BIRCHCLIFF
ENERGY

QUARTERLY REPORT | Q2 2022

**BIRCHCLIFF ENERGY LTD. ANNOUNCES RECORD QUARTERLY ADJUSTED FUNDS FLOW AND FREE FUNDS FLOW, SIGNIFICANT DEBT REDUCTION AND EXCELLENT Q2 2022 RESULTS**

**Calgary, Alberta (August 10, 2022) –** Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") (TSX: BIR) is pleased to announce its Q2 2022 financial and operational results, which included record quarterly adjusted funds flow and free funds flow, resulting in a significant reduction in the Corporation's total debt.

"Birchcliff had a record quarter in Q2 2022," stated Jeff Tonken, Chief Executive Officer of Birchcliff. "We remain confident that Birchcliff will reach zero total debt and be in a cash surplus position in Q4 2022, based on the strength of forward commodity prices. We continue to target increasing our annual common share dividend in 2023 to at least $0.80 per share ($212 million annually), subject to commodity prices and the approval of our board of directors. We have initiated our formal budgeting process for 2023 and plan on providing a corporate update and releasing our preliminary 2023 budget on October 13, 2022."

Mr. Tonken continued: "Birchcliff's quarterly average production was 73,746 boe/d, resulting in record quarterly adjusted funds flow(1) of $285.5 million ($1.08 per basic common share(2)) and record quarterly free funds flow(1) of $201.3 million ($0.76 per basic common share(2)). To illustrate this accomplishment, our free funds flow in Q2 2022 was $17.6 million higher than our adjusted funds flow in Q1 2022, a quarterly record at the time. These results allowed us to significantly reduce our total debt(3) at June 30, 2022 to $266.9 million, a decrease of $504.0 million (65%) from June 30, 2021 and $142.1 million (35%) from March 31, 2022."

## Q2 2022 HIGHLIGHTS

- Achieved quarterly average production of 73,746 boe/d, which included the impact of planned turnarounds and maintenance activities, a 2% decrease from Q2 2021. Liquids accounted for 17% of Birchcliff's total production in Q2 2022 as compared to 22% in Q2 2021.
- Generated record quarterly adjusted funds flow of $285.5 million, or $1.08 per basic common share, a 217% and 218% increase, respectively, from Q2 2021. Cash flow from operating activities was $273.7 million, a 238% increase from Q2 2021.
- Delivered record quarterly free funds flow of $201.3 million, or $0.76 per basic common share, an increase of $192.0 million from Q2 2021.
- Earned record quarterly net income to common shareholders of $213.9 million, or $0.81 per basic common share, a 388% and 406% increase, respectively, from Q2 2021.
- F&D capital expenditures were $84.2 million in Q2 2022, which included drilling 12 (12.0 net) wells and bringing 10 (10.0 net) wells on production.
- Significantly reduced total debt at June 30, 2022 to $266.9 million, a reduction of $504.0 million (65%) from June 30, 2021.
- Achieved an operating netback(2) of $41.73/boe, a 143% increase from Q2 2021.
- Achieved adjusted funds flow per boe(2) of $42.55, a 223% increase from Q2 2021.
- Realized an operating expense(4) of $3.40/boe, an 8% increase from Q2 2021.
- In Q2 2022, Birchcliff returned $46.0 million to common shareholders through dividends and purchases under its normal course issuer bid (the "**NCIB**"), including the doubling of its common share dividend and the purchase of

(1) Non-GAAP financial measure. See *"Non-GAAP and Other Financial Measures"*.
(2) Non-GAAP ratio. See *"Non-GAAP and Other Financial Measures"*.
(3) Capital management measure. See *"Non-GAAP and Other Financial Measures"*.
(4) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"*.

4,211,596 common shares under the NCIB at an average price of $9.67 per share (before fees). In the first six months of 2022, Birchcliff returned $57.4 million to common shareholders through dividends and the purchase of 5,514,792 common shares under the NCIB at an average price of $8.96 per share (before fees).

Birchcliff's unaudited interim condensed financial statements for the three and six months ended June 30, 2022 and related management's discussion and analysis will be available on its website at www.birchcliffenergy.com and on SEDAR at www.sedar.com.

*This press release contains forward-looking statements within the meaning of applicable securities laws. For further information regarding the forward-looking statements contained herein, see "Advisories – Forward-Looking Statements". With respect to the disclosure of Birchcliff's production contained in this press release, see "Advisories – Production". In addition, this press release uses various "non-GAAP financial measures", "non-GAAP ratios", "supplementary financial measures" and "capital management measures" as such terms are defined in National Instrument 52-112 – Non-GAAP and Other Financial Measures Disclosure ("**NI 52-112**"). Non-GAAP financial measures and non-GAAP ratios are not standardized financial measures under GAAP and might not be comparable to similar financial measures disclosed by other issuers where similar terminology is used. For further information regarding the non-GAAP and other financial measures used in this press release, see "Non-GAAP and Other Financial Measures".*

## Q2 2022 FINANCIAL AND OPERATIONAL SUMMARY

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **OPERATING** | | | | |
| Average production | | | | |
| Light oil *(bbls/d)* | 1,855 | 2,766 | 2,111 | 3,059 |
| Condensate *(bbls/d)* | 4,500 | 6,070 | 4,647 | 5,770 |
| NGLs *(bbls/d)* | 6,349 | 7,647 | 7,158 | 8,187 |
| Natural gas *(Mcf/d)* | 366,256 | 352,694 | 365,779 | 348,897 |
| **Total *(boe/d)*** | **73,746** | **75,265** | **74,879** | **75,166** |
| Average realized sales price *(CDN$)*(1)(2) | | | | |
| Light oil *(per bbl)* | 135.91 | 76.50 | 124.50 | 71.33 |
| Condensate *(per bbl)* | 138.28 | 81.90 | 129.70 | 78.28 |
| NGLs *(per bbl)* | 48.26 | 25.27 | 45.66 | 24.96 |
| Natural gas *(per Mcf)* | 8.61 | 3.48 | 7.02 | 3.50 |
| **Total *(per boe)*** | **58.75** | **28.27** | **50.19** | **27.87** |
| **NETBACK AND COST *($/boe)***(2) | | | | |
| Petroleum and natural gas revenue(1) | 58.75 | 28.27 | 50.19 | 27.87 |
| Royalty expense | (7.75) | (2.44) | (6.06) | (2.08) |
| Operating expense | (3.40) | (3.14) | (3.44) | (3.16) |
| Transportation and other expense(3) | (5.87) | (5.50) | (5.65) | (5.51) |
| **Operating netback**(3) | **41.73** | **17.19** | **35.04** | **17.12** |
| G&A expense, net | (1.15) | (0.88) | (1.14) | (0.90) |
| Interest expense | (0.50) | (1.21) | (0.49) | (1.21) |
| Realized gain (loss) on financial instruments | 2.49 | (1.96) | 1.21 | (2.12) |
| Other income (expense) | (0.02) | 0.03 | - | 0.19 |
| **Adjusted funds flow**(3) | **42.55** | **13.17** | **34.62** | **13.08** |
| Depletion and depreciation expense | (7.52) | (7.49) | (7.50) | (7.48) |
| Unrealized gain on financial instruments | 7.07 | 3.12 | 6.06 | 1.01 |
| Other non-cash (expense) income(4) | (0.38) | (0.24) | (0.22) | 0.01 |
| Dividends on preferred shares | (0.26) | (0.25) | (0.26) | (0.25) |
| Deferred income tax expense | (9.59) | (1.91) | (7.64) | (1.52) |
| **Net income to common shareholders** | **31.87** | **6.40** | **25.06** | **4.85** |
| **FINANCIAL** | | | | |
| Petroleum and natural gas revenue *($000s)*(1) | 394,315 | 193,643 | 680,291 | 379,252 |
| Cash flow from operating activities *($000s)* | 273,711 | 81,013 | 427,863 | 163,621 |
| Adjusted funds flow *($000s)*(5) | 285,535 | 90,188 | 469,234 | 178,008 |
| Per basic common share *($)*(3) | 1.08 | 0.34 | 1.77 | 0.67 |
| Free funds flow *($000s)*(5) | 201,288 | 9,301 | 296,705 | 1,281 |
| Per basic common share *($)*(3) | 0.76 | 0.03 | 1.12 | - |
| Net income to common shareholders *($000s)* | 213,855 | 43,854 | 339,647 | 66,019 |
| Per basic common share *($)* | 0.81 | 0.16 | 1.28 | 0.25 |
| End of period basic common shares *(000s)* | 265,204 | 266,953 | 265,204 | 266,953 |
| Weighted average basic common shares *(000s)* | 265,440 | 266,231 | 265,485 | 266,110 |
| Dividends on common shares *($000s)* | 5,310 | 1,333 | 7,968 | 2,663 |
| Dividends on preferred shares *($000s)* | 1,715 | 1,725 | 3,432 | 3,471 |
| F&D capital expenditures *($000s)*(6) | 84,247 | 80,887 | 172,529 | 176,727 |
| Total capital expenditures *($000s)*(5) | 86,150 | 81,160 | 174,274 | 177,785 |
| Long-term debt *($000s)* | 276,030 | 720,920 | 276,030 | 720,920 |
| Total debt *($000s)*(7) | 266,894 | 770,897 | 266,894 | 770,897 |

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

(2) Average realized sales prices and the component values of netback and cost set forth in the table above are supplementary financial measures unless otherwise indicated. See *"Non-GAAP and Other Financial Measures"*.

(3) Non-GAAP ratio. See *"Non-GAAP and Other Financial Measures"*.

(4) Includes non-cash items such as compensation, accretion, amortization of deferred financing fees and other gains and losses.

(5) Non-GAAP financial measure. See *"Non-GAAP and Other Financial Measures"*.

(6) See *"Advisories – F&D Capital Expenditures"*.

(7) Capital management measure. See *"Non-GAAP and Other Financial Measures"*.

## OUTLOOK AND GUIDANCE

### 2023 Budgeting Process

The Corporation has initiated its formal budgeting process for 2023, which will be geared towards maximizing Birchcliff's ability to generate free funds flow, increasing shareholder returns and fully utilizing the processing capacity of the Corporation's existing infrastructure. Birchcliff plans to provide a corporate update and release its preliminary 2023 budget on October 13, 2022 after the completion of the Corporation's preliminary 2023 budget planning process.

### Updated 2022 Guidance

Birchcliff continues to expect to reach zero total debt and be in a cash surplus position in Q4 2022, which takes into account the redemption of all of its issued and outstanding cumulative redeemable preferred shares, Series A (the "**Series A Preferred Shares**") and cumulative redeemable preferred shares, Series C (the "**Series C Preferred Shares**") on September 30, 2022 for an aggregate redemption price of approximately $88.2 million, which redemption was announced by the Corporation on August 4, 2022. Birchcliff is able to take full advantage of strong commodity prices because it has no fixed price commodity hedges in place and it does not currently intend to hedge any future production.

Birchcliff is updating its 2022 guidance to reflect the current commodity price environment and the impacts of inflation on its business. The Corporation anticipates significant production additions in the second half of 2022 and is maintaining its previous guidance for annual average production at 78,000 to 80,000 boe/d. Significant changes to Birchcliff's guidance include the following:

- Adjusted funds flow for 2022 is now anticipated to be $1.1 billion, primarily as a result of the revised commodity price forecast.
- F&D capital expenditures in 2022 are now anticipated to be $275 million to $285 million, primarily as a result of increased inflation and the procurement of certain long-lead capital items to prepare for the efficient execution of Birchcliff's 2023 capital program.
- Free funds flow for 2022 is now anticipated to be $830 million to $840 million and excess free funds flow for 2022 is now anticipated to be $810 million to $820 million, both as a result of the changes to Birchcliff's adjusted funds flow and F&D capital expenditures guidance.
- Birchcliff is now forecasting that it will have a surplus of $160 million to $170 million at December 31, 2022.
- Average royalty expense for 2022 is now anticipated to be $6.60/boe to $6.80/boe, primarily as a result of the revised commodity price forecast.
- Average operating expense for 2022 is now anticipated to be $3.30/boe to $3.50/boe, primarily as a result of anticipated inflationary pressures continuing to impact power and other fuel supply costs.

The following table sets forth Birchcliff's updated and previous guidance and commodity price assumptions for 2022, as well as its free funds flow sensitivity:

***2022 Guidance and Commodity Price Assumptions***

| | Updated 2022 guidance and assumptions – August 10, 2022[1] | Previous 2022 guidance and assumptions – May 11, 2022 | Original 2022 guidance and assumptions – January 19, 2022 |
|---|---|---|---|
| **Production** | | | |
| Annual average production *(boe/d)* | 78,000 – 80,000 | 78,000 – 80,000 | 78,000 – 80,000 |
| % Light oil | 3% | 3% | 3% |
| % Condensate | 6% | 7% | 7% |
| % NGLs | 10% | 10% | 10% |
| % Natural gas | 81% | 80% | 80% |
| Q4 average production *(boe/d)* | 81,000 – 83,000 | 81,000 – 83,000 | 81,000 – 83,000 |
| | | | |
| **Average Expenses** *($/boe)* | | | |
| Royalty[2] | 6.60 – 6.80 | 7.10 – 7.30 | 3.10 – 3.30 |
| Operating[2] | 3.30 – 3.50 | 3.15 – 3.35 | 3.15 – 3.35 |
| Transportation and other[3] | 5.30 – 5.50 | 5.20 – 5.40 | 4.90 – 5.10 |
| Interest[2] | 0.30 – 0.50 | 0.20 – 0.40 | 0.50 – 0.60 |

| | Updated 2022 guidance and assumptions – August 10, 2022[1] | Previous 2022 guidance and assumptions – May 11, 2022 | Original 2022 guidance and assumptions – January 19, 2022 |
|---|---|---|---|
| **Adjusted Funds Flow**[4] | $1.115 billion | $1.180 billion | $0.590 billion |
| **F&D Capital Expenditures** *(millions)* | $275 – $285[5] | $240 – $260 | $240 – $260 |
| **Free Funds Flow** *(millions)*[4] | $830 – $840 | $920 – $940 | $330 – $350 |
| **Excess Free Funds Flow** *(millions)*[4][6] | $810 – $820 | $900 – $920 | N/A |
| **Surplus (Total Debt) at Year End** *(millions)*[7] | $160 – $170[8] | $260 – $280 | ($175 – $195) |
| **Natural Gas Market Exposure** | | | |
| AECO exposure as a % of total natural gas production | 16% | 19% | 19% |
| Dawn exposure as a % of total natural gas production | 42% | 42% | 42% |
| NYMEX HH exposure as a % of total natural gas production | 38% | 38% | 38% |
| Alliance exposure as a % of total natural gas production | 4% | 1% | 1% |
| **Commodity Prices** | | | |
| Average WTI price *(US$/bbl)* | 99.00 | 99.50 | 76.00 |
| Average WTI-MSW differential *(CDN$/bbl)* | 3.60 | 3.10 | 5.00 |
| Average AECO price *(CDN$/GJ)* | 5.60 | 6.50 | 3.50 |
| Average Dawn price *(US$/MMBtu)* | 6.65 | 6.85 | 3.90 |
| Average NYMEX HH price *(US$/MMBtu)* | 6.95 | 6.95 | 4.00 |
| Exchange rate *(CDN$ to US$1)* | 1.28 | 1.28 | 1.26 |

***Forward Six Months' Free Funds Flow Sensitivity***[9]

| Forward six months' sensitivity | Estimated change to 2022 free funds flow *(millions)* |
|---|---|
| Change in WTI US$1.00/bbl | $1.8 |
| Change in NYMEX HH US$0.10/MMBtu | $2.4 |
| Change in Dawn US$0.10/MMBtu | $2.9 |
| Change in AECO CDN$0.10/GJ | $1.3 |
| Change in CDN/US exchange rate CDN$0.01 | $4.1 |

(1) Birchcliff's updated guidance for its production commodity mix, adjusted funds flow, free funds flow, excess free funds flow, surplus and natural gas market exposure in 2022 is based on an annual average production rate of 79,000 boe/d, which is the mid-point of Birchcliff's annual average production guidance range for 2022. For further information regarding the risks and assumptions relating to the Corporation's guidance, see *"Advisories – Forward-Looking Statements"*.

(2) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"*.

(3) Non-GAAP ratio. See *"Non-GAAP and Other Financial Measures"*.

(4) Non-GAAP financial measure. See *"Non-GAAP and Other Financial Measures"*.

(5) Birchcliff's updated estimate of F&D capital expenditures excludes any net potential acquisitions and dispositions and the capitalized portion of annual cash incentive payments that have not been approved by Birchcliff's board of directors. See *"Advisories – F&D Capital Expenditures"*.

(6) Excess free funds flow is defined as free funds flow less common share dividends paid. This measure was not disclosed on January 19, 2022.

(7) Capital management measure. See *"Non-GAAP and Other Financial Measures"*.

(8) Surplus is equivalent to adjusted working capital surplus as disclosed in the Corporation's financial statements (see *"Non-GAAP and Other Financial Measures"*). The updated estimate of surplus at December 31, 2022 is expected to be largely comprised of cash on hand plus accounts receivable less accounts payable at the end of the year. Birchcliff previously referred to "surplus" as "cash".

(9) Illustrates the expected impact of changes in commodity prices and the CDN/US exchange rate on the Corporation's estimate of free funds flow for 2022 of $830 million to $840 million. The sensitivity is based on the updated commodity price and exchange rate assumptions set forth in the table above. The calculated impact on free funds flow is only applicable within the limited range of change indicated. Calculations are performed independently and may not be indicative of actual results. Actual results may vary materially when multiple variables change at the same time and/or when the magnitude of the change increases.

## Q2 2022 FINANCIAL AND OPERATIONAL RESULTS

### Production

Birchcliff's production averaged 73,746 boe/d in Q2 2022, a 2% decrease from 75,265 boe/d in Q2 2021. The decrease in production was primarily due to a major scheduled turnaround in May and June 2022 at AltaGas' deep-cut sour gas processing facility in Gordondale (the "**AltaGas Facility**") that decreased quarterly liquids and natural gas production in Gordondale by approximately 3,600 boe/d. Production was positively impacted by incremental production volumes from the new Montney/Doig wells brought on production since Q2 2021, including the new 10-well (01-08) pad in Pouce

Coupe brought on production in May 2022 and the new 6-well (13-29) pad in Pouce Coupe brought on production in February 2022, partially offset by natural production declines.

Birchcliff is on target to meet is annual average production guidance of 78,000 to 80,000 boe/d due to significant production additions expected in the second half of 2022.

Liquids accounted for 17% of Birchcliff's total production in Q2 2022 as compared to 22% in Q2 2021, with a liquids-to-gas ratio in Q2 2022 of 34.7 bbls/MMcf (50% high-value light oil and condensate). The decrease in liquids weighting was primarily due to a combination of lower liquids production in Gordondale as a result of the AltaGas Facility turnaround, the Corporation specifically targeting horizontal natural gas wells in liquids-rich zones in the Pouce Coupe and Gordondale areas since Q2 2021 and natural production declines from light oil and liquids-rich natural gas wells producing since Q2 2021.

### Adjusted Funds Flow and Cash Flow From Operating Activities

Birchcliff achieved record quarterly adjusted funds flow of $285.5 million, or $1.08 per basic common share, in Q2 2022, a 217% and 218% increase, respectively, from $90.2 million and $0.34 per basic common share in Q2 2021. Birchcliff's cash flow from operating activities was $273.7 million in Q2 2022, a 238% increase from $81.0 million in Q2 2021. The increases were primarily due to higher reported petroleum and natural gas revenue and a realized gain on financial instruments of $16.7 million in Q2 2022 as compared to a realized loss on financial instruments of $13.4 million in Q2 2021, partially offset by a higher royalty expense in Q2 2022. The increases in petroleum and natural gas revenue and royalty expense were largely the result of a 108% increase in the average realized sales price received for Birchcliff's production in Q2 2022. The Corporation's average realized sales price in Q2 2022 benefited from significant increases in benchmark oil and natural gas prices since Q2 2021. See *"Q2 2022 Financial and Operational Results – Commodity Prices"*.

### Free Funds Flow

Birchcliff delivered record quarterly free funds flow of $201.3 million, or $0.76 per basic common share, in Q2 2022, as compared to $9.3 million and $0.03 per basic common share in Q2 2021. The increases were primarily due to significantly higher adjusted funds flow and comparable F&D capital expenditures in Q2 2022 as compared to Q2 2021.

### Net Income to Common Shareholders

Birchcliff earned record quarterly net income to common shareholders of $213.9 million, or $0.81 per basic common share, in Q2 2022, a 388% and 406% increase, respectively, from $43.9 million and $0.16 per basic common share in Q2 2021. The increases were primarily due to higher adjusted funds flow and a higher unrealized mark-to-market gain on financial instruments, partially offset by an increase in deferred income tax expense in Q2 2022. Birchcliff recorded an unrealized mark-to-market gain on financial instruments of $47.5 million in Q2 2022, as compared to $21.3 million in Q2 2021.

### Operating Netback and Selected Cash Costs

In Q2 2022, Birchcliff's operating netback was $41.73/boe, a 143% increase from $17.19/boe in Q2 2021. The increase was primarily due to higher per boe petroleum and natural gas revenue, partially offset by a higher per boe royalty expense, both of which were both largely impacted by a 108% increase in the average realized sales price received for Birchcliff's production in Q2 2022.

The following table sets forth Birchcliff's selected cash costs for the periods indicated:

| | | | **Three months ended June 30,** |
|---|---|---|---|
| *($/boe)* | **2022** | **2021** | **% Change** |
| Royalty expense(1) | 7.75 | 2.44 | 218% |
| Operating expense(1) | 3.40 | 3.14 | 8% |
| Transportation and other expense(2) | 5.87 | 5.50 | 7% |
| G&A expense, net(1) | 1.15 | 0.88 | 31% |
| Interest expense(1) | 0.50 | 1.21 | (59%) |

(1) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"*.

(2) Non-GAAP ratio. See *"Non-GAAP and Other Financial Measures"*.

Royalty expense per boe increased by 218% from Q2 2021, primarily due to the significant increase in the average realized sales price received for Birchcliff's liquids and natural gas production in Q2 2022.

Operating expense per boe increased by 8% from Q2 2021, primarily due to higher inflationary pressures on power and other fuel supply costs which together increased by 45% on a per boe basis. Operating expense per boe was also negatively impacted by higher field labour costs, road and lease maintenance costs, municipal property taxes and regulatory fees, and was partially offset by lower third-party natural gas processing fees resulting from the turnaround at the AltaGas Facility in Q2 2022.

Transportation and other expense per boe increased by 7% from Q2 2021, primarily due to higher natural gas transportation costs which resulted from increased natural gas production and higher firm NGTL tolling charges. Notwithstanding lower liquids production, liquids transportation and fractionation costs also increased in Q2 2022, primarily due to inflationary pressures that resulted in higher pipeline tariffs, higher trucking and hauling costs and higher variable operating, power, fuel and service costs.

Net G&A expense per boe increased by 31% from Q2 2021, primarily due to higher employee-related expenses, higher corporate costs due to the easing of Birchcliff's COVID-19 restrictions and higher general business expenditures due to inflationary pressures.

Interest expense per boe decreased by 59% from Q2 2021, primarily due to a decrease in the Corporation's average effective interest rate and a lower average outstanding balance under its extendible revolving credit facilities (the "**Credit Facilities**") in Q2 2022.

### Debt and Credit Facilities

Total debt at June 30, 2022 was $266.9 million, a decrease of 65% from $770.9 million at June 30, 2021. At June 30, 2022, Birchcliff had long-term bank debt under the Credit Facilities of $276.0 million (June 30, 2021: $720.9 million) from available Credit Facilities of $850.0 million (June 30, 2021: $850.0 million), leaving $569.4 million of unutilized credit capacity after adjusting for outstanding letters of credit and unamortized fees.

During Q2 2022, Birchcliff's syndicate of lenders completed its regular semi-annual review of the borrowing base limit under the Credit Facilities. As a result of this review, the agreement governing the Credit Facilities was amended effective May 3, 2022 to extend the maturity dates of each of the syndicated extendible revolving term credit facility and the extendible revolving working capital facility from May 11, 2024 to May 11, 2025. In addition, the lenders confirmed the borrowing base limit at $850.0 million. The Credit Facilities do not contain any financial maintenance covenants.

### Commodity Prices

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

| | | | Three months ended June 30, |
|---|---|---|---|
| | **2022** | **2021** | **% Change** |
| Light oil – WTI Cushing *(US$/bbl)* | 109.08 | 66.07 | 65% |
| Light oil – MSW (Mixed Sweet) *(CDN$/bbl)* | 137.55 | 76.77 | 79% |
| Natural gas – NYMEX HH *(US$/MMBtu)*(1) | 7.17 | 2.83 | 153% |
| Natural gas – AECO 5A Daily *(CDN$/GJ)* | 6.86 | 2.98 | 130% |
| Natural gas – AECO 7A Month Ahead *(US$/MMBtu)*(1) | 4.94 | 2.32 | 113% |
| Natural gas – Dawn Day Ahead *(US$/MMBtu)*(1) | 7.21 | 2.80 | 158% |
| Natural gas – ATP 5A Day Ahead *(CDN$/GJ)* | 7.48 | 2.68 | 179% |
| Exchange rate *(CDN$ to US$1)* | 1.2688 | 1.2281 | 3% |
| Exchange rate *(US$ to CDN$1)* | 0.7881 | 0.8143 | (3%) |

(1) See "*Advisories – MMBtu Pricing Conversions*".

## Marketing and Natural Gas Market Diversification

Birchcliff's physical natural gas sales exposure primarily consists of the AECO, Dawn and Alliance markets. In addition, the Corporation has various financial instruments outstanding that provide it with exposure to NYMEX HH pricing.

The following table details Birchcliff's effective sales, production and average realized sales price for natural gas and liquids for Q2 2022, after taking into account the Corporation's financial instruments:

| Three months ended June 30, 2022 | | | | | | |
|---|---|---|---|---|---|---|
| | **Effective sales** *(CDN$000s)* | **Percentage of total sales** *(%)* | **Effective production** *(per day)* | **Percentage of total natural gas production** *(%)* | **Percentage of total corporate production** *(%)* | **Effective average realized sales price** *(CDN$)* |
| **Market** | | | | | | |
| AECO(1)(2)(3) | 48,133 | 11% | 67,748 Mcf | 18% | 15% | 7.81/Mcf |
| Dawn(4) | 141,145 | 33% | 159,817 Mcf | 44% | 36% | 9.71/Mcf |
| NYMEX HH(1)(2)(5) | 136,627 | 32% | 138,691 Mcf | 38% | 32% | 10.83/Mcf |
| **Total natural gas(1)** | **325,905** | **76%** | **366,256 Mcf** | **100%** | **83%** | **9.78/Mcf** |
| Light oil | 22,935 | 5% | 1,855 bbls | | 2% | 135.91/bbl |
| Condensate | 56,620 | 13% | 4,500 bbls | | 6% | 138.28/bbl |
| NGLs | 27,887 | 6% | 6,349 bbls | | 9% | 48.26/bbl |
| **Total liquids** | **107,442** | **24%** | **12,704 bbls** | | **17%** | **92.94/bbl** |
| **Total corporate(1)** | **433,347** | **100%** | **73,746 boe** | | **100%** | **64.57/boe** |

(1) Effective sales and effective average realized sales price are non-GAAP financial measures and non-GAAP ratios, respectively, as identified in the above table. See "*Non-GAAP and Other Financial Measures*".

(2) AECO sales and production that effectively received NYMEX HH pricing under Birchcliff's long-term physical NYMEX HH/AECO 7A basis swap contracts have been included as effective sales and production in the NYMEX HH market. Birchcliff sold physical NYMEX HH/AECO 7A basis swaps for 5,000 MMBtu/d at an average contract price of NYMEX HH less US$1.205/MMBtu during Q2 2022.

(3) Birchcliff has short-term physical sales agreements with third-party marketers to sell and deliver into the Alliance pipeline system. All of Birchcliff's short-term physical Alliance sales and production during Q2 2022 received AECO premium pricing and have therefore been included as effective sales and production in the AECO market.

(4) Birchcliff has agreements for the firm service transportation of an aggregate of 175,000 GJ/d of natural gas on TransCanada PipeLines' Canadian Mainline, whereby natural gas is transported to the Dawn trading hub in Southern Ontario.

