)*	622,282	617,291	622,282	617,291
Adjusted working capital deficit *($000s)*	32,427	44,118	32,427	44,118
Total debt *($000s)*	654,709	661,409	654,709	661,409

(1) Beginning in Q1 2019, Birchcliff began presenting condensate and NGLs separately. Prior period sales and volumes have been adjusted to conform to this current period presentation.
(2) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.
(3) Includes non-cash expenses such as compensation, accretion, amortization of deferred financing fees and other losses.
(4) See *"Advisories – Capital Expenditures"*. Total capital expenditures for the six months ended June 30, 2019 include the $39 million Acquisition (as defined below).
(5) Birchcliff adopted IFRS 16: *Leases* effective January 1, 2019 using the modified retrospective approach; therefore 2018 comparative information has not been restated.

This Second Quarter Report contains forward-looking statements within the meaning of applicable securities laws. For further information regarding the forward-looking statements contained herein, please see "Advisories – Forward-Looking Statements". In addition, this Second Quarter Report contains references to "adjusted funds flow", "adjusted funds flow per common share", "free funds flow", "operating netback", "adjusted funds flow netback", "total cash costs", "adjusted working capital deficit" and "total debt", which do not have standardized meanings prescribed by GAAP. For further information regarding these non-GAAP measures, please see "Non-GAAP Measures".

Q2 2019 FINANCIAL AND OPERATIONAL RESULTS

FINANCIAL RESULTS

Production

Birchcliff's production averaged 78,453 boe/d in Q2 2019, a 3% increase from 76,296 boe/d in Q2 2018. The increase was primarily attributable to the incremental production from new horizontal oil wells in Gordondale and horizontal condensate-rich natural gas wells in Pouce Coupe that were brought on production in Q2 2019, partially offset by production curtailments on the NGTL and TCPL Canadian Mainline systems and natural production declines.

Production consisted of approximately 6% light oil, 7% condensate, 9% NGLs and 78% natural gas in Q2 2019 as compared to 7% light oil, 5% condensate, 8% NGLs and 80% natural gas in Q2 2018. Birchcliff's liquids production weighting increased by 8% from Q2 2018. The change in the commodity production mix was primarily attributable to the addition of condensate-rich natural gas wells in Pouce Coupe and an increase in C3+ recovered from the natural gas stream at Birchcliff's 100% owned and operated natural gas processing plant located in Pouce Coupe (the "**Pouce Coupe Gas Plant**").

Production from Pouce Coupe was 51,746 boe/d (66% of total corporate production) in Q2 2019 as compared to 47,761 boe/d (63% of total corporate production) in Q2 2018. Production from Gordondale was 26,703 boe/d (34% of total corporate production) in Q2 2019 as compared to 28,308 boe/d (37% of total corporate production) in Q2 2018.

Adjusted Funds Flow

Birchcliff's adjusted funds flow for Q2 2019 was $74.0 million, or $0.28 per basic common share, a 2% increase and a 4% increase, respectively, from $72.4 million and $0.27 per basic common share in Q2 2018. The increases were primarily due to lower royalty expense and a realized gain on financial instruments in Q2 2019 as compared to a realized loss on financial instruments in Q2 2018, largely offset by an increase in transportation and other expense as a result of Birchcliff's increased Dawn and AECO firm service and lower reported revenue. Revenue received by the Corporation was lower mainly due to a decrease in the average realized liquids pricing, partially offset by increased production of high-value condensate in Pouce Coupe.

Net Loss to Common Shareholders

Birchcliff recorded a net loss to common shareholders of $9.5 million, or $0.04 per basic common share, in Q2 2019 as compared to net income to common shareholders of $6.4 million and $0.02 per basic common share in Q2 2018. The change to a net loss position from a net income position was primarily due to a $46.4 million unrealized mark-to-market loss on financial instruments recorded in Q2 2019 as compared to a $2.5 million unrealized mark-to-market gain on financial instruments in Q2 2018, partially offset by a $26.1 million income tax recovery in Q2 2019 as compared to a $3.6 million income tax expense in Q2 2018.

The unrealized mark-to-market loss on financial instruments on an after-tax basis was $35.7 million, or $0.13 per basic common share. Included in the $26.1 million income tax recovery in Q2 2019 was approximately $18.9 million related to the reduction in future income tax liability resulting from the change in Alberta's corporate income tax rate from 12% to 8% over the next four years.

Operating Expense

Birchcliff's operating expense was $3.17/boe in Q2 2019, a 6% decrease from $3.36/boe in Q2 2018. The decrease was primarily due to: (i) a step-down reduction in natural gas processing fees which became effective January 1, 2019 at AltaGas' deep-cut sour gas processing facility in Gordondale; (ii) reduced take-or-pay processing commitments in Pouce Coupe beginning in November 2018, which resulted in natural gas being redirected from third-party facilities to the Pouce Coupe Gas Plant; and (iii) increased operating efficiencies resulting from expanded liquids-handling capabilities in Pouce Coupe.

Transportation and Other Expense

Birchcliff's transportation and other expense was $4.29/boe in Q2 2019, an 18% increase from $3.64/boe in Q2 2018. The increase was primarily due to an additional 30,000 GJ/d of firm service transportation to Dawn which became available on November 1, 2018 and unused firm transportation costs associated with Birchcliff's commitments on the NGTL system.

G&A Expense

Birchcliff's G&A expense was $0.87/boe in Q2 2019, a 1% decrease from $0.88/boe in Q2 2018. The decrease was primarily due to higher corporate production, with no significant change to aggregate G&A expense.

Interest Expense

Birchcliff's interest expense was $0.92/boe in Q2 2019, a 4% decrease from $0.96/boe in Q2 2018. The decrease was primarily due to higher corporate production, with no significant change to aggregate interest expense.

Total Cash Costs

Birchcliff's total cash costs were $10.00/boe in Q2 2019, a 4% decrease from $10.37/boe in Q2 2018. The decrease was primarily due to lower per boe royalty and operating expenses, partially offset by higher transportation and other expense.

Operating Netback

Birchcliff's operating netback was $11.38/boe in Q2 2019, a 14% decrease from $13.16/boe in Q2 2018. The decrease was primarily due to a 10% decrease in the corporate average realized sales price, partially offset by lower per boe total cash costs as noted above.

Pouce Coupe Gas Plant Netbacks

During the six months ended June 30, 2019, Birchcliff processed approximately 69% of its total corporate natural gas production and 59% of its total corporate production through the Pouce Coupe Gas Plant as compared to 67% and 57%, respectively, during the six months ended June 30, 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:

	Six months ended June 30, 2019		Six months ended June 30, 2018	
Average production:				
Condensate *(bbls/d)*		3,272		2,147
NGLs *(bbls/d)*		753		51
Natural gas *(Mcf/d)*		246,920		249,317
Total *(boe/d)*		**45,178**		**43,751**
Liquids-to-gas ratio *(bbls/MMcf)*		**16.3**		**8.8**
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue(1)	3.38	20.30	2.91	17.49
Royalty expense	(0.06)	(0.35)	(0.05)	(0.29)
Operating expense(2)	(0.39)	(2.34)	(0.39)	(2.36)
Transportation and other expense	(0.75)	(4.55)	(0.55)	(3.33)
Operating netback	**$2.18**	**$13.06**	**$1.92**	**$11.51**
Operating margin(3)	**64%**	**64%**	**66%**	**66%**

(1) Excludes the effects of financial instruments but includes the effects of physical delivery contracts. Please see *"Q2 2019 Financial and Operational Results – Financial Results – Risk Management"*.

(2) Represents plant and field operating expense.

(3) Operating margin is calculated by dividing the operating netback for the period by the petroleum and natural gas revenue for the period.

Birchcliff's liquids-to-gas ratio increased by 85% as compared to the six months ended June 30, 2018 primarily due to: (i) the re-configuration of Phases V and VI of the Pouce Coupe Gas Plant in Q4 2018 which provided for shallow-cut capability, allowing Birchcliff to extract C3+ from the natural gas stream; and (ii) specifically targeted condensate-rich natural gas wells in Pouce Coupe. The amount of condensate being produced at the Pouce Coupe Gas Plant increased by 52% as compared to the six months ended June 30, 2018. The increase in the liquids-to-gas ratio improved Birchcliff's average realized sales price and operating netback at the Pouce Coupe Gas Plant.

Debt

At June 30, 2019, Birchcliff had significant liquidity with long-term bank debt of $622.3 million (June 30, 2018: $617.3 million) from credit facilities in the aggregate principal amount of $1.0 billion (June 30, 2018: $950.0 million), leaving $357.6 million of unutilized credit capacity after adjusting for outstanding letters of credit and unamortized interest and fees. Total debt at June 30, 2019 was $654.7 million as compared to $661.4 million at June 30, 2018.

As previously disclosed in Birchcliff's press release dated May 15, 2019, the agreement governing Birchcliff's extendible revolving credit facilities (the "**Credit Facilities**") was amended effective May 10, 2019 to: (i) extend the maturity dates of each of the extendible revolving syndicated term credit facility (the "**Syndicated Credit Facility**") and the extendible revolving working capital facility (the "**Working Capital Facility**") from May 11, 2021 to May 11, 2022; and (ii) increase the borrowing base limit to $1.0 billion from $950.0 million, with the Syndicated Credit Facility being increased to $900.0 million from $850.0 million and the Working Capital Facility remaining at $100.0 million. The Credit Facilities do not contain any financial maintenance covenants.

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 June 30, 2019	Three months ended June 30, 2018	% Change
Average benchmark index prices:			
Light oil – WTI Cushing *(US$/bbl)*	59.79	67.88	(12%)
Light oil – MSW (Mixed Sweet) *(CDN$/bbl)*[1]	73.18	80.30	(9%)
Natural gas – NYMEX HH *(US$/MMBtu)*[2]	2.64	2.83	(7%)
Natural gas – AECO 5A Daily *(CDN$/GJ)*	0.98	1.12	(13%)
Natural gas – AECO 7A Month Ahead *(US$/MMBtu)*[2]	0.87	0.80	9%
Natural gas – Dawn Day Ahead *(US$/MMBtu)*[2]	2.34	2.77	(16%)
Natural gas – ATP 5A Day Ahead *(CDN$/GJ)*	1.17	1.46	(20%)
Exchange rate *(CDN$ to US$1)*	1.3376	1.2911	4%
Exchange rate *(US$ to CDN$1)*	0.7476	0.7745	(3%)
Birchcliff's average realized sales prices:[3]			
Light oil *(CDN$/bbl)*	72.25	79.55	(9%)
Condensate *(CDN$/bbl)*	71.69	87.52	(18%)
NGLs *(CDN$/bbl)*	11.13	21.94	(49%)
Natural gas *(CDN$/Mcf)*	1.95	2.01	(3%)
Birchcliff's average realized sales price *(CDN$/boe)*	**19.59**	**21.68**	**(10%)**

(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 financial instruments but includes the effects of physical delivery contracts.

Marketing and Natural Gas Market Diversification

Birchcliff continues to be strategic and opportunistic in advancing its market access initiatives. The Corporation actively monitors market conditions and executes a marketing strategy that diversifies its sales portfolio to ensure that production gets to market at optimal pricing. Birchcliff also proactively secures takeaway capacity for future development projects and uses excess transportation capacity to mitigate the impact of third-party infrastructure outages. Birchcliff's physical natural gas sales exposure currently consists of AECO, Dawn and Alliance markets. In addition, the Corporation has various financial instruments outstanding that provide it with exposure to NYMEX HH pricing. Please see *"Q2 2019 Financial and Operational Results – Financial Results – Risk Management".*

The following table details Birchcliff's effective sales, production and average realized sales price for natural gas and liquids for Q2 2019, after taking into account the Corporation's financial instruments:

Three months ended June 30, 2019						
	Effective sales *(CDN$000s)*	**Percentage of total sales** *(%)*	**Effective production** *(per day)*	**Percentage of total natural gas production** *(%)*	**Percentage of total corporate production** *(%)*	**Effective average realized sales price** *(CDN$)*
Markets						
AECO[1]	12,760	9	126,321 Mcf	34	27	1.11/Mcf
Dawn	41,104	28	135,953 Mcf	37	29	3.32/Mcf
Alliance	1,856	1	13,727 Mcf	4	3	1.49/Mcf
NYMEX HH[2]	15,355	11	91,032 Mcf	25	19	1.85/Mcf
Total natural gas	**71,075**	**49**	**367,033 Mcf**	**100**	**78**	**2.13/Mcf**
Light oil	31,907	22	4,853 bbls		6	72.25/bbl
Condensate	35,906	25	5,504 bbls		7	71.69/bbl
NGLs	7,011	4	6,923 bbls		9	11.13/bbl
Total liquids	**74,824**	**51**	**17,280 bbls**		**22**	**47.58/bbl**
Total corporate	**145,899**	**100**	**78,453 boe**		**100**	**20.44/boe**

(1) A portion of AECO 5A sales and production that effectively received NYMEX HH pricing under Birchcliff's long-term physical and financial NYMEX/AECO 7A basis swap contracts has been included as effective sales and production in NYMEX HH markets. Any impact from the sales pricing variance between the average AECO 5A and AECO 7A benchmark price during the period has also been included as effective sales in NYMEX HH markets.

(2) Birchcliff sold AECO 7A basis swaps for 100,000 MMBtu/d at an average contract price of NYMEX less US$1.28/MMBtu during Q2 2019.

Effectively 91% of the Corporation's sales revenue, representing 66% of its total natural gas production and 73% of its total corporate production, was generated from markets outside of AECO in Q2 2019, after taking into account its liquids sales and long-term financial NYMEX/AECO basis swap position.

The following table sets forth Birchcliff's sales, production, average realized sales price, transportation costs and natural gas sales netback by natural gas market for the periods indicated, before taking into account the Corporation's financial instruments:

Three months ended June 30, 2019							
	Natural gas sales[1] *(CDN$000s)*	**Percentage of natural gas sales** *(%)*	**Natural gas production** *(Mcf/d)*	**Percentage of natural gas production** *(%)*	**Average realized natural gas sales price[1]** *(CDN$/Mcf)*	**Natural gas transportation costs[2]** *(CDN$/Mcf)*	**Natural gas sales netback[3]** *(CDN$/Mcf)*
AECO	22,049	34	217,353	59	1.11	0.32	0.79
Dawn[4]	41,104	63	135,953	37	3.32	1.38	1.94
Alliance[5]	1,856	3	13,727	4	1.49	-[5]	1.49
Total	**65,009**	**100**	**367,033**	**100**	**1.95**	**0.71**	**1.24**
Three months ended June 30, 2018							
	Natural gas sales[1] *(CDN$000s)*	**Percentage of natural gas sales** *(%)*	**Natural gas production** *(Mcf/d)*	**Percentage of natural gas production** *(%)*	**Average realized natural gas sales price[1]** *(CDN$/Mcf)*	**Natural gas transportation costs[2]** *(CDN$/Mcf)*	**Natural gas sales netback[3]** *(CDN$/Mcf)*
AECO	25,092	38	219,135	60	1.27	0.29	0.98
Dawn[4]	37,542	56	108,950	30	3.79	1.34	2.45
Alliance[5]	3,985	6	36,275	10	1.21	-[5]	1.21
Total	**66,619**	**100**	**364,360**	**100**	**2.01**	**0.58**	**1.43**

(1) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.

(2) Reflects costs to transport natural gas from the field receipt point to the delivery sales trading hub.

(3) Natural gas sales netback denotes the average realized natural gas sales price less natural gas transportation costs.

(4) 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 in Southern Ontario. The first tranche of this service (120,000 GJ/d) became available on November 1, 2017 and the second tranche (30,000 GJ/d) became available on November 1, 2018, bringing the total to 150,000 GJ/d. The last tranche of service (25,000 GJ/d) will become available on November 1, 2019.

(5) Birchcliff has sales agreements with a third party marketer to sell and deliver into the Alliance pipeline system. Alliance sales are recorded net of transportation tolls.

The Corporation's average realized natural gas sales price was $1.95/Mcf in Q2 2019, an 89% premium to the average AECO 5A benchmark price of $1.03/Mcf in the quarter.

During Q2 2019, approximately 66% of Birchcliff's natural gas sales revenue, representing approximately 41% of its total natural gas production, was generated from the Dawn and Alliance markets with an average realized natural gas sales price of $3.15/Mcf, a 184% premium to Birchcliff's average realized natural gas sales price of $1.11/Mcf from the AECO market in Q2 2019. Birchcliff's average realized natural gas sales netback from the Dawn and Alliance markets was $1.90/Mcf, a 141% premium to its realized natural gas sales netback of $0.79/Mcf from the AECO market in Q2 2019.

For information regarding Birchcliff's natural gas market exposure during 2019, please see *"Outlook and Guidance".*

Risk Management

Birchcliff engages in risk management activities by utilizing various financial instruments and physical delivery contracts to diversify its sales points or fix commodity prices and market interest rates, including NYMEX/AECO basis swaps which fix the basis differential between AECO and NYMEX HH prices, effectively providing for a floating NYMEX HH price.

Birchcliff realized a cash gain on financial instruments of $5.3 million in Q2 2019 as compared to a realized cash loss of $6.5 million in Q2 2018. The realized gain was primarily due to the settlement of financial NYMEX/AECO basis swap contracts that were outstanding in the period with an average basis differential that was above the average contract basis in Q2 2019.

Birchcliff recorded an unrealized non-cash loss of $46.4 million on financial instruments in Q2 2019 due to a decrease in the fair value of its financial instruments from a net asset position of $21.3 million at March 31, 2019 to a net liability position of $25.1 million at June 30, 2019. The fair value of the net asset or liability is the estimated value to settle outstanding financial contracts at a point in time. The decrease in the fair value of Birchcliff's financial instruments during Q2 2019 was primarily attributable to the decrease in the forward basis spread between NYMEX HH and AECO 7A for contracts outstanding at June 30, 2019 as compared to March 31, 2019 and the settlement of financial contracts in Q2 2019. The unrealized gains and losses on financial NYMEX HH basis contracts can fluctuate materially from period-to-period due to movement in the forward NYMEX HH and AECO 7A strip prices. Unrealized gains and losses on financial instruments do not impact adjusted funds flow and may differ materially from the actual gains or losses realized on the eventual cash settlement of financial contracts in a period.

For further information regarding Birchcliff's risk management program, including a summary of Birchcliff's outstanding risk management contracts as at June 30, 2019, please see note 13 to the Corporation's unaudited interim condensed financial statements for the three and six months ended June 30, 2019 and the MD&A under the heading *"Discussion of Operations – Risk Management".*

OPERATIONAL RESULTS

Overview

Birchcliff's operations are concentrated within its one core area, the Peace River Arch of Alberta, which is centred northwest of Grande Prairie, Alberta adjacent to the Alberta/British Columbia border, where the Corporation is focused on its high-quality Montney/Doig Resource Play and the exploration and development of its low-cost natural gas, crude oil and liquids-rich assets. Within the Montney/Doig Resource Play, Birchcliff's operations are primarily concentrated in the Pouce Coupe and Gordondale areas of Alberta where it owns large contiguous blocks of high working interest land and the Corporation continues to implement various initiatives in order to capitalize on its large contiguous land base. Birchcliff's strong capital and operating efficiencies are supported by the fact that it owns and operates many of its own facilities, including the Pouce Coupe Gas Plant. In addition, Birchcliff is the operator of predominantly 100% working interest lands, which allows it to have greater control over its costs and its pace of development and greater flexibility to target liquids. Birchcliff is also focused on continuous improvements in all aspects of its business. In 2019, Birchcliff is continuing to pilot innovative technologies in its drilling and completions operations in order to achieve better well results and maximize return on capital.

Capital Activities and Investment

During Q2 2019, Birchcliff's capital activities were primarily directed towards drilling and completion activities. Total capital expenditures in the quarter were $68.5 million, with total capital expenditures of $32.6 million in Pouce Coupe and $35.4 million in Gordondale. F&D capital expenditures in Q2 2019 were $67.9 million.

