MANAGEMENT'S REPORT

To the Shareholders of Birchcliff Energy Ltd.

The annual financial statements of Birchcliff Energy Ltd. for the year ended December 31, 2020 were prepared by management within the acceptable limits of materiality and are in accordance with International Financial Reporting Standards. Management is responsible for ensuring that the financial and operating information presented in the annual report is consistent with that shown in the financial statements.

The financial statements have been prepared by management in accordance with the accounting policies as described in the notes to the financial statements. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. When necessary, such estimates are based on informed judgments made by management.

Management has designed and maintains an appropriate system of internal controls to provide reasonable assurance that all assets are safeguarded and financial records properly maintained to facilitate the preparation of financial statements for reporting purposes.

KPMG LLP, an independent firm of Chartered Professional Accountants appointed by shareholders, have conducted an examination of the corporate and accounting records in order to express their opinion on the financial statements.

The Audit Committee, consisting of non-management directors, has met with representatives of KPMG LLP and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

Respectfully,

(signed) "*Bruno P. Geremia*"
Bruno P. Geremia
Vice-President and Chief Financial Officer

(signed) "*A. Jeffery Tonken*"
A. Jeffery Tonken
President and Chief Executive Officer

Calgary, Canada

March 10, 2021

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Birchcliff Energy Ltd.

Opinion

We have audited the financial statements of Birchcliff Energy Ltd. (the "Company"), which comprise:

- the statements of financial position as at December 31, 2020 and December 31, 2019
- the statements of net loss and comprehensive loss for the years then ended
- the statements of changes in shareholders' equity for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and December 31, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Assessment of the recoverable amount of the cash generating unit

Description of the matter

We draw attention to notes 3 and 5 to the financial statements. The Company identified an indicator of impairment at March 31, 2020 and performed an impairment test to estimate the recoverable value of the cash generating unit ("CGU").

The estimated recoverable amount of the CGU involves significant estimates, including:

- The estimate of proved and probable oil and gas reserves and the related cash flows
- The discount rates.

The estimate of proved and probable oil and gas reserves and the related cash flows includes significant assumptions related to:

- Forecasted oil and gas commodity prices
- Forecasted production
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Company engaged independent third-party reserve evaluators to estimate the proved and probable oil and gas reserves and the related cash flows as at December 31, 2019, which were updated by internal reserve evaluators to March 31, 2020.

Why the matter is a key audit matter

We identified the assessment of the recoverable amount of the CGU as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable oil and gas reserves and the related cash flows and the discount rates.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

With respect to the estimate of proved and probable oil and gas reserves and the related cash flows as at March 31, 2020:

- We evaluated the competence, capabilities and objectivity of the internal reserve evaluators
- We compared forecasted oil and gas commodity prices to those published by independent third-party reserve evaluators
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to the corresponding amounts in the proved and probable oil and gas reserves and the related cash flows estimated by the independent third-party reserve evaluators as at December 31, 2019 and by comparing to 2020 actual results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

With respect to the estimate of proved and probable oil and gas reserves and the related cash flows as at December 31, 2019:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Company
- We compared forecasted oil and gas commodity prices to those published by independent third-party reserve evaluators
- We compared the 2019 actual production, operating costs, royalty costs and development costs of the Company to those estimates used in the prior year's estimate of proved oil and gas reserves and the related cash flows to assess the Company's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to 2019 historical results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the Company's discount rates by comparing the discount rates to market and other external data
- Assessing the reasonableness of the Company's estimate of the recoverable amount of the CGU by comparing the Company's estimate to market metrics and other external data.

Assessment of indicators of impairment for the cash generating unit

Description of the matter

We draw attention to notes 3 and 5 to the financial statements. The Company assesses at each reporting date if there is an indication that petroleum and natural gas properties and equipment within the cash generating unit (the "CGU") may be impaired.

Management judgement is required to assess when external and internal indicators of impairment exist with the estimate of proved and probable oil and gas reserves and the related cash flows being significant to the assessment.

The estimate of proved and probable oil and gas reserves and the related cash flows includes significant assumptions related to:

- Forecasted oil and gas commodity prices
- Forecasted production
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Company engaged independent third-party reserve evaluators to estimate the proved and probable oil and gas reserves and the related cash flows as at December 31, 2020.

Why the matter is a key audit matter

We identified the assessment of indicators of impairment for the CGU as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures with respect to the internal and external indicators of impairment including the estimate of proved and probable oil and gas reserves and the related cash flows.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We evaluated the Company's assessment of internal and external indicators of impairment by considering whether quantitative and qualitative information in the analysis was consistent with external market and industry data, the Company's press releases and certain minutes of the meetings of the Board of Directors and the estimate of proved and probable oil and gas reserves and the related cash flows.

With respect to the estimate of proved and probable oil and gas reserves and the related cash flows as at December 31, 2020:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Company
- We compared forecasted oil and gas commodity prices to those published by independent third-party reserve evaluators
- We compared the 2020 actual production, operating costs, royalty costs and development costs of the Company to those estimates used in the prior year's estimate of proved oil and gas reserves and the related cash flows to assess the Company's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to 2020 actual results. We took into account changes in

conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a documented entitled "2020 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and the information, other than financial statements and the auditors' report thereon, included in a documented entitled "2020 Annual Report" as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is Timothy Arthur Richards.

(signed) *"KPMG LLP"*

Chartered Professional Accountants

Calgary, Canada
March 10, 2021

BIRCHCLIFF ENERGY LTD.
STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of Canadian dollars)

As at December 31,	**2020**	**2019**
ASSETS		
Current assets:		
Cash	60	70
Accounts receivable	64,691	64,747
Prepaid expenses and deposits	2,177	4,385
	66,928	69,202
Non-current assets:		
Investment in securities *(Note 6)*	1,805	4,405
Petroleum and natural gas properties and equipment *(Note 5)*	2,833,310	2,743,078
	2,835,115	2,747,483
Total assets	**2,902,043**	**2,816,685**
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	97,507	92,607
Financial instruments *(Note 19)*	23,479	26,949
Capital securities *(Note 10)*	39,930	49,845
	160,916	169,401
Non-current liabilities:		
Revolving term credit facilities *(Note 7)*	731,372	609,177
Decommissioning obligations *(Note 8)*	146,232	128,128
Deferred income taxes *(Note 9)*	65,192	81,672
Other liabilities *(Note 15)*	26,207	27,046
Financial instruments *(Note 19)*	144,557	105,640
	1,113,560	951,663
Total liabilities	**1,274,476**	**1,121,064**
SHAREHOLDERS' EQUITY		
Share capital *(Note 10)*		
Common shares	1,478,294	1,478,356
Preferred shares *(perpetual)*	41,434	41,434
Contributed surplus	89,868	84,884
Retained earnings	17,971	90,947
	1,627,567	1,695,621
Total shareholders' equity and liabilities	**2,902,043**	**2,816,685**

Commitments and Contingencies (Note 20)

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

Approved by the Board

(signed) "*Dennis A. Dawson*"
Dennis A. Dawson
Lead Independent Director

(signed) "*A. Jeffery Tonken*"
A. Jeffery Tonken
Director

BIRCHCLIFF ENERGY LTD.
STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

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

Years Ended December 31,	**2020**	**2019**
REVENUE		
Petroleum and natural gas revenue *(Note 12)*	528,505	613,559
Marketing revenue *(Note 12)*	13,687	20,131
Royalties	(18,204)	(27,452)
Realized gain (loss) on financial instruments *(Note 19)*	(59,665)	13,673
Unrealized loss on financial instruments *(Note 19)*	(35,446)	(192,765)
Other income	4,943	650
	433,820	427,796
EXPENSES		
Operating *(Note 13)*	82,357	87,903
Transportation	140,574	127,763
Marketing purchases *(Note 12)*	11,127	18,503
Administrative, net *(Note 14)*	27,044	31,093
Depletion and depreciation *(Note 5)*	212,404	213,565
Finance *(Note 16)*	30,111	30,118
Dividends on capital securities *(Note 10)*	3,467	3,500
Other (gains) and losses *(Notes 5 & 6)*	(2,026)	5,549
	505,058	517,994
Net loss before taxes	71,238	90,198
Income tax recovery *(Note 9)*	(13,417)	(34,806)
NET LOSS AND COMPREHENSIVE LOSS	**57,821**	**55,392**
Net loss per common share *(Note 11)*		
Basic	$0.23	$0.22
Diluted	$0.23	$0.22

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

BIRCHCLIFF ENERGY LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in thousands of Canadian dollars)

	Share Capital				
	Common Shares	Preferred Shares	Contributed Surplus	Retained Earnings (Deficit)	Total
As at December 31, 2018	1,478,260	41,434	76,747	178,449	1,774,890
Dividends on common shares *(Note 10)*	-	-	-	(27,923)	(27,923)
Dividends on perpetual preferred shares *(Note 10)*	-	-	-	(4,187)	(4,187)
Exercise of stock options *(Note 17)*	96	-	(23)	-	73
Stock-based compensation *(Notes 14 & 17)*	-	-	8,160	-	8,160
Net loss and comprehensive loss	-	-	-	(55,392)	(55,392)
As at December 31, 2019	**1,478,356**	**41,434**	**84,884**	**90,947**	**1,695,621**
As at December 31, 2019	1,478,356	41,434	84,884	90,947	1,695,621
Dividends on common shares *(Note 10)*	-	-	-	(10,968)	(10,968)
Dividends on perpetual preferred shares *(Note 10)*	-	-	-	(4,187)	(4,187)
Exercise of stock options *(Note 17)*	18	-	(4)	-	14
Conversion of Series C Preferred Shares *(Note 10)*	530	-	-	-	530
Repurchase of common shares *(Note 10)*	(610)	-	-	-	(610)
Stock-based compensation *(Notes 14 & 17)*	-	-	4,988	-	4,988
Net loss and comprehensive loss	-	-	-	(57,821)	(57,821)
As at December 31, 2020	**1,478,294**	**41,434**	**89,868**	**17,971**	**1,627,567**