(5) NYMEX HH sales and production includes financial and physical NYMEX HH/AECO 7A basis swaps for 152,500 MMBtu/d at an average contract price of NYMEX HH less US$1.227/MMBtu during Q2 2022. Birchcliff's effective average realized sales price for NYMEX HH of CDN$10.83/Mcf (US$7.76/MMBtu) was determined on a gross basis before giving effect to the average NYMEX HH/AECO 7A fixed contract basis differential price of CDN$1.70/Mcf (US$1.23/MMBtu). After giving effect to the NYMEX HH/AECO 7A basis contact price, Birchcliff's effective average realized net sales price for NYMEX HH was CDN$9.13/Mcf (US$6.53/MMBtu) in Q2 2022.

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

| Three months ended June 30, 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Natural gas sales(1)** *(CDN$000s)* | **Percentage of natural gas sales** *(%)* | **Natural gas production** *(Mcf/d)* | **Percentage of natural gas production** *(%)* | **Average realized natural gas sales price(1)(2)** *(CDN$/Mcf)* | **Natural gas transportation costs(2)(3)** *(CDN$/Mcf)* | **Natural gas sales netback(2)(4)** *(CDN$/Mcf)* |
| AECO | 131,062 | 46 | 186,717 | 51 | 7.71 | 0.45 | 7.35 |
| Dawn | 141,145 | 49 | 159,817 | 44 | 9.71 | 1.50 | 8.20 |
| Alliance(5) | 14,648 | 5 | 19,722 | 5 | 8.16 | - | 8.16 |
| **Total** | **286,855** | **100** | **366,256** | **100** | **8.61** | **0.89** | **7.72** |
| **Three months ended June 30, 2021** | | | | | | | |
| | **Natural gas sales(1)** *(CDN$000s)* | **Percentage of natural gas sales** *(%)* | **Natural gas production** *(Mcf/d)* | **Percentage of natural gas production** *(%)* | **Average realized natural gas sales price(1)(2)** *(CDN$/Mcf)* | **Natural gas transportation costs(2)(3)** *(CDN$/Mcf)* | **Natural gas sales netback(2)(4)** *(CDN$/Mcf)* |
| AECO | 43,721 | 39 | 147,178 | 42 | 3.28 | 0.49 | 2.79 |
| Dawn | 53,025 | 48 | 159,197 | 45 | 3.66 | 1.55 | 2.11 |
| Alliance(5) | 14,810 | 13 | 46,319 | 13 | 3.51 | - | 3.51 |
| **Total** | **111,556** | **100** | **352,694** | **100** | **3.48** | **0.91** | **2.57** |

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

(2) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"*.

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

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

(5) Birchcliff has short-term physical sales agreements with third-party marketers to sell and deliver into the Alliance pipeline system. Alliance sales are recorded net of transportation tolls.

### Capital Activities and Investment

F&D capital expenditures were $84.2 million in Q2 2022. In Q2 2022, Birchcliff drilled 12 (12.0 net) wells and brought 10 (10.0 net) wells on production. In addition, Birchcliff safely and efficiently completed significant turnarounds in Pouce Coupe and Gordondale. See *"Operations Update"*.

## OPERATIONS UPDATE

As at the date hereof, Birchcliff has successfully completed the drilling of all 30 (30.0 net) wells under its 2022 capital program and has completed 26 (26.0 net) wells (which includes 5 wells that were drilled and rig released in Q4 2021). During Q3 2022, Birchcliff anticipates that it will finish well completions and bring on production 10 (10.0 net) wells in Pouce Coupe and 9 (9.0 net) wells in Gordondale. Similar to the wells previously brought on production this year, these 19 (19.0 net) wells are expected to deliver strong natural gas and condensate rates with an average payout of less than a year, driven by successful execution and robust commodity prices. As part of its long-term planning strategy, the Corporation has secured multi-year contracts with its key service providers to ensure the efficient execution of its short and long-term plans.

The following table sets forth the wells that are part of the Corporation's 2022 capital program, including the anticipated timing of the remaining wells to be completed and brought on production in 2022:

| | | Total # of wells to be brought on production in 2022 | Status at August 10, 2022 | | |
|---|---|---|---|---|---|
| | | | **Drilled** | **Completed** | **On production** |
| **POUCE COUPE** | | | | | |
| ***13-29 pad*** | Basal Doig/Upper Montney | 2 | 0 | 2 | 2 |
| | Montney D1 | 4 | 1 | 4 | 4 |
| | **Total** | **6**[(1)] | **1** | **6** | **6** |
| ***01-08 pad*** | Basal Doig/Upper Montney | 4 | 4 | 4 | 4 |
| | Montney D1 | 5 | 5 | 5 | 5 |
| | Montney C | 1 | 1 | 1 | 1 |
| | **Total** | **10** | **10** | **10** | **10** |
| ***04-04 pad*** | Basal Doig/Upper Montney | 6 | 6 | 6 | Q3 |
| | Montney D1 | 3 | 3 | 3 | Q3 |
| | Montney C | 1 | 1 | 1 | Q3 |
| | **Total** | **10** | **10** | **10** | |
| **GORDONDALE** | | | | | |
| ***06-35 pad*** | Montney D2 | 5 | 5 | Q3 | Q3 |
| | Montney D1 | 4 | 4 | Q3 | Q3 |
| | **Total** | **9** | **9** | | |
| | **TOTAL** | **35**[(1)] | **30** | **26** | **16** |

(1) Includes 5 wells that were drilled and rig released in Q4 2021.

### Pouce Coupe Area

#### *6-well pad (13-29-77-12W6)*

Birchcliff's 13-29 pad was brought on production in Q1 2022. The initial 30 and 60 day production rates for the wells from the 13-29 pad were disclosed in the Corporation's press release dated May 11, 2022. The performance of this pad continues to exceed the Corporation's expectations, with very strong natural gas and condensate production rates. In addition, Birchcliff continues to see stabilized production rates for an extended duration, which allows for strong stable production profiles and less backout of Birchcliff's existing area production.

*10-well pad (01-08-78-13W6)*

Birchcliff's 01-08 pad in Pouce Coupe was drilled in Q2 2022 and brought on production in April and May 2022 through Birchcliff's owned and operated infrastructure. The wells from the 01-08 pad have now been producing for over 60 days and have produced in-line with the Corporation's forecast. During the initial 30 and 60 days of production, the pad was flowing inline post-fracture condensate, raw natural gas and frac water. The production rates of the wells are stabilized and the frac water flowing back to surface continues to diminish over time. The following table summarizes the aggregate and average production rates for the 10 wells from the 01-08 pad:

| | IP 30[(1)] | IP 60[(1)] |
|---|---|---|
| **Aggregate production rate *(boe/d)*** | **9,079** | **8,261** |
| Aggregate natural gas production rate *(Mcf/d)* | 52,552 | 47,921 |
| Aggregate condensate production rate *(bbls/d)* | 358 | 288 |
| **Average per well production rate *(boe/d)*** | **908** | **826** |
| Average per well natural gas production rate *(Mcf/d)* | 5,255 | 4,792 |
| Average per well condensate production rate *(bbls/d)* | 36 | 29 |
| **Condensate-to-gas ratio *(bbls/MMcf)*** | **7** | **6** |

(1) Represents the cumulative volumes for each well measured at the wellhead separator for the 30 or 60 days (as applicable) of production immediately after each well was considered stabilized after producing fracture treatment fluid back to surface in an amount such that flow rates of hydrocarbons became reliable. See *"Advisories – Initial Production Rates"*.

*10-well pad (04-04-78-13W6)*

The Corporation recently finished completion operations on its 04-04 pad in Pouce Coupe and all 10 wells are expected to be brought on production in Q3 2022. Birchcliff anticipates providing further details regarding the results of these wells with the release of its Q3 2022 results.

### Gordondale Area

*9-well pad (06-35-77-11W6)*

Birchcliff's 06-35 pad in Gordondale was drilled in Q2 and Q3 2022 and is expected to be completed and brought on production before the end of Q3 2022. These wells are offsetting high-rate light oil and natural gas producing wells drilled by Birchcliff in the southeastern portion of Gordondale in the previous three years. Birchcliff anticipates providing further details regarding the results of these wells with the release of its Q3 2022 results.

### Turnarounds

During Q2 2022, Birchcliff safely and efficiently completed significant turnarounds in Pouce Coupe and Gordondale. In April 2022, Birchcliff completed a turnaround at its 100% owned and operated natural gas processing plant in Pouce Coupe, ahead of schedule and on budget, while effectively mitigating the impact to production volumes. In May and June 2022, the Corporation completed a significant turnaround in Gordondale at two of Birchcliff's major oil batteries, while a turnaround was completed by AltaGas at the AltaGas Facility.

The completion of these turnarounds was particularly challenging in the current environment due to labour shortages and cost pressures and Birchcliff commends its field staff and contractors for their great teamwork, coordination and dedication to safety in efficiently completing them. The AltaGas turnaround will allow Birchcliff to maximize liquids recovery through the deep-cut plant and increase overall plant reliability throughout the remainder of 2022 and onwards.

## ABBREVIATIONS

| | |
|---|---|
| AECO | benchmark price for natural gas determined at the AECO ‘C’ hub in southeast Alberta |
| ATP | Alliance Trading Pool |
| bbl | barrel |
| bbls | barrels |
| bbls/d | barrels per day |
| boe | barrel of oil equivalent |
| boe/d | barrel of oil equivalent per day |
| condensate | pentanes plus (C5+) |
| F&D | finding and development |
| G&A | general and administrative |
| GAAP | generally accepted accounting principles for Canadian public companies, which are currently International Financial Reporting Standards as issued by the International Accounting Standards Board |
| GJ | gigajoule |
| GJ/d | gigajoules per day |
| HH | Henry Hub |
| IP | initial production |
| Mcf | thousand cubic feet |
| Mcf/d | thousand cubic feet per day |
| MMBtu | million British thermal units |
| MMBtu/d | million British thermal units per day |
| MMcf | million cubic feet |
| MPa | megapascal |
| MSW | price for mixed sweet crude oil at Edmonton, Alberta |
| NGLs | natural gas liquids consisting of ethane (C2), propane (C3) and butane (C4) and specifically excluding condensate |
| NGTL | NOVA Gas Transmission Ltd. |
| NYMEX | New York Mercantile Exchange |
| OPEC | Organization of the Petroleum Exporting Countries |
| WTI | West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma, for crude oil of standard grade |
| 000s | thousands |
| $000s | thousands of dollars |

## NON-GAAP AND OTHER FINANCIAL MEASURES

This press release uses various “non-GAAP financial measures”, “non-GAAP ratios”, “supplementary financial measures” and “capital management measures” (as such terms are defined in NI 52-112), which are described in further detail below. These measures facilitate management’s comparisons to the Corporation’s historical operating results in assessing its results and strategic and operational decision-making and may be used by financial analysts and others in the oil and natural gas industry to evaluate the Corporation’s performance.

### Non-GAAP Financial Measures

NI 52-112 defines a non-GAAP financial measure as a financial measure that: (i) depicts the historical or expected future financial performance, financial position or cash flow of an entity; (ii) with respect to its composition, excludes an amount that is included in, or includes an amount that is excluded from, the composition of the most directly comparable financial measure disclosed in the primary financial statements of the entity; (iii) is not disclosed in the financial statements of the entity; and (iv) is not a ratio, fraction, percentage or similar representation. The non-GAAP financial measures used in this press release are not standardized financial measures under GAAP and might not be comparable to similar measures presented by other companies where similar terminology is used. Investors are cautioned that non-GAAP financial measures should not be construed as alternatives to or more meaningful than the most directly comparable GAAP measures as indicators of Birchcliff’s performance. Set forth below is a description of the non-GAAP financial measures used in this press release.

#### *Adjusted Funds Flow, Free Funds Flow and Excess Free Funds Flow*

Birchcliff defines “adjusted funds flow” as cash flow from operating activities before the effects of decommissioning expenditures and changes in non-cash operating working capital. Birchcliff eliminates settlements of decommissioning expenditures from cash flow from operating activities as the amounts can be discretionary and may vary from period to period depending on its capital programs and the maturity of its operating areas. The settlement of decommissioning expenditures is managed with Birchcliff’s capital budgeting process which considers available adjusted funds flow.

Changes in non-cash operating working capital are eliminated in the determination of adjusted funds flow as the timing of collection and payment are variable and by excluding them from the calculation, the Corporation believes that it is able to provide a more meaningful measure of its operations and ability to generate cash on a continuing basis. Adjusted funds flow can also be derived from petroleum and natural gas revenue less royalty expense, operating expense, transportation and other expense, net G&A expense, interest expense and any realized losses (plus realized gains) on financial instruments and plus any other cash income and expense sources. Management believes that adjusted funds flow assists management and investors in assessing Birchcliff's financial performance after deducting all operating and corporate cash costs, as well as its ability to generate the cash necessary to fund sustaining and/or growth capital expenditures, repay debt, settle decommissioning obligations, buy back common shares and pay dividends.

Birchcliff defines "free funds flow" as adjusted funds flow less F&D capital expenditures. Management believes that free funds flow assists management and investors in assessing Birchcliff's ability to generate shareholder returns through a number of initiatives, including but not limited to, debt repayment, preferred share redemptions, common share buybacks, the payment of dividends and acquisitions.

Birchcliff defines "excess free funds flow" as free funds flow less common share dividends paid. Management believes that excess free funds flow assists management and investors in assessing Birchcliff's ability to further enhance shareholder returns after the payment of common share dividends, which may include dividend increases, common share buybacks and other opportunities that would complement or otherwise improve the Corporation's business and enhance long-term shareholder value.

The following table provides a reconciliation of cash flow from operating activities, as determined in accordance with GAAP, to adjusted funds flow, free funds flow and excess free funds flow for the periods indicated:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2022** | **2021** | **2022** | **2021** |
| **Cash flow from operating activities** | **273,711** | **81,013** | **427,863** | **163,621** |
| Change in non-cash operating working capital | 11,199 | 8,982 | 40,029 | 13,111 |
| Decommissioning expenditures | 625 | 193 | 1,342 | 1,276 |
| **Adjusted funds flow** | **285,535** | **90,188** | **469,234** | **178,008** |
| F&D capital expenditures | (84,247) | (80,887) | (172,529) | (176,727) |
| **Free funds flow** | **201,288** | **9,301** | **296,705** | **1,281** |
| Dividends on common shares | (5,310) | (1,333) | (7,968) | (2,663) |
| **Excess free funds flow** | **195,978** | **7,968** | **288,737** | **(1,382)** |

### *Transportation and Other Expense*

Birchcliff defines "transportation and other expense" as transportation expense plus marketing purchases less marketing revenue. Birchcliff may enter into certain marketing purchase and sales arrangements with the objective of reducing any available transportation and/or fractionation fees associated with its take-or-pay commitments. Management believes that transportation and other expense assists management and investors in assessing Birchcliff's total cost structure related to transportation activities. The following table provides a reconciliation of transportation expense, as determined in accordance with GAAP, to transportation and other expense for the periods indicated:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2022** | **2021** | **2022** | **2021** |
| Transportation expense | **39,855** | **38,165** | **77,692** | **75,849** |
| Marketing purchases | 2,644 | 1,734 | 6,213 | 3,781 |
| Marketing revenue | (3,043) | (2,234) | (7,277) | (4,692) |
| **Marketing gain** | **(399)** | **(500)** | **(1,064)** | **(911)** |
| **Transportation and other expense** | **39,456** | **37,665** | **76,628** | **74,938** |

### *Operating Netback*

Birchcliff defines "operating netback" as petroleum and natural gas revenue less royalty expense, operating expense and transportation and other expense. Management believes that operating netback assists management and investors in assessing Birchcliff's operating profits after deducting the cash costs that are directly associated with the sale of its production, which can then be used to pay other corporate cash costs or satisfy other obligations. The following table provides a breakdown of Birchcliff's operating netback for the periods indicated:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2022** | **2021** | **2022** | **2021** |
| Petroleum and natural gas revenue | 394,315 | 193,643 | 680,291 | 379,252 |
| Royalty expense | (52,010) | (16,692) | (82,168) | (28,319) |
| Operating expense | (22,796) | (21,538) | (46,643) | (43,036) |
| Transportation and other expense | (39,456) | (37,665) | (76,628) | (74,938) |
| **Operating netback – Corporate** | **280,053** | **117,748** | **474,852** | **232,959** |

### *Effective Sales – Total Corporate, Total Natural Gas, AECO Market and NYMEX HH Market*

Birchcliff defines "effective sales" in the AECO market and NYMEX HH market as the sales amount received from the production of natural gas that is effectively attributed to the AECO and NYMEX HH market pricing, respectively, and does not consider the physical sales delivery point in each case. Effective sales in the NYMEX HH market includes realized gains and losses on financial instruments and excludes the notional fixed basis costs associated with the underlying financial contract in the period. Birchcliff defines "effective total natural gas sales" as the aggregate of the effective sales amount received in each natural gas market. Birchcliff defines "effective total corporate sales" as the aggregate of the effective total natural gas sales and the sales amount received from the production of light oil, condensate and NGLs. Management believes that disclosing effective sales for each natural gas market assists management and investors in assessing Birchcliff's natural gas diversification and commodity price exposure to each market. The following table provides a reconciliation of natural gas sales, as determined in accordance with GAAP, to effective total natural gas sales and effective total corporate sales for the periods indicated:

| | Three months ended June 30, | |
|---|---|---|
| *($000s)* | **2022** | **2021**(1) |
| Natural gas sales | 286,855 | 111,556 |
| Realized gain (loss) on financial instruments | 16,687 | (13,392) |
| Notional fixed basis costs(2) | 22,363 | 22,502 |
| **Effective total natural gas sales** | **325,905** | **120,666** |
| Light oil sales | 22,935 | 19,255 |
| Condensate sales | 56,620 | 45,241 |
| NGLs sales | 27,887 | 17,582 |
| **Effective total corporate sales** | **433,347** | **202,744** |

(1) Prior period amounts have been adjusted to include the aggregate notional fixed basis cost for comparison purposes.

(2) Reflects the aggregate notional fixed basis cost associated with Birchcliff's financial and physical NYMEX HH/AECO 7A basis swaps in the period.

## Non-GAAP Ratios

NI 52-112 defines a non-GAAP ratio as a financial measure that: (i) is in the form of a ratio, fraction, percentage or similar representation; (ii) has a non-GAAP financial measure as one or more of its components; and (iii) is not disclosed in the financial statements of the entity. The non-GAAP ratios used in this press release are not standardized financial measures under GAAP and might not be comparable to similar measures presented by other companies where similar terminology is used. Set forth below is a description of the non-GAAP ratios used in this press release.

### *Adjusted Funds Flow Per Boe and Adjusted Funds Flow Per Basic Common Share*

Birchcliff calculates "adjusted funds flow per boe" as aggregate adjusted funds flow in the period divided by the production (boe) in the period. Management believes that adjusted funds flow per boe assists management and investors in assessing Birchcliff's financial profitability and sustainability on a cash basis by isolating the impact of production volumes to better analyze its performance against prior periods on a comparable basis. The Corporation previously referred to adjusted funds flow per boe as "adjusted funds flow netback".

Birchcliff calculates "adjusted funds flow per basic common share" as aggregate adjusted funds flow in the period divided by the basic common shares outstanding at the end of the period. Management believes that adjusted funds flow per basic common share assists management and investors in assessing Birchcliff's financial strength on a per common share basis.

### *Free Funds Flow Per Basic Common Share*

Birchcliff calculates "free funds flow per basic common share" as aggregate free funds flow in the period divided by the basic common shares outstanding at the end of the period. Management believes that free funds flow per basic common share assists management and investors in assessing Birchcliff's financial strength and its ability to generate shareholder returns on a per common share basis.

### *Transportation and Other Expense Per Boe*

Birchcliff calculates "transportation and other expense per boe" as aggregate transportation and other expense in the period divided by the production (boe) in the period. Management believes that transportation and other expense per boe assists management and investors in assessing Birchcliff's cost structure as it relates to its transportation and marketing activities by isolating the impact of production volumes to better analyze its performance against prior periods on a comparable basis.

### *Operating Netback Per Boe*

Birchcliff calculates "operating netback per boe" as aggregate operating netback in the period divided by the production (boe) in the period. Management believes that operating netback per boe assists management and investors in assessing Birchcliff's operating profitability and sustainability by isolating the impact of production volumes to better analyze its performance against prior periods on a comparable basis.

### *Effective Average Realized Sales Price – Total Corporate, Total Natural Gas, AECO Market and NYMEX HH Market*

Birchcliff calculates "effective average realized sales price" as effective sales, in each of total corporate, total natural gas, AECO market and NYMEX HH market, as the case may be, divided by the effective production in each of the markets during the period. Management believes that disclosing effective average realized sales price for each natural gas market assists management and investors in comparing Birchcliff's commodity price realizations in each natural gas market on a per unit basis.

## Supplementary Financial Measures

NI 52-112 defines a supplementary financial measure as a financial measure that: (i) is, or is intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of an entity; (ii) is not disclosed in the financial statements of the entity; (iii) is not a non-GAAP financial measure; and (iv) is not a non-GAAP ratio. The supplementary financial measures used in this press release are either a per unit disclosure of a corresponding GAAP measure, or a component of a corresponding GAAP measure, presented in the financial statements. Supplementary financial measures that are disclosed on a per unit basis are calculated by dividing the aggregate GAAP measure (or component thereof) by the applicable unit for the period. Supplementary financial measures that are disclosed on a component basis of a corresponding GAAP measure are a granular representation of a financial statement line item and are determined in accordance with GAAP.

The supplementary financial measures used in this press release include: operating expense per boe average realized sales price per bbl, Mcf and boe; petroleum and natural gas revenue per boe; royalty expense per boe; G&A expense, net per boe; interest expense per boe; realized gain (loss) on financial instruments per boe; other income (expense) per boe; depletion and depreciation expense per boe; unrealized gain on financial instruments per boe; other non-cash (expense) income per boe; dividends on preferred shares per boe; deferred income tax expense per boe; net income to common shareholders per boe; average realized natural gas sales price per Mcf; natural gas transportation costs per Mcf; and natural gas sales netback per Mcf.

## Capital Management Measures

NI 52-112 defines a capital management measure as a financial measure that: (i) is intended to enable an individual to evaluate an entity's objectives, policies and processes for managing the entity's capital; (ii) is not a component of a line item disclosed in the primary financial statements of the entity; (iii) is disclosed in the notes to the financial statements of the entity; and (iv) is not disclosed in the primary financial statements of the entity. Set forth below is a description of the capital management measures used in this press release.

### *Total Debt and Adjusted Working Capital Deficit (Surplus)*

Birchcliff calculates "total debt" as the amount outstanding under the Corporation's Credit Facilities plus adjusted working capital deficit (surplus). "Adjusted working capital deficit (surplus)" is calculated as working capital deficit (current assets less current liabilities) less fair value of financial instruments and capital securities. Surplus as disclosed in this press release is equivalent to adjusted working capital surplus. Management believes that total debt assists management and investors in assessing Birchcliff's overall liquidity and financial position at the end of the period. Management believes that adjusted working capital deficit (surplus) assists management and investors in assessing Birchcliff's short-term liquidity. The following table provides a reconciliation of the amount outstanding under the Credit Facilities and working capital deficit, as determined in accordance with GAAP, to total debt and adjusted working capital deficit (surplus), respectively:

| **As at,** *($000s)* | **June 30, 2022** | **March 31, 2022** | **December 31, 2021** | **June 30, 2021** |
|---|---|---|---|---|
| Revolving term credit facilities | 276,030 | 397,752 | 500,870 | 720,920 |
| Working capital deficit | 18,633 | 46,213 | 53,312 | 131,796 |
| Fair value of financial instruments | 10,436 | 3,249 | (16,517) | (43,491) |
| Capital securities | (38,205) | (28,216) | (38,268) | (38,328) |
| **Adjusted working capital deficit (surplus)** | **(9,136)** | **11,246** | **(1,473)** | **49,977** |
| **Total debt** | **266,894** | **408,998** | **499,397** | **770,897** |

## ADVISORIES

### Unaudited Information

All financial and operational information contained in this press release for the three and six months ended June 30, 2022 and 2021 is unaudited.

### Currency

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

### Boe Conversions

Boe amounts have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil. Boe amounts may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

### MMBtu Pricing Conversions

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

### Oil and Gas Metrics

This press release contains metrics commonly used in the oil and natural gas industry, including netbacks. These oil and gas metrics do not have any standardized meanings or standard methods of calculation and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. As such, they should not be used to make comparisons. Management uses these oil and gas metrics for its own performance measurements and to provide investors with measures to compare Birchcliff's performance over time; however, such measures are not reliable indicators of Birchcliff's future performance, which may not compare to Birchcliff's performance in previous periods, and therefore should not be unduly relied upon. For additional information regarding netbacks, see *"Non-GAAP and Other Financial Measures".*

### Production

With respect to the disclosure of Birchcliff's production contained in this press release: (i) references to "light oil" mean "light crude oil and medium crude oil" as such term is defined in National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**"); (ii) except where otherwise stated, references to "liquids" mean "light crude oil and medium crude oil" and "natural gas liquids" (including condensate) as such terms are defined in NI 51-101; and (iii) references to "natural gas" mean "shale gas", which also includes an immaterial amount of "conventional natural gas", as such terms are defined in NI 51-101. In addition, NI 51-101 includes condensate within the product type of natural gas liquids. Birchcliff has disclosed condensate separately from other natural gas liquids as the price of condensate as compared to other natural gas liquids is currently significantly higher and Birchcliff believes presenting the two commodities separately provides a more accurate description of its operations and results therefrom.

### Initial Production Rates

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

With respect to the production rates for the Corporation's 10-well (10-08) pad in Pouce Coupe disclosed herein, such rates represent the cumulative volumes for each well measured at the wellhead separator for the 30 and 60 days (as applicable) of production immediately after each well was considered stabilized after producing fracture treatment fluid back to surface in an amount such that flow rates of hydrocarbons became reliable (between 0 and 4 days), divided by 30 or 60 (as applicable), which were then added together to determine the aggregate production rates for the 10-well pad and then divided by 10 to determine the per well average production rates. The production rates excluded the hours and days when the wells did not produce. Approximate tubing pressures for the 10 wells were stabilized between 3.4 and 4.3 MPa for IP 30 production rates and between 3.1 and 3.6 MPa for IP 60 production rates. Approximate casing pressures for the 10 wells were stabilized between 8.0 and 11.3 MPa for IP 30 production rates and between 7.3 and 10.3 MPa for IP 60 production rates. To-date, no pressure transient or well-test interpretation has been carried out on any of the wells. The natural gas volumes represent raw natural gas volumes as opposed to sales gas volumes.

### F&D Capital Expenditures

Unless otherwise stated, references in this press release to "F&D capital expenditures" denotes exploration and development expenditures determined in accordance with GAAP. Management believes that F&D capital expenditures assists management and investors in assessing Birchcliff capital cost outlay associated with its exploration and development activities for the purposes of finding and developing its reserves.

### Forward-Looking Statements

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

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

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

In particular, this press release contains forward-looking statements relating to the following:

- Birchcliff's plans and other aspects of its anticipated future financial performance, results, operations, focus, objectives, strategies, opportunities, priorities and goals, including: that Birchcliff remains confident that it will reach zero total debt and be in a cash surplus position in Q4 2022, based on the strength of forward commodity prices; and that Birchcliff continues to target increasing its annual common share dividend in 2023 to at least $0.80 per share ($212 million annually), subject to commodity prices and the approval of its board of directors;
- the information set forth under the heading *"Outlook and Guidance"* and elsewhere in this press release as it relates to Birchcliff's updated outlook and guidance for 2022 and 2023, including: that Birchcliff's 2023 budget will be geared towards maximizing its ability to generate free funds flow, increasing shareholder returns and fully utilizing the processing capacity of the Corporation's existing infrastructure; that Birchcliff plans to provide a corporate update and release its preliminary 2023 budget on October 13, 2022 after the completion of the Corporation's preliminary 2023 budget planning process; that the Corporation anticipates significant production additions in the second half of 2022 and is maintaining its previous guidance for annual average production at 78,000 to 80,000 boe/d; that Birchcliff is able to take full advantage of strong commodity prices because it has no fixed price commodity hedges in place and it does not currently intend to hedge any future production; estimates of annual and Q4 average production, production commodity mix, average expenses, adjusted funds flow, F&D capital expenditures, free funds flow, excess free funds flow, surplus at year end and natural gas market exposure in 2022; that the estimate of surplus at December 31, 2022 is expected to be largely comprised of cash on hand plus accounts receivable less accounts payable at the end of the year; and the expected impact of changes in commodity prices and the CDN/US exchange rate on Birchcliff's estimate of free funds flow in 2022;
- the announced redemption of the Series A and Series C Preferred Shares, including the anticipated timing thereof; and
- the information set forth under the heading *"Operations Update"* regarding Birchcliff's 2022 capital program and its exploration and development activities and the timing thereof, including: the number and types of wells to be drilled, completed and brought on production in 2022; that the wells to be brought on production in Q3 2022 are expected to deliver strong natural gas and condensate rates with an average payout of less than a year, driven by successful execution and robust commodity prices; that the wells from Birchcliff's 04-04 pad are expected to be brought on production in Q3 2022; that Birchcliff's 06-35 pad is expected to be completed and brought on production before the end of Q3 2022; that Birchcliff anticipates providing further details regarding the results of the wells from its 04-04 pad and 06-35 pad with the release of its Q3 2022 results; and that the AltaGas turnaround will allow Birchcliff to maximize liquids recovery through the deep-cut plant and increase overall plant reliability throughout the remainder of 2022 and onwards.

