BIRCHCLIFF ENERGY

QUARTERLY REPORT | Q3 2019

BIRCHCLIFF ENERGY LTD. ANNOUNCES SOLID Q3 2019 RESULTS AND PRELIMINARY OUTLOOK FOR 2020

Calgary, Alberta (November 14, 2019) – Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") (TSX: BIR) is pleased to announce its financial and operational results for the three and nine months ended September 30, 2019 and its preliminary outlook for 2020. Birchcliff's unaudited interim condensed financial statements for the three and nine months ended September 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.

"We had solid results in the third quarter, which were underpinned by the strong performance of our assets, our low-cost structure and the successful execution of our capital program. We had record quarterly average production of 80,548 boe/d and record low operating costs of $2.75/boe. We generated $63 million of adjusted funds flow and $23 million of free funds flow in the quarter. We are currently seeing the benefit of recently improved prices at AECO and we are on track to achieve our 2019 annual average production guidance of 77,000 to 79,000 boe/d," commented Jeff Tonken, President and Chief Executive Officer of Birchcliff. "Over the next two years, we plan to utilize the excess capacity of our 100% owned and operated natural gas processing plant in Pouce Coupe to drive free funds flow generation and maximize efficiencies. We are committed to protecting our balance sheet and our capital spending in 2020 will be targeted to either approximate or be less than our forecast of adjusted funds flow. Although we have not yet finalized our 2020 plans, we currently expect F&D capital spending to be in the range of $250 to $350 million with annual average production expected to be 78,000 to 82,000 boe/d."

Highlights

- Achieved record quarterly average production of 80,548 boe/d in Q3 2019, a 2% increase from Q3 2018.
- Liquids accounted for approximately 23% of Birchcliff's total production in Q3 2019 as compared to approximately 19% in Q3 2018. Birchcliff's total liquids production increased by 18% from Q3 2018.
- Delivered adjusted funds flow of $63.0 million, or $0.24 per basic common share, in Q3 2019, a 16% decrease and a 14% decrease, respectively, from Q3 2018.
- Generated $22.8 million of free funds flow in Q3 2019 and $54.0 million in the nine months ended September 30, 2019.
- Achieved record low operating expense of $2.75/boe in Q3 2019, a 20% decrease from Q3 2018.
- Realized an operating netback of $9.77/boe in Q3 2019, a 25% decrease from Q3 2018.
- Continued with the successful and efficient execution of its 2019 capital program, drilling 6 (6.0 net) wells and bringing 4 (4.0 net) wells on production in Q3 2019. F&D capital expenditures were $40.2 million in the quarter.
- Paid $7.0 million in common share dividends in the quarter, with $20.9 million in dividends paid to common shareholders in the nine months ended September 30, 2019.

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

FINANCIAL AND OPERATIONAL HIGHLIGHTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018(5)	2019	2018(5)
OPERATING				
Average production				
Light oil – *(bbls/d)*	4,882	4,959	4,845	4,901
Condensate – *(bbls/d)*(1)	5,744	4,456	5,226	4,026
NGLs – *(bbls/d)*(1)	7,559	6,036	7,078	5,890
Natural gas – *(Mcf/d)*	374,180	383,279	364,996	375,059
Total – boe/d	**80,548**	**79,331**	**77,982**	**77,327**
Average realized sales price *(CDN$)*(2)				
Light oil – *(per bbl)*	67.15	80.16	68.50	77.64
Condensate – *(per bbl)*(1)	65.94	84.10	67.82	84.89
NGLs – *(per bbl)*(1)	9.75	23.39	12.70	23.43
Natural gas – *(per Mcf)*	1.71	2.06	2.38	2.26
Total – per boe	**17.62**	**21.45**	**21.08**	**22.10**
NETBACK AND COST *($/boe)*				
Petroleum and natural gas revenue(2)	17.62	21.46	21.08	22.11
Royalty expense	(0.76)	(1.52)	(0.90)	(1.49)
Operating expense	(2.75)	(3.45)	(3.10)	(3.53)
Transportation and other expense	(4.34)	(3.46)	(4.41)	(3.55)
Operating netback *($/boe)*	**9.77**	**13.03**	**12.67**	**13.54**
G&A expense, net	(0.74)	(0.67)	(0.84)	(0.80)
Interest expense	(0.77)	(0.99)	(0.90)	(0.97)
Realized gain (loss) on financial instruments	0.22	(1.08)	0.95	(0.83)
Other income	0.02	0.04	0.03	0.02
Adjusted funds flow netback *($/boe)*	**8.50**	**10.33**	**11.91**	**10.96**
Depletion and depreciation expense	(7.57)	(7.40)	(7.51)	(7.47)
Unrealized loss on financial instruments	(8.22)	(1.01)	(6.87)	(0.63)
Other expenses(3)	(0.28)	(0.26)	(0.59)	(0.66)
Dividends on preferred shares	(0.26)	(0.27)	(0.27)	(0.27)
Income tax recovery (expense)	1.50	(0.48)	1.42	(0.65)
Net income (loss) to common shareholders *($/boe)*	**(6.33)**	**0.91**	**(1.91)**	**1.28**
FINANCIAL				
Petroleum and natural gas revenue *($000s)*(2)	130,588	156,609	448,800	466,701
Cash flow from operating activities *($000s)*	48,908	68,556	241,509	232,234
Adjusted funds flow *($000s)*	62,958	75,378	253,563	231,405
Per basic common share *($)*	0.24	0.28	0.95	0.87
Net income (loss) to common shareholders *($000s)*	(46,889)	6,657	(40,595)	27,125
Per basic common share *($)*	(0.18)	0.03	(0.15)	0.10
End of period basic common shares *(000s)*	265,935	265,885	265,935	265,885
Weighted average basic common shares *(000s)*	265,935	265,877	265,928	265,832
Dividends on common shares *($000s)*	6,981	6,647	20,942	19,938
Dividends on preferred shares *($000s)*	1,921	1,921	5,765	5,765
Total capital expenditures *($000s)*(4)	41,621	45,524	242,111	245,132
Long-term debt *($000s)*	638,631	635,120	638,631	635,120
Total debt *($000s)*	644,407	641,484	644,407	641,484

(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 nine months ended September 30, 2019 include the $39 million asset acquisition in Pouce Coupe completed by the Corporation in Q1 2019 (the "**Acquisition**").

(5) Birchcliff adopted IFRS 16: *Leases* effective January 1, 2019 using the modified retrospective approach; therefore 2018 comparative information has not been restated.

Q3 2019 FINANCIAL AND OPERATIONAL RESULTS

Production

Birchcliff's production averaged 80,548 boe/d in Q3 2019, a 2% increase from 79,331 boe/d in Q3 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 Q3 2019.

Liquids accounted for approximately 23% of Birchcliff's total production in Q3 2019 as compared to approximately 19% in Q3 2018, with total liquids production increasing by 18% from Q3 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+ extracted 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**").

Adjusted Funds Flow

Birchcliff's adjusted funds flow for Q3 2019 was $63.0 million, or $0.24 per basic common share, a 16% decrease and a 14% decrease, respectively, from $75.4 million and $0.28 per basic common share in Q3 2018. The decreases were primarily due to lower reported revenue and an increase in transportation and other expense as a result of Birchcliff's increased Dawn and AECO firm service, partially offset by lower operating and royalty expenses and a realized gain on financial instruments in Q3 2019 as compared to a realized loss on financial instruments in Q3 2018. Revenue received by the Corporation was lower mainly due to an 18% decrease in the corporate average realized sales price, partially offset by higher total liquids production.

Net Loss to Common Shareholders

Birchcliff recorded a net loss to common shareholders of $46.9 million, or $0.18 per basic common share, in Q3 2019 as compared to net income to common shareholders of $6.7 million and $0.03 per basic common share in Q3 2018. The change to a net loss position from a net income position was primarily due to an unrealized mark-to-market loss on financial instruments of $60.9 million ($46.9 million, net of tax) recorded in Q3 2019 as compared to $7.3 million ($5.4 million, net of tax) in Q3 2018, as well as lower adjusted funds flow.

Operating Expense

Birchcliff's operating expense was $2.75/boe in Q3 2019, a 20% decrease from $3.45/boe in Q3 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.

Operating Netback

Birchcliff's operating netback was $9.77/boe in Q3 2019, a 25% decrease from $13.03/boe in Q3 2018. The decrease was primarily due to an 18% decrease in the corporate average realized sales price, partially offset by lower per boe operating and royalty expenses.

Total Cash Costs

Birchcliff's total cash costs were $9.36/boe in Q3 2019, a 7% decrease from $10.09/boe in Q3 2018. The decrease was primarily due to lower per boe operating, interest and royalty expenses, partially offset by higher per boe transportation and other expense.

Pouce Coupe Gas Plant Netbacks

During the nine months ended September 30, 2019, Birchcliff processed approximately 73% of its total corporate natural gas production and 63% of its total corporate production through the Pouce Coupe Gas Plant as compared to 68% and 58%, respectively, during the nine months ended September 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:

	Nine months ended September 30, 2019		Nine months ended September 30, 2018	
Average production:				
Condensate *(bbls/d)*		3,845		2,438
NGLs *(bbls/d)*		871		-
Natural gas *(Mcf/d)*		264,699		253,360
Total *(boe/d)*		**48,832**		**44,665**
Liquids-to-gas ratio *(bbls/MMcf)*		**17.8**		**9.6**
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue(1)	3.09	18.55	2.87	17.20
Royalty expense	(0.05)	(0.32)	(0.05)	(0.29)
Operating expense(2)	(0.35)	(2.10)	(0.35)	(2.08)
Transportation and other expense	(0.75)	(4.47)	(0.56)	(3.37)
Operating netback	**$1.94**	**$11.66**	**$1.91**	**$11.46**
Operating margin(3)	**63%**	**63%**	**67%**	**67%**

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

(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 nine months ended September 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 from Montney horizontal natural gas wells being produced to the Pouce Coupe Gas Plant increased by 58% to 3,845 bbls/d in the nine months ended September 30, 2019 from 2,438 bbls/d in the nine months ended September 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 September 30, 2019, Birchcliff had significant liquidity with long-term bank debt of $638.6 million (September 30, 2018: $635.1 million) from credit facilities in the aggregate principal amount of $1.0 billion (September 30, 2018: $950.0 million), leaving $354.6 million of unutilized credit capacity after adjusting for outstanding letters of credit and unamortized interest and fees. Total debt at September 30, 2019 was $644.4 million as compared to $641.5 million at September 30, 2018. Birchcliff's credit facilities mature on May 11, 2022 and 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 September 30, 2019	Three months ended September 30, 2018	% Change
Average benchmark index prices:			
Light oil – WTI Cushing *(US$/bbl)*	56.45	69.50	(19%)
Light oil – MSW (Mixed Sweet) *(CDN$/bbl)*	67.88	81.59	(17%)
Natural gas – NYMEX HH *(US$/MMBtu)*(1)	2.23	2.86	(22%)
Natural gas – AECO 5A Daily *(CDN$/GJ)*	0.86	1.13	(24%)
Natural gas – AECO 7A Month Ahead *(US$/MMBtu)*(1)	0.79	1.03	(23%)
Natural gas – Dawn Day Ahead *(US$/MMBtu)*(1)	2.12	2.91	(27%)
Natural gas – ATP 5A Day Ahead *(CDN$/GJ)*	0.93	1.82	(49%)
Exchange rate *(CDN$ to US$1)*	1.3207	1.3070	1%
Exchange rate *(US$ to CDN$1)*	0.7572	0.7651	(1%)
Birchcliff's average realized sales prices:(2)			
Light oil *(CDN$/bbl)*	67.15	80.16	(16%)
Condensate *(CDN$/bbl)*	65.94	84.10	(22%)
NGLs *(CDN$/bbl)*	9.75	23.39	(58%)
Natural gas *(CDN$/Mcf)*	1.71	2.06	(17%)
Birchcliff's average realized sales price *(CDN$/boe)*	**17.62**	**21.45**	**(18%)**

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

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

Marketing and Natural Gas Market Diversification

Birchcliff's physical natural gas sales exposure primarily consists of the AECO, Dawn and Alliance markets. Effective November 1, 2019, Birchcliff's level of firm service on TCPL's Canadian Mainline to Dawn increased to 175,000 GJ/d from 150,000 GJ/d. In addition, the Corporation has various financial instruments outstanding that provide it with exposure to NYMEX HH pricing.