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

BIRCHCLIFF ENERGY LTD.
STATEMENTS OF CASH FLOWS

(Expressed in thousands of Canadian dollars)

Years ended December 31,	**2020**	**2019**
Cash provided by (used in):		
OPERATING		
Net loss	57,821	55,392
Adjustments for items not affecting operating cash:		
Unrealized loss on financial instruments *(Note 19)*	35,446	192,765
Depletion and depreciation *(Note 5)*	212,404	213,565
Other compensation *(Note 14)*	2,429	4,278
Finance *(Note 16)*	30,111	30,118
Other (gains) and losses *(Notes 5 & 6)*	(2,026)	5,549
Income tax recovery *(Note 9)*	(13,417)	(34,806)
Interest paid *(Note 16)*	(26,067)	(25,073)
Dividends on capital securities *(Note 10)*	3,467	3,500
Decommissioning expenditures *(Note 8)*	(2,323)	(2,285)
Changes in non-cash working capital *(Note 21)*	5,977	(5,153)
	188,180	327,066
FINANCING		
Issue (repurchase) of common shares *(Notes 10 &17)*	(596)	73
Repurchase of capital securities *(Note 10)*	(9,141)	-
Lease payments *(Note 15)*	(2,292)	(2,172)
Financing fees on paid credit facilities	-	(990)
Dividends on common shares *(Note 10)*	(10,968)	(27,923)
Dividends on perpetual preferred shares *(Note 10)*	(4,187)	(4,187)
Dividends on capital securities *(Note 10)*	(3,467)	(3,500)
Net change in revolving term credit facilities *(Note 7)*	121,120	3,683
	90,469	(35,016)
INVESTING		
Exploration and development of petroleum and natural gas assets *(Note 5)*	(289,672)	(258,839)
Acquisition of petroleum and natural gas assets *(Note 5)*	-	(37,507)
Disposition of petroleum and natural gas assets *(Note 5)*	12,887	-
Changes in non-cash working capital *(Note 21)*	(1,874)	4,313
	(278,659)	(292,033)
Net change in cash	(10)	17
Cash, beginning of year	70	53
CASH, END OF YEAR	**60**	**70**

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

BIRCHCLIFF ENERGY LTD.
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(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 oil and 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, cumulative redeemable preferred shares, Series A (the "**Series A Preferred Shares**") and cumulative redeemable preferred shares, Series C (the "**Series C Preferred Shares**") are listed for trading on the Toronto Stock Exchange (the "**TSX**") under the symbols "BIR", "BIR.PR.A" and "BIR.PR.C", respectively.

These financial statements were approved and authorized for issuance by the Board of Directors on March 10, 2021.

2. BASIS OF PREPARATION

These financial statements present Birchcliff's financial results of operations and financial position under International Financial Reporting Standards ("**IFRS**") as at and for the years ended December 31, 2020 and December 31, 2019. The financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Note 3.

Operating and transportation and other expenses in profit or loss are presented as a combination of function and nature in conformity with industry practices. Depletion and depreciation, finance, dividends on capital securities and other gains and losses in profit or loss are presented in a separate line by their nature, while net administrative expenses are presented on a functional basis. Significant expenses such as salaries and benefits and other compensation are presented by their nature in the notes to the financial statements.

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

COVID-19 Estimation Uncertainty

On January 30, 2020, the World Health Organization declared the novel Coronavirus disease ("**COVID-19**") outbreak a public health emergency of international concern and, on March 11, 2020, declared it to be a pandemic. The outbreak of the COVID-19 pandemic has had a significant negative impact on global economic conditions in 2020. This has included a sharp decrease in crude oil demand which, combined with other macro-economic conditions, has resulted in significant volatility in oil and natural gas commodity prices, as well as economic uncertainty. The extent and duration of the impacts of COVID-19 on future demand for the commodities Birchcliff produces, on the Corporation's cash flow and access to capital, on the Corporation's suppliers and employees continues to remain uncertain.

Birchcliff has taken a number of proactive measures to ensure liquidity and financial flexibility in the current environment, including reducing its original capital budget and its common share dividend. The Corporation has also increased its monitoring of receivables due from petroleum and natural gas marketers and from joint asset partners to manage credit risk. Birchcliff historically has not experienced any significant collection issues with petroleum and natural gas marketers as a significant portion of these receivables are with creditworthy purchasers.

In response to the COVID-19 pandemic, Birchcliff has implemented a number of initiatives to protect the well-being of its employees and contractors. The Corporation has established a response team to coordinate and implement such initiatives and continues to closely monitor the recommendations of applicable government and health authorities. In addition, the Corporation has established remote working capabilities and procedures to ensure business continuity and the reliability of its operations in the event of future COVID-19 related restrictions or lockdowns.

The COVID-19 pandemic remains an evolving situation that has had, and may continue to have, a significant impact on Birchcliff's business, results of operations, financial condition and the environment in which it operates. Management cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption will impact the Corporation's go-forward financial position, profit or loss and cash flows. The potential direct and indirect impacts of the economic downturn have been considered in management's estimates and assumptions at December 31, 2020 and have been reflected in the Corporation's results.

Birchcliff determined there were no impairment indicators present at December 31, 2020. Current and forward commodity prices for oil and natural gas have improved and market capitalization have increased since March 31, 2020, when impairment indicators were last identified.

Capital Management

During this period of uncertainty, Birchcliff remains committed to preserving its strong balance sheet and financial liquidity. At December 31, 2020, the Corporation has $263.2 million in unused credit capacity available under its extendible revolving credit facilities (the "**Credit Facilities**"). In connection with the semi-annual review of the borrowing base limit under the Credit Facilities which was last completed by the Corporation's syndicate of lenders in December 2020, the borrowing base limit was confirmed at $1.0 billion. The Credit Facilities do not mature until May 11, 2022 and do not contain any financial maintenance covenants. Birchcliff was eligible under the Federal Government's Canada Emergency Wage Subsidy Program and has received $3.8 million in assistance in the year ended December 31, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue Recognition

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

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

(b) Cash and Cash Equivalents

Cash may consist of cash on hand, deposits and term investments held with a financial institution, with an original maturity of three months or less. Restricted cash is not considered part of cash and cash equivalents.

(c) Jointly Owned Assets

Certain activities of the Corporation are conducted jointly with others where the participants have a direct ownership interest in the related assets. Accordingly, the accounts of Birchcliff reflect only its working interest share of revenues, expenses and capital expenditures related to these jointly owned assets. The relationship with jointly owned asset partners have been referred to as jointly owned assets in the remainder of the financial statements as this is common terminology in the Canadian oil and natural gas industry.

(d) **Exploration and Evaluation Assets**

Costs incurred prior to obtaining the right to explore a mineral resource are recognized as an expense in the period incurred.

Intangible exploration and evaluation expenditures are initially capitalized and may include mineral license acquisitions, geological and geophysical evaluations, technical studies, exploration drilling and testing and other directly attributable administrative costs. Tangible assets acquired which are consumed in developing an intangible exploration asset are recorded as part of the cost of the exploration asset. These costs are accumulated in cost centres by exploration area pending the determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a mineral resource in an exploration area is considered to be determinable when economic quantities of proved reserves are determined to exist. A review of each exploration project by area is carried out at each reporting date to ascertain whether such reserves have been discovered. Upon determination of commercial proved reserves, associated exploration costs are transferred from exploration and evaluation to developed and producing petroleum and natural gas asset category. Exploration and evaluation assets are reviewed for impairment prior to any such transfer. Assets classified as exploration and evaluation are not subject to depletion and depreciation until they are reclassified to developed and producing petroleum and natural gas assets.

(e) **Petroleum and Natural Gas Properties and Equipment**

(i) Recognition and measurement

Developed and producing petroleum and natural gas assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses, if any. Such assets consists of the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Developed and producing petroleum and natural gas asset interests include mineral lease acquisitions, geological and geophysical costs, facility and production equipment and associated turnarounds, other directly attributable administrative costs and the initial estimate of the costs of dismantling and removing an asset and restoring the site on which it was located.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability are recognized as developed and producing petroleum and natural gas interests when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized developed and producing petroleum and natural gas interests generally represent costs incurred in developed proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on an area basis. The cost of day-to-day servicing of an item of petroleum and natural gas properties and equipment is expensed in profit or loss as incurred.

Petroleum and natural gas properties and equipment are de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal of an asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

(iii) Asset exchanges

For exchanges or parts of exchanges that involve only exploration and evaluation assets, the exchange is accounted for at carrying value. Exchanges of development and production assets are measured at fair value, unless the exchange transaction lacks commercial substance or the fair value of the assets given up or the assets received cannot be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more reliable. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gain or loss on the de-recognition of the asset given up is recognized in profit and loss.