With respect to the forward-looking statements contained in this press release, assumptions have been made regarding, among other things: the degree to which the Corporation's results of operations and financial condition will be disrupted by circumstances attributable to the COVID-19 pandemic; prevailing and future commodity prices and differentials, exchange rates, interest rates, inflation rates, royalty rates and tax rates; the state of the economy, financial markets and the exploration, development and production business; the political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes, environmental, climate change and other laws; the Corporation's ability to comply with existing and future environmental, climate change and other laws; future cash flow, debt and dividend levels; future operating, transportation, G&A and other expenses; Birchcliff's ability to access capital and obtain financing on acceptable terms; the timing and amount of capital expenditures and the sources of funding for capital expenditures and other activities; the sufficiency of budgeted capital expenditures to carry out planned operations; the successful and timely implementation of capital projects and the timing, location and extent of future drilling and other operations; results of operations; Birchcliff's ability to continue to develop its assets and obtain the anticipated benefits therefrom; the performance of existing and future wells; reserves volumes and Birchcliff's ability to replace and expand reserves through acquisition, development or exploration; the impact of competition on Birchcliff; the availability of, demand for and cost of labour, services and materials; board of director approval of proposed dividends; the ability to obtain any necessary regulatory or other approvals in a timely manner; the satisfaction by third parties of their obligations to Birchcliff; the ability of Birchcliff to secure adequate processing and transportation for its products; Birchcliff's ability to successfully market natural gas and liquids; the results of the Corporation's risk management and market diversification activities; and Birchcliff's natural gas market exposure. In addition to the foregoing assumptions, Birchcliff has made the following assumptions with respect to certain forward-looking statements contained in this press release:

- With respect to Birchcliff's 2022 guidance (as updated on August 10, 2022):
  - The following commodity prices and exchange rate are assumed: an average WTI price of US$99.00/bbl; an average WTI-MSW differential of CDN$3.60/bbl; an average AECO price of CDN$5.60/GJ; an average Dawn price of US$6.65/MMBtu; an average NYMEX HH price of US$6.95/MMBtu; and an exchange rate (CDN$ to US$1) of 1.28. These commodity price and exchange rate assumptions are based on anticipated full-year averages, which include settled benchmark commodity prices and exchange rate for the period from January 1, 2022 to July 31, 2022 and forward strip benchmark commodity prices and CDN/US exchange rate as of August 2, 2022 for the period from August 1, 2022 to December 31, 2022.
  - Birchcliff's production guidance for 2022 assumes that: the 2022 capital program will be carried out as currently contemplated; no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that any transportation service curtailments or unplanned outages that occur will be short in duration or otherwise insignificant; the construction of new infrastructure meets timing and operational expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations.
  - Birchcliff's updated estimates of adjusted funds flow, free funds flow and excess free funds flow for 2022 assume that: the 2022 capital program will be carried out as currently contemplated and the level of capital spending for 2022 set forth herein will be achieved; and the targets for production, production commodity mix, expenses and natural gas market exposure and the commodity price and exchange rate assumptions are met. Birchcliff's updated estimate of excess free funds flow for 2022 also assumes that: (i) a quarterly common share dividend of $0.02 per share is paid for the quarters ending September 30, 2022 and December 31, 2022; and (ii) there are 265 million common shares outstanding, with no further buybacks of common shares occurring during 2022. Birchcliff's updated estimate of adjusted funds flow takes into account the effects of its physical and financial basis swap contracts outstanding as at August 10, 2022 and excludes annual cash incentive payments that have not been approved by Birchcliff's board of directors.
  - Birchcliff's updated estimate of capital expenditures for 2022 assumes that the 2022 capital program will be carried out as currently contemplated. The amount and allocation of capital expenditures for exploration and development activities by area and the number and types of wells to be drilled and brought on production is dependent upon results achieved and is subject to review and modification by management on an ongoing basis throughout the year. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials.
  - Birchcliff's updated estimate of surplus at December 31, 2022 assumes that: (i) any free funds flow remaining after the payment of dividends, asset retirement obligations and other amounts for administrative assets, financing fees and capital lease obligations is allocated towards debt reduction; (ii) there are 265 million common shares outstanding, with no further buybacks of common shares occurring during 2022, and a quarterly common share dividend of $0.02 per share is paid for the quarters ending September 30, 2022 and December 31, 2022; (iii) there are 2,000,000 Series A and 1,528,219 Series C Preferred Shares outstanding, with such shares redeemed by the Corporation on September 30, 2022, and a quarterly dividend of $0.527677 per Series A Preferred Share and $0.441096 per Series C Preferred Share is paid for the quarter ending September 30, 2022; (iv) no significant acquisitions or dispositions are completed by the Corporation and there is no repayment of debt using the proceeds from equity issuances during 2022; (v) there are no further proceeds received from the exercise of stock options or performance warrants during 2022; (vi) the 2022 capital program will be carried out as currently contemplated with F&D capital expenditures of $275 million to $285 million; and (vii) the targets for production, production commodity mix, capital expenditures, adjusted funds flow, free funds flow and natural gas market exposure and the commodity price and exchange rate assumptions set forth

herein are met. Birchcliff's estimate of surplus at December 31, 2022 does not include annual cash incentive payments that have not been approved by Birchcliff's board of directors.

  - Birchcliff's guidance regarding its natural gas market exposure assumes: (i) 175,000 GJ/d being sold on a physical basis at the Dawn price; (ii) 18,029 GJ/d being sold at Alliance on a physical basis at the AECO 5A price plus a premium; and (iii) 152,500 MMBtu/d being contracted on a financial and physical basis at an average fixed basis differential price between AECO 7A and NYMEX HH of approximately US$1.23/MMBtu.

- With respect to statements of future wells to be drilled and brought on production, such statements assume: the continuing validity of the geological and other technical interpretations performed by Birchcliff's technical staff, which indicate that commercially economic volumes can be recovered from Birchcliff's lands as a result of drilling future wells; and that commodity prices and general economic conditions will warrant proceeding with the drilling of such wells.

Birchcliff's actual results, performance or achievements could differ materially from those anticipated in the forward-looking statements as a result of both known and unknown risks and uncertainties including, but not limited to: the risks posed by pandemics (including COVID-19), epidemics and global conflict (including the Russian invasion of Ukraine) and their impacts on supply and demand and commodity prices; actions taken by OPEC and other major producers of crude oil and the impact such actions may have on supply and demand and commodity prices; general economic, market and business conditions which will, among other things, impact the demand for and market prices of Birchcliff's products and Birchcliff's access to capital; volatility of crude oil and natural gas prices; risks associated with increasing costs, whether due to high inflation rates, supply chain disruptions or other factors; fluctuations in exchange and interest rates; stock market volatility; loss of market demand; an inability to access sufficient capital from internal and external sources on terms acceptable to the Corporation; risks associated with Birchcliff's Credit Facilities, including a failure to comply with covenants under the agreement governing the Credit Facilities and the risk that the borrowing base limit may be redetermined; fluctuations in the costs of borrowing; operational risks and liabilities inherent in oil and natural gas operations; the occurrence of unexpected events such as fires, severe weather, explosions, blow-outs, equipment failures, transportation incidents and other similar events; an inability to access sufficient water or other fluids needed for operations; uncertainty that development activities in connection with Birchcliff's assets will be economic; an inability to access or implement some or all of the technology necessary to operate its assets and achieve expected future results; the accuracy of estimates of reserves, future net revenue and production levels; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; horizontal drilling and completions techniques and the failure of drilling results to meet expectations for reserves or production; uncertainties related to Birchcliff's future potential drilling locations; delays or changes in plans with respect to exploration or development projects or capital expenditures; the accuracy of cost estimates and variances in Birchcliff's actual costs and economic returns from those anticipated; incorrect assessments of the value of acquisitions and exploration and development programs; changes to the regulatory framework in the locations where the Corporation operates, including changes to tax laws, Crown royalty rates, environmental laws, climate change laws, carbon tax regimes, incentive programs and other regulations that affect the oil and natural gas industry; actions by government authorities, including those with respect to the COVID-19 pandemic; an inability of the Corporation to comply with existing and future environmental, climate change and other laws; the cost of compliance with current and future environmental laws; political uncertainty and uncertainty associated with government policy changes; dependence on facilities, gathering lines and pipelines; uncertainties and risks associated with pipeline restrictions and outages to third-party infrastructure that could cause disruptions to production; the lack of available pipeline capacity and an inability to secure adequate and cost-effective processing and transportation for Birchcliff's products; an inability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements; shortages in equipment and skilled personnel; the absence or loss of key employees; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; management of Birchcliff's growth; environmental and climate change risks, claims and liabilities; potential litigation; default under or breach of agreements by counterparties and potential enforceability issues in contracts; claims by Indigenous peoples; the reassessment by taxing or regulatory authorities of the Corporation's prior transactions and filings; unforeseen title defects; third-party claims regarding the Corporation's right to use technology and equipment; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainties associated with counterparty credit risk; risks associated with Birchcliff's risk management and market diversification activities; risks associated with the declaration and payment of future dividends, including the discretion of Birchcliff's board of directors to declare dividends and change the Corporation's dividend policy; the failure to obtain any required approvals in a timely manner or at all; the failure to complete or realize the anticipated benefits of acquisitions and dispositions and the risk of unforeseen difficulties in integrating acquired assets into Birchcliff's operations; negative public perception of the oil and natural gas industry and fossil fuels; the Corporation's reliance on hydraulic fracturing; market competition, including from alternative energy sources; changing demand for petroleum products; the availability of insurance and the risk that certain losses may not be insured; breaches or failure of information systems and security (including risks associated with cyber-attacks); risks associated with the ownership of the Corporation's securities; and the accuracy of the Corporation's accounting estimates and judgments.

While Birchcliff anticipates approval by the board of directors of the proposed increase to the annual common share dividend to $0.80 per share in 2023, the payment of such dividend remains subject to the approval of the board of directors. In addition, the proposed increase to the common share dividend in 2023 is subject to commodity prices and Birchcliff achieving its target of zero total debt in Q4 2022. The declaration and payment of any proposed dividends are subject to the discretion of the board of directors and may not be approved or may vary depending on a variety of factors and conditions existing from time to time, including commodity prices, free funds flow, current and forecast commodity prices, fluctuations in working capital, financial requirements of Birchcliff, applicable laws (including solvency tests under the *Business Corporations Act* (Alberta) for the declaration and payment of dividends) and other factors beyond Birchcliff's control. The payment of dividends to shareholders is not assured or guaranteed and dividends may be reduced or suspended entirely. In addition to the foregoing, the Corporation's ability to pay dividends now or in the future may be limited by covenants contained in the agreements governing any indebtedness that the Corporation has incurred or may incur in the future, including the terms of the Credit Facilities. The agreement governing the Credit Facilities provides that Birchcliff is not permitted to make any distribution (which includes dividends) at any time when an event of default exists or would reasonably be expected to exist upon making such distribution, unless such event of default arose subsequent to the ordinary course declaration of the applicable distribution.

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

This press release contains information that may constitute future-orientated financial information or financial outlook information (collectively, "**FOFI**") about Birchcliff's prospective financial performance, financial position or cash flows, all of which is subject to the same assumptions, risk factors, limitations and qualifications as set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise or inaccurate and, as such, undue reliance should not be placed on FOFI. Birchcliff's actual results, performance and achievements could differ materially from those expressed in, or implied by, FOFI. Birchcliff has included FOFI in order to provide readers with a more complete perspective on Birchcliff's future operations and management's current expectations relating to Birchcliff's future performance. Readers are cautioned that such information may not be appropriate for other purposes. FOFI contained herein was made as of the date of this press release. Unless required by applicable laws, Birchcliff does not undertake any obligation to publicly update or revise any FOFI statements, whether as a result of new information, future events or otherwise.

Management has included the above summary of assumptions and risks related to forward-looking statements provided in this press release in order to provide readers with a more complete perspective on Birchcliff's future operations and management's current expectations relating to Birchcliff's future performance. Readers are cautioned that this information may not be appropriate for other purposes.

The forward-looking statements contained in this press release are expressly qualified by the foregoing cautionary statements. The forward-looking statements contained herein are made as of the date of this press release. Unless required by applicable laws, Birchcliff does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## ABOUT BIRCHCLIFF:

Birchcliff is a Calgary, Alberta based intermediate oil and natural gas company with operations focused on the Montney/Doig Resource Play in Alberta. Birchcliff's common shares and Series A and Series C Preferred Shares are listed for trading on the Toronto Stock Exchange under the symbols "BIR", "BIR.PR.A" and "BIR.PR.C", respectively.

### For further information, please contact:

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**Jeff Tonken** – Chief Executive Officer

**Chris Carlsen** – President and Chief Operating Officer

**Bruno Geremia** – Executive Vice President and Chief Financial Officer

# MANAGEMENT’S DISCUSSION AND ANALYSIS

## GENERAL

This Management’s Discussion and Analysis (“**MD&A**”) for Birchcliff Energy Ltd. (“**Birchcliff**” or the “**Corporation**”) dated August 10, 2022 is with respect to the three and six months ended June 30, 2022 (the “**Reporting Periods**”) as compared to the three and six months ended June 30, 2021 (the “**Comparable Prior Periods**”). This MD&A has been prepared by management and approved by the Corporation’s audit committee and board of directors and should be read in conjunction with the unaudited interim condensed financial statements for the Reporting Periods (the “**financial statements**”) and the annual audited financial statements of the Corporation and related notes for the year ended December 31, 2021, which have been prepared in accordance with IFRS. All dollar amounts are expressed in Canadian currency unless otherwise stated.

This MD&A uses various “non-GAAP financial measures”, “non-GAAP ratios”, “supplementary financial measures” and “capital management measures” as such terms are defined in National Instrument 52-112 – *Non-GAAP and Other Financial Measures Disclosure* (“**NI 52-112**”). Non-GAAP financial measures and non-GAAP ratios are not standardized financial measures under GAAP and might not be comparable to similar financial measures disclosed by other issuers where similar terminology is used. For further information, including reconciliations to the most directly comparable GAAP measures where applicable, see *“Non-GAAP and Other Financial Measures”* in this MD&A.

This MD&A contains forward-looking statements and information (collectively, “**forward-looking statements**”) within the meaning of applicable Canadian securities laws. Such forward-looking statements are based upon certain expectations and assumptions and actual results may differ materially from those expressed or implied by such forward-looking statements. For further information regarding the forward-looking statements contained herein, see *“Advisories – Forward-Looking Statements”* in this MD&A. All boe amounts have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil. For further information, see *“Advisories – Boe Conversions”* in this MD&A.

With respect to the disclosure of Birchcliff’s production contained in this MD&A: (i) references to “light oil” mean “light crude oil and medium crude oil” as such term is defined in National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* (“**NI 51-101**”); (ii) unless otherwise indicated, references to “liquids” mean “light crude oil and medium crude oil” and “natural gas liquids” (including condensate) as such terms are defined in NI 51-101; and (iii) references to “natural gas” mean “shale gas”, which also includes an immaterial amount of “conventional natural gas”, as such terms are defined in NI 51-101. In addition, NI 51-101 includes condensate within the product type of “natural gas liquids”. Birchcliff has disclosed condensate separately from other natural gas liquids as the price of condensate as compared to other natural gas liquids is currently significantly higher and Birchcliff believes presenting the two commodities separately provides a more accurate description of its operations and results therefrom.

## ABOUT BIRCHCLIFF

Birchcliff is a Calgary, Alberta based intermediate oil and natural gas company with operations focused on the Montney/Doig Resource Play in Alberta. 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. Additional information relating to the Corporation, including its Annual Information Form for the financial year ended December 31, 2021 (the “**AIF**”), is available on the SEDAR website at www.sedar.com and on the Corporation’s website at www.birchcliffenergy.com.

Birchcliff publishes an annual Environmental, Social and Governance (“**ESG**”) Report containing comprehensive information relating to its ESG performance, which can be found on the Corporation’s website at www.birchcliffenergy.com.

## CURRENT OPERATING ENVIRONMENT

During 2022, the global economy continued to recover from the impacts of the novel coronavirus COVID-19 (“**COVID-19**”) pandemic. Benchmark oil and natural gas prices have remained volatile during the year due to uncertainty around the COVID-19 pandemic, the potential for global economic slowdown attributed to rising inflation and interest rates, supply uncertainty of crude oil and natural gas as a result of the Russian invasion of Ukraine and global commodity supply constraints and labour shortages which have increased inflationary pressures on governments, businesses and communities. Birchcliff has incorporated the current and anticipated impacts of the COVID-19 pandemic, the Russian invasion of Ukraine and these other negative conditions in its preparation of this MD&A and the financial statements. See Note 2 *"Basis of Preparation – Current Environment and Estimation Uncertainty"* in the financial statements.

## HIGHLIGHTS

- Achieved quarterly average production of 73,746 boe/d in the three month Reporting Period, which included the impact of planned turnarounds and maintenance activities, a 2% decrease from the three month Comparable Prior Period. Liquids accounted for 17% of Birchcliff's total production in the three month Reporting Period as compared to 22% in the three month Comparable Prior Period.
- Generated record quarterly adjusted funds flow(1) of $285.5 million in the three month Reporting Period, or $1.08 per basic common share(2), a 217% and 218% increase, respectively, from the three month Comparable Prior Period. Cash flow from operating activities was $273.7 million in the three month Reporting Period, a 238% increase from the three month Comparable Prior Period.
- Delivered record quarterly free funds flow(1) of $201.3 million in the three month Reporting Period, or $0.76 per basic common share(2), an increase of $192.0 million from the three month Comparable Prior Period.
- Earned record quarterly net income to common shareholders of $213.9 million in the three month Reporting Period, or $0.81 per basic common share, a 388% and 406% increase, respectively, from the three month Comparable Prior Period.
- F&D capital expenditures were $84.2 million in the three month Reporting Period, which included drilling 12 (12.0 net) wells and bringing 10 (10.0 net) wells on production.
- Significantly reduced total debt(3) at June 30, 2022 to $266.9 million, a reduction of $504.0 million (65%) from June 30, 2021.
- Achieved an operating netback(2) of $41.73/boe in the three month Reporting Period, a 143% increase from the three month Comparable Prior Period.
- Achieved adjusted funds flow per boe(2) of $42.55 in the three month Reporting Period, a 223% increase from the three month Comparable Prior Period.
- Realized an operating expense(4) of $3.40/boe in the three month Reporting Period, an 8% increase from the three month Comparable Prior Period.
- In the three month Reporting Period, Birchcliff returned $46.0 million to common shareholders through dividends and purchases under its normal course issuer bid (the "**NCIB**"), including the doubling of its common share dividend and the purchase of 4,211,596 common shares under the NCIB at an average price of $9.67 per share (before fees). In the six month Reporting Period, Birchcliff returned $57.4 million to common shareholders through dividends and the purchase of 5,514,792 common shares under the NCIB at an average price of $8.96 per share (before fees).

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

(1) Non-GAAP financial measure. See *"Non-GAAP and Other Financial Measures"*.
(2) Non-GAAP ratio. See *"Non-GAAP and Other Financial Measures"*.
(3) Capital management measure. See *"Non-GAAP and Other Financial Measures"*.
(4) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"*.

## OUTLOOK AND GUIDANCE

Birchcliff continues to expect to reach zero total debt and be in a cash surplus position in Q4 2022, which takes into account the redemption of all of its issued and outstanding cumulative redeemable preferred shares, Series A (the "**Series A Preferred Shares**") and cumulative redeemable preferred shares, Series C (the "**Series C Preferred Shares**") on September 30, 2022 for an aggregate redemption price of approximately $88.2 million, which redemption was announced by the Corporation on August 4, 2022. Birchcliff is able to take full advantage of strong commodity prices because it has no fixed price commodity hedges in place and it does not currently intend to hedge any future production.

Birchcliff is updating its 2022 guidance to reflect the current commodity price environment and the impacts of inflation on its business. The Corporation anticipates significant production additions in the second half of 2022 and is maintaining its previous guidance for annual average production at 78,000 to 80,000 boe/d. Significant changes to Birchcliff's guidance include the following:

- Adjusted funds flow for 2022 is now anticipated to be $1.1 billion, primarily as a result of the revised commodity price forecast.
- F&D capital expenditures in 2022 are now anticipated to be $275 million to $285 million, primarily as a result of increased inflation and the procurement of certain long-lead capital items to prepare for the efficient execution of Birchcliff's 2023 capital program.
- Free funds flow for 2022 is now anticipated to be $830 million to $840 million and excess free funds flow for 2022 is now anticipated to be $810 million to $820 million, both as a result of the changes to Birchcliff's adjusted funds flow and F&D capital expenditures guidance.
- Birchcliff is now forecasting that it will have a surplus of $160 million to $170 million at December 31, 2022.
- Average royalty expense for 2022 is now anticipated to be $6.60/boe to $6.80/boe, primarily as a result of the revised commodity price forecast.
- Average operating expense for 2022 is now anticipated to be $3.30/boe to $3.50/boe, primarily as a result of anticipated inflationary pressures continuing to impact power and other fuel supply costs.

The following table sets forth Birchcliff's updated and previous guidance and commodity price assumptions for 2022, as well as its free funds flow sensitivity:

***2022 Guidance and Commodity Price Assumptions***

| | Updated 2022 guidance and assumptions – August 10, 2022[1] | Previous 2022 guidance and assumptions – May 11, 2022 | Original 2022 guidance and assumptions – January 19, 2022 |
|---|---|---|---|
| **Production** | | | |
| Annual average production *(boe/d)* | 78,000 – 80,000 | 78,000 – 80,000 | 78,000 – 80,000 |
| % Light oil | 3% | 3% | 3% |
| % Condensate | 6% | 7% | 7% |
| % NGLs | 10% | 10% | 10% |
| % Natural gas | 81% | 80% | 80% |
| Q4 average production *(boe/d)* | 81,000 – 83,000 | 81,000 – 83,000 | 81,000 – 83,000 |
| **Average Expenses** *($/boe)* | | | |
| Royalty[2] | 6.60 – 6.80 | 7.10 – 7.30 | 3.10 – 3.30 |
| Operating[2] | 3.30 – 3.50 | 3.15 – 3.35 | 3.15 – 3.35 |
| Transportation and other[3] | 5.30 – 5.50 | 5.20 – 5.40 | 4.90 – 5.10 |
| Interest[2] | 0.30 – 0.50 | 0.20 – 0.40 | 0.50 – 0.60 |
| **Adjusted Funds Flow**[4] | $1.115 billion | $1.180 billion | $0.590 billion |
| **F&D Capital Expenditures** *(millions)* | $275 – $285[5] | $240 – $260 | $240 – $260 |
| **Free Funds Flow** *(millions)*[4] | $830 – $840 | $920 – $940 | $330 – $350 |
| **Excess Free Funds Flow** *(millions)*[4][6] | $810 – $820 | $900 – $920 | N/A |
| **Surplus (Total Debt) at Year End** *(millions)*[7] | $160 – $170[8] | $260 – $280 | ($175 – $195) |

| | Updated 2022 guidance and assumptions – August 10, 2022[1] | Previous 2022 guidance and assumptions – May 11, 2022 | Original 2022 guidance and assumptions – January 19, 2022 |
|---|---|---|---|
| **Natural Gas Market Exposure** | | | |
| AECO exposure as a % of total natural gas production | 16% | 19% | 19% |
| Dawn exposure as a % of total natural gas production | 42% | 42% | 42% |
| NYMEX HH exposure as a % of total natural gas production | 38% | 38% | 38% |
| Alliance exposure as a % of total natural gas production | 4% | 1% | 1% |
| | | | |
| **Commodity Prices** | | | |
| Average WTI price *(US$/bbl)* | 99.00 | 99.50 | 76.00 |
| Average WTI-MSW differential *(CDN$/bbl)* | 3.60 | 3.10 | 5.00 |
| Average AECO price *(CDN$/GJ)* | 5.60 | 6.50 | 3.50 |
| Average Dawn price *(US$/MMBtu)* | 6.65 | 6.85 | 3.90 |
| Average NYMEX HH price *(US$/MMBtu)* | 6.95 | 6.95 | 4.00 |
| Exchange rate *(CDN$ to US$1)* | 1.28 | 1.28 | 1.26 |

***Forward Six Months' Free Funds Flow Sensitivity***[9]

| Forward six months' sensitivity | Estimated change to 2022 free funds flow *(millions)* |
|---|---|
| Change in WTI US$1.00/bbl | $1.8 |
| Change in NYMEX HH US$0.10/MMBtu | $2.4 |
| Change in Dawn US$0.10/MMBtu | $2.9 |
| Change in AECO CDN$0.10/GJ | $1.3 |
| Change in CDN/US exchange rate CDN$0.01 | $4.1 |

(1) Birchcliff's updated guidance for its production commodity mix, adjusted funds flow, free funds flow, excess free funds flow, surplus and natural gas market exposure in 2022 is based on an annual average production rate of 79,000 boe/d, which is the mid-point of Birchcliff's annual average production guidance range for 2022. For further information regarding the risks and assumptions relating to the Corporation's guidance, see *"Advisories – Forward-Looking Statements"* in this MD&A.

(2) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

(3) Non-GAAP ratio. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

(4) Non-GAAP financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

(5) Birchcliff's updated estimate of F&D capital expenditures excludes any net potential acquisitions and dispositions and the capitalized portion of annual cash incentive payments that have not been approved by Birchcliff's board of directors. See *"Advisories – F&D Capital Expenditures"* in this MD&A.

(6) Excess free funds flow is defined as free funds flow less common share dividends paid. This measure was not disclosed on January 19, 2022.

(7) Capital management measure. See *"Non-GAAP and Other Financial Measures".*

(8) Surplus is equivalent to adjusted working capital surplus as disclosed in the Corporation's financial statements (see *"Non-GAAP and Other Financial Measures"* in this MD&A). The updated estimate of surplus at December 31, 2022 is expected to be largely comprised of cash on hand plus accounts receivable less accounts payable at the end of the year. Birchcliff previously referred to "surplus" as "cash".

(9) Illustrates the expected impact of changes in commodity prices and the CDN/US exchange rate on the Corporation's estimate of free funds flow for 2022 of $830 million to $840 million. The sensitivity is based on the updated commodity price and exchange rate assumptions set forth in the table above. The calculated impact on free funds flow is only applicable within the limited range of change indicated. Calculations are performed independently and may not be indicative of actual results. Actual results may vary materially when multiple variables change at the same time and/or when the magnitude of the change increases.

## CASH FLOW FROM OPERATING ACTIVITIES AND ADJUSTED FUNDS FLOW

The following table sets forth the Corporation's cash flow from operating activities and adjusted funds flow for the periods indicated:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **Cash flow from operating activities *($000s)*** | **273,711** | **81,013** | **427,863** | **163,621** |
| **Adjusted funds flow *($000s)***[1] | **285,535** | **90,188** | **469,234** | **178,008** |
| Per common share – basic *($)*[2] | 1.08 | 0.34 | 1.77 | 0.67 |
| Per common share – diluted *($)*[2] | 1.03 | 0.33 | 1.70 | 0.66 |
| Adjusted funds flow *($/boe)*[2] | 42.55 | 13.17 | 34.62 | 13.08 |

(1) Non-GAAP financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

(2) Non-GAAP ratio. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

Adjusted funds flow in the three and six month Reporting Periods increased by 217% and 164%, respectively, from the Comparable Prior Periods. Cash flow from operating activities increased by 238% and 161%, respectively, from the Comparable Prior Periods. The increases were primarily due to higher reported petroleum and natural gas revenue and realized gains on financial instruments of $16.7 million and $16.5 million in the three and six month Reporting Periods, respectively, as compared to realized losses on financial instruments of $13.4 million and $28.9 million in the Comparable Prior Periods, partially offset by a higher royalty expense in the Reporting Periods. The increases in petroleum and natural gas revenue and royalty expense were largely the result of a 108% and an 80% increase in the average realized sales price received for Birchcliff's production in the three and six month Reporting Periods, respectively, from the Comparable Prior Periods. The average realized sales price in the Reporting Periods benefited from significant increases in benchmark oil and natural gas prices since the Comparable Prior Periods. See *"Discussion of Operations – Petroleum and Natural Gas Revenue"* and *"Discussion of Operations – Royalties"* in this MD&A for further information regarding the period-over-period movement in revenue, commodity prices and royalties.