The following table details Birchcliff's effective sales, production and average realized sales price for natural gas and liquids for Q3 2019, after taking into account the Corporation's financial instruments:

Three months ended September 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)	10,599	8	134,650 Mcf	36	28	0.86/Mcf
Dawn(2)	37,528	28	137,018 Mcf	37	28	2.98/Mcf
Alliance(3)	929	1	11,172 Mcf	3	2	0.90/Mcf
NYMEX HH(1)	11,575	9	91,340 Mcf	24	19	1.38/Mcf
Total natural gas	**60,631**	**46**	**374,180 Mcf**	**100**	**77**	**1.76/Mcf**
Light oil	30,158	22	4,882 bbls		6	67.15/bbl
Condensate	34,846	27	5,744 bbls		8	65.94/bbl
NGLs	6,782	5	7,559 bbls		9	9.75/bbl
Total liquids	**71,786**	**54**	**18,185 bbls**		**23**	**42.91/bbl**
Total corporate	**132,417**	**100**	**80,548 boe**		**100**	**17.87/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. Birchcliff sold financial and physical AECO 7A basis swaps for 100,000 MMBtu/d at an average contract price of NYMEX less US$1.28/MMBtu during Q3 2019.

(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, 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, the second tranche (30,000 GJ/d) became available on November 1, 2018 and the third tranche (25,000 GJ/d) became available on November 1, 2019. Each tranche has a 10-year term.

(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.

Effectively 92% of the Corporation's sales revenue, representing 64% of its total natural gas production and 72% of its total corporate production, was generated from markets outside of AECO in Q3 2019, after taking into account its liquids sales and long-term financial NYMEX/AECO basis swap position.

The following tables set 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 September 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	20,343	34	225,991	60	0.98	0.31	0.67
Dawn	37,528	64	137,018	37	2.98	1.35	1.63
Alliance[4]	929	2	11,171	3	0.90	-	0.90
Total	**58,800**	**100**	**374,180**	**100**	**1.71**	**0.69**	**1.02**

Three months ended September 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	29,935	41	254,819	66	1.27	0.27	1.00
Dawn	40,248	56	109,614	29	3.99	1.30	2.69
Alliance[4]	2,355	3	18,846	5	1.42	-	1.42
Total	**72,538**	**100**	**383,279**	**100**	**2.06**	**0.55**	**1.51**

(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) Alliance sales are recorded net of transportation tolls.

The Corporation's average realized natural gas sales price was $1.71/Mcf in Q3 2019, an 88% premium to the average AECO 5A benchmark price of $0.91/Mcf in the quarter.

During Q3 2019, approximately 66% of Birchcliff's natural gas sales revenue, representing approximately 40% of its total natural gas production, was generated from the Dawn and Alliance markets with an average realized natural gas sales price of $2.82/Mcf, a 188% premium to Birchcliff's average realized natural gas sales price of $0.98/Mcf from the AECO market in Q3 2019.

Birchcliff's average realized natural gas sales netback from the Dawn and Alliance markets was $1.57/Mcf, a 135% premium to its realized natural gas sales netback of $0.67/Mcf from the AECO market in Q3 2019.

Capital Activities and Investment

During Q3 2019, Birchcliff continued with the successful execution of its 2019 capital program (the "**2019 Capital Program**"), drilling 6 (6.0 net) wells and bringing 4 (4.0 net) wells on production. Total capital expenditures in the quarter were $41.6 million, with total capital expenditures of $18.8 million in Pouce Coupe and $22.8 million in Gordondale. F&D capital expenditures in Q3 2019 were $40.2 million. For further information regarding Birchcliff's operational activities year-to-date, see *"Operational Update"* below.

OPERATIONAL UPDATE

Update on the 2019 Capital Program

The 2019 Capital Program is focused on Birchcliff's high-value light oil assets in Gordondale and its condensate-rich assets in Pouce Coupe, with the majority of capital investment directed towards the drilling of horizontal condensate-rich natural gas wells in Pouce Coupe and horizontal oil wells in Gordondale. In addition, the 2019 Capital Program advances the Corporation's inlet liquids-handling facility at the Pouce Coupe Gas Plant and directs funds towards other infrastructure enhancement projects. By early November 2019, Birchcliff had drilled and brought on production all wells that were planned under the 2019 Capital Program. 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 and natural gas rates from its Gordondale wells.

Birchcliff has been able to realize numerous capital cost savings over the past year as a result of its strategic planning and efficient execution of the 2019 Capital Program. Given these cost savings and the success of the 2019 Capital Program, Birchcliff is drilling six additional horizontal wells and proceeding with other ancillary drilling operations in Q4 2019. None of the wells will be completed this year and all are expected to be completed and brought on production in late Q1 2020 or early Q2 2020. As none of the wells will be completed in 2019, no new production or reserves will be added this year as a result. Accordingly, the Corporation is maintaining its annual average production guidance at 77,000 to 79,000 boe/d. See *"2019 Guidance".*

Birchcliff expects that this capital activity in Q4 2019 will result in more efficient capital spending and production profiles in 2020 and reduce the amount of capital needed to be spent by the Corporation in 2020. In addition, Birchcliff anticipates that it will be able to secure lower rates for services and benefit from the efficiencies associated with commencing field activities outside of the most active season.

As a result of the capital cost savings realized by the Corporation year-to-date, Birchcliff expects that it will be able to execute this additional capital activity in Q4 2019 within or close to its 2019 F&D capital budget of $242 million. Accordingly, the Corporation is maintaining its 2019 capital expenditures guidance. See *"2019 Guidance".*

The following tables summarize the wells that Birchcliff has drilled and brought on production year-to-date and the remaining and total number of wells to be drilled 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	9	0	9
Montney D2 horizontal natural gas wells	2	3	5
Montney C horizontal natural gas wells	1	1	2
Total – Pouce Coupe	**12**	**4**	**16**
Gordondale			
Montney D4 horizontal oil wells	0	1	1
Montney D2 horizontal oil wells	7	0	7
Montney D1 horizontal oil wells	5	1	6
Total – Gordondale	**12**	**2**	**14**
TOTAL – COMBINED	**24**	**6**	**30**

Wells Brought 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	14	0	14
Montney D2 horizontal natural gas wells	2	0	2
Montney C horizontal natural gas wells	1	0	1
Total – Pouce Coupe	**17**	**0**	**17**
Gordondale			
Montney D2 horizontal oil wells	9	0	9
Montney D1 horizontal oil wells	7	0	7
Total – Gordondale	**16**	**0**	**16**
TOTAL – COMBINED	**33**	**0**	**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. In early November 2019, the Corporation brought on production a three-well pad located at 06-32-078-12W6. All of the wells are Montney D1 wells and are located adjacent to Birchcliff's previously successful condensate-rich drilling in Pouce Coupe. These wells are benefiting from recently improved prices at AECO and will help the Corporation to maintain a consistent production profile throughout Q1 2020.

As previously disclosed, Birchcliff has initiated the construction of a 20,000 bbls/d inlet liquids-handling facility at the Pouce Coupe Gas Plant in order to handle increased condensate volumes in the area. Once completed, this facility will give Birchcliff the ability to increase its condensate production in the Pouce Coupe area to approximately 10,000 bbls/d (Q3 2019: ~4,500 bbls/d). Fabrication of the various components is underway and site preparation has commenced. The facility is anticipated to be online in Q3 2020.

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. In October 2019, Birchcliff brought on production a four-well pad located at 02-02-078-11W6. The wells consist of two Montney D1 and two Montney D2 wells and are located adjacent to Birchcliff's previously successful drilling in Gordondale.

Due to the Corporation's success in the southeastern part of the Gordondale field and the targeted activity expected in 2020, Birchcliff has commenced the engineering and procurement for the addition of natural gas compression at both of its 100% owned and operated oil batteries in Gordondale. The Corporation has also initiated the construction of a significant trunk line to transport oil, natural gas and water to these batteries from the southeastern portion of the field. Both projects are expected to be completed in Q2 2020.

2019 GUIDANCE

Birchcliff is on track to achieve its 2019 annual average production guidance of 77,000 to 79,000 boe/d, which is expected to generate approximately $335 million of adjusted funds flow based on the assumptions set forth herein. The following table sets forth Birchcliff's guidance and commodity price assumptions for 2019:

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

(1) As previously disclosed on August 14, 2019. Birchcliff's 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 annual average production guidance for 2019.

(2) 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.

(3) Birchcliff's estimate of adjusted funds flow takes into account the settlement of financial and physical commodity risk management contracts outstanding as at August 14, 2019. See *"Discussion of Operations – Risk Management"* in the MD&A.

(4) Birchcliff's estimate of F&D capital expenditures 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 and other acquisitions and dispositions completed year-to-date; 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"*.

(5) Free funds flow is calculated as adjusted funds flow less F&D capital expenditures and is prior to administrative assets, acquisitions, dispositions, dividend payments and abandonment and reclamation obligations. See *"Non-GAAP Measures"*.

(6) 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 on a financial and physical basis at a fixed basis differential between the AECO 7A price and the NYMEX HH price.

(7) $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 is committed to protecting its strong balance sheet and will allocate free funds flow based on what it believes will provide the most value to its shareholders.

Effective November 1, 2019, Birchcliff's level of firm service on TCPL's Canadian Mainline to Dawn increased 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.

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"*.

Birchcliff expects to release details regarding its unaudited financial results and reserves for the financial year ended December 31, 2019 on February 12, 2020.

PRELIMINARY OUTLOOK FOR 2020 AND BEYOND

Birchcliff is committed to protecting its balance sheet, its financial flexibility and its common share dividend and will target capital spending over the next two years to either approximate or be less than its forecast of adjusted funds flow each year. Any free funds flow will be allocated by Birchcliff based on what it believes will provide the most value to shareholders, with alternatives that may include debt reduction, the payment of dividends and common share buybacks.

Birchcliff believes that the key to creating shareholder value over the next two years will be through fully utilizing the excess capacity of its existing infrastructure, which in turn will allow the Corporation to maximize its production, its netbacks and its ability to generate free funds flow, as well as drive down its operating and other cash costs on a per unit basis and maximize efficiencies. Accordingly, Birchcliff plans to fill its 100% owned and operated Pouce Coupe Gas Plant in 2020 and 2021 (which is currently operating at approximately 80% of its total processing capacity of 340 MMcf/d), as well as other infrastructure. Birchcliff believes that keeping such infrastructure at or near capacity will help to create additional shareholder value as outlined above and will also allow Birchcliff to leverage its previous capital investment in the Pouce Coupe Gas Plant and reduce its unutilized firm transportation capacity on the NGTL system which the Corporation is currently paying for.

Birchcliff expects that the number of wells required to fill the Pouce Coupe Gas Plant to capacity can be drilled and completed in 2020 and 2021. However, if commodity prices deteriorate materially, Birchcliff has the ability to reduce the rate of drilling and expand the time horizon over which to fill the Pouce Coupe Gas Plant in order to protect its balance sheet and common share dividend. Given current economic and industry conditions, Birchcliff has no plans to invest in further phases of the Pouce Coupe Gas Plant at this time.

With respect to 2020, Birchcliff is currently in the process of finalizing its capital spending plans. Depending on economic conditions, commodity prices and other factors, Birchcliff currently expects F&D capital spending in 2020 to be in the range of $250 to $350 million. Annual average production in 2020 is expected to be in the range of 78,000 to 82,000 boe/d. The Corporation intends to finalize its 2020 capital spending plans in late January 2020. See *"Advisories – Forward-Looking Statements"*.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

This Management's Discussion and Analysis ("**MD&A**") for Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") dated November 14, 2019 is with respect to the three and nine months ended September 30, 2019 (the "**Reporting Periods**") as compared to the three and nine months ended September 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", "adjusted funds flow 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.

HIGHLIGHTS

- Achieved record quarterly average production of 80,548 boe/d in the three month Reporting Period, a 2% increase from the three month Comparable Prior Period.
- Liquids accounted for approximately 23% of Birchcliff's total production in the three month Reporting Period as compared to approximately 19% in the three month Comparable Prior Period. Birchcliff's total liquids production increased by 18% from the three month Comparable Prior Period.
- Delivered adjusted funds flow of $63.0 million, or $0.24 per basic common share, in the three month Reporting Period, a 16% decrease and a 14% decrease, respectively, from the three month Comparable Prior Period.
- Generated $22.8 million of free funds flow in the three month Reporting Period and $54.0 million in the nine month Reporting Period.
- Achieved record low operating expense of $2.75/boe in the three month Reporting Period, a 20% decrease from the three month Comparable Prior Period.

- Realized an operating netback of $9.77/boe in the three month Reporting Period, a 25% decrease from the three month Comparable Prior Period.
- Continued with the successful and efficient execution of its 2019 capital program (the "**2019 Capital Program**"), drilling 6 (6.0 net) wells and bringing 4 (4.0 net) wells on production in the three month Reporting Period. F&D capital expenditures were $40.2 million in the three month Reporting Period.
- Paid $7.0 million in common share dividends in the three month Reporting Period, with $21.0 million in dividends paid to common shareholders in the nine month Reporting Period.