The following table sets forth the number of wells drilled and brought on production in Q2 2019:

Area	Total wells drilled in Q2 2019	Total wells brought on production in Q2 2019
Pouce Coupe		
Montney D1 horizontal natural gas wells	1	4
Montney D2 horizontal natural gas wells	0	1
Montney C horizontal natural gas wells	1	1
Total – Pouce Coupe	**2**	**6**
Gordondale		
Montney D2 horizontal oil wells	2	5
Montney D1 horizontal oil wells	1	3
Total – Gordondale	**3**	**8**
TOTAL – COMBINED	**5**	**14**

OPERATIONAL UPDATE

Achievements Year-to-Date

Birchcliff has been very active in its execution of the 2019 Capital Program. By the end of Q2 2019, Birchcliff had completed the drilling of all 17 (17.0 net) wells that were originally contemplated under the program, 100% of which were successful, and had brought on production all 26 (26.0 net) wells as originally planned, including 9 wells that were drilled and rig released in 2018. Additionally, Birchcliff has accomplished the following:

- **Strong Production** – Birchcliff has seen strong production rates from its wells brought on production in 2019, with wells meeting or exceeding expectations, and the Corporation's average production for Q2 2019 was ahead of its internal budget. Given Birchcliff's production results, it expects that it would have achieved the mid-point of its previous 2019 annual average production guidance of 76,000 to 78,000 boe/d.
- **Liquids Success** – The 2019 Capital Program is focused on the drilling of condensate-rich natural gas wells in Pouce Coupe and crude oil wells in Gordondale. Birchcliff has been encouraged with the results of the wells brought on production year-to-date, with strong condensate rates from its Pouce Coupe wells and strong oil rates from its Gordondale wells. The Corporation recently brought on production a six-well pad in Pouce Coupe and a five-well pad in Gordondale, both of which have had encouraging initial production rates as discussed in further detail below. As a result of the Corporation's increased focus on liquids, Birchcliff's liquids production weighting for Q2 2019 increased by 8% as compared to Q2 2018.
- **Capital Program and Infrastructure** – All major capital projects completed year-to-date were on budget and on time. Birchcliff has completed or advanced several infrastructure projects in 2019 which will help provide for operational efficiencies and future growth:
    - The Corporation completed the construction of two pipeline connections between its Pouce Coupe and Gordondale areas. The first connection allows Birchcliff to flow natural gas between the two areas, which helps to reduce downtime and operating costs. The second connection allows Birchcliff to flow condensate from Pouce Coupe to its large oil batteries in Gordondale, which enables the Corporation to blend oil and condensate, resulting in better pricing and netbacks on its liquids.
    - In Pouce Coupe, Birchcliff has initiated the construction of a 20,000 bbls/d inlet liquids-handling facility at the Pouce Coupe Gas Plant which will give it the ability to grow its condensate production in Pouce Coupe from 3,000 to 10,000 bbls/d. It is anticipated that this facility will be brought online in Q3 2020.
    - In Gordondale, Birchcliff completed the construction of a pipeline to debottleneck the southeastern part of the field. In addition, Birchcliff recently installed and commissioned a related field compressor resulting in an increase in production from the drop in line pressure.

- **Solid Adjusted Funds Flow and Free Funds Flow** – Birchcliff generated $74.0 million and $190.6 million of adjusted funds flow, respectively, for the three and six months ended June 30, 2019. Birchcliff's F&D capital expenditures for Q2 2019 were 9% less than its adjusted funds flow in Q2 2019 and its F&D capital expenditures for the six months ended June 30, 2019 were 20% less than its adjusted funds flow for the same period. Birchcliff generated $6.0 million and $31.2 million of free funds flow, respectively, for the three months and six months ended June 30, 2019.

Expanded 2019 Capital Program

As a result of Birchcliff's achievements year-to-date and its strong quarterly results and balance sheet, Birchcliff has expanded the 2019 Capital Program to include the drilling of an additional 7 (7.0 net) horizontal wells in 2019, consisting of 3 condensate-rich natural gas wells in Pouce Coupe and 4 oil wells in Gordondale. It is anticipated that all of these wells will be brought on production by November 1, 2019. In total, the expanded 2019 Capital Program contemplates the drilling of 24 (24.0 net) wells and the bringing on production of 33 (33.0 net) wells. As a result of this expansion, Birchcliff has increased its 2019 F&D capital budget to $242 million from $204 million. Notwithstanding this increase, Birchcliff's capital expenditures in 2019 are still expected to be significantly less than its forecast of 2019 adjusted funds flow and Birchcliff anticipates that it will generate significant free funds flow in 2019. See *"Outlook and Guidance".*

Benefits of Expanded Capital Program

Birchcliff expects that this additional capital investment in 2019 will result in a number of benefits, including the following:

- A more efficient capital spending profile in 2020, reducing the amount of capital needed to be spent by Birchcliff in 2020. This more efficient capital spending profile is also expected to result in a more consistent production profile in 2020 and allow Birchcliff to maintain annual average production in 2020 at or near current levels.
- Efficiencies resulting from load levelling operational activities as employees and contractors will be able to work at a steadier pace throughout 2019 and 2020.
- Birchcliff's 2019 annual average production is expected to increase by approximately 1,000 boe/d as the additional wells are expected to be brought on production by November 1, 2019.
- An increase to Birchcliff's 2019 and 2020 adjusted funds flow as a result of the additional production volumes. Furthermore, as the additional wells are expected to be brought on production by November 1, 2019, Birchcliff expects to be able to take advantage of the higher natural gas prices at AECO that are typically seen in the winter. As a result, Birchcliff has increased its 2019 guidance for adjusted funds flow to $335 million from $330 million.
- This additional capital investment, which is focused on oil and condensate-rich natural gas wells, is expected to generate positive rates of return in the current environment.
- Birchcliff will be able to add the additional production volumes at a very low cost, as it can utilize existing processing capacity that is available at the Pouce Coupe Gas Plant and unutilized transportation capacity that is available on the NGTL system.

Capital Spending Allocation

The following table sets forth details regarding Birchcliff's expected capital spending allocation under the expanded 2019 Capital Program and a comparison to the original 2019 Capital Program:

Classification	Gross Wells		Net Wells		Capital *(MM)*		Change in Capital
	Previous[(1)]	Revised	Previous[(1)]	Revised	Previous[(1)]	Revised	
Drilling and Development							
Pouce Coupe[(2)(3)]							
Montney D1 horizontal natural gas wells	6	9	6.0	9.0	$34.8	$49.3	42%
Montney D2 horizontal natural gas wells	2	2	2.0	2.0	$11.4	$12.3	8%
Montney C horizontal natural gas wells	1	1	1.0	1.0	$6.2	$6.0	(3%)
Gordondale[(2)(3)]							
Montney D2 horizontal oil wells	5	7	5.0	7.0	$27.4	$38.2	39%
Montney D1 horizontal oil wells	3	5	3.0	5.0	$16.2	$26.3	62%
Additional Well Completions Capital	-	-	-	-	$26.2[(4)]	$25.3[(4)]	(3%)
Total Drilling and Development	**17**	**24**	**17.0**	**24.0**	**$122.2**	**$157.4**	**29%**
Facilities and Infrastructure[(5)]					$33.9	$35.1	4%
Maintenance and Optimization					$22.8	$24.7	8%
Land and Seismic[(6)]					$8.4	$8.6	2%
Other					$16.7	$16.2	(3%)
TOTAL[(7)]					**$204.0**	**$242.0**[(8)]	**19%**

(1) As previously disclosed on February 13, 2019.

(2) On a DCCET basis, the average well cost in 2019 is estimated to be $5.7 million for Pouce Coupe and $5.6 million (previously $5.8 million) for Gordondale. These costs can vary depending on factors such as the size of the associated multi-well pads, the costs of construction, the existence of pipelines and other infrastructure and the distance to existing or planned pipelines and other infrastructure.

(3) On a DCCET basis.

(4) The amount disclosed in the "Previous" column represented the estimated completion, equipping and tie-in costs associated with the 9 (9.0 net) wells that were drilled and rig released in Q4 2018, as the amount of the actual costs was not yet known when the previous 2019 Capital Program was disclosed on February 13, 2019. The amount disclosed in the "Revised" column represents the actual completion, equipping and tie-in costs associated with such wells.

(5) Includes capital for the inlet liquids-handling facility at the Pouce Coupe Gas Plant and other infrastructure enhancement projects, pipeline twinning and replacements and water storage. Birchcliff plans on spending approximately $9.5 million on the associated engineering and long-lead equipment for the inlet liquids-handling facility in 2019.

(6) Includes capital for crown sales and rental payments but does not include other property acquisitions and dispositions.

(7) The estimate of capital set forth in the table above represents F&D capital expenditures and does not take into account the purchase price for the $39 million asset acquisition in Pouce Coupe completed by Birchcliff in Q1 2019 (the "**Acquisition**") or any other acquisitions or dispositions. After taking into account the purchase price for the Acquisition, Birchcliff's revised estimate of total capital expenditures in 2019 is $283 million. See *"Outlook and Guidance"*. Net property acquisitions and dispositions have not been included in the table above as these amounts are generally unbudgeted. Birchcliff makes acquisitions and dispositions in the ordinary course of business and any acquisitions and dispositions completed during 2019 could have an impact on Birchcliff's capital expenditures, production, adjusted funds flow, costs and total debt, which impact could be material. See *"Advisories – Capital Expenditures".*

(8) Approximately 50% of Birchcliff's F&D capital expenditures are directed towards its Pouce Coupe area and approximately 45% towards its Gordondale area (previously 40%). Birchcliff expects that its F&D capital investment in 2019 will now be approximately $122 million in Pouce Coupe (previously $100 million) and $109 million in Gordondale (previously $84 million).

Wells Drilled and Brought on Production

The following tables summarize the wells that Birchcliff has drilled and brought on production year-to-date, as well as the remaining and total number of wells to be drilled and brought on production in 2019:

Wells Drilled – 2019

Area	Wells drilled year to-date	Remaining wells to be drilled in 2019	Total wells to be drilled in 2019
Pouce Coupe			
Montney D1 horizontal natural gas wells	6	3	9
Montney D2 horizontal natural gas wells	2	0	2
Montney C horizontal natural gas wells	1	0	1
Total – Pouce Coupe	**9**	**3**	**12**
Gordondale			
Montney D2 horizontal oil wells	7	0	7
Montney D1 horizontal oil wells	5	0	5
Total – Gordondale	**12**	**0**	**12**
TOTAL – COMBINED	**21**	**3**	**24**

Wells Bought on Production – 2019

Area	Wells brought on production year-to-date	Remaining wells to be brought on production in 2019	Total wells to be brought on production in 2019(1)
Pouce Coupe			
Montney D1 horizontal natural gas wells	11	3	14
Montney D2 horizontal natural gas wells	2	0	2
Montney C horizontal natural gas wells	1	0	1
Total – Pouce Coupe	**14**	**3**	**17**
Gordondale			
Montney D2 horizontal oil wells	7	2	9
Montney D1 horizontal oil wells	5	2	7
Total – Gordondale	**12**	**4**	**16**
TOTAL – COMBINED	**26**	**7**	**33**

(1) Includes 9 (9.0) net wells that were drilled and rig released in Q4 2018.

Pouce Coupe

Key focus areas for Pouce Coupe in 2019 are the drilling of condensate-rich natural gas wells and the further exploitation and delineation of condensate-rich trends in the Montney D1, D2 and C intervals. Birchcliff recently brought on production a six-well pad located at 14-06-079-12W6M on the lands that Birchcliff acquired pursuant to the Acquisition in Q1 2019. The six wells were drilled in three different intervals (4 in the Montney D1, 1 in the Montney D2 and 1 in the Montney C). During the initial 30 days of production, this six-well pad was flowing inline post-fracture treatment raw natural gas, condensate and frac water. The production rates of the wells have been stabilizing as the frac water flowing back to surface diminishes over time and during the initial 30 days of production, the stabilized flow of the wells had an aggregate average production rate of 6,350 boe/d (27.9 MMcf/d of raw natural gas and 1,690 bbls/d of condensate). For further details regarding these initial production rates, please see *"Advisories – Initial Production Rates"* and Birchcliff's updated corporate presentation available on its website at www.birchcliffenergy.com/investors/corporate-presentation/.

Gordondale

Key focus areas for Gordondale in 2019 are the drilling of crude oil wells and the further exploitation and delineation of oil in the Montney D1 and D2 intervals, specifically in the southeastern part of the Gordondale field. Birchcliff recently brought on production a five-well pad located at 01-10-078-11W6M. The five wells were drilled in two different intervals (2 in the Montney D1 and 3 in the Montney D2). During the initial 30 days of production, this five-well pad was flowing inline post-fracture oil, raw natural gas and frac water. The production rates of the wells have been stabilizing as the frac water flowing back to surface diminishes over time and during the initial 30 days of production, the stabilized flow of the wells had an aggregate average production rate of 4,446 boe/d (2,114 bbls/d of oil and 14.0 MMcf/d of raw natural gas). For further details regarding these initial production rates, please see *"Advisories – Initial Production Rates"* and Birchcliff's updated corporate presentation available on its website at www.birchcliffenergy.com/investors/corporate-presentation/.

OUTLOOK AND GUIDANCE

Birchcliff currently believes that it is well positioned to generate significant free funds flow in 2019 supported by its natural gas diversification and financial risk management contracts and its mix of long-life and low-decline assets, which provide it with a stable base of production. Birchcliff is committed to maintaining financial flexibility and a strong balance sheet and will allocate remaining free funds flow based on what it believes will provide the most value to its shareholders. Birchcliff expects to generate approximately $335 million of adjusted funds flow and $93 million of free funds flow in 2019.

Birchcliff has revised its 2019 guidance and commodity price assumptions to reflect the expansion to the 2019 Capital Program, the Corporation's results year-to-date and current economic conditions. Significant changes include the following:

- Birchcliff has increased its 2019 annual average production guidance to 77,000 to 79,000 boe/d from 76,000 to 78,000 boe/d to reflect the expansion to the 2019 Capital Program and the strong production performance of its wells year-to-date.
- As a result of a lower commodity price forecast for natural gas in 2019, Birchcliff has reduced the range of its average royalty expense in 2019 to $1.10/boe to $1.30/boe.
- Birchcliff's estimate of adjusted funds flow has increased to $335 million from $330 million and its estimate of free funds flow has decreased to $93 million from $126 million.
- F&D and total capital expenditures in 2019 are now estimated to be $242 million and $283 million, respectively.

The following table sets forth Birchcliff's previous and revised guidance and commodity price assumptions for 2019:

	Previous 2019 Guidance and Assumptions(1)	Revised 2019 Guidance and Assumptions(2)
Production		
Annual average production *(boe/d)*	76,000 – 78,000	77,000 – 79,000
% Light oil	7%	6%
% Condensate	6%	7%
% NGLs	8%	9%
% Natural gas	79%	78%
Average Expenses *($/boe)*		
Royalty	1.30 – 1.50	1.10 – 1.30
Operating	3.15 – 3.35	3.15 – 3.35
Transportation and other(3)	4.65 – 4.85	4.65 – 4.85
Adjusted Funds Flow *(MM$)*	330	335(4)
F&D Capital Expenditures *(MM$)*	204	242(5)
Free Funds Flow *(MM$)*(6)	126	93
Total Capital Expenditures *(MM$)*	245	283(5)
Natural Gas Market Exposure(7)		
AECO exposure as a % of total natural gas production	35%	34%
Dawn exposure as a % of total natural gas production	39%	38%
NYMEX HH exposure as a % of total natural gas production	25%	25%
Alliance exposure as a % of total natural gas production	1%	3%
Commodity Prices		
Average WTI spot price *(US$/bbl)*	56.00	57.50
Average WTI-MSW differential *(CDN$/bbl)*	10.00	7.50
Average AECO 5A spot price *(CDN$/GJ)*	1.65	1.50
Average Dawn spot price *(CDN$/GJ)*	3.40	3.05
Average NYMEX HH spot price *(US$/MMBtu)*(8)	3.00	2.70
Exchange rate *(CDN$ to US$1)*	1.32	1.32

(1) As previously disclosed on March 13, 2019. Birchcliff's previous guidance for its commodity mix, average expenses, funds flow, capital expenditures and natural gas market exposure in 2019 was based on an annual average production rate of 77,000 boe/d during 2019, which was the mid-point of Birchcliff's previous annual average production guidance for 2019.

(2) Birchcliff's revised guidance for its commodity mix, average expenses, funds flow, capital expenditures and natural gas market exposure in 2019 is based on an annual average production rate of 78,000 boe/d during 2019, which is the mid-point of Birchcliff's revised annual average production guidance for 2019.

(3) Includes transportation tolls for 150,000 GJ/d of natural gas sold at the Dawn price from January 1, 2019 to October 31, 2019 and 175,000 GJ/d from November 1, 2019 to December 31, 2019. Also includes any unused firm transportation costs associated with Birchcliff's commitments on the NGTL system.

(4) Birchcliff's estimate of adjusted funds flow takes into account the settlement of financial and physical commodity risk management contracts outstanding as at August 13, 2019. Please see "*Q2 2019 Financial and Operational Results – Financial Results – Risk Management"*.

(5) Birchcliff's estimate of F&D capital expenditures corresponds to Birchcliff's revised 2019 capital budget of $242 million. This estimate excludes the purchase price for the Acquisition and any other net potential acquisitions and dispositions. Birchcliff's estimate of total capital expenditures includes the purchase price for the Acquisition; however, this estimate does not take into account any other potential acquisitions or dispositions as these amounts are unbudgeted. The estimate of total capital expenditures also includes minor administrative assets. Please see *"Advisories – Capital Expenditures"*.

(6) 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. Please see *"Non-GAAP Measures"*.

(7) Birchcliff's guidance regarding its natural gas market exposure in 2019 assumes: (i) 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; (ii) 5 MMcf/d being sold at Alliance's Trading Pool daily index price; and (iii) 100,000 MMBtu/d being hedged at a fixed basis differential between the AECO 7A price and the NYMEX HH price.

(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.

Birchcliff continues to be strategic and opportunistic in advancing its market access initiatives and its physical natural gas sales exposure currently consists of AECO, Dawn and Alliance markets, with additional exposure to NYMEX HH pricing through its outstanding financial instruments. Effective November 1, 2019, Birchcliff's level of firm service on TCPL's Canadian Mainline to Dawn will increase to 175,000 GJ/d from 150,000 GJ/d. Effectively 88% of Birchcliff's total revenue in 2019, representing 74% of its total production, is expected to be based on non-AECO benchmark prices after taking into account its commodity risk management contracts and expected sales from liquids and based on the commodity price assumptions set forth in the table above. This natural gas market diversification together with Birchcliff's financial risk management contracts will help to further strengthen Birchcliff's balance sheet and protect its cash flow and project economics.

The following table illustrates the expected impact of changes in commodity prices and the CDN/US exchange rate on the Corporation's estimate of adjusted funds flow for 2019 of $335 million, after taking into account its financial instruments outstanding as at August 13, 2019:

	Estimated change to 2019 adjusted funds flow *(CDNMM$)*(1)(2)
Change in WTI US$1.00/bbl	5.0
Change in NYMEX HH US$0.10/MMBtu	3.4
Change in Dawn CDN$0.10/GJ	5.6
Change in AECO 5A CDN$0.10/GJ	6.4
Change in CDN/US exchange rate CDN$0.01	2.6

(1) Please see the guidance table above.

(2) The calculated impact on adjusted funds flow is only applicable within the 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.

Changes in assumed commodity prices and variances in production estimates can have a significant impact on the Corporation's estimate of adjusted funds flow. For further information regarding Birchcliff's guidance, please see *"Advisories – Forward-Looking Statements"*.

2018 CORPORATE RESPONSIBILITY REPORT

Birchcliff has released its 2018 Corporate Responsibility Report, a copy of which is available at http://birchcliffenergy.com/media/uploads/documents/birchcliff_corporate_responsibility_report_2018.pdf. This report has been designed to provide investors and stakeholders with additional information regarding Birchcliff's corporate responsibility initiatives, including environmental, social and governance (ESG) related topics.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

This Management's Discussion and Analysis ("**MD&A**") for Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") dated August 14, 2019 is with respect to the three and six months ended June 30, 2019 (the "**Reporting Periods**") as compared to the three and six months ended June 30, 2018 (the "**Comparable Prior Periods**"). This MD&A has been prepared by management and approved by the Corporation's Audit Committee and Board of Directors and should be read in conjunction with the interim condensed financial statements of the Corporation and related notes for the Reporting Periods, as well as the annual audited financial statements of the Corporation and the related notes for the year ended December 31, 2018 which have been prepared in accordance with IFRS. Birchcliff adopted IFRS 16: *Leases* ("**IFRS 16**") effective January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. For further information, see "*Changes In Accounting Policies"* in this MD&A. 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", "free funds flow", "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 (collectively, "**forward-looking statements**") within the meaning of applicable Canadian securities laws. Such forward-looking statements are based upon certain expectations and assumptions and actual results may differ materially from those expressed or implied by such forward-looking statements. For further information regarding the forward-looking statements contained herein, 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, 2018, is available on the SEDAR website at www.sedar.com and on the Corporation's website at www.birchcliffenergy.com.

2019 SECOND QUARTER FINANCIAL AND OPERATIONAL HIGHLIGHTS

- Production averaged 78,453 boe/d (6% light oil, 7% condensate, 9% NGLs and 78% natural gas), a 3% increase from the three month Comparable Prior Period. Liquids production weighting increased by 3% from the first quarter of 2019 and by 8% from the three month Comparable Prior Period.
- Adjusted funds flow of $74.0 million, or $0.28 per basic common share, a 2% increase and a 4% increase, respectively, from the three month Comparable Prior Period. Birchcliff generated $6.0 million of free funds flow in the three month Reporting Period.
- Net loss to common shareholders of $9.5 million, or $0.04 per basic common share, as compared to the net income to common shareholders of $6.4 million and $0.02 per basic common share in the three month Comparable Prior Period. Included in the net loss to common shareholders is an after-tax unrealized mark-to-market loss on financial instruments of $35.7 million, or $0.13 per basic common share, and a future income tax recovery of $18.9 million, or $0.07 per basic common share, resulting from the change in Alberta's corporate income tax rate from 12% to 8% over the next four years.
- Record low operating expense of $3.17/boe, a 6% decrease from the three month Comparable Prior Period.
- Operating netback of $11.38/boe, a 14% decrease from the three month Comparable Prior Period.
- Birchcliff drilled 5 (5.0 net) wells and brought 14 (14.0 net) wells on production.

