

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

This Management's Discussion and Analysis ("MD&A") for Birchcliff Energy Ltd. ("Birchcliff" or the "Corporation") is dated August 10, 2016. This MD&A and the unaudited interim condensed financial statements with respect to the three and six months ended June 30, 2016 (the "Reporting Periods") as compared to the three and six months ended June 30, 2015 (the "Comparable Prior Periods") have been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the interim condensed financial statements of the Corporation and related notes for the Reporting Periods, as well as the audited financial statements of the Corporation and related notes and MD&A for the year ended December 31, 2015. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

This MD&A uses "funds flow", "funds flow from operations", "funds flow per common share", "netback", "operating netback", "estimated operating netback", "operating margin", "total cash costs", "adjusted working capital deficit" and "total debt", which do not have standardized meanings prescribed by generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. For further information, see "Non-GAAP Measures" in this MD&A.

This MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. Such forward-looking information is based upon certain expectations and assumptions and actual results may differ materially from those expressed or implied by such forward-looking information. For further information regarding the forward-looking information contained herein, including the assumptions underlying such forward-looking information, see "Advisories – Forward-Looking Information" in this MD&A.

All barrel of oil equivalent ("boe") amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel of oil (1 bbl) and all thousands of cubic feet of gas equivalent ("Mcf") amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. For further information, see "Advisories" in this MD&A.

ABOUT BIRCHCLIFF

Birchcliff is a Calgary, Alberta based intermediate oil and natural gas company with operations concentrated in its one core area, the Peace River Arch of Alberta, which is centred northwest of Grande Prairie, Alberta. Birchcliff's common shares are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol "BIR" and are included in the S&P/TSX Composite Index. Additional information relating to the Corporation, including its Annual Information Form for the financial year ended December 31, 2015, is available on the SEDAR website at www.sedar.com and on the Corporation's website at www.birchcliffenergy.com.

SECOND QUARTER FINANCIAL AND OPERATIONAL HIGHLIGHTS

- On June 21, 2016, Birchcliff entered into a definitive agreement to purchase certain petroleum and natural gas properties, interests and related assets primarily located in the Gordondale area (the "Assets") for cash consideration of approximately \$625 million, prior to closing adjustments and costs of the acquisition (the "Gordondale Acquisition"). In connection with the announcement of the Gordondale Acquisition, Birchcliff launched a bought deal financing and concurrent private placement of subscription receipts for aggregate gross proceeds of approximately \$690.8 million. The financings closed on July 13, 2016 and the Gordondale Acquisition closed July 28, 2016. See "Subsequent Events" in this MD&A for further information regarding the Gordondale Acquisition and the financings.

- Birchcliff had strong quarterly average production of 39,513 boe/d, a 3% increase from 38,489 boe/d in the second quarter of 2015.
- Birchcliff had funds flow of \$13.3 million (\$0.09 per basic common share), a decrease from \$45.8 million (\$0.30 per basic common share) in the second quarter of 2015.
- Birchcliff recorded a net loss to common shareholders of \$24.3 million (\$0.16 per basic common share), as compared to the net loss to common shareholders of \$5.2 million (\$0.03 per basic common share) in the second quarter of 2015.
- Birchcliff had record low operating costs of \$3.45 per boe, a 24% decrease from \$4.53 per boe in the second quarter of 2015.
- Birchcliff drilled 4 (4.0 net) wells in the second quarter of 2016, all of which were Montney/Doig horizontal natural gas wells in the Pouce Coupe area.

OUTLOOK

As a result of the closing of the Gordondale Acquisition, the Corporation's board of directors has approved a revised capital budget for 2016 of \$163.7 million, up from the \$122.5 million that was previously announced on May 11, 2016.

The Corporation's revised 2016 capital expenditure program (the "**Revised 2016 Capital Program**") contemplates the drilling of a total of 23 (23.0 net) wells, an increase from the 13 (13.0 net) wells under the Corporation's original capital expenditure program, and continues the funding of key infrastructure required for future growth, including the Corporation's 100% owned and operated natural gas plant located in the Pouce Coupe South area (the "**PCS Gas Plant**").

Birchcliff will direct additional funds towards the development of certain properties that it recently acquired in the Gordondale area pursuant to the Gordondale Acquisition, as well as additional funds towards the development of its existing properties in the Pouce Coupe area. The expanded portion of the Revised 2016 Capital Program contemplates the drilling of an additional 10 (10.0 net) wells, consisting of 4 (4.0 net) wells in the Pouce Coupe area and 6 (6.0 net) wells in the Gordondale area. These additional wells are expected to be completed, equipped and brought on production in 2017. As a result, the expanded portion of the Revised 2016 Capital Program is not expected to add any production in 2016, but is designed to achieve significant production growth in 2017.

The Corporation currently expects that its net capital expenditures for 2016 (net of acquisitions and dispositions, but excluding the Gordondale Acquisition) will approximate its funds flow during 2016, based on the assumptions set forth herein.

Based on recent commodity prices and exchange rates, Birchcliff has revised its commodity price and exchange rate assumptions underlying the Revised 2016 Capital Program. The Revised 2016 Capital Program now assumes an annual average WTI price of approximately US\$40.50 per barrel of oil (revised from US\$43.00), an AECO price of approximately CDN\$2.00 per GJ of natural gas (revised from CDN\$1.90) and an exchange rate of CDN\$/US\$ of 1.33 (revised from 1.29) during 2016.

The Corporation's estimated total debt at December 31, 2016 is expected to be \$607 million, decreased from the Corporation's previously disclosed guidance of \$656 million.

The Revised 2016 Capital Program is flexible and Birchcliff has the ability to defer capital expenditures in the event that actual commodity prices are materially less than what it has forecast. The Corporation has been closely monitoring commodity prices and its capital spending. The Corporation continues to find opportunities to reduce costs and defer certain capital expenditures, while still pursuing its objectives of

production growth and the funding of key infrastructure to pave the way for future growth. The Corporation will continue to monitor commodity prices and economic conditions and may further adjust the Revised 2016 Capital Program to respond to changes in commodity prices and other material changes in the assumptions underlying the Revised 2016 Capital Program. In addition, Birchcliff may make adjustments to its other activities as appropriate. 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.

The Corporation's annual average production for 2016 is expected to be 49,000 to 51,000 boe/d, increased from the Corporation's previously disclosed guidance of 40,000 to 41,000 boe/d.

The Corporation currently has crude oil hedges in place for 1,500 bbls/d which expire December 31, 2016. The Corporation is currently reviewing its hedging strategy and intends to adopt an ongoing hedging strategy. For further information regarding the Corporation's hedges, please see "Discussion of Operations – Risk Management Contracts" in this MD&A.

See "Advisories – Forward-Looking Information".

FUNDS FLOW FROM OPERATIONS

(\$000s)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Funds flow from operations	13,267	45,752	33,962	82,472
Per common share – basic (\$)	0.09	0.30	0.22	0.54
Per common share – diluted (\$)	0.09	0.30	0.22	0.53

Funds flow in the three and six month Reporting Periods decreased by 71% and 59%, respectively, from the Comparable Prior Periods. Lower funds flow in the three and six month Reporting Periods was largely attributed to a 21% and 23% decrease, respectively, in the realized oil wellhead prices and a 48% and 40% decrease, respectively, in the realized natural gas wellhead prices as compared to the Comparable Prior Periods. Lower funds flow was partially offset by higher average daily production and lower per unit total cash costs in the three and six month Reporting Periods.

The following table provides a breakdown of total cash costs on a per boe basis and the percentage change period-over-period for the three and six month Reporting Periods:

(\$/boe)	Three months ended June 30,			Six months ended June 30,		
	2016	2015	% Change	2016	2015	% Change
Royalty expense	0.25	0.61	(59%)	0.46	0.72	(36%)
Operating expense	3.45	4.53	(24%)	3.58	4.82	(26%)
Transportation and marketing expense	2.35	2.46	(4%)	2.30	2.52	(9%)
General & administrative expense, net	1.24	1.50	(17%)	1.28	1.60	(20%)
Interest expense	2.18	1.48	47%	1.94	1.45	34%
Total Cash Costs	9.47	10.58	(10%)	9.56	11.11	(14%)

On a per boe basis, total cash costs for the three and six month Reporting Periods were down 10% and 14%, respectively, from the Comparable Prior Periods primarily driven by lower royalty, operating, transportation and marketing and general and administrative expenses, partially offset by higher interest expense in the Reporting Periods. See "Discussion of Operations" in this MD&A for further information regarding the aforementioned cash costs.