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

OUTLOOK

Birchcliff is on track to achieve its 2019 annual average production guidance of 77,000 to 79,000 boe/d, which is expected to generate approximately $335 million of adjusted funds flow based on the assumptions set forth herein. The following table sets forth Birchcliff's guidance and commodity price assumptions for 2019:

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

(1) As previously disclosed on August 14, 2019. Birchcliff's 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 annual average production guidance for 2019.

(2) 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.

(3) Birchcliff's estimate of adjusted funds flow takes into account the settlement of financial and physical commodity risk management contracts outstanding as at August 14, 2019. See *"Discussion of Operations – Risk Management"* in this MD&A.

(4) Birchcliff's estimate of F&D capital expenditures excludes the purchase price for the $39 million asset acquisition in Pouce Coupe completed by the Corporation in Q1 2019 (the "**Acquisition**") and any other net potential acquisitions and dispositions. Birchcliff's estimate of total capital expenditures includes the purchase price for the Acquisition and other acquisitions and dispositions completed year-to-date; 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.

(5) Free funds flow is calculated as adjusted funds flow less F&D capital expenditures and is prior to administrative assets, acquisitions, dispositions, dividend payments and abandonment and reclamation obligations. See *"Non-GAAP Measures"* in this MD&A.

(6) 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 on a financial and physical basis at a fixed basis differential between the AECO 7A price and the NYMEX HH price.

(7) $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 is committed to protecting its strong balance sheet and will allocate free funds flow based on what it believes will provide the most value to its shareholders.

Effective November 1, 2019, Birchcliff's level of firm service on TCPL's Canadian Mainline to Dawn increased 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.

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 September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Cash flow from operating activities *($000s)*	48,908	68,556	241,509	232,234
Adjusted funds flow *($000s)*	**62,958**	**75,378**	**253,563**	**231,405**
Per common share – basic *($)*	0.24	0.28	0.95	0.87
Per common share – diluted *($)*	0.24	0.28	0.95	0.87
Adjusted funds flow netback *($/boe)*	8.50	10.33	11.91	10.96

Adjusted funds flow in the three month Reporting Period decreased by 16% from the three month Comparable Prior Period. The decrease was primarily due to lower reported revenue and an increase in transportation and other expense as a result of Birchcliff's increased Dawn and AECO firm service, partially offset by lower operating and royalty expenses and a realized gain on financial instruments as compared to a realized loss on financial instruments in the three month Comparable Prior Period. Revenue received by the Corporation was lower mainly due to an 18% decrease in the corporate average realized sales price, partially offset by an 18% increase in total liquids production.

Adjusted funds flow in the nine month Reporting Period increased by 10% from the nine month Comparable Prior Period. The increase was primarily due to lower operating and royalty expenses and a realized gain on financial instruments as compared to a realized loss on financial instruments in the nine month Comparable Prior Period, partially offset by lower reported revenue and 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 lower mainly due to a 5% decrease in the corporate average realized sales price, partially offset by a 16% increase in total liquids production.

Cash flow from operating activities for the three and nine month Reporting Periods decreased by 29% and increased by 4%, respectively, from the Comparable Prior Periods. The reasons for the changes 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:

($/boe)	Three months ended September 30, 2019	2018	% Change	Nine months ended September 30, 2019	2018	% Change
Royalty expense	0.76	1.52	(50%)	0.90	1.49	(40%)
Operating expense	2.75	3.45	(20%)	3.10	3.53	(12%)
Transportation and other expense	4.34	3.46	25%	4.41	3.55	24%
G&A expense, net	0.74	0.67	10%	0.84	0.80	5%
Interest expense	0.77	0.99	(22%)	0.90	0.97	(7%)
Total cash costs	**9.36**	**10.09**	**(7%)**	**10.15**	**10.34**	**(2%)**

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 September 30, 2019	2018	Nine months ended September 30, 2019	2018
Net income (loss) to common shareholders *($000s)*	**(46,889)**	**6,657**	**(40,595)**	**27,125**
Per common share – basic *($)*	(0.18)	0.03	(0.15)	0.10
Per common share – diluted *($)*	(0.18)	0.02	(0.15)	0.10
Net income (loss) to common shareholders *($/boe)*	(6.33)	0.91	(1.91)	10.96

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 $60.9 million unrealized mark-to-market loss on financial instruments recorded in the three month Reporting Period as compared to a $7.3 million unrealized mark-to-market loss on financial instruments in the three month Comparable Prior Period and lower adjusted funds flow, partially offset by a $11.2 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 change to a net loss position in the nine month Reporting Period from a net income position in the nine month Comparable Prior Period was primarily due to a $146.2 million unrealized mark-to-market loss on financial instruments recorded in the nine month Reporting Period as compared to a $13.2 million unrealized mark-to-market loss on financial instruments in the nine month Comparable Prior Period, partially offset by higher adjusted funds flow and a $30.3 million income tax recovery in the nine month Reporting Period as compared to a $13.6 million income tax expense in the nine 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 nine month Reporting Period, Birchcliff processed approximately 73% of its total corporate natural gas production and 63% 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 68% and 58%, respectively, during the nine 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:

	Nine months ended September 30, 2019		Nine months ended September 30, 2018	
Average production:				
Condensate *(bbls/d)*		3,845		2,438
NGLs *(bbls/d)*		871		-
Natural gas *(Mcf/d)*		264,699		253,360
Total *(boe/d)*		**48,832**		**44,665**
Liquids-to-gas ratio *(bbls/MMcf)*		**17.8**		**9.6**
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
P&NG revenue(1)	3.09	18.55	2.87	17.20
Royalty expense	(0.05)	(0.32)	(0.05)	(0.29)
Operating expense(2)	(0.35)	(2.10)	(0.35)	(2.08)
Transportation and other expense	(0.75)	(4.47)	(0.56)	(3.37)
Operating netback	**$1.94**	**$11.66**	**$1.91**	**$11.46**
Operating margin(3)	**63%**	**63%**	**67%**	**67%**

(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 17.8 bbls/MMcf in the nine month Reporting Period from 9.6 bbls/MMcf in the nine 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 from Montney horizontal natural gas wells being produced to the Pouce Coupe Gas Plant increased by 58% to 3,845 bbls/d in the nine month Reporting Period from 2,438 bbls/d in the nine month Comparable Prior Period. The increase in the liquids-to-gas ratio in the nine 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 nine 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; (ii) increased operating efficiencies resulting from expanded liquids-handling capabilities in Pouce Coupe; and (iii) higher natural gas production processed at the Pouce Coupe Gas Plant during the nine month Reporting Period.

Transportation and other expense per boe at the Pouce Coupe Gas Plant increased by 33% from the nine 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 are available for future use.

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 geologically situated in the dry gas and condensate-rich trends of the Montney/Doig Resource Play (the "**Pouce Coupe assets**"), the Corporation's Gordondale operating assets geologically situated in the oil rich trend of the Montney/Doig Resource Play (the "**Gordondale assets**") and on a corporate basis for the periods indicated:

			Three months ended September 30, 2019			**Three months ended September 30, 2018**
($000s)	**Pouce Coupe assets**	**Gordondale assets**	**Corporate(1)**	**Pouce Coupe assets**	**Gordondale assets**	**Corporate(1)**
Light oil	-	30,082	30,157	-	36,468	36,577
Condensate	26,954	7,942	34,847	23,029	11,626	34,479
NGLs	1,361	5,421	6,782	472	12,513	12,987
Natural gas	44,824	13,976	58,800	54,235	18,297	72,538
Total P&NG sales(2)	73,139	57,421	130,586	77,736	78,904	156,581
Royalty revenue	4	(4)	2	5	22	28
Total P&NG revenue	**73,143**	**57,417**	**130,588**	**77,741**	**78,926**	**156,609**
% of corporate revenue	**56%**	**44%**		**50%**	**50%**	
			Nine months ended September 30, 2019			**Nine months ended September 30, 2018**
($000s)	**Pouce Coupe assets**	**Gordondale assets**	**Corporate(1)**	**Pouce Coupe assets**	**Gordondale assets**	**Corporate(1)**
Light oil	-	90,258	90,611	-	103,414	103,885
Condensate	72,979	24,085	96,766	59,270	34,294	93,302
NGLs	4,891	19,652	24,543	1,072	36,602	37,682
Natural gas	180,116	56,667	236,785	172,773	58,404	231,730
Total P&NG sales(2)	257,986	190,662	448,705	233,115	232,714	466,599
Royalty revenue	11	80	95	15	82	102
Total P&NG revenue	**257,997**	**190,742**	**448,800**	**233,130**	**232,796**	**466,701**
% of corporate revenue	**57%**	**43%**		**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 17% and 4% from the three and nine month Comparable Prior Periods, respectively, largely due to a lower average realized sales price received for Birchcliff's production, partially offset by an increase in total liquids production.

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 September 30, 2019			**Three months ended September 30, 2018**
	Pouce Coupe assets	**Gordondale assets**	**Corporate(1)**	**Pouce Coupe assets**	**Gordondale assets**	**Corporate(1)**
Light oil *(bbls/d)*	-	4,868	4,882	-	4,943	4,959
Condensate *(bbls/d)*	4,474	1,279	5,744	3,054	1,415	4,456
NGLs *(bbls/d)*	1,032	6,527	7,559	120	5,915	6,036
Natural gas *(Mcf/d)*	282,286	91,892	374,180	285,035	98,215	383,279
Total production *(boe/d)*	**52,554**	**27,990**	**80,548**	**50,680**	**28,642**	**79,331**
Liquids-to-gas ratio *(bbls/MMcf)*	**19.5**	**137.9**	**48.6**	**11.1**	**125.0**	**40.3**
% of corporate production	**65%**	**35%**		**64%**	**36%**	
			Nine months ended September 30, 2019			**Nine months ended September 30, 2018**
	Pouce Coupe assets	**Gordondale assets**	**Corporate(1)**	**Pouce Coupe assets**	**Gordondale assets**	**Corporate(1)**
Light oil *(bbls/d)*	-	4,826	4,845	-	4,877	4,901
Condensate *(bbls/d)*	4,011	1,231	5,226	2,666	1,368	4,026
NGLs *(bbls/d)*	924	6,154	7,078	91	5,798	5,890
Natural gas *(Mcf/d)*	275,591	89,401	364,996	279,114	95,067	375,059
Total production *(boe/d)*	**50,867**	**27,112**	**77,982**	**49,277**	**27,888**	**77,327**
Liquids-to-gas ratio *(bbls/MMcf)*	**17.9**	**136.6**	**47.0**	**9.9**	**126.7**	**39.5**
% 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.

Birchcliff's production in the three and nine month Reporting Periods increased by 2% and 1%, respectively, from the Comparable Prior Periods. Corporate production in the Reporting Periods was impacted by incremental production from new horizontal oil wells brought on production in Gordondale and horizontal condensate-rich natural gas wells brought on production in Pouce Coupe, partially offset by natural production declines.

Corporate liquids production increased by 18% and 16% from the three and nine month Comparable Prior Periods, respectively, and the corporate liquids-to-gas ratio (liquids yield) increased by 21% and 19% from the three and nine month Comparable Prior Periods, respectively. These increases were largely attributable to incremental production from new horizontal condensate-rich natural gas wells that were brought on production in Pouce Coupe and an increase in C3+ extracted from the natural gas stream at the Pouce Coupe Gas Plant.