- F&D capital expenditures were $67.9 million, which were approximately $6.0 million (9%) less than Birchcliff's adjusted funds flow in the three month Reporting Period. Total capital expenditures were $68.5 million in the three month Reporting Period.
- As at June 30, 2019, Birchcliff's long-term bank debt was $622.3 million and its total debt was $654.7 million, a 1% increase and a 1% decrease, respectively, from its long-term and total debt as at June 30, 2018.

See *"Cash Flow from Operating Activities and Adjusted Funds Flow", "Net Income 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

Birchcliff has expanded its 2019 capital program (the "**2019 Capital Program**") to include the drilling and bringing on production of an additional 7 (7.0 net) horizontal wells in 2019, with F&D capital expenditures now expected to be $242 million. For further information regarding the expanded 2019 Capital Program, see the Corporation's press release dated August 14, 2019.

Birchcliff currently believes that it is well positioned to generate significant free funds flow in 2019 supported by its natural gas diversification and financial risk management contracts and its mix of long-life and low-decline assets, which provide it with a stable base of production. Birchcliff is committed to maintaining financial flexibility and a strong balance sheet and will allocate remaining free funds flow based on what it believes will provide the most value to its shareholders. Birchcliff expects to generate approximately $335 million of adjusted funds flow and $93 million of free funds flow (adjusted funds flow less F&D capital expenditures) in 2019.

Birchcliff has revised its 2019 guidance and commodity price assumptions to reflect the expansion to the 2019 Capital Program, the Corporation's results year-to-date and current economic conditions. Significant changes include the following:

- Birchcliff has increased its 2019 annual average production guidance to 77,000 to 79,000 boe/d from 76,000 to 78,000 boe/d to reflect the expansion to the 2019 Capital Program and the strong production performance of its wells year-to-date.
- As a result of a lower commodity price forecast for natural gas in 2019, Birchcliff has reduced the range of its average royalty expense in 2019 to $1.10/boe to $1.30/boe.
- Birchcliff's estimate of adjusted funds flow has increased to $335 million from $330 million and its estimate of free funds flow has decreased to $93 million from $126 million.
- F&D and total capital expenditures in 2019 are now estimated to be $242 million and $283 million, respectively.

The following table sets forth Birchcliff's previous and revised guidance and commodity price assumptions for 2019:

	Previous 2019 Guidance and Assumptions(1)	Revised 2019 Guidance and Assumptions(2)
Production		
Annual average production *(boe/d)*	76,000 – 78,000	77,000 – 79,000
% Light oil	7%	6%
% Condensate	6%	7%
% NGLs	8%	9%
% Natural gas	79%	78%
Average Expenses *($/boe)*		
Royalty	1.30 – 1.50	1.10 – 1.30
Operating	3.15 – 3.35	3.15 – 3.35
Transportation and other(3)	4.65 – 4.85	4.65 – 4.85
Adjusted Funds Flow *(MM$)*	330	335(4)
F&D Capital Expenditures *(MM$)*	204	242(5)
Free Funds Flow *(MM$)*(6)	126	93
Total Capital Expenditures *(MM$)*	245	283(5)
Natural Gas Market Exposure(7)		
AECO exposure as a % of total natural gas production	35%	34%
Dawn exposure as a % of total natural gas production	39%	38%
NYMEX HH exposure as a % of total natural gas production	25%	25%
Alliance exposure as a % of total natural gas production	1%	3%
Commodity Prices		
Average WTI spot price *(US$/bbl)*	56.00	57.50
Average WTI-MSW differential *(CDN$/bbl)*	10.00	7.50
Average AECO 5A spot price *(CDN$/GJ)*	1.65	1.50
Average Dawn spot price *(CDN$/GJ)*	3.40	3.05
Average NYMEX HH spot price *(US$/MMBtu)*(8)	3.00	2.70
Exchange rate *(CDN$ to US$1)*	1.32	1.32

(1) As previously disclosed on March 13, 2019. Birchcliff's previous guidance for its commodity mix, average expenses, funds flow, capital expenditures and natural gas market exposure in 2019 was based on an annual average production rate of 77,000 boe/d during 2019, which was the mid-point of Birchcliff's previous annual average production guidance for 2019.

(2) Birchcliff's revised guidance for its commodity mix, average expenses, funds flow, capital expenditures and natural gas market exposure in 2019 is based on an annual average production rate of 78,000 boe/d during 2019, which is the mid-point of Birchcliff's revised annual average production guidance for 2019.

(3) Includes transportation tolls for 150,000 GJ/d of natural gas sold at the Dawn price from January 1, 2019 to October 31, 2019 and 175,000 GJ/d from November 1, 2019 to December 31, 2019. Also includes any unused firm transportation costs associated with Birchcliff's commitments on the NGTL system.

(4) Birchcliff's estimate of adjusted funds flow takes into account the settlement of financial and physical commodity risk management contracts outstanding as at August 13, 2019. See "*Discussion of Operations – Risk Management"* in this MD&A.

(5) Birchcliff's estimate of F&D capital expenditures corresponds to Birchcliff's revised 2019 capital budget of $242 million. This estimate excludes the purchase price for the Acquisition and any other net potential acquisitions and dispositions. Birchcliff's estimate of total capital expenditures includes the purchase price for the Acquisition; however, this estimate does not take into account any other potential acquisitions or dispositions as these amounts are unbudgeted. The estimate of total capital expenditures also includes minor administrative assets. See *"Advisories – Capital Expenditures"* in this MD&A.

(6) 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"* in this MD&A.

(7) Birchcliff's guidance regarding its natural gas market exposure in 2019 assumes: (i) 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; (ii) 5 MMcf/d being sold at Alliance's Trading Pool daily index price; and (iii) 100,000 MMBtu/d being hedged at a fixed basis differential between the AECO 7A price and the NYMEX HH price.

(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.

Birchcliff continues to be strategic and opportunistic in advancing its market access initiatives and its physical natural gas sales exposure currently consists of AECO, Dawn and Alliance markets, with additional exposure to NYMEX HH pricing through its outstanding financial instruments. Effective November 1, 2019, Birchcliff's level of firm service on TCPL's Canadian Mainline to Dawn will increase to 175,000 GJ/d from 150,000 GJ/d. Effectively 88% of Birchcliff's total revenue in 2019, representing 74% of its total production, is expected to be based on non-AECO benchmark prices after taking into account its commodity risk management contracts and expected sales from liquids and based on the commodity price assumptions set forth in the table above. This natural gas market diversification together with

Birchcliff's financial risk management contracts will help to further strengthen Birchcliff's balance sheet and protect its cash flow and project economics.

The following table illustrates the expected impact of changes in commodity prices and the CDN/US exchange rate on the Corporation's estimate of adjusted funds flow for 2019 of $335 million, after taking into account its financial instruments outstanding as at August 13, 2019:

	Estimated change to 2019 adjusted funds flow *(CDNMM$)*(1)(2)
Change in WTI US$1.00/bbl	5.0
Change in NYMEX HH US$0.10/MMBtu	3.4
Change in Dawn CDN$0.10/GJ	5.6
Change in AECO 5A CDN$0.10/GJ	6.4
Change in CDN/US exchange rate CDN$0.01	2.6

(1) Please see the guidance table above.

(2) The calculated impact on adjusted funds flow is only applicable within the 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.

Changes in assumed commodity prices and variances in production estimates can have a significant impact on the Corporation's estimate of adjusted funds flow. For further information regarding Birchcliff's guidance, 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 periods indicated:

	Three months ended June 30,		**Six months ended June 30,**	
($000s)	**2019**	**2018**	**2019**	**2018**
Cash flow from operating activities	97,857	71,825	192,601	163,678
Adjusted funds flow	**73,957**	**72,369**	**190,605**	**156,027**
Per common share – basic *($)*	0.28	0.27	0.72	0.59
Per common share – diluted *($)*	0.28	0.27	0.72	0.58

Adjusted funds flow in the three month Reporting Period increased by 2% from the three month Comparable Prior Period. The increase was primarily due to lower royalty expense and a realized gain on financial instruments in the three month Reporting Period as compared to a realized loss on financial instruments in the three month Comparable Prior Period, largely offset by an increase in transportation and other expense as a result of Birchcliff's increased Dawn and AECO firm service and lower reported revenue. Revenue received by the Corporation was lower mainly due to a decrease in the average realized liquids pricing, partially offset by increased production of high-value condensate in Pouce Coupe.

Adjusted funds flow in the six month Reporting Period increased by 22% from the six month Comparable Prior Period. The increase was primarily due to a realized gain on financial instruments in the six month Reporting Period as compared to a realized loss on financial instruments in the six month Comparable Prior Period, higher reported revenue and lower royalty and operating expenses, partially offset by an increase in transportation and other expense as a result of Birchcliff's increased Dawn and AECO firm service. Revenue received by the Corporation was higher mainly due to increased production of high-value condensate in Pouce Coupe and a higher average realized natural gas sales price, partially offset by lower average realized liquids pricing.

Cash flow from operating activities for the three and six month Reporting Periods increased by 36% and 18%, respectively, from the Comparable Prior Periods. The reasons for the increases are consistent with the explanation for adjusted funds flow; 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 for the periods indicated:

	Three months ended June 30,			Six months ended June 30,		
($/boe)	**2019**	**2018**	**% Change**	**2019**	**2018**	**% Change**
Royalty expense	0.75	1.53	(51%)	0.98	1.48	(34%)
Operating expense	3.17	3.36	(6%)	3.28	3.57	(8%)
Transportation and other expense	4.29	3.64	18%	4.45	3.60	24%
G&A expense, net	0.87	0.88	(1%)	0.89	0.88	1%
Interest expense	0.92	0.96	(4%)	0.97	0.96	1%
Total cash costs	**10.00**	**10.37**	**(4%)**	**10.57**	**10.49**	**1%**

See "*Discussion of Operations*" in this MD&A for further details regarding the period-over-period movement in revenue and total cash cost inputs.

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 periods indicated:

	Three months ended June 30,		Six months ended June 30,	
($000s)	**2019**	**2018**	**2019**	**2018**
Net income (loss)	(8,458)	7,437	8,388	22,562
Net income (loss) to common shareholders[(1)]	**(9,505)**	**6,390**	**6,294**	**20,468**
Per common share – basic *($)*	(0.04)	0.02	0.02	0.08
Per common share – diluted *($)*	(0.04)	0.02	0.02	0.08

(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.

The change to a net loss position in the three month Reporting Period from a net income position in the three month Comparable Prior Period was primarily due to a $46.4 million unrealized mark-to-market loss on financial instruments recorded in the three month Reporting Period as compared to a $2.5 million unrealized mark-to-market gain on financial instruments in the three month Comparable Prior Period, partially offset by a $26.1 million income tax recovery in the three month Reporting Period as compared to a $3.6 million income tax expense in the three month Comparable Prior Period.

The decrease in net income to common shareholders from the six month Comparable Prior Period was primarily due to a $85.2 million unrealized mark-to-market loss on financial instruments recorded in the six month Reporting Period as compared to a $5.9 million unrealized mark-to-market loss on financial instruments in the six month Comparable Prior Period, partially offset by higher adjusted funds flow and a $19.1 million income tax recovery in the six month Reporting Period as compared to a $10.0 million income tax expense in the six month Comparable Prior Period.

See "*Discussion of Operations*" in this MD&A for further details regarding the period-over-period movement in unrealized gains and losses on financial instruments and income taxes.

POUCE COUPE GAS PLANT NETBACKS

During the six month Reporting Period, Birchcliff processed approximately 69% of its total corporate natural gas production and 59% of its total corporate production through its 100% owned and operated natural gas processing plant in Pouce Coupe (the "**Pouce Coupe Gas Plant**") as compared to 67% and 57%, respectively, during the six month Comparable Prior 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 periods indicated:

	Six months ended June 30, 2019		Six months ended June 30, 2018	
Average production:				
Condensate *(bbls/d)*		3,272		2,147
NGLs *(bbls/d)*		753		51
Natural gas *(Mcf/d)*		246,920		249,317
Total *(boe/d)*		**45,178**		**43,751**
Liquids-to-gas ratio *(bbls/MMcf)*		**16.3**		**8.8**
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
P&NG revenue(1)	3.38	20.30	2.91	17.49
Royalty expense	(0.06)	(0.35)	(0.05)	(0.29)
Operating expense(2)	(0.39)	(2.34)	(0.39)	(2.36)
Transportation and other expense	(0.75)	(4.55)	(0.55)	(3.33)
Operating netback	**$2.18**	**$13.06**	**$1.92**	**$11.51**
Operating margin(3)	**64%**	**64%**	**66%**	**66%**

(1) Excludes the effects of financial instruments but includes the effects of physical delivery contracts. See *"Discussion of Operations – Risk Management"* in this MD&A.

(2) Represents plant and field operating expense.

(3) Operating margin is calculated by dividing the operating netback for the period by the petroleum and natural gas revenue for the period.

The Corporation's liquids-to-gas ratio increased by 85% to 16.3 bbls/MMcf in the six month Reporting Period from 8.8 bbls/MMcf in the six month Comparable Prior Period primarily due to: (i) the re-configuration of Phases V and VI of the Pouce Coupe Gas Plant in the fourth quarter of 2018 which provided for shallow-cut capability, allowing Birchcliff to extract C3+ from the natural gas stream; and (ii) specifically targeted condensate-rich natural gas wells in Pouce Coupe. The amount of condensate being produced at the Pouce Coupe Gas Plant increased by 52%, to 3,272 bbls/d in the six month Reporting Period from 2,147 bbls/d in the six month Comparable Prior Period. The increase in the liquids-to-gas ratio in the six month Reporting Period improved Birchcliff's average realized sales price and operating netback at the Pouce Coupe Gas Plant.

Operating expense per boe at the Pouce Coupe Gas Plant remained largely unchanged from the six month Comparable Prior Period and was impacted by: (i) reduced take-or-pay processing commitments in Pouce Coupe beginning in November 2018 that resulted in natural gas being redirected from higher cost third-party facilities to the Pouce Coupe Gas Plant which has a lower operating cost structure; (ii) increased operating efficiencies resulting from expanded liquids handling capabilities in Pouce Coupe; and (iii) lower natural gas production processed at the Pouce Coupe Gas Plant during the six month Reporting Period.

Transportation and other expense per boe at the Pouce Coupe Gas Plant increased by 37% from the six month Comparable Prior Period mainly due to an additional 30,000 GJ/d of firm service transportation to Dawn which became available on November 1, 2018 and unused firm transportation costs associated with Birchcliff's commitments on the NGTL system, which is available for future production growth.

DISCUSSION OF OPERATIONS

Petroleum and Natural Gas Revenue

The following table sets forth Birchcliff's P&NG revenue 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 periods indicated:

			Three months ended June 30, 2019			Three months ended June 30, 2018
($000s)	Pouce Coupe assets	Gordondale assets	Corporate(1)	Pouce Coupe assets	Gordondale assets	Corporate(1)
Light oil	-	31,983	31,907	-	40,323	40,467
Condensate	27,315	8,500	35,906	19,950	11,426	31,396
NGLs	1,732	5,279	7,011	310	11,736	12,048
Natural gas	49,787	15,221	65,009	49,345	17,060	66,619
Total P&NG sales(2)	78,834	60,983	139,833	69,605	80,545	150,530
Royalty revenue	4	18	24	4	24	31
Total P&NG revenue	**78,838**	**61,001**	**139,857**	**69,609**	**80,569**	**150,561**
% of corporate revenue	**56%**	**44%**		**46%**	**54%**	
			Six months ended June 30, 2019			**Six months ended June 30, 2018**
($000s)	**Pouce Coupe assets**	**Gordondale assets**	**Corporate(1)**	**Pouce Coupe assets**	**Gordondale assets**	**Corporate(1)**
Light oil	-	60,176	60,454	-	66,945	67,184
Condensate	46,025	16,145	61,919	36,241	22,668	58,949
NGLs	3,531	14,230	17,761	600	24,090	24,693
Natural gas	135,291	42,690	177,985	118,538	40,106	159,193
Total P&NG sales(2)	184,847	133,241	318,119	155,379	153,809	310,019
Royalty revenue	8	84	93	10	61	73
Total P&NG revenue	**184,855**	**133,325**	**318,212**	**155,389**	**153,870**	**310,092**
% of corporate revenue	**58%**	**42%**		**50%**	**50%**	

(1) Includes other minor oil and natural gas properties that were not individually significant during the respective periods.

(2) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.

On a corporate basis, total P&NG revenue decreased by 7% from the three month Comparable Prior Period largely due to a lower average realized liquids sales price, partially offset by an increase in high-value condensate production in Pouce Coupe.

On a corporate basis, total P&NG revenue increased by 3% from the six month Comparable Prior Period largely due to a higher average corporate realized natural gas sales price and an increase in high-value condensate production in Pouce Coupe, partially offset by a lower average liquids sales price.

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 periods indicated:

	Three months ended June 30, 2019			Three months ended June 30, 2018		
	Pouce Coupe assets	Gordondale assets	Corporate[(1)]	Pouce Coupe assets	Gordondale assets	Corporate[(1)]
Light oil *(bbls/d)*	-	4,865	4,853	-	5,569	5,599
Condensate *(bbls/d)*	4,262	1,227	5,505	2,601	1,340	3,934
NGLs *(bbls/d)*	1,100	5,823	6,923	77	5,957	6,036
Natural gas *(Mcf/d)*	278,301	88,726	367,033	270,497	92,650	364,360
Total production *(boe/d)*	**51,746**	**26,703**	**78,453**	**47,761**	**28,308**	**76,296**
Liquids-to-gas ratio *(bbls/MMcf)*	**19.3**	**134.3**	**47.1**	**9.9**	**138.9**	**42.7**
% of corporate production	**66%**	**34%**		**63%**	**37%**	
	Six months ended June 30, 2019			**Six months ended June 30, 2018**		
	Pouce Coupe assets	**Gordondale assets**	**Corporate[(1)]**	**Pouce Coupe assets**	**Gordondale assets**	**Corporate[(1)]**
Light oil *(bbls/d)*	-	4,805	4,827	-	4,844	4,872
Condensate *(bbls/d)*	3,776	1,207	4,963	2,469	1,345	3,809
NGLs *(bbls/d)*	869	5,965	6,834	77	5,737	5,815
Natural gas *(Mcf/d)*	272,187	88,135	360,327	276,105	93,467	370,880
Total production *(boe/d)*	**50,009**	**26,666**	**76,678**	**48,564**	**27,504**	**76,309**
Liquids-to-gas ratio *(bbls/MMcf)*	**17.1**	**135.9**	**46.1**	**9.2**	**127.6**	**39.1**
% of corporate production	**65%**	**35%**		**64%**	**36%**	

(1) Includes other minor oil and natural gas properties that were not individually significant during the respective periods.

Corporate production in the three month Reporting Period increased 3% from the three month Comparable Prior Period and in the six month Reporting Period remained largely unchanged from the six month Comparable Prior Period. Production was impacted by new horizontal oil wells in Gordondale and horizontal condensate-rich natural gas wells in Pouce Coupe that were brought on production, partially offset by production curtailments on the NGTL and TCPL Canadian Mainline systems and natural production declines.

Corporate liquids production increased by 11% and 15% from the three and six month Comparable Prior Periods, respectively, largely due to the successful drilling of condensate-rich natural gas wells in Pouce Coupe, partially offset by lower liquids production in Gordondale.

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 periods indicated:

	Three months ended June 30, 2019			Three months ended June 30, 2018		
	Pouce Coupe assets	Gordondale assets	Corporate[(1)]	Pouce Coupe assets	Gordondale assets	Corporate[(1)]
% Light oil production	-	18%	6%	-	20%	7%
% Condensate production	8%	5%	7%	6%	5%	5%
% NGLs production	2%	22%	9%	-	20%	8%
% Natural gas production	90%	55%	78%	94%	55%	80%
	Six months ended June 30, 2019			**Six months ended June 30, 2018**		
	Pouce Coupe assets	**Gordondale assets**	**Corporate[(1)]**	**Pouce Coupe assets**	**Gordondale assets**	**Corporate[(1)]**
% Light oil production	-	18%	6%	-	18%	6%
% Condensate production	8%	5%	6%	5%	5%	5%
% NGLs production	2%	22%	9%	-	20%	8%
% Natural gas production	91%	55%	78%	95%	57%	81%

(1) Includes other minor oil and natural gas properties that were not individually significant during the respective periods.

Birchcliff's liquids production weighting increased by 8% and 14% in the three and six month Reporting Periods, respectively, from the Comparable Prior Periods. The changes in the commodity production mix was primarily attributable to higher liquids yield that resulted from the addition of condensate-rich natural gas wells in Pouce Coupe and an increase in C3+ recovered from the natural gas stream at the Pouce Coupe Gas Plant.