NET LOSS TO COMMON SHAREHOLDERS

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
(\$000s)				
Net loss	(23,321)	(4,174)	(35,356)	(7,653)
Net loss to common shareholders⁽¹⁾	(24,321)	(5,174)	(37,356)	(9,653)
Per common share – basic (\$)	(0.16)	(0.03)	(0.25)	(0.06)
Per common share – diluted (\$)	(0.16)	(0.03)	(0.25)	(0.06)

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

For the three and six month Reporting Periods, the respective increases in net loss to common shareholders from the Comparable Prior Periods were largely due to lower funds flow from operations and a loss on sale of assets of \$10.9 million (\$8.0 million, net of tax), offset by lower depletion costs in the Reporting Periods.

PCS GAS PLANT NETBACKS

The following table sets forth Birchcliff's net production and estimated operating netback for wells producing to the PCS Gas Plant on a production month basis:

	Six months ended June 30, 2016		Six months ended June 30, 2015	
Average daily production, net to Birchcliff:				
Natural gas (Mcf)	171,422		157,462	
Oil & NGL (bbls)	967		1,249	
Total boe (6:1)	29,537		27,494	
Sales liquids yield (bbls/MMcf)	5.6		7.9	
% of corporate natural gas production	79%		80%	
% of corporate production	73%		72%	
AECO – C daily (\$/Mcf)	\$1.61		\$2.70	
Netback and cost:	\$/Mcfe	\$/boe	\$/Mcfe	\$/boe
Petroleum and natural gas revenue ⁽¹⁾	1.93	11.61	3.20	19.21
Royalty expense	(0.05)	(0.30)	(0.12)	(0.74)
Operating expense ⁽²⁾	(0.25)	(1.47)	(0.35)	(2.11)
Transportation and marketing expense	(0.30)	(1.88)	(0.32)	(1.92)
Estimated operating netback	\$1.33	\$7.96	\$2.41	\$14.44
Operating margin	69%	69%	75%	75%

(1) Excludes the effect of hedges using financial instruments.

(2) Represents plant and field operating costs.

DISCUSSION OF OPERATIONS

Petroleum and Natural Gas Revenues

The following table sets forth Birchcliff's petroleum and natural gas ("P&NG") revenues, production and percentage of production and sales price by product category:

	Three months ended June 30, 2016				Three months ended June 30, 2015			
	Total Revenue ⁽¹⁾ (\$000s)	Average Daily Production	Average (%)	Average (\$/unit)	Total Revenue (\$000s)	Average Daily Production	Average (%)	Average (\$/unit)
Light oil (bbls)	11,666	2,504	6	51.20	22,072	3,736	10	64.93
Natural gas (Mcf)	28,703	213,130	90	1.48	51,797	198,714	86	2.86
NGL (bbls)	6,873	1,488	4	50.77	8,857	1,634	4	59.57
Total P&NG sales (boe)	47,242	39,513	100	13.13	82,726	38,489	100	23.62
Royalty revenue	19			0.01	65			0.02
P&NG revenues	47,261			13.14	82,791			23.64

(1) Excludes the effect of hedges using financial instruments.

	Six months ended June 30, 2016				Six months ended June 30, 2015			
	Total Revenue ⁽¹⁾ (\$000s)	Average Daily Production	Average (%)	Average (\$/unit)	Total Revenue (\$000s)	Average Daily Production	Average (%)	Average (\$/unit)
Light oil (bbls)	22,527	2,868	7	43.16	39,304	3,876	10	56.03
Natural gas (Mcf)	69,019	217,804	89	1.74	104,282	197,332	86	2.92
NGL (bbls)	13,175	1,567	4	46.19	16,145	1,688	4	52.84
Total P&NG sales (boe)	104,721	40,736	100	14.12	159,731	38,453	100	22.95
Royalty revenue	43			0.01	86			0.01
P&NG revenues	104,764			14.13	159,817			22.96

(1) Excludes the effect of hedges using financial instruments.

The decrease in P&NG revenues from the Comparable Prior Periods was largely attributable to a decrease in both the average realized oil and natural gas wellhead prices, partially offset by higher average daily production in the Reporting Periods, as discussed in further detail below.

Production

Production averaged 39,513 boe/d in the three month Reporting Period and 40,736 boe/d in the six month Reporting Period, a 3% and 6% increase, respectively, from the Comparable Prior Periods. The increase in production from the Comparable Prior Periods was largely due to incremental production added from new Montney/Doig horizontal natural gas wells, notwithstanding natural production declines.

Production consisted of approximately 90% natural gas, 6% light oil and 4% natural gas liquids ("NGL") in the second quarter of 2016 as compared to 86% natural gas, 10% light oil and 4% NGL in the second quarter of 2015. The PCS Gas Plant processed approximately 79% of Birchcliff's total corporate natural gas production and 73% of its total corporate production in the first half of 2016.

Commodity prices

Birchcliff sells the majority of its light crude oil on a spot basis and the majority of its natural gas production for prices based on the AECO natural gas spot price. The average realized price the Corporation receives for its light crude oil and natural gas production depends on a number of factors, including the average benchmark prices for crude oil and natural gas, the US to Canadian dollar exchange rate and transportation and product quality differentials.

The following table sets forth the average benchmark prices and Birchcliff's average realized sales price:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<i>Average benchmark prices:</i>				
Light oil – WTI Cushing (\$US/bbl)	45.59	57.94	39.52	53.29
Light oil – Edmonton Par (\$/bbl)	56.45	70.06	49.07	59.90
Natural gas – AECO – C daily (\$/MMbtu) ⁽¹⁾	1.40	2.65	1.61	2.70
Exchange rate – (US\$/CDN\$)	1.29	1.23	1.32	1.25
<i>Birchcliff's average realized sales price⁽²⁾:</i>				
Light oil (\$/bbl)	51.20	64.93	43.16	56.03
Natural gas (\$/Mcf)	1.48	2.86	1.74	2.92
NGL (\$/bbl)	50.77	59.57	46.19	52.84
Barrels of oil equivalent (\$/boe) (6:1)	13.13	23.62	14.12	22.95

(1) \$1.00/MMbtu = \$1.00/Mcf based on a standard heat value Mcf.

(2) Excludes the effect of hedges using financial instruments.

The average realized sales price was \$13.13 per boe for the three month Reporting Period and \$14.12 per boe for the six month Reporting Period, a 44% and 38% decline, respectively, from the Comparable Prior Periods.

The average benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for these commodities. The principal benchmark trading exchanges that Birchcliff compares its oil price to are the WTI oil spot price and the Canadian Edmonton Par spot price. The differential between the WTI oil spot price and Canadian Edmonton Par spot price can widen due to a number of factors, including, but not limited to, downtime in North American refineries, rising domestic production, high inventory levels in North America and lack of pipeline infrastructure connecting key consuming oil markets.

Canadian AECO natural gas prices are mainly influenced by North American supply and demand fundamentals which can be impacted by a number of factors, including, but not limited to, weather-related conditions, changing demographics, economic growth, underground storage levels, net import and export markets, pipeline takeaway capacity, cost of competing fuels, drilling and completion rates and efficiencies in extracting natural gas from North American natural gas basins.

During the first half of 2016, the AECO natural gas spot price and the WTI oil spot price continued to decline from 2015 year-end levels, primarily due to the supply/demand imbalance of oil and natural gas that has resulted in high inventory levels in North America. The AECO natural gas spot price averaged \$1.40 per Mcf for the three month Reporting Period and averaged \$1.61 per Mcf for the six month Reporting Period, a 47% and 40% decrease, respectively, from the Comparable Prior Periods. The WTI oil spot price in the three and six month Reporting Periods were 21% and 26% lower, respectively, than the Comparable Prior Periods. The decline in commodity prices negatively impacted reported revenues in the three and six month Reporting Periods.

Birchcliff's realized natural gas sales price at the wellhead averaged \$1.48 per Mcf for the three month Reporting Period which is higher than the posted benchmark prices for the period. Birchcliff receives premium pricing for its natural gas production due to its high heat content. The following table sets forth Birchcliff's average realized sales price and heat content premium from its natural gas production during the three month Reporting Period:

	Three months ended June 30, 2016	Three months ended June 30, 2015
AECO – C daily (\$/MMbtu) ⁽¹⁾	1.40	2.65
Heat content premium	0.08	0.21
Average realized natural gas sales price (\$/Mcf)	1.48	2.86

(1) \$1.00/MMbtu = \$1.00/Mcf based on a standard heat value Mcf.

Risk Management Contracts

The Corporation entered into certain commodity price risk management contracts in the three month Reporting Period in order to reduce volatility in its financial results and protect its cash flow and capital expenditure program. Birchcliff's current strategy is to hedge a portion of its oil and natural gas using a combination of financial derivatives and physical sales contracts to manage commodity price risk.