(iv) Depletion and depreciation

The net carrying value of developed and producing petroleum and natural gas assets, net of estimated residual value, is depleted on an area basis using the unit of production method. This depletion calculation includes actual production in the period and total estimated proved and probable oil and gas reserves attributable to the assets being depreciated, taking into account total capitalized costs plus estimated future development costs necessary to bring those reserves into production. Relative volumes of reserves and production (before royalties) are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. These estimates are reviewed by the Corporation's independent reserves evaluator at least annually.

Capitalized plant turnaround costs are depreciated on a straight-line basis over the estimated time until the next turnaround is completed. Corporate assets, which include office furniture and equipment, software, computer equipment and leasehold improvements, are depreciated on a straight-line basis over the estimated useful lives of the assets, which are estimated to be four years.

When significant parts of property and equipment, including petroleum and natural gas interests, have different useful lives, they are accounted for as separate items (major components). Depreciation methods, useful lives and residual values for petroleum and natural gas properties and equipment are reviewed at each reporting date.

(f) **Provisions**

Provisions are recognized when the Corporation has a present obligation (legal or constructive), as a result of a past event, if it is probable that the Corporation will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is significant).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third-party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are not recognized for future operating losses.

(g) **Decommissioning Obligations**

The Corporation's activities give rise to dismantling, restoration and site disturbance remediation activities. Costs related to abandonment activities are estimated by management in consultation with the Corporation's independent reserves evaluators based on risk-adjusted current costs which take into consideration current technology in accordance with existing legislation and industry practices.

Decommissioning obligations are measured at the present value of the best estimate of expenditures required to settle the future obligations at the reporting date. When the best estimate of the liability is initially measured, the estimated risk-adjusted cost, discounted using a pre-tax risk-free discount rate, is capitalized by increasing the carrying amount of the related petroleum and natural gas properties and equipment. The increase in the provision due to the passage of time, which is referred to as accretion, is recognized as a finance expense. Actual costs incurred upon settlement of the liability are charged against the obligation to the extent that the obligation was previously established. The carrying amount capitalized in petroleum and natural gas properties and equipment is depleted in accordance with the Corporation's depletion and depreciation policy. The Corporation reviews the obligation at each reporting date and revisions to the estimated timing of cash flows, discount rates and estimated costs result in an increase or decrease to the obligations and the related petroleum and natural gas properties and equipment. Any difference between the actual costs incurred upon settlement of the obligation and the recorded liability is recognized as a gain or loss in profit or loss.

(h) **Share-Based Payments**

Equity-settled share-based awards granted by the Corporation include stock options and performance warrants granted to officers and employees. The fair value determined at the grant date of an award is expensed on a graded basis over the vesting period of each respective tranche of an award with a corresponding increase to contributed surplus. In calculating the expense of share-based awards, the Corporation revises its estimate of the number of equity instruments expected to vest by applying an estimated forfeiture rate for each vesting tranche and subsequently revising this estimate throughout the vesting period, as necessary, with a final adjustment to reflect the actual number of awards that vest. Upon the exercise of share-based awards, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. In the event that vested share-based awards expire without being exercised, previously recognized compensation costs associated with such awards are not reversed. The expense related to share-based awards is included within administrative expenses in profit or loss.

The fair value of equity-settled share-based awards is measured using the Black-Scholes option-pricing model taking into account the terms and conditions upon which the awards were granted. Measurement inputs as at the grant date include: share price, exercise price, expected volatility (based on weighted average historical traded daily volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds) applicable to the term of the award.

A portion of share-based compensation expense directly attributable to the exploration and development of the Corporation's assets are capitalized.

(i) **Finance Income and Expenses**

Finance expenses include interest expense on borrowings, accretion of the discount on decommissioning, capital lease and post-employment benefit obligations, amortization of deferred charges and impairment losses (if any) recognized on financial assets. Interest and dividend income is recognized as it is earned and is presented as "other income" in profit and loss.

(j) **Borrowing Costs**

Borrowing costs incurred for the acquisition, construction or production of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Assets are considered to be qualifying assets when this period of time is substantial. The capitalization rate, used to determine the amount of borrowing costs to be capitalized, is the weighted average interest rate applicable to the Corporation's outstanding borrowings during the period. All other borrowing costs are charged to profit or loss using the effective interest method.

(k) **Financial Instruments**

(i) Non-derivative financial instruments

Non-derivative financial instruments are comprised of cash, accounts receivable, deposits, investment in securities, accounts payable and accrued liabilities, revolving term credit facilities and capital securities. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured based on their classification. The Corporation has made the following classifications:

- Cash, accounts receivable, and deposits are classified as loans and receivables and are measured at amortized cost using the effective interest method. Typically, the fair value of these balances approximates their carrying value due to their short-term to maturity.

- Investment in securities have been categorized as fair value through profit and loss which requires the securities to be fair valued at the end of each reporting period with any gains or losses recognized in profit and loss. Distributions declared are recorded to profit or loss and presented as an operating activity on the statement of cash flow.

- Accounts payable and accrued liabilities and revolving term credit facilities are measured at amortized cost using the effective interest method. Due to the short-term nature of accounts payable and accrued liabilities, their carrying values approximate their fair values. The Corporation’s revolving term credit facilities bear interest at a floating rate and accordingly the fair market value approximates the carrying value before the carrying value is reduced for any remaining unamortized costs. Any interest costs and financing fees associated with the Corporation’s credit facilities have been deferred and netted against the amounts drawn, and are being amortized to profit or loss using the effective interest method over the applicable term.

- The proceeds from the issuance of Series C Preferred Shares, which are presented as “capital securities” on the statement of financial position, are measured at amortized cost. The incremental costs directly attributable to the issuance of Series C Preferred Shares are initially recognized as a reduction to capital securities and subsequently amortized to profit and loss, using the effective interest rate method, as a finance expense. Dividend distributions on capital securities are recorded as an expense directly to profit and loss and presented as a financing activity on the statements of cash flows.

(ii) Derivative financial instruments

Derivatives may be used by the Corporation to manage economic exposure to market risk relating to commodity prices, interest rates and foreign exchange. Birchcliff’s policy is not to utilize derivative financial instruments for speculative purposes. The Corporation does not designate its financial derivative contracts as hedges, and as such does not apply hedge accounting. As a result, financial derivatives are classified at fair value through profit or loss and are recorded on the statements of financial position at fair value.

The fair value of risk management contracts is determined by discounting the difference between the contracted prices/rates and published forward price/rates as at the statement of financial position date. The fair value of options and costless collars, if any, is based on option models that use published information with respect to volatility, prices and interest rates.

The Corporation accounts for any forward physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items, in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statements of financial position. Settlements on physical commodity sales contracts are recognized in petroleum and natural gas revenue in profit and loss.

(iii) Share capital

Common shares and perpetual preferred shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a reduction in share capital, net of any tax effects.

(l) **Impairment**

(i) Impairment of financial assets

Impairment of financial assets is determined by measuring the assets' expected credit loss ("**ECL**"). Birchcliff’s financial assets are not considered to have a significant financing component and a lifetime ECL is measured at the date of initial recognition of the financial asset. ECL allowances have not been recognized for cash and cash equivalents due to the virtual certainty associated with their collection. The ECL pertaining to accounts receivable is assessed at initial recognition and this provision is re-assessed at each reporting date. ECLs are a probability-weighted estimate of all possible default events related to the financial asset (over the lifetime or within 12 months after the reporting period, as applicable) and are measured as the difference between the present value of the cash flows due to Birchcliff and the cash flows the Corporation expects to receive, including cash flows expected from collateral and other credit enhancements that are a part of contractual terms. In making an assessment as to whether financial assets are credit-impaired, the Corporation considers historically realized bad debts, evidence of a debtor's present financial condition and whether a debtor has breached certain contracts, the probability that a debtor will enter bankruptcy or other financial reorganization, changes in economic conditions that correlate to increased levels of default, the number of days a debtor is past due in making a contractual payment, and the term to maturity of the specified receivable. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized within general and administrative expense in profit and loss.

Based on contractual terms and conditions, the Corporation considers its financial assets to be in default when the counterparty fails to make contractual payments as required. Once the Corporation has pursued collection activities and it has been determined that the incremental cost of pursuing collection outweighs the benefits, Birchcliff derecognizes the gross carrying amount of the financial asset and the associated allowance from the statement of financial position.

(ii) Impairment of non-financial assets

The Corporation's petroleum and natural gas properties and equipment are grouped into Cash Generating Units ("**CGUs**") for the purpose of assessing impairment. A CGU represents the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

CGUs are reviewed at each reporting date for internal and external indicators of impairment. Such indicators may include, but are not limited to, changes in the Corporation's business plan, deterioration in forecasted oil and gas commodity prices or a significant downward revision of the estimated recoverable amount from proved and probable oil and gas reserves and the related cash flows. If indicators of impairment exist, an impairment test is performed by comparing a CGU's carrying value to its estimated recoverable amount. A CGU's recoverable amount is the greater of its fair value less cost to sell and its current value in use. The estimated recoverable amount involves significant estimates including the estimate of proved and probable oil and gas reserves and the related cash flows and the discount rates. The estimate of proved and probable oil and gas reserves and the related cash flows is sensitive to the significant assumptions regarding forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, forecasted royalty costs and forecasted future development costs. Any excess of carrying value over recoverable amount is recognized as impairment loss in profit or loss.