Commodity Prices

The following table sets forth the average benchmark index prices and exchange rate for the periods indicated:

			Three months ended June 30,
	2019	**2018**	**Change**
Light oil – WTI Cushing *(US$/bbl)*	59.79	67.88	(12%)
Light oil – MSW (Mixed Sweet) *(CDN$/bbl)*(1)	73.18	80.30	(9%)
Natural gas – NYMEX HH *(US$/MMBtu)*(2)	2.64	2.83	(7%)
Natural gas – AECO 5A Daily *(CDN$/GJ)*	0.98	1.12	(13%)
Natural gas – AECO 7A Month Ahead *(US$/MMBtu)*(2)	0.87	0.80	9%
Natural gas – Dawn Day Ahead *(US$/MMBtu)*(2)	2.34	2.77	(16%)
Natural gas – ATP 5A Day Ahead *(CDN$/GJ)*	1.17	1.46	(20%)
Exchange rate *(CDN$ to US$1)*	1.3376	1.2911	4%
Exchange rate *(US$ to CDN$1)*	0.7476	0.7745	(3%)
			Six months ended June 30,
	2019	**2018**	**Change**
Light oil – WTI Cushing *(US$/bbl)*	57.34	65.37	(12%)
Light oil – MSW (Mixed Sweet) *(CDN$/bbl)*(1)	69.63	76.08	(8%)
Natural gas – NYMEX HH *(US$/MMBtu)*(2)	2.89	2.84	2%
Natural gas – AECO 5A Daily *(CDN$/GJ)*	1.73	1.54	12%
Natural gas – AECO 7A Month Ahead *(US$/MMBtu)*(2)	1.17	1.13	4%
Natural gas – Dawn Day Ahead *(US$/MMBtu)*(2)	2.63	2.90	(9%)
Natural gas – ATP 5A Day Ahead *(CDN$/GJ)*	1.90	1.94	(2%)
Exchange rate *(CDN$ to US$1)*	1.3335	1.2780	4%
Exchange rate *(US$ to CDN$1)*	0.7499	0.7867	(5%)

(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*" in this MD&A.

Birchcliff sells substantially all of its light crude oil based on the MSW benchmark price. Birchcliff sells substantially all of its natural gas production for prices based on the AECO and Dawn benchmark prices. Effective November 1, 2018, Birchcliff increased its firm service transportation to Dawn by 30,000 GJ/d, bringing the total natural gas production receiving the Dawn benchmark price to 150,000 GJ/d in the Reporting Periods (see *"Discussion of Operations – Petroleum Natural Gas Revenue – Natural Gas Sales, Production and Average Realized Sales Price*" in this MD&A). Birchcliff has also financially diversified a portion of its AECO production to NYMEX-based pricing which became effective January 1, 2019 (see *"Discussion of Operations – Risk Management*" in this MD&A). The average realized sales prices the Corporation receives for its light crude oil and natural gas production depend on a number of factors, including the average benchmark prices for crude oil and natural gas, the US to Canadian dollar exchange rate, transportation costs, product quality differentials and the heat premium on its 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 price and the MSW price. The differential between the WTI 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 the lack of pipeline infrastructure connecting to key consuming oil markets. The MSW price decreased from the Comparable Prior Periods largely due to a lower WTI price, partially offset by a narrowing differential between WTI and MSW prices.

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 benchmark prices during the Reporting Periods continued to receive a significant discount to Dawn and NYMEX HH prices primarily due to the high natural gas supplies in Western Canada relative to the limited economic transportation and egress solutions out of Western Canada.

The following table sets forth Birchcliff's average realized light oil, condensate, NGLs and natural gas sales prices for the periods indicated:

			Three months ended June 30,
	2019	2018	Change
Light oil *($/bbl)*	72.25	79.55	(9%)
Condensate *($/bbl)*	71.69	87.52	(18%)
NGLs *($/bbl)*	11.13	21.94	(49%)
Natural gas *($/Mcf)*	1.95	2.01	(3%)
Average realized sales price *($/boe)*[(1)]	**19.59**	**21.68**	**(10%)**
			Six months ended June 30,
	2019	**2018**	**Change**
Light oil *($/bbl)*	69.20	76.33	(9%)
Condensate *($/bbl)*	68.93	85.35	(19%)
NGLs *($/bbl)*	14.36	23.46	(39%)
Natural gas *($/Mcf)*	2.73	2.37	15%
Average realized sales price *($/boe)*[(1)]	**22.92**	**22.45**	**2%**

(1) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.

The average realized sales price decreased by 10% from the three month Comparable Prior Period primarily due to the decrease in the average benchmark prices for oil and natural gas.

The average realized sales price increased by 2% from the six month Comparable Prior Period. The increase in the average realized sales price from the six month Comparable Prior Period was primarily due to the change in the average benchmark prices for oil and natural gas. The average realized sales price for the six month Reporting Period includes the effects of physical natural gas sales delivery contracts in place during the period. Birchcliff's average realized natural gas sales price during the six month Reporting Period included physical delivery contracts at Dawn during the first quarter of 2019 for 50,000 MMBtu/d at an average contract price of US$5.05/MMBtu.

The average realized sales price for the Pouce Coupe assets was $16.74/boe in the three month Reporting Period and $20.42/boe in the six month Reporting Period, a 5% and 16% increase, respectively, from the Comparable Prior Periods. The average realized sales price for the Gordondale assets was $25.10/boe in the three month Reporting Period and $27.63/boe in the six month Reporting Period, a 20% and 11% decrease, respectively, from the Comparable Prior Periods. The Gordondale assets received a higher average realized sales price compared to the Pouce Coupe assets, largely as a result of the higher volume weighting of liquids produced in the Gordondale area, which received a higher value on a per boe basis than Birchcliff's natural gas sales. The higher volume 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

During the three month Reporting Period, approximately 66% of Birchcliff's natural gas sales revenue, representing approximately 41% of its total natural gas production, was generated from the Dawn and Alliance markets with an average realized natural gas sales price of $3.15/Mcf, a 184% premium to Birchcliff's average realized natural gas sales price of $1.11/Mcf from the AECO market in the three month Reporting Period.

During the six month Reporting Period, approximately 62% of Birchcliff's natural gas sales revenue, representing approximately 43% of its total natural gas production, was generated from the Dawn and Alliance markets with an average realized natural gas sales price of $4.00/Mcf, a 126% premium to Birchcliff's average realized natural gas sales price of $1.77/Mcf from the AECO market.

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

	Three months ended June 30, 2019					Three months ended June 30, 2018				
	Natural gas sales ($000s)[1]	(%)	Natural gas production (Mcf/d)	(%)	Average realized natural gas price ($/Mcf)[1]	Natural gas sales ($000s)[1]	(%)	Natural gas production (Mcf/d)	(%)	Average realized natural gas price ($/Mcf)[1]
AECO	22,049	34	217,353	59	1.11	25,092	38	219,135	60	1.27
Dawn[2]	41,104	63	135,953	37	3.32	37,542	56	108,950	30	3.79
Alliance[3]	1,856	3	13,727	4	1.49	3,985	6	36,275	10	1.21
Total	**65,009**	**100**	**367,033**	**100**	**1.95**	**66,619**	**100**	**364,360**	**100**	**2.01**
	Six months ended June 30, 2019					**Six months ended June 30, 2018**				
	Natural gas sales *($000s)*[1]	*(%)*	**Natural gas production** *(Mcf/d)*	*(%)*	**Average realized natural gas price** *($/Mcf)*[1]	**Natural gas sales** *($000s)*[1]	*(%)*	**Natural gas production** *(Mcf/d)*	*(%)*	**Average realized natural gas price** *($/Mcf)*[1]
AECO	66,731	37	205,854	57	1.77	68,720	43	219,235	59	1.74
Dawn[2]	103,965	58	136,901	38	4.20	77,168	48	109,693	30	3.89
Alliance[3]	7,289	4	17,572	5	2.29	13,305	9	41,952	11	1.75
Total	**177,985**	**100**	**360,327**	**100**	**2.73**	**159,193**	**100**	**370,880**	**100**	**2.37**

(1) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.

(2) 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 in Southern Ontario. The first tranche of this service (120,000 GJ/d) became available on November 1, 2017 and the second tranche (30,000 GJ/d) became available on November 1, 2018, bringing the total to 150,000 GJ/d. The last tranche of service (25,000 GJ/d) will become available on November 1, 2019. During the first quarter of 2019, Birchcliff had in place physical delivery contracts at Dawn for 50,000 MMBtu/d at an average contract price of US$5.05/MMBtu. There were no physical delivery contracts in place at Dawn during the three month Reporting Period or outstanding subsequent to June 30, 2019.

(3) Birchcliff has sales agreements with a third party marketer to sell and deliver into the Alliance pipeline system. Alliance sales are recorded net of transportation tolls.

Risk Management

Birchcliff engages in risk management activities by utilizing various financial instruments and physical delivery contracts to diversify its sales points or fix commodity prices and market interest rates. Subject to compliance with the Corporation's credit facilities, the Board of Directors has authorized the Corporation to execute a risk management strategy whereby Birchcliff is authorized to enter into agreements and financial or physical transactions with one or more counterparties from time to time that are intended to reduce the risk to the Corporation from volatility in future commodity prices, foreign exchange rates and/or interest rates.

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 instruments are recorded on the statements of financial position on a mark-to-market fair value basis at June 30, 2019, 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 June 30, 2019, Birchcliff had the following financial derivative contracts in place in order to manage commodity price risk:

Product	Type of Contract	Notional Quantity	Remaining Term[(1)]	Contract Price
Natural gas	AECO 7A basis swap[(2)]	30,000 MMBtu/d	Jul. 1, 2019 – Dec. 31, 2023	NYMEX HH less US$1.298/MMBtu
Natural gas	AECO 7A basis swap[(2)]	10,000 MMBtu/d	Jul. 1, 2019 – Dec. 31, 2023	NYMEX HH less US$1.32/MMBtu
Natural gas	AECO 7A basis swap[(2)]	30,000 MMBtu/d	Jul. 1, 2019 – Dec. 31, 2023	NYMEX HH less US$1.33/MMBtu
Natural gas	AECO 7A basis swap[(2)]	15,000 MMBtu/d	Jul. 1, 2019 – Dec. 31, 2024	NYMEX HH less US$1.185/MMBtu
Natural gas	AECO 7A basis swap[(2)]	5,000 MMBtu/d	Jul. 1, 2019 – Dec. 31, 2024	NYMEX HH less US$1.20/MMBtu
Natural gas	AECO 7A basis swap[(2)]	5,000 MMBtu/d	Jul. 1, 2019 – Dec. 31, 2024	NYMEX HH less US$1.20/MMBtu
Natural gas	AECO 7A basis swap[(2)]	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.178/MMBtu
Natural gas	AECO 7A basis swap[(2)]	10,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.175/MMBtu
Natural gas	AECO 7A basis swap[(2)]	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.190/MMBtu
Natural gas	AECO 7A basis swap[(2)]	25,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.135/MMBtu
Natural gas	AECO 7A basis swap[(2)]	30,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.094/MMBtu
Natural gas	AECO 7A basis swap[(2)]	5,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.013/MMBtu
Natural gas	AECO 7A basis swap[(2)]	15,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US$1.01/MMBtu

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

(2) Birchcliff sold AECO basis swap.

The following financial derivative contracts were entered into subsequent to June 30, 2019:

Product	Type of Contract	Notional Quantity	Remaining Term[(1)]	Contract Price
Natural gas	AECO 7A basis swap[(2)]	5,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US$0.99/MMBtu
Natural gas	AECO 7A basis swap[(2)]	5,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US$0.99/MMBtu
Natural gas	AECO 7A basis swap[(2)]	5,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2025	NYMEX HH less US$1.12/MMBtu
Natural gas	AECO 7A basis swap[(2)]	10,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2025	NYMEX HH less US$1.11/MMBtu
Natural gas	AECO 7A basis swap[(2)]	5,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2025	NYMEX HH less US$1.11/MMBtu

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

(2) Birchcliff sold AECO basis swap.

Physical Delivery Contracts

Birchcliff also enters into physical delivery 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 June 30, 2019, the Corporation had the following physical delivery contract in place:

Product	Type of Contract	Quantity	Remaining Term[(1)]	Contract Price
Natural gas	AECO 7A basis swap[(2)]	5,000 MMBtu/d	Jul. 1, 2019 – Dec. 31, 2023	NYMEX HH less US$1.205/MMBtu

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

(2) Birchcliff sold AECO basis swap.

There were no long-term physical delivery contracts entered into subsequent to June 30, 2019.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation's credit facilities are exposed to interest rate risk. The remainder of Birchcliff's financial assets and liabilities are not exposed directly to interest rate risk. As at June 30, 2019, Birchcliff had the following financial derivative contracts in place to manage interest rate risk:

Type of Contract	Index	Remaining Term[(1)(2)]	Notional value	Fixed Rate
Interest rate swap	One-month banker's acceptance – CDOR[(3)]	Jul. 1, 2019 – Mar. 1, 2024	$350,000,000	2.215%

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

(2) Contract terms commenced on March 1, 2019.

(3) Canadian Dollar Offered Rate ("**CDOR**").

Realized and Unrealized Gains and Losses on Financial Instruments

The following table provides a summary of the realized and unrealized gains (losses) on financial instruments for the periods indicated:

	Three months ended June 30,				Six months ended June 30,			
	2019		2018		2019		2018	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Realized gain (loss) on financial instruments	5,317	0.74	(6,462)	(0.93)	18,635	1.34	(9,581)	(0.69)
Unrealized gain (loss) on financial instruments	(46,373)	(6.50)	2,520	0.36	(85,248)	(6.14)	(5,878)	(0.43)

Birchcliff realized a cash gain on financial instruments during the Reporting Periods due to the settlement of financial NYMEX/AECO basis swap contracts that were outstanding in those periods with an average basis differential that was above the average contract basis in the Reporting Periods.

Birchcliff recorded an unrealized non-cash loss of $46.4 million and $85.2 million on financial instruments in the three and six month Reporting Periods, respectively, mainly due to a decrease in the fair value of its NYMEX/AECO basis swap contracts in those periods. During the three and six month Reporting Periods, the fair value of Birchcliff's financial instruments decreased from a net asset position of $21.3 million at March 31, 2019 and $60.2 million at December 31, 2018, respectively, to a net liability position of $25.1 million at June 30, 2019. The fair value of the net asset or liability is the estimated value to settle outstanding financial contracts at a point in time. The decrease in the fair value of Birchcliff's financial instruments during the Reporting Periods was primarily attributable to the decrease in the forward basis spread between NYMEX HH and AECO 7A for contracts outstanding at June 30, 2019 as compared to March 31, 2019 and December 31, 2018 and the settlement of financial contracts in the Reporting Periods. The unrealized gains and losses on financial NYMEX HH basis contracts can fluctuate materially from period-to-period due to movement in the forward NYMEX HH and AECO 7A strip prices. Unrealized gains and losses on financial instruments do not impact adjusted funds flow and may differ materially from the actual gains or losses realized on the eventual cash settlement of financial contracts in a period.

Royalties

The following table sets forth Birchcliff's royalty expense for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Royalty expense *($000s)*[(1)]	5,347	10,632	13,556	20,443
Royalty expense *($/boe)*	0.75	1.53	0.98	1.48
Effective royalty rate *(%)*[(2)]	4%	7%	4%	7%

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

(2) The effective royalty rate is calculated by dividing the aggregate royalties into P&NG sales for the period.

Birchcliff's per unit royalties decreased 51% and 34% from the three and six month Comparable Prior Periods, respectively, primarily due to prior period gas cost allowance ("**GCA**") adjustments and a decrease in the average realized oil and NGLs sales prices and the effect these lower prices have on the sliding scale royalty calculation.

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 periods indicated:

	Three months ended June 30,				Six months ended June 30,			
	2019		2018		2019		2018	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Field operating expense	23,442	3.28	23,875	3.44	47,010	3.39	50,371	3.65
Recoveries	(790)	(0.11)	(556)	(0.08)	(1,441)	(0.11)	(1,119)	(0.08)
Operating expense	**22,652**	**3.17**	**23,319**	**3.36**	**45,569**	**3.28**	**49,252**	**3.57**

On a per unit basis, operating expense decreased by 6% and 8% from the three and six month Comparable Prior Periods, respectively, primarily due to: (i) a step-down reduction in natural gas processing fees which became effective January 1, 2019 at AltaGas' deep-cut sour gas processing facility in Gordondale; (ii) reduced take-or-pay processing commitments in Pouce Coupe beginning in November 2018 which resulted in natural gas being redirected from third-party facilities to the Pouce Coupe Gas Plant; and (iii) increased operating efficiencies resulting from expanded liquids-handling capabilities in Pouce Coupe. 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 periods indicated:

	Three months ended June 30,				Six months ended June 30,			
	2019		2018		2019		2018	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Transportation	30,023	4.21	23,769	3.42	59,940	4.32	47,033	3.41
Fractionation	545	0.08	1,441	0.22	1,671	0.13	2,685	0.19
Other	31	-	29	-	65	-	61	-
Transportation and other expense	**30,599**	**4.29**	**25,239**	**3.64**	**61,676**	**4.45**	**49,779**	**3.60**

On a per unit basis, transportation and other expense increased by 18% and 24% from the three and six month Comparable Prior Periods, respectively, primarily due to an additional 30,000 GJ/d of firm service transportation to Dawn that became available on November 1, 2018 and unused firm transportation costs associated with Birchcliff's commitments on the NGTL system, which is available for future production growth. 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 periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2019	**2018**	**2019**	**2018**
Pouce Coupe Montney/Doig Resource Play:				
Average production:				
Condensate *(bbls/d)*	4,262	2,601	3,776	2,469
NGLs *(bbls/d)*	1,100	77	869	77
Natural gas *(Mcf/d)*	278,301	270,497	272,187	276,105
Total *(boe/d)*	**51,746**	**47,761**	**50,009**	**48,564**
% of corporate production	66%	63%	65%	64%
Liquids-to-gas ratio *(bbls/MMcf)*	19.3	9.9	17.1	9.2
Netback and cost ($/boe):				
Petroleum and natural gas revenue[1]	16.74	16.02	20.42	17.68
Royalty expense	(0.11)	0.02	(0.43)	(0.26)
Operating expense	(2.10)	(2.21)	(2.22)	(2.42)
Transportation and other expense	(4.45)	(3.47)	(4.58)	(3.38)
Operating netback	**10.08**	**10.36**	**13.19**	**11.62**
Gordondale Montney/Doig Resource Play:				
Average production:				
Light oil *(bbls/d)*	4,865	5,569	4,805	4,844
Condensate *(bbls/d)*	1,227	1,340	1,207	1,345
NGLs *(bbls/d)*	5,823	5,957	5,965	5,737
Natural gas *(Mcf/d)*	88,726	92,650	88,135	93,467
Total *(boe/d)*	**26,703**	**28,308**	**26,666**	**27,504**
% of corporate production	34%	37%	35%	36%
Liquids-to-gas ratio *(bbls/MMcf)*	134.3	138.9	135.9	127.6
Netback and cost ($/boe):				
Petroleum and natural gas revenue[1]	25.10	31.28	27.63	30.91
Royalty expense	(1.99)	(4.15)	(2.01)	(3.62)
Operating expense	(5.18)	(5.14)	(5.24)	(5.46)
Transportation and other expense	(3.95)	(3.92)	(4.18)	(4.01)
Operating netback	**13.98**	**18.07**	**16.20**	**17.82**
Total Corporate:				
Average production:				
Light oil *(bbls/d)*	4,853	5,599	4,827	4,872
Condensate *(bbls/d)*	5,505	3,934	4,963	3,809
NGLs *(bbls/d)*	6,923	6,036	6,834	5,815
Natural gas *(Mcf/d)*	367,033	364,360	360,327	370,880
Total *(boe/d)*[2]	**78,453**	**76,296**	**76,678**	**76,309**
Liquids-to-gas ratio *(bbls/MMcf)*	47.1	42.7	46.1	39.1
Netback and cost ($/boe):				
Petroleum and natural gas revenue[1]	19.59	21.69	22.93	22.45
Royalty expense	(0.75)	(1.53)	(0.98)	(1.48)
Operating expense	(3.17)	(3.36)	(3.28)	(3.57)
Transportation and other expense	(4.29)	(3.64)	(4.45)	(3.60)
Operating netback	**11.38**	**13.16**	**14.22**	**13.80**

(1) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.

(2) Includes 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 51,746 boe/d in the three month Reporting Period and 50,009 boe/d in the six month Reporting Period, an 8% and a 3% increase, respectively, from the Comparable Prior Periods. The increase in the Reporting Periods was primarily due to the incremental production from new horizontal condensate-rich natural gas wells that were brought on production.

Birchcliff's liquids-to-gas ratio for the Pouce Coupe assets was 19.3 bbls/MMcf in the three month Reporting Period and 17.1 bbls/MMcf in the six month Reporting Period, a 95% and 86% increase, respectively, from the Comparable Prior Periods. The increase in the liquids-to-gas ratio from the Comparable Prior Periods was primarily due to the specifically targeted condensate-rich natural gas wells in Pouce Coupe and the re-configuration of Phases V and VI of the Pouce Coupe Gas Plant which provided for shallow-cut capability, allowing Birchcliff to extract C3+ from the natural gas stream.