As at June 30, 2016, the Corporation had the following financial derivatives in place:

Product	Type of Contract	Notional quantity	Term ⁽¹⁾	Contract price	Fair value (\$000s)
Crude oil	Financial swap	1,000 bbls/day	June 1, 2016 – December 31, 2016	WTI CAD \$64.63/bbl	22
Crude oil	Financial swap	500 bbls/day	June 1, 2016 – December 31, 2016	WTI CAD \$65.25/bbl	102
Fair value assets					124

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

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

	Three months ended June 30,				Six months ended June 30,			
	2016		2015		2016		2015	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
Realized gain on derivatives	83	0.02	-	-	83	0.01	-	-
Unrealized gain on derivatives	124	0.03	-	-	124	0.02	-	-

There were no financial derivative contracts entered into subsequent to June 30, 2016.

Royalties

The following table details Birchcliff's royalty expense:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Oil & natural gas royalties (\$000s) ⁽¹⁾	885	2,138	3,436	5,024
Oil & natural gas royalties (\$/boe)	0.25	0.61	0.46	0.72
Effective royalty rate (%) ⁽²⁾	2%	3%	3%	3%

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

(2) The effective royalty rate is calculated by dividing the aggregate royalties into petroleum and natural gas sales for the period.

Birchcliff's aggregate royalty expense for the three and six month Reporting Periods decreased from the Comparable Prior Periods primarily due to lower realized oil and natural gas wellhead prices.

Birchcliff's effective royalty rates are largely unchanged from the Comparable Prior Periods and are impacted by both the production incentives earned for a number of Montney/Doig horizontal natural gas wells that are receiving a 5% royalty rate and by lower oil and natural gas wellhead prices received for Birchcliff's production and the effect these prices have on the sliding scale royalty calculation.

The Government of Alberta introduced the new Modernized Royalty Framework (the "MRF") on January 29, 2016 and on April 21, 2016 it announced additional royalty details and technical formulas for the MRF. These details provide the necessary information to understand the economics for oil and gas producers and other stakeholders to continue to invest in Alberta. Production from wells drilled prior to January 1, 2017 will continue under the previous Alberta Royalty Framework for 10 years before transitioning to the MRF. On July 12, 2016, the Government of Alberta announced that operators could apply to opt into the MRF prior to the implementation date of January 1, 2017, and thus gain earlier access to the new program. Birchcliff expects to apply for the early entry program, where applicable, on its remaining 10 well 2016 drilling program.

Operating Costs

The following table provides a breakdown of Birchcliff's operating costs:

	Three months ended June 30,				Six months ended June 30,			
	2016		2015		2016		2015	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
Field operating costs	12,672	3.52	16,110	4.60	27,245	3.67	33,760	4.85
Recoveries	(350)	(0.10)	(322)	(0.09)	(868)	(0.12)	(664)	(0.09)
Field operating costs, net	12,322	3.42	15,788	4.51	26,377	3.55	33,096	4.76
Expensed workovers and other	81	0.03	67	0.02	178	0.03	428	0.06
Operating costs	12,403	3.45	15,855	4.53	26,555	3.58	33,524	4.82

Corporate operating costs per boe decreased 24% and 26% from the three and six month Comparable Prior Periods, respectively, largely due to the continued cost benefits achieved from processing incremental volumes of natural gas at the PCS Gas Plant and lower service costs resulting from reduced industry activity, as well as various cost reduction and infrastructure optimization initiatives that the Corporation has implemented.

On a production month basis, operating costs averaged \$1.47 per boe (\$0.25 per Mcfe) at the PCS Gas Plant during the first half of 2016, down 30% from \$2.11 per boe (\$0.35 per Mcfe) in the Comparable Prior Period. Birchcliff processed 79% of its total corporate natural gas production at the PCS Gas Plant during the six month Reporting Period as compared to 80% in the Comparable Prior Period.

Transportation and Marketing Expenses

Transportation and marketing expenses were \$8.5 million (\$2.35 per boe) for the three month Reporting Period and \$17.0 million (\$2.30 per boe) for the six month Reporting Period as compared to \$8.6 million (\$2.46 per boe) and \$17.5 million (\$2.52 per boe) for the Comparable Prior Periods. The decreased aggregate costs from the Comparable Prior Periods are primarily due to the reduced costs associated with transporting Birchcliff's condensate from the PCS Gas Plant and lower oil trucking service costs in the Reporting Periods, partially offset by increased firm service commitments on TransCanada's NGTL System.

Operating Netbacks

The following table details Birchcliff's net production and operating netback for the Montney/Doig Resource Play, the Worsley Charlie Lake Light Oil Resource Play and on a corporate basis:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Montney/Doig Resource Play⁽¹⁾				
Average daily production, net:				
Natural gas (Mcf)	202,823	184,516	205,511	181,991
Oil & NGL (bbls)	1,587	1,838	1,697	1,930
Total boe (6:1)	35,391	32,591	35,948	32,261
% of corporate production ⁽²⁾	90%	85%	88%	84%
Netback and cost (\$/boe):				
Petroleum and natural gas revenue ⁽³⁾	10.81	19.77	12.15	19.77
Royalty expense	(0.12)	(0.38)	(0.33)	(0.38)
Operating expense, net of recoveries	(2.35)	(3.18)	(2.55)	(3.51)
Transportation and marketing expense	(2.06)	(1.94)	(1.97)	(1.98)
Operating netback	6.28	14.27	7.30	13.90
Worsley Charlie Lake Light Oil Resource Play⁽¹⁾				
Average daily production, net:				
Natural gas (Mcf)	5,581	7,976	6,628	8,779
Oil & NGL (bbls)	2,076	2,623	2,307	2,831
Total boe (6:1)	3,006	3,952	3,412	4,294
% of corporate production ⁽²⁾	8%	10%	8%	11%
Netback and cost (\$/boe):				
Petroleum and natural gas revenue ⁽³⁾	37.76	48.00	32.29	41.84
Royalty expense	(1.16)	(1.88)	(1.33)	(2.49)
Operating expense, net of recoveries	(10.28)	(10.57)	(9.93)	(10.50)
Transportation and marketing expense	(6.14)	(5.97)	(5.96)	(6.16)
Operating netback	20.18	29.58	15.07	22.69
Total Corporate				
Average daily production, net:				
Natural gas (Mcf)	213,130	198,714	217,804	197,332
Oil & NGL (bbls)	3,992	5,370	4,435	5,564
Total boe (6:1)	39,513	38,489	40,736	38,453
Netback and cost (\$/boe)				
Petroleum and natural gas revenue ⁽³⁾	13.14	23.64	14.13	22.96
Royalty expense	(0.25)	(0.61)	(0.46)	(0.72)
Operating expense, net of recoveries	(3.45)	(4.53)	(3.58)	(4.82)
Transportation and marketing expense	(2.35)	(2.46)	(2.30)	(2.52)
Operating netback	7.09	16.04	7.79	14.90

(1) Most resource plays produce both oil and natural gas; however, a resource play is categorized as either a natural gas resource play or an oil resource play based upon the predominate production or play type in that area.

(2) Production from Birchcliff's other conventional oil and natural gas properties were not individually significant during the Reporting Periods and Comparable Prior Periods.

(3) Excludes the effect of hedges using financial instruments.

Montney/Doig Resource Play

Birchcliff's production from the Montney/Doig Resource Play was 35,391 boe/d in the three month Reporting Period and 35,948 boe/d in the six month Reporting Period, a 9% and 11% increase from the Comparable Prior Periods. This increase was largely due to higher production of natural gas from new

Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant and nearby third party plants throughout 2016.

Birchcliff's recoveries of liquids from its Montney/Doig natural gas production were 7.8 bbls per MMcf in the three month Reporting Period and 8.3 bbls per MMcf in the six month Reporting Period as compared to 10.0 bbls per MMcf and 10.6 bbls per MMcf, respectively, in the Comparable Prior Periods. Of the 7.8 bbls per MMcf of liquids produced in the three month Reporting Period, approximately 7.6 bbls per MMcf (97%) were high value oil and condensate (C5+). Any NGL not recovered from the raw natural gas stream (ethane, propane and butane) increases the heat content value of Birchcliff's sales gas and the realized sales price.

Birchcliff's operating netback from the Montney/Doig Resource Play was \$6.28 per boe (\$1.05 per Mcfe) in the three month Reporting Period and \$7.30 per boe (\$1.22 per Mcfe) in the six month Reporting Period, a decrease of 56% and 47%, respectively, from the Comparable Prior Periods. This decrease was largely due to lower realized prices received for Birchcliff's natural gas and liquids production in the Reporting Periods as compared to the Comparable Prior Periods.