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 September 30, 2019			Three months ended September 30, 2018		
	Pouce Coupe assets	Gordondale assets	Corporate[1]	Pouce Coupe assets	Gordondale assets	Corporate[1]
% Light oil production	-	17%	6%	-	17%	6%
% Condensate production	9%	5%	8%	6%	5%	6%
% NGLs production	2%	23%	9%	-	21%	7%
% Natural gas production	89%	55%	77%	94%	57%	81%
	Nine months ended September 30, 2019			**Nine months ended September 30, 2018**		
	Pouce Coupe assets	**Gordondale assets**	**Corporate[1]**	**Pouce Coupe assets**	**Gordondale assets**	**Corporate[1]**
% Light oil production	-	18%	6%	-	17%	6%
% Condensate production	8%	5%	7%	6%	5%	5%
% NGLs production	2%	23%	9%	-	21%	8%
% Natural gas production	90%	54%	78%	94%	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 16% and 15% in the three and nine month Reporting Periods, respectively, from the Comparable Prior Periods. The changes in the commodity production mix were primarily attributable to higher liquids yields that resulted from new horizontal condensate-rich natural gas wells brought on production in Pouce Coupe and an increase in C3+ extracted 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 September 30,		
	2019	**2018**	**Change**
Light oil – WTI Cushing *(US$/bbl)*	56.45	69.50	(19%)
Light oil – MSW (Mixed Sweet) *(CDN$/bbl)*	67.88	81.59	(17%)
Natural gas – NYMEX HH *(US$/MMBtu)*[1]	2.23	2.86	(22%)
Natural gas – AECO 5A Daily *(CDN$/GJ)*	0.86	1.13	(24%)
Natural gas – AECO 7A Month Ahead *(US$/MMBtu)*[1]	0.79	1.03	(23%)
Natural gas – Dawn Day Ahead *(US$/MMBtu)*[1]	2.12	2.91	(27%)
Natural gas – ATP 5A Day Ahead *(CDN$/GJ)*	0.93	1.82	(49%)
Exchange rate *(CDN$ to US$1)*	1.3207	1.3070	1%
Exchange rate *(US$ to CDN$1)*	0.7572	0.7651	(1%)
	Nine months ended September 30,		
	2019	**2018**	**Change**
Light oil – WTI Cushing *(US$/bbl)*	57.06	66.75	(15%)
Light oil – MSW (Mixed Sweet) *(CDN$/bbl)*	69.07	77.91	(11%)
Natural gas – NYMEX HH *(US$/MMBtu)*[1]	2.67	2.85	(6%)
Natural gas – AECO 5A Daily *(CDN$/GJ)*	1.44	1.42	1%
Natural gas – AECO 7A Month Ahead *(US$/MMBtu)*[1]	1.04	1.10	(5%)
Natural gas – Dawn Day Ahead *(US$/MMBtu)*[1]	2.46	2.90	(15%)
Natural gas – ATP 5A Day Ahead *(CDN$/GJ)*	1.58	1.90	(17%)
Exchange rate *(CDN$ to US$1)*	1.3292	1.2877	3%
Exchange rate *(US$ to CDN$1)*	0.7523	0.7766	(3%)

(1) $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 and substantially all of its natural gas production 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 beginning 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, access to storage 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 September 30,		
	2019	**2018**	**Change**
Light oil *($/bbl)*	67.15	80.16	(16%)
Condensate *($/bbl)*	65.94	84.10	(22%)
NGLs *($/bbl)*	9.75	23.39	(58%)
Natural gas *($/Mcf)*	1.71	2.06	(17%)
Average realized sales price *($/boe)*[(1)]	**17.62**	**21.45**	**(18%)**
	Nine months ended September 30,		
	2019	**2018**	**Change**
Light oil *($/bbl)*	68.50	77.64	(12%)
Condensate *($/bbl)*	67.82	84.89	(20%)
NGLs *($/bbl)*	12.70	23.43	(46%)
Natural gas *($/Mcf)*	2.38	2.26	5%
Average realized sales price *($/boe)*[(1)]	**21.08**	**22.10**	**(5%)**

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

The corporate average realized sales price decreased by 18% and 5% from the three and nine month Comparable Prior Periods, respectively, primarily due to the decrease in the average benchmark index price for its liquids. The average realized sales price for the nine month Reporting Period includes the effects of physical natural gas 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 $15.13/boe in the three month Reporting Period and $18.58/boe in the nine month Reporting Period, a 9% decrease and 7% increase, respectively, from the Comparable Prior Periods. The average realized sales price for the Gordondale assets was $22.30/boe in the three month Reporting Period and $25.77/boe in the nine month Reporting Period, a 26% decrease and 16% 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 average realized sales price.

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

Natural Gas Sales, Production and Average Realized Sales Price

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

	Three months ended September 30, 2019					Three months ended September 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	20,343	34	225,991	60	0.98	29,935	41	254,819	66	1.27
Dawn[2]	37,528	64	137,018	37	2.98	40,248	56	109,614	29	3.99
Alliance[3]	929	2	11,171	3	0.90	2,355	3	18,846	5	1.42
Total	**58,800**	**100**	**374,180**	**100**	**1.71**	**72,538**	**100**	**383,279**	**100**	**2.06**
	Nine months ended September 30, 2019					**Nine months ended September 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	87,075	37	212,554	58	1.48	98,656	43	231,231	62	1.57
Dawn[2]	141,493	60	137,020	38	3.78	117,313	51	109,667	29	3.92
Alliance[3]	8,217	3	15,422	4	1.95	15,761	6	34,161	9	1.69
Total	**236,785**	**100**	**364,996**	**100**	**2.38**	**231,730**	**100**	**375,059**	**100**	**2.26**

(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, 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, the second tranche (30,000 GJ/d) became available on November 1, 2018 and the third tranche (25,000 GJ/d) became available on November 1, 2019. Each tranche has a 10-year term. During the first quarter of 2019, Birchcliff had in place physical natural gas 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 September 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.

During the three month Reporting Period, approximately 66% of Birchcliff's natural gas sales revenue, representing approximately 40% of its total natural gas production, was generated from the Dawn and Alliance markets with an average realized natural gas sales price of $2.82/Mcf, a 188% premium to Birchcliff's average realized natural gas sales price of $0.98/Mcf from the AECO market in the three month Reporting Period.

During the nine month Reporting Period, approximately 63% of Birchcliff's natural gas sales revenue, representing approximately 42% of its total natural gas production, was generated from the Dawn and Alliance markets with an average realized natural gas sales price of $3.60/Mcf, a 143% premium to Birchcliff's average realized natural gas sales price of $1.48/Mcf from the AECO market.

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 September 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.

At September 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	Oct. 1, 2019 – Dec. 31, 2023	NYMEX HH less US$1.298/MMBtu
Natural gas	AECO 7A basis swap(2)	10,000 MMBtu/d	Oct. 1, 2019 – Dec. 31, 2023	NYMEX HH less US$1.32/MMBtu
Natural gas	AECO 7A basis swap(2)	30,000 MMBtu/d	Oct. 1, 2019 – Dec. 31, 2023	NYMEX HH less US$1.33/MMBtu
Natural gas	AECO 7A basis swap(2)	15,000 MMBtu/d	Oct. 1, 2019 – Dec. 31, 2024	NYMEX HH less US$1.185/MMBtu
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Oct. 1, 2019 – Dec. 31, 2024	NYMEX HH less US$1.20/MMBtu
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Oct. 1, 2019 – Dec. 31, 2024	NYMEX HH less US$1.20/MMBtu
Natural gas	AECO 7A basis swap(2)	12,500 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2025	NYMEX HH less US$1.108/MMBtu
Natural gas	AECO 7A basis swap(2)	10,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2025	NYMEX HH less US$1.115/MMBtu
Natural gas	AECO 7A basis swap(2)	10,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2025	NYMEX HH less US$1.050/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)	30,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.114/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)	20,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US$1.005/MMBtu
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US$0.990/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 contract was entered into subsequent to September 30, 2019:

Product	Type of Contract	Notional Quantity	Remaining Term	Contract Price
Natural gas	AECO 7A basis swap(1)	5,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.00/MMBtu

(1) 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 September 30, 2019, the Corporation had the following physical delivery contract in place:

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

(1) Birchcliff sold AECO basis swap.

There were no long-term physical delivery contracts entered into subsequent to September 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.

At September 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)	Oct. 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 September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Realized gain (loss) on financial instruments	1,603	0.22	(7,848)	(1.08)	20,238	0.95	(17,429)	(0.83)
Unrealized loss on financial instruments	60,915	8.22	7,343	1.01	146,163	6.87	13,221	0.63

Birchcliff realized a cash gain of $1.6 million and $20.2 million on financial instruments during the three and nine month Reporting Periods, respectively, 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 $60.9 million and $146.2 million on financial instruments during the three and nine 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 nine month Reporting Periods, the fair value of Birchcliff's financial instruments decreased from a net liability position of $25.1 million at June 30, 2019 and a net asset position of $60.2 million at December 31, 2018, respectively, to a net liability position of $86.0 million at September 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 September 30, 2019 as compared to June 30, 2019 and December 31, 2018 and the settlement of financial contracts in the Reporting Periods.

The unrealized gains and losses on financial instruments can fluctuate materially from period-to-period due to movement in the forward strip commodity prices and interest rates. 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 the period.

Royalties

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

	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Royalty expense *($000s)*(1)	5,633	11,100	19,189	31,543
Royalty expense *($/boe)*	0.76	1.52	0.90	1.49
Effective royalty rate *(%)*(2)	5%	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 by 50% and 40% from the three and nine month Comparable Prior Periods, respectively, primarily due to a decrease in the average realized oil, condensate 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 September 30, 2019		2018		Nine months ended September 30, 2019		2018	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Field operating expense	21,766	2.94	26,023	3.57	68,776	3.23	76,394	3.62
Recoveries	(1,409)	(0.19)	(848)	(0.12)	(2,850)	(0.13)	(1,967)	(0.09)
Operating expense	**20,357**	**2.75**	**25,175**	**3.45**	**65,926**	**3.10**	**74,427**	**3.53**

On a per unit basis, operating expense decreased by 20% and 12% from the three and nine 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 that resulted in natural gas being redirected from higher cost 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 September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Transportation	30,695	4.14	24,841	3.40	90,634	4.26	71,875	3.40
Fractionation	1,454	0.20	1,113	0.15	3,125	0.15	3,256	0.15
Other	32	-	(753)	(0.09)	98	-	(151)	-
Transportation and other expense	**32,181**	**4.34**	**25,201**	**3.46**	**93,857**	**4.41**	**74,980**	**3.55**

On a per unit basis, transportation and other expense increased by 25% and 24% from the three and nine 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 are available for future use. 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 Pouce Coupe assets, Gordondale assets and on a corporate basis for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Pouce Coupe assets:				
Average production:				
Condensate *(bbls/d)*	4,474	3,054	4,011	2,666
NGLs *(bbls/d)*	1,032	120	924	91
Natural gas *(Mcf/d)*	282,286	285,035	275,591	279,114
Total *(boe/d)*	**52,554**	**50,680**	**50,867**	**49,277**
% of corporate production	65%	64%	65%	64%
Liquids-to-gas ratio *(bbls/MMcf)*	19.5	11.1	17.9	9.9
Netback and cost ($/boe):				
Petroleum and natural gas revenue[(1)]	15.13	16.67	18.58	17.33
Royalty expense	(0.27)	(0.31)	(0.37)	(0.28)
Operating expense	(1.66)	(1.98)	(2.02)	(2.27)
Transportation and other expense	(4.38)	(3.45)	(4.52)	(3.40)
Operating netback	**8.82**	**10.93**	**11.67**	**11.38**
Gordondale assets:				
Average production:				
Light oil *(bbls/d)*	4,868	4,943	4,826	4,877
Condensate *(bbls/d)*	1,279	1,415	1,231	1,368
NGLs *(bbls/d)*	6,527	5,915	6,154	5,798
Natural gas *(Mcf/d)*	91,892	98,215	89,401	95,067
Total *(boe/d)*	**27,990**	**28,642**	**27,112**	**27,888**
% of corporate production	35%	36%	35%	36%
Liquids-to-gas ratio *(bbls/MMcf)*	137.9	125.0	136.6	126.7
Netback and cost ($/boe):				
Petroleum and natural gas revenue[(1)]	22.30	29.95	25.77	30.58
Royalty expense	(1.68)	(3.68)	(1.90)	(3.64)
Operating expense	(4.77)	(6.03)	(5.07)	(5.65)
Transportation and other expense	(4.27)	(3.45)	(4.20)	(3.82)
Operating netback	**11.58**	**16.79**	**14.60**	**17.47**
Total Corporate:				
Average production:				
Light oil *(bbls/d)*	4,882	4,959	4,845	4,901
Condensate *(bbls/d)*	5,744	4,456	5,226	4,026
NGLs *(bbls/d)*	7,559	6,036	7,078	5,890
Natural gas *(Mcf/d)*	374,180	383,279	364,996	375,059
Total *(boe/d)*[(2)]	**80,548**	**79,331**	**77,982**	**77,327**
Liquids-to-gas ratio *(bbls/MMcf)*	48.6	40.3	47.0	39.5
Netback and cost ($/boe):				
Petroleum and natural gas revenue[(1)]	17.62	21.46	21.08	22.11
Royalty expense	(0.76)	(1.52)	(0.90)	(1.49)
Operating expense	(2.75)	(3.45)	(3.10)	(3.53)
Transportation and other expense	(4.34)	(3.46)	(4.41)	(3.55)
Operating netback	**9.77**	**13.03**	**12.67**	**13.54**

(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 52,554 boe/d in the three month Reporting Period and 50,867 boe/d in the nine month Reporting Period, a 4% increase and 3% increase, respectively, from the Comparable Prior Periods. The increases in the Reporting Periods were primarily due to the incremental production from new horizontal condensate-rich natural gas wells that were brought on production in Pouce Coupe.

Birchcliff's liquids-to-gas ratio for the Pouce Coupe assets was 19.5 bbls/MMcf in the three month Reporting Period and 17.9 bbls/MMcf in the nine month Reporting Period, a 76% increase and 81% increase, respectively, from the Comparable Prior Periods. The increases in the Reporting Periods were 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 $1.66/boe in the three month Reporting Period and $2.02/boe in the nine month Reporting Period, a 17% decrease and 11% decrease, respectively, from the Comparable Prior Periods. The decreases in the Reporting Periods were primarily 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 area.

