BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF FINANCIAL POSITION

Unaudited (Expressed in thousands of Canadian dollars)

As at,	**September 30, 2017**	**December 31, 2016**
ASSETS		
Current assets:		
Cash	7	47
Accounts receivable	51,483	62,572
Prepaid expenses and deposits	4,576	2,001
Financial instruments *(Note 11)*	9,666	-
Assets held for sale *(Note 4)*	18,795	-
	84,527	64,620
Non-current assets:		
Exploration and evaluation *(Note 3)*	53	53
Petroleum and natural gas properties and equipment *(Note 4)*	2,520,099	2,645,784
Investment in securities *(Note 5)*	10,005	-
	2,530,157	2,645,837
Total assets	**2,614,684**	**2,710,457**
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	137,551	92,115
Financial instruments *(Note 11)*	-	9,433
Liabilities associated with assets held for sale *(Note 7)*	542	-
	138,093	101,548
Non-current liabilities:		
Revolving term credit facilities *(Note 6)*	585,323	572,517
Decommissioning obligations *(Note 7)*	93,425	133,470
Deferred income taxes	73,064	99,599
Capital securities	49,148	48,916
	800,960	854,502
Total liabilities	**939,053**	**956,050**
SHAREHOLDERS' EQUITY		
Share capital *(Note 8)*		
Common shares	1,477,715	1,464,567
Preferred shares *(perpetual)*	41,434	41,434
Contributed surplus	67,597	63,847
Retained earnings	88,885	184,559
	1,675,631	1,754,407
Total shareholders' equity and liabilities	**2,614,684**	**2,710,457**

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

Approved by the Board

(signed) "*Larry A. Shaw*"
Larry A. Shaw
Director

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

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
REVENUE				
Petroleum and natural gas sales	111,488	97,365	390,793	202,129
Royalties	(3,779)	(7,298)	(19,456)	(10,734)
Net revenue from oil and natural gas sales	107,709	90,067	371,337	191,395
Realized gain on financial instruments *(Note 11)*	10,103	853	14,998	936
Unrealized gain (loss) on financial instruments *(Note 11)*	(2,164)	45	19,099	169
	115,648	90,965	405,434	192,500
EXPENSES				
Operating	25,623	23,311	82,026	49,866
Transportation and marketing	15,960	12,501	45,341	29,500
Administrative, net	6,255	5,989	20,119	16,644
Depletion and depreciation *(Note 4)*	42,006	40,566	127,746	106,185
Finance	8,070	8,961	24,813	24,975
Dividends on capital securities *(Note 8)*	875	875	2,625	2,625
(Gain) loss on sale of assets *(Note 4)*	181,298	(468)	199,848	10,434
	280,087	91,735	502,518	240,229
Net loss before taxes	(164,439)	(770)	(97,084)	(47,729)
Income tax recovery (expense)	43,696	(294)	24,284	11,309
NET LOSS AND COMPREHENSIVE LOSS	**(120,743)**	**(1,064)**	**(72,800)**	**(36,420)**
Net loss per common share *(Note 8)*				
Basic	($0.46)	($0.01)	($0.29)	($0.22)
Diluted	($0.46)	($0.01)	($0.29)	($0.22)

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, 2015	783,481	41,434	60,625	212,894	1,098,434
Issue of common shares *(Note 8)*	690,750	-	-	-	690,750
Share issue costs, net of tax *(Note 8)*	(20,134)	-	-	-	(20,134)
Dividends on perpetual preferred shares *(Note 8)*	-	-	-	(3,000)	(3,000)
Exercise of stock options *(Note 9)*	2,074	-	(537)	-	1,537
Stock-based compensation *(Note 9)*	-	-	4,470	-	4,470
Net loss and comprehensive loss	-	-	-	(36,420)	(36,420)
As at September 30, 2016	1,456,171	41,434	64,558	173,474	1,735,637
As at December 31, 2016	1,464,567	41,434	63,847	184,559	1,754,407
Dividends on common shares *(Note 8)*	-	-	-	(19,874)	(19,874)
Dividends on perpetual preferred shares *(Note 8)*	-	-	-	(3,000)	(3,000)
Exercise of stock options *(Note 9)*	13,148	-	(3,825)	-	9,323
Stock-based compensation *(Note 9)*	-	-	7,575	-	7,575
Net loss and comprehensive loss	-	-	-	(72,800)	(72,800)
As at September 30, 2017	**1,477,715**	**41,434**	**67,597**	**88,885**	**1,675,631**