Worsley Charlie Lake Light Oil Resource Play

Birchcliff's production from the Worsley Charlie Lake Light Oil Resource Play was 3,006 boe/d in the three month Reporting Period and 3,412 boe/d in the six month Reporting Period, a decrease of 24% and 21%, respectively, from the Comparable Prior Periods. The decrease in production was largely due to natural declines and on-going pipeline inspection, repairs and maintenance activities in the Reporting Periods, partially offset by production optimization initiatives in the Worsley field that were ongoing during 2016.

Birchcliff's operating netback from the Worsley Charlie Lake Light Oil Resource Play was \$20.18 per boe in the three month Reporting Period and \$15.07 per boe in the six month Reporting Period, a decrease of 32% and 34%, respectively, from the Comparable Prior Periods. The decrease was largely due to lower realized prices received for Birchcliff's oil, natural gas and liquids production in the Reporting Periods as compared to the Comparable Prior Periods.

Administrative Expenses

The components of Birchcliff's net administrative expenses are detailed in the table below:

	Three months ended June 30,				Six months ended June 30,			
	2016		2015		2016		2015	
	(\$000s)	(%)	(\$000s)	(%)	(\$000s)	(%)	(\$000s)	(%)
<i>Cash:</i>								
Salaries and benefits ⁽¹⁾	5,066	64	4,827	58	10,351	63	10,152	60
Other ⁽²⁾	2,803	36	3,450	42	5,953	37	6,898	40
	7,869	100	8,277	100	16,304	100	17,050	100
Operating overhead recoveries	(48)	(1)	(71)	(1)	(90)	(1)	(133)	(1)
Capitalized overhead ⁽³⁾	(3,353)	(42)	(2,942)	(35)	(6,733)	(41)	(5,780)	(34)
General & administrative, net	4,468	57	5,264	64	9,481	58	11,137	65
General & administrative, net per boe	\$1.24		\$1.50		\$1.28		\$1.60	
<i>Non-cash:</i>								
Stock-based compensation	1,376	100	2,051	100	2,945	100	4,051	100
Capitalized stock-based compensation ⁽³⁾	(852)	(62)	(1,181)	(58)	(1,771)	(60)	(2,424)	(60)
Stock-based compensation, net	524	38	870	42	1,174	40	1,627	40
Stock-based compensation, net per boe	\$0.15		\$0.25		\$0.16		\$0.23	
Administrative expenses, net	4,992		6,134		10,655		12,764	
Administrative expenses, net per boe	\$1.39		\$1.75		\$1.44		\$1.83	

(1) Includes salaries and benefits paid to all officers and employees of the Corporation.

- (2) Includes costs such as rent, legal, tax, insurance, minor computer hardware and software and other general business expenses incurred by the Corporation.
- (3) Includes a portion of general and administrative costs and stock-based compensation directly attributable to the exploration and development activities of the Corporation which have been capitalized.

A summary of the Corporation's outstanding stock options is presented below:

	Three months ended June 30, 2016		Six months ended June 30, 2016	
	Number	Exercise price (\$) ⁽¹⁾	Number	Exercise price (\$) ⁽¹⁾
Outstanding at beginning of period	13,991,705	6.45	12,569,238	7.80
Granted	53,000	6.04	3,065,500	3.45
Forfeited	(109,567)	(6.65)	(120,400)	(6.78)
Expired	(93,000)	(12.77)	(1,672,200)	(11.44)
Outstanding, end of period	13,842,138	6.40	13,842,138	6.40

(1) Determined on a weighted average basis.

At June 30, 2016, there were 2,939,732 performance warrants outstanding with an exercise price of \$3.00 which expire on January 31, 2020.

Each stock option and performance warrant entitles the holder to purchase one common share at the exercise price.

Depletion and Depreciation Expenses

Depletion and depreciation ("D&D") expenses were \$31.5 million (\$8.75 per boe) for the three month Reporting Period and \$65.6 million (\$8.85 per boe) for the six month Reporting Period as compared to \$37.6 million (\$10.75 per boe) and \$76.5 million (\$10.99 per boe), respectively, for the Comparable Prior Periods. D&D expenses were lower on an aggregate basis from the Comparable Prior Periods mainly due to a 21% increase in period-end proved plus probable reserves offset by higher production in the Reporting Periods.

D&D is a function of the estimated proved plus probable reserve additions, the finding and development costs attributable to those reserves, the associated future development capital required to recover those reserves and production in the period. The Corporation determines its D&D expenses on a field area basis.

Asset impairment assessment

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

The Corporation's CGUs are reviewed at each reporting date for both internal and external indicators of potential impairment. Potential CGU impairment indicators include, but are not limited to: changes to Birchcliff's business plan; deterioration in commodity prices; negative changes in technological, economic, legal, capital or operating environment; adverse changes to the physical condition of a CGU; current expectations that a material CGU (or a significant component thereof) is more likely than not to be sold or otherwise disposed of before the end of its previously estimated useful life; non-compliance with the agreements governing the Corporation's bank credit facilities; deterioration in the financial and

operational performance of a CGU; net assets exceeding market capitalization; and significant downward revisions of estimated recoverable proved plus probable reserves of a CGU. If impairment indicators exist, an impairment test is performed by comparing a CGU's carrying value to its recoverable amount.

Birchcliff performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined that there were no impairment triggers identified during the Reporting Periods. As a result, an impairment test was not required at June 30, 2016.

Finance Expenses

The components of the Corporation's finance expenses are set forth in the table below:

	Three months ended June 30,				Six months ended June 30,			
	2016		2015		2016		2015	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
<i>Cash:</i>								
Interest on credit facilities	7,825	2.18	5,165	1.48	14,414	1.94	10,124	1.45
<i>Non-cash:</i>								
Accretion on decommissioning obligations	571	0.16	530	0.15	1,135	0.15	1,088	0.16
Amortization of deferred financing fees	230	0.06	230	0.07	465	0.06	450	0.06
Finance expenses	8,626	2.40	5,925	1.70	16,014	2.15	11,662	1.67

The increase in the aggregate interest expense from the Comparable Prior Periods is largely due to higher average effective interest rates and increased average outstanding total credit facilities balance during the Reporting Periods. The effective interest rates applicable to the drawn loans are based on a pricing margin grid and will change as a result of the ratio of outstanding indebtedness to the trailing four quarter EBITDA as calculated in accordance with the agreement governing the Corporation's extendible revolving credit facilities (the "**Credit Facilities**"). EBITDA is defined as earnings before interest and non-cash items, including (if any) income taxes, stock-based compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments and depletion, depreciation and amortization.

The following table details the Corporation's effective interest rates under its credit facilities:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<i>Effective interest rates:</i>				
Revolving working capital facility	4.7%	4.1%	4.7%	4.1%
Revolving syndicated term credit facility	4.7%	3.5%	4.4%	3.7%
Non-revolving term credit facility ⁽¹⁾	-	3.8%	-	4.0%

(1) During the three month Comparable Prior Period, Birchcliff's then existing credit facilities, including the non-revolving credit facility, were consolidated into the Credit Facilities (as defined herein). Accordingly, the Corporation did not have an outstanding non-revolving term credit facility during the Reporting Periods.

Birchcliff's average outstanding total credit facilities balance was approximately \$666 million and \$649 million in the three and six month Reporting Periods, respectively, as compared to \$533 million and \$573 million in the Comparable Prior Periods, calculated as the simple average of the month-end amounts.

Gain or Loss on Sale of Assets

On April 28, 2016, Birchcliff completed the disposition of certain non-core miscellaneous petroleum and natural gas properties and related assets and interests in the Progress area (the "**Progress Disposition**") that were producing from the Halfway formation for cash consideration of \$19.0 million, after customary closing adjustments. The Progress Disposition had an effective date of January 1, 2016 and represented approximately 600 boe/d of production (60% light oil) and 4,135 net acres of land. The assets disposed of pursuant to the Progress Disposition are not material to the Corporation's financial results and operational

performance as they represented approximately 1% of its production in the first half of 2016 and less than 1% of its proved plus probable reserves at December 31, 2015. No significant capital was allocated to the Progress assets during the Reporting Periods. As a result of the Progress Disposition, Birchcliff recorded a loss on sale of assets of approximately \$10.9 million (\$8.0 million, net of tax) or \$3.03 per boe (\$2.21 per boe, net of tax) in the second quarter of 2016.

During the six month Comparable Prior Period, Birchcliff completed two transactions whereby it disposed of minor non-reserve assets in the Gold Creek and Sturgeon Lake areas of Alberta in exchange for \$0.7 million in cash. As a result of the dispositions, Birchcliff recorded a gain of \$0.7 million or \$0.09 per boe in the six month Comparable Prior Period. The sale of the Gold Creek and Sturgeon Lake assets are considered non-core asset dispositions and are not material to the Corporation's financial results and operational performance.