Transportation and other expense for the Pouce Coupe assets was $4.38/boe in the three month Reporting Period and $4.52/boe in the nine month Reporting Period, a 27% increase and 33% increase, respectively, from the Comparable Prior Periods. The increases in the Reporting Periods were 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, which are available for future use.

Birchcliff's operating netback for the Pouce Coupe assets was $8.82/boe in the three month Reporting Period and $11.67/boe in the nine month Reporting Period, a 19% decrease and 3% increase, respectively, from the Comparable Prior Periods. The decrease in the three month Reporting Period was primarily due to higher per boe transportation and other expense and a lower average realized sales price received for Birchcliff's Pouce Coupe production, partially offset by lower per boe operating expense. The increase in the nine month Reporting Period was largely due to a higher average realized sales price received for Birchcliff's Pouce Coupe production and lower per boe operating expense, partially offset by higher per boe transportation and other expense.

Gordondale Montney/Doig Resource Play

Birchcliff's average production from its Gordondale assets was 27,990 boe/d in the three month Reporting Period and 27,112 boe/d in the nine month Reporting Period, a 2% decrease and 3% decrease, respectively, from the Comparable Prior Periods. The decreases in the Reporting Periods were 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 137.9 bbls/MMcf in the three month Reporting Period and 136.6 bbls/MMcf in the nine month Reporting Period, a 10% increase and 8% increase, respectively, from the Comparable Prior Periods. The increases in the Reporting Periods were primarily due 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 $4.77/boe in the three month Reporting Period and $5.07/boe in the nine month Reporting Period, a 21% decrease and 10% decrease, respectively, from the Comparable Prior Periods. The decreases were primarily due to 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.

Transportation and other expense for the Gordondale assets was $4.27/boe in the three month Reporting Period and $4.20/boe in the nine month Reporting Period, a 24% increase and 10% increase, respectively, from the Comparable Prior Periods. The increases in the Reporting Periods were primarily 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 are available for future use.

Birchcliff's operating netback for the Gordondale assets was $11.58/boe in the three month Reporting Period and $14.60/boe in the nine month Reporting Period, a 31% decrease and 16% decrease, respectively, from the Comparable Prior Periods. The decreases in the Reporting Periods were primarily due to a lower average realized sales price received for Birchcliff's Gordondale production, partially offset by lower per boe royalty and operating expenses.

Administrative Expense

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

	Three months ended September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
	($000s)	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*
Cash:								
Salaries and benefits(1)	5,712	64	5,420	65	17,774	63	17,487	64
Other(2)(3)	3,276	36	2,879	35	10,617	37	9,646	36
	8,988	100	8,299	100	28,391	100	27,133	100
Operating overhead recoveries	(36)	(1)	(34)	(1)	(115)	(1)	(117)	(1)
Capitalized overhead(4)	(3,480)	(38)	(3,400)	(40)	(10,496)	(36)	(10,032)	(36)
G&A expense, net	5,472	61	4,865	59	17,780	63	16,984	63
G&A expense, net per boe	$0.74		$0.67		$0.84		$0.80	
Non-cash:								
Other compensation(5)	1,747	100	1,620	100	6,799	100	5,090	100
Capitalized compensation(4)	(988)	(57)	(926)	(57)	(3,319)	(49)	(2,886)	(57)
Other compensation, net	759	43	694	43	3,480	51	2,204	43
Other compensation, net per boe	$0.10		$0.10		$0.16		$0.10	
Administrative expense, net	**6,231**		**5,559**		**21,260**		**19,188**	
Administrative expense, net per boe	**$0.84**		**$0.77**		**$1.00**		**$0.90**	

(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 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 $1.6 million in the nine month Reporting Period of 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 nine month Reporting Period related to the amendment of the Corporation's outstanding performance warrants.

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 September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Depletion and depreciation expense	**56,108**	**7.57**	**53,985**	**7.40**	**159,808**	**7.51**	**157,594**	**7.47**

D&D expense on an aggregate basis for the three month Reporting Period was higher as compared to the three month Comparable Prior Period primarily due to an increase in production. D&D expense on an aggregate basis for the nine month Reporting Period remained largely unchanged from the nine month Comparable Prior Period.

Finance Expense

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

	Three months ended September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Cash:								
Interest expense on credit facilities(1)	5,689	0.77	7,241	0.99	19,221	0.90	20,531	0.97
Non-cash:								
Accretion(2)	995	0.13	808	0.11	2,554	0.12	2,397	0.11
Amortization of deferred financing fees	386	0.05	375	0.05	1,142	0.05	1,159	0.05
Finance expense	**7,070**	**0.95**	**8,424**	**1.15**	**22,917**	**1.07**	**24,087**	**1.13**

(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. Birchcliff draws on its Syndicated Credit Facility using CDN 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.

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

Birchcliff's aggregate interest expense in the three and nine month Reporting Periods decreased by 21% and 6%, respectively, from the Comparable Prior Periods. The decreases were primarily due to: (i) higher drawn US dollar denominated LIBOR loans in the Reporting Periods, which had a lower average market interest rate compared to higher drawn CDN dollar denominated bankers' acceptances in the Comparable Prior Periods; and (ii) lower stamping fees applicable to Birchcliff's Syndicated Credit Facility in the Reporting Periods.

The following table sets forth the Corporation's effective interest rates under its Credit Facilities for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Working Capital Facility	4.7%	5.0%	4.7%	5.0%
Syndicated Credit Facility	3.7%	4.6%	4.3%	4.6%

Birchcliff's average outstanding total balance under its Credit Facilities was approximately $614 million and $603 million in the three and nine month Reporting Periods, respectively, as compared to $636 million and $602 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 September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Loss on investment	-	-	-	-	5,593	0.26	-	-
Loss on sale of assets	-	-	-	-	-	-	8,361	0.40
Other losses	**-**	**-**	**-**	**-**	**5,593**	**0.26**	**8,361**	**0.40**

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. At September 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 nine month Reporting Period.

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 nine month Comparable Prior Period.

Income Taxes

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

	Three months ended September 30,		Nine months ended September 30,	
($000s)	**2019**	**2018**	**2019**	**2018**
Deferred tax expense (recovery)	(12,005)	2,826	(32,653)	11,273
Dividend tax expense on preferred shares	768	769	2,306	2,306
Income tax expense (recovery)	**(11,237)**	**3,595**	**(30,347)**	**13,579**
Income tax expense (recovery) per boe	**($1.50)**	**$0.48**	**($1.42)**	**$0.65**

Birchcliff's income taxes are primarily impacted by the before-tax net income or losses recorded in the period. During the nine month Reporting Period, Birchcliff recorded an $18.9 million deferred tax recovery that resulted from a reduction in the provincial corporate income tax rate from 12% to 8%.

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 September 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 September 30, 2019**
Canadian oil and gas property expense	414,896
Canadian development expense	375,966
Canadian exploration expense	278,362
Undepreciated capital costs	335,398
Non-capital losses	641,439
SR&ED(1) & Investment tax credits	23,940
Financing costs and other	10,875
Estimated income tax pools(2)	**2,080,876**

(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 filed an application for leave to appeal to the Supreme Court of Canada, which was denied on November 14, 2019.

CAPITAL EXPENDITURES

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

	Three months ended September 30,		Nine months ended September 30,	
($000s)	**2019**	**2018**	**2019**	**2018**
Land	733	489	1,985	1,836
Seismic	304	83	4,087	978
Workovers	1,563	322	6,039	4,477
Drilling and completions	27,814	26,995	137,705	152,557
Well equipment and facilities	9,778	17,095	49,779	87,484
Finding and development capital	40,192	44,984	199,595	247,332
Acquisitions	1,209	19	40,608	1,534
Dispositions	-	-	-	(5,184)
Finding, development and acquisition capital	41,401	45,003	240,203	243,682
Administrative assets	220	521	1,908	1,450
Total capital expenditures	**41,621**	**45,524**	**242,111**	**245,132**

During the three month Reporting Period, Birchcliff had total capital expenditures of $41.6 million which included approximately $10.9 million (26%) on the drilling and completion of Montney horizontal wells in Pouce Coupe, $16.9 million (41%) on the drilling and completion of Montney horizontal wells in Gordondale and $3.1 million (7%) on the 20,000 bbls/d inlet liquids-handling facility at the Pouce Coupe Gas Plant.

During the nine month Reporting Period, Birchcliff had total capital expenditures of $242.1 million which included approximately $67.1 million (28%) on the drilling and completion of Montney horizontal wells in Pouce Coupe, $70.6 million (29%) on the drilling and completion of Montney horizontal wells in Gordondale, $39 million (16%) on the Acquisition and $5.1 million (2%) on the 20,000 bbls/d inlet liquids-handling facility at the Pouce Coupe Gas Plant.

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

During the three month Reporting Period, Birchcliff drilled a total of 6 (6.0 net) wells, consisting of 4 (4.0 net) Montney horizontal oil wells in Gordondale and 2 (2.0 net) Montney horizontal natural gas wells in Pouce Coupe. During the nine month Reporting Period, Birchcliff drilled a total of 23 (23.0 net) wells, consisting of 12 (12.0 net) Montney horizontal oil wells in Gordondale and 11 (11.0 net) Montney horizontal natural gas wells in Pouce Coupe.

CAPITAL RESOURCES AND LIQUIDITY

Liquidity and Capital Resources

The capital intensive nature of Birchcliff's operations requires it to maintain adequate sources of liquidity to fund its short-term and long-term financial obligations. Birchcliff's capital resources primarily consist of adjusted funds flow and available Credit Facilities. The Corporation believes that its internally generated adjusted funds flow and its existing undrawn Credit Facilities will provide sufficient liquidity to fund its working capital requirements, capital expenditure programs and dividend payments for the foreseeable future. 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. There is no certainty that any of these additional sources of capital will be available if required. See *"Advisories – Forward-Looking Statements"* in this MD&A.

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

	Three months ended September 30,		Nine months ended September 30,	
($000s)	**2019**	**2018**	**2019**	**2018**
Adjusted funds flow	62,958	75,378	253,563	231,405
Changes in non-cash working capital from operations	(13,531)	(6,395)	(10,211)	1,753
Decommissioning expenditures	(519)	(427)	(1,843)	(924)
Exercise of stock options	-	135	73	297
Financing fees paid on credit facilities	-	-	(990)	(950)
Lease payments	(537)	-	(1,611)	-
Dividends paid on common shares	(6,981)	(6,647)	(20,942)	(19,938)
Dividends paid on preferred shares	(1,921)	(1,921)	(5,765)	(5,765)
Net change in revolving term credit facilities	16,041	17,531	33,445	48,017
Deposit on acquisition	-	-	3,900	-
Changes in non-cash working capital from investing	(13,840)	(32,130)	(7,491)	(8,758)
Capital resources	**41,670**	**45,524**	**242,128**	**245,137**

Birchcliff's adjusted funds flow depends on a number of factors, including, but not limited to, commodity prices and market diversification initiatives, 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 various natural gas sales trading hubs in North America. Birchcliff has agreements for the firm service transportation of an aggregate of 175,000 GJ/d of natural gas on TCPL's Canadian Mainline whereby natural gas is transported to the Dawn sales trading hub in Southern Ontario. Birchcliff also has various financial and physical risk management contracts in place to 2025 with exposure to NYMEX HH pricing. See *"Discussion of Operations – Petroleum and Natural Gas Revenue"* and *"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. At September 30, 2019, the Corporation's Credit Facilities limit was $1.0 billion with maturity dates of May 11, 2022. The aggregate principal amount drawn under the Credit Facilities at September 30, 2019 was $645.4 million, leaving $354.6 million available to fund future obligations.

Working Capital

The Corporation's adjusted working capital deficit decreased to $5.8 million at September 30, 2019 from a $21.2 million deficit at December 31, 2018. The deficit at September 30, 2019 was largely comprised of costs incurred from the drilling and completion of new wells in Pouce Coupe and Gordondale.

At September 30, 2019, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of September 2019 production (80%), which was subsequently received in October 2019.

Current liabilities largely consisted of trade payables (56%) and accrued capital and operating expense (12%). 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 current portion of the fair value of financial instruments and capital securities. The Corporation's adjusted working capital varies from quarter to quarter primarily due to the timing of such items, as well as 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. The adjusted working capital deficit position does not reduce the amount available under the Credit Facilities.

Bank Debt

Management of debt levels continues to be a priority for Birchcliff given the current volatility in the commodity price environment. Total debt, including the adjusted working capital deficit, was $644.4 million at September 30, 2019 as compared to $626.5 million at December 31, 2018. Total debt increased from December 31, 2018 primarily due to adjusted funds flow being less than the aggregate of capital expenditures and dividends paid in the nine month Reporting Period.