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

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF CASH FLOWS

Unaudited (Expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
Cash provided by (used in):				
OPERATING				
Net loss and comprehensive loss	(120,743)	(1,064)	(72,800)	(36,420)
Adjustments for items not affecting operating cash:				
Unrealized (gain) loss on financial instruments	2,164	(45)	(19,099)	(169)
Depletion and depreciation	42,006	40,566	127,746	106,185
Stock-based compensation	1,341	625	3,066	1,799
Finance	8,070	8,961	24,813	24,975
(Gain) loss on sale of assets	181,298	(468)	199,848	10,434
Income taxes expense (recovery)	(43,696)	294	(24,284)	(11,309)
Interest paid	(6,885)	(8,069)	(21,243)	(22,483)
Dividends on capital securities	875	875	2,625	2,625
Decommissioning expenditures	(330)	(270)	(701)	(863)
Changes in non-cash working capital	6,484	(19,261)	(21,306)	(24,834)
	70,584	22,144	198,665	49,940
FINANCING				
Exercise of stock options	1,303	1,537	9,323	1,537
Issue of common shares	-	690,750	-	690,750
Share issue costs	-	(27,565)	-	(27,581)
Financing fees paid on credit facilities	-	(795)	(2,375)	(795)
Dividends on common shares	(6,635)	-	(19,874)	-
Dividends on perpetual preferred shares	(1,000)	(1,000)	(3,000)	(3,000)
Dividends on capital securities	(875)	(875)	(2,625)	(2,625)
Net change in revolving term credit facilities	(43,405)	(74,398)	14,300	12,729
	(50,612)	587,654	(4,251)	671,015
INVESTING				
Petroleum and natural gas properties *(Note 4)*	(106,233)	(19,156)	(367,046)	(106,464)
Acquisition of petroleum and natural gas properties and equipment	(18)	(582,263)	(941)	(613,521)
Sale of petroleum and natural gas properties and equipment *(Note 4)*	84,110	500	100,526	19,248
Exploration and evaluation assets	-	(2)	-	(16)
Changes in non-cash working capital	2,163	(8,852)	73,007	(20,212)
	(19,978)	(609,773)	(194,454)	(720,965)
Net change in cash	(6)	25	(40)	(10)
Cash, beginning of period	13	22	47	57
CASH, END OF PERIOD	**7**	**47**	**7**	**47**

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

BIRCHCLIFF ENERGY LTD.
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

Unaudited (Expressed In thousands Of Canadian Dollars, Unless Otherwise Stated)

1. NATURE OF OPERATIONS

Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is domiciled and incorporated in Alberta, Canada. Birchcliff is engaged in the exploration for and the development, production and acquisition of petroleum and natural gas reserves in Western Canada. The Corporation's financial year end is December 31. The address of the Corporation's registered office is Suite 1000, 600 – 3rd Avenue S.W., Calgary, Alberta, Canada T2P 0G5. Birchcliff's common shares, Series A Preferred Shares and Series C Preferred Shares are listed for trading on the Toronto Stock Exchange under the symbols "**BIR**", "**BIR.PR.A**" and "**BIR.PR.C**", respectively.

These financial statements were approved and authorized for issuance by the Board of Directors on November 8, 2017.

2. BASIS OF PREPARATION

These unaudited interim condensed financial statements present Birchcliff's financial results of operations and financial position under International Financial Reporting Standards ("**IFRS**") as at and for the three and nine months ended September 30, 2017, including the 2016 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 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, 2016, except as described below. Certain information and disclosures normally required to be included in the notes to the annual audited financial statements have been condensed, omitted or have been disclosed on an annual basis only. Accordingly, these financial statements should be read in conjunction with the annual audited financial statements and the notes thereto for the year ended December 31, 2016.

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

3. EXPLORATION AND EVALUATION ASSETS

The continuity for exploration and evaluation ("**E&E**") assets are as follows:

($000s)	**E&E**[1]
As at December 31, 2015	247
Additions	46
Lease expiries	(240)
As at December 31, 2016 and September 30, 2017	**53**

(1) E&E assets consist of the Corporation's exploration activities which are pending the determination of economic quantities of commercially producible proved reserves. Additions represent the Corporation's net share of costs incurred on E&E activities during the period. A review of each exploration project by area is carried out at each reporting date to ascertain whether economical quantities of proved reserves have been discovered and whether such costs should be transferred to depletable petroleum and natural gas components. There were no exploration costs reclassified from the E&E category to petroleum and natural gas properties and equipment category during 2017 and 2016.

4. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

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

($000s)	**P&NG Assets**	**Corporate Assets**	**Total**
Cost:			
As at December 31, 2015	2,588,350	10,969	2,599,319
Additions	190,546	2,981	193,527
Acquisitions	634,345	-	634,345
Dispositions	(37,005)	-	(37,005)
As at December 31, 2016	3,376,236	13,950	3,390,186
Additions	374,261	1,350	375,611
Acquisitions	941	-	941
Dispositions[1]	(523,653)	-	(523,653)
Transfer to assets held for sale[2]	(46,225)	-	(46,225)
As at September 30, 2017[3]	3,181,560	15,300	3,196,860
Accumulated depletion and depreciation:			
As at December 31, 2015	(592,590)	(7,649)	(600,239)
Depletion and depreciation expense	(147,837)	(1,532)	(149,369)
Dispositions	5,206	-	5,206
As at December 31, 2016	(735,221)	(9,181)	(744,402)
Depletion and depreciation expense	(126,377)	(1,369)	(127,746)
Disposition[1]	167,957	-	167,957
Transfer to assets held for sale[2]	27,430	-	27,430
As at September 30, 2017	(666,211)	(10,550)	(676,761)
Net book value:			
As at December 31, 2016	2,641,015	4,769	2,645,784
As at September 30, 2017[4]	**2,515,349**	**4,750**	**2,520,099**

(1) Consists largely of an asset disposition of the Worsley Charlie Lake Light Oil Pool (the "**Worsley Disposition**") situated in Alberta with a net book value of $321.1 million for total consideration of $100 million before closing adjustment and other costs, consisting of: (i) cash consideration of $90 million and (ii) securities of affiliates of the purchaser with a total value of $10 million (note 5). The Worsley Disposition closed on August 31, 2017.

(2) See *"Assets Held for Sale"* discussion below.

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

(4) Birchcliff performed an impairment assessment of its P&NG assets on a cash generating unit (CGU) basis and determined there were no impairment triggers identified at the end of the reporting periods. As a result, no impairment test was required at September 30, 2017.

Assets Held for Sale

Subsequent to September 30, 2017, the Corporation disposed of certain petroleum and natural gas properties and equipment in Alberta (the "**Assets**") for cash consideration of $31.7 million, before closing adjustments. As of September 30, 2017, the Corporation had negotiated the terms and executed a definitive sales agreement, was committed to the disposal of the Assets, which was considered highly probable of occurring and the Assets were available for immediate sale in their present condition. As these Assets were considered held for sale, their net book value of $18.8 million and associated decommissioning obligations of $0.5 million (note 7) were reclassified on the statement of financial position to "held for sale". Immediately prior to reclassifying the Assets as held for sale, Birchcliff conducted a review of the Assets' recoverable amount and determined no impairment was required. The transaction closed on October 2, 2017.

5. INVESTMENT IN SECURITIES

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

The Securities have limited voting rights and, in the case of the Common A LP units, no redemption rights and limited participation rights in the event of the liquidation, dissolution or wind-up of the Limited Partnership. Holders of the Securities are entitled to, if and when declared, non-cumulative, quarterly distributions for each three month period ending March 31, June 30, September 30 and December 31. The Preferred Trust Units are redeemable on demand by Birchcliff. For each Preferred Trust Unit redeemed by Birchcliff within the first five years of the Issuance Date, the redemption price will be equal to the lesser of (i) 90% of the fair market value of each redeemed Preferred Trust Unit at the date the redemption and (ii) $0.90 per redeemed Preferred Trust Unit. For each Preferred Trust Unit redeemed on a date that is later than five years from the Issuance Date, being after August 31, 2022 (the "**Fifth Anniversary Date**"), the redemption price will be equal to the lesser of (i) the fair market value of each redeemed Preferred Trust Unit at the date the redemption and (ii) $1.00 per redeemed Preferred Trust Unit.