In assessing the value in use, the estimated future cash flows from proved and probable oil and gas reserves are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. The forecasted oil and gas commodity prices used in the impairment test are based on period-end forecasted oil and gas commodity prices estimated by the Corporation's independent third-party reserves evaluators.

Where circumstances change such that an impairment no longer exists or is less than the amount previously recognized, the carrying amount of the CGU is increased to the revised estimate of its recoverable amount as long as the revised estimate does not exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the CGU in prior periods. A reversal of an impairment loss is recognized immediately through profit or loss.

Exploration and evaluation assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability of an exploration area, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to the respective CGUs.

(m) **Income Taxes**

Birchcliff is a corporation as defined under the *Income Tax Act* (Canada) and is subject to Canadian Federal and provincial taxes. Birchcliff is subject to provincial taxes in Alberta as the Corporation operates in this jurisdiction. The Corporation's income tax expenses include current and/or deferred tax. Income tax expense is recognized through profit or loss except to the extent that it relates to items recognized directly in equity, in which case the related income taxes are also recognized in equity.

Current tax is the expected tax payable on taxable income and Part VI.I dividend tax payable on taxable preferred shares for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is expected to be settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Birchcliff expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(n) **Per Common Share**

The Corporation calculates per common share amounts using net income available to Birchcliff's shareholders, reduced for perpetual preferred share dividends and divided by the weighted average number of common shares outstanding. Basic per share information is computed using the weighted average number of basic common shares outstanding during the period. Diluted per share information is calculated using the treasury stock method, which assumes that any proceeds from the exercise of "in-the-money" stock options and performance warrants, plus the unamortized stock-based compensation expense amounts, would be used to purchase common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of these calculations is anti-dilutive. The average market value of the Corporation's shares for the purpose of calculating the dilutive effect is based on average quoted market prices for the time that the stock options and performance warrants were outstanding during the period.

(o) **Business Combinations**

The purchase method of accounting is used to account for acquisitions of businesses and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. If the consideration given up is less than the fair value of the net assets received, the difference is recognized immediately in the income statement. If the consideration is greater than the fair value of the net assets received, the difference is recognized as goodwill on the statement of financial position. Acquisition costs incurred are expensed.

(p) **Post-Employment Benefit Obligation**

Birchcliff's post-employment benefits are defined benefit obligations under IFRS. The cost of the post-employment benefit obligation is determined using the projected unit credit method. The obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related liability. Post-employment benefit obligation is presented on the statements of financial position as other liabilities. Past service cost is the change in the present value of the obligation and can arise from the introduction, amendment or curtailment of a plan. Current service cost is the increase in the present value of the obligation resulting from the service provided by an employee in the current period. Current and past service costs are recognized as post-employment benefit expenses of the Corporation when incurred and presented in profit and loss as an administrative expense. The unwinding of the present value of the post-employment benefit obligation is recorded as accretion (interest) expense and is presented in profit and loss as a finance expense.

Remeasurements of the post-employment benefit obligation will result in gains and losses and will be included in other comprehensive income. Remeasurements result from increases or decreases in the present value of the obligation as a result of changes in assumptions including unexpectedly high or low rates of employee turnover, early retirement, change in expected future salaries and benefits and revision to the discount rate. Settlements will be recorded as a reduction to the obligation in the period incurred. Any difference between the actual costs incurred upon settlement of the obligation and the recorded liability is recognized as a gain or loss in profit or loss.

(q) **Lease Obligation**

When Birchcliff is a party to a lease arrangement as the lessee, 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 is recognized under IFRS. The lease obligation is determined by discounting the remaining lease payments using the interest rate implicit in the lease, if available, 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.

Remeasurements of the lease obligation will result in an adjustment to the right-of-use asset. Remeasurements result from increases or decreases in the present value of the obligation as a result of changes in assumptions including lease term, payment or discount rate.

(r) **Critical Accounting Judgments and Key Sources of Estimation Uncertainty**

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

Critical judgments in applying accounting policies:

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

(i) Identification of Cash-Generating Units

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

(ii) Identification of Impairment Indicators

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

(iii) Tax Uncertainties

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

(iv) Lease Obligation

IFRS requires Birchcliff to make certain judgements in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. 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.

Key sources of estimation uncertainty:

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

(i) Reserves

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

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

(ii) Share-Based Payments

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

(iii) Decommissioning Obligations

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

(iv) Post-Employment Benefit Obligation

The Corporation estimates the post-employment benefit obligation at the end of each reporting period. In most instances, the obligation occurs many years into the future. The Corporation uses estimates related to the initial measurement of the obligation for eligible employees including expected age of employee retirement, employee turnover, probability of early retirement, discount rate and inflation rate on salary and benefits. From time to time, these estimates may change causing the obligation recorded by the Corporation to change.

(v) Lease Obligation

Lease obligations are estimated using the rate implicit in the lease, unless this rate is not readily determinable, in which case a discount rate equal to the Corporation's incremental borrowing rate is used. This rate represents the rate that the Corporation 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.

(vi) Impairment of Non-Financial Assets

For the purposes of determining the extent of any impairment or its reversal, estimates must be made regarding proved and probable oil and gas reserves and the related cash flows considering significant assumptions including forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, forecasted royalty costs and forecasted future development costs. These significant assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the discount rate estimate used to discount the cash flow estimates related to proved and probable oil and gas reserves. Changes in the aforementioned assumptions could affect the carrying amount of the Corporation's assets, and impairment charges and reversal will affect profit or loss.

(vii) Income Taxes

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

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

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

(s) **Governments Grants**

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. If a grant is received but reasonable assurance and compliance with conditions is not achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the grant relates to an expense item in nature, it is recognized as "other income" in profit or loss on a systematic basis in the period in which the costs are incurred.

4. CHANGES IN ACCOUNTING POLICIES

Accounting Pronouncements Adopted

Business Combinations

On January 1, 2020, Birchcliff adopted the amendment as issued on October 22, 2018 to IFRS 3: *Business Combinations* ("**IFRS 3**"). IFRS 3 sets out the principles in accounting for the acquisition of a business.

The amendments to this standard include a change in the definition of a business and the addition of an optional concentration test to determine if the acquisition is a business for any acquisition occurring on or after January 1, 2020. The amended definition of a business under IFRS 3 is that a business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. The three elements of a business are defined as follows:

- Input: any economic resource that creates outputs, or has the ability to contribute to the creation of outputs, when one or more processes are applied to it.
- Process: any system, standard, protocol, convention or rule that, when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs.
- Output: the result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income or generate other income from ordinary activities.

The optional concentration test permits a simplified assessment of whether an acquired set of activities and assets is in fact a business. An entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other event. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. The adoption had no impact.

5. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

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

($000s)	Exploration & Evaluation Assets(5)	Developed & Producing Assets	Lease Assets	Corporate Assets	Total
Cost:					
As at December 31, 2018	112	3,549,526	-	17,737	3,567,375
Additions	209	253,060	19,931	2,480	275,680
Acquisitions(1)	-	47,503	-	-	47,503
As at December 31, 2019	321	3,850,089	19,931	20,217	3,890,558
Additions	33	315,200	-	1,713	316,946
Dispositions(2)	-	(17,563)	-	-	(17,563)
As at December 31, 2020(3)	354	4,147,726	19,931	21,930	4,189,941
Accumulated depletion and depreciation:					
As at December 31, 2018	-	(920,923)	-	(12,992)	(933,915)
Depletion and depreciation expense(4)	-	(209,315)	(1,925)	(2,325)	(213,565)
As at December 31, 2019	-	(1,130,238)	(1,925)	(15,317)	(1,147,480)
Dispositions(2)	-	3,253	-	-	3,253
Depletion and depreciation expense(4)	-	(208,137)	(2,021)	(2,246)	(212,404)
As at December 31, 2020	-	(1,335,122)	(3,946)	(17,563)	(1,356,631)
Net book value:					
As at December 31, 2019	321	2,719,851	18,006	4,900	**2,743,078**
As at December 31, 2020	354	2,812,604	15,985	4,367	**2,833,310**

(1) Birchcliff completed the acquisition of various Montney lands and assets on January 3, 2019 for total cash consideration of $39.4 million and assumed decommissioning obligations totalling $6.1 million (see Note 8).

(2) Birchcliff completed the disposition of various Gordondale lands and assets on December 22, 2020, with a net book value totaling $14.3 million, relinquished $5.9 million related to decommissioning obligations (see Note 8) and received cash consideration of $12.7 million. Birchcliff recognized a gain on sale of $4.2 million.

(3) 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.

(4) Future development costs required to develop and produce proved and probable oil and gas reserves totalled $4.4 billion at December 31, 2020 (December 31, 2019 – $4.4 billion) and are included in the depletion expense calculation.