## NET INCOME TO COMMON SHAREHOLDERS

The following table sets forth the Corporation's net income to common shareholders for the periods indicated:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| **Net income to common shareholders *($000s)*** | **213,855** | **43,854** | **339,647** | **66,019** |
| Per common share – basic *($)* | 0.81 | 0.16 | 1.28 | 0.25 |
| Per common share – diluted *($)* | 0.77 | 0.16 | 1.23 | 0.25 |
| Net income to common shareholders *($/boe)*(1) | 31.87 | 6.40 | 25.06 | 4.85 |

(1) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

Net income to common shareholders in the three and six month Reporting Periods increased by 388% and 414%, respectively, from the Comparable Prior Periods. The increases were primarily due to higher adjusted funds flow and higher unrealized mark-to-market gains on financial instruments, partially offset by an increase in deferred income tax expense in the Reporting Periods. Birchcliff recorded unrealized mark-to-market gains on financial instruments of $47.5 million and $82.1 million in the three and six month Reporting Periods, respectively, as compared to $21.3 million and $13.7 million in the Comparable Prior Periods.

See "*Discussion of Operations – Risk Management"* and "*Discussion of Operations – Income Taxes*" in this MD&A for further details regarding the period-over-period movement in unrealized gains on financial instruments and deferred income tax expense.

## DISCUSSION OF OPERATIONS

### Petroleum and Natural Gas Revenue

The following table sets forth Birchcliff's P&NG revenue by product category for the Corporation's Pouce Coupe operating assets geologically situated in the dry natural gas and liquids-rich natural gas trends of the Montney/Doig Resource Play (the "**Pouce Coupe assets**"), the Corporation's Gordondale operating assets geologically situated in the light oil and liquids-rich trends of the Montney/Doig Resource Play (the "**Gordondale assets**") and on a corporate basis for the periods indicated:

| | | | Three months ended June 30, 2022 | | | Three months ended June 30, 2021 |
|---|---|---|---|---|---|---|
| *($000s)* | Pouce Coupe assets | Gordondale assets | Corporate[1] | Pouce Coupe assets | Gordondale assets | Corporate[1] |
| Light oil | 244 | 22,657 | 22,935 | 139 | 19,089 | 19,255 |
| Condensate | 39,993 | 16,558 | 56,620 | 31,576 | 13,665 | 45,241 |
| NGLs | 10,968 | 16,906 | 27,887 | 4,831 | 12,751 | 17,582 |
| Natural gas | 219,555 | 67,088 | 286,855 | 80,237 | 31,317 | 111,556 |
| P&NG sales[2] | 270,760 | 123,209 | 394,297 | 116,783 | 76,822 | 193,634 |
| Royalty income | 2 | 3 | 18 | 1 | 2 | 9 |
| **P&NG revenue** | **270,762** | **123,212** | **394,315** | **116,784** | **76,824** | **193,643** |
| **% of corporate P&NG revenue** | **69%** | **31%** | | **60%** | **40%** | |
| | | | **Six months ended June 30, 2022** | | | **Six months ended June 30, 2021** |
| *($000s)* | **Pouce Coupe assets** | **Gordondale assets** | **Corporate[1]** | **Pouce Coupe assets** | **Gordondale assets** | **Corporate[1]** |
| Light oil | 455 | 47,051 | 47,560 | 284 | 39,170 | 39,493 |
| Condensate | 74,423 | 34,533 | 109,086 | 56,734 | 25,022 | 81,757 |
| NGLs | 20,367 | 38,760 | 59,152 | 10,422 | 26,567 | 36,989 |
| Natural gas | 348,569 | 115,466 | 464,464 | 159,703 | 61,290 | 220,997 |
| P&NG sales[2] | 443,814 | 235,810 | 680,262 | 227,143 | 152,049 | 379,236 |
| Royalty income | 3 | 5 | 29 | 2 | 4 | 16 |
| **P&NG revenue** | **443,817** | **235,815** | **680,291** | **227,145** | **152,053** | **379,252** |
| **% of corporate P&NG revenue** | **65%** | **35%** | | **60%** | **40%** | |

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

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

On a corporate basis, P&NG revenue increased by 104% and 79% from the three and six month Comparable Prior Periods, respectively. The increases were primarily due to: (i) a significantly higher average realized natural gas sales price and increased natural gas production in the Reporting Periods, that resulted in a $175.3 million (157%) and $243.5 million (110%) increase in reported natural gas revenue from the three and six month Comparable Prior Periods, respectively; and (ii) a significantly higher average realized liquids sales price, partially offset by lower liquids production in the Reporting Periods, that resulted in a $25.4 million (31%) and $57.6 million (36%) increase in reported liquids revenue from the three and six month Comparable Prior Periods, respectively. The Corporation's average realized sales price in the Reporting Periods benefited from significant increases in benchmark oil and natural gas prices since the Comparable Prior Periods. See *"Discussion of Operations – P&NG Revenue – Commodity Prices"* in this MD&A for further details regarding the period-over-period movement in Birchcliff's average realized sales prices.

*Production*

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

| | Three months ended June 30, 2022 | | | Three months ended June 30, 2021 | | |
|---|---|---|---|---|---|---|
| | **Pouce Coupe assets** | **Gordondale assets** | **Corporate(1)** | **Pouce Coupe assets** | **Gordondale assets** | **Corporate(1)** |
| Light oil *(bbls/d)* | 20 | 1,832 | 1,855 | 19 | 2,743 | 2,766 |
| Condensate *(bbls/d)* | 3,148 | 1,346 | 4,500 | 4,260 | 1,810 | 6,070 |
| NGLs *(bbls/d)* | 1,781 | 4,568 | 6,349 | 1,704 | 5,942 | 7,647 |
| Natural gas *(Mcf/d)* | 278,514 | 87,451 | 366,256 | 250,362 | 102,322 | 352,694 |
| **Production *(boe/d)*** | **51,368** | **22,321** | **73,746** | **47,711** | **27,549** | **75,265** |
| **Liquids-to-gas ratio *(bbls/MMcf)*** | **17.8** | **88.6** | **34.7** | **23.9** | **102.6** | **46.7** |
| **% of corporate production** | **70%** | **30%** | | **63%** | **37%** | |
| | **Six months ended June 30, 2022** | | | **Six months ended June 30, 2021** | | |
| | **Pouce Coupe assets** | **Gordondale assets** | **Corporate(1)** | **Pouce Coupe assets** | **Gordondale assets** | **Corporate(1)** |
| Light oil *(bbls/d)* | 20 | 2,088 | 2,111 | 21 | 3,034 | 3,059 |
| Condensate *(bbls/d)* | 3,143 | 1,499 | 4,647 | 4,041 | 1,729 | 5,770 |
| NGLs *(bbls/d)* | 1,784 | 5,374 | 7,158 | 1,899 | 6,288 | 8,187 |
| Natural gas *(Mcf/d)* | 270,518 | 94,880 | 365,779 | 248,721 | 100,166 | 348,897 |
| **Production *(boe/d)*** | **50,032** | **24,774** | **74,879** | **47,415** | **27,746** | **75,166** |
| **Liquids-to-gas ratio *(bbls/MMcf)*** | **18.3** | **94.4** | **38.0** | **24.0** | **110.3** | **48.8** |
| **% of corporate production** | **67%** | **33%** | | **63%** | **37%** | |

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

Birchcliff's corporate production decreased by 2% from the three month Comparable Prior Period and remained relatively consistent with the six month Comparable Prior Period.

The decrease in the three month Reporting Period was primarily due to a major scheduled turnaround in May and June 2022 at AltaGas' deep-cut sour gas processing facility in Gordondale (the "**AltaGas Facility**") that decreased quarterly liquids and natural gas production in Gordondale by approximately 3,600 boe/d. Production in the Reporting Periods was positively impacted by incremental production volumes from the new Montney/Doig wells brought on production since June 30, 2021, including the new 10-well (01-08) pad in Pouce Coupe brought on production in May 2022 and the new 6-well (13-29) pad in Pouce Coupe brought on production in February 2022, partially offset by natural production declines.

Birchcliff is on target to meet its annual average production guidance of 78,000 to 80,000 boe/d due to significant production additions expected in the second half of 2022.

The following table sets forth Birchcliff's production weighting by product category for the Pouce Coupe assets, the Gordondale assets and on a corporate basis for the periods indicated:

| | | | Three months ended June 30, 2022 | | | Three months ended June 30, 2021 |
|---|---|---|---|---|---|---|
| | Pouce Coupe assets | Gordondale assets | Corporate(1) | Pouce Coupe assets | Gordondale assets | Corporate(1) |
| % Light oil production | - | 8% | 2% | - | 10% | 4% |
| % Condensate production | 6% | 6% | 6% | 9% | 7% | 8% |
| % NGLs production | 4% | 21% | 9% | 4% | 22% | 10% |
| % Natural gas production | 90% | 65% | 83% | 87% | 61% | 78% |
| | | | Six months ended June 30, 2022 | | | Six months ended June 30, 2021 |
| | Pouce Coupe assets | Gordondale assets | Corporate(1) | Pouce Coupe assets | Gordondale assets | Corporate(1) |
| % Light oil production | - | 8% | 3% | - | 11% | 4% |
| % Condensate production | 6% | 6% | 6% | 9% | 6% | 8% |
| % NGLs production | 4% | 22% | 10% | 4% | 23% | 11% |
| % Natural gas production | 90% | 64% | 81% | 87% | 60% | 77% |

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

Liquids accounted for 17% and 19% of Birchcliff's total production in the three and six month Reporting Periods, respectively, as compared to 22% and 23% in the Comparable Prior Periods, with a liquids-to-gas ratio in the Reporting Periods of 34.7 bbls/MMcf and 38.0 bbls/MMcf (50% and 49% high-value light oil and condensate), respectively. The decreases in liquids weighting were primarily due to a combination of lower liquids production in the Gordondale area as a result of the AltaGas Facility turnaround in May and June 2022, the Corporation specifically targeting horizontal natural gas wells in liquids-rich zones in the Pouce Coupe and Gordondale areas since the Comparable Prior Periods and natural production declines from light oil and liquids-rich natural gas wells producing since the Comparable Prior Periods.

*Commodity Prices*

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

| | | | Three months ended June 30, |
|---|---|---|---|
| | **2022** | **2021** | **% Change** |
| Light oil – WTI Cushing *(US$/bbl)* | 109.08 | 66.07 | 65% |
| Light oil – MSW (Mixed Sweet) *(CDN$/bbl)* | 137.55 | 76.77 | 79% |
| Natural gas – NYMEX HH *(US$/MMBtu)* | 7.17 | 2.83 | 153% |
| Natural gas – AECO 5A Daily *(CDN$/GJ)* | 6.86 | 2.98 | 130% |
| Natural gas – AECO 7A Month Ahead *(US$/MMBtu)* | 4.94 | 2.32 | 113% |
| Natural gas – Dawn Day Ahead *(US$/MMBtu)* | 7.21 | 2.80 | 158% |
| Natural gas – ATP 5A Day Ahead *(CDN$/GJ)* | 7.48 | 2.68 | 179% |
| Exchange rate *(CDN$ to US$1)* | 1.2688 | 1.2281 | 3% |
| Exchange rate *(US$ to CDN$1)* | 0.7881 | 0.8143 | (3%) |
| | | | **Six months ended June 30,** |
| | **2022** | **2021** | **% Change** |
| Light oil – WTI Cushing *(US$/bbl)* | 101.69 | 61.93 | 64% |
| Light oil – MSW (Mixed Sweet) *(CDN$/bbl)* | 126.59 | 71.62 | 77% |
| Natural gas – NYMEX HH *(US$/MMBtu)* | 6.06 | 2.76 | 120% |
| Natural gas – AECO 5A Daily *(CDN$/GJ)* | 5.68 | 2.84 | 100% |
| Natural gas – AECO 7A Month Ahead *(US$/MMBtu)* | 4.28 | 2.31 | 85% |
| Natural gas – Dawn Day Ahead *(US$/MMBtu)* | 5.81 | 2.88 | 102% |
| Natural gas – ATP 5A Day Ahead *(CDN$/GJ)* | 6.03 | 3.36 | 79% |
| Exchange rate *(CDN$ to US$1)* | 1.2694 | 1.2472 | 2% |
| Exchange rate *(US$ to CDN$1)* | 0.7878 | 0.8018 | (2%) |

Birchcliff physically sells substantially all of its liquids production based on the MSW benchmark price and substantially all of its natural gas production based on the AECO 5A and Dawn benchmark prices. Birchcliff has agreements for the firm service transportation of an aggregate of 175,000 GJ/d of natural gas on TCPL's Canadian Mainline, whereby natural gas is transported to the Dawn trading hub in Southern Ontario. Birchcliff has also diversified a portion of its AECO production to NYMEX HH-based pricing, predominantly on a financial basis, with various terms ending no later than December 31, 2027. Birchcliff sold financial NYMEX HH/AECO 7A basis swaps for 147,500 MMBtu/d at an average contract price of NYMEX HH less US$1.227/MMBtu during the Reporting Periods and Comparable Prior Periods. See *"Discussion of Operations – Risk Management*" in this MD&A.

The average realized sales prices the Corporation receives for its liquids and natural gas production depend on a number of factors, including, but not limited to, the average benchmark prices for crude oil and natural gas, the US to Canadian dollar exchange rate, transportation costs, product quality differentials and the heat premium on its natural gas production.

The benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for crude oil. The principal benchmark index prices that Birchcliff compares its oil price to are the WTI price and the MSW price. The differential between the WTI price and the MSW price can fluctuate due to a number of factors, including, but not limited to, domestic oil supply and demand balance, North American refinery utilization rates, inventory levels and pipeline infrastructure capacity connecting key oil consuming markets. The WTI benchmark oil index price increased significantly from the Comparable Prior Periods primarily due to the continued recovery from the COVID-19 pandemic and geopolitical tensions arising from the Russian invasion of Ukraine that has resulted in increased demand for North American crude oil.

Canadian natural gas prices are influenced by local, regional and global supply and demand fundamentals which can be impacted by a number of factors, including, but not limited to, production growth levels, weather-related conditions in key natural gas consuming markets, changing demographics, economic growth, inventory levels, access to underground storage, net import and export of LNG, pipeline supply takeaway capacity, maintenance on key natural gas infrastructure, costs of competing renewable and non-renewable energy alternatives, drilling and completion rates and efficiencies in extracting natural gas from North American natural gas basins. Natural gas benchmark prices increased significantly from the Comparable Prior Periods predominantly due to higher weather-related domestic demand for natural gas, an increase in US LNG exports and geopolitical tensions arising from the Russian invasion of Ukraine that has resulted in increased demand for North American natural gas.

Volatility in crude oil and natural gas prices persist primarily due to uncertainty around the COVID-19 pandemic, the potential for global economic slowdown attributed to rising inflation and interest rates, supply uncertainty of crude oil and natural gas as a result of the Russian invasion of Ukraine and global commodity supply constraints and labour shortages that have increased inflationary pressures on governments, businesses and communities.

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

| | | | Three months ended June 30, |
|---|---|---|---|
| | **2022** | **2021** | **% Change** |
| Light oil *($/bbl)* | 135.91 | 76.50 | 78% |
| Condensate *($/bbl)* | 138.28 | 81.90 | 69% |
| NGLs *($/bbl)* | 48.26 | 25.27 | 91% |
| Natural gas *($/Mcf)* | 8.61 | 3.48 | 147% |
| **Average realized sales price *($/boe)*[(1)(2)]** | **58.75** | **28.27** | **108%** |
| | | | **Six months ended June 30,** |
| | **2022** | **2021** | **% Change** |
| Light oil *($/bbl)* | 124.50 | 71.33 | 75% |
| Condensate *($/bbl)* | 129.70 | 78.28 | 66% |
| NGLs *($/bbl)* | 45.66 | 24.96 | 83% |
| Natural gas *($/Mcf)* | 7.02 | 3.50 | 101% |
| **Average realized sales price *($/boe)*[(1)(2)]** | **50.19** | **27.87** | **80%** |

(1) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

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

The Corporation's average realized sales price increased by 108% and 80% from the three and six month Comparable Prior Periods, respectively, primarily due to significant increases in benchmark oil and natural gas prices which positively impacted the sales prices Birchcliff received for its production in the Reporting Periods.

*Natural Gas Sales, Production and Average Realized Sales Price*

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

| | Three months ended June 30, 2022 | | | | | Three months ended June 30, 2021 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Natural gas sales** *($000s)*(1) | *(%)* | **Natural gas production** *(Mcf/d)* | *(%)* | **Average realized sales price** *($/Mcf)*(1)(2) | **Natural gas sales** *($000s)*(1) | *(%)* | **Natural gas production** *(Mcf/d)* | *(%)* | **Average realized sales price** *($/Mcf)*(1)(2) |
| AECO | 131,062 | 46 | 186,717 | 51 | 7.71 | 43,721 | 39 | 147,178 | 42 | 3.28 |
| Dawn | 141,145 | 49 | 159,817 | 44 | 9.71 | 53,025 | 48 | 159,197 | 45 | 3.66 |
| Alliance(3) | 14,648 | 5 | 19,722 | 5 | 8.16 | 14,810 | 13 | 46,319 | 13 | 3.51 |
| **Total** | **286,855** | **100** | **366,256** | **100** | **8.61** | **111,556** | **100** | **352,694** | **100** | **3.48** |
| | **Six months ended June 30, 2022** | | | | | **Six months ended June 30, 2021** | | | | |
| | **Natural gas sales** *($000s)*(1) | *(%)* | **Natural gas production** *(Mcf/d)* | *(%)* | **Average realized sales price** *($/Mcf)*(1)(2) | **Natural gas sales** *($000s)*(1) | *(%)* | **Natural gas production** *(Mcf/d)* | *(%)* | **Average realized sales price** *($/Mcf)*(1)(2) |
| AECO | 203,423 | 44 | 172,735 | 47 | 6.55 | 83,112 | 38 | 140,262 | 40 | 3.27 |
| Dawn | 224,975 | 48 | 160,558 | 44 | 7.74 | 106,895 | 48 | 159,777 | 46 | 3.70 |
| Alliance(3) | 36,066 | 8 | 32,486 | 9 | 6.13 | 30,990 | 14 | 48,858 | 14 | 3.50 |
| **Total** | **464,464** | **100** | **365,779** | **100** | **7.02** | **220,997** | **100** | **348,897** | **100** | **3.50** |

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

(2) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

(3) Birchcliff has short-term physical sales agreements with third-party marketers to sell and deliver into the Alliance pipeline system. Alliance sales are recorded net of transportation tolls.

## Risk Management

Birchcliff engages in risk management activities by utilizing various financial instruments and physical delivery contracts to diversify its sales points or fix commodity prices and market interest rates. The board of directors has authorized the Corporation to execute a risk management strategy whereby Birchcliff is authorized, subject to compliance with the agreement governing the Corporation's extendible revolving credit facilities (the "**Credit Facilities**"), to enter into agreements and financial or physical transactions with one or more counterparties from time to time that are intended to reduce the risk to the Corporation from volatility in future commodity prices, foreign exchange rates and/or interest rates.

*Financial Derivative Contracts*

Birchcliff has not designated its financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity price contracts to be effective economic hedges. As a result, all such financial instruments are recorded on the statements of financial position on a mark-to-market fair value basis at June 30, 2022, with the changes in fair value being recognized as a non-cash unrealized gain or loss in profit or loss and realized upon settlement. These contracts are not entered into for trading or speculative purposes.

Birchcliff's average notional quantity and contract price for its NYMEX HH/AECO 7A financial basis swaps outstanding at June 30, 2022 are set forth below:

| Product | Type of Contract | Average Notional Quantity | Period | Average Contract Price |
|---|---|---|---|---|
| Natural gas | AECO 7A basis swap(1) | 147,500 MMBtu/d | Jul. 1, 2022 – Dec. 31, 2022 | NYMEX HH less US$1.227/MMBtu |
| Natural gas | AECO 7A basis swap(1) | 147,500 MMBtu/d | Jan. 1, 2023 – Dec. 31, 2023 | NYMEX HH less US$1.227/MMBtu |
| Natural gas | AECO 7A basis swap(1) | 147,500 MMBtu/d | Jan. 1, 2024 – Dec. 31, 2024 | NYMEX HH less US$1.120/MMBtu |
| Natural gas | AECO 7A basis swap(1) | 147,500 MMBtu/d | Jan. 1, 2025 – Dec. 31, 2025 | NYMEX HH less US$1.088/MMBtu |
| Natural gas | AECO 7A basis swap(1) | 5,000 MMBtu/d | Jan. 1, 2027 – Dec. 31, 2027 | NYMEX HH less US$0.620/MMBtu |

(1) Birchcliff sold AECO basis swap.

There were no financial derivative contracts entered into subsequent to June 30, 2022 to manage commodity price risk.

Birchcliff also enters into physical delivery contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value through profit or loss.

At June 30, 2022, 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 | Jul. 1, 2022 – 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 June 30, 2022 to manage commodity price risk.

*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 June 30, 2022, Birchcliff had the following financial derivative contracts in place to manage interest rate risk:

| Type of Contract | Index | Remaining Term(1) | Notional value | Fixed Rate |
|---|---|---|---|---|
| Interest rate swap | One-month banker's acceptance – CDOR(2) | Jul. 1 2022 – Mar. 1, 2024 | $350 million | 2.215% |

(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**").

There were no financial derivative contracts entered into subsequent to June 30, 2022 to manage interest rate risk.

*Realized and Unrealized Gains and Losses on Financial Instruments*

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

| | | Three months ended June 30, | | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | | 2021 | | 2022 | | 2021 | |
| | *($000s)* | *($/boe)*[1] | *($000s)* | *($/boe)*[1] | *($000s)* | *($/boe)*[1] | *($000s)* | *($/boe)*[1] |
| **Realized gain (loss)** | **16,687** | **2.49** | **(13,392)** | **(1.96)** | **16,488** | **1.21** | **(28,890)** | **(2.12)** |
| **Unrealized gain** | **47,453** | **7.07** | **21,339** | **3.12** | **82,128** | **6.06** | **13,720** | **1.01** |

(1) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

Birchcliff realized gains on financial instruments of $16.7 million and $16.5 million in the three and six month Reporting Periods, respectively, due to the settlement of NYMEX HH/AECO 7A financial basis and interest rate swap contracts in the Reporting Periods. In the three and six month Comparable Prior Periods, Birchcliff realized losses on financial instruments of $13.4 million and $28.9 million, respectively. The change to realized gains on financial instruments in the Reporting Periods from realized losses on financial instruments in the Comparable Prior Periods was primarily due to the settlement price (average spread between NYMEX HH and AECO 7A) being higher than the average contract price for NYMEX HH/AECO 7A basis swaps in the Reporting Periods.

The unrealized gains on financial instruments of $47.5 million and $82.1 million in the three and six month Reporting Periods, respectively, resulted from the decrease in the fair value net liability position of the Corporation's financial instruments to $1.7 million at June 30, 2022 from a net liability position of $83.8 million at December 31, 2021. The change in the fair value of financial instruments in the Reporting Periods was primarily due to the: (i) increase (or widening) in the forward basis spread between NYMEX HH and AECO 7A contracts outstanding at June 30, 2022 as compared to the fair value previously assessed at December 31, 2021; and (ii) settlement of financial NYMEX HH/AECO 7A basis swap contracts in the Reporting Periods.

Unrealized gains and losses on financial instruments can fluctuate materially from period to period due to movement in the forward strip commodity prices and interest rates. Unrealized gains and losses on financial instruments do not impact adjusted funds flow and may differ materially from the actual gains or losses realized on the eventual cash settlement of financial contracts in a period.

**Royalties**

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **Royalty expense *($000s)***[1] | **52,010** | **16,692** | **82,168** | **28,319** |
| **Royalty expense *($/boe)***[2] | **7.75** | **2.44** | **6.06** | **2.08** |
| Effective royalty rate *(%)*[2][3] | 13% | 9% | 12% | 7% |

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

(2) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

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

Royalty expense per boe increased by 218% and 191% from the three and six month Comparable Prior Periods, respectively, primarily due to significant increases in the average realized sales price received for Birchcliff's liquids and natural gas production in the Reporting Periods.

## Operating Expense

The following table sets forth a breakdown of Birchcliff's operating expense for the periods indicated:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2022** | **2021** | **2022** | **2021** |
| Field operating expense | 23,961 | 22,568 | 48,736 | 45,611 |
| Recoveries | (1,165) | (1,030) | (2,093) | (2,575) |
| **Operating expense** | **22,796** | **21,538** | **46,643** | **43,036** |
| **Operating expense per boe**[(1)] | **$3.40** | **$3.14** | **$3.44** | **$3.16** |

(1) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

Operating expense per boe increased by 8% and 9% from the three and six month Comparable Prior Periods, respectively, primarily due to higher inflationary pressures on power and other fuel supply costs which together increased by 45% and 22% on a per boe basis in the three and six month Reporting Periods. Operating expense per boe was also negatively impacted by higher field labour costs, road and lease maintenance costs, municipal property taxes and regulatory fees, and was partially offset by lower third-party natural gas processing fees resulting from the turnaround at the AltaGas Facility in May and June 2022.

## Transportation and Other

The following table sets forth Birchcliff's transportation and other expense for the periods indicated:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2022** | **2021** | **2022** | **2021** |
| Natural gas transportation | 29,430 | 28,798 | 59,398 | 57,406 |
| Liquids transportation | 7,557 | 6,967 | 13,107 | 14,148 |
| Fractionation | 2,838 | 2,361 | 5,127 | 4,221 |
| Other fees | 30 | 39 | 60 | 74 |
| Transportation expense | 39,855 | 38,165 | 77,692 | 75,849 |
| Transportation expense per boe[(1)] | $5.93 | $5.57 | $5.73 | $5.58 |
| | | | | |
| Marketing purchases[(2)] | 2,644 | 1,734 | 6,213 | 3,781 |
| Marketing revenue[(2)] | (3,043) | (2,234) | (7,277) | (4,692) |
| Marketing gain[(3)] | (399) | (500) | (1,064) | (911) |
| Marketing gain per boe[(4)] | ($0.06) | ($0.07) | ($0.08) | ($0.07) |
| **Transportation and other expense**[(3)] | **39,456** | **37,665** | **76,628** | **74,938** |
| **Transportation and other expense per boe**[(4)] | **$5.87** | **$5.50** | **$5.65** | **$5.51** |

(1) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

(2) Marketing purchases and marketing revenue primarily represent the volumes purchased and sold to third parties, which are recorded on a gross basis for financial statement presentation purposes. Birchcliff enters into certain marketing purchase and sales arrangements to reduce its take-or-pay fractionation fees associated with third-party commitments. Any gains or losses from the purchase and sale of third-party products primarily relate to the commodity price differential.

(3) Non-GAAP financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

(4) Non-GAAP ratio. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

On a per boe basis, transportation and other expense increased by 7% and 3% from the three and six month Comparable Prior Periods, respectively. The increases were primarily due to higher natural gas transportation costs in the Reporting Periods which resulted from increased natural gas production and higher firm NGTL tolling charges. Notwithstanding lower liquids production in the Reporting Periods, liquids transportation and fractionation costs also increased in the three month Reporting Period, primarily due to inflationary pressures that resulted in higher pipeline tariffs, higher trucking and hauling costs and higher variable operating, power, fuel and service costs. In the six month Reporting Period, liquids transportation decreased largely as a result of lower pipeline tariffs.