Payment of the redemption price by the Trust is limited to a maximum cash amount of $10,000 per month (or a greater amount, if the trustees of the Trust so decide) and any portion of the redemption price in excess of such cash amount (the "**Balance**") will be repaid through the Trust's issuance of a redemption note or an *in specie* distribution of the Trust's property. If the Preferred Trust Units are redeemed by Birchcliff before the Fifth Anniversary Date, the Balance is paid by the Trust through the issuance of redemption notes due and payable prior to the sixth anniversary of the Issuance Date, being August 31, 2023. If the Preferred Trust Units are redeemed by Birchcliff after the Fifth Anniversary Date, the Balance is paid by the Trust through the issuance of redemption notes due and payable within less than a year of the date the redemption notes are issued.

The Securities are considered a financial instrument and have been categorized as available for sale which requires the Securities to be fair valued at the end of each reporting period with any gains or losses recognized in other comprehensive income. In the event of disposal or impairment the cumulative fair value changes recognized in other comprehensive income are reclassified to profit or loss. Distributions declared are recorded to profit or loss and presented as an operating activity on the statement of cash flow. The Securities had a fair value of $10 million as of September 30, 2017. There were no distributions declared on the Securities during the three months ended September 30, 2017.

6. REVOLVING TERM CREDIT FACILITIES

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

As at, *($000s)*	**September 30, 2017**	**December 31, 2016**
Syndicated credit facility	565,000	569,000
Working capital facility	30,377	11,770
Drawn revolving term credit facilities	595,377	580,770
Unamortized prepaid interest on bankers' acceptances	(6,924)	(6,621)
Unamortized deferred financing fees	(3,130)	(1,632)
Revolving term credit facilities	**585,323**	**572,517**

At September 30, 2017, the Corporation's credit facilities consisted of extendible revolving credit facilities in the aggregate principal amount of $950 million with maturity dates of May 11, 2020 (the "**Credit Facilities**"). The Credit Facilities are comprised of: (i) an extendible revolving syndicated term credit facility of $900 million (the "**Syndicated Credit Facility**"); and (ii) an extendible revolving working capital facility of $50 million (the "**Working Capital Facility**").

In May 2017, Birchcliff's syndicate of lenders completed its semi-annual review of the Corporation's borrowing base limit under its credit facilities. In connection with such review, the Corporation and the lenders agreed to an extension of the maturity dates from May 11, 2018 to May 11, 2020 and to the borrowing base remaining unchanged at $950 million.

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

The Credit Facilities are subject to a semi-annual review of the borrowing base limit by Birchcliff's syndicate of lenders, which limit is directly impacted by the value of Birchcliff's oil and natural gas reserves. In addition, pursuant to the terms of the credit agreement governing the Credit Facilities, the borrowing base of the Credit Facilities may be adjusted in certain other circumstances. Upon any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall, Birchcliff must eliminate the borrowing base shortfall amount. Birchcliff may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made.

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

7. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is set forth below:

As at, *($000s)*	**September 30, 2017**	**December 31, 2016**
Balance, beginning	133,470	92,504
Obligations incurred	3,785	2,772
Obligations acquired	269	20,072
Obligations divested(1)	(45,316)	(1,579)
Change in discount rate on acquisition	-	22,599
Changes in estimated future cash flows	-	(4,102)
Accretion expense	2,460	2,547
Actual expenditures	(701)	(1,343)
Transferred to current liabilities associated with assets held for sale *(note 4)*	(542)	-
Balance, ending(2)	**93,425**	**133,470**

(1) Primarily relates to the disposition of wells and facilities associated with the Worsley Disposition (note 4).

(2) Birchcliff applied a risk-free rate of 2.36% and an inflation rate of 2.0% to calculate the discounted fair value of its decommissioning liabilities as at September 30, 2017 and December 31, 2016.

8. CAPITAL STOCK

Share Capital

(a) Authorized:

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

Unlimited number of preferred shares, with no par value.

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

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

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

As at, *(000s)*	**September 30, 2017**	**December 31, 2016**
Common Shares:		
Outstanding at beginning of period	264,042	152,308
Issue of common shares	-	110,525
Exercise of stock options	1,747	1,209
Outstanding at end of period	265,789	264,042
Series A Preferred Shares (perpetual):		
Outstanding at beginning of period	2,000	2,000
Outstanding at end of period	2,000	2,000

Capital Securities

The Corporation has outstanding 2,000,000 Series C Preferred Shares at September 30, 2017 (December 31, 2016 – 2,000,000).