(5) E&E assets consist of the Corporation's exploration activities which are pending the determination of economic quantities of commercially producible proved reserves. Additions represent the Corporation's net share of costs incurred on E&E activities during the year. A review of each exploration project by area is carried out at each reporting date to ascertain whether economical quantities of proved reserves have been discovered and whether such costs should be transferred to depletable petroleum and natural gas components. There were no exploration costs reclassified from the E&E category to petroleum and natural gas properties and equipment category during 2020 and 2019.

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 December 31, 2020, Birchcliff determined there were no impairment indicators present and therefore an impairment test was not required.

Birchcliff determined there were indicators of impairment at March 31, 2020 due to the decline in forecasted oil and gas commodity prices and reduction in market capitalization since its previously completed impairment assessment at December 31, 2019. An impairment is recognized if the carrying value of a Cash Generating Unit ("**CGU**") exceeds the estimated recoverable amount for that CGU. A CGU's estimated recoverable amount is the greater of its fair value less cost to sell and its current value in use. The estimated recoverable amount involves significant estimates including the estimate of proved and probable oil and gas reserves and the related cash flows and the discount rate. The estimate of proved and probable oil and gas reserves and the related cash flows is sensitive to the significant forecasted assumptions regarding oil and gas commodity prices, production, operating costs, royalty costs and future development costs.

At March 31, 2020, the Corporation used value in use derived from the estimate of proved and probable oil and gas reserves and the related cash flows estimated by the Corporation's independent third-party reserves evaluators at December 31, 2019, which were internally updated to forecasted period-end oil and gas commodity prices, future development costs and production. The estimated future cash flows are discounted at pre-tax rates between 8% and 17.5% depending on the risk profile of the reserves category. Birchcliff's P&NG properties and equipment were not impaired at March 31, 2020 and December 31, 2019.

The following forecasted oil and gas commodity prices and exchange rate were used in determining whether an impairment to the carrying value of the P&NG properties and equipment existed at March 31, 2020:

Year	WTI Oil *(US$/bbl)*[(1)]	AECO Natural Gas *(CDN$/mcf)*[(1)]	NYMEX Henry Hub Gas *(US$/mcf)*[(1)]	Dawn Gas *(US$/mcf)*[(1)]	Foreign Exchange Rate *(CDN$/US$)*[(1)]
2020	30.00	1.78	2.08	1.93	0.71
2021	41.18	2.22	2.54	2.40	0.73
2022	49.88	2.42	2.79	2.65	0.75
2023	55.87	2.54	2.92	2.78	0.76
2024	57.98	2.61	2.99	2.85	0.76
2025	59.22	2.69	3.05	2.92	0.76
2026	60.39	2.75	3.11	2.98	0.76
2027	61.60	2.81	3.18	3.04	0.76
2028	62.84	2.86	3.24	3.10	0.76
2029	65.38	3.00	3.30	3.16	0.76
Thereafter	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	0.76

(1) The forecast commodity prices, inflation and exchange rates were determined using the average forecasts from Deloitte, McDaniel, GLJ Petroleum Consultants Ltd. and Sproule Associates Ltd. effective April 1, 2020.

Birchcliff and its independent third-party reserves evaluators also assess many other forecasted financial estimates regarding operating costs, royalty costs and future development costs along with several other non-financial assumptions that affect reserves volumes. Birchcliff has considered these assumptions for the impairment test at March 31, 2020, however, it should be noted that all estimates are subject to uncertainty. For the period ended March 31, 2020, a 1% increase in the assumed discount rate or a 5% decrease in the future cash flows would not have resulted in an impairment.

6. INVESTMENT IN SECURITIES

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

The Securities have limited voting rights, certain participation rights in the event of the liquidation, dissolution or wind-up of the Limited Partnership or the Trust, as the case may be, and, in the case of the Common A LP Units, no redemption rights. Holders of the Securities are entitled to, if, as and when declared, quarterly distributions for each three month period ending March 31, June 30, September 30 and December 31.

The Preferred Trust Units are redeemable on demand by Birchcliff. For each Preferred Trust Unit redeemed by Birchcliff, the redemption price will be equal to the redemption proceeds received by the Trust from the Limited Partnership with respect to a redemption by the Trust of a corresponding unit of the Limited Partnership that was acquired by the Trust with the proceeds the Trust received from the issuance of such Preferred Trust Unit. Payment of the redemption price by the Trust is limited to an aggregate maximum amount of $10,000 in cash in respect of all redemptions per calendar month, unless the trustees of the Trust determine a greater amount. Any portion of the redemption price in excess of such cash amount (the "**Balance**") will be repaid through the Trust's issuance of redemption notes ("**Redemption Note**") and/or distribution, *in specie*, of Trust property. Redemption Notes shall be due and payable on or prior to the fifth anniversary of the date of issuance.

As at December 31, 2020, the Corporation determined the Securities had a fair value of $1.8 million (December 31, 2019 - $4.4 million). Birchcliff recorded a loss on investment of $2.6 million during 2020 (2019 - $5.6 million). Birchcliff did not receive any dividend distributions in respect to the Securities in 2020 (2019 - $0.6 million).

7. REVOLVING TERM CREDIT FACILITIES

The components of the Corporation's Credit Facilities include:

As at December 31, *($000s)*	**2020**	**2019**
Syndicated credit facility	727,645	593,557
Working capital facility	4,958	17,926
Drawn revolving term credit facilities	732,603	611,483
Unamortized deferred financing fees	(1,231)	(2,306)
Revolving term credit facilities	**731,372**	**609,177**

At December 31, 2020, the aggregate principal amount of the Corporation's Credit Facilities was $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 million; and (ii) an extendible revolving working capital facility (the "**Working Capital Facility**") of $100 million. Birchcliff has outstanding $4.2 million in letters of credit at December 31, 2020. The letters of credit reduces the amount available under the Working Capital Facility from $100 million to approximately $95.8 million.

The Credit Facilities allow for prime rate loans, LIBOR loans, U.S. base rate loans, bankers' acceptances and, in the case of the Working Capital Facility only, letters of credit. The interest rates applicable to the drawn loans are based on a pricing margin grid and will change as a result of the ratio of outstanding indebtedness to EBITDA as calculated in accordance with the agreement governing the Credit Facilities. EBITDA is defined as earnings before interest and non-cash items including (if any) income taxes, other compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments, gains and losses on securities, depletion, depreciation and amortization and impairment charges.

The Credit Facilities are subject to semi-annual reviews of the borrowing base limit by Birchcliff's syndicate of lenders, which limit is directly impacted by the value of Birchcliff's oil and 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. Birchcliff's Credit Facilities include a provision giving the lenders the right to redetermine the borrowing base if the Corporation's liability management rating ("**LMR**") is less than 2.0. Birchcliff's LMR at December 31, 2020 was 18.0. 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. In December 2020, Birchcliff's syndicate of lenders completed its review and the borrowing base limit was confirmed at $1.0 billion.

The maturity dates of the Credit Facilities are May 11, 2022. 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. During 2020, Birchcliff did not request an extension on the Credit Facilities.

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

8. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning obligations result from its net ownership interests in petroleum and natural gas assets, including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted (inflated) amount of cash flow required to settle its decommissioning obligations is approximately $221.3 million at December 31, 2020 (December 31, 2019 - $226.7 million) and is expected to be incurred up until 2067. A reconciliation of the decommissioning obligations is set forth below:

As at December 31, *($000s)*	**2020**	**2019**
Balance, beginning	128,128	129,264
Obligations incurred	3,624	5,236
Obligations acquired(1)	258	6,096
Obligations divested(2)	(5,867)	(51)
Changes in estimated future cash flows(3)	20,512	(12,724)
Accretion	1,900	2,592
Decommissioning expenditures	(2,323)	(2,285)
Balance, ending(4)	**146,232**	**128,128**

(1) Includes decommissioning obligations from the acquisition of various Montney lands and assets in January 2019.

(2) Includes decommissioning obligations from the disposition of various Gordondale lands and assets in December 2020.

(3) Primarily relates to changes in the nominal risk-free rate, inflation rate, abandonment cost and abandonment date estimates of future obligations used to calculate the present value of the decommissioning obligation.

(4) Birchcliff applied a nominal risk-free rate of 1.26% and an inflation rate of 1.54% to calculate the present value of the decommissioning obligation at December 31, 2020 and a nominal risk-free rate of 1.74% and an inflation rate of 1.33% at December 31, 2019.

9. INCOME TAXES

Included in income tax expense is a deferred income tax recovery of $16.5 million in 2020 (2019 – $37.9 million). Part VI.I dividend tax totalling $3.1 million in 2020 (2019 – $3.1 million) resulted from preferred share dividends paid during the year. For the purposes of determining the current and deferred income taxes, the Corporation applied a combined Canadian federal and provincial income tax rate of 24% in 2020 (2019 – 26.5%).

On May 28, 2019, the Government of Alberta reduced the general provincial corporate income tax rate to 8% (from 12%) over a four year period. Starting July 1, 2019, the general corporate tax rate decreased to 11% (from 12%), with further 1% rate reductions expected every year on January 1 until the general corporate tax rate is 8% on January 1, 2022. On July 1, 2020, the Alberta Government, as part of Alberta's Recovery Plan, accelerated the planned reduction of the corporate tax rate to 8% resulting in a combined Canadian federal and provincial income tax rate of 23%.