Operating expense for the Pouce Coupe assets was $2.10/boe in the three month Reporting Period and $2.22/boe in the six month Reporting Period, a 5% and 8% decrease, respectively, from the Comparable Prior Periods. The decrease was largely due to reduced take-or-pay processing commitments in Pouce Coupe beginning in November 2018 that resulted in natural gas being redirected from third-party facilities to the Pouce Coupe Gas Plant and increased operating efficiencies from improved liquids handling capabilities in the Pouce Coupe.

Transportation and other expense for the Pouce Coupe assets was $4.45/boe in the three month Reporting Period and $4.58/boe in the six month Reporting Period, a 28% and 36% increase, respectively, from the Comparable Prior Periods. The increase was mainly due to an additional 30,000 GJ/d of firm service transportation to Dawn which became available on November 1, 2018 and unused firm transportation costs associated with Birchcliff's commitments on the NGTL system, which is available for future production growth.

Birchcliff's operating netback for the Pouce Coupe assets was $10.08/boe in the three month Reporting Period and $13.19/boe in the six month Reporting Period, a 3% decrease and 14% increase, respectively, from the Comparable Prior Periods. The decrease in the three month Reporting Period was largely due to higher per boe transportation and other expense, partially offset by a higher average realized sales price received for Birchcliff's Pouce Coupe production. The increase in the six month Reporting Period was largely due to a higher average realized sales price received for Birchcliff's Pouce Coupe production, partially offset by higher per boe transportation and other expense.

Gordondale Montney/Doig Resource Play

Birchcliff's average production from its Gordondale assets was 26,703 boe/d in the three month Reporting Period and 26,666 boe/d in the six month Reporting Period, a 6% and 3% decrease, respectively, from the Comparable Prior Periods. The decrease in the Reporting Periods was primarily due to natural production declines, partially offset by the incremental production from new horizontal oil wells that were brought on production in Gordondale.

Birchcliff's liquids-to-gas ratio for the Gordondale assets was 134.3 bbls/MMcf in the three month Reporting Period and 135.9 bbls/MMcf in the six month Reporting Period, a 3% decrease and 7% increase, respectively, from the Comparable Prior Periods. The change in the liquids-to-gas ratio in the Reporting Periods is primarily attributable to the timing of bringing new production on-stream and the successful drilling of horizontal oil wells in Gordondale.

Operating expense for the Gordondale assets was $5.18/boe in the three month Reporting Period and $5.24/boe in the six month Reporting Period, a 1% increase and 4% decrease, respectively, from the Comparable Prior Periods. Operating expense in the Reporting Periods was impacted by a step-down reduction in natural gas processing fees which became effective January 1, 2019 at AltaGas' deep-cut sour gas processing facility in Gordondale and lower production in the Gordondale field.

Transportation and other expense for the Gordondale assets was $3.95/boe in the three month Reporting Period and $4.18/boe in the six month Reporting Period, a 1% and 4% increase, respectively, from the Comparable Prior Periods. The increase was mainly due to additional firm service tolls for natural gas transported to Dawn and unused firm transportation costs associated with Birchcliff's commitments on the NGTL system, which is available for future production growth.

Birchcliff's operating netback for the Gordondale assets was $13.98/boe in the three month Reporting Period and $16.20/boe in the six month Reporting Period, a 23% and 9% decrease, respectively, from the Comparable Prior Periods.

The decrease was primarily due to a lower average realized sales price received for Birchcliff's Gordondale production, partially offset by lower per boe royalty expense due to the GCA adjustment.

Administrative Expense

The following table sets forth the components of Birchcliff's net administrative expense for the periods indicated:

	Three months ended June 30, 2019		Three months ended June 30, 2018		Six months ended June 30, 2019		Six months ended June 30, 2018	
	($000s)	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*
Cash:								
Salaries and benefits(1)	5,853	60	5,685	60	12,063	62	12,067	64
Other(2)(3)	3,908	40	3,754	40	7,340	38	6,768	36
	9,761	100	9,439	100	19,403	100	18,835	100
Operating overhead recoveries	(43)	(1)	(42)	(1)	(79)	(1)	(83)	(1)
Capitalized overhead(4)	(3,498)	(35)	(3,318)	(35)	(7,016)	(35)	(6,633)	(35)
G&A expense, net	6,220	64	6,079	64	12,308	64	12,119	64
G&A expense, net per boe	$0.87		$0.88		$0.89		$0.88	
Non-cash:								
Other compensation(5)	3,304	100	1,557	100	5,051	100	3,471	100
Capitalized compensation(4)	(1,350)	(41)	(865)	(56)	(2,330)	(46)	(1,961)	(56)
Other compensation, net	1,954	59	692	44	2,721	54	1,510	44
Other compensation, net per boe	$0.27		$0.10		$0.20		$0.11	
Administrative expense, net	**8,174**		**6,771**		**15,029**		**13,629**	
Administrative expense, net per boe	**$1.14**		**$0.98**		**$1.09**		**$0.99**	

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

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

(3) Other G&A expense excludes head office lease payments in the Reporting Periods. As a result of Birchcliff's adoption of IFRS 16 effective January 1, 2019, approximately $0.5 million in the three month Reporting Period and $1.1 million in the six month Reporting Period of head office lease payments have been applied against the lease liability on the statements of financial position and the interest portion of lease payment is included in finance expenses as accretion. Birchcliff applied IFRS 16 using the modified retrospective approach; therefore comparative information has not been restated.

(4) Includes a portion of gross G&A expenses and other compensation directly attributable to the exploration and development activities of the Corporation, which have been capitalized.

(5) Includes $1.7 million of additional stock-based compensation expense recorded in the Reporting Periods related to the amendment of the Corporation's outstanding performance warrants.

The following table sets forth the Corporation's outstanding stock options for the periods indicated:

	Three months ended June 30, 2019		Six months ended June 30, 2019	
	Number	**Price *($)*(1)**	**Number**	**Price *($)*(1)**
Outstanding, beginning of period	18,615,436	4.89	15,847,570	5.74
Granted(2)	87,000	3.40	4,819,200	3.54
Exercised	(10,867)	(3.08)	(23,867)	(3.08)
Forfeited	(128,501)	(4.34)	(168,501)	(4.40)
Expired	(56,600)	(7.80)	(1,967,934)	(8.64)
Outstanding, June 30, 2019	**18,506,468**	**4.88**	**18,506,468**	**4.88**

(1) Calculated on a weighted average basis.

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

Performance Warrants

On January 18, 2005, Birchcliff issued 4,049,665 performance warrants as part of its initial restructuring to become a public entity. There are 2,939,732 performance warrants outstanding and exercisable at June 30, 2019 (June 30, 2018 – 2,939,732). Each performance warrant is exercisable at a price of $3.00 to purchase one common share of Birchcliff.

On June 7, 2019, the Corporation's outstanding performance warrants were amended to extend the expiry date from January 31, 2020 to January 31, 2025 (the "**Extension**"). The Corporation recorded a non-cash stock-based compensation expense of approximately $1.3 million (net, $0.4 million of capitalization) relating to the Extension for the three and six month Reporting Periods. For further details on the methodology and assumptions used in calculating the stock-based compensation expense relating to the Extension, see the notes to the interim condensed financial statements of the Corporation for the Reporting Periods.

Depletion and Depreciation Expense

Depletion and depreciation ("**D&D**") expense is a function of the estimated proved plus probable reserve additions, the F&D 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 periods indicated:

	Three months ended June 30,				Six months ended June 30,			
	2019		2018		2019		2018	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Depletion and depreciation expense	**52,841**	**7.40**	**52,740**	**7.60**	**103,700**	**7.47**	**103,609**	**7.50**

D&D expense on an aggregate and per unit basis for the Reporting Periods remained largely unchanged from the Comparable Prior Periods.

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 impairment indicators present at June 30, 2019 and December 31, 2018. Birchcliff performed an impairment test on a CGU basis and determined that the carrying value of its P&NG properties and equipment was recoverable. Birchcliff's P&NG properties and equipment were not impaired at June 30, 2019 or December 31, 2018. For further details on the methodology used in the impairment test, see the notes to the interim condensed financial statements of the Corporation for the Reporting Periods.

Finance Expense

The following table sets forth the components of the Corporation's finance expense for the periods indicated:

	Three months ended June 30, 2019		Three months ended June 30, 2018		Six months ended June 30, 2019		Six months ended June 30, 2018	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Cash:								
Interest expense on credit facilities[(1)]	6,596	0.92	6,658	0.96	13,532	0.97	13,290	0.96
Non-cash:								
Accretion[(2)]	512	0.07	795	0.11	1,559	0.11	1,588	0.12
Amortization of deferred financing fees	382	0.05	383	0.06	756	0.05	785	0.06
Finance expense	**7,490**	**1.04**	**7,836**	**1.13**	**15,847**	**1.13**	**15,663**	**1.14**

(1) Birchcliff's extendible revolving credit facilities (the "**Credit Facilities**") are comprised of an extendible revolving syndicated term credit facility (the "**Syndicated Credit Facility**") of $900 million and an extendible revolving working capital facility (the "**Working Capital Facility**") of $100 million.

(2) Includes accretion on decommissioning obligations, lease obligations and post-employment benefits.

Birchcliff's aggregate interest expense on its Credit Facilities remained largely consistent with the Comparable Prior Periods. Birchcliff draws on its Syndicated Credit Facility using Canadian dollar denominated bankers' acceptances and US dollar denominated LIBOR loans. The average effective interest rate under the Syndicated Credit Facility is determined based on: (i) the market interest rate of its drawn bankers' acceptances and LIBOR loans; and (ii) Birchcliff's stamping fees.

Birchcliff's stamping fees are calculated using 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 Corporation's agreement governing the Credit Facilities. EBITDA is defined as earnings before interest and non-cash items, including (if any) income taxes, stock-based compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments and depletion, depreciation and amortization. The following table sets forth the Corporation's effective interest rates under its Credit Facilities for the periods indicated:

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Working Capital Facility	5.0%	4.7%	5.0%	4.7%
Syndicated Credit Facility	4.6%	4.4%	4.6%	4.5%

Birchcliff's average outstanding total credit facilities balance under the Credit Facilities was approximately $593 million and $597 million in the three and six month Reporting Periods, respectively, as compared to $594 million and $585 million in the Comparable Prior Periods, calculated as the simple average of the month-end amounts.

Other Losses

The following table sets forth the components of the Corporation's other losses for the periods indicated:

	Three months ended June 30, 2019		Three months ended June 30, 2018		Six months ended June 30, 2019		Six months ended June 30, 2018	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Loss on investment	5,593	0.78	-	-	5,593	0.40	-	-
Loss on sale of assets	-	-	8,361	1.20	-	-	8,361	0.61
Other losses	**5,593**	**0.78**	**8,361**	**1.20**	**5,593**	**0.40**	**8,361**	**0.61**

Loss on investment

On August 31, 2017, Birchcliff acquired securities consisting of 4,500,000 common A units in a limited partnership and 10,000,000 preferred units in a trust (collectively, the "**Securities**") at a combined value of $10 million. The Securities are not publicly listed and do not constitute significant investments.

As at June 30, 2019, the Corporation determined the Securities had a fair value of $4.4 million. Birchcliff recorded a loss on investment of $5.6 million during the Reporting Periods.

Loss on Sale of Assets

In June 2018, Birchcliff completed the dispositions of certain non-core miscellaneous petroleum and natural gas properties and related assets and interests. The 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 in the Comparable Prior Periods.

Income Taxes

The following table sets forth the components of the Corporation's income taxes for the periods indicated:

	Three months ended June 30,		**Six months ended June 30,**	
($000s)	**2019**	**2018**	**2019**	**2018**
Deferred tax expense (recovery)	(26,884)	2,837	(20,648)	8,447
Dividend tax expense on preferred shares	769	769	1,537	1,537
Income tax expense (recovery)	**(26,115)**	**3,606**	**(19,111)**	**9,984**
Income tax expense (recovery) per boe	**($3.65)**	**$0.51**	**($1.37)**	**$0.71**

Birchcliff had an income tax recovery in the Reporting Periods largely due to an $18.9 million deferred tax recovery that resulted from a reduction in the provincial corporate income tax rate from 12% to 8%; and a net loss before tax recorded in the Reporting Periods.

On May 28, 2019, the Government of Alberta reduced the general corporate income tax rate to 8% (from 12%) over four years. Starting July 1, 2019, the general corporate tax rate decreased to 11% (from 12%), with further 1% rate reductions every year on January 1 until the general corporate tax rate is 8% on January 1, 2022. The reduction in the provincial corporate income tax rate is considered "substantively enacted" under IFRS as of May 28, 2019 and therefore the financial impact has been accounted for in Birchcliff's financial statements for the Reporting Periods.

The Corporation's estimated income tax pools were $2.1 billion at June 30, 2019. 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 June 30, 2019**
Canadian oil and gas property expense	425,724
Canadian development expense	400,852
Canadian exploration expense	246,829
Undepreciated capital costs	347,470
Non-capital losses	641,439
SR&ED[(1)] & Investment tax credits	25,617
Financing costs and other	10,582
Estimated income tax pools[(2)]	**2,098,513**

(1) Scientific research and experimental development ("**SR&ED**") tax pools.

(2) 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. In April 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 appealed that decision to the FCA, which appeal was heard on December 10, 2018. The FCA rendered a decision in May 2019 dismissing the Corporation's appeal. The Corporation is in the process of filing an application for leave to appeal to the Supreme Court of Canada.

CAPITAL EXPENDITURES

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

	Three months ended June 30,		Six months ended June 30,	
($000s)	**2019**	**2018**	**2019**	**2018**
Land	728	648	1,252	1,347
Seismic	459	301	3,783	895
Workovers	3,571	824	4,476	4,155
Drilling and completions	41,538	49,321	101,996	125,561
Well equipment and facilities	21,641	18,732	47,896	70,390
Finding and development capital	67,937	69,826	159,403	202,348
Acquisitions	139	1,515	39,399	1,515
Dispositions	-	(5,265)	-	(5,184)
Finding, development and acquisition capital	68,076	66,076	198,802	198,679
Administrative assets	456	388	1,688	929
Total capital expenditures	**68,532**	**66,464**	**200,490**	**199,608**

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

During the three month Reporting Period, Birchcliff had total capital expenditures of $68.5 million which included approximately $22.0 million (32%) on the drilling and completion of Montney/Doig horizontal wells in Pouce Coupe, $23.7 million (35%) on the drilling and completion of Montney horizontal wells in Gordondale and $17.4 million (25%) on facilities and infrastructure.

During the six month Reporting Period, Birchcliff had total capital expenditures of $200.5 million which included approximately $56.2 million (28%) on the drilling and completion of Montney/Doig horizontal wells in Pouce Coupe, $53.7 million (27%) on the drilling and completion of Montney horizontal wells in Gordondale, $40 million (20%) on facilities and infrastructure and $39 million (20%) attributed to the acquisition of lands between Birchcliff's Pouce Coupe and Gordondale properties.

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

During the three month Reporting Period, Birchcliff drilled a total of 5 (5.0 net) wells, consisting of 3 (3.0 net) Montney horizontal oil wells in Gordondale and 2 (2.0 net) Montney horizontal natural gas wells in Pouce Coupe. During the six month Reporting Period, Birchcliff drilled a total of 18 (18.0 net) wells, consisting of 8 (8.0 net) Montney horizontal oil wells in Gordondale and 10 (10.0 net) Montney horizontal natural gas wells in Pouce Coupe.

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 ongoing capital expenditure programs and protect its statements of financial position.

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

	Three months ended June 30,		Six months ended June 30,	
($000s)	**2019**	**2018**	**2019**	**2018**
Adjusted funds flow	73,957	72,369	190,605	156,027
Changes in non-cash working capital from operations	24,351	(469)	3,320	8,148
Decommissioning expenditures	(451)	(75)	(1,324)	(497)
Exercise of stock options	33	133	73	162
Financing fees paid on credit facilities	(990)	(950)	(990)	(950)
Lease payments	(537)	-	(1,074)	-
Dividends paid on common shares	(6,981)	(6,646)	(13,961)	(13,291)
Dividends paid on preferred shares	(1,922)	(1,922)	(3,844)	(3,844)
Net change in revolving term credit facilities	11,057	44,001	17,404	30,486
Deposit on acquisition	-	-	3,900	-
Changes in non-cash working capital from investing	(30,017)	(39,972)	6,349	23,372
Capital resources	**68,500**	**66,469**	**200,458**	**199,613**

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 closely monitors commodity prices and its capital spending and has taken proactive measures to ensure liquidity and financial flexibility in the current environment.

Birchcliff's market diversification initiatives have increased its exposure to non-AECO markets. 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 in Southern Ontario. The first tranche of this service (120,000 GJ/d) became available on November 1, 2017 and the second tranche (30,000 GJ/d) became available on November 1, 2018. The last tranche of service (25,000 GJ/d) will become available on November 1, 2019. See *"Discussion of Operations – Petroleum and Natural Gas Revenue"* in this MD&A. Birchcliff also has various financial and physical risk management contracts in place to 2025 with exposure to NYMEX HH pricing. See *"Discussion of Operations – Risk Management"* in this MD&A.

In addition to its adjusted funds flow, the Corporation's other main source of liquidity is its Credit Facilities. In May 2019, Birchcliff's syndicate of lenders completed its semi-annual review of the borrowing base limit under the Credit Facilities. In connection therewith the agreement governing the Credit Facilities was amended effective May 10, 2019 to: (i) extend the maturity dates of each of the Syndicated Credit Facility and the Working Capital Facility from May 11, 2021 to May 11, 2022; and (ii) increase the borrowing base limit to $1.0 billion from $950.0 million, with the Syndicated Credit Facility being increased to $900.0 million from $850.0 million and the Working Capital Facility remaining at $100.0 million. The Credit Facilities do not contain any financial maintenance covenants. The aggregate principal amount drawn under the Credit Facilities at June 30, 2019 was $642.4 million, leaving $357.6 million available to fund future obligations.

Management believes that Birchcliff's adjusted funds flow will be sufficient to fund the Corporation's expanded 2019 Capital Program. Should commodity prices deteriorate materially below Birchcliff's assumptions, Birchcliff may further adjust the 2019 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 such program. The 2019 Capital Program was designed to provide 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"* in this MD&A.

Working Capital

The Corporation's adjusted working capital deficit increased to $32.4 million at June 30, 2019 from a $21.2 million deficit at December 31, 2018. The deficit at June 30, 2019 was largely comprised of costs incurred from the drilling and completion of new wells in Pouce Coupe and Gordondale.

At June 30, 2019, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of June 30, 2019 production (71%), which was subsequently received in July 2019. Current liabilities largely consisted of trade payables (73%) and accrued capital and operating expense (14%). Birchcliff monitors 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 $654.7 million at June 30, 2019 as compared to $626.5 million at December 31, 2018. Total debt increased from December 31, 2018 primarily due to capital expenditures incurred in excess of adjusted funds flow and the payment of common share and preferred share dividends.

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

As at, *($000s)*	**June 30, 2019**	**December 31, 2018**
Maximum borrowing base limit[(1)]*:*		
Revolving term credit facilities	1,000,000	950,000
Principal amount utilized:		
Drawn revolving term credit facilities	(625,204)	(608,821)
Outstanding letters of credit[(2)]	(17,205)	(17,205)
	(642,409)	(626,026)
Unused credit	**357,591**	**323,974**
% unused credit	**36%**	**34%**

(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 P&NG reserves. Effective May 10, 2019, the borrowing base limit under the Credit Facilities was increased to $1.0 billion from $950.0 million.

(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 June 30, 2019:

($000s)	**2019**	**2020**	**2021-2023**	**Thereafter**
Accounts payable and accrued liabilities	89,116	-	-	-
Drawn revolving term credit facilities	-	-	625,204	-
Firm transportation and fractionation[(1)]	64,621	135,620	387,185	394,605
Natural gas processing[(2)]	8,648	17,202	51,465	154,536
Operating commitments[(3)]	1,130	2,260	6,780	9,228
Capital securities[(4)]	-	49,690	-	-
Estimated contractual obligations[(5)]	**163,515**	**204,772**	**1,070,634**	**558,369**

(1) Includes firm transportation service arrangements and fractionation commitments with third parties.

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

(3) Includes variable operating components associated with Birchcliff's head office premises.

(4) Represents Birchcliff's Series C Preferred Shares, which are redeemable by their holders after June 30, 2020. 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. For further details, see the interim condensed financial statements of the Corporation and related notes for the Reporting Periods.

(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 June 30, 2019 to be approximately $285.9 million and are estimated to be incurred as follows: 2019 - $1.2 million, 2020 – $2.5 million and $282.2 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.

OFF-BALANCE SHEET TRANSACTIONS

The Corporation has certain arrangements, all of which are reflected in the contractual obligations and commitments table above, which were entered into in the normal course of operations.