Income Taxes

The components of income tax expense (recovery) are set forth in the table below:

	Three months ended		Six months ended	
	June 30,		June 30,	
(\$000s)	2016	2015	2016	2015
Deferred income tax expense (recovery)	(8,613)	9,023	(13,103)	7,873
Dividend income tax expense on preferred shares	750	750	1,500	1,500
Income tax expense (recovery)	(7,863)	9,773	(11,603)	9,373
Income tax expense (recovery) per boe	(\$2.18)	\$2.78	(\$1.56)	\$1.35

The Corporation recorded an income tax recovery of \$7.9 million for the three month Reporting Period and an income tax recovery of \$11.6 million for the six month Reporting Period as compared to an income tax expense of \$9.8 million and \$9.4 million for the Comparable Prior Periods. The decrease in income tax expense from the Comparable Prior Periods was due to the net loss recorded during the Reporting Periods mainly resulting from lower commodity prices which negatively impacted funds flow. Included in the Comparable Prior Periods was a deferred income tax expense of \$7.8 million resulting from an increase in the Alberta Corporate income tax rate from 10% to 12%.

The Corporation's estimated income tax pools were \$1.5 billion at June 30, 2016. 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, 2016
Canadian oil and gas property expense	208,591
Canadian development expense	338,171
Canadian exploration expense	260,055
Undepreciated capital costs	260,440
Non-capital losses	426,480
Financing costs	1,121
Estimated income tax pools⁽¹⁾	1,494,858

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

Veracel tax pools

Birchcliff's 2006 income tax filings were reassessed by the Canada Revenue Agency (the "CRA") in 2011 (the "Reassessment"). The Reassessment was based on the CRA's position that the tax pools available to Veracel Inc. ("Veracel"), prior to its amalgamation with Birchcliff, ceased to be available to Birchcliff after Birchcliff and Veracel amalgamated on May 31, 2005 (the "Veracel Transaction"). The Veracel tax pools in dispute totaled \$39.3 million. Birchcliff appealed the Reassessment to the Tax Court of Canada (the "Trial Court") and the trial of that appeal occurred in November 2013. On October 1, 2015, the Trial Court issued

its decision (the “**Trial Decision**”) and dismissed Birchcliff’s appeal on the basis of the general anti-avoidance rule contained in the *Income Tax Act* (Canada). Birchcliff has appealed the Trial Decision to the Federal Court of Appeal and expects that appeal to be heard in 2016.

SUBSEQUENT EVENTS

Property Acquisition and Equity Financings

On June 21, 2016, Birchcliff entered into a definitive agreement to purchase the Assets for cash consideration of approximately \$625 million, prior to closing adjustments and costs of the Gordondale Acquisition. The Corporation paid a deposit of approximately \$31.3 million in connection with the Gordondale Acquisition, the full amount of which was drawn under the Credit Facilities at June 30, 2016. The remaining cash required to close the Gordondale Acquisition was financed by the aggregate net proceeds of the bought deal financing of 107,520,000 subscription receipts of the Corporation (“**Subscription Receipts**”) at a price of \$6.25 per Subscription Receipt for gross proceeds of \$672 million (the “**Offering**”) and a concurrent private placement of 3,000,000 Subscription Receipts at a price of \$6.25 per Subscription Receipt for gross proceeds of \$18.8 million (the “**Concurrent Private Placement**”). The Offering and the Concurrent Private Placement closed concurrently on July 13, 2016 and the aggregate gross proceeds of approximately \$690.8 million were held in escrow pending completion of the Gordondale Acquisition.

On July 28, 2016, Birchcliff closed the Gordondale Acquisition and each Subscription Receipt was exchanged for one common share of the Corporation. The aggregate gross proceeds of the Offering and Concurrent Private Placement were released from escrow to pay the balance of the purchase price for the Gordondale Acquisition and the balance of the fees payable to the underwriters of the Offering, with the remaining aggregate net proceeds applied to reduce indebtedness under the Corporation’s Credit Facilities.

Increase to Credit Facilities

In connection with the closing of the Gordondale Acquisition, the Corporation’s Credit Facilities were amended to increase the borrowing base to \$950 million from \$750 million. After giving effect to the increase in the borrowing base, the Credit Facilities are comprised of: (i) an extendible revolving syndicated term credit facility of \$900 million (increased from \$710 million) (the “**Syndicated Credit Facility**”); and (ii) an extendible revolving working capital credit facility of \$50 million (increased from \$40 million) (the “**Working Capital Facility**”). In connection with the closing of the Gordondale Acquisition, the Corporation issued a letter of credit for \$12 million to secure its obligations under various midstream and marketing arrangements. The letter of credit has reduced the amount available under the Working Capital Facility from \$50 million to approximately \$38 million.

In conjunction with the increase to the borrowing base, the lenders also agreed to waive the requirement to redetermine the borrowing base limit in connection with the delivery of the Corporation’s next in-house engineering report which is required to be delivered by November 15, 2016.

CAPITAL EXPENDITURES

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

(\$000s)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Land	663	4,352	1,524	4,923
Seismic	3	144	800	3,043
Workovers	931	1,093	1,595	3,425
Drilling and completions	10,954	34,941	41,242	96,110
Well equipment and facilities	10,371	24,257	41,492	56,341
Finding and development capital	22,922	64,787	86,653	163,842
Acquisitions	7	-	7	-
Dispositions	(18,717)	-	(18,748)	(660)
Finding, development and acquisition capital	4,212	64,787	67,912	163,182
Administrative assets	510	335	670	479
Capital expenditures, net	4,722	65,122	68,582	163,661

Birchcliff drilled 13 (13.0 net) wells in the first half of 2016, consisting of 12 (12.0 net) natural gas wells all of which were drilled in the Pouce Coupe area and 1 (1.0 net) oil well which was drilled in the Worsley area.

CAPITAL RESOURCES AND LIQUIDITY

Liquidity and Capital Resources

The Corporation generally relies on its funds flow from operations and available credit under the Corporation's existing Credit Facilities to funds its capital requirements, including its dividend payments on its preferred shares. In addition, the Corporation may from time-to-time seek additional capital in the form of debt or equity.

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

(\$000s)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Funds flow from operations	13,267	45,752	33,962	82,472
Changes in non-cash working capital from operations	(6,202)	(22,653)	(5,573)	(20,066)
Decommissioning expenditures	(16)	(48)	(593)	(328)
Exercise of stock options	-	59	-	501
Financing fees paid on credit facilities	-	(940)	-	(940)
Share issue costs	(16)	-	(16)	-
Dividends paid on preferred shares	(1,875)	(1,875)	(3,750)	(3,750)
Net change in non-revolving term credit facilities ⁽¹⁾	-	(130,000)	-	(129,970)
Net change in revolving term credit facilities	61,999	194,216	87,127	261,579
Deposit on acquisition	(31,250)	-	(31,250)	-
Changes in non-cash working capital from investing	(31,220)	(19,422)	(11,360)	(25,870)
Capital resources	4,687	65,089	68,547	163,628

(1) During the three month Comparable Prior Period, Birchcliff's then existing credit facilities, including the non-revolving credit facility, were consolidated into the Credit Facilities (as defined herein). Accordingly, the Corporation did not have an outstanding non-revolving term credit facility during the Reporting Periods.

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

On May 11, 2016, Birchcliff announced that it had reduced its capital expenditure budget from \$128 million to \$122.5 million. As a result of the completion of the Gordondale Acquisition, Birchcliff increased its capital expenditure budget from \$122.5 million to \$163.7 million. On July 13, 2016, the Corporation closed the Offering and the Concurrent Private Placement for aggregate gross proceeds of approximately \$690.8 million. The balance of the net proceeds of the Offering and the Concurrent Private Placement (after the payment of the balance of the purchase price for the Gordondale Acquisition and the balance of fees payable to the underwriters of the Offering) were used by the Corporation to initially reduce indebtedness under the Credit Facilities. In addition, the borrowing base under the Corporation's Credit Facilities was increased to \$950 million from \$750 million in connection with the closing of the Gordondale Acquisition. See *"Outlook"*, *"Subsequent Events"* and *"Bank Debt"*.

Birchcliff currently expects that its net capital expenditures for 2016 (net of acquisitions and dispositions, but excluding the Gordondale Acquisition) will approximate its funds flow during 2016. In addition, management believes that its funds flow from operations and available credit under the increased Credit Facilities will be sufficient to fund the Corporation's planned capital expenditures for the remainder of 2016 and to meet its current and future working capital requirements in 2016.

The Revised 2016 Capital Program is flexible and Birchcliff has the ability to defer capital expenditures in the event that actual commodity prices are materially less than what it has forecast. Should commodity prices deteriorate materially, Birchcliff may further adjust the Revised 2016 Capital Program accordingly. In addition, the Corporation may consider seeking additional capital in the form of debt or equity. There is no assurance that any of the additional sources of capital will be available if and when required. See *"Outlook"* and *"Advisories"*.