Dividends

On September 5, 2017, the Board of Directors declared a quarterly cash dividend of $6.6 million or $0.025 per common share for the calendar quarter ending September 30, 2017. This dividend was payable to shareholders of record on September 15, 2017.

On September 5, 2017, 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 September 30, 2017. These dividends were payable to shareholders of record on September 15, 2017.

On September 30, 2017, the annual fixed dividend rate for the Series A Preferred Shares was reset to 8.374%. Subject to the terms and conditions of the Series A Preferred Shares and Birchcliff's right to redeem such shares, the dividend rate will reset on September 30, 2022 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield plus 6.83%.

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

Per Common Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
Net loss *($000s)*	(120,743)	(1,064)	(72,800)	(36,420)
Dividends on Series A preferred shares *($000s)*	(1,000)	(1,000)	(3,000)	(3,000)
Net loss to common shareholders *($000s)*	(121,743)	(2,064)	(75,800)	(39,420)
Weighted average common shares *(000s)*:				
Weighted average basic common shares outstanding	265,490	229,287	264,976	178,155
Weighted average diluted common shares outstanding(1)	265,490	229,287	264,976	178,155
Net loss per common share				
Basic	**($0.46)**	**($0.01)**	**($0.29)**	**($0.22)**
Diluted	**($0.46)**	**($0.01)**	**($0.29)**	**($0.22)**

(1) As the Corporation reported a loss for the three and nine month reporting periods, the basic and diluted weighted average shares outstanding are the same for the periods.

9. SHARE-BASED PAYMENTS

Stock Options

At September 30, 2017, the Corporation's Amended and Restated Stock Option Plan (the "**Option Plan**") permitted the grant of options in respect of a maximum of 26,578,870 (September 30, 2016 – 26,306,494) common shares. At September 30, 2017, there remained available for issuance options in respect of 12,200,861 (September 30, 2016 – 12,485,255) common shares. During the three months ended September 30, 2017, the weighted average common share trading price on the Toronto Stock Exchange was $5.96 (September 30, 2016 – $8.62) per common share.

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

	Three months ended September 30, 2017		Nine months ended September 30, 2017	
	Number	Exercise Price *($)*[1]	Number	Exercise Price *($)*[1]
Outstanding, beginning of period	16,104,576	6.88	12,899,775	6.45
Granted[2]	70,000	6.00	4,730,400	7.75
Exercised	(372,065)	(3.50)	(1,746,796)	(5.34)
Forfeited	(1,376,835)	(7.57)	(1,457,703)	(7.57)
Expired	(47,667)	(6.72)	(47,667)	(6.72)
Outstanding, September 30, 2017	**14,378,009**	**6.90**	**14,378,009**	**6.90**

(1) Determined on a weighted average basis.

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

The weighted average fair value per option granted during the three months ended September 30, 2017 was $2.10 (September 30, 2016 – $3.32). In determining the stock-based compensation expense for options issued during the three months ended September 30, 2017, the Corporation applied a weighted average estimated forfeiture rate of 11% (September 30, 2016 – 12%).

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

Three months ended,	**September 30, 2017**	**September 30, 2016**
Risk-free interest rate	1.5%	0.6%
Expected life *(years)*	4.1	4.0
Expected volatility	49.2%	48.9%
Dividend yield	1.7%	-

A summary of the stock options outstanding and exercisable under the Option Plan at September 30, 2017 is set forth below:

Exercise Price *($)*		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price *($)*	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price *($)*
3.35	6.00	2,620,669	3.35	3.49	834,041	3.31	3.43
6.01	9.00	11,576,340	2.59	7.63	6,200,451	1.35	7.65
9.01	12.00	178,000	2.21	10.00	122,332	1.69	10.22
12.01	12.31	3,000	1.56	12.31	3,000	1.56	12.31
		14,378,009	**2.72**	**6.90**	**7,159,824**	**1.58**	**7.20**

Performance Warrants

On January 14, 2005, Birchcliff issued 4,049,665 performance warrants as part of the Corporation's initial restructuring to become a public entity. There are 2,939,732 performance warrants outstanding and exercisable at September 30, 2017 (September 30, 2016 – 2,939,732). Each performance warrant is exercisable at a price of $3.00 to purchase one common share of Birchcliff and expires on January 31, 2020.