OUTSTANDING SHARE INFORMATION

At August 14, 2019, 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, 2018	265,911,362
Exercise of options	23,867
Balance at June 30, 2019	265,935,229
Exercise of options	-
Balance at August 14, 2019	**265,935,229**

At August 14, 2019, the Corporation had the following securities outstanding: 265,935,229 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 18,480,468 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 periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2019	**2018**	**2019**	**2018**
Common shares:				
Dividend distribution *($000s)*	6,981	6,646	13,961	13,291
Per common share *($)*	0.0263	0.0250	0.0263	0.0250
Preferred shares - Series A:				
Series A dividend distribution *($000s)*	1,047	1,047	2,094	2,094
Per Series A preferred share *($)*	0.5234	0.5234	0.5234	0.5234
Preferred shares - Series C:				
Series C dividend distribution *($000s)*	875	875	1,750	1,750
Per Series C preferred share *($)*	0.4375	0.4375	0.4375	0.4375

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,	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sep. 30, 2017
Average production *(boe/d)*	78,453	74,884	76,408	79,331	76,296	76,323	80,103	65,276
Realized oil sales price *($/bbl)*[(1)]	72.25	66.08	41.39	80.16	79.55	71.92	68.58	55.62
Realized condensate sales price *($/bbl)* [(1)]	71.69	65.45	55.99	84.10	87.52	83.00	71.89	53.75
Realized NGLs sales price *($/bbl)*[(1)]	11.13	17.71	21.60	23.39	21.94	25.12	24.38	13.91
Realized natural gas sales price *($/Mcf)*[(1)]	1.95	3.55	3.03	2.06	2.01	2.72	2.64	2.11
Average realized sales price *($/boe)*	19.59	26.45	22.01	21.45	21.68	23.22	22.54	18.55
Total revenue *($000s)*[(1)]	139,857	178,355	154,720	156,609	150,561	159,531	166,149	111,488
Operating expense *($/boe)*	3.17	3.40	3.51	3.45	3.36	3.78	3.86	4.27
Total capital expenditures *($000s)*	68,532	131,958	52,886	45,524	66,464	133,144	18,669	12,136
Cash flow from operating activities *($000s)*	97,857	94,744	92,200	68,556	71,825	91,853	88,995	70,584
Adjusted funds flow *($000s)*	73,957	116,648	81,517	75,378	72,369	83,658	97,008	64,430
Per common share – basic *($)*	0.28	0.44	0.31	0.28	0.27	0.31	0.36	0.24
Per common share – diluted *($)*	0.28	0.44	0.30	0.28	0.27	0.31	0.36	0.24
Net income (loss) *($000s)*	(8,458)	16,846	71,947	7,703	7,437	15,125	25,820	(120,743)
Net income (loss) to common shareholders *($000s)*[(2)]	(9,505)	15,799	70,900	6,657	6,390	14,078	24,773	(121,743)
Per common share – basic *($)*	(0.04)	0.06	0.27	0.03	0.02	0.05	0.09	(0.46)
Per common share – diluted *($)*	(0.04)	0.06	0.27	0.02	0.02	0.05	0.09	(0.46)
Total assets *($ million)*	2,840	2,860	2,763	2,707	2,715	2,697	2,627	2,615
Long-term bank debt *($000s)*	622,282	611,911	605,267	635,120	617,291	573,935	587,126	585,323
Total debt *($000s)*	654,709	649,202	626,454	641,484	661,409	657,732	598,193	666,808
Dividends on common shares *($000s)*	6,981	6,980	6,648	6,647	6,646	6,645	6,644	6,635
Dividends on pref. shares – Series A *($000s)*	1,047	1,047	1,047	1,046	1,047	1,047	1,047	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	265,935	265,924	265,911	265,885	265,845	265,805	265,797	265,789
Diluted	287,381	287,480	284,699	285,825	285,253	285,692	282,895	283,106
Wtd. avg. common shares outstanding *(000s)*								
Basic	265,933	265,914	265,910	265,877	265,820	265,797	265,792	265,490
Diluted	265,933	266,382	267,288	268,605	267,773	266,179	267,619	265,490

(1) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.

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

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 disposition of the Corporation's assets in the Worsley area in August 2017 and natural production declines. Average daily production volumes in the four quarters of 2018 and first two quarters of 2019 were impacted primarily by Birchcliff's successful drilling of new horizontal wells brought on production in Pouce Coupe and Gordondale, production curtailments due to temporary restrictions in pipeline and compressor station capacity on the NGTL system and natural production declines during those periods.

Quarterly variances in revenue, adjusted funds flow and net income (loss) are primarily due to fluctuations in commodity prices and production volumes. Oil and gas revenue and adjusted funds flow in the last eight quarters were largely impacted by incremental production additions in Pouce Coupe and Gordondale and the average realized sales price received for Birchcliff's production. Over the last eight quarters, Birchcliff's adjusted funds flow was also impacted by lower trending operating expenses primarily due to the reduced third-party processing fees and the addition of Phases V and VI of the Pouce Coupe Gas Plant and higher trending transportation and other expense primarily due to added market diversification initiatives.

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 in connection with the disposition of its assets in the Worsley area. Birchcliff's net income in the fourth quarter of 2018 included an unrealized mark-to-market gain on financial instruments of $77.5 million and in the first quarter of 2019 an unrealized mark-to-market loss of $38.9 million. Birchcliff's net loss in the second quarter of 2019 included an unrealized mark-to-market loss on financial instruments of $46.4 million. Net income or loss in the last eight quarters was also impacted by certain non-cash adjustments, including depletion expense and gains and losses on the sale of non-core assets recognized in those periods.

The Corporation's capital expenditure programs fluctuate based on the outlook in 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 and the amount and timing of capital expenditures (including acquisitions and dispositions).

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 April 1, 2019 and ended on June 30, 2019 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, 2018.

CHANGES IN ACCOUNTING POLICIES

Accounting Pronouncements Adopted

On January 1, 2019, Birchcliff adopted IFRS 16 to replace IAS 17: *Leases* and IFRIC 4: *Determining whether an Arrangement contains a Lease*. IFRS 16 requires the recognition of a right-of-use asset and lease liability on the statements of financial position for all leases, where Birchcliff is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. IFRS 16 allows lessors to continue with the dual classification model for recognized leases as either a finance or an operating lease. Birchcliff is the lessee in all of its lease arrangements effective January 1, 2019. The Corporation adopted IFRS 16 using the modified retrospective approach, which does not require the restatement of prior period financial information and applies the standard prospectively.

The impact of applying IFRS 16 on the financial statements in the Reporting Periods was affected by multiple factors and conditions, including, but not limited to, the Corporation's incremental 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 chose to use practical expedients and recognition exemptions.

On initial adoption, Birchcliff had the following optional practical expedients available under IFRS 16:

- Certain short-term leases and leases of low-value assets that have been identified as a lease under IFRS 16 at January 1, 2019 have been excluded from recognition on the statements of financial position. Birchcliff has excluded certain low-value leases such as information technology, office equipment and other minor operating and capital assets used in its operations. Short-term and low-value leases are expensed in profit or loss in the period incurred.

- Certain classes of lease arrangements that transfer a separate good or service under the same contract that have been identified for recognition at January 1, 2019 can be recognized as a single lease component rather than separating between their lease and non-lease components. Birchcliff did not apply this practical expedient on initial adoption of IFRS 16. Non-lease components such as operating costs and payment for services were separated from their lease component under the same contract and expensed in profit or loss in the period incurred.

- For leases having similar characteristics, a portfolio approach can be used by applying a single discount rate. Birchcliff has applied this practical expedient for leases having similar characteristic on recognition.

On initial adoption of IFRS 16, Birchcliff recognized a lease liability, herein referred to as a "lease obligation", and corresponding right-of-use asset, herein referred to as a "lease asset", for each identified lease effective January 1, 2019. The lease obligation was determined by discounting the remaining lease term payments using the interest rate implicit in the lease, or the Corporation's incremental borrowing rate. The lease obligation is reduced by actual cash lease payments made during the period. Lease obligations are presented as other liabilities on the statements of financial position. The lease assets are included in petroleum and natural gas properties and equipment on the statements of financial position. Lease assets are depreciated over the remaining term of the lease and included in depletion and depreciation expense in profit and loss. The unwinding of the present value of the lease obligation is recorded as accretion (interest) and included in finance expense in profit and loss. Cash lease payments are classified as a financing activity and accretion expense classified as an operating activity in the statements of cash flows. Any remeasurements based on changes in lease term, payment, or discount rate will increase or decrease the present value of the lease obligation and corresponding lease asset. Such changes will be accounted for through profit and loss.

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Lease obligations that are recognized have been estimated using a discount rate equal to Birchcliff's incremental borrowing rate. This rate represents the rate that Birchcliff would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

RISK FACTORS AND RISK MANAGEMENT

Birchcliff'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. Birchcliff'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, 2018 and *"Risk Factors"* in the Annual Information Form for the year ended December 31, 2018.

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
C3+	propane plus
condensate	pentanes plus (C5+)
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
HH	Henry Hub
IFRS	International Financial Reporting Standards as issued by the International Accounting Standards Board
liquids	light oil, condensate and NGLs
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 consisting of ethane (C2), propane (C3) and butane (C4) and specifically excluding condensate
NGTL	NOVA Gas Transmission Ltd.
NYMEX	New York Mercantile Exchange
P&NG	petroleum and natural gas
TCPL	TransCanada PipeLines Limited
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", "free funds flow", "operating netback", "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. Birchcliff 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 is 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. "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. The following table provides a reconciliation of cash flow from operating activities, as determined in accordance with GAAP, to adjusted funds flow and free funds flow for the periods indicated:

($000s)	Three months ended June 30, 2019	2018	Six months ended June 30, 2019	2018
Cash flow from operating activities	97,857	71,825	192,601	163,678
Add back:				
Change in non-cash working capital	(24,351)	469	(3,320)	(8,148)
Funds flow	73,506	72,294	189,281	155,530
Adjustments:				
Decommissioning expenditures	451	75	1,324	497
Adjusted funds flow	**73,957**	**72,369**	**190,605**	**156,027**
F&D capital expenditures	(67,937)	(69,826)	(159,403)	(202,348)
Free funds flow	**6,020**	**2,543**	**31,202**	**(46,321)**

"Operating netback" denotes petroleum and natural gas revenue less royalty expense, less operating expense and less transportation and other expense. Operating netback is 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 periods indicated:

	Three months ended June 30, 2019		2018		Six months ended June 30, 2019		2018	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Petroleum and natural gas revenue	139,857	19.59	150,561	21.69	318,212	22.93	310,092	22.45
Royalty expense	(5,347)	(0.75)	(10,632)	(1.53)	(13,556)	(0.98)	(20,443)	(1.48)
Operating expense	(22,652)	(3.17)	(23,319)	(3.36)	(45,569)	(3.28)	(49,252)	(3.57)
Transportation and other expense	(30,599)	(4.29)	(25,239)	(3.64)	(61,676)	(4.45)	(49,779)	(3.60)
Operating netback	**81,259**	**11.38**	**91,371**	**13.16**	**197,411**	**14.22**	**190,618**	**13.80**

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

The breakdown for the operating netback of the Pouce Coupe Gas Plant is provided under the heading *"Pouce Coupe Gas Plant Netbacks"* in this MD&A.

"Total cash costs" are comprised of royalty, operating, transportation and other, G&A 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 current portion of financial instruments and capital securities. Birchcliff's capital securities were long-term in nature and therefore were excluded as a non-GAAP adjustment to adjusted working capital deficit in the comparative periods. Management believes that adjusted working capital deficit assists management and investors in assessing Birchcliff's short-term 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)*	**June 30, 2019**	**December 31, 2018**	**June 30, 2018**
Working capital deficit (surplus)	81,617	(15,611)	58,502
Financial instrument – current asset	1,927	36,798	5,037
Financial instrument – current liability	(1,427)	-	(19,421)
Capital securities – current liability	(49,690)	-	-
Adjusted working capital deficit	**32,427**	**21,187**	**44,118**

“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)*	June 30, 2019	December 31, 2018	June 30, 2018
Revolving term credit facilities	622,282	605,267	617,291
Adjusted working capital deficit	32,427	21,187	44,118
Total debt	**654,709**	**626,454**	**661,409**

ADVISORIES

Unaudited Information

All financial and operational information contained in this MD&A for the Reporting Periods and Comparable Prior Periods is unaudited.

Currency

Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars and all references to “$” and “CDN$” are to Canadian dollars and all references to “US$” are to United States dollars.

MMBtu Pricing Conversions

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

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.

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 investors with measures to compare Birchcliff’s performance over time; however, such measures are not reliable indicators of Birchcliff’s future performance, which may not compare to Birchcliff’s performance in previous periods, and therefore should not be unduly relied upon. For additional information regarding operating netbacks, see *“Non-GAAP Measures”* in this MD&A.

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 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”, “guidance”, “potential”, “proposed”, “predict”, “budget”, “continue”, “targeting”, “may”, “will”, “could”, “might”, “should”, “on track” 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 information set forth under the heading “*Outlook*” (including: the expanded 2019 Capital Program and the number of wells expected to be drilled and brought on production; Birchcliff’s estimates of annual average production, commodity mix, average expenses, adjusted and free funds flow, capital expenditures and natural gas market exposure in 2019; Birchcliff’s belief that it is well positioned to generate significant free funds flow in 2019; that Birchcliff is committed to maintaining financial flexibility and a strong balance sheet and will allocate remaining free funds flow based on what Birchcliff believes will provide the most value to its shareholders; that effectively 88% of Birchcliff’s total revenue in 2019, representing 74% of its total production, is expected to be based on non-AECO benchmark prices; Birchcliff’s expectation that its natural gas market diversification together with its financial risk management contracts will help to further strengthen Birchcliff’s balance sheet and protect its cash flow and project economics; and the expected impact of changes in commodity prices and the CDN/US exchange rate on Birchcliff’s estimate of adjusted funds flow); the performance and other characteristics of Birchcliff’s oil and natural gas properties; Birchcliff’s transportation arrangements (including that effective November 1, 2019, Birchcliff’s level of firm service on TCPL’s Canadian Mainline to Dawn will increase by 25,000 GJ/d, bringing the total level of firm service to 175,000 GJ/d); Birchcliff’s market diversification and risk management activities and any anticipated benefits to be derived therefrom; future income tax rates; 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 ongoing capital expenditure programs and protect its statements of financial position; management’s belief that Birchcliff’s adjusted funds flow will be sufficient to fund the 2019 Capital Program; statements that Birchcliff may further adjust the 2019 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 such program should commodity prices deteriorate materially; that the 2019 Capital Program was designed to provide financial and operational flexibility to accelerate or decelerate capital expenditures throughout the year; the Corporation’s expectation that counterparties will be able to meet their financial obligations; and 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 potential transactions. Statements relating to reserves are forward-looking as they involve the implied assessment, based on certain estimates and assumptions, that the reserves exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

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, environmental and other laws; the Corporation’s ability to comply with existing and future environmental, climate change and other 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 processing and transportation for its products; Birchcliff's ability to successfully market natural gas and liquids; the availability of hedges on terms acceptable to Birchcliff; and Birchcliff's 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:

- Birchcliff's 2019 guidance (as updated August 14, 2019) assumes the following commodity prices and exchange rate during 2019: an average WTI spot price of US$57.50/bbl; an average WTI-MSW differential of $7.50/bbl; an average AECO 5A spot price of $1.50/GJ; an average Dawn spot price of $3.05/GJ; an average NYMEX HH spot price of US$2.70/MMBtu; and an exchange rate (CDN$ to US$1) of 1.32.
- With respect to estimates of 2019 capital expenditures and Birchcliff's spending plans for 2019, such estimates and plans assume that the expanded 2019 Capital Program will be carried out as currently contemplated.
    - 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 and brought on production 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 may, if deemed prudent, further adjust its capital program to respond to changes in commodity prices and other material changes in the assumptions underlying such program.
- With respect to Birchcliff's production guidance for 2019, such guidance assumes that: the expanded 2019 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 Birchcliff's estimates of adjusted and free funds flow for 2019, statements that Birchcliff will generate significant free funds flow during 2019 and statements that Birchcliff's adjusted funds flow will be sufficient to fund its expanded 2019 Capital Program, such estimates and statements assume that: the expanded 2019 Capital Program will be carried out as currently contemplated and 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. In addition, Birchcliff's estimate of adjusted funds flow takes into account the settlement of financial and commodity risk management contracts outstanding as at August 13, 2019.
- 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 exchange 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; an inability to access sufficient water or other fluids needed for operations; uncertainty that development activities in connection with Birchcliff's 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 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 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; an inability of the Corporation to comply with existing and future environmental, climate change and other laws; the cost of compliance with current and future environmental laws; political uncertainty and uncertainty associated with government policy changes; dependence on facilities, gathering lines and pipelines, some of which the Corporation does not control; uncertainties and risks associated with pipeline restrictions and outages to third-party infrastructure that could cause disruptions to production; the lack of available pipeline capacity and an inability to secure adequate processing and transportation for Birchcliff's products; an inability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements; a failure to comply with covenants under Birchcliff's Credit Facilities; 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; potential litigation; default under or breach of agreements by counterparties and potential enforceability issues in contracts; claims by indigenous peoples; the reassessment by taxing or regulatory authorities of the Corporation's prior transactions and filings; unforeseen title defects; third-party claims regarding the Corporation's right to use technology and equipment; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainties associated with credit facilities and counterparty credit risk; risks associated with Birchcliff's risk management activities and the risk that hedges on terms acceptable to Birchcliff may not be available; risks associated with the declaration and payment of future 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 failure to realize the anticipated benefits of acquisitions 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 and fossil fuels, including transportation and hydraulic fracturing involving fossil fuels; the Corporation's reliance on hydraulic fracturing; alternatives to and changing demand for petroleum products; the availability of insurance and the risk that certain losses may not be insured; breaches or failure of information systems and security (including risks associated with cyber-attacks); and risks associated with the ownership of the Corporation's securities.

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 MD&A 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, FOFI. Birchcliff has included FOFI in order to provide readers with a more complete perspective on Birchcliff's future operations and management's current expectations relating to Birchcliff's future performance. Readers are cautioned that such information may not be appropriate for other purposes. FOFI contained herein was 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 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 MD&A in order to provide readers with a more complete perspective on Birchcliff's future operations and management's current expectations relating to Birchcliff's future performance. 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,	**June 30, 2019**	**December 31, 2018**
ASSETS		
Current assets:		
Cash	21	53
Accounts receivable	47,944	51,941
Prepaid expenses and deposits	8,724	3,386
Financial instruments *(Note 13)*	1,927	36,798
	58,616	92,178
Non-current assets:		
Deposit on acquisition	-	3,900
Investment in securities *(Note 14)*	4,405	10,005
Financial instruments *(Note 13)*	-	23,377
Petroleum and natural gas properties and equipment *(Note 4)*	2,776,486	2,633,460
	2,780,891	2,670,742
Total assets	**2,839,507**	**2,762,920**
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	89,116	76,567
Financial instruments *(Note 13)*	1,427	-
Capital securities *(Note 7)*	49,690	-
	140,233	76,567
Non-current liabilities:		
Revolving term credit facilities *(Note 5)*	622,282	605,267
Decommissioning obligations *(Note 6)*	154,154	129,264
Deferred income taxes	98,903	119,553
Capital securities *(Note 7)*	-	49,535
Other liabilities *(Note 10)*	26,275	7,844
Financial instruments *(Note 13)*	25,573	-
	927,187	911,463
Total liabilities	**1,067,420**	**988,030**
SHAREHOLDERS' EQUITY		
Share capital *(Note 7)*		
Common shares	1,478,356	1,478,260
Preferred shares *(perpetual)*	41,434	41,434
Contributed surplus	81,515	76,747
Retained earnings	170,782	178,449
	1,772,087	1,774,890
Total shareholders' equity and liabilities	**2,839,507**	**2,762,920**

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2019	**2018**	**2019**	**2018**
REVENUE				
Petroleum and natural gas revenue *(Note 9)*	139,857	150,561	318,212	310,092
Royalties	(5,347)	(10,632)	(13,556)	(20,443)
Net revenue from oil and natural gas sales	134,510	139,929	304,656	289,649
Other income	197	197	399	399
Realized gain (loss) on financial instruments *(Note 13)*	5,317	(6,462)	18,635	(9,581)
Unrealized gain (loss) on financial instruments *(Note 13)*	(46,373)	2,520	(85,248)	(5,878)
	93,651	136,184	238,442	274,589
EXPENSES				
Operating	22,652	23,319	45,569	49,252
Transportation and other	30,599	25,239	61,676	49,779
Administrative, net	8,174	6,771	15,029	13,629
Depletion and depreciation *(Note 4)*	52,841	52,740	103,700	103,609
Finance	7,490	7,836	15,847	15,663
Dividends on capital securities *(Note 7)*	875	875	1,750	1,750
Other losses *(Notes 4 & 14)*	5,593	8,361	5,593	8,361
	128,224	125,141	249,164	242,043
Net income (loss) before taxes	(34,573)	11,043	(10,722)	32,546
Income tax recovery (expense)	26,115	(3,606)	19,110	(9,984)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**(8,458)**	**7,437**	**8,388**	**22,562**
Net income (loss) per common share *(Note 8)*				
Basic	$(0.04)	$0.02	$0.02	$0.08
Diluted	$(0.04)	$0.02	$0.02	$0.08