## Operating Netback

The following table sets forth Birchcliff's average production and operating netback for the Pouce Coupe assets, the Gordondale assets and on a corporate basis for the periods indicated:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| **Pouce Coupe assets:** | | | | |
| *Average production* | | | | |
| Light oil *(bbls/d)* | 20 | 19 | 20 | 21 |
| Condensate *(bbls/d)* | 3,148 | 4,260 | 3,143 | 4,041 |
| NGLs *(bbls/d)* | 1,781 | 1,704 | 1,784 | 1,899 |
| Natural gas *(Mcf/d)* | 278,514 | 250,362 | 270,518 | 248,721 |
| **Total *(boe/d)*** | **51,368** | **47,711** | **50,032** | **47,415** |
| **% of corporate production** | **70%** | **63%** | **67%** | **63%** |
| **Liquids-to-gas ratio *(bbls/MMcf)*** | **17.8** | **23.9** | **18.3** | **24.0** |
| *Netback and cost ($/boe)*(1) | | | | |
| Petroleum and natural gas revenue(2) | 57.92 | 26.90 | 49.01 | 26.47 |
| Royalty expense | (6.26) | (2.04) | (4.83) | (1.67) |
| Operating expense | (2.54) | (2.39) | (2.68) | (2.43) |
| Transportation and other expense(3) | (5.71) | (5.73) | (5.58) | (5.85) |
| **Operating netback(3)** | **43.41** | **16.74** | **35.92** | **16.52** |
| **Gordondale assets:** | | | | |
| *Average production* | | | | |
| Light oil *(bbls/d)* | 1,832 | 2,743 | 2,088 | 3,034 |
| Condensate *(bbls/d)* | 1,346 | 1,810 | 1,499 | 1,729 |
| NGLs *(bbls/d)* | 4,568 | 5,942 | 5,374 | 6,288 |
| Natural gas *(Mcf/d)* | 87,451 | 102,322 | 94,880 | 100,166 |
| **Total *(boe/d)*** | **22,321** | **27,549** | **24,774** | **27,746** |
| **% of corporate production** | **30%** | **37%** | **33%** | **37%** |
| **Liquids-to-gas ratio *(bbls/MMcf)*** | **88.6** | **102.6** | **94.4** | **110.3** |
| *Netback and cost ($/boe)*(1) | | | | |
| Petroleum and natural gas revenue(2) | 60.66 | 30.64 | 52.59 | 30.28 |
| Royalty expense | (11.19) | (3.13) | (8.56) | (2.78) |
| Operating expense | (5.27) | (4.39) | (4.92) | (4.37) |
| Transportation and other expense(3) | (6.26) | (5.08) | (5.80) | (4.94) |
| **Operating netback(3)** | **37.94** | **18.04** | **33.31** | **18.19** |
| **Corporate(4):** | | | | |
| *Average production* | | | | |
| Light oil *(bbls/d)* | 1,855 | 2,766 | 2,111 | 3,059 |
| Condensate *(bbls/d)* | 4,500 | 6,070 | 4,647 | 5,770 |
| NGLs *(bbls/d)* | 6,349 | 7,647 | 7,158 | 8,187 |
| Natural gas *(Mcf/d)* | 366,256 | 352,694 | 365,779 | 348,897 |
| **Total *(boe/d)*** | **73,746** | **75,265** | **74,879** | **75,166** |
| **Liquids-to-gas ratio *(bbls/MMcf)*** | **34.7** | **46.7** | **38.0** | **48.8** |
| *Netback and cost ($/boe)*(1) | | | | |
| Petroleum and natural gas revenue(2) | 58.75 | 28.27 | 50.19 | 27.87 |
| Royalty expense | (7.75) | (2.44) | (6.06) | (2.08) |
| Operating expense | (3.40) | (3.14) | (3.44) | (3.16) |
| Transportation and other expense(3) | (5.87) | (5.50) | (5.65) | (5.51) |
| **Operating netback(3)** | **41.73** | **17.19** | **35.04** | **17.12** |

(1) The component values of netback and cost set out in the table above are supplementary financial measures unless otherwise indicated. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

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

(3) Non-GAAP ratio. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

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

*Pouce Coupe Assets*

Birchcliff's average production from the Pouce Coupe assets increased by 8% and 6% from the three and six month Comparable Prior Periods, respectively. The increases were primarily due to incremental production volumes from the new Montney/Doig natural gas wells brought on production since the Comparable Prior Periods, including the new 10-well (01-08) pad brought on production in May 2022 and the new 6-well (13-29) pad brought on production in February 2022, partially offset by natural production declines.

Birchcliff's liquids-to-gas ratio for the Pouce Coupe assets decreased by 26% and 24% from the three and six month Comparable Prior Periods, respectively. The decreases were primarily due to the Corporation specifically targeting horizontal natural gas wells in the Pouce Coupe area since the Comparable Prior Periods and natural production declines from liquids-rich natural gas wells producing since the Comparable Prior Periods.

Birchcliff's operating netback for the Pouce Coupe assets increased by 159% and 117% from the three and six month Comparable Prior Periods, respectively. The increases were primarily due to higher per boe petroleum and natural gas revenue, partially offset by higher per boe royalty expenses, both of which were largely the result of significant increases in the average realized sales price received for Birchcliff's Pouce Coupe production in the Reporting Periods.

*Gordondale Assets*

Birchcliff's average production from the Gordondale assets decreased by 19% and 11% from the three and six month Comparable Prior Periods, respectively. The decreases were primarily due to a major scheduled turnaround in May and June 2022 at the AltaGas Facility that decreased quarterly liquids and natural gas production in Gordondale by approximately 3,600 boe/d and natural production declines. Production in Gordondale was positively impacted by incremental production volumes from the new liquids-rich natural gas wells brought on production in the area since the Comparable Prior Periods.

Birchcliff's liquids-to-gas ratio for the Gordondale assets decreased by 14% from the three and six month Comparable Prior Periods. The decreases were primarily due to a combination of lower liquids production in the Gordondale area as a result of the turnaround in May and June 2022, the Corporation specifically targeting horizontal natural gas wells in liquids-rich zones in the Gordondale area since the Comparable Prior Periods and natural production declines from light oil and liquids rich natural gas wells producing since the Comparable Prior Periods.

Birchcliff's operating netback for the Gordondale assets increased by 110% and 83% from the three and six month Comparable Prior Periods, respectively. The increases were primarily due to higher per boe petroleum and natural gas revenue, partially offset by higher per boe royalty expenses, both of which were largely the result of significant increases in the average realized sales price received for Birchcliff's Gordondale production in the Reporting Periods.

## Administrative Expense

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

| | Three months ended June 30, 2022 | | 2021 | | Six months ended June 30, 2022 | | 2021 | |
|---|---|---|---|---|---|---|---|---|
| | ($000s) | (%) | ($000s) | (%) | ($000s) | (%) | ($000s) | (%) |
| *Cash:* | | | | | | | | |
| Salaries and benefits(1) | 6,490 | 59 | 6,160 | 64 | 13,381 | 61 | 12,784 | 65 |
| Other(2) | 4,589 | 41 | 3,497 | 36 | 8,660 | 39 | 6,771 | 35 |
| G&A expense, gross | 11,079 | 100 | 9,657 | 100 | 22,041 | 100 | 19,555 | 100 |
| Operating overhead recoveries | (41) | - | (41) | (1) | (77) | - | (74) | - |
| Capitalized overhead(3) | (3,328) | (30) | (3,599) | (37) | (6,566) | (30) | (7,225) | (37) |
| G&A expense, net | 7,710 | 70 | 6,017 | 62 | 15,398 | 70 | 12,256 | 63 |
| G&A expense, net per boe(4) | $1.15 | | $0.88 | | $1.14 | | $0.90 | |
| *Non-cash:* | | | | | | | | |
| Other compensation | 2,901 | 100 | 1,172 | 100 | 5,755 | 100 | 2,533 | 100 |
| Capitalized compensation(3) | (1,536) | (53) | (651) | (55) | (2,910) | (51) | (1,408) | (56) |
| Other compensation, net | 1,365 | 47 | 521 | 45 | 2,845 | 49 | 1,125 | 44 |
| Other compensation, net per boe(4) | $0.20 | | $0.08 | | $0.21 | | $0.08 | |
| **Administrative expense, net** | **9,075** | | **6,538** | | **18,243** | | **13,381** | |
| **Administrative expense, net per boe(4)** | **$1.35** | | **$0.96** | | **$1.35** | | **$0.98** | |

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

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

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

(4) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

Net administrative expense on an aggregate basis increased by 39% and 36% from the three and six month Comparable Prior Periods, respectively, primarily due to increases in net G&A expense and other compensation expense. Net G&A expense increased primarily due to higher employee-related expenses, higher corporate costs due to the easing of Birchcliff's COVID-19 restrictions and higher general business expenditures due to inflationary pressures. Other compensation expense increased primarily due to a higher fair value expense associated with stock options granted by Birchcliff in the Reporting Periods.

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

| | Three months ended June 30, 2022 | | 2021 | | Six months ended June 30, 2022 | | 2021 | |
|---|---|---|---|---|---|---|---|---|
| | Number | Price ($)(1) | Number | Price ($)(1) | Number | Price ($)(1) | Number | Price ($)(1) |
| Outstanding, beginning | 18,078,542 | 3.76 | 23,771,737 | 3.58 | 23,116,919 | 3.96 | 26,134,201 | 3.56 |
| Granted(2) | 167,400 | 9.94 | 66,500 | 3.14 | 230,400 | 9.07 | 95,500 | 3.16 |
| Exercised | (2,605,087) | (3.03) | (908,283) | (2.95) | (5,928,364) | (3.08) | (1,010,613) | (2.91) |
| Forfeited | (119,802) | (4.31) | (2,025,469) | (7.67) | (254,802) | (4.40) | (2,047,037) | (7.61) |
| Expired | - | - | (84,000) | (6.51) | (1,643,100) | (7.84) | (2,351,566) | (3.53) |
| **Outstanding, ending** | **15,521,053** | **3.95** | **20,820,485** | **3.19** | **15,521,053** | **3.95** | **20,820,485** | **3.19** |

(1) Calculated on a weighted average basis.

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

On January 18, 2005, Birchcliff issued 4,049,665 performance warrants as part of its initial restructuring to become a public entity. Each performance warrant is exercisable at a price of $3.00 to purchase one common share of Birchcliff.

On May 26, 2022, the Corporation purchased 1,724,832 performance warrants for a total cash cost of $14.5 million. As at June 30, 2022, there remained 1,214,900 performance warrants (December 31, 2021 – 2,939,732) outstanding with an expiry date of January 31, 2025.

## Depletion and Depreciation Expense

Depletion and depreciation ("**D&D**") expense is a function of the estimated proved and probable reserves additions, the F&D costs attributable to those reserves, the associated future development capital required to recover those reserves and the actual production in the relevant period. The Corporation determines its D&D expense on a field area basis. The following table sets forth Birchcliff's D&D expense for the periods indicated:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2022** | **2021** | **2022** | **2021** |
| **Depletion and depreciation expense** | **50,486** | **51,311** | **101,588** | **101,756** |
| **Depletion and depreciation expense per boe**(1) | **$7.52** | **$7.49** | **$7.50** | **$7.48** |

(1) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

D&D expense per boe remained relatively consistent with the Comparable Prior Periods.

## Finance Expense

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2022** | **2021** | **2022** | **2021** |
| *Cash:* | | | | |
| Interest expense(1) | 3,380 | 8,287 | 6,645 | 16,459 |
| Interest expense per boe(1)(2) | $0.50 | $1.21 | $0.49 | $1.21 |
| *Non-cash:* | | | | |
| Accretion(3) | 1,075 | 915 | 1,938 | 1,626 |
| Amortization of deferred financing fees | 363 | 242 | 602 | 491 |
| Other finance expenses | 1,438 | 1,157 | 2,540 | 2,117 |
| Other finance expenses per boe(2) | $0.21 | $0.17 | $0.18 | $0.16 |
| **Finance expense** | **4,818** | **9,444** | **9,185** | **18,576** |
| **Finance expense per boe**(2) | **$0.71** | **$1.38** | **$0.67** | **$1.37** |

(1) Birchcliff's interest expense consists of interest incurred under the Corporation's Credit Facilities. For a description of the Credit Facilities, see *"Capital Resources and Liquidity"* in this MD&A.

(2) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

(3) Includes accretion on decommissioning obligations, lease obligations and post-employment benefit obligations.

Finance expense on an aggregate basis decreased by 49% and 51% from the three and six month Comparable Prior Periods, respectively, primarily due to a decrease in interest expense. Birchcliff's aggregate interest expense decreased by 59% and 60% from the three and six month Comparable Prior Periods, respectively, primarily due to decreases in the average effective interest rate and a lower average outstanding balance under the Credit Facilities in the Reporting Periods.

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| Working Capital Facility | 4.2% | 5.5% | 3.9% | 5.5% |
| Syndicated Credit Facility(1)(2) | 3.9% | 4.6% | 3.4% | 4.5% |

(1) The average effective interest rate under the Syndicated Credit Facility (as defined herein) was determined primarily based on: (i) the market interest rate for LIBOR and SOFR loans; and (ii) the pricing margin applicable to LIBOR and SOFR loans. Birchcliff's pricing margin will change as a result of the ratio of outstanding indebtedness to the trailing four quarter EBITDA as calculated in accordance with the Corporation's agreement governing the Credit Facilities. EBITDA is defined as earnings before interest and non-cash items, including (if any) deferred income taxes, other compensation, gains and losses on sale of assets and securities, unrealized gains and losses on financial instruments, depletion, depreciation and amortization and impairment charges.

(2) Effective May 3, 2022, the agreement governing the Credit Facilities was amended to, among other things, convert any outstanding LIBOR loans into SOFR loans.

The average outstanding balance under the Syndicated Credit Facility was approximately $327.8 million and $382.1 million in the three and six month Reporting Periods, respectively, as compared to $712.0 million and $719.0 million in the Comparable Prior Periods, calculated as the simple average of the month-end amounts.

### Other Income and Expense

The following table sets forth the components of the Corporation's other cash income and expense sources for the periods indicated:

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | | 2021 | | 2022 | | 2021 | |
| | *($000s)* | *($/boe)*[1] | *($000s)* | *($/boe)*[1] | *($000s)* | *($/boe)*[1] | *($000s)* | *($/boe)*[1] |
| **Other income (expense)** | **(114)** | **(0.02)** | **136** | **0.03** | **(61)** | **-** | **2,654** | **0.19** |

(1) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

Birchcliff's other income in the six month Comparable Prior Period primarily included the sale of Emissions Performance Credits ("**EPCs**") for $1.7 million (net of purchases) for the 2019 and 2020 emissions reporting period under Alberta's Technology Innovation and Emissions Reduction ("**TIER**") program, which replaced its predecessor regulation on January 1, 2020. A facility regulated under TIER, such as the Corporation's 100% owned and operated natural gas processing plant in Pouce Coupe, must reduce emissions beyond its established facility benchmarks in order to generate EPCs.

### Other Gains

The following table sets forth the components of the Corporation's other non-cash gains for the periods indicated:

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | | 2021 | | 2022 | | 2021 | |
| | *($000s)* | *($/boe)*[1] | *($000s)* | *($/boe)*[1] | *($000s)* | *($/boe)*[1] | *($000s)* | *($/boe)*[1] |
| **Other gains** | **222** | **0.03** | **93** | **0.01** | **2,288** | **0.17** | **3,393** | **0.25** |

(1) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

On August 31, 2017, Birchcliff acquired securities consisting of 4,500,000 common A units in a limited partnership and 10,000,000 preferred units in a trust (collectively, the "**Securities**") at a combined investment value of $10.0 million. The Securities are not publicly listed and do not constitute significant investments. Birchcliff recorded a gain on investment from the Securities of $1.8 million during the six month Reporting Period, as compared to a gain on investment of $3.3 million in the six month Comparable Prior Period.

### Income Tax Expense

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2022** | **2021** | **2022** | **2021** |
| Deferred tax expense | 63,666 | 12,363 | 102,227 | 19,245 |
| Dividend tax expense on preferred shares | 686 | 689 | 1,373 | 1,388 |
| **Deferred income tax expense** | **64,352** | **13,052** | **103,600** | **20,633** |
| **Deferred income tax expense per boe**[1] | **$9.59** | **$1.91** | **$7.64** | **$1.52** |

(1) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

Birchcliff's deferred income tax expense on an aggregate basis increased by 393% and 402% from the three and six month Comparable Prior Periods, respectively. The increases were due to higher before-tax net income recorded in the Reporting Periods.

The Corporation's estimated income tax pools were $1.6 billion at June 30, 2022. Management expects that future taxable income will be available to utilize the accumulated tax pools. The components of the Corporation's estimated income tax pools are set forth in the table below:

| *($000s)* | **Tax pools as at June 30, 2022** |
|---|---|
| Canadian oil and gas property expense | 310,434 |
| Canadian development expense | 312,670 |
| Canadian exploration expense[(1)] | 309,865 |
| Undepreciated capital costs | 248,665 |
| Non-capital losses[(1)] | 381,443 |
| Scientific research and experimental development expenditures[(1)] | 20,844 |
| Investment tax credits[(2)] | 3,096 |
| Financing costs and other | 6,489 |
| **Estimated income tax pools** | **1,593,506** |

(1) Immediately available in full to reduce any taxable income in future periods.

(2) Immediately available in full to reduce any cash taxes owing on a dollar for dollar basis in future periods.

## CAPITAL EXPENDITURES

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

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| *($000s)* | **2022** | **2021** | **2022** | **2021** |
| Land | 875 | 476 | 1,669 | 927 |
| Seismic | 44 | 104 | 295 | 452 |
| Workovers | 2,462 | 2,657 | 5,344 | 6,111 |
| Drilling and completions | 60,777 | 61,039 | 109,471 | 135,368 |
| Well equipment and facilities | 20,089 | 16,611 | 55,750 | 33,869 |
| F&D capital expenditures[(1)] | 84,247 | 80,887 | 172,529 | 176,727 |
| Acquisitions | 1,500 | - | 1,500 | - |
| Dispositions | - | - | (315) | - |
| FD&A capital expenditures[(2)] | 85,747 | 80,887 | 173,714 | 176,727 |
| Administrative assets | 403 | 273 | 560 | 1,058 |
| **Total capital expenditures**[(2)] | **86,150** | **81,160** | **174,274** | **177,785** |

(1) See "*Advisories – F&D Capital Expenditures*" in this MD&A.

(2) Non-GAAP financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

During the three month Reporting Period, Birchcliff had F&D capital expenditures of $84.2 million which primarily included $51.3 million (61%) for the drilling and completion of horizontal wells in Pouce Coupe, $9.5 million (11%) for the drilling of horizontal wells in Gordondale and $20.1 million (24%) on plant turnarounds and large gas gathering and pipeline infrastructure projects. During the three month Reporting Period, Birchcliff drilled 12 (12.0 net) wells and brought 10 (10.0 net) wells on production.

During the six month Reporting Period, Birchcliff had F&D capital expenditures of $172.5 million which primarily included $99.1 million (57%) for the drilling and completion of horizontal wells in Pouce Coupe, $10.4 million (6%) for the drilling of horizontal wells in Gordondale and $55.7 million (32%) on plant turnarounds and large gas gathering and pipeline infrastructure projects. During the six month Reporting Period, Birchcliff drilled 23 (23.0 net) wells and brought 16 (16.0 net) wells on production.

The remaining capital during the Reporting Periods was primarily spent on land, seismic, workovers, well equipment and facilities, including minor gas gathering and optimization projects in the Montney/Doig Resource Play.

## CAPITAL RESOURCES AND LIQUIDITY

### Liquidity and Capital Resources

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2022** | **2021** | **2022** | **2021** |
| Cash flow from operating activities | 273,711 | 81,013 | 427,863 | 163,621 |
| Issuance of common shares | 7,895 | 2,684 | 18,289 | 2,938 |
| Repurchase of common shares(1) | (40,760) | - | (49,447) | - |
| Repurchase of capital securities(2) | (10) | (426) | (62) | (1,602) |
| Purchase of performance warrants | (14,506) | - | (14,506) | - |
| Financing fees paid | (1,275) | (3,454) | (1,275) | (3,454) |
| Lease payments | (615) | (614) | (1,229) | (1,215) |
| Dividend distributions | (7,025) | (3,058) | (11,400) | (6,134) |
| Net change in revolving term credit facilities | (120,811) | 22,398 | (224,167) | (7,488) |
| Investments | (584) | - | (784) | - |
| Changes in non-cash working capital from investing | (9,837) | (17,426) | 30,994 | 31,076 |
| **Capital resources(3)** | **86,183** | **81,117** | **174,276** | **177,742** |

(1) Represents common shares that have been purchased and cancelled pursuant to the NCIB. See *"Outstanding Share Information – Normal Course Issuer Bid"*.

(2) Represents Series C Preferred Shares that have been redeemed by the Corporation. See *"Outstanding Share Information – Series C Preferred Shares"*.

(3) Non-GAAP financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

The capital-intensive nature of Birchcliff's operations requires it to maintain adequate sources of liquidity to fund its short-term and long-term financial obligations. Birchcliff's capital resources primarily consist of adjusted funds flow and available Credit Facilities, which the Corporation believes are sufficient to fund its working capital requirements, capital expenditure programs and dividend payments for the foreseeable future.

At June 30, 2022, the Credit Facilities were comprised of an extendible revolving syndicated term credit facility (the "**Syndicated Credit Facility**") of $750.0 million and an extendible revolving working capital facility (the "**Working Capital Facility**") of $100.0 million. Effective May 3, 2022, the agreement governing the Credit Facilities was amended to extend the maturity dates of each of the Syndicated Credit Facility and Working Capital Facility from May 11, 2024 to May 11, 2025. In addition, the lenders confirmed the aggregate borrowing base limit under the Corporation's Credit Facilities at $850.0 million. The Credit Facilities do not contain any financial maintenance covenants.

At June 30, 2022, Birchcliff had long-term bank debt under the Credit Facilities of $276.0 million as compared to $500.9 million at December 31, 2021 from available Credit Facilities of $850.0 million, leaving the Corporation with $569.4 million of unutilized credit capacity after adjusting for outstanding letters of credit and unamortized fees. See *"Capital Resources and Liquidity – Bank Debt"* in this MD&A.

Birchcliff continues to proactively look for strategic risk management and market diversification opportunities in order to potentially reduce the overall volatility of its adjusted funds flow. Birchcliff's existing market diversification initiatives have increased its exposure to various natural gas sales trading hubs in North America. Birchcliff has agreements for the firm service transportation of an aggregate of 175,000 GJ/d of natural gas on TCPL's Canadian Mainline whereby natural gas is transported to the Dawn sales trading hub in Southern Ontario. Birchcliff also has various financial and physical risk management contracts in place up to 2027 which provide it with exposure to NYMEX HH pricing. See *"Discussion of Operations – Petroleum and Natural Gas Revenue"* and *"Discussion of Operations – Risk Management"* in this MD&A.

Birchcliff remains committed to maximizing free funds flow generation, which in 2022 will be primarily allocated to significantly reducing indebtedness in order to reduce the risks to its business and provide the Corporation with optionality to increase shareholder returns through sustainable increases to its common share dividend and common share buybacks. The Corporation believes that its anticipated 2022 adjusted funds flow will be sufficient to fund the remainder of its 2022 capital program, dividend distributions and working capital requirements. For further information, see *"Capital Resources and Liquidity – Bank Debt"*, *"Outlook and Guidance"*, *"Outstanding Share Information – Dividends"* and *"Advisories – Forward-Looking Statements"* in this MD&A.

## Working Capital

The Corporation's adjusted working capital surplus[1] was $9.1 million at June 30, 2022 as compared to $1.5 million at December 31, 2021. Adjusted working capital consists of items from normal day-to-day operations which include cash, trade receivables and payables, accruals, deposits and prepaid expenses and excludes the current portion of the fair value of financial instruments and capital securities. The increase in adjusted working capital surplus at June 30, 2022 was attributed to a higher accounts receivable balance associated with higher revenue from the sale of Birchcliff's production in the Reporting Periods and a higher prepaid expense and deposits balance, partially offset by a higher accounts payable and accrued liabilities balance which was largely comprised of F&D capital expenditures incurred in the Reporting Periods.

At June 30, 2022, the major component of Birchcliff's current assets was revenue to be received from its commodity marketers in respect of June 2022 production (77%), which was subsequently received in July 2022. Birchcliff continues to monitor the financial strength of its marketers. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations. Current liabilities at June 30, 2022 primarily consisted of trade payables and accrued capital and operating expenses.

The Corporation's adjusted working capital varies from quarter to quarter primarily due to the timing and size of items included from its normal operations and total capital expenditures, as well as volatility in commodity prices and changes in revenue, among other things. Birchcliff manages its adjusted working capital using adjusted funds flow and advances under its Credit Facilities. The adjusted working capital position does not impact the borrowing base available under its Credit Facilities.

## Bank Debt

Total debt at June 30, 2022 was $266.9 million, a decrease of 47% from $499.4 million at December 31, 2021. Total debt decreased primarily due to the significant free funds flow generated in the Reporting Periods, which was primarily allocated to debt reduction. During the six month Reporting Period, Birchcliff generated $469.2 million in adjusted funds flow and incurred $172.5 million in F&D capital expenditures, resulting in free funds flow of $296.7 million allocated towards debt reduction. Total debt in the six month Reporting Period was also positively impacted by the proceeds received from the exercise of stock options of $18.3 million, and negatively impacted by the cost to repurchase common shares under Birchcliff's NCIB of $49.4 million, the purchase of performance warrants of $14.5 million and the payment of dividends of $11.4 million. See *"Discussion of Operations – Administrative Expense"*, "*Outstanding Share Information – Normal Course Issuer Bid"* and "*Outstanding Share Information – Dividends"* in this MD&A for details on the Corporation's stock option exercises, repurchases of common shares, performance warrant purchases and dividend distributions.

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

| **As at,** *($000s)* | **June 30, 2022** | **December 31, 2021** |
|---|---|---|
| *Maximum borrowing base limit*[1]*:* | | |
| Revolving term credit facilities | 850,000 | 850,000 |
| *Principal amount utilized:* | | |
| Drawn revolving term credit facilities | (280,421) | (504,588) |
| Outstanding letters of credit[2] | (185) | (4,185) |
| | (280,606) | (508,773) |
| **Unused credit** | **569,394** | **341,227** |
| **% unused credit** | **67%** | **40%** |

(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 most recent semi-annual review of the borrowing base limit under the Credit Facilities, which was completed by the Corporation's syndicate of lenders in May 2022, the borrowing base limit was confirmed at $850.0 million and the maturity date was extended to May 11, 2025. The Credit Facilities include provisions that give the lenders the right to redetermine the borrowing base in certain circumstances. The Credit Facilities do not contain any financial maintenance covenants.

(2) Letters of credit are issued to various service providers. The letters of credit reduce the amount available under the Working Capital Facility.

(1) Capital management measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

### Contractual Obligations and Commitments

The Corporation enters into various contractual obligations and commitments in the normal course of operations. The following table lists Birchcliff's estimated material contractual obligations and commitments at June 30, 2022:

| *($000s)* | 2022 | 2023 | 2024-2026 | Thereafter |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | 144,755 | - | - | - |
| Drawn revolving term credit facilities | - | - | 280,421 | - |
| Firm transportation and fractionation[1] | 73,198 | 143,479 | 354,076 | 113,750 |
| Natural gas processing[2] | 9,743 | 19,327 | 57,850 | 103,024 |
| Operating commitments[3] | 1,017 | 2,033 | 6,099 | 2,202 |
| Capital commitments[4] | 648 | 5,835 | - | - |
| Lease payments | 1,945 | 3,293 | 8,007 | 3,273 |
| Preferred shares (perpetual)[5] | 50,000 | - | - | - |
| Capital securities[6] | 38,205 | - | - | - |
| **Estimated contractual obligations[7]** | **319,511** | **173,967** | **706,453** | **222,249** |

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

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

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

(4) Includes drilling commitments.

(5) On August 4, 2022, Birchcliff announced its intention to redeem all of its 2,000,000 issued and outstanding Series A Preferred Shares on September 30, 2022 for a redemption price equal to $25.00 per share, less any tax required to be deducted or withheld by the Corporation. The amount set forth in the table above excludes all accrued and unpaid dividends. For further details, see *"Outstanding Share Information – Series A Preferred Shares"* in this MD&A and the financial statements.

(6) On August 4, 2022, Birchcliff announced its intention to redeem all of its 1,528,219 issued and outstanding Series C Preferred Shares on September 30, 2022 for a redemption price equal to $25.00 per share, less any tax required to be deducted or withheld by the Corporation. The amount set forth in the table above excludes all accrued and unpaid dividends. For further details, see *"Outstanding Share Information – Series C Preferred Shares"* in this MD&A and the financial statements.

(7) Contractual obligations and commitments that are not material to Birchcliff are excluded from the above table. The Corporation's decommissioning obligations are excluded from the table as these obligations arose from a regulatory requirement rather than from a contractual arrangement. Birchcliff estimates the total undiscounted cash flow to settle its decommissioning obligations on its wells and facilities at June 30, 2022 to be approximately $247.6 million and are estimated to be incurred as follows: 2022 – $2.2 million, 2023 – $3.5 million and $241.9 million thereafter. The estimate for determining the undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

## OFF-BALANCE SHEET TRANSACTIONS

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

## OUTSTANDING SHARE INFORMATION

At August 10, 2022, Birchcliff had common shares, Series A Preferred Shares and Series C Preferred Shares that were outstanding. Birchcliff's common shares are listed on the TSX under the symbol "BIR". Birchcliff's Series A Preferred Shares and Series C Preferred Shares are individually listed on the TSX under the symbols "BIR.PR.A" and "BIR.PR.C", respectively.