10. CAPITAL MANAGEMENT

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations (including potential obligations arising from additional acquisitions), to maintain a capital structure that allows Birchcliff to finance its growth 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 nine months ended September 30, 2017.

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

As at, *($000s)*	**September 30, 2017**	**December 31, 2016**
Maximum borrowing base limit[(1)]:		
Revolving term credit facilities	950,000	950,000
Principal amount utilized:		
Drawn revolving term credit facilities	(595,377)	(580,770)
Outstanding letters of credit[(2)]	(12,184)	(12,310)
	(607,561)	(593,080)
Unused credit	**342,439**	**356,920**

(1) The Credit Facilities are subject to a semi-annual review of the borrowing base limit, which is directly impacted by the value of Birchcliff's petroleum and natural gas reserves.

(2) Letters of credit are issued to various service providers. The letters of credit has reduced the amount available under the Working Capital Facility from $50 million to approximately $38 million. There were no amounts drawn on the letters of credit during the three and nine months ended September 30, 2017.

The capital structure of the Corporation is as follows:

As at, *($000s)*	**September 30, 2017**	**December 31, 2016**	**% Change**
Shareholders' equity[(1)]	1,675,631	1,754,407	
Capital securities	49,148	48,916	
Shareholders' equity & capital securities	1,724,779	1,803,323	(4%)
Shareholders' equity & capital securities as a % of total capital[(2)]	72%	75%	
Working capital deficit[(3)]	81,485	27,495	
Drawn revolving term credit facilities	595,377	580,770	
Drawn debt	676,862	608,265	11%
Drawn debt as a % of total capital	28%	25%	
Capital	**2,401,641**	**2,411,588**	**(0.4%)**

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

(2) Of the 72%, approximately 67% relates to common capital stock and 5% relates to preferred capital stock.

(3) Working capital is defined as current assets less current liabilities (excluding fair value of financial instruments and assets held for sale including associated liabilities).

11. FINANCIAL 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. Birchcliff's exposure to credit risk, liquidity risk and market risk are consistent with those disclosed in the annual audited financial statements for the year ended December 31, 2016.

Financial derivative contracts

As of September 30, 2017, 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 derivative contracts as effective accounting hedges, even though the Corporation considers all commodity contracts to be effective economic hedges. As a result, all such financial derivative contracts are recorded on the statement of financial position at fair value, with the changes in fair value being recognized as an unrealized gain or loss in profit or loss.

As at September 30, 2017, the Corporation had the following financial derivatives in place:

Product	Type of contract	Notional quantity	Term[1]	Contract price	Fair value *($000s)*
Natural gas	Financial swap	50,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN $3.05/GJ	5,374
Natural gas	Financial swap	30,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN $3.12/GJ	3,596
Crude oil	Financial swap	1,500 bbls/d	October 1, 2017 – December 31, 2017	WTI CDN 69.90/bbl	696
Fair value assets					**9,666**

(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 (losses) on financial derivative contracts:

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
Realized gain on derivatives	10,103	853	14,998	936
Unrealized gain (loss) on derivatives	(2,164)	45	19,099	169

As of September 30, 2017, if the future strip prices for AECO natural gas had been CDN$0.10/GJ higher, with all other variables held constant, the after-tax net income in the nine months ended September 30, 2017 would have decreased by $0.5 million. As of September 30, 2017, if the future strip prices for WTI crude oil had been CDN$1.00/bbl higher, with all other variables held constant, the after-tax net income in the nine months ended September 30, 2017 would have decreased by $0.1 million.

There were no financial derivative contracts entered into subsequent to September 30, 2017.

Physical delivery sales contracts

Birchcliff also enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value through profit or loss. At September 30, 2017, the Corporation had the following physical sales contracts in place:

Product	Type of contract	Volume	Term[1]	Contract price
Natural gas	Fixed price	20,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN$2.99/GJ
Natural gas	Fixed price	20,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN$2.98/GJ
Natural gas	Fixed price	20,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN$3.00/GJ
Natural gas	Fixed price	10,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN$3.00/GJ
Natural gas	Fixed price	60,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN$3.10/GJ

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

There were no physical delivery sales contracts entered into subsequent to September 30, 2017.