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, 2017	1,477,750	41,434	69,959	107,010	1,696,153
Dividends on common shares *(Note 7)*	-	-	-	(13,291)	(13,291)
Dividends on perpetual preferred shares *(Note 7)*	-	-	-	(2,094)	(2,094)
Exercise of stock options *(Note 11)*	217	-	(55)	-	162
Stock-based compensation *(Note 11)*	-	-	3,471	-	3,471
Net income	-	-	-	22,562	22,562
As at June 30, 2018	1,477,967	41,434	73,375	114,187	1,706,963
As at December 31, 2018	1,478,260	41,434	76,747	178,449	1,774,890
Dividends on common shares *(Note 7)*	-	-	-	(13,961)	(13,961)
Dividends on perpetual preferred shares *(Note 7)*	-	-	-	(2,094)	(2,094)
Exercise of stock options *(Note 11)*	96	-	(23)	-	73
Stock-based compensation *(Note 11)*	-	-	4,791	-	4,791
Net income	-	-	-	8,388	8,388
As at June 30, 2019	**1,478,356**	**41,434**	**81,515**	**170,782**	**1,772,087**

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

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF CASH FLOWS

Unaudited (Expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2019	**2018**	**2019**	**2018**
Cash provided by (used in):				
OPERATING				
Net income (loss) and comprehensive income (loss)	(8,458)	7,437	8,388	22,562
Adjustments for items not affecting operating cash:				
Unrealized (gain) loss on financial instruments *(Note 13)*	46,373	(2,520)	85,248	5,878
Depletion and depreciation *(Note 4)*	52,841	52,740	103,700	103,609
Other compensation	1,954	692	2,721	1,510
Finance	7,490	7,836	15,847	15,663
Other losses *(Notes 4 & 14)*	5,593	8,361	5,593	8,361
Income taxes (recovery) expense	(26,115)	3,606	(19,110)	9,984
Interest paid	(6,596)	(6,658)	(13,532)	(13,290)
Dividends on capital securities *(Note 7)*	875	875	1,750	1,750
Decommissioning expenditures *(Note 6)*	(451)	(75)	(1,324)	(497)
Changes in non-cash working capital	24,351	(469)	3,320	8,148
	97,857	71,825	192,601	163,678
FINANCING				
Exercise of stock options *(Note 11)*	33	133	73	162
Lease payments *(Note 10)*	(537)	-	(1,074)	-
Financing fees paid on credit facilities	(990)	(950)	(990)	(950)
Dividends on common shares *(Note 7)*	(6,981)	(6,646)	(13,961)	(13,291)
Dividends on perpetual preferred shares *(Note 7)*	(1,047)	(1,047)	(2,094)	(2,094)
Dividends on capital securities *(Note 7)*	(875)	(875)	(1,750)	(1,750)
Net change in revolving term credit facilities *(Note 5)*	11,057	44,001	17,404	30,486
	660	34,616	(2,392)	12,563
INVESTING				
Petroleum and natural gas properties and equipment *(Note 4)*	(68,393)	(70,133)	(161,091)	(203,277)
Acquisition of petroleum and natural gas properties and equipment *(Note 4)*	(139)	(1,515)	(35,499)	(1,515)
Sale of petroleum and natural gas properties and equipment	-	5,184	-	5,184
Changes in non-cash working capital	(30,017)	(39,972)	6,349	23,372
	(98,549)	(106,436)	(190,241)	(176,236)
Net change in cash	(32)	5	(32)	5
Cash, beginning of period	53	48	53	48
CASH, END OF PERIOD	**21**	**53**	**21**	**53**

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

BIRCHCLIFF ENERGY LTD.
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

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 August 14, 2019.

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 six months ended June 30, 2019, including the 2018 comparative period. The financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34: *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**").

These 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, 2018, 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, 2018.

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, 2019, Birchcliff adopted IFRS 16: *Leases* ("**IFRS 16**") to replace IAS 17: *Leases* and IFRIC 4: *Determining whether an Arrangement contains a Lease*. IFRS 16 requires the recognition of a right-of-use asset and lease liability on the statements of financial position for all leases, where Birchcliff is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. IFRS 16 allows lessors to continue with the dual classification model for recognized leases as either a finance or an operating lease. Birchcliff is the lessee in all of its lease arrangements effective January 1, 2019. The Corporation adopted IFRS 16 using the modified retrospective approach, which does not require the restatement of prior period financial information and applies the standard prospectively.

The impact of applying IFRS 16 on the financial statements in the period was affected by multiple factors and conditions, including, but not limited to, the Corporation's incremental 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 chose to use practical expedients and recognition exemptions.

On initial adoption, Birchcliff had the following optional practical expedients available under IFRS 16:

- Certain short-term leases and leases of low value assets that have been identified as a lease under IFRS 16 at January 1, 2019 have been excluded from recognition on the statements of financial position. Birchcliff has excluded certain low value leases such as information technology, office equipment and other minor operating and capital assets used in its operations. Short-term and low value leases are expensed in profit or loss in the period incurred.
- Certain classes of lease arrangements that transfer a separate good or service under the same contract that have been identified for recognition at January 1, 2019 can be recognized as a single lease component rather than separating between their lease and non-lease components. Birchcliff did not apply this practical expedient on initial adoption of IFRS 16. Non-lease components such as operating costs and payment for services were separated from their lease component under the same contract and expensed in profit or loss in the period incurred.
- For leases having similar characteristics, a portfolio approach can be used by applying a single discount rate. Birchcliff has applied this practical expedient for leases having similar characteristic on recognition.

On initial adoption of IFRS 16, Birchcliff recognized a lease liability, herein referred to as a “lease obligation”, and corresponding right-of-use asset, herein referred to as a “lease asset”, for each identified lease effective January 1, 2019. The lease obligation was determined by discounting the remaining lease term payments using the interest rate implicit in the lease, or the Corporation’s incremental borrowing rate. The lease obligation is reduced by actual cash lease payments made during the period. Lease obligations are presented as other liabilities on the statements of financial position. The lease assets are included in petroleum and natural gas properties and equipment on the statements of financial position. Lease assets are depreciated over the remaining term of the lease and included in depletion and depreciation expense in profit and loss. The unwinding of the present value of the lease obligation is recorded as accretion (interest) and included in finance expense in profit and loss. Cash lease payments are classified as a financing activity and accretion expense classified as an operating activity in the statements of cash flows. Any remeasurements based on changes in lease term, payment, or discount rate will increase or decrease the present value of the lease obligation and corresponding lease asset. Such changes will be accounted for through profit and loss. See Notes 4 and 10 to these interim condensed financial statements for further details on the financial effects of IFRS 16 on initial adoption.

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Lease obligations that are recognized have been estimated using a discount rate equal to Birchcliff’s incremental borrowing rate. This rate represents the rate that Birchcliff would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

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	Lease Assets[4]	Corporate Assets	Total
Cost:					
As at December 31, 2017	81	3,291,102	-	15,724	3,306,907
Additions	31	311,887	-	2,013	313,931
Acquisitions	-	2,173	-	-	2,173
Dispositions[1]	-	(55,636)	-	-	(55,636)
As at December 31, 2018	112	3,549,526	-	17,737	3,567,375
Additions	-	181,345	18,784	1,725	201,854
Acquisitions[3]	-	44,872	-	-	44,872
As at June 30, 2019[2]	112	3,775,743	18,784	19,462	3,814,101
Accumulated depletion and depreciation:					
As at December 31, 2017	-	(750,760)	-	(11,016)	(761,776)
Depletion and depreciation expense	-	(206,892)	-	(1,976)	(208,868)
Dispositions[1]	-	36,729	-	-	36,729
As at December 31, 2018	-	(920,923)	-	(12,992)	(933,915)
Depletion and depreciation expense	-	(101,596)	(953)	(1,151)	(103,700)
As at June 30, 2019	-	(1,022,519)	(953)	(14,143)	(1,037,615)
Net book value:					
As at December 31, 2018	112	2,628,603	-	4,745	2,633,460
As at June 30, 2019	**112**	**2,753,224**	**17,831**	**5,319**	**2,776,486**

(1) Consists mainly of two asset dispositions with a combined net book value of $18.9 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 completed the acquisition of various Montney lands and assets on January 3, 2019 for total cash consideration of $39.4 million, with a deposit of $3.9 million paid in 2018, and assumed decommissioning obligations totalling $5.5 million (see Note 6).

(4) Includes $18.8 million related to lease asset additions (see Notes 3 and 10). The carrying amount of lease assets at June 30, 2019 was $17.8 million after giving effect to depreciation.

Impairment Assessment

In accordance with IFRS, an impairment test is performed if Birchcliff identifies an indicator of impairment. Birchcliff determined there were impairment indicators present at June 30, 2019 due to the decline in the current and forward commodity price for natural gas since December 31, 2018. An impairment is recognized if the carrying value of a Cash Generating Unit ("**CGU**") exceeds the recoverable amount for that CGU. A CGU's recoverable amount is the greater of its fair value less cost to sell and its current value in use. The calculation of the recoverable amount is sensitive to the assumptions regarding production volumes, discount rates and commodity prices. Any excess of carrying value over recoverable amount is recognized as impairment loss in profit or loss. At June 30, 2019, the Corporation used value-in-use derived from production of proved and probable reserves estimated by the Corporation's independent third-party reserve evaluators and the internally estimated future cash flows discounted at pre-tax rates between 8% and 15% depending on the risk profile of the reserve category. Birchcliff's P&NG properties and equipment were not impaired at June 30, 2019 and December 31, 2018.

The following forward commodity price and foreign exchange rate estimates were used in determining whether an impairment to the carrying value of the P&NG properties and equipment existed at June 30, 2019:

Year	WTI Oil *(USD$/bbl)*(1)	Foreign Exchange Rate *(CDN$/USD$)*(1)	AECO Natural Gas *(CDN$/Mcf)*(1)
2019	$55.00	0.760	$1.50
2020	$59.15	0.760	$1.90
2021	$63.45	0.770	$2.20
2022	$69.00	0.790	$2.50
2023	$75.75	0.800	$2.90
2024	$77.30	0.800	$3.25
2025	$78.85	0.800	$3.60
2026	$80.40	0.800	$3.70
2027	$82.00	0.800	$3.75
2028	$83.65	0.800	$3.80
Thereafter	+2.0%/year	0.800	+2.0%/year

(1) Source: Deloitte price forecast, effective July 1, 2019

5. REVOLVING TERM CREDIT FACILITIES

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

As at, *($000s)*	**June 30, 2019**	**December 31, 2018**
Syndicated credit facility	606,407	586,000
Working capital facility	18,797	22,821
Drawn revolving term credit facilities	625,204	608,821
Unamortized prepaid interest on bankers' acceptances	-	(1,021)
Unamortized deferred financing fees	(2,922)	(2,533)
Revolving term credit facilities	**622,282**	**605,267**

In May 2019, Birchcliff's syndicate of lenders completed its semi-annual review of the borrowing base limit under the extendible revolving credit facilities (the "**Credit Facilities**"). In connection therewith, the agreement governing the Credit Facilities was amended effective May 10, 2019 to: (i) extend the maturity dates of each of the extendible revolving syndicated term credit facility (the "**Syndicated Credit Facility**") and the extendible revolving working capital facility (the "**Working Capital Facility**") from May 11, 2021 to May 11, 2022; and (ii) increase the borrowing base to $1.0 billion from $950.0 million, with the Syndicated Credit Facility being increased to $900.0 million from $850 million and the Working Capital Facility remaining at $100.0 million. The Credit Facilities do not contain any financial maintenance covenants.

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.

6. DECOMMISSIONING OBLIGATIONS

The Corporation estimates the total undiscounted (inflated) amount of cash flow required to settle its decommissioning obligations is approximately $285.9 million at June 30, 2019 (June 30, 2018 – $273.9 million). A reconciliation of the decommissioning obligations is set forth below:

As at, *($000s)*	**June 30, 2019**	**December 31, 2018**
Balance, beginning	129,264	124,825
Obligations incurred	3,056	3,930
Obligations acquired(1)	5,473	649
Obligations divested	(7)	(3,446)
Changes in estimated future cash flows	16,593	1,177
Accretion	1,099	3,208
Decommissioning expenditures	(1,324)	(1,079)
Balance, ending(2)	**154,154**	**129,264**

(1) Includes decommissioning obligations acquired from the acquisition of various Montney lands and assets on January 3, 2019.

(2) Birchcliff applied a risk-free rate of 1.92% and an inflation rate of 2.0% to calculate the present value of the decommissioning obligation at June 30, 2019 and a risk-free rate of 2.36% and an inflation rate of 2.0% at December 31, 2018.

7. CAPITAL STOCK

Share Capital

(a) Authorized:

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

Unlimited number of preferred shares, with no par value.

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

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

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

As at, *(000s)*	**June 30, 2019**	**December 31, 2018**
Common shares:		
Outstanding at beginning of period	265,911	265,797
Exercise of stock options	24	114
Outstanding at end of period(1)	265,935	**265,911**
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 20, 2018, 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 18,767,520 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 320,520 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 23, 2018 and will terminate on November 22, 2019, 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 2018 or in the three or six months ended June 30, 2019.

Capital Securities

On and after June 30, 2018, the Corporation may, at its option, redeem for cash, all or any number of the outstanding Series C Preferred Shares at $25.75 per share if redeemed before June 30, 2019, at $25.50 per share if redeemed on or after June 30, 2019 but before June 30, 2020 and at $25.00 per share if redeemed on or after June 30, 2020, in each case together with all accrued and unpaid dividends to but excluding the date fixed for redemption. The Corporation may also elect to convert such Series C Preferred Shares into common shares of the Corporation.

The Series C Preferred Shares are not redeemable by the holders of the preferred shares prior to June 30, 2020. On and after June 30, 2020, a holder of Series C Preferred Shares may, at its option, redeem for cash, all or any number of Series C Preferred Shares held by such holder on the last day of each financial quarter at $25.00 per share, together with all accrued and unpaid dividends to but excluding the date fixed for redemption. Upon receipt of the notice of redemption, the Corporation may, at its option, elect to convert such Series C Preferred Shares into common shares of the Corporation.

As at June 30, 2019, and June 30, 2018, Birchcliff has not redeemed for cash any of its outstanding Series C Preferred Shares or converted any number of the outstanding Series C Preferred Shares into common shares. The Corporation has outstanding 2,000,000 Series C Preferred Shares at June 30, 2019 (December 31, 2018 – 2,000,000).

Dividends

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

	Three months ended June 30,		Six months ended June 30,	
	2019	**2018**	**2019**	**2018**
Common shares:				
Dividend distribution *($000s)*	6,981	6,646	13,961	13,291
Per common share *($)*	0.0263	0.0250	0.0263	0.0250
Preferred shares - Series A:				
Series A dividend distribution *($000s)*	1,047	1,047	2,094	2,094
Per Series A preferred share *($)*	0.5234	0.5234	0.5234	0.5234
Preferred shares - Series C:				
Series C dividend distribution *($000s)*	875	875	1,750	1,750
Per Series C preferred share *($)*	0.4375	0.4375	0.4375	0.4375

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

8. EARNINGS PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
($000s, except for per share information)	**2019**	**2018**	**2019**	**2018**
Net income (loss)	(8,458)	7,437	8,388	22,562
Dividends on Series A preferred shares	(1,047)	(1,047)	(2,094)	(2,094)
Net income (loss) to common shareholders	(9,505)	6,390	6,294	20,468
Weighted average common shares:				
Weighted average basic common shares outstanding	265,933	265,820	265,924	265,809
Effects of dilutive securities	-	1,953	373	984
Weighted average diluted common shares outstanding[(1)]	265,933	267,773	266,297	266,793
Net income (loss) per common share:				
Basic	**$(0.04)**	**$0.02**	**$0.02**	**$0.08**
Diluted	**$(0.04)**	**$0.02**	**$0.02**	**$0.08**

(1) The weighted average diluted common shares outstanding for the six months ended June 30, 2019 excludes 16,246,767 common shares issuable pursuant to outstanding stock options and performance warrants that were anti-dilutive (three and six months ended June 30, 2018 – 9,974,501 and 14,141,401, respectively). As the Corporation reported a loss for the three months ended June 30, 2019, the basic and diluted weighted average shares outstanding are the same for the period and all stock options and warrants were anti-dilutive.

9. PETROLEUM AND NATURAL GAS REVENUE

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

	Three months ended June 30,		Six months ended June 30,	
($000s)	**2019**	**2018**	**2019**	**2018**
Light oil sales	31,907	40,533	60,454	67,309
Condensate(1)	35,906	31,330	61,919	58,824
NGLs sales(2)	7,011	12,048	17,761	24,693
Natural gas sales	65,009	66,619	177,985	159,193
Total P&NG sales(3)(4)	139,833	150,530	318,119	310,019
Royalty income	24	31	93	73
Total P&NG revenue	**139,857**	**150,561**	**318,212**	**310,092**

(1) Includes pentanes plus.

(2) Includes ethane, propane and butane.

(3) Excludes the effects of financial instruments but includes the effects of any physical delivery contracts outstanding during the period.

(4) Included in accounts receivable at June 30, 2019 was $47.0 million (June 30, 2018 - $49.1 million) in P&NG sales to be received from its marketers in respect of June 2019 production, which was subsequently received in July 2019.

10. OTHER LIABILITIES

Post-Employment Benefit Obligations

Birchcliff's discounted post-employment benefit obligation at June 30, 2019 was $8.2 million. The Corporation estimates the total undiscounted (inflated) amount of cash flow required to settle its obligations for all participants meeting the eligibility requirements under the post-employment benefit plan is approximately $14.8 million at June 30, 2019 (June 30, 2018 – $nil). A reconciliation of the discounted post-employment benefit obligation is set forth below:

As at, *($000s)*	**June 30, 2019**	**December 31, 2018**
Balance, beginning	7,844	-
Obligations incurred(1)	260	7,844
Accretion	61	-
Balance, ending(2)	**8,165**	**7,844**
Current portion	-	-
Long-term portion	8,165	7,844

(1) Represents the current service costs associated with post-employment benefits.

(2) Birchcliff applied a discount rate of 2.8% and an inflation rate of 3.0% to calculate the present value of the post-employment benefit obligation at June 30, 2019 and December 31, 2018.

Lease Obligations

Effective January 1, 2019, Birchcliff recognized a discounted lease obligation of $17.3 million on initial adoption of IFRS 16. The Corporation's total undiscounted (inflated) amount of cash flow required to settle its lease obligations is approximately $21.9 million at June 30, 2019. A reconciliation of the discounted lease obligation is set forth below:

As at, *($000s)*	**June 30, 2019**
As at January 1, 2019 *(Note 3)*(1)(2)	17,311
Obligations incurred	1,472
Lease payments	(1,074)
Accretion	401
Balance, ending(2)	**18,110**
Current portion	1,397
Long-term portion	16,713

(1) Birchcliff recognized a lease obligation primarily related to its head office premises on initial adoption of IFRS 16 effective January 1, 2019.

(2) Birchcliff applied a discount rate of 4.7% to calculate the discounted value of the lease obligation on initial adoption of IFRS 16 and at June 30, 2019.

11. SHARE-BASED PAYMENTS

Stock Options

At June 30, 2019, the Corporation's stock option plan (the "**Option Plan**") permitted the grant of options in respect of a maximum of 26,593,523 (June 30, 2018 – 26,584,503) common shares. At June 30, 2019, there remained available for issuance options in respect of 8,087,055 (June 30, 2018 – 10,115,934) common shares. For stock options exercised during the three months ended June 30, 2019, the weighted average common share trading price on the Toronto Stock Exchange was $3.34 (June 30, 2018 – $4.40) per common share.

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

	Six months ended June 30, 2019		Six months ended June 30, 2018	
	Number	**Price *($)*[1]**	**Number**	**Price *($)*[1]**
Outstanding, beginning of period	15,847,570	5.74	14,158,107	6.88
Granted[2]	4,819,200	3.54	4,386,900	3.11
Exercised	(23,867)	(3.08)	(48,332)	(3.35)
Forfeited	(168,501)	(4.40)	(297,837)	(6.07)
Expired	(1,967,934)	(8.64)	(1,730,269)	(7.47)
Outstanding, June 30, 2019	**18,506,468**	**4.88**	**16,468,569**	**5.84**

(1) Calculated on a weighted average basis.

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

The weighted average fair value per option granted during the three months ended June 30, 2019 was $1.09 (June 30, 2018 – $1.46). In determining the stock-based compensation expense for options issued during the three months ended June 30, 2019, the Corporation applied a weighted average estimated forfeiture rate of 10% (June 30, 2018 – 10%).

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

Three months ended,	**June 30, 2019**	**June 30, 2018**
Risk-free interest rate	1.5%	2.0%
Expected life *(years)*	4.1	4.1
Expected volatility	49.7%	50.3%
Dividend yield	3.1%	2.4%

A summary of the stock options outstanding and exercisable under the Option Plan at June 30, 2019 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 *($)***
2.71	6.00	11,702,268	3.64	3.42	3,780,398	2.33	3.34
6.01	9.00	6,751,200	1.83	7.37	5,364,474	1.63	7.26
9.01	12.00	53,000	1.66	10.02	41,666	1.45	10.26
		18,506,468	**2.97**	**4.88**	**9,186,538**	**1.92**	**5.66**

Performance Warrants

On January 18, 2005, Birchcliff issued 4,049,665 performance warrants as part of its initial restructuring to become a public entity. There are 2,939,732 performance warrants outstanding and exercisable at June 30, 2019 (June 30, 2018 – 2,939,732). Each performance warrant is exercisable at a price of $3.00 to purchase one common share of Birchcliff.