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

| | Common Shares |
|---|---|
| Balance at December 31, 2021 | 264,790,404 |
| Exercise of stock options | 5,928,364 |
| Repurchase of common shares[1] | (5,514,792) |
| Balance at June 30, 2022 | 265,203,976 |
| Exercise of stock options | 53,616 |
| Repurchase of common shares[1] | (275,400) |
| **Balance at August 10, 2022** | **264,982,192** |

(1) Represents common shares that have been purchased and cancelled pursuant to the NCIB.

At August 10, 2022, the Corporation had the following securities outstanding: 264,982,192 common shares; 2,000,000 Series A Preferred Shares; 1,528,219 Series C Preferred Shares; 15,480,303 stock options to purchase an equivalent number of common shares; and 1,214,900 performance warrants to purchase an equivalent number of common shares.

**Normal Course Issuer Bid**

On November 17, 2021, Birchcliff announced that the TSX had accepted the Corporation's notice of intention to make a normal course issuer bid. Pursuant to the NCIB, Birchcliff may purchase up to 13,267,554 of its outstanding common shares over a period of twelve months commencing on November 25, 2021. The NCIB will terminate no later than November 24, 2022. Under the 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 382,548 common shares. However, Birchcliff may make one block purchase per calendar week which exceeds the daily purchase restriction. All common shares purchased under the NCIB will be cancelled.

During the six month Reporting Period, the Corporation purchased 5,514,792 common shares under the NCIB at an average price of $8.96 for an aggregate cost of $49.4 million (before fees). Subsequent to June 30, 2022 and prior to August 10, 2022, an additional 275,400 common shares were purchased under the NCIB at an average price of $8.13 for an aggregate cost of $2.2 million (before fees).

**Series A Preferred Shares**

At June 30, 2022, the Corporation had 2,000,000 Series A Preferred Shares outstanding.

Subject to the provisions of the Series A Preferred Shares (the "**Series A Provisions**"), on September 30, 2022 and every five years thereafter, the Corporation, upon giving notice as provided in the Series A Provisions, may redeem all or any part of the Series A Preferred Shares by the payment of an amount in cash for each share to be redeemed equal to $25.00 plus all accrued and unpaid dividends thereon to but excluding the date fixed for redemption.

On August 4, 2022, Birchcliff announced its intention to redeem all of its 2,000,000 issued and outstanding Series A Preferred Shares on September 30, 2022 for a redemption price equal to $25.00 per share, less any tax required to be deducted or withheld by the Corporation. In addition, the board of directors declared a final quarterly cash dividend of $0.527677 per Series A Preferred Share, which dividends will be paid on October 3, 2022 to the holders of record at the close of business on September 15, 2022. The aggregate redemption amount of the Series A Preferred Shares, including all accrued and unpaid dividends, totals approximately $51.0 million.

**Series C Preferred Shares**

At June 30, 2022, the Corporation had 1,528,219 Series C Preferred Shares outstanding.

Subject to the provisions of the Series C Preferred Shares (the "**Series C Provisions**"), a holder of Series C Preferred Shares may, at its option, upon giving notice in accordance with the Series C 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.

The Corporation received Notices of Redemption for 2,490 Series C Preferred Shares in the six month Reporting Period which the Corporation elected to settle in cash at $25.00 per share for a total redemption value of approximately $62 thousand. In the six month Comparable Prior Period, the Corporation received Notices of Redemption for 64,072 Series C Preferred Shares which the Corporation elected to settle in cash at $25.00 per share for a total redemption value of $1.6 million.

In addition to the redemption rights of the holders of the Series C Preferred Shares and subject to the Series C Provisions, the Corporation may, upon giving notice as provided in the Series C Provisions, redeem at any time all or any number of the outstanding Series C Preferred Shares on the payment of the redemption price of $25.00 per share, together with an amount equal to all accrued and unpaid dividends thereon to but excluding the date fixed for redemption.

On August 4, 2022, Birchcliff announced its intention to redeem all of its 1,528,219 issued and outstanding Series C Preferred Shares on September 30, 2022 for a redemption price equal to $25.00 per share, less any tax required to be deducted or withheld by the Corporation. In addition, the board of directors declared a final quarterly cash dividend of $0.441096 per Series C Preferred Share, which dividends will be paid on October 3, 2022 to the holders of record at the close of business on September 15, 2022. The aggregate redemption amount of the Series C Preferred Shares, including all accrued and unpaid dividends, totals approximately $38.9 million.

**Dividends**

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| *Common Shares:* | | | | |
| Dividend distribution *($000s)* | 5,310 | 1,333 | 7,968 | 2,663 |
| Per common share *($)* | 0.0200 | 0.0050 | 0.0300 | 0.0100 |
| *Series A Preferred Shares:* | | | | |
| Series A dividend distribution *($000s)* | 1,047 | 1,047 | 2,094 | 2,094 |
| Per Series A Preferred Share *($)* | 0.5234 | 0.5234 | 1.0468 | 1.0468 |
| *Series C Preferred Shares:* | | | | |
| Series C dividend distribution *($000s)* | 668 | 678 | 1,338 | 1,377 |
| Per Series C Preferred Share *($)* | 0.4375 | 0.4375 | 0.8750 | 0.8750 |

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

The Corporation's quarterly common share dividend has increased by 300% since the three month Comparable Prior Period, from $0.005 per share for the quarter ended June 30, 2021 to $0.02 per share for the quarter ended June 30, 2022. On November 30, 2021, Birchcliff's board of directors declared a quarterly common share dividend of $0.01 per share for the quarter ended December 31, 2021, which represented a 100% increase over the prior quarterly common share dividend of $0.005 per share. On May 11, 2022, Birchcliff's board of directors declared a quarterly common share dividend of $0.02 per share for the quarter ended June 30, 2022, which represented a 100% increase over the prior quarterly common share dividend of $0.01 per share.

## SUMMARY OF QUARTERLY RESULTS

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

| Quarter ending, | Jun. 30, 2022 | Mar. 31, 2022 | Dec. 31, 2021 | Sep. 30, 2021 | Jun. 30, 2021 | Mar. 31, 2021 | Dec. 31, 2020 | Sep. 30, 2020 |
|---|---|---|---|---|---|---|---|---|
| Average light oil production *(bbls/d)* | 1,855 | 2,369 | 2,604 | 2,878 | 2,766 | 3,355 | 3,566 | 4,405 |
| Average condensate production *(bbls/d)* | 4,500 | 4,796 | 5,330 | 5,990 | 6,070 | 5,467 | 6,658 | 7,266 |
| Average NGLs production *(bbls/d)* | 6,349 | 7,976 | 7,570 | 6,889 | 7,647 | 8,734 | 8,285 | 6,898 |
| Average natural gas production *(Mcf/d)* | 366,256 | 365,296 | 379,275 | 415,005 | 352,694 | 345,057 | 360,839 | 358,851 |
| Average production *(boe/d)* | 73,746 | 76,024 | 78,716 | 84,924 | 75,265 | 75,065 | 78,649 | 78,376 |
| Average realized light oil sales price *($/bbl)*(1)(2) | 135.91 | 115.47 | 92.79 | 83.52 | 76.50 | 67.02 | 49.56 | 48.50 |
| Average realized condensate sales price *($/bbl)*(1)(2) | 138.28 | 121.56 | 98.66 | 88.04 | 81.90 | 74.22 | 52.90 | 48.27 |
| Average realized NGLs sales price *($/bbl)*(1)(2) | 48.26 | 43.56 | 38.24 | 35.13 | 25.27 | 24.69 | 16.16 | 14.05 |
| Average realized natural gas sales price *($/Mcf)*(1)(2) | 8.61 | 5.40 | 5.52 | 4.46 | 3.48 | 3.52 | 2.93 | 2.48 |
| Average realized sales price *($/boe)*(1)(2) | 58.75 | 41.79 | 40.02 | 33.70 | 28.27 | 27.47 | 21.87 | 19.80 |
| P&NG revenue *($000s)*(1) | 394,315 | 285,976 | 289,806 | 263,348 | 193,643 | 185,609 | 158,283 | 142,779 |
| Operating expense *($/boe)*(2) | 3.40 | 3.49 | 3.50 | 2.96 | 3.14 | 3.18 | 3.03 | 2.73 |
| F&D capital expenditures *($000s)*(3) | 84,247 | 88,282 | 35,726 | 18,026 | 80,887 | 95,840 | 41,291 | 30,842 |
| Total capital expenditures *($000s)*(4) | 86,150 | 88,124 | 36,075 | 18,622 | 81,160 | 96,625 | 28,778 | 31,193 |
| Cash flow from operating activities *($000s)* | 273,711 | 154,152 | 196,142 | 155,606 | 81,013 | 82,608 | 71,431 | 52,977 |
| Adjusted funds flow *($000s)*(4) | 285,535 | 183,699 | 193,649 | 168,076 | 90,188 | 87,820 | 66,509 | 59,377 |
| Per common share – basic *($)*(5) | 1.08 | 0.69 | 0.73 | 0.63 | 0.34 | 0.33 | 0.25 | 0.22 |
| Per common share – diluted *($)*(5) | 1.03 | 0.67 | 0.70 | 0.61 | 0.33 | 0.33 | 0.25 | 0.22 |
| Free funds flow *($000s)*(4) | 201,288 | 95,417 | 157,923 | 150,050 | 9,301 | (8,020) | 25,218 | 28,535 |
| Net income (loss) *($000s)* | 214,902 | 126,839 | 107,149 | 139,413 | 44,901 | 23,213 | 41,454 | (16,646) |
| Net income (loss) to common shareholders *($000s)* | 213,855 | 125,792 | 106,102 | 138,367 | 43,854 | 22,166 | 40,407 | (17,692) |
| Per common share – basic *($)* | 0.81 | 0.47 | 0.40 | 0.52 | 0.16 | 0.08 | 0.15 | (0.07) |
| Per common share – diluted *($)* | 0.77 | 0.46 | 0.38 | 0.50 | 0.16 | 0.08 | 0.15 | (0.07) |
| Total assets *($ millions)* | 3,066 | 3,006 | 2,960 | 2,993 | 2,996 | 2,941 | 2,902 | 2,912 |
| Long-term debt *($000s)* | 276,030 | 397,752 | 500,870 | 648,327 | 720,920 | 701,735 | 731,372 | 771,706 |
| Total debt *($000s)*(6) | 266,894 | 408,998 | 499,397 | 637,905 | 770,897 | 777,385 | 761,951 | 784,414 |
| Dividends on common shares *($000s)* | 5,310 | 2,658 | 2,646 | 1,330 | 1,333 | 1,330 | 1,330 | 1,330 |
| Dividends on Series A Preferred Shares *($000s)* | 1,047 | 1,047 | 1,047 | 1,046 | 1,047 | 1,047 | 1,047 | 1,046 |
| Dividends on Series C Preferred Shares *($000s)* | 668 | 670 | 670 | 671 | 678 | 699 | 858 | 859 |
| Series A Preferred Shares outstanding *(000s)* | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Series C Preferred Shares outstanding *(000s)* | 1,528 | 1,529 | 1,531 | 1,533 | 1,533 | 1,550 | 1,597 | 1,962 |
| Common shares outstanding *(000s)* | | | | | | | | |
| Basic | 265,204 | 266,810 | 264,790 | 265,573 | 266,953 | 266,045 | 265,943 | 265,935 |
| Diluted | 281,940 | 287,829 | 290,847 | 287,518 | 289,806 | 292,757 | 295,017 | 290,009 |
| Weighted average common shares outstanding *(000s)* | | | | | | | | |
| Basic | 265,440 | 265,530 | 265,197 | 266,547 | 266,231 | 265,989 | 265,940 | 265,935 |
| Diluted | 276,015 | 275,980 | 276,600 | 276,282 | 270,155 | 266,370 | 265,985 | 265,935 |

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

(2) Supplementary financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

(3) See "*Advisories – F&D Capital Expenditures*" in this MD&A.

(4) Non-GAAP financial measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

(5) Non-GAAP ratio. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

(6) Capital management measure. See *"Non-GAAP and Other Financial Measures"* in this MD&A.

Quarterly average daily production volumes were primarily impacted by Birchcliff's successful drilling of liquids-rich natural gas and light oil horizontal wells in Pouce Coupe and Gordondale, and the timing thereof and natural production declines during those periods. Light oil production has generally trended lower over the last eight quarters primarily due to the Corporation specifically targeting horizontal natural gas wells in liquids-rich zones in the Pouce Coupe and Gordondale areas. Light oil production in the current quarter was further decreased by a major scheduled turnaround in May and June 2022 at the AltaGas Facility.

P&NG revenue and adjusted funds flow in the last eight quarters were largely impacted by the average realized sales price received for Birchcliff's production. Birchcliff's average realized sales prices benefited from significant increases in benchmark oil and natural gas prices since the third quarter of 2020 primarily due to the continued recovery from the impacts of the COVID-19 pandemic, increased demand for North American oil and natural gas due to supply uncertainty from the Russian invasion of Ukraine and other negative economic factors, including local and regional supply constraints and labour shortages which have increased inflationary pressures and supply risk. Over the last eight quarters, Birchcliff's adjusted funds flow was also impacted by realized gains and losses on the settlement of financial instruments due to market diversification initiatives and higher trending transportation and other expense.

Birchcliff's net income and loss in each of the last eight quarters was largely impacted by adjusted funds flow and certain non-cash adjustments, including depletion and depreciation expense, unrealized mark-to-market gains and losses on financial instruments due to market diversification initiatives and deferred income tax expense and recoveries.

The Corporation's F&D capital expenditures fluctuate quarter to quarter based on the Corporation's outlook for commodity prices and market conditions, the level of drilling and completions operations and other capital projects and the timing thereof.

Quarterly fluctuations in long-term debt and total debt are primarily driven by available free funds flow which is impacted by changes in adjusted funds flow and the amount and timing of F&D capital expenditures. Long-term debt in the last four quarters has trended lower due to significant free funds flow generation, which was primarily allocated towards debt reduction in line with management's commitment to significantly reduce indebtedness.

The Corporation pays dividends on its common shares, Series A Preferred Shares and Series C Preferred Shares when declared and approved by the board of directors. The Corporation's quarterly common share dividend has increased by 300% since the three month Comparable Prior Period, from $0.005 per share for the quarter ended June 30, 2021 to $0.02 per share for the quarter ended June 30, 2022 (see *"Outstanding Share Information – Dividends"*). The increases in the quarterly common share dividend have resulted in significantly higher common share dividend payments.

At June 30, 2022, Birchcliff had received Notices of Redemptions for a total of 471,781 Series C Preferred Shares. As a result of the redemptions, the dividends paid on the Series C Preferred Shares have decreased over the last eight most recently completed quarters.

## POTENTIAL TRANSACTIONS

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

## INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Corporation's internal control over financial reporting ("**ICFR**") that occurred during the period beginning on April 1, 2022 and ended on June 30, 2022 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR. Birchcliff's ICFR was not impacted by the COVID-19 pandemic during the Reporting Periods.

## CRITICAL ACCOUNTING ESTIMATES

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. The Corporation's use of estimates, judgements and assumptions in preparing the interim condensed financial statements for the Reporting Periods and the Comparable Prior Periods is discussed in Note 3 of the annual audited financial statements for the year ended December 31, 2021.

During 2022, the global economy continued to recover from the impacts of the COVID-19 pandemic. Benchmark oil and natural gas prices have remained volatile during the year due to uncertainty around the COVID-19 pandemic, the potential for global economic slowdown attributed to rising inflation and interest rates, supply uncertainty of crude oil and natural gas as a result of the Russian invasion of Ukraine and global commodity supply constraints and labour shortages which have increased inflationary pressures on governments, businesses and communities. The COVID-19 pandemic, the Russian invasion of Ukraine and these other negative conditions remain evolving situations that have 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 these events and conditions, or the extent to which they will impact the Corporation's go-forward financial position, profit or loss and cash flows. The potential direct and indirect impacts of these events and conditions have been considered in management's estimates and assumptions at June 30, 2022 and have been reflected in the Corporation's results.

## RISK FACTORS

Birchcliff's financial and operational performance is potentially affected by a number of factors, including, but not limited to, financial risks, risks relating to economic conditions, business and operational risks, environmental and regulatory risks and other risks. A detailed discussion of the risk factors affecting the Corporation is presented under the heading *"Risk Factors"* in the AIF and management's discussion and analysis for the year ended December 31, 2021.

## ABBREVIATIONS

| | |
|---|---|
| AECO | benchmark price for natural gas determined at the AECO 'C' hub in southeast Alberta |
| ATP | Alliance Trading Pool |
| bbl | barrel |
| bbls | barrels |
| bbls/d | barrels per day |
| boe | barrel of oil equivalent |
| boe/d | barrel of oil equivalent per day |
| condensate | pentanes plus (C5+) |
| F&D | finding and development |
| FD&A | finding, development and acquisition |
| G&A | general and administrative |
| GAAP | generally accepted accounting principles for Canadian public companies, which are currently IFRS |
| GJ | gigajoule |
| GJ/d | gigajoules per day |
| HH | Henry Hub |
| IFRS | International Financial Reporting Standards as issued by the International Accounting Standards Board |
| LIBOR | London Interbank Offered Rate |
| LNG | liquefied natural gas |
| Mcf | thousand cubic feet |
| Mcf/d | thousand cubic feet per day |
| MMBtu | million British thermal units |
| MMBtu/d | million British thermal units per day |
| MMcf | million cubic feet |
| MSW | price for mixed sweet crude oil at Edmonton, Alberta |
| NGLs | natural gas liquids consisting of ethane (C2), propane (C3) and butane (C4) and specifically excluding condensate |
| NGTL | NOVA Gas Transmission Ltd. |
| NYMEX | New York Mercantile Exchange |
| OPEC | Organization of the Petroleum Exporting Countries |
| P&NG | petroleum and natural gas |
| SOFR | Secured Overnight Financing Rate |
| TCPL | TransCanada PipeLines Limited |
| WTI | West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma, for crude oil of standard grade |
| 000s | thousands |
| $000s | thousands of dollars |

## NON-GAAP AND OTHER FINANCIAL MEASURES

This MD&A uses various "non-GAAP financial measures", "non-GAAP ratios", "supplementary financial measures" and "capital management measures" (as such terms are defined in NI 52-112), which are described in further detail below. These measures facilitate management's comparisons to the Corporation's historical operating results in assessing its results and strategic and operational decision-making and may be used by financial analysts and others in the oil and natural gas industry to evaluate the Corporation's performance.

### Non-GAAP Financial Measures

NI 52-112 defines a non-GAAP financial measure as a financial measure that: (i) depicts the historical or expected future financial performance, financial position or cash flow of an entity; (ii) with respect to its composition, excludes an amount that is included in, or includes an amount that is excluded from, the composition of the most directly comparable financial measure disclosed in the primary financial statements of the entity; (iii) is not disclosed in the financial statements of the entity; and (iv) is not a ratio, fraction, percentage or similar representation. The non-GAAP financial measures used in this MD&A are not standardized financial measures under GAAP and might not be comparable to similar measures presented by other companies where similar terminology is used. Investors are cautioned that non-GAAP financial measures should not be construed as alternatives to or more meaningful than the most directly comparable GAAP measures as indicators of Birchcliff's performance. Set forth below is a description of the non-GAAP financial measures used in this MD&A.

*Adjusted Funds Flow, Free Funds Flow and Excess Free Funds Flow*

Birchcliff defines "adjusted funds flow" as cash flow from operating activities before the effects of decommissioning expenditures and changes in non-cash operating working capital. Birchcliff eliminates settlements of decommissioning expenditures from cash flow from operating activities as the amounts can be discretionary and may vary from period to period depending on its capital programs and the maturity of its operating areas. The settlement of decommissioning expenditures is managed with Birchcliff's capital budgeting process which considers available adjusted funds flow. Changes in non-cash operating working capital are eliminated in the determination of adjusted funds flow as the timing of collection and payment are variable and by excluding them from the calculation, the Corporation believes that it is able to provide a more meaningful measure of its operations and ability to generate cash on a continuing basis. Adjusted funds flow can also be derived from petroleum and natural gas revenue less royalty expense, operating expense, transportation and other expense, net G&A expense, interest expense and any realized losses (plus realized gains) on financial instruments and plus any other cash income and expense sources. Management believes that adjusted funds flow assists management and investors in assessing Birchcliff's financial performance after deducting all operating and corporate cash costs, as well as its ability to generate the cash necessary to fund sustaining and/or growth capital expenditures, repay debt, settle decommissioning obligations, buy back common shares and pay dividends.

Birchcliff defines "free funds flow" as adjusted funds flow less F&D capital expenditures. Management believes that free funds flow assists management and investors in assessing Birchcliff's ability to generate shareholder returns through a number of initiatives, including but not limited to, debt repayment, preferred share redemptions, common share buybacks, the payment of dividends and acquisitions.

Birchcliff defines "excess free funds flow" as free funds flow less common share dividends paid. Management believes that excess free funds flow assists management and investors in assessing Birchcliff's ability to further enhance shareholder returns after the payment of common share dividends, which may include dividend increases, common share buybacks and other opportunities that would complement or otherwise improve the Corporation's business and enhance long-term shareholder value.

The following table provides a reconciliation of cash flow from operating activities, as determined in accordance with GAAP, to adjusted funds flow, free funds flow and excess free funds flow for the periods indicated:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2022** | **2021** | **2022** | **2021** |
| **Cash flow from operating activities** | **273,711** | **81,013** | **427,863** | **163,621** |
| Change in non-cash operating working capital | 11,199 | 8,982 | 40,029 | 13,111 |
| Decommissioning expenditures | 625 | 193 | 1,342 | 1,276 |
| **Adjusted funds flow** | **285,535** | **90,188** | **469,234** | **178,008** |
| F&D capital expenditures | (84,247) | (80,887) | (172,529) | (176,727) |
| **Free funds flow** | **201,288** | **9,301** | **296,705** | **1,281** |
| Dividends on common shares | (5,310) | (1,333) | (7,968) | (2,663) |
| **Excess free funds flow** | **195,978** | **7,968** | **288,737** | **(1,382)** |

*Capital Resources*

Birchcliff defines "capital resources" as cash flow from operating activities less the aggregate of issuance of common shares, repurchase of common shares, repurchase of capital securities, purchase of performance warrants, financing fees paid, lease payments, dividend distributions, net change in revolving term credit facilities, investments and changes in non-cash working capital from investing. Management believes capital resources assists management and investors in assessing Birchcliff's ability to fund its short and long-term financial obligations. Please refer *to "Capital Resources and Liquidity"* in this MD&A for the reconciliation of cash flow from operating activities, as determined in accordance with GAAP, to capital resources.

*FD&A and Total Capital Expenditures*

Birchcliff defines "FD&A capital expenditures" as F&D capital expenditures (see "*Advisories – F&D Capital Expenditures*" in this MD&A) plus acquisitions and less dispositions. Birchcliff defines "total capital expenditures" as FD&A capital expenditures plus administrative assets. Management believes that FD&A capital expenditures and total capital expenditures assist management and investors in assessing Birchcliff's overall capital cost structure associated with its petroleum and natural gas activities. The following table provides a reconciliation of F&D capital expenditures, as determined in accordance with GAAP, to FD&A capital expenditures and total capital expenditures for the periods indicated:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2022** | **2021** | **2022** | **2021** |
| **F&D capital expenditures**(1) | **84,247** | **80,887** | **172,529** | **176,727** |
| Acquisitions | 1,500 | | 1,500 | |
| Dispositions | - | - | (315) | - |
| **FD&A capital expenditures** | **85,747** | **80,887** | **173,714** | **176,727** |
| Administrative assets | 403 | 273 | 560 | 1,058 |
| **Total capital expenditures** | **86,150** | **81,160** | **174,274** | **177,785** |

(1) Reflects exploration and development expenditures as determined in accordance with GAAP.

*Transportation and Other Expense and Marketing Gain*

Birchcliff defines "transportation and other expense" as transportation expense plus "marketing gain", which denotes marketing purchases less marketing revenue. Birchcliff may enter into certain marketing purchase and sales arrangements with the objective of reducing any available transportation and/or fractionation fees associated with its take-or-pay commitments. Management believes that transportation and other expense assists management and investors in assessing Birchcliff's total cost structure related to transportation activities. Management believes that marketing gain assists management and investors in assessing the success of Birchcliff's marketing arrangements. The following table provides a reconciliation of transportation expense, as determined in accordance with GAAP, to marketing gain and transportation and other expense for the periods indicated:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2022** | **2021** | **2022** | **2021** |
| **Transportation expense** | **39,855** | **38,165** | **77,692** | **75,849** |
| Marketing purchases | 2,644 | 1,734 | 6,213 | 3,781 |
| Marketing revenue | (3,043) | (2,234) | (7,277) | (4,692) |
| **Marketing gain** | **(399)** | **(500)** | **(1,064)** | **(911)** |
| **Transportation and other expense** | **39,456** | **37,665** | **76,628** | **74,938** |

*Operating Netback*

Birchcliff defines "operating netback" as petroleum and natural gas revenue less royalty expense, operating expense and transportation and other expense. Management believes that operating netback assists management and investors in assessing Birchcliff's operating profits after deducting the cash costs that are directly associated with the sale of its production, which can then be used to pay other corporate cash costs or satisfy other obligations. The following table provides a breakdown of Birchcliff's operating netback for the Pouce Coupe assets and Gordondale assets and on a corporate basis for the periods indicated:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2022** | **2021** | **2022** | **2021** |
| Petroleum and natural gas revenue | 270,762 | 116,579 | 443,816 | 226,659 |
| Royalty expense | (29,253) | (8,817) | (43,742) | (14,310) |
| Operating expense | (11,870) | (10,255) | (24,268) | (20,686) |
| Transportation and other expense | (26,718) | (24,877) | (50,521) | (50,037) |
| **Operating netback – Pouce Coupe assets** | **202,921** | **72,630** | **325,285** | **141,626** |
| Petroleum and natural gas revenue | 123,213 | 76,824 | 235,815 | 152,053 |
| Royalty expense | (22,733) | (7,853) | (38,385) | (13,945) |
| Operating expense | (10,714) | (11,014) | (22,061) | (21,960) |
| Transportation and other expense | (12,706) | (12,739) | (26,024) | (24,800) |
| **Operating netback – Gordondale assets** | **77,060** | **45,218** | **149,345** | **91,348** |
| Petroleum and natural gas revenue | 394,315 | 193,643 | 680,291 | 379,252 |
| Royalty expense | (52,010) | (16,692) | (82,168) | (28,319) |
| Operating expense | (22,796) | (21,538) | (46,643) | (43,036) |
| Transportation and other expense | (39,456) | (37,665) | (76,628) | (74,938) |
| **Operating netback – Corporate** | **280,053** | **117,748** | **474,852** | **232,959** |

### Non-GAAP Ratios

NI 52-112 defines a non-GAAP ratio as a financial measure that: (i) is in the form of a ratio, fraction, percentage or similar representation; (ii) has a non-GAAP financial measure as one or more of its components; and (iii) is not disclosed in the financial statements of the entity. The non-GAAP ratios used in this MD&A are not standardized financial measures under GAAP and might not be comparable to similar measures presented by other companies where similar terminology is used. Set forth below is a description of the non-GAAP ratios used in this MD&A.

*Adjusted Funds Flow Per Boe and Adjusted Funds Flow Per Basic and Diluted Common Share*

Birchcliff calculates "adjusted funds flow per boe" as aggregate adjusted funds flow in the period divided by the production (boe) in the period. Management believes that adjusted funds flow per boe assists management and investors in assessing Birchcliff's financial profitability and sustainability on a cash basis by isolating the impact of production volumes to better analyze its performance against prior periods on a comparable basis. The Corporation previously referred to adjusted funds flow per boe as "adjusted funds flow netback".

Birchcliff calculates "adjusted funds flow per basic common share" and "adjusted funds flow per diluted common share" as aggregate adjusted funds flow in the period divided by the basic or diluted common shares outstanding, as the case may be, at the end of the period. Management believes that adjusted funds flow per basic common share and adjusted funds flow per diluted common share assist management and investors in assessing Birchcliff's financial strength on a per common share basis.