The components of income tax recovery are set forth below:

Years ended December 31, *($000s)*	**2020**	**2019**
Net loss before taxes	71,238	90,198
Computed expected income tax recovery	(17,097)	(23,916)
Decrease (increase) in taxes resulting from:		
Non-deductible stock-based compensation	872	1,393
Non-deductible dividends on capital securities	867	928
Non-deductible expenses and other	580	470
Change in tax rate	763	(14,969)
Change in deferred tax assets not recognized	598	1,288
Balance, ending	**(13,417)**	**(34,806)**

The components of net deferred income tax liabilities are set forth below:

As at December 31, *($000s)*	**2020**	**2019**
Deferred income tax liabilities:		
P&NG properties and equipment and E&E assets	372,456	303,058
Deferred financing fees	283	530
Capital securities	-	35
Deferred income tax assets:		
Decommissioning obligations	(33,633)	(29,470)
Other obligations	(3,917)	(4,267)
Risk management contracts	(38,648)	(30,496)
Bank financing and share issue costs	(960)	(2,672)
Non-capital losses and other	(230,389)	(155,046)
Deferred income tax liabilities	**65,192**	**81,672**

A continuity of the net deferred income tax liabilities is set forth below:

($000s)	Balance Jan. 1, 2020	Recognized in Profit or Loss	**Balance Dec. 31, 2020**
P&NG and E&E assets	303,058	69,398	372,456
Deferred financing fees	530	(247)	283
Decommissioning obligations	(29,470)	(4,163)	(33,633)
Other obligations	(4,267)	350	(3,917)
Risk management contracts	(30,496)	(8,152)	(38,648)
Bank financing and share issue costs	(2,672)	1,712	(960)
Non-capital losses and other	(155,011)	(75,378)	(230,389)
	81,672	(16,480)	**65,192**

($000s)	Balance Jan. 1, 2019	Recognized in Profit or Loss	**Balance Dec. 31, 2019**
P&NG and E&E assets	322,526	(19,468)	303,058
Deferred financing fees	684	(154)	530
Decommissioning obligations	(34,901)	5,431	(29,470)
Other Obligations	-	(4,267)	(4,267)
Risk management contracts	16,247	(46,743)	(30,496)
Bank financing and share issue costs	(3,599)	927	(2,672)
Non-capital losses and other	(181,404)	26,393	(155,011)
	119,553	(37,881)	**81,672**

As at December 31, 2020, the Corporation had approximately $2.2 billion (2019 – $2.1 billion) in tax pools available for deduction against future taxable income. Included in this tax basis are estimated non-capital loss carry forwards of approximately $968.8 million that expire between 2029 and 2040 and unrecognized temporary differences on marketable securities of $7.9 million. Discretionary tax deductions, including Canadian Development Expenses, Canadian Oil and Gas Property Expense and Capital Cost Allowance, were maximized in the respective tax years in order to reduce Birchcliff's accounting profits into a loss position for tax purposes.

10. 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 and outstanding:

As at December 31, *(000s)*	**2020**	**2019**
Common shares:		
Outstanding at beginning of year	265,935	265,911
Conversion of Series C Preferred Shares(1)	465	-
Repurchase of common shares(2)	(465)	-
Exercise of stock options	8	24
Outstanding at end of year(1)	**265,943**	**265,935**
Series A Preferred Shares (perpetual):		
Outstanding at beginning of year	2,000	2,000
Outstanding at end of year(3)	**2,000**	**2,000**

(1) See *"Capital Securities"* below.

(2) On November 18, 2020, Birchcliff announced that the TSX had accepted the Corporation's notice of intention to make a normal course issuer bid (the "**2021 NCIB**"). Pursuant to the 2021 NCIB, Birchcliff may purchase up to 13,296,936 of its outstanding common shares over the period from November 25, 2020 to November 24, 2021. Under the 2021 NCIB, common shares may be purchased in open market transactions on the TSX and/or alternative Canadian trading systems at the prevailing market price at the time of such transaction. Pursuant to the rules of the TSX, the total number of common shares that Birchcliff is permitted to purchase is subject to a daily purchase limit of 286,843 common shares. However, Birchcliff may make one block purchase per calendar week which exceeds the daily purchase restriction. All common shares purchased under the 2021 NCIB will be cancelled. The 2021 NCIB effectively renewed the Corporation's previous normal course issuer bid under which the Corporation was permitted to purchase up to 13,296,761 common shares over the period from November 25, 2019 to November 24, 2020 (the "**2020 NCIB**"). During 2020, Birchcliff purchased 464,562 common shares under the 2020 NCIB for an aggregate value of approximately $610,000, before fees. All such common shares were cancelled.

(3) The holders of the Series A Preferred Shares are entitled to receive, as and when declared by the Board of Directors of Birchcliff, fixed cumulative preferential cash dividends, payable quarterly. The dividend rate of the Series A Preferred Shares reset on September 30, 2017 and will reset every five years thereafter at a rate equal to the then current five-year Government of Canada bond yield plus 6.83%. The dividend rate for the five-year period from and including September 30, 2017 to, but excluding September 30, 2022, is 8.374% ($2.0935 per annum or $0.523375 quarterly). The Series A Preferred Shares are redeemable by the Corporation on September 30, 2022 and on September 30 in every fifth year thereafter at a redemption price of $25.00 per share, plus all accrued and unpaid dividends. In addition, the holders of the Series A Preferred Shares have the right, subject to certain conditions, to convert their Series A Preferred Shares into cumulative redeemable floating rate Series B Preferred Shares on September 30, 2022 and on September 30 in every fifth year thereafter. The holders of the Series B Preferred Shares will be entitled to receive quarterly floating rate cumulative preferential cash dividends, if declared by Birchcliff's Board of Directors, at a rate equal to the sum of the then current 90 day Government of Canada Treasury Bill rate plus 6.83%.

Capital Securities

The following table sets forth the number and amount of capital securities outstanding:

As at December 31, *(000s)*	**2020**		**2019**	
	Number	**Amount** *($)*	**Number**	**Amount** *($)*
Outstanding at beginning of year	2,000	49,845	2,000	49,535
Conversion of Series C Preferred Shares(1)(2)	(37)	(929)	-	-
Cash redemption of Series C Preferred Shares(1)	(366)	(9,141)	-	-
Amortization	-	155	-	310
Outstanding at end of year(3)	**1,597**	**39,930**	**2,000**	**49,845**

(1) Subject to the provisions of the *Business Corporations Act* (Alberta) and the provisions governing the Series C Preferred Shares (the "**Provisions**"), a holder of Series C Preferred Shares may, at its option, upon giving notice in accordance with the Provisions (the "**Notice of Redemption**"), redeem for cash, all or any number of Series C Preferred Shares held by such holder on the last day of a 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 (subject, if required, to stock exchange approval), upon not less than 20 days' prior written notice, elect to convert all such Series C Preferred Shares into common shares. The number of common shares into which each Series C Preferred Share may be so converted will be determined by dividing the amount of $25.00, together with all accrued and unpaid dividends to but excluding the date fixed for conversion, by the greater of $2.00 and 95% of the "Current Market Price" (as determined in accordance with the Provisions) of the common shares.

(2) The Corporation elected to convert 37,165 Series C Preferred Shares into common shares and accordingly issued a total of 464,562 common shares. This increased share capital by approximately $530,000 using an implied value of $1.14 per common share based on the closing price of the common shares on the TSX at the date conversion.

(3) Each outstanding Series C Preferred Share is recorded at its redemption value of $25.00 per share.

Dividends

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

Years ended December 31,	**2020**	**2019**
Common shares:		
Dividend distribution *($000s)*	10,968	27,923
Per common share *($)*	0.0413	0.1050
Series A Preferred Shares:		
Series A dividend distribution *($000s)*	4,187	4,187
Per Series A Preferred Share *($)*	2.0935	2.0935
Series C Preferred Shares:		
Series C dividend distribution *($000s)*	3,467	3,500
Per Series C Preferred Share *($)*	1.7500	1.7500

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

11. LOSS PER SHARE

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

Years ended December 31, *($000s, except for per share information)*	**2020**	**2019**
Net loss	57,821	55,392
Dividends on Series A Preferred Shares	4,187	4,187
Net loss to common shareholders	62,008	59,579
Weighted average common shares (000s):		
Weighted average basic common shares outstanding	265,936	265,930
Weighted average diluted common shares outstanding(1)	265,936	265,930
Net loss per common share:		
Basic	**$0.23**	**$0.22**
Diluted	**$0.23**	**$0.22**

(1) As the Corporation reported a loss in 2020 and 2019, the basic and diluted weighted average shares outstanding are the same for the periods and all stock options and performance warrants were considered anti-dilutive.

12. REVENUE

The following table sets forth Birchcliff's revenue by source:

Years ended December 31, *($000s)*	**2020**	**2019**
Light oil sales	68,498	118,182
Condensate[1]	102,397	127,816
NGLs sales[2]	38,123	36,488
Natural gas sales	319,473	330,973
P&NG sales[3][4]	528,491	613,459
Royalty income	14	100
P&NG revenue	**528,505**	**613,559**
Marketing revenue[5]	13,687	20,131
Revenue from contracts with customers	**542,192**	**633,690**

(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 year.

(4) Included in accounts receivable at December 31, 2020 was $58.1 million (December 31, 2019 - $60.0 million) in P&NG sales to be received from its marketers in respect of December 2020 production, which was subsequently received in January 2021.