On June 7, 2019, the Corporation's outstanding performance warrants were amended to extend the expiry date from January 31, 2020 to January 31, 2025 (the "**Extension**"). The Corporation recorded a non-cash stock-based compensation expense of approximately $1.3 million (net, $0.4 million of capitalization) relating to the Extension for the three and six month periods ending June 30, 2019. This amount represents the fair value of the Extension determined by the difference between the fair value of the outstanding performance warrants with the expiration date of January 31, 2025 (the "**extended term**") and the fair value of the outstanding performance warrants with the expiration date of January 31, 2020 (the "**original term**"). The fair value in each case was estimated as at June 7, 2019 using the Black-Scholes option-pricing model that takes into account: exercise price, expected life, current price, expected volatility, expected dividend yield and risk-free interest rates. The assumptions used in calculating the fair value of the extended and original term performance warrants at June 7, 2019 are set forth below:

	Extended Term	**Original Term**
Risk-free interest rate	1.5%	1.5%
Expected life *(years)*	5.7	0.7
Expected volatility	50.0%	50.7%
Dividend yield	3.0%	2.9%

Using the Black-Scholes option-pricing model, the fair value of each extended term and original term performance warrant was $1.32 and $0.74, respectively.

12. 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 months ended June 30, 2019.

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

As at, *($000s)*	**June 30, 2019**	**December 31, 2018**
Maximum borrowing base limit(1):		
Revolving term credit facilities	1,000,000	950,000
Principal amount utilized:		
Drawn revolving term credit facilities	(625,204)	(608,821)
Outstanding letters of credit(2)	(17,205)	(17,205)
	(642,409)	(626,026)
Unused credit	**357,591**	**323,974**

(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. Effective May 10, 2019, the borrowing base limit under the Credit Facilities was increased to $1.0 billion from $950.0 million.

(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)*	June 30, 2019	December 31, 2018	% Change
Shareholders' equity[1]	1,772,087	1,774,890	
Capital securities	49,690	49,535	
Shareholders' equity & capital securities	1,821,777	1,824,425	-
Shareholders' equity & capital securities as a % of total capital[2]	73%	74%	
Working capital deficit[3]	32,427	21,187	
Drawn revolving term credit facilities	625,204	608,821	
Drawn debt	657,631	630,008	4%
Drawn debt as a % of total capital	27%	26%	
Total capital	**2,479,408**	**2,454,433**	1%

(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 and capital securities).

13. 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.

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

	Three months ended June 30,		Six months ended June 30,	
($000s)	**2019**	**2018**	**2019**	**2018**
Realized gain (loss) on financial instruments	5,317	(6,462)	18,635	(9,581)
Unrealized gain (loss) on financial instruments	(46,373)	2,520	(85,248)	(5,878)

Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can materially impact cash flows and the Corporation's borrowing base limit. Lower commodity prices can also reduce the Corporation's ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by Canadian ("**CDN**") and United States ("**US**") demand, but also by world events that dictate the levels of supply and demand.

Financial Derivative Contracts

As of June 30, 2019, 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 instruments as effective accounting hedges, even though the Corporation considers all commodity contracts to be effective economic hedges. As a result, all such financial instruments are recorded on the statements 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 June 30, 2019, Birchcliff had the following financial derivative contracts in place in order to manage commodity price risk:

Product	Type of Contract	Notional Quantity	Remaining Term[1]	Contract Price	Fair Value Asset (Liability) *($000s)*
Natural gas	AECO 7A basis swap[2]	30,000 MMBtu/d	Jul. 1, 2019 – Dec. 31, 2023	NYMEX HH less US$1.298/MMBtu	(3,297)
Natural gas	AECO 7A basis swap[2]	10,000 MMBtu/d	Jul. 1, 2019 – Dec. 31, 2023	NYMEX HH less US$1.32/MMBtu	(1,373)
Natural gas	AECO 7A basis swap[2]	30,000 MMBtu/d	Jul. 1, 2019 – Dec. 31, 2023	NYMEX HH less US$1.33/MMBtu	(4,852)
Natural gas	AECO 7A basis swap[2]	15,000 MMBtu/d	Jul. 1, 2019 – Dec. 31, 2024	NYMEX HH less US$1.185/MMBtu	1,008
Natural gas	AECO 7A basis swap[2]	5,000 MMBtu/d	Jul. 1, 2019 – Dec. 31, 2024	NYMEX HH less US$1.20/MMBtu	81
Natural gas	AECO 7A basis swap[2]	5,000 MMBtu/d	Jul. 1, 2019 – Dec. 31, 2024	NYMEX HH less US$1.20/MMBtu	145
Natural gas	AECO 7A basis swap[2]	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.178/MMBtu	(574)
Natural gas	AECO 7A basis swap[2]	10,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.175/MMBtu	(1,276)
Natural gas	AECO 7A basis swap[2]	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.190/MMBtu	(788)
Natural gas	AECO 7A basis swap[2]	25,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.135/MMBtu	(2,913)
Natural gas	AECO 7A basis swap[2]	30,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.094/MMBtu	(2,426)
Natural gas	AECO 7A basis swap[2]	5,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.013/MMBtu	(39)
Natural gas	AECO 7A basis swap[2]	15,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US$1.01/MMBtu	(195)
					(16,499)

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

(2) Birchcliff sold AECO basis swap.

The following financial derivative contracts were entered into subsequent June 30, 2019:

Product	Type of Contract	Notional Quantity	Remaining Term[1]	Contract Price
Natural gas	AECO 7A basis swap[2]	5,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US$0.99/MMBtu
Natural gas	AECO 7A basis swap[2]	5,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US$0.99/MMBtu
Natural gas	AECO 7A basis swap[2]	5,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2025	NYMEX HH less US$1.12/MMBtu
Natural gas	AECO 7A basis swap[2]	10,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2025	NYMEX HH less US$1.11/MMBtu
Natural gas	AECO 7A basis swap[2]	5,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2025	NYMEX HH less US$1.11/MMBtu

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

(2) Birchcliff sold AECO basis swap.

At June 30, 2019, if the future AECO/NYMEX basis was US$0.10/MMBtu higher, with all other variables held constant, after tax net income in the six months ended June 30, 2019 would have decreased by $19.3 million.

Physical Delivery Contracts

Birchcliff also enters into physical delivery 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 June 30, 2019, the Corporation had the following physical delivery commodity sales contract in place:

Product	Type of Contract	Quantity	Remaining Term[1]	Contract Price
Natural gas	AECO 7A basis swap[2]	5,000 MMBtu/d	Jul. 1, 2019 – Dec. 31, 2023	NYMEX HH less US$1.205/MMBtu

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

(2) Birchcliff sold AECO basis swap.

There were no long-term physical delivery commodity sales contracts entered into subsequent to June 30, 2019.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation's credit facilities are exposed to interest rate risk. The remainder of Birchcliff's financial assets and liabilities are not exposed directly to interest rate risk. As at June 30, 2019, Birchcliff had the following financial derivative contracts in place in order to manage interest rate risk:

Type of Contract	Index	Remaining Term[(1)(2)]	Notional Amount *($million)*	Fixed Rate *(%)*	Fair Value Liability *($000s)*
Interest rate swap	One-month banker's acceptance – CDOR[(3)]	Jul. 1, 2019 – Mar. 1, 2024	350	2.215	(8,574)

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

(2) Contract terms commenced on March 1, 2019.

(3) Canadian Dollar Offered Rate ("**CDOR**").

At June 30, 2019, if the one-month banker's acceptance CDOR index was 0.25% higher, with all other variables held constant, after-tax net income in the six months ended June 30, 2019 would have increased by $3.0 million.

Foreign Currency Risk

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The exchange rate effect cannot be quantified but generally an increase in the value of the CDN dollar as compared to the US dollar will reduce the CDN dollar prices received by Birchcliff for its petroleum and natural gas sales. The Corporation had no long-term forward exchange rate contracts in place as at or during the period ended June 30, 2019 and 2018.

14. INVESTMENT IN SECURITIES

On August 31, 2017, Birchcliff acquired securities consisting of 4,500,000 common A units in a limited partnership and 10,000,000 preferred units in a trust (collectively, the "**Securities**") at a combined value of $10 million. The Securities are not publicly listed and do not constitute significant investments.

As at June 30, 2019, the Corporation determined the Securities had a fair value of $4.4 million. Birchcliff recorded a loss on investment of $5.6 million during the three and six months ended June 30, 2019 (June 30, 2018 – $nil).

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
C3+	propane plus
condensate	pentanes plus (C5+)
DCCET	drill, case, complete, equip and tie-in
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
HH	Henry Hub
HZ	horizontal
IFRS	International Financial Reporting Standards as issued by the International Accounting Standards Board
liquids	light oil, condensate and NGLs
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
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
MPa	megapascal
MSW	price for mixed sweet crude oil at Edmonton, Alberta
NGLs	natural gas liquids consisting of ethane (C2), propane (C3) and butane (C4) and specifically excluding condensate
NGTL	NOVA Gas Transmission Ltd.
NYMEX	New York Mercantile Exchange
TCPL	TransCanada PipeLines Limited
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 Second Quarter Report uses "adjusted funds flow", "adjusted funds flow per common share", "free funds flow", "operating netback", "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 information on these non-GAAP measures, see *"Non-GAAP Measures"* in management's discussion and analysis for the three and six months ended June 30, 2019.

In addition, this Second Quarter Report uses "adjusted funds flow netback" which does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. "Adjusted funds flow netback" denotes petroleum and natural gas revenue less royalty expense, less operating expense, less transportation and other expense, less net G&A expense, less interest expense and less any realized losses (plus realized gains) on financial instruments and plus any other cash income sources. 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 June 30,				Six months ended June 30,			
	2019		2018		2019		2018	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Petroleum and natural gas revenue	139,857	19.59	150,561	21.69	318,212	22.93	310,092	22.45
Royalty expense	(5,347)	(0.75)	(10,632)	(1.53)	(13,556)	(0.98)	(20,443)	(1.48)
Operating expense	(22,652)	(3.17)	(23,319)	(3.36)	(45,569)	(3.28)	(49,252)	(3.57)
Transportation and other expense	(30,599)	(4.29)	(25,239)	(3.64)	(61,676)	(4.45)	(49,779)	(3.60)
G&A, net	(6,220)	(0.87)	(6,079)	(0.88)	(12,308)	(0.89)	(12,119)	(0.88)
Interest expense	(6,596)	(0.92)	(6,658)	(0.96)	(13,532)	(0.97)	(13,290)	(0.96)
Realized gain (loss) on financial instruments	5,317	0.74	(6,462)	(0.93)	18,635	1.34	(9,581)	(0.69)
Other income	197	0.03	197	0.03	399	0.03	399	0.03
Adjusted funds flow netback	**73,957**	**10.36**	**72,369**	**10.42**	**190,605**	**13.73**	**156,027**	**11.30**

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

ADVISORIES

Unaudited Information

All financial and operational information contained in this Second Quarter Report for the three and six months ended June 30, 2019 and 2018 is unaudited.

Currency

Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars and all references to "$" and "CDN$" are to Canadian dollars and all references to "US$" are to United States dollars.

MMBtu Pricing Conversions

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

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.

Oil and Gas Metrics

This Second 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 investors with measures to compare Birchcliff's performance over time; however, such measures are not reliable indicators of Birchcliff's future performance, which may not compare to Birchcliff's performance in previous periods, and therefore should not be unduly relied upon. For additional information regarding netbacks, including how netbacks are calculated, please see *"Non-GAAP Measures".*

Initial Production Rates

Any references in this Second Quarter Report to initial production rates or other short-term production rates are useful in confirming the presence of hydrocarbons; however, such rates are not determinative of the rates at which such wells will continue to produce and decline thereafter and are not indicative of the long-term performance or the ultimate recovery of such wells. In addition, such rates may also include recovered "load oil" or "load water" fluids used in well completion stimulation. While encouraging, readers are cautioned not to place undue reliance on such rates in calculating the aggregate production for Birchcliff. Such rates are based on field estimates and may be based on limited data available at this time.

With respect to the production rate for the Corporation's six-well pad in Pouce Coupe disclosed under the heading *"Operational Update – Pouce Coupe"*, such rate represents the cumulative volumes for each well measured at the wellhead separator for the initial 30 days of production divided by 30, which were then added together and divided by 6. The production rate excluded the hours and days when the wells did not produce. Approximate tubing and casing pressures for the six wells were stabilized between 5.4 to 6.4 MPa and 10.8 to 12.0 MPa, respectively. To-date, no pressure transient or well-test interpretation has been carried out on any of the wells. The natural gas volumes represent raw natural gas volumes as opposed to sales gas volumes.

With respect to the production rate for the Corporation's five-well pad in Gordondale disclosed under the heading *"Operational Update – Gordondale"*, such rate represents the cumulative volumes for each well measured at the wellhead separator for the initial 30 days of production divided by 30, which were then added together and divided by 5. The production rate excluded the hours and days when the wells did not produce. Approximate tubing pressures for the five wells were stabilized between 3.3 to 5.9 MPa. To-date, no pressure transient or well-test interpretation has been carried out on any of the wells. The natural gas volumes represent raw natural gas volumes as opposed to sales gas volumes.

Capital Expenditures

Unless otherwise stated, references in this Second Quarter Report 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 Second 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 Second 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", "guidance", "potential", "proposed", "predict", "budget", "continue", "targeting", "may", "will", "could", "might", "should", "on track" 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 Second 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; Birchcliff's expectation that it would have achieved the mid-point of its previous 2019 annual average production guidance of 76,000 to 78,000 boe/d; Birchcliff's guidance regarding its 2019 Capital Program (including the information set forth under the heading *"Operational Update – Expanded 2019 Capital Program"*) and its proposed exploration and development activities and the timing thereof (including: estimates of capital expenditures and capital allocation; the number and types of wells to be drilled and brought on production and the timing thereof; the focus of, the objectives of and the anticipated results from and the expected benefits of the expanded 2019 Capital Program; and the estimated average well costs in Pouce Coupe and Gordondale in 2019); Birchcliff's market diversification and risk management activities and any anticipated benefits to be derived therefrom; Birchcliff's transportation arrangements (including that effective November 1, 2019, Birchcliff's level of firm service on TCPL's Canadian Mainline to Dawn will increase by 25,000 GJ/d, bringing the total level of firm service to 175,000 GJ/d); the performance and other characteristics of Birchcliff's oil and natural gas properties and expected results from its assets; that Birchcliff is focused on continuous improvements in all aspects of its business and the use of, and expected benefits from, new technologies; statements regarding the planned inlet liquids-handling facility at the Pouce Coupe Gas Plant (including the capacity of the facility, the anticipated timing for the completion of the facility and that the facility will give Birchcliff the ability to grow its condensate production to 10,000 bbls/d in Pouce Coupe); the information set forth under the heading *"Outlook and Guidance"* and elsewhere in this Second Quarter Report as it relates to Birchcliff's 2019 guidance (including: Birchcliff's estimates of annual average production, commodity mix, average expenses, adjusted and free funds flow, capital expenditures and natural gas market exposure in 2019; that Birchcliff's capital expenditures in 2019 are still expected to be significantly less than its forecast of 2019 adjusted funds flow; that Birchcliff will generate significant free funds flow in 2019; that Birchcliff is committed to maintaining financial flexibility and a strong balance sheet and will allocate remaining free funds flow based on what Birchcliff believes will provide the most value to its shareholders; that effectively 88% of Birchcliff's total revenue in 2019, representing 74% of its total production, is expected to be based on non-AECO benchmark prices; Birchcliff's expectation that its natural gas market diversification together with its financial risk management contracts will help to further strengthen Birchcliff's balance sheet and protect its cash flow and project economics; and the expected impact of changes in commodity prices and the CDN/US exchange rate on Birchcliff's estimate of adjusted funds flow); and Birchcliff's views on future commodity prices, including that higher natural gas prices at AECO are typically seen in the winter. In addition, forward-looking statements in this Second Quarter Report include the forward-looking statements identified in the MD&A under the heading *"Advisories – Forward-Looking Statements".*

With respect to the forward-looking statements contained in this Second 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, environmental and other laws; the Corporation's ability to comply with existing and future environmental, climate change and other 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 processing and transportation for its products; Birchcliff's ability to successfully market natural gas and liquids; the availability of hedges on terms acceptable to Birchcliff; and Birchcliff's 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 Second Quarter Report:

- Birchcliff's 2019 guidance (as updated August 14, 2019) assumes the following commodity prices and exchange rate during 2019: an average WTI spot price of US$57.50/bbl; an average WTI-MSW differential of $7.50/bbl; an average AECO 5A spot price of $1.50/GJ; an average Dawn spot price of $3.05/GJ; an average NYMEX HH spot price of US$2.70/MMBtu; and an exchange rate (CDN$ to US$1) of 1.32.
- With respect to estimates of 2019 capital expenditures and the allocation thereof and Birchcliff's spending plans for 2019, such estimates and plans assume that the expanded 2019 Capital Program will be carried out as currently contemplated.

- 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 and brought on production 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 may, if deemed prudent, further adjust its capital program to respond to changes in commodity prices and other material changes in the assumptions underlying such program.

- With respect to statements that the expanded 2019 Capital Program will result in a more efficient capital spending profile in 2020, reducing the amount of capital needed to be spent by Birchcliff in 2020, and result in a more consistent production profile in 2020 and allow Birchcliff to maintain annual average production in 2020 at or near current levels, such statements assume that Birchcliff will execute a capital program in 2020 that is designed to maintain production at or near current production levels and that production levels throughout 2020 will remain relatively stable.
- With respect to Birchcliff's production guidance for 2019, such guidance assumes that: the expanded 2019 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 Birchcliff's estimates of adjusted and free funds flow for 2019, statements that Birchcliff will generate significant free funds flow during 2019 and statements that capital expenditures in 2019 are expected to be significantly less than Birchcliff's forecast of 2019 adjusted funds flow, such estimates and statements assume that: the expanded 2019 Capital Program will be carried out as currently contemplated and 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. In addition, Birchcliff's estimate of adjusted funds flow takes into account the settlement of financial and commodity risk management contracts outstanding as at August 13, 2019.
- 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 exchange 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; an inability to access sufficient water or other fluids needed for operations; uncertainty that development activities in connection with Birchcliff's 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 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 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; an inability of the Corporation to comply with existing and future environmental, climate change and other laws; the cost of compliance with current and future environmental laws; political uncertainty and uncertainty associated with government policy changes; dependence on facilities, gathering lines and pipelines, some of which the Corporation does not control; uncertainties and risks associated with pipeline restrictions and outages to third-party infrastructure that could cause disruptions to production; the lack of available pipeline capacity and an inability to secure adequate processing and transportation for Birchcliff's products; an inability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements; a failure to comply with covenants under Birchcliff's Credit Facilities; 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; potential litigation; default under or breach of agreements by counterparties and potential enforceability issues in contracts; claims by indigenous peoples; the reassessment by taxing or regulatory authorities of the Corporation's prior transactions and filings; unforeseen title defects; third-party claims regarding the Corporation's right to use technology and equipment; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainties associated with credit facilities and counterparty credit risk; risks associated with Birchcliff's risk management activities and the risk that hedges on terms acceptable to Birchcliff may not be available; risks associated with the declaration and payment of future 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 failure to realize the anticipated benefits of acquisitions 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 and fossil fuels, including transportation and hydraulic fracturing involving fossil fuels; the Corporation's reliance on hydraulic fracturing; alternatives to and changing demand for petroleum products; the availability of insurance and the risk that certain losses may not be insured; breaches or failure of information systems and security (including risks associated with cyber-attacks); and risks associated with the ownership of the Corporation's securities.

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 Second 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, FOFI. Birchcliff has included FOFI in order to provide readers with a more complete perspective on Birchcliff's future operations and management's current expectations relating to Birchcliff's future performance. Readers are cautioned that such information may not be appropriate for other purposes. FOFI contained herein was made as of the date of this Second 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 Second Quarter Report in order to provide readers with a more complete perspective on Birchcliff's future operations and management's current expectations relating to Birchcliff's future performance. Readers are cautioned that this information may not be appropriate for other purposes.

The forward-looking statements contained in this Second Quarter Report are expressly qualified by the foregoing cautionary statements. The forward-looking statements contained herein are made as of the date of this Second 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

Stacey E. McDonald
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

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

BANKERS

The Bank of Nova Scotia
HSBC Bank Canada
National Bank of Canada
Canadian Imperial Bank of Commerce
Bank of Montreal
The Toronto-Dominion Bank
ATB Financial
Business Development Bank of Canada
Wells Fargo Bank, N.A., Canadian Branch
United Overseas Bank Limited
ICICI Bank Canada

AUDITORS

KPMG LLP, Chartered Professional Accountants
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RESERVES EVALUATORS

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