*Free Funds Flow Per Basic Common Share*

Birchcliff calculates "free funds flow per basic common share" as aggregate free funds flow in the period divided by the basic common shares outstanding at the end of the period. Management believes that free funds flow per basic common share assists management and investors in assessing Birchcliff's financial strength and its ability to generate shareholder returns on a per common share basis.

*Transportation and Other Expense Per Boe*

Birchcliff calculates "transportation and other expense per boe" as aggregate transportation and other expense in the period divided by the production (boe) in the period. Management believes that transportation and other expense per boe assists management and investors in assessing Birchcliff's cost structure as it relates to its transportation and marketing activities by isolating the impact of production volumes to better analyze its performance against prior periods on a comparable basis.

*Marketing Gain Per Boe*

Birchcliff calculates "marketing gain per boe" as aggregate marketing gain in the period divided by the production (boe) in the period. Management believes that marketing gain per boe assists management and investors in assessing the success of Birchcliff's marketing arrangements by isolating the impact of production volumes to better analyze its performance against prior periods on a comparable basis.

*Operating Netback Per Boe*

Birchcliff calculates "operating netback per boe" as aggregate operating netback in the period divided by the production (boe) in the period. Management believes that operating netback per boe assists management and investors in assessing Birchcliff's operating profitability and sustainability by isolating the impact of production volumes to better analyze its performance against prior periods on a comparable basis.

**Supplementary Financial Measures**

NI 52-112 defines a supplementary financial measure as a financial measure that: (i) is, or is intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of an entity; (ii) is not disclosed in the financial statements of the entity; (iii) is not a non-GAAP financial measure; and (iv) is not a non-GAAP ratio. The supplementary financial measures used in this MD&A are either a per unit disclosure of a corresponding GAAP measure, or a component of a corresponding GAAP measure, presented in the financial statements. Supplementary financial measures that are disclosed on a per unit basis are calculated by dividing the aggregate GAAP measure (or component thereof) by the applicable unit for the period. Supplementary financial measures that are disclosed on a component basis of a corresponding GAAP measure are a granular representation of a financial statement line item and are determined in accordance with GAAP.

The supplementary financial measures used in this MD&A include: operating expense per boe; net income to common shareholders per boe; average realized sales price per bbl, Mcf and boe; realized gain (loss) on financial instruments per boe; unrealized gain per boe; royalty expense per boe; effective royalty rate; transportation expense per boe; petroleum and natural gas revenue per boe; G&A expense, net per boe; other compensation, net per boe; administrative expense, net per boe; depletion and depreciation expense per boe; interest expense per boe; other finance expenses per boe; finance expense per boe; other income (expense) per boe; other gains per boe; and deferred income tax expense per boe.

**Capital Management Measures**

NI 52-112 defines a capital management measure as a financial measure that: (i) is intended to enable an individual to evaluate an entity's objectives, policies and processes for managing the entity's capital; (ii) is not a component of a line item disclosed in the primary financial statements of the entity; (iii) is disclosed in the notes to the financial statements of the entity; and (iv) is not disclosed in the primary financial statements of the entity. Set forth below is a description of the capital management measures used in this MD&A.

*Total Debt and Adjusted Working Capital Deficit (Surplus)*

Birchcliff calculates "total debt" as the amount outstanding under the Corporation's Credit Facilities plus adjusted working capital deficit (surplus). "Adjusted working capital deficit (surplus)" is calculated as working capital deficit (current assets less current liabilities) less fair value of financial instruments and capital securities. Surplus as disclosed in this MD&A is equivalent to adjusted working capital surplus. Management believes that total debt assists management and investors in assessing Birchcliff's overall liquidity and financial position at the end of the period. Management believes that adjusted working capital deficit (surplus) assists management and investors in assessing Birchcliff's short-term liquidity. The following table provides a reconciliation of the amount outstanding under the Credit Facilities and working capital deficit, as determined in accordance with GAAP, to total debt and adjusted working capital deficit (surplus), respectively:

| **As at,** ***($000s)*** | **June 30, 2022** | **December 31, 2021** |
|---|---|---|
| Revolving term credit facilities | 276,030 | 500,870 |
| Working capital deficit | 18,633 | 53,312 |
| Fair value of financial instruments | 10,436 | (16,517) |
| Capital securities | (38,205) | (38,268) |
| **Adjusted working capital deficit (surplus)** | **(9,136)** | **(1,473)** |
| **Total debt** | **266,894** | **499,397** |

## ADVISORIES

### Unaudited Information

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

### Currency

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

### Boe Conversions

Boe amounts have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil. Boe amounts may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

### MMBtu Pricing Conversions

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

### Oil and Gas Metrics

This MD&A contains metrics commonly used in the oil and natural gas industry, including netbacks. These oil and gas metrics do not have any standardized meanings or standard methods of calculation and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. As such, they should not be used to make comparisons. Management uses these oil and gas metrics for its own performance measurements and to provide investors with measures to compare Birchcliff's performance over time; however, such measures are not reliable indicators of Birchcliff's future performance, which may not compare to Birchcliff's performance in previous periods, and therefore should not be unduly relied upon. For additional information regarding netbacks, see *"Non-GAAP and Other Financial Measures"* in this MD&A.

### F&D Capital Expenditures

Unless otherwise stated, references in this MD&A to "F&D capital expenditures" denotes exploration and development expenditures determined in accordance with GAAP. Management believes that F&D capital expenditures assists management and investors in assessing Birchcliff capital cost outlay associated with its exploration and development activities for the purposes of finding and developing its reserves.

### Forward-Looking Statements

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

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

In particular, this MD&A contains forward-looking statements relating to the following:

- Birchcliff's plans and other aspects of its anticipated future financial performance, results, operations, focus, objectives, strategies, opportunities, priorities and goals;
- the information set forth under the heading *"Outlook and Guidance"* and elsewhere in this MD&A as it relates to Birchcliff's updated outlook and guidance for 2022, including: that Birchcliff continues to expect to reach zero total debt and be in a cash surplus position in Q4 2022; that Birchcliff is able to take full advantage of strong commodity prices because it has no fixed price commodity hedges in place and it does not currently intend to hedge any future production; that the Corporation anticipates significant production additions in the second half of 2022 and is maintaining its previous guidance for annual average production at 78,000 to 80,000 boe/d; estimates of annual and Q4 average production, production commodity mix, average expenses, adjusted funds flow, F&D capital expenditures, free funds flow, excess free funds flow, surplus at year end and natural gas market exposure in 2022; that the estimate of surplus at December 31, 2022 is expected to be largely comprised of cash on hand plus accounts receivable less accounts payable at the end of the year; and the expected impact of changes in commodity prices and the CDN/US exchange rate on Birchcliff's estimate of free funds flow in 2022;
- the announced redemption of the Series A and Series C Preferred Shares, including the anticipated timing thereof;
- Birchcliff's market diversification and risk management activities and any anticipated benefits to be derived therefrom;
- the Corporation's estimated income tax pools and management's expectation that future taxable income will be available to utilize the accumulated tax pools;
- the information set forth under the heading *"Capital Resources and Liquidity"* and elsewhere in this MD&A as it relates to the Corporation's liquidity and capital resources, including: that the capital-intensive nature of Birchcliff's operations requires it to maintain adequate sources of liquidity to fund its short-term and long-term financial obligations; that Birchcliff's capital resources primarily consist of adjusted funds flow and available Credit Facilities, which the Corporation believes are sufficient to fund its working capital requirements, capital expenditure programs and dividend payments for the foreseeable future; that Birchcliff continues to proactively look for strategic risk management and market diversification opportunities in order to potentially reduce the overall volatility of its adjusted funds flow; that Birchcliff remains committed to maximizing free funds flow generation, which in 2022 will be primarily allocated to significantly reducing indebtedness in order to reduce the risks to its business and provide the Corporation with optionality to increase shareholder returns through sustainable increases to its common share dividend and common share buybacks; the Corporation's belief that its anticipated 2022 adjusted funds flow will be sufficient to fund the remainder of its 2022 capital program, dividend distributions and working capital requirements; and the Corporation's expectation that counterparties will be able to meet their financial obligations;
- estimates of Birchcliff's material contractual obligations and commitments and decommissioning obligations;
- statements relating to the NCIB, including: potential purchases under the NCIB; and the cancellation of common shares under the NCIB; and
- statements regarding potential transactions.

With respect to the forward-looking statements contained in this MD&A, assumptions have been made regarding, among other things: the degree to which the Corporation's results of operations and financial condition will be disrupted by circumstances attributable to the COVID-19 pandemic; prevailing and future commodity prices and differentials, exchange rates, interest rates, inflation rates, royalty rates and tax rates; the state of the economy, financial markets and the exploration, development and production business; the political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes, environmental, climate change and other laws; the Corporation's ability to comply with existing and future environmental, climate change and other laws; future cash flow, debt and dividend levels; future operating, transportation, G&A and other expenses; Birchcliff's ability to access capital and obtain financing on acceptable terms; the timing and amount of capital expenditures and the sources of funding for capital expenditures and other activities; the sufficiency of budgeted capital expenditures to carry out planned operations; the successful and timely implementation of capital projects and the timing, location and extent of future drilling and other operations; results of operations; Birchcliff's ability to continue to develop its assets and obtain the anticipated benefits therefrom; the performance of existing and future wells; reserves volumes and Birchcliff's ability to replace and expand reserves through acquisition, development or exploration; the impact of competition on Birchcliff; the availability of, demand for and cost of labour, services and materials; board of director approval of proposed dividends; the ability to obtain any necessary regulatory or other approvals in a timely manner; the satisfaction by third parties of their obligations to Birchcliff; the ability of Birchcliff to secure adequate processing and transportation for its products; Birchcliff's ability to successfully market natural gas and liquids; the results of the Corporation's risk management and market diversification activities; and Birchcliff's natural gas market exposure. In addition to the foregoing assumptions, Birchcliff has made the following assumptions with respect to certain forward-looking statements contained in this MD&A:

- With respect to Birchcliff's 2022 guidance (as updated on August 10, 2022):
  - The following commodity prices and exchange rate are assumed: an average WTI price of US$99.00/bbl; an average WTI-MSW differential of CDN$3.60/bbl; an average AECO price of CDN$5.60/GJ; an average Dawn price of US$6.65/MMBtu; an average NYMEX HH price of US$6.95/MMBtu; and an exchange rate (CDN$ to US$1) of 1.28. These commodity price and exchange rate assumptions are based on anticipated full-year averages, which include settled benchmark commodity prices and exchange rate for the period from January 1, 2022 to July 31, 2022 and forward strip benchmark commodity prices and CDN/US exchange rate as of August 2, 2022 for the period from August 1, 2022 to December 31, 2022.
  - Birchcliff's production guidance for 2022 assumes that: the 2022 capital program will be carried out as currently contemplated; no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that any transportation service curtailments or unplanned outages that occur will be short in duration or otherwise insignificant; the construction of new infrastructure meets timing and operational expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations.
  - Birchcliff's updated estimates of adjusted funds flow, free funds flow and excess free funds flow for 2022 assume that: the 2022 capital program will be carried out as currently contemplated and the level of capital spending for 2022 set forth herein will be achieved; and the targets for production, production commodity mix, expenses and natural gas market exposure and the commodity price and exchange rate assumptions are met. Birchcliff's updated estimate of excess free funds flow for 2022 also assumes that: (i) a quarterly common share dividend of $0.02 per share is paid for the quarters ending September 30, 2022 and December 31, 2022; and (ii) there are 265 million common shares outstanding, with no further buybacks of common shares occurring during 2022. Birchcliff's updated estimate of adjusted funds flow takes into account the effects of its physical and financial basis swap contracts outstanding as at August 10, 2022 and excludes annual cash incentive payments that have not been approved by Birchcliff's board of directors.
  - Birchcliff's updated estimate of capital expenditures for 2022 assumes that the 2022 capital program will be carried out as currently contemplated. The amount and allocation of capital expenditures for exploration and development activities by area and the number and types of wells to be drilled and brought on production is dependent upon results achieved and is subject to review and modification by management on an ongoing basis throughout the year. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials.
  - Birchcliff's updated estimate of surplus at December 31, 2022 assumes that: (i) any free funds flow remaining after the payment of dividends, asset retirement obligations and other amounts for administrative assets, financing fees and capital lease obligations is allocated towards debt reduction; (ii) there are 265 million common shares outstanding, with no further buybacks of common shares occurring during 2022, and a quarterly common share dividend of $0.02 per share is paid for the quarters ending September 30, 2022 and December 31, 2022; (iii) there are 2,000,000 Series A and 1,528,219 Series C Preferred Shares outstanding, with such shares redeemed by the Corporation on September 30, 2022, and a quarterly dividend of $0.527677 per

Series A Preferred Share and $0.441096 per Series C Preferred Share is paid for the quarter ending September 30, 2022; (iv) no significant acquisitions or dispositions are completed by the Corporation and there is no repayment of debt using the proceeds from equity issuances during 2022; (v) there are no further proceeds received from the exercise of stock options or performance warrants during 2022; (vi) the 2022 capital program will be carried out as currently contemplated with F&D capital expenditures of $275 million to $285 million; and (vii) the targets for production, production commodity mix, capital expenditures, adjusted funds flow, free funds flow and natural gas market exposure and the commodity price and exchange rate assumptions set forth herein are met. Birchcliff's estimate of surplus at December 31, 2022 does not include annual cash incentive payments that have not been approved by Birchcliff's board of directors.

- Birchcliff's guidance regarding its natural gas market exposure assumes: (i) 175,000 GJ/d being sold on a physical basis at the Dawn price; (ii) 18,029 GJ/d being sold at Alliance on a physical basis at the AECO 5A price plus a premium; and (iii) 152,500 MMBtu/d being contracted on a financial and physical basis at an average fixed basis differential price between AECO 7A and NYMEX HH of approximately US$1.23/MMBtu.

Birchcliff's actual results, performance or achievements could differ materially from those anticipated in the forward-looking statements as a result of both known and unknown risks and uncertainties including, but not limited to: the risks posed by pandemics (including COVID-19), epidemics and global conflict (including the Russian invasion of Ukraine) and their impacts on supply and demand and commodity prices; actions taken by OPEC and other major producers of crude oil and the impact such actions may have on supply and demand and commodity prices; general economic, market and business conditions which will, among other things, impact the demand for and market prices of Birchcliff's products and Birchcliff's access to capital; volatility of crude oil and natural gas prices; risks associated with increasing costs, whether due to high inflation rates, supply chain disruptions or other factors; fluctuations in exchange and interest rates; stock market volatility; loss of market demand; an inability to access sufficient capital from internal and external sources on terms acceptable to the Corporation; risks associated with Birchcliff's Credit Facilities, including a failure to comply with covenants under the agreement governing the Credit Facilities and the risk that the borrowing base limit may be redetermined; fluctuations in the costs of borrowing; operational risks and liabilities inherent in oil and natural gas operations; the occurrence of unexpected events such as fires, severe weather, explosions, blow-outs, equipment failures, transportation incidents and other similar events; an inability to access sufficient water or other fluids needed for operations; uncertainty that development activities in connection with Birchcliff's assets will be economic; an inability to access or implement some or all of the technology necessary to operate its assets and achieve expected future results; the accuracy of estimates of reserves, future net revenue and production levels; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; horizontal drilling and completions techniques and the failure of drilling results to meet expectations for reserves or production; uncertainties related to Birchcliff's future potential drilling locations; delays or changes in plans with respect to exploration or development projects or capital expenditures; the accuracy of cost estimates and variances in Birchcliff's actual costs and economic returns from those anticipated; incorrect assessments of the value of acquisitions and exploration and development programs; changes to the regulatory framework in the locations where the Corporation operates, including changes to tax laws, Crown royalty rates, environmental laws, climate change laws, carbon tax regimes, incentive programs and other regulations that affect the oil and natural gas industry; actions by government authorities, including those with respect to the COVID-19 pandemic; an inability of the Corporation to comply with existing and future environmental, climate change and other laws; the cost of compliance with current and future environmental laws; political uncertainty and uncertainty associated with government policy changes; dependence on facilities, gathering lines and pipelines; uncertainties and risks associated with pipeline restrictions and outages to third-party infrastructure that could cause disruptions to production; the lack of available pipeline capacity and an inability to secure adequate and cost-effective processing and transportation for Birchcliff's products; an inability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements; shortages in equipment and skilled personnel; the absence or loss of key employees; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; management of Birchcliff's growth; environmental and climate change risks, claims and liabilities; potential litigation; default under or breach of agreements by counterparties and potential enforceability issues in contracts; claims by Indigenous peoples; the reassessment by taxing or regulatory authorities of the Corporation's prior transactions and filings; unforeseen title defects; third-party claims regarding the Corporation's right to use technology and equipment; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainties associated with counterparty credit risk; risks associated with Birchcliff's risk management and market diversification activities; risks associated with the declaration and payment of future dividends, including the discretion of Birchcliff's board of directors to declare dividends and change the Corporation's dividend policy; the failure to obtain any required approvals in a timely manner or at all; the failure to complete or realize the anticipated benefits of acquisitions and dispositions and the risk of unforeseen difficulties in integrating acquired assets into Birchcliff's operations; negative public perception of the oil and natural gas industry and fossil fuels; the Corporation's reliance on hydraulic fracturing; market competition, including from alternative energy sources; changing demand for petroleum products; the availability of insurance and the risk that certain losses may not be insured; breaches or failure of information systems and security (including risks associated with cyber-attacks); risks associated with the ownership of the Corporation's securities; and the accuracy of the Corporation's accounting estimates and judgments.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other risk factors that could affect results of operations, financial performance or financial results are included in the AIF under the heading *"Risk Factors"* and in other reports filed with Canadian securities regulatory authorities.

This MD&A contains information that may constitute future-orientated financial information or financial outlook information (collectively, "**FOFI**") about Birchcliff's prospective financial performance, financial position or cash flows, all of which is subject to the same assumptions, risk factors, limitations and qualifications as set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise or inaccurate and, as such, undue reliance should not be placed on FOFI. Birchcliff's actual results, performance and achievements could differ materially from those expressed in, or implied by, FOFI. Birchcliff has included FOFI in order to provide readers with a more complete perspective on Birchcliff's future operations and management's current expectations relating to Birchcliff's future performance. Readers are cautioned that such information may not be appropriate for other purposes. FOFI contained herein was made as of the date of this MD&A. Unless required by applicable laws, Birchcliff does not undertake any obligation to publicly update or revise any FOFI statements, whether as a result of new information, future events or otherwise.

Management has included the above summary of assumptions and risks related to forward-looking statements provided in this MD&A in order to provide readers with a more complete perspective on Birchcliff's future operations and management's current expectations relating to Birchcliff's future performance. Readers are cautioned that this information may not be appropriate for other purposes.

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

# BIRCHCLIFF ENERGY LTD.
# CONDENSED STATEMENTS OF FINANCIAL POSITION

*Unaudited (Expressed in thousands of Canadian dollars)*

| As at, | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash | 65 | 63 |
| Accounts receivable | 135,201 | 92,414 |
| Prepaid expenses and deposits | 18,625 | 5,732 |
| Financial instruments *(Note 12)* | 13,099 | 69 |
| | 166,990 | 98,278 |
| Non-current assets: | | |
| Investments *(Note 13)* | 12,041 | 9,457 |
| Petroleum and natural gas properties and equipment *(Note 3)* | 2,883,073 | 2,852,232 |
| Financial instruments *(Note 12)* | 3,571 | - |
| | 2,898,685 | 2,861,689 |
| **Total assets** | **3,065,675** | **2,959,967** |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | 144,755 | 96,736 |
| Financial instruments *(Note 12)* | 2,663 | 16,586 |
| Capital securities *(Note 6)* | 38,205 | 38,268 |
| | 185,623 | 151,590 |
| Non-current liabilities: | | |
| Revolving term credit facilities *(Note 4)* | 276,030 | 500,870 |
| Decommissioning obligations *(Note 5)* | 95,545 | 140,603 |
| Deferred income taxes | 258,924 | 156,695 |
| Other liabilities *(Note 9)* | 24,792 | 25,329 |
| Financial instruments *(Note 12)* | 15,672 | 67,277 |
| | 670,963 | 890,774 |
| **Total liabilities** | **856,586** | **1,042,364** |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital *(Note 6)* | | |
| Common shares | 1,430,199 | 1,463,424 |
| Preferred shares *(perpetual)* | 41,434 | 41,434 |
| Contributed surplus | 83,956 | 90,924 |
| Retained earnings | 653,500 | 321,821 |
| | 2,209,089 | 1,917,603 |
| **Total shareholders' equity and liabilities** | **3,065,675** | **2,959,967** |

*Subsequent events (Note 14)*

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

# BIRCHCLIFF ENERGY LTD.
# CONDENSED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| **REVENUE** | | | | |
| Petroleum and natural gas revenue *(Note 8)* | 394,315 | 193,643 | 680,291 | 379,252 |
| Marketing revenue *(Note 8)* | 3,043 | 2,234 | 7,277 | 4,692 |
| Royalties | (52,010) | (16,692) | (82,168) | (28,319) |
| Realized gain (loss) on financial instruments *(Note 12)* | 16,687 | (13,392) | 16,488 | (28,890) |
| Unrealized gain on financial instruments *(Note 12)* | 47,453 | 21,339 | 82,128 | 13,720 |
| Other income (expense) | (114) | 136 | (61) | 2,654 |
| | 409,374 | 187,268 | 703,955 | 343,109 |
| **EXPENSES** | | | | |
| Operating | 22,796 | 21,538 | 46,643 | 43,036 |
| Transportation | 39,855 | 38,165 | 77,692 | 75,849 |
| Marketing purchases *(Note 8)* | 2,644 | 1,734 | 6,213 | 3,781 |
| Administrative, net | 9,075 | 6,538 | 18,243 | 13,381 |
| Depletion and depreciation *(Note 3)* | 50,486 | 51,311 | 101,588 | 101,756 |
| Finance | 4,818 | 9,444 | 9,185 | 18,576 |
| Dividends on capital securities *(Note 6)* | 668 | 678 | 1,338 | 1,377 |
| Other gains | (222) | (93) | (2,288) | (3,393) |
| | 130,120 | 129,315 | 258,614 | 254,363 |
| Net income before taxes | 279,254 | 57,953 | 445,341 | 88,746 |
| Deferred income tax expense | (64,352) | (13,052) | (103,600) | (20,633) |
| **NET INCOME AND COMPREHENSIVE INCOME** | **214,902** | **44,901** | **341,741** | **68,113** |
| Net income per common share *(Note 7)* | | | | |
| Basic | $0.81 | $0.16 | $1.28 | $0.25 |
| Diluted | $0.77 | $0.16 | $1.23 | $0.25 |

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

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

*Unaudited (Expressed in thousands of Canadian dollars)*

| | Share Capital | | | | |
|---|---|---|---|---|---|
| | **Common Shares** | **Preferred Shares** | **Contributed Surplus** | **Retained Earnings** | **Total** |
| As at December 31, 2020 | 1,478,294 | 41,434 | 89,868 | 17,971 | 1,627,567 |
| Dividends on common shares *(Note 6)* | - | - | - | (2,663) | (2,663) |
| Dividends on perpetual preferred shares *(Note 6)* | - | - | - | (2,094) | (2,094) |
| Exercise of stock options *(Note 10)* | 3,835 | - | (897) | - | 2,938 |
| Stock-based compensation *(Note 10)* | - | - | 2,258 | - | 2,258 |
| Net income and comprehensive income | - | - | - | 68,113 | 68,113 |
| **As at June 30, 2021** | **1,482,129** | **41,434** | **91,229** | **81,327** | **1,696,119** |
| | | | | | |
| As at December 31, 2021 | 1,463,424 | 41,434 | 90,924 | 321,821 | 1,917,603 |
| Dividends on common shares *(Note 6)* | - | - | - | (7,968) | (7,968) |
| Dividends on perpetual preferred shares *(Note 6)* | - | - | - | (2,094) | (2,094) |
| Exercise of stock options *(Note 10)* | 24,435 | - | (6,146) | - | 18,289 |
| Purchase of performance warrants *(Note 10)* | (8,213) | - | (6,293) | - | (14,506) |
| Repurchase of common shares *(Note 6)* | (49,447) | - | - | - | (49,447) |
| Stock-based compensation *(Note 10)* | - | - | 5,471 | - | 5,471 |
| Net income and comprehensive income | - | - | - | 341,741 | 341,741 |
| **As at June 30, 2022** | **1,430,199** | **41,434** | **83,956** | **653,500** | **2,209,089** |

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

# BIRCHCLIFF ENERGY LTD.
# CONDENSED STATEMENTS OF CASH FLOWS

*Unaudited (Expressed in thousands of Canadian dollars)*

| | Three months ended, June 30, | | Six months ended, June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| Cash provided by (used in): | | | | |
| **OPERATING** | | | | |
| Net income | 214,902 | 44,901 | 341,741 | 68,113 |
| Adjustments for items not affecting operating cash: | | | | |
| Unrealized (gain) on financial instruments *(Note 12)* | (47,453) | (21,339) | (82,128) | (13,720) |
| Depletion and depreciation *(Note 3)* | 50,486 | 51,311 | 101,588 | 101,756 |
| Other compensation | 1,365 | 521 | 2,845 | 1,125 |
| Finance | 4,818 | 9,444 | 9,185 | 18,576 |
| Other gains | (222) | (93) | (2,288) | (3,393) |
| Deferred income tax expense | 64,352 | 13,052 | 103,600 | 20,633 |
| Interest paid | (3,381) | (8,287) | (6,647) | (16,459) |
| Dividends on capital securities *(Note 6)* | 668 | 678 | 1,338 | 1,377 |
| Decommissioning expenditures *(Note 5)* | (625) | (193) | (1,342) | (1,276) |
| Changes in non-cash working capital | (11,199) | (8,982) | (40,029) | (13,111) |
| | 273,711 | 81,013 | 427,863 | 163,621 |
| **FINANCING** | | | | |
| Issuance of common shares *(Note 6)* | 7,895 | 2,684 | 18,289 | 2,938 |
| Repurchase of common shares *(Note 6)* | (40,760) | - | (49,447) | - |
| Repurchase of capital securities *(Note 6)* | (10) | (426) | (62) | (1,602) |
| Purchase of performance warrants *(Note 10)* | (14,506) | - | (14,506) | - |
| Financing fees paid | (1,275) | (3,454) | (1,275) | (3,454) |
| Lease payments *(Note 9)* | (615) | (614) | (1,229) | (1,215) |
| Dividend distributions *(Note 6)* | (7,025) | (3,058) | (11,400) | (6,134) |
| Net change in revolving term credit facilities *(Note 4)* | (120,811) | 22,398 | (224,167) | (7,488) |
| | (177,107) | 17,530 | (283,797) | (16,955) |
| **INVESTING** | | | | |
| Exploration and development *(Note 3)* | (84,247) | (80,887) | (172,529) | (176,727) |
| Acquisitions *(Note 3)* | (1,500) | - | (1,500) | - |
| Dispositions *(Note 3)* | - | - | 315 | - |
| Administrative assets *(Note 3)* | (403) | (273) | (560) | (1,058) |
| Investments | (584) | - | (784) | - |
| Changes in non-cash working capital | (9,837) | (17,426) | 30,994 | 31,076 |
| | (96,571) | (98,586) | (144,064) | (146,709) |
| Net change in cash | 33 | (43) | 2 | (43) |
| Cash, beginning of period | 32 | 60 | 63 | 60 |
| **CASH, END OF PERIOD** | **65** | **17** | **65** | **17** |

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

# BIRCHCLIFF ENERGY LTD.
# NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS AS AT JUNE 30, 2022, AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

*Unaudited (Expressed 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 unaudited interim condensed financial statements were approved and authorized for issuance by the board of directors on August 10, 2022.

## 2. BASIS OF PREPARATION

These unaudited interim condensed financial statements present Birchcliff's financial results of operations and financial position under International Financial Reporting Standards ("**IFRS**") as at June 30, 2022, and for the three and six months ended June 30, 2022, including the 2021 comparative periods. The financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34: *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**").

These unaudited interim condensed financial statements have been prepared following the same IFRS accounting policies and methods of computation as disclosed in the annual audited financial statements for the year ended December 31, 2021. Certain information and disclosures normally required to be included in the notes to the annual unaudited interim condensed financial statements have been condensed, omitted or have been disclosed on an annual basis only. Accordingly, these financial statements should be read in conjunction with the annual audited financial statements and the notes thereto for the year ended December 31, 2021.