(5) Marketing revenue represents the sale of commodities purchased from third parties less applicable fees. Birchcliff enters into certain marketing purchase and sales arrangements to reduce its take-or-pay fractionation fees associated with third-party commitments. For the year ended December 31, 2020, the Corporation had marketing purchases from third parties of $11.1 million (December 31, 2019 - $18.5 million).

13. OPERATING EXPENSE

The Corporation's operating expenses include all costs with respect to day-to-day production operations. The components of operating expenses are set forth below:

Years ended December 31, *($000s)*	**2020**	**2019**
Field operating costs	87,120	91,679
Recoveries	(4,763)	(3,776)
Operating expense	**82,357**	**87,903**

14. ADMINISTRATIVE EXPENSE

The components of administrative expenses are set forth below:

Years ended December 31, *($000s)*	**2020**	**2019**
Cash:		
Salaries and benefits[1]	33,404	32,335
Other[2]	11,633	14,057
General and administrative, gross	45,037	46,392
Operating overhead recoveries	(133)	(156)
Capitalized overhead[3]	(20,289)	(19,421)
General and administrative, net	24,615	26,815
Non-cash:		
Other compensation[4]	5,527	8,684
Capitalized compensation[3]	(3,098)	(4,406)
Other compensation, net	2,429	4,278
Administrative expense, net	**27,044**	**31,093**

(1) Includes salaries, benefits and other incentives 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, minor computer hardware and software and other business expenses incurred by the Corporation.

(3) Includes a portion of gross general and administrative expenses and other compensation directly attributable to the exploration and development activities of the Corporation, which have been capitalized.

(4) Includes stock-based compensation expense of $5.0 million and post-employment benefit expense of $0.5 million in 2020 (2019 - $8.2 million and $0.5 million, respectively) (Notes 15 & 17).

Gross compensation for the Corporation's executive officers and directors are comprised of the following:

Years ended December 31, *($000s)*	**2020**	**2019**
Salaries and benefits[(1)]	7,267	6,710
Stock-based compensation[(2)]	1,027	3,171
Post-employment benefit[(3)]	539	524
Executive officer's and director's compensation	**8,833**	**10,405**

(1) Includes salaries, benefits and other incentives paid to officers of the Corporation and directors' fees and benefits paid to the directors of the Corporation.

(2) Represents stock-based compensation expense associated with options and performance warrants granted to the executive officers.

(3) Represents service costs associated with post-employment benefits of the Corporation's executive officers (Note 15).

15. OTHER LIABILITIES

Post-Employment Benefit Obligation

The Corporation has established a post-employment benefit plan for eligible participants, which provides for post-employment benefits based upon the age at retirement and their period of service with Birchcliff (the "**Plan**"). The Plan is not funded and as such no plan assets exist. The post-employment benefit obligation arising from the Plan is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related liability. The expenses associated with the Plan are comprised of current and past service costs and the interest (accretion) on the unwinding of the present value of the post-employment benefit obligation.

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 December 31, 2020 (December 31, 2019 – $14.8 million).

A reconciliation of the discounted post-employment benefit obligation is set forth below:

As at December 31, *($000s)*	**2020**	**2019**
Balance, beginning	8,494	7,844
Obligations incurred[(1)]	539	524
Accretion	144	126
Balance, ending[(2)]	**9,177**	**8,494**
Current portion	-	-
Long-term portion	9,177	8,494

(1) Represents the 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 December 31, 2020 and December 31, 2019.

Lease Obligation

The Corporation's total undiscounted (inflated) amount of cash flow required to settle its lease obligations is approximately $20.0 million at December 31, 2020 (December 31, 2019 – $22.3 million) and is expected to be substantially settled by 2029. A reconciliation of the discounted lease obligation is set forth below:

As at December 31, *($000s)*	**2020**	**2019**
Balance, beginning	18,552	17,311
Obligations incurred	-	2,620
Lease payments	(2,292)	(2,172)
Accretion	770	793
Balance, ending[(1)]	**17,030**	**18,552**
Current portion	1,596	1,522
Long-term portion	15,434	17,030

(1) Birchcliff applied a discount rate of 4.7% to calculate the discounted value of the lease obligation.

16. FINANCE EXPENSE

The components of finance expenses are set forth below:

Years ended December 31, *($000s)*	**2020**	**2019**
Cash:		
Interest on credit facilities	26,067	25,073
Non-cash:		
Accretion[1]	2,815	3,517
Amortization of deferred financing fees	1,229	1,528
Finance expense	**30,111**	**30,118**

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

17. SHARE-BASED PAYMENT

Stock Option

At December 31, 2020, the Corporation's stock option plan (the "**Option Plan**") permitted the grant of options in respect of a maximum of 26,594,273 (December 31, 2019 – 26,593,523) common shares. At December 31, 2020, there remained available for issuance options in respect of 460,072 (December 31, 2019 – 3,110,155) common shares. For the stock options exercised during 2020, the weighted average common share trading price on the TSX was $1.50 (2019 – $2.69) per common share.

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

	2020		**2019**	
	Number	**Price** *($)*[1]	**Number**	**Price** *($)*[1]
Outstanding, beginning	23,483,368	4.28	15,847,570	5.74
Granted[2]	5,403,200	1.79	10,107,200	2.90
Exercised	(7,500)	(1.91)	(23,867)	(3.08)
Forfeited	(194,067)	(2.92)	(229,736)	(4.22)
Expired	(2,550,800)	(6.52)	(2,217,799)	(8.47)
Outstanding, ending	**26,134,201**	**3.56**	**23,483,368**	**4.28**

(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 2020 was $0.78 (2019 – $0.93). In determining the stock-based compensation expense for options issued during 2020, the Corporation applied a weighted average estimated forfeiture rate of 9% (2019 – 10%).

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

Years ended December 31,	**2020**	**2019**
Risk-free interest rate	0.4%	1.7%
Expected life *(years)*	4.2	4.1
Expected volatility	61.1%	50.8%
Dividend yield	1.2%	3.7%

A summary of the stock options outstanding and exercisable under the Option Plan at December 31, 2020 is set forth below:

Grant 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** *($)*
0.78	3.00	10,582,200	4.44	2.05	1,748,785	3.92	2.32
3.01	6.00	11,416,001	2.14	3.41	6,881,057	1.69	3.40
6.01	9.43	4,136,000	1.11	7.81	4,136,000	1.11	7.81
		26,134,201	**2.91**	**3.56**	**12,765,842**	**1.81**	**4.68**

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 December 31, 2020 (December 31, 2019 – 2,939,732) with an expiry date of January 31, 2025. Each performance warrant is exercisable at a price of $3.00 to purchase one common share of Birchcliff.

18. 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, 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. Except for the common share dividend reduction, there were no further changes in the Corporation's approach to capital management during 2020 and 2019.

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

As at December 31, *($000s)*	**2020**	**2019**
Maximum borrowing base limit[(1)]:		
Revolving term credit facilities	1,000,000	1,000,000
Principal amount utilized:		
Drawn revolving term credit facilities	(732,603)	(611,483)
Outstanding letters of credit[(2)]	(4,185)	(4,185)
	(736,788)	(615,668)
Unused credit	**263,212**	**384,332**

(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 oil and gas reserves. In connection with the semi-annual review of the borrowing base limit under the Credit Facilities, which was completed by the Corporation's syndicate of lenders in December 2020, the borrowing base limit was confirmed at $1.0 billion.

(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 December 31, *($000s)*	**2020**	**2019**	**% Change**
Shareholders' equity[(1)]	1,627,567	1,695,621	
Capital securities	39,930	49,845	
Shareholders' equity & capital securities	1,667,497	1,745,466	(4)%
Shareholders' equity & capital securities as a % of total capital[(2)]	69%	73%	
Working capital deficit[(3)]	30,579	23,405	
Drawn revolving term credit facilities	732,603	611,483	
Drawn debt	763,182	634,888	20%
Drawn debt as a % of total capital	31%	27%	
Total capital	**2,430,679**	**2,380,354**	**2%**

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

(2) Of the 69%, approximately 94% relates to common capital stock and 6% 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).

19. 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.

Credit Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial asset fails to meet its contractual obligation, and arises principally from Birchcliff's receivables from its oil and natural gas marketers. Cash is comprised of bank balances. Historically, the Corporation has not carried short-term investments.

Should this change in the future, counterparties will be selected based on credit ratings, management will monitor all investments to ensure a stable return and complex investment vehicles with higher risk will be avoided. The Corporation's exposure to cash credit risk at the statement of financial position date is low.

The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers. The following table illustrates the Corporation's maximum exposure for accounts receivable:

As at December 31, *($000s)*	**2020**	**2019**
Marketers[(1)]	58,075	59,963
Jointly owned assets	5,363	3,488
Other	1,253	1,296
Accounts receivable	**64,691**	**64,747**

(1) At December 31, 2020, approximately 29% was due from one marketer (2019 – 28%, one marketer). During 2020, the Corporation received 29%, 13% and 16% of its revenue, respectively, from three marketers (2019 – 29%, 13% and 15% of its revenue, respectively, from three marketers).