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

As at, *($000s)*	**September 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	(641,245)	(608,821)
Outstanding letters of credit[(2)]	(4,185)	(17,205)
	(645,430)	(626,026)
Unused credit	**354,570**	**323,974**
% unused credit	**35%**	**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 and Commitments

The Corporation enters into various contractual obligations and commitments in the normal course of operations. The following table lists Birchcliff's estimated material contractual obligations and commitments at September 30, 2019:

($000s)	**2019**	**2020**	**2021-2023**	**Thereafter**
Accounts payable and accrued liabilities	59,179	-	-	-
Drawn revolving term credit facilities	-	-	641,245	-
Firm transportation and fractionation[(1)]	33,049	135,620	387,185	397,605
Natural gas processing[(2)]	4,324	17,202	51,465	154,536
Operating commitments[(3)]	565	2,260	6,780	9,228
Capital securities[(4)]	-	50,000	-	-
Estimated contractual obligations[(5)]	**97,117**	**205,082**	**1,086,675**	**561,369**

(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 on or 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 September 30, 2019 to be approximately $287.5 million and are estimated to be incurred as follows: 2019 - $2.7 million, 2020 – $0.6 million and $284.2 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 November 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". 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 September 30, 2019 and November 14, 2019	**265,935,229**

At November 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; 18,522,868 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 September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Common shares:				
Dividend distribution *($000s)*	6,981	6,647	20,942	19,938
Per common share *($)*	0.0263	0.0250	0.0263	0.0250
Preferred shares - Series A:				
Series A dividend distribution *($000s)*	1,046	1,046	3,140	3,140
Per Series A preferred share *($)*	0.5234	0.5234	0.5234	0.5234
Preferred shares - Series C:				
Series C dividend distribution *($000s)*	875	875	2,625	2,625
Per Series C preferred share *($)*	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,	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017
Average production *(boe/d)*	80,548	78,453	74,884	76,408	79,331	76,296	76,323	80,103
Realized oil sales price *($/bbl)*[(1)]	67.15	72.25	66.08	41.39	80.16	79.55	71.92	68.58
Realized condensate sales price *($/bbl)* [(1)]	65.94	71.69	65.45	55.99	84.10	87.52	83.00	71.89
Realized NGLs sales price *($/bbl)*[(1)]	9.75	11.13	17.71	21.60	23.39	21.94	25.12	24.38
Realized natural gas sales price *($/Mcf)*[(1)]	1.71	1.95	3.55	3.03	2.06	2.01	2.72	2.64
Average realized sales price *($/boe)*	17.62	19.59	26.45	22.01	21.45	21.68	23.22	22.54
Total revenue *($000s)*[(1)]	130,588	139,857	178,355	154,720	156,609	150,561	159,531	166,149
Operating expense *($/boe)*	2.75	3.17	3.40	3.51	3.45	3.36	3.78	3.86
F&D capital expenditures *($000s)*	40,192	67,937	91,466	52,321	44,984	69,826	132,602	49,320
Total capital expenditures *($000s)*	41,621	68,532	131,958	52,886	45,524	66,464	133,144	18,669
Cash flow from operating activities *($000s)*	48,908	97,857	94,744	92,200	68,556	71,825	91,853	88,995
Adjusted funds flow *($000s)*	62,958	73,957	116,648	81,517	75,378	72,369	83,658	97,008
Per common share – basic *($)*	0.24	0.28	0.44	0.31	0.28	0.27	0.31	0.36
Per common share – diluted *($)*	0.24	0.28	0.44	0.30	0.28	0.27	0.31	0.36
Free funds flow *($000s)*	22,766	6,020	25,182	29,196	30,394	2,543	(48,944)	47,688
Net income (loss) *($000s)*	(45,843)	(8,458)	16,846	71,947	7,703	7,437	15,125	25,820
Net income (loss) to common shareholders *($000s)*[(2)]	(46,889)	(9,505)	15,799	70,900	6,657	6,390	14,078	24,773
Per common share – basic *($)*	(0.18)	(0.04)	0.06	0.27	0.03	0.02	0.05	0.09
Per common share – diluted *($)*	(0.18)	(0.04)	0.06	0.27	0.02	0.02	0.05	0.09
Total assets *($ million)*	2,822	2,840	2,860	2,763	2,707	2,715	2,697	2,627
Long-term bank debt *($000s)*	638,631	622,282	611,911	605,267	635,120	617,291	573,935	587,126
Total debt *($000s)*	644,407	654,709	649,202	626,454	641,484	661,409	657,732	598,193
Dividends on common shares *($000s)*	6,981	6,981	6,980	6,648	6,647	6,646	6,645	6,644
Dividends on pref. shares – Series A *($000s)*	1,046	1,047	1,047	1,047	1,046	1,047	1,047	1,047
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	265,935	265,924	265,911	265,885	265,845	265,805	265,797
Diluted	287,407	287,381	287,480	284,699	285,825	285,253	285,692	282,895
Wtd. avg. common shares outstanding *(000s)*								
Basic	265,935	265,933	265,914	265,910	265,877	265,820	265,797	265,792
Diluted	265,935	265,933	266,382	267,288	268,605	267,773	266,179	267,619

(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 in 2018 and the first three 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 quarterly production 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 reduced third-party processing fees, the addition of Phase VI of the Pouce Coupe Gas Plant and higher trending transportation and other expense primarily due to added market diversification initiatives.

Birchcliff's net income in the fourth quarter of 2018 included an unrealized mark-to-market gain on financial instruments of $77.5 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 and in the third quarter of 2019 included an unrealized mark-to-market loss on financials of instruments of $60.9 million. Net income or loss in the last eight quarters was also impacted by adjusted funds flow and 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 F&D and total capital expenditures fluctuate quarter-to-quarter based on the outlook in commodity prices and market conditions, the timing of drilling and completions operations and 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).

Quarterly variances in free funds flow are primarily due to fluctuations in adjusted funds flow and F&D capital expenditures.

POTENTIAL TRANSACTIONS

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Corporation's internal control over financial reporting ("**ICFR**") that occurred during the period beginning on July 1, 2019 and ended on September 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 International Accounting Standards 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", "adjusted funds flow 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:

	Three months ended September 30,		Nine months ended September 30,	
($000s)	**2019**	**2018**	**2019**	**2018**
Cash flow from operating activities	48,908	68,556	241,509	232,234
Change in non-cash working capital	13,531	6,395	10,211	(1,753)
Decommissioning expenditures	519	427	1,843	924
Adjusted funds flow	**62,958**	**75,378**	**253,563**	**231,405**
F&D capital expenditures	(40,192)	(44,984)	(199,595)	(247,332)
Free funds flow	**22,766**	**30,394**	**53,968**	**(15,927)**

"Operating netback" denotes petroleum and natural gas revenue less royalty expense, less operating expense and less transportation and other expense. "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. All netbacks are calculated on a per unit basis, unless otherwise indicated. Management believes that operating netback and adjusted funds flow netback assist management and investors in assessing Birchcliff's profitability and its operating results on a per unit basis to better analyze its performance against prior periods on a comparable basis. The following table provides a breakdown of Birchcliff's operating netback and adjusted funds flow netback for the periods indicated:

	Three months ended September 30,				Nine months ended September 30,			
	2019		**2018**		**2019**		**2018**	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Petroleum and natural gas revenue	130,588	17.62	156,609	21.46	448,800	21.08	466,701	22.11
Royalty expense	(5,633)	(0.76)	(11,100)	(1.52)	(19,189)	(0.90)	(31,543)	(1.49)
Operating expense	(20,357)	(2.75)	(25,175)	(3.45)	(65,926)	(3.10)	(74,427)	(3.53)
Transportation and other expense	(32,181)	(4.34)	(25,201)	(3.46)	(93,857)	(4.41)	(74,980)	(3.55)
Operating netback	**72,417**	**9.77**	**95,133**	**13.03**	**269,828**	**12.67**	**285,751**	**13.54**
G&A, net	(5,472)	(0.74)	(4,865)	(0.67)	(17,780)	(0.84)	(16,984)	(0.80)
Interest expense	(5,689)	(0.77)	(7,241)	(0.99)	(19,221)	(0.90)	(20,531)	(0.97)
Realized gain (loss) on financial instruments	1,603	0.22	(7,848)	(1.08)	20,238	0.95	(17,429)	(0.83)
Other income	99	0.02	199	0.04	498	0.03	598	0.02
Adjusted funds flow netback	**62,958**	**8.50**	**75,378**	**10.33**	**253,563**	**11.91**	**231,405**	**10.96**

(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 from 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)*	**September 30, 2019**	**December 31, 2018**	**September 30, 2018**
Working capital deficit (surplus)	70,742	(15,611)	11,372
Financial instrument – current asset	-	36,798	8,616
Financial instrument – current liability	(15,198)	-	(13,624)
Capital securities – current liability	(49,768)	-	-
Adjusted working capital deficit	**5,776**	**21,187**	**6,364**

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

As at, *($000s)*	**September 30, 2019**	**December 31, 2018**	**September 30, 2018**
Revolving term credit facilities	638,631	605,267	635,120
Adjusted working capital deficit	5,776	21,187	6,364
Total debt	**644,407**	**626,454**	**641,484**

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 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, 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.

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, results, operations, focus, objectives, strategies, opportunities, priorities and goals; the information set forth under the heading "*Outlook*" (including: statements that the Corporation is on track to achieve its 2019 annual average production guidance of 77,000 to 79,000 boe/d which is expected to generate approximately $335 million of adjusted funds flow; 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 is committed to protecting its strong balance sheet and will allocate free funds flow based on what Birchcliff believes will provide the most value to its shareholders; and 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); the performance and other characteristics of Birchcliff's oil and natural gas properties; 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; statements regarding the planned inlet liquids-handling facility at the Pouce Coupe Gas Plant (including the capacity of the facility); the Corporation's liquidity (including: the Corporation's financial flexibility; statements that Birchcliff's capital resources primarily consist of adjusted funds flow and available Credit Facilities; the Corporation's belief that its internally generated adjusted funds flow and its existing undrawn Credit Facilities will provide sufficient liquidity to fund its working capital requirements, capital expenditure programs and dividend payments in the foreseeable future; 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; 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 and the timing, location, and extent of future drilling and other operations; results of operations; Birchcliff's ability to continue to develop its assets and obtain the anticipated benefits therefrom; the performance of existing and future wells; the success of new wells drilled; 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 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, such estimates assume that the 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.
- With respect to Birchcliff's production guidance for 2019, such guidance assumes that: the 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.
- With respect to Birchcliff's estimates of adjusted and free funds flow for 2019, such estimates assume that: the 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.

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; 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 complete or 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,	September 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash	70	53
Accounts receivable	47,077	51,941
Prepaid expenses and deposits	6,256	3,386
Financial instruments *(Note 13)*	-	36,798
	53,403	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)*	2,763,763	2,633,460
	2,768,168	2,670,742
Total assets	**2,821,571**	**2,762,920**
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	59,179	76,567
Financial instruments *(Note 13)*	15,198	-
Capital securities *(Note 7)*	49,768	-
	124,145	76,567
Non-current liabilities:		
Revolving term credit facilities *(Note 5)*	638,631	605,267
Decommissioning obligations *(Note 6)*	155,181	129,264
Deferred income taxes	86,897	119,553
Capital securities *(Note 7)*	-	49,535
Other liabilities *(Note 10)*	26,095	7,844
Financial instruments *(Note 13)*	70,789	-
	977,593	911,463
Total liabilities	**1,101,738**	**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	83,131	76,747
Retained earnings	116,912	178,449
	1,719,833	1,774,890
Total shareholders' equity and liabilities	**2,821,571**	**2,762,920**

Subsequent event (Note 13)

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 September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
REVENUE				
Petroleum and natural gas revenue *(Note 9)*	130,588	156,609	448,800	466,701
Royalties	(5,633)	(11,100)	(19,189)	(31,543)
Net revenue from oil and natural gas sales	124,955	145,509	429,611	435,158
Other income	99	199	498	598
Realized gain (loss) on financial instruments *(Note 13)*	1,603	(7,848)	20,238	(17,429)
Unrealized loss on financial instruments *(Note 13)*	(60,915)	(7,343)	(146,163)	(13,221)
	65,742	130,517	304,184	405,106
EXPENSES				
Operating	20,357	25,175	65,926	74,427
Transportation and other	32,181	25,201	93,857	74,980
Administrative, net	6,231	5,559	21,260	19,188
Depletion and depreciation *(Note 4)*	56,108	53,985	159,808	157,594
Finance	7,070	8,424	22,917	24,087
Dividends on capital securities *(Note 7)*	875	875	2,625	2,625
Other losses *(Note 14)*	-	-	5,593	8,361
	122,822	119,219	371,986	361,262
Net income (loss) before taxes	(57,080)	11,298	(67,802)	43,844
Income tax recovery (expense)	11,237	(3,595)	30,347	(13,579)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**(45,843)**	**7,703**	**(37,455)**	**30,265**
Net income (loss) per common share *(Note 8)*				
Basic	$(0.18)	$0.03	$(0.15)	$0.10
Diluted	$(0.18)	$0.02	$(0.15)	$0.10