Working Capital

The Corporation's adjusted working capital deficit decreased to \$6.1 million at June 30, 2016 from \$21.5 million at December 31, 2015. The deficit at the end of the Reporting Periods is largely comprised of costs incurred from the drilling and completion of new wells.

At June 30, 2016, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of June 2016 production (60%), which was subsequently received in July 2016. In contrast, current liabilities largely consisted of trade and joint venture payables (79%) and accrued capital and operating costs (18%). Birchcliff routinely assesses the financial strength of its marketers and joint venture partners in accordance with the Corporation's credit risk guidelines. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations.

Adjusted working capital includes items expected for normal operations, including trade receivables and payables, accruals, deposits and prepaid expenses. The Corporation's adjusted working capital varies primarily due to the timing of such items, as well as due to the Corporation's capital expenditures, commodity price volatility and seasonal fluctuations, among other things. Due to the Corporation's capital development activities, the Corporation's adjusted working capital is generally in a deficit position. Birchcliff manages its adjusted working capital deficit using funds flow from operations and advances under the Credit Facilities. The Corporation's adjusted working capital deficit does not reduce the amount available under the Credit Facilities.

Bank Debt

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

On the closing of the Gordondale Acquisition, the balance of the net proceeds of the Offering and the Concurrent Private Placement (after the payment of the balance of the purchase price for the Gordondale Acquisition and the balance of the fees payable to the underwriters of the Offering) were used by the Corporation to initially reduce indebtedness under the Credit Facilities. As a result of the completion of the Gordondale Acquisition, the Offering and the Concurrent Private Placement, Birchcliff has not only positioned itself for future growth but has also significantly improved its financial position. See “*Subsequent Events*” in this MD&A for further information regarding the Gordondale Acquisition, the Offering and the Concurrent Private Placement.

Further, in connection with the closing of the Gordondale Acquisition, the Corporation’s Credit Facilities were amended to increase the borrowing base to \$950 million (from \$750 million), which is comprised of a \$900 million Syndicated Credit Facility and a \$50 million Working Capital Facility. The Credit Facilities have a maturity date of May 11, 2018 and have no financial covenants. The increase in the borrowing base limit has significantly improved Birchcliff’s liquidity and financial flexibility. See “*Subsequent Events*” in this MD&A.

Total debt, including the working capital deficit, was \$715.7 million at June 30, 2016 as compared to \$643.6 million at December 31, 2015. A significant portion of the funds drawn under the Credit Facilities in the Reporting Periods was to pay costs relating to the drilling and completion of new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant, the Phase V expansion of the PCS Gas Plant and the exploration and development of the Montney/Doig Resource Play and the Worsley Charlie Lake Light Oil Resource Play. Also included in the funds drawn under the Credit Facilities at June 30, 2016 is the \$31.3 million deposit that was paid in connection with the Gordondale Acquisition as discussed under “*Subsequent Events*”.

The following table sets forth the Corporation’s unused Credit Facilities:

As at, (\$000s)	June 30, 2016	December 31, 2015
<i>Maximum borrowing base limit⁽¹⁾:</i>		
Revolving term credit facilities	750,000	800,000
<i>Principal amount utilized:</i>		
Drawn revolving term credit facilities ⁽²⁾	(718,581)	(630,037)
Outstanding letters of credit ⁽³⁾	(242)	(242)
	(718,823)	(630,279)
Unused credit	31,177	169,721
% unused credit	4%	21%

(1) The Credit Facilities are subject to a semi-annual review of the borrowing base limit, which limit is directly impacted by the value of Birchcliff’s petroleum and natural gas reserves. On May 11, 2016, the borrowing base under the Corporation’s Credit Facilities was re-determined at \$750 million, a modest reduction from the previous borrowing base of \$800 million. On July 28, 2016, in connection with the closing of the Gordondale Acquisition, the borrowing base was increased to \$950 million (from \$750 million) thus increasing the unused credit available to Birchcliff.

(2) The drawn amounts are not reduced for unamortized costs and fees.

(3) Letters of credit are issued to various service providers and reduce the amount of Working Capital Facility available for the Corporation’s use. There were no amounts drawn on the letters of credit during the periods ended June 30, 2016 and December 31, 2015.

Contractual Obligations

The Corporation enters into contractual obligations in the ordinary course of conducting its day-to-day business. The following table lists Birchcliff’s estimated material contractual obligations at June 30, 2016:

(\$000s)	2016	2017	2018 - 2020	Thereafter
Accounts payable and accrued liabilities	35,066	-	-	-
Drawn revolving term credit facilities	-	-	718,581	-
Office lease ⁽¹⁾	1,808	3,315	13,099	33,960
Purchase obligations ⁽²⁾	371	1,356	-	-
Transportation and processing	19,678	35,202	75,724	73,694
Estimated contractual obligations⁽³⁾	56,923	39,873	807,404	107,654

(1) The Corporation is committed under an existing operating lease relating to its office premises, beginning December 1, 2007 and expiring on November 30, 2017. Effective December 1, 2012, Birchcliff has not sublet any excess space to an arm's length party under the existing lease.

On December 2, 2015, the Corporation entered into a new operating lease commitment relating to an office premises beginning February 1, 2018 and expiring on January 31, 2028. The commitment amount under the new 10 year office lease is estimated to be \$47.1 million, which includes costs allocated to base rent, parking and building operating expenses.

(2) The Corporation is committed to spend approximately \$0.4 million in 2016 and \$1.4 million in 2017 under a purchasing agreement relating to the construction of Phase V of the PCS Gas Plant.

(3) Contractual commitments that are not material to Birchcliff are excluded. 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, 2016 to be approximately \$161 million and will be incurred as follows: 2017 - \$1.6 million, 2018 - \$1.8 million and \$157.6 million thereafter. The estimate for determining the undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

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

OFF-BALANCE SHEET TRANSACTIONS

Birchcliff was not involved in any off-balance sheet transactions that would result in a material change to its financial position, performance or cash flows during the Reporting Periods and Comparable Prior Periods.

OUTSTANDING SHARE INFORMATION

At June 30, 2016, Birchcliff had common shares, Series A Preferred Shares and Series C Preferred Shares that were outstanding. Birchcliff's common shares are listed on the TSX under the symbol "BIR" and are included in the S&P/TSX Composite Index. Birchcliff's Series A Preferred Shares and Series C Preferred Shares are individually listed on the TSX under the symbols "BIR.PR.A" and "BIR.PR.C", respectively.

The following table summarizes the common shares issued by the Corporation:

	Common shares
Balance at December 31, 2015	152,307,539
Exercise of options	-
Balance at June 30, 2016	152,307,539
Exercise of options	43,367
Equity issue ⁽¹⁾	110,520,000
Balance at August 10, 2016	262,870,906

(1) On July 28, 2016, the Corporation issued 110,520,000 common shares pursuant to the exchange of 110,520,000 Subscription Receipts in connection with the closing of the Gordondale Acquisition. See "Subsequent Events".

As at August 10, 2016, the Corporation had the following securities outstanding: 262,870,906 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 14,034,271 stock options to purchase an equivalent number of common shares; and 2,939,732 performance warrants to purchase an equivalent number of common shares.

On May 31, 2016, the Board of Directors declared a quarterly cash dividend of \$1.0 million or \$0.50 per Series A Preferred Share and \$0.875 million or \$0.4375 per Series C Preferred Share for the calendar quarter ending June 30, 2016. Both dividends are designated as an eligible dividend for purposes of the *Income Tax Act* (Canada).