Typically, Birchcliff's maximum credit exposure from its marketers is revenue from its commodity sales. Receivables from marketers are normally collected on the 25th day of the month following production. Birchcliff mitigates the credit risk associated with these receivables by establishing marketing relationships with credit worthy purchasers, obtaining guarantees from their ultimate parent companies and obtaining letters of credit, if and as appropriate. The Corporation historically has not experienced any material collection issues with its marketers.

Birchcliff's accounts receivables are aged as follows:

As at December 31, *($000s)*	**2020**	**2019**
Current (less than 30 days)	58,057	58,676
30 to 60 days	3,477	3,208
61 to 90 days	2,392	1,926
Over 90 days	765	937
Accounts receivable	**64,691**	**64,747**

At December 31, 2020, approximately $0.8 million or 1.2% (2019 – $0.9 million or 1.4%) of Birchcliff's total accounts receivable are aged over 90 days. The majority of these accounts are due from various partners of jointly owned assets. Birchcliff attempts to mitigate the credit risk of receivables from jointly owned assets by obtaining pre-approval of significant capital expenditures. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with partners of jointly owned assets as disagreements occasionally arise that increases the potential for non-collection. The Corporation does not typically obtain collateral from partners of jointly owned assets; however, the Corporation does have the ability to withhold production or proceeds from the eventual sale of jointly owned assets in the event of non-payment. Birchcliff determined that the ultimate collection of accounts receivable were not in doubt and therefore no allowance to profit or loss was recorded in 2020 and 2019.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations associated with financial liabilities that are settled by cash as they become due. Birchcliff's approach to managing liquidity is to ensure, as much as possible, that it will have sufficient liquidity to meet its short-term and long-term financial obligations when due, under both normal and unusual conditions without incurring unacceptable losses or risking harm to the Corporation's reputation. Birchcliff actively manages its liquidity using cash and debt management programs. Strategies include monitoring forecast and actual cash flows from operating, financing, and investing activities and managing available credit and working capital under its Credit Facilities.

All of the Corporation's contractual financial liabilities can be settled in cash. Typically, the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations. To achieve this objective, the Corporation prepares annual capital expenditure budgets, which are approved by the Board of Directors and are regularly reviewed and updated as considered necessary. Petroleum and natural gas production is monitored daily and is used to provide monthly cash flow estimates. Further, the Corporation utilizes authorizations for expenditures on both operated and non-operated projects to manage capital expenditure. The Corporation also attempts to match its payment cycle with collection of petroleum and natural gas revenue on the 25th of each month. Should commodity prices deteriorate materially, Birchcliff may adjust its capital spending accordingly to ensure that it is able to service its short-term financial obligations.

To facilitate the capital expenditure program, the Corporation has an aggregate $1.0 billion reserve-based bank credit facilities at the end of 2020 (2019 – $1.0 billion) which are reviewed semi-annually by its lenders. The principal amount drawn under the Corporation's total credit facilities including letters of credit at December 31, 2020 was $736.8 million (2019 – $615.7 million) and $263.2 million in unused credit was available at the end of 2020 (2019 – $384.3 million) to fund future obligations.

The following table details the undiscounted cash flows of the Corporation's significant contractual financial liabilities at December 31, 2020 in the period they are due:

($000s)	**2021**	**2022**	**2023-2025**	**Thereafter**
Accounts payable and accrued liabilities	97,507	-	-	-
Drawn revolving credit facilities	-	732,603	-	-
Capital securities	39,930	-	-	-
Lease payments	3,008	3,174	7,795	6,061
Financial liabilities	**140,445**	**735,777**	**7,795**	**6,061**

Market Risk

Market risk is the risk that changes in market conditions, such as commodity prices, exchange rates and interest rates, will affect the Corporation's net income or the value of its financial instruments, if any. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. These risks are consistent with prior years. All risk management transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

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 December 31, 2020, 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 and realized upon settlement.

At December 31, 2020, 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	Liability *($000s)*
Natural gas	AECO 7A basis swap[(2)]	30,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2023	NYMEX HH less US$1.298/MMBtu	22,891
Natural gas	AECO 7A basis swap[(2)]	10,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2023	NYMEX HH less US$1.320/MMBtu	7,910
Natural gas	AECO 7A basis swap[(2)]	30,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2023	NYMEX HH less US$1.330/MMBtu	24,315
Natural gas	AECO 7A basis swap[(2)]	15,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2024	NYMEX HH less US$1.185/MMBtu	12,055
Natural gas	AECO 7A basis swap[(2)]	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2024	NYMEX HH less US$1.200/MMBtu	4,130
Natural gas	AECO 7A basis swap[(2)]	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2024	NYMEX HH less US$1.200/MMBtu	4,176
Natural gas	AECO 7A basis swap[(2)]	12,500 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.108/MMBtu	10,638
Natural gas	AECO 7A basis swap[(2)]	10,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.115/MMBtu	8,840
Natural gas	AECO 7A basis swap[(2)]	10,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.050/MMBtu	7,255
Natural gas	AECO 7A basis swap[(2)]	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.178/MMBtu	5,099
Natural gas	AECO 7A basis swap[(2)]	10,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.175/MMBtu	10,056
Natural gas	AECO 7A basis swap[(2)]	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.190/MMBtu	5,286
Natural gas	AECO 7A basis swap[(2)]	30,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.114/MMBtu	11,143
Natural gas	AECO 7A basis swap[(2)]	35,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.081/MMBtu	11,458
Natural gas	AECO 7A basis swap[(2)]	5,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.013/MMBtu	1,369
Natural gas	AECO 7A basis swap[(2)]	20,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US$1.005/MMBtu	3,119
Natural gas	AECO 7A basis swap[(2)]	5,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US$0.990/MMBtu	707
				Fair value	**150,447**

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

(2) Birchcliff sold AECO basis swap.

At December 31, 2020 if the future AECO/NYMEX basis changed by US$0.10/MMBtu, with all other variables held constant, after-tax net loss in 2020 would have changed by approximately $24.7 million.

There were no financial derivative contracts entered into subsequent to December 31, 2020.

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 December 31, 2020 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	Jan. 1, 2021 – Dec. 31, 2023	NYMEX HH less US$1.205/MMBtu

(1) Birchcliff sold AECO basis swap.

There were no physical delivery contracts entered into subsequent to December 31, 2020.

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 directly exposed to interest rate risk.

At December 31, 2020, Birchcliff had the following financial derivative contracts in place in order to manage interest rate risk:

Type of Contract	Index	Remaining Term[1]	Notional Amount *($million)*	Fixed Rate *(%)*	Fair Value Liability *($000s)*
Interest rate swap	One-month banker's acceptance – CDOR[2]	Jan. 1, 2021 – Mar. 1, 2024	350	2.215	**17,589**

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

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

At December 31, 2020 if the one-month banker's acceptance CDOR index changed by 0.10%, with all other variables held constant, after-tax net loss in 2020 would have changed by approximately $0.9 million.

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

Years ended December 31, *($000s)*	**2020**	**2019**
Realized gain (loss) on derivatives	(59,665)	13,673
Unrealized loss on derivatives	(35,446)	(192,765)

The fair value liability of the Corporation's financial derivative contracts at December 31, 2020 was $168.0 million (2019 – $132.6 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 year ended December 31, 2020.

Fair Value of Financial Instruments

Birchcliff's financial instruments include cash, accounts receivable, deposits, investment in securities, accounts payable and accrued liabilities, financial derivative contracts, outstanding revolving term credit facilities and capital securities. Substantially all of Birchcliff's financial instruments are transacted in active markets. Financial instruments carried at fair value are assessed using the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The carrying value and fair value of the Corporation's financial assets and liabilities at December 31, 2020 are set forth below:

($000s)	**Carrying Value**	**Fair Value**
Loans and receivables:		
Cash	60	60
Accounts receivable	64,691	64,691
Deposits	1,629	1,629
Investment in securities(1)	1,805	1,805
Other liabilities:		
Accounts payable and accrued liabilities	97,507	97,507
Capital Securities	39,930	39,131
Drawn revolving term credit facilities	732,603	732,603
Financial derivatives(2)	168,036	168,036

(1) Investment in securities are fair valued based on level 3.

(2) Financial derivative contracts are fair valued based on level 2.

20. COMMITMENTS AND CONTINGENCIES

The Corporation enters into contracts and commitments in the normal course of operations. The following table lists Birchcliff's commitments at December 31, 2020:

($000s)	**2021**	**2022**	**2023 - 2025**	**Thereafter**
Operating commitments(1)	1,996	1,996	5,989	4,159
Firm transportation and fractionation(2)	136,813	130,858	307,912	183,269
Natural gas processing(3)	17,155	17,155	51,512	120,179
Commitments	**155,964**	**150,009**	**365,413**	**307,607**

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

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

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

The Corporation may be involved in litigation and disputes arising in the normal course of operations. Management is of the opinion that any potential litigation will not have a material adverse impact on the Corporation's financial position or results of operations at December 31, 2020.

21. SUPPLEMENTARY CASH FLOW INFORMATION

Years ended December 31, *($000s)*	**2020**	**2019**
Provided by (used in):		
Accounts receivable	56	(12,806)
Prepaid expenses and deposits	2,209	(999)
Accounts payable and accrued liabilities	4,913	16,040
Dividend tax	(3,075)	(3,075)
	4,103	**(840)**
Provided by (used in):		
Operating	5,977	(5,153)
Investing	(1,874)	4,313
	4,103	**(840)**