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

**Current Environment and Estimation Uncertainty**

During 2022, the global economy continued to recover from the impacts of the novel coronavirus COVID-19 ("**COVID-19**") pandemic. Benchmark oil and natural gas prices have remained volatile during the year due to uncertainty around the COVID-19 pandemic, the potential for global economic slowdown attributed to rising inflation and interest rates, supply uncertainty of crude oil and natural gas as a result of the Russian invasion of Ukraine and global commodity supply constraints and labour shortages which have increased inflationary pressures on governments, businesses and communities. The COVID-19 pandemic, the Russian invasion of Ukraine and these other negative conditions remain evolving situations that have 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 these events and conditions, or the extent to which they will impact the Corporation long-term.

### Climate Change and Environmental Reporting Regulations

Regulations relating to climate and climate-related matters continue to evolve and may have additional disclosure requirements in the future. Refer to note 2 of the annual audited financial statements for the year ended December 31, 2021 for Birchcliff's current climate change and environmental reporting regulation disclosure.

## 3. 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 | Developed & Producing Assets | Lease Assets | Corporate Assets | Total |
|---|---|---|---|---|---|
| *Cost:* | | | | | |
| As at December 31, 2020 | 354 | 4,147,726 | 19,931 | 21,930 | 4,189,941 |
| Additions | 35 | 228,913 | 147 | 1,718 | 230,813 |
| Acquisitions | - | 866 | - | - | 866 |
| As at December 31, 2021 | 389 | 4,377,505 | 20,078 | 23,648 | 4,421,620 |
| Additions | - | 128,313 | - | 560 | 128,873 |
| Acquisitions | - | 3,871 | - | - | 3,871 |
| Dispositions | - | (315) | - | - | (315) |
| As at June 30, 2022[(1)] | 389 | 4,509,374 | 20,078 | 24,208 | 4,554,049 |
| | | | | | |
| *Accumulated depletion and depreciation:* | | | | | |
| As at December 31, 2020 | - | (1,335,122) | (3,946) | (17,563) | (1,356,631) |
| Depletion and depreciation expense[(2)] | - | (208,821) | (2,035) | (1,901) | (212,757) |
| As at December 31, 2021 | - | (1,543,943) | (5,981) | (19,464) | (1,569,388) |
| Depletion and depreciation expense[(2)] | - | (99,697) | (1,018) | (873) | (101,588) |
| As at June 30, 2022 | - | (1,643,640) | (6,999) | (20,337) | (1,670,976) |
| | | | | | |
| *Net book value:* | | | | | |
| **As at December 31, 2021** | **389** | **2,833,562** | **14,097** | **4,184** | **2,852,232** |
| **As at June 30, 2022** | **389** | **2,865,734** | **13,079** | **3,871** | **2,883,073** |

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

(2) Future development costs required to develop and produce proved and probable oil and gas reserves totalled $4.3 billion at June 30, 2022 (December 31, 2021 – $4.3 billion) and are included in the depletion expense calculation.

### Impairment Assessment

In accordance with IFRS, an impairment test is performed if Birchcliff identifies indicators of impairment at the end of a reporting period. At June 30, 2022 and December 31, 2021, Birchcliff determined there were no impairment indicators present and therefore an impairment test was not required.

## 4. REVOLVING TERM CREDIT FACILITIES

The components of the Corporation's credit facilities include:

| **As at** *($000s)* | **June 30, 2022** | **December 31, 2021** |
|---|---|---|
| Syndicated credit facility | 266,715 | 477,958 |
| Working capital facility | 13,706 | 26,630 |
| Drawn revolving term credit facilities | 280,421 | 504,588 |
| Unamortized deferred financing fees | (4,391) | (3,718) |
| **Revolving term credit facilities** | **276,030** | **500,870** |

At June 30, 2022, the aggregate principal amount of the Corporation's credit facilities was $850.0 million with maturity dates of May 11, 2025 which were comprised of: (i) an extendible revolving syndicated term credit facility (the "**Syndicated Credit Facility**") of $750.0 million; and (ii) an extendible revolving working capital facility (the "**Working Capital Facility**") of $100.0 million (collectively, the "**Credit Facilities**.").

Effective May 3, 2022, the agreement governing the Credit Facilities was amended to extend the maturity dates of each of the Syndicated Credit Facility and the Working Capital Facility from May 11, 2024 to May 11, 2025. In addition, the lenders confirmed the borrowing base limit at $850.0 million. The maturity date of the Credit Facilities may, at the request of the Corporation and with consent of the lenders, be extended on an annual basis, for an additional period of up to three years from May 11 of the year in which the extension request is made. The Credit Facilities do not contain any financial maintenance covenants.

The amended agreement governing the Credit Facilities allows for prime rate loans, SOFR term loans, U.S. base rate loans, bankers' acceptances and, in the case of the Working Capital Facility only, letters of credit, plus applicable margins. Effective May 3, 2022, LIBOR loans are no longer available under the amended agreement and shall be replaced by SOFR term loans. 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) deferred income taxes, other compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments, gains and losses on investments, depletion, depreciation and amortization and impairment charges.

## 5. DECOMMISSIONING OBLIGATIONS

The Corporation estimates the total undiscounted (inflated) amount of cash flow required to settle its decommissioning obligations is approximately $247.6 million at June 30, 2022 (December 31, 2021 – $245.0 million). A reconciliation of the decommissioning obligations is set forth below:

| As at *($000s)* | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Balance, beginning | 140,603 | 146,232 |
| Obligations incurred | 2,370 | 4,907 |
| Obligations acquired | - | 582 |
| Obligations divested | - | (620) |
| Changes in estimated future cash flows(1) | (47,127) | (9,611) |
| Accretion | 1,530 | 2,608 |
| Decommissioning expenditures(2) | (1,831) | (3,495) |
| **Balance, ending(3)** | **95,545** | **140,603** |

(1) Primarily relates to changes in the nominal risk-free rate and inflation rate used to calculate the present value of the decommissioning obligation.

(2) Includes $0.3 million and $0.5 million of funding from the Alberta Site Rehabilitation Program in 2021 and 2022, respectively.

(3) Birchcliff applied an inflation rate of 1.78% and a discount nominal risk-free rate of 3.14% to calculate the present value of the decommissioning obligation at June 30, 2022 and an inflation rate of 1.82% and a discount nominal risk-free rate of 1.68% at December 31, 2021.

## 6. 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,** *(000s)* | **June 30, 2022** | **December 31, 2021** |
|---|---|---|
| *Common shares:* | | |
| Outstanding at beginning of period | 264,790 | 265,943 |
| Repurchase of common shares[(1)] | (5,514) | (5,243) |
| Exercise of stock options | 5,928 | 4,090 |
| **Outstanding at end of period** | **265,204** | **264,790** |
| *Series A Preferred Shares (perpetual):* | | |
| Outstanding at beginning of period | 2,000 | 2,000 |
| **Outstanding at end of period**[(2)] | **2,000** | **2,000** |

(1) On November 17, 2021, Birchcliff announced that the TSX had accepted the Corporation's notice of intention to make a normal course issuer bid (the "**NCIB**"). Pursuant to the NCIB, Birchcliff may purchase up to 13,267,554 of its outstanding common shares over the period from November 25, 2021 to November 24, 2022. Under the 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 382,548 common shares. However, Birchcliff may make one block purchase per calendar week which exceeds the daily purchase restriction. All common shares under the NCIB will be cancelled. During the 2022, the Corporation purchased 5,514,792 common shares under the NCIB at an average price of $8.96 for an aggregate value of $49.4 million, before fees. All such common shares were cancelled.

(2) On August 4, 2022, Birchcliff announced its intention to redeem all of its 2,000,000 issued and outstanding Series A Preferred Shares on September 30, 2022 for a redemption price equal to $25.00 per share, less any tax required to be deducted or withheld by the Corporation. In addition, the board of directors declared a final quarterly cash dividend of $0.527677 per Series A Preferred Share, which dividends will be paid on October 3, 2022 to the holders of record at the close of business on September 15, 2022. The aggregate redemption amount of the Series A Preferred Shares, including all accrued and unpaid dividends, totals approximately $51.0 million and is expected to be funded using the Corporation's Credit Facilities.

### Capital Securities

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

| **As at,** *(000s)* | **June 30, 2022** | | **December 31, 2021** | |
|---|---|---|---|---|
| | **Number** | **Amount** *($)* | **Number** | **Amount** *($)* |
| Outstanding at beginning of period | 1,531 | 38,268 | 1,597 | 39,930 |
| Cash redemption of Series C Preferred Shares[(1)] | (3) | (63) | (66) | (1,662) |
| **Outstanding at end of period**[(2)(3)] | **1,528** | **38,205** | **1,531** | **38,268** |

(1) Subject to the provisions of 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.

In addition to the redemption rights of the holders of the Series C Preferred Shares and subject to the Series C Provisions, the Corporation may, upon giving notice as provided in the Provisions, redeem at any time all or any number of the outstanding Series C Preferred Shares on the payments of the redemption price of $25.00 per share, together with an amount equal to all accrued and unpaid dividends thereon to but excluding the date fixed for redemption.

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

(3) On August 4, 2022, Birchcliff announced its intention to redeem all of its 1,528,219 issued and outstanding Series C Preferred Shares on September 30, 2022 for a redemption price equal to $25.00 per share, less any tax required to be deducted or withheld by the Corporation. In addition, the board of directors declared a final quarterly cash dividend of $0.441096 per Series C Preferred Share, which dividends will be paid on October 3, 2022 to the holders of record at the close of business on September 15, 2022. The aggregate redemption amount of the Series C Preferred Shares, including all accrued and unpaid dividends, totals approximately $38.9 million and is expected to be funded using the Corporation's Credit Facilities.

**Dividends**

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| *Common Shares:* | | | | |
| Dividend distribution *($000s)* | 5,310 | 1,333 | 7,968 | 2,663 |
| Per common share *($)* | 0.0200 | 0.0050 | 0.0300 | 0.0100 |
| *Series A Preferred Shares:* | | | | |
| Series A dividend distribution *($000s)* | 1,047 | 1,047 | 2,094 | 2,094 |
| Per Series A Preferred Share *($)* | 0.5234 | 0.5234 | 1.0468 | 1.0468 |
| *Series C Preferred Shares:* | | | | |
| Series C dividend distribution *($000s)* | 668 | 678 | 1,338 | 1,377 |
| Per Series C Preferred Share ($) | 0.4375 | 0.4375 | 0.8750 | 0.8750 |

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

## 7. EARNINGS PER SHARE

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s, except for per share information)* | **2022** | **2021** | **2022** | **2021** |
| Net income | 214,902 | 44,901 | 341,741 | 68,113 |
| Dividends on Series A Preferred Shares | (1,047) | (1,047) | (2,094) | (2,094) |
| Net income to common shareholders | 213,855 | 43,854 | 339,647 | 66,019 |
| *Weighted average common shares (000s):* | | | | |
| Weighted average basic common shares outstanding | 265,440 | 266,231 | 265,485 | 266,110 |
| Dilutive securities | 10,575 | 3,924 | 10,586 | 1,988 |
| Weighted average diluted common shares outstanding[(1)] | 276,015 | 270,155 | 276,071 | 268,098 |
| *Net income per common share:* | | | | |
| **Basic** | **$0.81** | **$0.16** | **$1.28** | **$0.25** |
| **Diluted** | **$0.77** | **$0.16** | **$1.23** | **$0.25** |

(1) The weighted average diluted common shares outstanding excludes 167,400 and 5,513,000 stock options that were anti-dilutive for the three and six months ended June 30, 2022 (June 30, 2021 – 7,088,508 and 10,650,309).

## 8. REVENUE

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | **2022** | **2021** | **2022** | **2021** |
| Light oil sales | 22,935 | 19,255 | 47,560 | 39,493 |
| Condensate[1] | 56,620 | 45,241 | 109,086 | 81,757 |
| NGLs sales[2] | 27,887 | 17,582 | 59,152 | 36,989 |
| Natural gas sales | 286,855 | 111,556 | 464,464 | 220,997 |
| P&NG sales[3][4] | 394,297 | 193,634 | 680,262 | 379,236 |
| Royalty income | 18 | 9 | 29 | 16 |
| P&NG revenue | 394,315 | 193,643 | 680,291 | 379,252 |
| Marketing revenue[5] | 3,043 | 2,234 | 7,277 | 4,692 |
| **Revenue from contracts with customers** | **397,358** | **195,877** | **687,568** | **383,944** |

(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 June 30, 2022 was $127.8 million (June 30, 2021 – $77.5 million) in P&NG sales to be received from its marketers in respect of June 2022 production, which was subsequently received in July 2022.

(5) Marketing revenue primarily 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 three and six months ended June 30, 2022, the Corporation had marketing purchases from third parties of $2.6 million and $6.2 million, respectively (June 30, 2021 – $1.7 million and $3.8 million).

## 9. OTHER LIABILITIES

### 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 June 30, 2022 (December 31, 2021 – $14.8 million).

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

| **As at,** *($000s)* | **June 30, 2022** | **December 31, 2021** |
|---|---|---|
| Balance, beginning | 9,895 | 9,177 |
| Obligations incurred[1] | 283 | 554 |
| Accretion | 89 | 164 |
| **Balance, ending**[2] | **10,267** | **9,895** |
| Current portion | - | - |
| Long-term portion | 10,267 | 9,895 |

(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 June 30, 2022 and December 31, 2021.

### Lease Obligation

The Corporation's total undiscounted (inflated) amount of cash flow required to settle its lease obligations is approximately $16.5 million at June 30, 2022 (December 31, 2021 – $17.7 million) and is expected to be settled by 2029. A reconciliation of the discounted lease obligation is set forth below:

| **As at,** *($000s)* | **June 30, 2022** | **December 31, 2021** |
|---|---|---|
| Balance, beginning | 15,434 | 17,030 |
| Lease payments | (1,229) | (2,444) |
| Change in estimate | - | 147 |
| Accretion | 320 | 701 |
| **Balance, ending**[1] | **14,525** | **15,434** |
| Current portion | 1,885 | 1,841 |
| Long-term portion | 12,640 | 13,593 |

(1) Birchcliff applied a discount rate of 4.7% to calculate the discounted value of the lease obligation at June 30, 2022 and December 31, 2021.

## 10. SHARE-BASED PAYMENT

### Stock Option

At June 30, 2022, the Corporation's stock option plan (the "**Option Plan**") permitted the grant of options in respect of a maximum of 26,520,398 (June 30, 2021 – 26,695,334) common shares. At June 30, 2022, there remained available for issuance options in respect of 10,999,345 (June 30, 2021 – 5,874,849) common shares. For the three months ended June 30, 2022, the weighted average common share trading price on the TSX was $10.08 (June 30, 2021 – $3.54) per common share.

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

| | | | | Three months ended June 30, | | | | Six months ended June 30, |
|---|---|---|---|---|---|---|---|---|
| | | 2022 | | 2021 | | 2022 | | 2021 |
| | Number | Price *($)*[1] | Number | Price *($)*[1] | Number | Price *($)*[1] | Number | Price *($)*[1] |
| Outstanding, beginning | 18,078,542 | 3.76 | 23,771,737 | 3.58 | 23,116,919 | 3.96 | 26,134,201 | 3.56 |
| Granted[2] | 167,400 | 9.94 | 66,500 | 3.14 | 230,400 | 9.07 | 95,500 | 3.16 |
| Exercised | (2,605,087) | (3.03) | (908,283) | (2.95) | (5,928,364) | (3.08) | (1,010,613) | (2.91) |
| Forfeited | (119,802) | (4.31) | (2,025,469) | (7.67) | (254,802) | (4.40) | (2,047,037) | (7.61) |
| Expired | - | - | (84,000) | (6.51) | (1,643,100) | (7.84) | (2,351,566) | (3.53) |
| **Outstanding, ending** | **15,521,053** | **3.95** | **20,820,485** | **3.19** | **15,521,053** | **3.95** | **20,820,485** | **3.19** |

(1) Calculated on a weighted average basis.

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

The weighted average fair value per option granted during the three months ended June 30, 2022 was $4.75 (June 30, 2021 – $1.43). In determining the stock-based compensation expense for options issued during the three months ended June 30, 2022, the Corporation applied a weighted average estimated forfeiture rate of 7.7% (June 30, 2021 – 8.2%).

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

| Three months ended, | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Risk-free interest rate | 2.7% | 0.8% |
| Expected life *(years)* | 4.0 | 4.1 |
| Expected volatility | 62.0% | 61.6% |
| Dividend yield | 0.5% | 0.6% |

A summary of the stock options outstanding and exercisable under the Option Plan at June 30, 2022 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 | 7,334,312 | 2.99 | 2.03 | 2,594,050 | 2.79 | 2.13 |
| 3.01 | 6.00 | 2,634,741 | 1.66 | 3.61 | 2,451,073 | 1.48 | 3.55 |
| 6.01 | 9.00 | 5,461,600 | 4.44 | 6.57 | 18,000 | 0.22 | 6.03 |
| 9.01 | 11.65 | 90,400 | 4.91 | 10.99 | - | - | - |
| | | **15,521,053** | **3.29** | **3.95** | **5,063,123** | **2.14** | **2.83** |

### Performance Warrants

On January 18, 2005, Birchcliff issued 4,049,665 performance warrants as part of its initial restructuring to become a public entity. Each performance warrant is exercisable at a price of $3.00 to purchase one common share of Birchcliff.

On May 26, 2022, the Corporation purchased 1,724,832 performance warrants for a total cash cost of $14.5 million. As at June 30, 2022, there remained 1,214,900 performance warrants (December 31, 2021 – 2,939,732) outstanding with an expiry date of January 31, 2025.

## 11. CAPITAL MANAGEMENT

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations, to maintain a capital structure that allows Birchcliff to finance its business strategy using primarily internally-generated cash flow and its available debt capacity and to optimize the use of its capital to provide an appropriate investment return to its shareholders. There were no changes in the Corporation's approach to capital management during the three and six months ended June 30, 2022.

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

| As at, *($000s)* | June 30, 2022 | December 31, 2021 |
|---|---|---|
| *Maximum borrowing base limit*(1): | | |
| Revolving term credit facilities | 850,000 | 850,000 |
| *Principal amount utilized*: | | |
| Drawn revolving term credit facilities | (280,421) | (504,588) |
| Outstanding letters of credit(2) | (185) | (4,185) |
| | (280,606) | (508,773) |
| **Unused credit** | **569,394** | **341,227** |

(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 most recent semi-annual review of the borrowing base limit under the Credit Facilities, which was completed by the Corporation's syndicate of lenders in May 2022, the borrowing base limit was confirmed at $850.0 million and the maturity date was extended to May 11, 2025.

(2) Letters of credit are issued to various service providers. The letters of credit reduce the amount available under the Corporation's Working Capital Facility.

The capital structure of the Corporation is as follows:

| As at, *($000s)* | June 30, 2022 | December 31, 2021 | % Change |
|---|---|---|---|
| Shareholders' equity(1) | 2,209,089 | 1,917,603 | |
| Capital securities | 38,205 | 38,268 | |
| **Shareholders' equity & capital securities** | **2,247,294** | **1,955,871** | **15%** |
| Shareholders' equity & capital securities as a % of total capital(2) | 89% | 80% | |
| Revolving term credit facilities | 276,030 | 500,870 | |
| Working capital deficit | 18,633 | 53,312 | |
| Fair value of financial instruments | 10,436 | (16,517) | |
| Capital securities | (38,205) | (38,268) | |
| Adjusted working capital deficit (surplus)(3) | (9,136) | (1,473) | |
| **Total debt** | **266,894** | **499,397** | **(47)%** |
| Total debt as a % of total capital | 11% | 20% | |
| **Total capital** | **2,514,188** | **2,455,268** | **2%** |

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

(2) Of the 89%, approximately 96% relates to common capital stock and 4% relates to preferred capital stock.

(3) Includes items related to the day-to-day operations of Birchcliff and excludes any non-operational items such as financial instruments and capital securities.

## 12. RISK MANAGEMENT

Birchcliff is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The board of directors has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and periodically reviews the results of all risk management activities and all outstanding positions.

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *($000s)* | 2022 | 2021 | 2022 | 2021 |
| Realized gain (loss) on financial instruments | 16,687 | (13,392) | 16,488 | (28,890) |
| Unrealized gain on financial instruments | 47,453 | 21,339 | 82,128 | 13,720 |

### 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 demand in Canada and the United States, but also by world events that dictate the levels of supply and demand globally.

*Financial Derivative Contracts*

At June 30, 2022, 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 June 30, 2022, 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 (Asset) *($000s)* |
|---|---|---|---|---|---|
| Natural gas | AECO 7A basis swap[(2)] | 30,000 MMBtu/d | Jul. 1, 2022 – Dec. 31, 2023 | NYMEX HH less US$1.298/MMBtu | 133 |
| Natural gas | AECO 7A basis swap[(2)] | 10,000 MMBtu/d | Jul. 1, 2022 – Dec. 31, 2023 | NYMEX HH less US$1.320/MMBtu | 2,168 |
| Natural gas | AECO 7A basis swap[(2)] | 30,000 MMBtu/d | Jul. 1, 2022 – Dec. 31, 2023 | NYMEX HH less US$1.330/MMBtu | 139 |
| Natural gas | AECO 7A basis swap[(2)] | 15,000 MMBtu/d | Jul. 1, 2022 – Dec. 31, 2024 | NYMEX HH less US$1.185/MMBtu | (181) |
| Natural gas | AECO 7A basis swap[(2)] | 5,000 MMBtu/d | Jul. 1, 2022 – Dec. 31, 2024 | NYMEX HH less US$1.200/MMBtu | 18 |
| Natural gas | AECO 7A basis swap[(2)] | 5,000 MMBtu/d | Jul. 1, 2022 – Dec. 31, 2024 | NYMEX HH less US$1.200/MMBtu | (99) |
| Natural gas | AECO 7A basis swap[(2)] | 12,500 MMBtu/d | Jul. 1, 2022 – Dec. 31, 2025 | NYMEX HH less US$1.108/MMBtu | (479) |
| Natural gas | AECO 7A basis swap[(2)] | 10,000 MMBtu/d | Jul. 1, 2022 – Dec. 31, 2025 | NYMEX HH less US$1.115/MMBtu | (587) |
| Natural gas | AECO 7A basis swap[(2)] | 10,000 MMBtu/d | Jul. 1, 2022 – Dec. 31, 2025 | NYMEX HH less US$1.050/MMBtu | 737 |
| Natural gas | AECO 7A basis swap[(2)] | 5,000 MMBtu/d | Jul. 1, 2022 – Dec. 31, 2025 | NYMEX HH less US$1.178/MMBtu | 1,343 |
| Natural gas | AECO 7A basis swap[(2)] | 10,000 MMBtu/d | Jul. 1, 2022 – Dec. 31, 2025 | NYMEX HH less US$1.175/MMBtu | 665 |
| Natural gas | AECO 7A basis swap[(2)] | 5,000 MMBtu/d | Jul. 1, 2022 – Dec. 31, 2025 | NYMEX HH less US$1.190/MMBtu | 295 |
| Natural gas | AECO 7A basis swap[(2)] | 30,000 MMBtu/d | Jan. 1, 2024 – Dec. 31, 2025 | NYMEX HH less US$1.114/MMBtu | 2,543 |
| Natural gas | AECO 7A basis swap[(2)] | 35,000 MMBtu/d | Jan. 1, 2024 – Dec. 31, 2025 | NYMEX HH less US$1.081/MMBtu | 2,268 |
| Natural gas | AECO 7A basis swap[(2)] | 5,000 MMBtu/d | Jan. 1, 2024 – Dec. 31, 2025 | NYMEX HH less US$1.013/MMBtu | (86) |
| Natural gas | AECO 7A basis swap[(2)] | 20,000 MMBtu/d | Jan. 1, 2025 – Dec. 31, 2025 | NYMEX HH less US$1.005/MMBtu | 205 |
| Natural gas | AECO 7A basis swap[(2)] | 5,000 MMBtu/d | Jan. 1, 2025 – Dec. 31, 2025 | NYMEX HH less US$0.990/MMBtu | 56 |
| Natural gas | AECO 7A basis swap[(2)] | 5,000 MMBtu/d | Jan. 1, 2027 – Dec. 31, 2027 | NYMEX HH less US$0.620/MMBtu | (349) |
| | | | | **Fair value** | **8,789** |

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

(2) Birchcliff sold AECO basis swap.

At June 30, 2022 if the future AECO/NYMEX basis changed by US$0.10/MMBtu, with all other variables held constant, after-tax net income in six months ended June 30, 2022 would have changed by approximately $18.9 million.

There were no financial derivate contracts entered into subsequent to June 30, 2022 to manage commodity price risk.

*Physical Delivery Contracts*

Birchcliff also enters into physical delivery contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value through profit or loss.

At June 30, 2022 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 | Jul. 1, 2022 – 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 June 30, 2022.

**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 June 30, 2022, 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 Asset *($000s)* |
|---|---|---|---|---|---|
| Interest rate swap | One-month banker's acceptance – CDOR[(2)] | Jul. 1, 2022 – Mar. 1, 2024 | 350 | 2.215 | **7,124** |

(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 June 30, 2022 if the one-month banker's acceptance CDOR index changed by 0.10%, with all other variables held constant, after-tax net income in the six months ended June 30, 2022 would have changed by approximately $0.3 million.

There were no financial derivative contracts entered into subsequent to June 30, 2022 to manage interest rate risk.

**Foreign Currency Risk**

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The exchange rate effect cannot be quantified but generally an increase in the value of the CDN dollar as compared to the US dollar will reduce the CDN dollar prices received by Birchcliff for its petroleum and natural gas sales. The Corporation had no long-term forward exchange rate contracts in place as at or during the period ended June 30, 2022.

## 13. INVESTMENTS

On August 31, 2017, Birchcliff acquired securities consisting of 4,500,000 common A units in a limited partnership and 10,000,000 preferred units in a trust (collectively, the "**Securities**") at a combined value of $10.0 million. The Securities are not publicly listed and do not constitute a significant investment.

As at June 30, 2022, the Corporation determined the Securities had a fair value of $10.0 million (December 31, 2021 – $8.2 million). Birchcliff recorded a gain on investment of $1.8 million during the six months ended June 30, 2022 compared to a gain on investment of $3.3 million during the six months ended June 30, 2021.

## 14. SUBSEQUENT EVENTS

On August 4, 2022, Birchcliff announced its intention to redeem all of its 2,000,000 issued and outstanding Series A Preferred Shares and all of its 1,528,219 issued and outstanding Series C Preferred Shares on September 30, 2022 for a redemption price equal to $25.00 per share, less any tax required to be deducted or withheld by the Corporation. The aggregate redemption amount payable by the Corporation to redeem the Series A and Series Preferred Shares will be approximately $88.2 million and is expected to be funded using the Corporation's Credit Facilities (See Note 6 for further details).

## CORPORATE INFORMATION

### EXECUTIVE OFFICERS

**Jeff Tonken**
Chief Executive Officer

**Christopher Carlsen**
President and Chief Operating Officer

**Bruno Geremia**
Executive Vice President and
Chief Financial Officer

**Myles Bosman**
Executive Vice President, Exploration

**David Humphreys**
Executive Vice President, Operations

**Theo van der Werken**
Vice President, Engineering

**Robyn Bourgeois**
Vice President, Legal, General Counsel and Corporate Secretary

**Hue Tran**
Vice President, Business Development and Marketing

### DIRECTORS

**Jeff Tonken**
Chief Executive Officer and
Chairman of the Board
Calgary, Alberta

**Dennis Dawson**
Independent Lead Director
Calgary, Alberta

**Debra Gerlach**
Independent Director
Calgary, Alberta

**Stacey McDonald**
Independent Director
Calgary, Alberta

**James Surbey**
Non-Independent Director
Calgary, Alberta

### MANAGEMENT

**Gates Aurigemma**
Manager, General Accounting

**Jesse Doenz**
Controller and Investor Relations Manager

**Andrew Fulford**
Surface Land Manager

**Paul Messer**
Manager of Information Technology

**Tyler Murray**
Mineral Land Manager

**Landon Poffenroth**
Montney Asset Manager

**Michelle Rodgerson**
Manager, Human Resources and
Corporate Services

**Jeff Rogers**
Facilities Manager

**Randy Rousson**
Drilling and Completions Manager

**Victor Sandhawalia**
Manager of Finance

**Daniel Sharp**
Manager of Geology

**Ryan Sloan**
Health and Safety Manager

**Duane Thompson**
Production Manager

### BANKERS

The Bank of Nova Scotia

HSBC Bank Canada

National Bank of Canada

Canadian Imperial Bank of Commerce

Bank of Montreal

ATB Financial

Business Development Bank of Canada

Wells Fargo Bank, N.A., Canadian Branch

United Overseas Bank Limited

ICICI Bank Canada

### AUDITORS

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### RESERVES EVALUATOR

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Calgary, Alberta

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