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)*	-	-	-	(19,938)	(19,938)
Dividends on perpetual preferred shares *(Note 7)*	-	-	-	(3,140)	(3,140)
Exercise of stock options *(Note 11)*	396	-	(99)	-	297
Stock-based compensation *(Note 11)*	-	-	5,090	-	5,090
Net income	-	-	-	30,265	30,265
As at September 30, 2018	**1,478,146**	**41,434**	**74,950**	**114,197**	**1,708,727**
As at December 31, 2018	1,478,260	41,434	76,747	178,449	1,774,890
Dividends on common shares *(Note 7)*	-	-	-	(20,942)	(20,942)
Dividends on perpetual preferred shares *(Note 7)*	-	-	-	(3,140)	(3,140)
Exercise of stock options *(Note 11)*	96	-	(23)	-	73
Stock-based compensation *(Note 11)*	-	-	6,407	-	6,407
Net loss	-	-	-	(37,455)	(37,455)
As at September 30, 2019	**1,478,356**	**41,434**	**83,131**	**116,912**	**1,719,833**

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

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF CASH FLOWS

Unaudited (Expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Cash provided by (used in):				
OPERATING				
Net income (loss) and comprehensive income (loss)	(45,843)	7,703	(37,455)	30,265
Adjustments for items not affecting operating cash:				
Unrealized loss on financial instruments *(Note 13)*	60,915	7,343	146,163	13,221
Depletion and depreciation *(Note 4)*	56,108	53,985	159,808	157,594
Other compensation	759	694	3,480	2,204
Finance	7,070	8,424	22,917	24,087
Other losses *(Notes 4 & 14)*	-	-	5,593	8,361
Income taxes (recovery) expense	(11,237)	3,595	(30,347)	13,579
Interest paid	(5,689)	(7,241)	(19,221)	(20,531)
Dividends on capital securities *(Note 7)*	875	875	2,625	2,625
Decommissioning expenditures *(Note 6)*	(519)	(427)	(1,843)	(924)
Changes in non-cash working capital	(13,531)	(6,395)	(10,211)	1,753
	48,908	68,556	241,509	232,234
FINANCING				
Exercise of stock options *(Note 11)*	-	135	73	297
Lease payments *(Note 10)*	(537)	-	(1,611)	-
Financing fees paid on credit facilities	-	-	(990)	(950)
Dividends on common shares *(Note 7)*	(6,981)	(6,647)	(20,942)	(19,938)
Dividends on perpetual preferred shares *(Note 7)*	(1,046)	(1,046)	(3,140)	(3,140)
Dividends on capital securities *(Note 7)*	(875)	(875)	(2,625)	(2,625)
Net change in revolving term credit facilities *(Note 5)*	16,041	17,531	33,445	48,017
	6,602	9,098	4,210	21,661
INVESTING				
Petroleum and natural gas properties and equipment *(Note 4)*	(40,412)	(45,505)	(201,503)	(248,782)
Acquisition of petroleum and natural gas properties and equipment *(Note 4)*	(1,209)	(19)	(36,708)	(1,534)
Sale of petroleum and natural gas properties and equipment *(Note 4)*	-	-	-	5,184
Changes in non-cash working capital	(13,840)	(32,130)	(7,491)	(8,758)
	(55,461)	(77,654)	(245,702)	(253,890)
Net change in cash	49	-	17	5
Cash, beginning of period	21	53	53	48
CASH, END OF PERIOD	**70**	**53**	**70**	**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 NINE MONTHS ENDED SEPTEMBER 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 November 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 three and nine months ended September 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[5]	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	-	223,109	18,784	1,945	243,838
Acquisitions[3]	-	46,273		-	46,273
As at September 30, 2019[2]	112	3,818,908	18,784	19,682	3,857,486
Accumulated depletion and depreciation:					
As at December 31, 2017	-	(750,760)	-	(11,016)	(761,776)
Depletion and depreciation expense[4]	-	(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[4]	-	(156,641)	(1,429)	(1,738)	(159,808)
As at September 30, 2019	-	(1,077,564)	(1,429)	(14,730)	(1,093,723)
Net book value:					
As at December 31, 2018	112	2,628,603	-	4,745	2,633,460
As at September 30, 2019	**112**	**2,741,344**	**17,355**	**4,952**	**2,763,763**

(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 $5.7 million (see Note 6).

(4) Future development costs required to develop and produce proved plus probable reserves totalled $4.7 billion at September 30, 2019 (December 31, 2018 – $4.3 billion) and are included in the depletion expense calculation.

(5) Includes $18.8 million related to lease asset additions (see Notes 3 and 10). The carrying amount of lease assets at September 30, 2019 was $17.4 million after giving effect to depreciation.

Impairment Assessment

In accordance with IFRS, an impairment test is performed if Birchcliff identifies an indicator of impairment at the end of the reporting period. At September 30, 2019, Birchcliff determined there were no impairment indicators present and therefore an impairment test was not required.

At December 31, 2018, Birchcliff identified indicators of impairments due to a declining commodity price environment. Birchcliff performed an impairment test and determined that its P&NG properties and equipment were not impaired at December 31, 2018.

5. REVOLVING TERM CREDIT FACILITIES

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

As at, *($000s)*	**September 30, 2019**	**December 31, 2018**
Syndicated credit facility	621,151	586,000
Working capital facility	20,094	22,821
Drawn revolving term credit facilities	641,245	608,821
Unamortized prepaid interest on bankers' acceptances	-	(1,021)
Unamortized deferred financing fees	(2,614)	(2,533)
Revolving term credit facilities	**638,631**	**605,267**

At September 30, 2019, the Corporation's credit facilities consisted of extendible revolving credit facilities (the "**Credit Facilities**") in the aggregate principal amount of $1.0 billion with maturity dates of May 11, 2022 which were comprised of: (i) an extendible revolving syndicated term credit facility (the "**Syndicated Credit Facility**") of $900.0 million; and (ii) an extendible revolving working capital facility (the "**Working Capital Facility**") of $100.0 million.

The Credit Facilities are subject to a semi-annual review of the borrowing base limit by Birchcliff's syndicate of lenders, which limit is directly impacted by the value of Birchcliff's oil and natural gas reserves. In addition, pursuant to the terms of the credit agreement governing the Credit Facilities, the borrowing base of the Credit Facilities may be adjusted in certain other circumstances. Upon any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall, Birchcliff must eliminate the borrowing base shortfall amount.

Birchcliff may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made.

6. DECOMMISSIONING OBLIGATIONS

The Corporation estimates the total undiscounted (inflated) amount of cash flow required to settle its decommissioning obligations is approximately $287.5 million at September 30, 2019 (September 30, 2018 – $273.9 million). A reconciliation of the decommissioning obligations is set forth below:

As at, *($000s)*	**September 30, 2019**	**December 31, 2018**
Balance, beginning	129,264	124,825
Obligations incurred	4,002	3,930
Obligations acquired(1)	5,666	649
Obligations divested	(7)	(3,446)
Changes in estimated future cash flows	16,232	1,177
Accretion	1,867	3,208
Decommissioning expenditures	(1,843)	(1,079)
Balance, ending(2)	**155,181**	**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 September 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)*	September 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 nine months ended September 30, 2019.

Capital Securities

On and after June 30, 2019, the Corporation may, at its option, redeem for cash, all or any number of the outstanding Series C Preferred Shares at $25.50 per share if redeemed 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.

At September 30, 2019, 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 September 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 September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Common shares:				
Dividend distribution *($000s)*	6,981	6,647	20,942	19,938
Per common share *($)*	0.0263	0.0250	0.0263	0.0250
Preferred shares - Series A:				
Series A dividend distribution *($000s)*	1,046	1,046	3,140	3,140
Per Series A preferred share *($)*	0.5234	0.5234	0.5234	0.5234
Preferred shares - Series C:				
Series C dividend distribution *($000s)*	875	875	2,625	2,625
Per Series C preferred share *($)*	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:

($000s, except for per share information)	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Net income (loss)	(45,843)	7,703	(37,455)	30,265
Dividends on Series A preferred shares	(1,046)	(1,046)	(3,140)	(3,140)
Net income (loss) to common shareholders	(46,889)	6,657	(40,595)	27,125
Weighted average common shares:				
Weighted average basic common shares outstanding	265,935	265,877	265,928	265,832
Effects of dilutive securities	-	2,728	-	1,475
Weighted average diluted common shares outstanding[1]	265,935	268,605	265,928	267,307
Net income (loss) per common share:				
Basic	**$(0.18)**	**$0.03**	**$(0.15)**	**$0.10**
Diluted	**$(0.18)**	**$0.02**	**$(0.15)**	**$0.10**

(1) The weighted average diluted common shares outstanding for the three and nine months ended September 30, 2019 excludes 18,532,368 common shares that were anti-dilutive (September 30, 2018 – 9,638,701). As the Corporation reported a loss for the three and nine months ended September 30, 2019, the basic and diluted weighted average common shares outstanding are the same for the period and dilutive securities were considered anti-dilutive.

9. PETROLEUM AND NATURAL GAS REVENUE

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

($000s)	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Light oil sales	30,157	36,577	90,611	103,885
Condensate[1]	34,847	34,479	96,766	93,302
NGLs sales[2]	6,782	12,987	24,543	37,682
Natural gas sales	58,800	72,538	236,785	231,730
Total P&NG sales[3][4]	130,586	156,581	448,705	466,599
Royalty income	2	28	95	102
Total P&NG revenue	**130,588**	**156,609**	**448,800**	**466,701**

(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 September 30, 2019 was $45.9 million (September 30, 2018 - $55.5 million) in P&NG sales to be received from its marketers in respect of September 2019 production, which was subsequently received in October 2019.

10. OTHER LIABILITIES

Post-Employment Benefit Obligations

Birchcliff's discounted post-employment benefit obligation at September 30, 2019 was $8.3 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 September 30, 2019 (September 30, 2018 – $nil). A reconciliation of the discounted post-employment benefit obligation is set forth below:

As at, *($000s)*	September 30, 2019	December 31, 2018
Balance, beginning	7,844	-
Obligations incurred[1]	392	7,844
Accretion	92	-
Balance, ending[2]	**8,328**	**7,844**
Current portion	-	-
Long-term portion	8,328	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 September 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 $21.5 million at September 30, 2019. A reconciliation of the discounted lease obligation is set forth below:

As at, *($000s)*	**September 30, 2019**
As at January 1, 2019 *(Note 3)*(1)(2)	17,311
Obligations incurred	1,472
Lease payments	(1,611)
Accretion	595
Balance, ending(2)	**17,767**
Current portion	1,413
Long-term portion	16,354

(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 September 30, 2019.

11. SHARE-BASED PAYMENTS

Stock Options

At September 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 (September 30, 2018 – 26,588,536) common shares. At September 30, 2019, there remained available for issuance options in respect of 8,061,155 (September 30, 2018 – 10,588,466) common shares. For stock options exercised during the three months ended September 30, 2019, the weighted average common share trading price on the Toronto Stock Exchange was $2.27 (September 30, 2018 – $4.90) per common share. The following table sets forth the Corporation's outstanding stock options for the periods indicated:

	Nine months ended September 30, 2019		**Nine months ended September 30, 2018**	
	Number	**Price** *($)*(1)	**Number**	**Price** *($)*(1)
Outstanding, beginning of period	15,847,570	5.74	14,158,107	6.88
Granted(2)	4,955,200	3.51	4,594,400	3.18
Exercised	(23,867)	(3.08)	(88,664)	(3.35)
Forfeited	(202,402)	(4.28)	(473,405)	(5.60)
Expired	(2,044,133)	(8.56)	(2,190,368)	(7.59)
Outstanding, September 30, 2019	**18,532,368**	**4.85**	**16,000,070**	**5.78**

(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 September 30, 2019 was $0.70 (September 30, 2018 – $1.68). In determining the stock-based compensation expense for options issued during the three months ended September 30, 2019, the Corporation applied a weighted average estimated forfeiture rate of 10% (September 30, 2018 – 10%). The weighted average assumptions used in calculating the Black-Scholes fair values are set forth below:

Three months ended,	**September 30, 2019**	**September 30, 2018**
Risk-free interest rate	1.5%	2.1%
Expected life *(years)*	4.1	4.1
Expected volatility	50.3%	50.7%
Dividend yield	4.4%	2.1%

A summary of the stock options outstanding and exercisable under the Option Plan at September 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 *($)*
1.77	6.00	11,784,168	3.41	3.41	3,819,696	2.11	3.37
6.01	9.00	6,704,200	1.59	7.37	5,381,974	1.39	7.27
9.01	12.00	44,000	1.73	9.72	32,666	1.57	9.92
		18,532,368	**2.74**	**4.85**	**9,234,336**	**1.69**	**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 September 30, 2019 (September 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 nine months ended September 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 September 30, 2019.