SUMMARY OF QUARTERLY RESULTS

The following are the quarterly results of the Corporation for the eight most recently completed quarters:

Quarter ending,	Jun 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sep. 30, 2014
Average daily production (boe 6:1)	39,513	41,958	40,445	38,433	38,489	38,416	37,704	34,235
Realized natural gas price (\$/Mcf) ⁽¹⁾	1.48	1.99	2.67	3.12	2.86	2.98	3.91	4.37
Realized oil price (\$/bbl) ⁽¹⁾	51.20	36.93	49.36	52.91	64.93	47.66	71.87	95.94
Total revenues (\$000s) ⁽¹⁾	47,261	57,503	75,476	82,011	82,791	77,026	105,598	116,424
Operating costs (\$/boe)	3.45	3.71	4.16	4.39	4.53	5.11	5.33	5.06
Capital expenditures, net (\$000s)	4,722	63,860	33,533	50,013	65,122	98,539	109,682	104,363
Funds flow from operations (\$000s)	13,267	20,695	33,697	44,587	45,752	36,720	61,717	75,030
Per common share – basic (\$)	0.09	0.14	0.22	0.29	0.30	0.24	0.41	0.50
Per common share – diluted (\$)	0.09	0.13	0.22	0.29	0.30	0.24	0.40	0.48
Net income (loss) (\$000s)	(23,321)	(12,035)	(9,322)	4,815	(4,174)	(3,479)	17,053	29,665
Net income (loss) to common shareholders (\$000s) ⁽²⁾	(24,321)	(13,035)	(10,322)	3,815	(5,174)	(4,479)	16,053	28,665
Per common share – basic (\$)	(0.16)	(0.09)	(0.07)	0.03	(0.03)	(0.03)	0.11	0.19
Per common share – diluted (\$)	(0.16)	(0.09)	(0.07)	0.02	(0.03)	(0.03)	0.10	0.19
Total assets (\$ million)	2,059	2,053	2,025	2,022	2,009	1,983	1,919	1,846
Long-term bank debt (\$000s)	709,510	647,359	622,074	626,839	599,998	536,570	469,033	435,545
Total debt (\$000s)	715,651	690,138	643,612	640,751	632,306	610,170	545,745	495,307
Dividends on pref. shares – Series A (\$000s)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Dividends on pref. shares – Series C (\$000s)	875	875	875	875	875	875	875	875
Pref. shares outstanding – Series A (000s)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Pref. shares outstanding – Series C (000s)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Common shares outstanding (000s)								
Basic	152,308	152,308	152,308	152,308	152,294	152,284	152,214	152,154
Diluted	169,089	169,239	167,817	168,112	168,181	168,108	166,302	166,190
Wtd. average common shares outstanding (000s)								
Basic	152,308	152,308	152,308	152,303	152,289	152,243	152,183	149,594
Diluted	154,279	153,418	153,627	153,916	154,650	154,215	155,304	154,800

(1) Excludes the effect of financial hedges using financial instruments.

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

Average daily production volumes have generally increased over the past eight quarters, which can be primarily attributed to the Corporation's exploration and development activities on the Montney/Doig Resource Play. Production volumes for the three month Reporting Period have decreased by 6% when compared to the first quarter of 2016. The decrease in production from the first quarter of 2016 is due to restrictions on TransCanada's NGTL System, scheduled maintenance activities, the Progress Disposition and natural production declines, offset by production optimization initiatives.

Quarterly variances in revenues, funds flow from operations and net income are primarily due to fluctuations in commodity prices and production volumes. In general, the Corporation's realized natural gas price and oil price has declined over the past eight quarters due to continued low commodity prices. Oil and gas revenues and the Corporation's funds flow from operations have generally decreased over the past eight quarters due to the lower average realized sales prices received, which has been partially offset by a general increase in the average daily production. In turn, net income has fluctuated primarily in response to changes in funds flow from operations. In addition, net income in the fourth quarter of 2015 was impacted by a deferred income tax expense in the amount of \$10.2 million that was recorded in the quarter as a result of the Trial Decision being rendered in connection with the Reassessment.

Capital expenditures have fluctuated over the past eight quarters primarily as a result of the timing of the Corporation's development capital expenditures. Capital expenditures are also impacted by the impact of market conditions and the timing of acquisitions and dispositions. There have been no significant asset divestures or acquisitions that have been completed by the Corporation during the past eight quarters.

POTENTIAL TRANSACTIONS

Within its focus area, the Corporation is continually reviewing potential property acquisitions 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 property acquisitions and corporate merger and acquisition opportunities. The Corporation is not committed to any such potential transaction and cannot be reasonably confident that it can complete any such potential transaction until appropriate legal documentation has been signed by the relevant parties.

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, 2016 and ended on June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies, reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The Corporation's use of estimates, judgments and assumptions in preparing the interim condensed financial statements for the Reporting Periods is discussed in Note 3 of the annual audited financial statements for the year ended December 31, 2015.

FUTURE ACCOUNTING PRONOUNCEMENTS

Future accounting pronouncements with a potential impact on the Corporation are summarized in Note 4 of the Corporation's annual audited financial statements for the year ended December 31, 2015.

RISK FACTORS AND RISK MANAGEMENT

The Corporation's financial and operational performance is potentially affected by a number of factors, including, but not limited to, financial risks, risks relating to economic conditions, business and operational risks, environmental and regulatory risks and other risks. The impact of any risk or a combination of risks may adversely affect the Corporation's business, financial condition, results of operations, prospects, cash flow and reputation, which may reduce or restrict the Corporation's ability to pay preferred share dividends and may materially affect the market price of the Corporation's securities. The Corporation's approach to risk management includes an ongoing review of principal and emerging risks, an analysis of the severity and likelihood of each risk and an evaluation of the effectiveness of current mitigation procedures. A more detailed discussion of the risk factors affecting the Corporation is presented under the headings "*Risk Factors and Risk Management*" in the MD&A for the year ended December 31, 2015 and "*Risk Factors*" in the revised Annual Information Form for the year ended December 31, 2015.

NON-GAAP MEASURES

This MD&A uses "funds flow", "funds flow from operations", "funds flow per common share", "netback", "operating netback", "estimated operating netback", "operating margin", "total cash costs", "adjusted working capital deficit" and "total debt". These measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Management believes that these non-GAAP measures assist management and

investors in assessing Birchcliff's profitability, efficiency, liquidity and overall performance. Each of these measures is discussed in further detail below.

"Funds flow" and "funds flow from operations" denote cash flow from operating activities before the effects of decommissioning expenditures and changes in non-cash working capital. "Funds flow per common share" denotes funds flow divided by the basic or diluted weighted average number of common shares outstanding for the period. Management believes that funds flow, funds flow from operations and funds flow per common share assists management and investors in assessing Birchcliff's profitability, as well as its ability to generate the cash necessary to fund future growth through capital investments, pay dividends on preferred shares and repay debt. The following table provides a reconciliation of cash flow from operating activities, as determined in accordance with IFRS, to funds flow from operations:

	Three months ended June 30,		Six months ended June 30,	
(\$000s)	2016	2015	2016	2015
Cash flow from operating activities	7,049	23,051	27,796	62,078
Adjustments:				
Decommissioning expenditures	16	48	593	328
Change in non-cash working capital	6,202	22,653	5,573	20,066
Funds flow from operations	13,267	45,752	33,962	82,472

"Netback" and "operating netback" denote petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. "Estimated operating netback" of the PCS Gas Plant (and the components thereof) is based upon certain cost allocations and accruals directly attributable to the PCS Gas Plant and related wells and infrastructure on a production month basis. All netbacks are calculated on a per unit basis. Management believes that netback, operating netback and estimated operating netback assists management and investors in assessing Birchcliff's profitability and its operating results on a per unit basis to better analyze its performance against prior periods on a comparable basis.

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

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

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

As at, (\$000s)	June 30, 2016	December 31, 2015
Working capital deficit	6,017	21,538
Fair value of financial instruments	124	-
Adjusted working capital deficit	6,141	21,538

"Total debt" is calculated as the revolving term credit facilities plus adjusted working capital deficit. Management believes that total debt assists management and investors in assessing Birchcliff's liquidity.

The following table provides a reconciliation of the revolving term credit facilities, as determined in accordance with IFRS, to total debt:

As at, (\$000s)	June 30, 2016	December 31, 2015
Revolving term credit facilities	709,510	622,074
Adjusted working capital deficit	6,141	21,538
Total debt	715,651	643,612

ADVISORIES

Unaudited numbers

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

Operating Costs

References in this MD&A to "operating costs" exclude transportation and marketing costs.

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 to 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.

Mcf Conversions

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

MMBtu Pricing Conversions

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

Forward-Looking Information

Certain statements contained in this MD&A constitute forward-looking statements and information (collectively referred to as "**forward-looking information**") within the meaning of applicable Canadian securities laws. Such forward-looking information relates to future events or Birchcliff's future performance. All information other than historical fact may be forward-looking information. Such forward-looking information is often, but not always, identified by the use of words such as "seek", "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "estimated", "forecast", "potential", "proposed", "predict", "budget", "continue", "forecast", "targeting", "may", "will", "could", "might", "should" and other similar words and expressions. This information involves 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 information. Birchcliff believes that the expectations reflected in the forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this MD&A should not be unduly relied upon.