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

As at, *($000s)*	**September 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	(641,245)	(608,821)
Outstanding letters of credit[(2)]	(4,185)	(17,205)
	(645,430)	(626,026)
Unused credit	**354,570**	**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)*	**September 30, 2019**	**December 31, 2018**	**% Change**
Shareholders' equity[(1)]	1,719,833	1,774,890	
Capital securities	49,768	49,535	
Shareholders' equity & capital securities	1,769,601	1,824,425	(3%)
Shareholders' equity & capital securities as a % of total capital[(2)]	73%	74%	
Working capital deficit[(3)]	5,776	21,187	
Drawn revolving term credit facilities	641,245	608,821	
Drawn debt	647,021	630,008	3%
Drawn debt as a % of total capital	27%	26%	
Total capital	**2,416,622**	**2,454,433**	(2%)

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

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

(3) Working capital is defined as current assets less current liabilities (excluding fair value of financial instruments 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 September 30,		**Nine months ended September 30,**	
($000s)	**2019**	**2018**	**2019**	**2018**
Realized gain (loss) on financial instruments	1,603	(7,848)	20,238	(17,429)
Unrealized loss on financial instruments	60,915	7,343	146,163	13,221

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

At September 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.

At September 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 Liability *($000s)*
Natural gas	AECO 7A basis swap(2)	30,000 MMBtu/d	Oct. 1, 2019 – Dec. 31, 2023	NYMEX HH less US$1.298/MMBtu	17,451
Natural gas	AECO 7A basis swap(2)	10,000 MMBtu/d	Oct. 1, 2019 – Dec. 31, 2023	NYMEX HH less US$1.32/MMBtu	6,210
Natural gas	AECO 7A basis swap(2)	30,000 MMBtu/d	Oct. 1, 2019 – Dec. 31, 2023	NYMEX HH less US$1.33/MMBtu	19,286
Natural gas	AECO 7A basis swap(2)	15,000 MMBtu/d	Oct. 1, 2019 – Dec. 31, 2024	NYMEX HH less US$1.185/MMBtu	6,684
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Oct. 1, 2019 – Dec. 31, 2024	NYMEX HH less US$1.20/MMBtu	2,406
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Oct. 1, 2019 – Dec. 31, 2024	NYMEX HH less US$1.20/MMBtu	2,377
Natural gas	AECO 7A basis swap(2)	12,500 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2025	NYMEX HH less US$1.108/MMBtu	3,696
Natural gas	AECO 7A basis swap(2)	10,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2025	NYMEX HH less US$1.115/MMBtu	3,093
Natural gas	AECO 7A basis swap(2)	10,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2025	NYMEX HH less US$1.050/MMBtu	1,291
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.178/MMBtu	2,067
Natural gas	AECO 7A basis swap(2)	10,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.175/MMBtu	4,120
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.190/MMBtu	2,192
Natural gas	AECO 7A basis swap(2)	30,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.114/MMBtu	3,644
Natural gas	AECO 7A basis swap(2)	30,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.094/MMBtu	3,177
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.013/MMBtu	222
Natural gas	AECO 7A basis swap(2)	20,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US$1.005/MMBtu	414
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US$0.990/MMBtu	63
					78,393

(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 contract was entered into subsequent September 30, 2019:

Product	Type of Contract	Notional Quantity	Remaining Term	Contract Price
Natural gas	AECO 7A basis swap(1)	5,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.00/MMBtu

(1) Birchcliff sold AECO basis swap.

At September 30, 2019, if the future AECO/NYMEX basis was US$0.10/MMBtu higher, with all other variables held constant, after tax net loss in the nine months ended September 30, 2019 would have decreased by $28.3 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 September 30, 2019, the Corporation had the following physical delivery commodity sales contract in place:

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

(1) Birchcliff sold AECO basis swap.

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

At September 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)	Oct. 1, 2019 – Mar. 1, 2024	350	2.215	7,594

(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 September 30, 2019, if the one-month banker's acceptance CDOR index was 0.10% higher, with all other variables held constant, after-tax net loss in the nine months ended September 30, 2019 would have decreased by $1.1 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 three and nine months ended September 30, 2019 and September 30, 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.

At September 30, 2019, the Corporation determined the Securities had a fair value of $4.4 million (December 31, 2018 – $10.0 million). Birchcliff recorded a loss on investment of $5.6 million during the nine months ended September 30, 2019 (September 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+)
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
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 Third Quarter Report uses "adjusted funds flow", "adjusted funds flow per common share", "free funds flow", "operating netback", "adjusted funds flow netback", "total cash costs" 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. "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. "Free funds flow" denotes adjusted funds flow less F&D capital expenditures. "Operating netback" denotes petroleum and natural gas revenue less royalty expense, less operating expense and less transportation and other expense. "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. "Total cash costs" are comprised of royalty, operating, transportation and other, G&A and interest expenses. "Total debt" is calculated as the revolving term credit facilities plus adjusted working capital deficit. Management believes that these non-GAAP measures assist management and investors in assessing Birchcliff's profitability, efficiency, liquidity and overall performance. For additional information regarding these non-GAAP measures, including reconciliations to the most directly comparable GAAP measures where applicable, see *"Non-GAAP Measures"* in the MD&A.

ADVISORIES

Unaudited Information

All financial and operational information contained in this Third Quarter Report for the three and nine months ended September 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 Third Quarter Report contains metrics commonly used in the oil and natural gas industry, including netbacks. These oil and gas metrics do not have any standardized meanings or standard methods of calculation and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. As such, they should not be used to make comparisons. Management uses these oil and gas metrics for its own performance measurements and to provide 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, see *"Non-GAAP Measures"*.

Initial Production Rates

Any references in this Third 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.

Capital Expenditures

Unless otherwise stated, references in this Third 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.

Forward-Looking Statements

Certain statements contained in this Third Quarter Report constitute forward-looking statements and forward-looking information (collectively referred to as "**forward-looking statements**") within the meaning of applicable

Canadian securities laws. The forward-looking statements contained in this Third Quarter Report relate to future events or Birchcliff's future plans, operations or performance and are based on Birchcliff's current expectations, estimates, projections, beliefs and assumptions. Such forward-looking statements have been made by Birchcliff in light of the information available to it at the time the statements were made and reflect its experience and perception of historical trends. All statements and information other than historical fact may be forward-looking statements. Such forward-looking statements are often, but not always, identified by the use of words such as "seek", "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "forecast", "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 Third Quarter Report contains forward-looking statements relating to the following: Birchcliff's plans and other aspects of its anticipated future financial performance, results, operations, focus, objectives, strategies, opportunities, priorities and goals; statements regarding Birchcliff's 2019 Capital Program (including the information set forth under the heading *"Operational Update"*) and its proposed exploration and development activities and the timing thereof (including: the focus of, the objectives of and the anticipated results from and the expected benefits of the 2019 Capital Program; the number and types of wells to be drilled and brought on production and the timing thereof; statements that the capital activity in Q4 2019 will result in more efficient capital spending and production profiles in 2020, reduce the amount of capital needed to be spent by the Corporation in 2020 and that the Corporation will be able to secure lower rates for services and benefit from the efficiencies associated with commencing field activities outside of the most active season; and Birchcliff's expectation that it will be able to execute the additional capital activity in Q4 2019 within or close to its 2019 F&D capital budget of $242 million); 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 performance and other characteristics of Birchcliff's oil and natural gas properties and expected results from its assets; the information set forth under the heading *"2019 Guidance"* and elsewhere in this Third Quarter Report as it relates to Birchcliff's 2019 guidance (including: statements that Birchcliff is on track to achieve its 2019 annual average production guidance of 77,000 to 79,000 boe/d which is expected to generate approximately $335 million of adjusted funds flow; 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 is committed to protecting its strong balance sheet and will allocate 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; and that Birchcliff expects to release details regarding its unaudited financial results and reserves for the financial year ended December 31, 2019 on February 12, 2020); and the information set forth under the heading *"Preliminary Outlook for 2020 and Beyond"* and elsewhere in this Third Quarter Report as it relates to Birchcliff's preliminary plans and outlook for 2020 and beyond (including: statements that Birchcliff is committed to protecting its balance sheet, its financial flexibility and its common share dividend and will target capital spending over the next two years to either approximate or be less than its forecast of adjusted funds flow each year; statements that any free funds flow will be allocated by Birchcliff based on what it believes will provide the most value to shareholders, with alternatives that may include debt reduction, the payment of dividends and common share buybacks; Birchcliff's belief that the key to creating shareholder value over the next two years will be through fully utilizing the excess capacity of its existing infrastructure, which in turn will allow the Corporation to maximize its production, its netbacks and its ability to generate free funds flow, as well as drive down its operating and other cash costs and maximize efficiencies; statements that Birchcliff plans to fill its 100% owned and operated Pouce Coupe Gas Plant in 2020 and 2021, as well as other infrastructure; Birchcliff's belief that keeping such infrastructure at or near capacity will help to create additional shareholder value and will also allow Birchcliff to leverage its previous capital investment in the Pouce Coupe Gas Plant and reduce its unutilized firm transportation capacity on the NGTL system which the Corporation is currently paying for; Birchcliff's expectation that the number of wells required to fill the Pouce Coupe Gas Plant to capacity can be drilled and completed in 2020 and 2021; statements that Birchcliff has the ability to reduce the rate of drilling and expand the time horizon over which to fill the Pouce Coupe Gas Plant in order to protect its balance sheet and common share dividend; statements that given current economic and industry conditions, Birchcliff has no plans to invest in further phases of the Pouce Coupe Gas Plant at this time; statements that Birchcliff currently expects F&D capital spending in 2020 to be in the range of $250 to $350 million and that annual average production in 2020 is expected to be in the range of 78,000 to 82,000 boe/d; and statements that the Corporation intends to finalize its 2020 capital spending plans in late January 2020). In addition, forward-looking statements in this Third 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 Third Quarter Report, assumptions have been made regarding, among other things: prevailing and future commodity prices and differentials, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; the state of the economy, financial markets and the exploration, development and production business; the political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes, 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 and the timing, location and extent of future drilling and other operations; results of operations; Birchcliff's ability to continue to develop its assets and obtain the anticipated benefits therefrom; the performance of existing and future wells; the success of new wells drilled; 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 Third Quarter Report:

- Birchcliff's 2019 guidance 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 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.
- With respect to statements that the additional capital activity in Q4 2019 will result in more efficient capital spending and production profiles in 2020 and reduce the amount of capital needed to be spent by Birchcliff in

2020, such statements assume that Birchcliff will execute a capital program in 2020 that is designed to achieve an annual average production rate of 78,000 to 82,000 boe/d and that production levels throughout 2020 will remain relatively stable.

- With respect to Birchcliff's production guidance, such guidance assumes that: Birchcliff's capital programs will be carried out as currently contemplated; no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that any transportation service curtailments or unplanned outages that occur will be short in duration or otherwise insignificant; the construction of new infrastructure meets timing and operational expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations. Birchcliff's production guidance may be affected by acquisition and disposition activity.
- With respect to Birchcliff's estimates of adjusted and free funds flow for 2019, such estimates assume that: the 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.
- 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; 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 complete or 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. With respect to the Corporation's preliminary outlook for 2020, Birchcliff's 2020 capital budget will be subject to approval by its Board of Directors, is subject to change and does not take into account any potential future acquisition and disposition activity during 2020. The actual 2020 capital budget may impact information contained herein regarding the Corporation's preliminary outlook for 2020 and beyond, including its estimated production for 2020.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other risk factors that could affect results of operations, financial performance or financial results are included in Birchcliff's most recent Annual Information Form and in other reports filed with Canadian securities regulatory authorities.

This Third Quarter Report contains information that may constitute future-orientated financial information or financial outlook information (collectively, "**FOFI**") about Birchcliff's prospective results of operations including, without limitation, adjusted funds flow and free funds flow, all of which is subject to the same assumptions, risk factors, limitations and qualifications as set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise or inaccurate and, as such, undue reliance should not be placed on FOFI. Birchcliff's actual results, performance and achievements could differ materially from those expressed in, or implied by, 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 Third Quarter Report. Unless required by applicable laws, Birchcliff does not undertake any obligation to publicly update or revise any FOFI statements, whether as a result of new information, future events or otherwise.

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

CORPORATE INFORMATION

EXECUTIVE OFFICERS

A. Jeffery Tonken
President & Chief Executive Officer

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

Chris A. Carlsen
Vice-President, Engineering

Bruno P. Geremia
Vice-President & Chief Financial Officer

David M. Humphreys
Vice-President, Operations

DIRECTORS

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

Dennis A. Dawson
Lead Independent Director
Calgary, Alberta

Debra A. Gerlach
Independent Director
Calgary, Alberta

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

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