In particular, this MD&A contains forward-looking information relating to the following: Birchcliff's plans and other aspects of its anticipated future operations, focus, objectives, strategies, opportunities, priorities and goals; Birchcliff's guidance for 2016, including its production guidance and estimates of total debt; the Revised 2016 Capital Program, including planned capital expenditures, Birchcliff's plan to drill a total of 23 (23.0 net) wells, the objectives of and anticipated results from the Revised 2016 Capital Program, the flexibility of the Revised 2016 Capital Program and Birchcliff's ability to defer capital expenditures in the event that actual commodity prices are materially less than what it has forecast; Birchcliff's expectation that its net capital expenditures for 2016 (net of acquisitions and dispositions, but excluding the Gordondale Acquisition) will approximate its funds flow during 2016; Birchcliff's proposed exploration and development activities and the timing thereof, including wells to be drilled and brought on production; the performance characteristics of Birchcliff's oil and natural gas properties; Birchcliff's hedging strategy and that it intends to adopt an ongoing hedging strategy; the Corporation's estimated income tax pools and management's expectation that future taxable income will be available to utilize the accumulated tax pools; Birchcliff's expectation that its appeal with respect to the Veracel Transaction will be heard in 2016; the Corporation's liquidity, including statements that should commodity prices deteriorate materially, the Corporation may further adjust the Revised 2016 Capital Program, that the Corporation may consider seeking additional capital in the form of debt or equity, the sources of funding for the Corporation's activities and capital requirements, management's belief that its funds flow from operations and available credit under the Credit Facilities will be sufficient to fund the Corporation's planned capital expenditures during 2016 and to meet its current and future working capital requirements in 2016 and the Corporation's expectation that counterparties will be able to meet their financial obligations; Birchcliff's financial position and financial flexibility; the proposed expansion of the PCS Gas Plant; estimates of contractual and decommissioning obligations; and the impact the MRF has on the Corporation and that Birchcliff expects to apply for the early entry program under the MRF in respect of its remaining 10 well drilling program. In addition, information relating to reserves is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

With respect to forward-looking information contained in this MD&A, assumptions have been made regarding, among other things: Birchcliff's ability to develop the Assets and obtain the anticipated benefits therefrom; Birchcliff's ability to successfully integrate the Assets; costs and closing adjustments relating to the Gordondale Acquisition; prevailing and future commodity prices and differentials, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; expected funds flow from operations; Birchcliff's future debt levels; the state of the economy and the exploration and production business; the economic and political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes and environmental laws; the sources of funding for Birchcliff's capital programs and other activities; anticipated timing and results of capital expenditures; the sufficiency of budgeted capital expenditures to carry out planned operations; Birchcliff's ability to find opportunities to reduce costs and defer certain capital expenditures; results of operations; operating, transportation, marketing and general and administrative costs; the performance of existing and future wells, well production rates and well decline rates; well drainage areas; success rates for future drilling; reserves and resource volumes and Birchcliff's ability to replace and expand oil and gas reserves through acquisition, development or exploration; the impact of competition on Birchcliff; the availability of, demand for and cost of labour, services and materials; Birchcliff's ability to access capital; the ability to obtain financing on acceptable terms; the ability to obtain any necessary regulatory approvals in a timely manner; the ability of Birchcliff to secure adequate transportation for its products; Birchcliff's ability to market oil and gas; and abandonment costs and timing of decommissioning obligations.

In addition to the foregoing assumptions, Birchcliff has made the following key assumptions with respect to certain forward-looking information contained in this MD&A:

- With respect to Birchcliff's production guidance for 2016, the key assumptions are that: the Revised 2016 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.
- With respect to statements regarding the Revised 2016 Capital Program, the key assumption is that Birchcliff realizes the annual average production target of 49,000 to 51,000 boe/d. In addition, the Revised 2016 Capital Program is based on the following commodity price and exchange rate assumptions during 2016: an annual average WTI price of approximately US\$40.50 per barrel of oil; an AECO price of approximately CDN \$2.00 per GJ of natural gas; and an exchange rate of CDN\$/US\$ of 1.33. Birchcliff will continue to monitor economic conditions and commodity prices and may further adjust the Revised 2016 Capital Program to respond to changes in commodity prices and other material changes in the assumptions underlying the Revised 2016 Capital Program. In addition, Birchcliff may make adjustments to its other activities as appropriate. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials.
- With respect to statements that Birchcliff expects that its net capital expenditures for 2016 (net of acquisitions and dispositions, but excluding the Gordondale Acquisition) will approximate its funds flow during 2016, the key assumptions are that: the Revised 2016 Capital Program will be carried out as currently contemplated; and Birchcliff realizes the annual average production target of 49,000 to 51,000 boe/d. In addition, the foregoing statements are based on the following commodity price and exchange rate assumptions during 2016: an annual average WTI price of approximately US\$40.50 per barrel of oil; an AECO price of approximately CDN\$2.00 per GJ of natural gas; and an exchange rate of CDN\$/US\$ of 1.33.
- With respect to estimates of total debt, estimated total debt at December 31, 2016 assumes net capital expenditures for 2016 of \$145 million and an annual average WTI price of approximately US\$40.50 per bbl of oil and an AECO price of approximately CDN\$2.00 per GJ of natural gas during 2016. In addition, estimated total debt at December 31, 2016 is based on a purchase price for the Gordondale Acquisition of \$625 million, less estimated interim closing adjustments and costs of the Gordondale Acquisition, which are subject to final adjustment.
- With respect to statements of future wells to be drilled and brought on production, the key assumptions are: the continuing validity of the geological and other technical interpretations performed by Birchcliff's technical staff, which indicate that commercially economic volumes can be recovered from Birchcliff's lands as a result of drilling future wells; and that commodity prices and general economic conditions will warrant proceeding with the drilling of such wells.
- With respect to statements regarding the proposed expansion of the PCS Gas Plant, the key assumptions are that: future drilling is successful; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund those projects; the key components of the plant will operate as designed; and commodity prices and general economic conditions will warrant proceeding with the construction of such facilities and the drilling of associated wells.
- With respect to statements regarding the Corporation's liquidity, the key assumption is that the Corporation's forecasts of production and commodity prices are valid.

Birchcliff's actual results, performance or achievements could differ materially from those anticipated in the forward-looking information as a result of both known and unknown risks and uncertainties including, but not limited to: the possible failure to realize the anticipated benefits of the Gordondale Acquisition; unforeseen difficulties in integrating the Assets into Birchcliff's operations; the materiality of the closing adjustments and costs relating to the Gordondale Acquisition; variances in Birchcliff's actual capital costs, operating costs and economic returns from those anticipated; general economic, market and business conditions which will, among other things, impact the demand for and market prices of Birchcliff's products and Birchcliff's access to capital; volatility of crude oil and natural gas prices; fluctuations in currency and interest rates; operational risks and liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves and resources; the accuracy of oil and natural gas reserves estimates and estimated production levels as they are affected by exploration and development drilling and estimated decline rates; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; uncertainties related to Birchcliff's future potential drilling locations; fluctuations in the costs of borrowing; changes in tax laws, crown royalty rates, environmental laws and incentive programs relating to the oil and natural gas industry and other actions by government authorities, including changes to the royalty and carbon tax regimes and the imposition or reassessment of taxes; the cost of compliance with current and future environmental laws; political uncertainty and uncertainty associated with government policy changes; uncertainties and risks associated with pipeline restrictions and outages to third-party infrastructure that could cause disruptions to production; the ability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements; the inability to secure adequate production transportation for Birchcliff's products; the occurrence of unexpected events such as fires, equipment failures and other similar events affecting Birchcliff or other parties whose operations or assets directly or indirectly affect Birchcliff; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; stock market volatility; loss of market demand; environmental risks, claims and liabilities; incorrect assessments of the value of acquisitions and exploration and development programs; shortages in equipment and skilled personnel; the absence or loss of key employees; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; expectations that development activities in connection with the Assets will be economical; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; management of Birchcliff's growth; uncertainties associated with credit facilities; and counterparty credit risk.

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

Any future-orientated financial information and financial outlook information (collectively, "**FOFI**") contained in this MD&A, as such terms are defined by applicable securities laws, is provided for the purpose of providing information about management's current expectations and plans relating to the future and is subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs. FOFI contained in this MD&A was made as of the date of this MD&A and Birchcliff disclaims any intention or obligation to update or revise any FOFI contained in this MD&A, whether as a result of new information, future events or otherwise, unless required by applicable law. Readers are cautioned that any FOFI contained herein should not be used for purposes other than for which it has been disclosed herein.

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

The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. The forward-looking information contained in this MD&A is made as of the date of this MD&A. Birchcliff is not under any duty to update or revise any of the forward-looking information except as expressly required by applicable securities laws.

Previously Disclosed Guidance

The Corporation is required to disclose events and circumstances that occurred during the period to which this MD&A relates that are reasonably likely to cause actual results to differ materially from material-forward looking information for a period that is not yet complete that the Corporation has previously disclosed to the public and the expected differences thereto. Such disclosure can be found in the Corporation's press release dated August 10, 2016 and is available on the Corporation's SEDAR profile at www.sedar.com.