Management’s Discussion and Analysis

GENERAL

Birchcliff Energy Ltd. (“**Birchcliff**” or the “**Corporation**”) 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. 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. 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.

The following Management’s Discussion and Analysis (“**MD&A**”) is dated March 16, 2016. The annual financial information with respect to the three and twelve months ended December 31, 2015 (the “**Reporting Periods**”) as compared to the three and twelve months ended December 31, 2014 (the “**Comparable Prior Periods**”) and this MD&A 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 audited financial statements of the Corporation and related notes 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”, “adjusted net income (loss) to common shareholders”, “netback”, “operating netback”, “estimated operating netback”, “operating margin”, “total cash costs” 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. For further information, see *“Advisories”* 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). For further information, see “*Advisories”* in this MD&A.

2016 OUTLOOK

On January 21, 2016, Birchcliff announced its capital expenditure program for 2016 of $140 million. With capital expenditures of $140 million, Birchcliff estimated annual average production for 2016 to be 40,000 to 41,000 boe per day. On March 16, 2016, the Corporation reduced its budgeted 2016 capital expenditures by approximately $12 million to approximately $128 million (the “**2016 Revised Capital Budget**”). The 2016 Revised Capital Budget is designed to achieve modest production growth, while further progressing the Corporation’s Phase V expansion of its 100% owned Pouce Coupe South gas plant (the “**PCS Gas Plant**”) and related infrastructure. The 2016 Revised Capital Budget is projected to be less than Birchcliff’s expected funds flow for 2016, assuming an average WTI price of US$40.00 per barrel of oil and an average AECO price of CDN$2.50 per GJ of natural gas during 2016.

Birchcliff is maintaining its annual average production for 2016 at 40,000 to 41,000 boe per day, which represents an increase of 3% to 5% from its 2015 annual average production of 38,950 boe per day.

SELECTED ANNUAL INFORMATION

	2015	2014	2013
Average daily production *(boe at 6 Mcf:1 bbl)*	38,950	33,734	25,829
Petroleum and natural gas revenue *($000s)*[1]	317,304	472,888	316,637
Average sales price *($ CDN)*			
Light oil – *(per barrel)*	53.68	92.39	89.89
Natural gas – *(per thousand cubic feet)*	2.90	4.74	3.41
NGL – *(per barrel)*	50.76	85.13	88.45
Total – barrels of oil equivalent *(6:1)*	22.31	38.39	33.52
Funds flow from operations *($000s)*	160,756	300,498	174,361
Per common share – basic *($)*	1.06	2.03	1.22
Per common share – diluted *($)*	1.04	1.97	1.20
Net income (loss) *($000s)*	(12,160)	114,304	65,417
Net income (loss) to common shareholders *($000s)*	(16,160)	110,304	61,417
Per common share – basic *($)*	(0.11)	0.75	0.43
Per common share – diluted *($)*	(0.11)	0.72	0.42
Capital expenditures, net *($000s)*	247,207	450,932	215,770
Operating costs ($ per boe)	4.54	5.22	5.68
Total assets *($000s)*	2,025,373	1,918,680	1,586,531
Working capital deficit *($000s)*	21,538	76,712	60,071
Non-revolving term credit facilities *($000s)*	-	129,476	127,144
Revolving term credit facilities *($000s)*	622,074	339,557	266,823
Total debt *($000s)*	643,612	545,745	454,038
Common shares outstanding *(000s)*:			
End of period – basic	152,308	152,214	143,677
End of period – diluted	167,817	166,302	163,548
Weighted average common shares for period – basic	152,286	147,764	142,422
Weighted average common shares for period – diluted	154,078	152,243	145,006
Series A preferred shares outstanding – end of period *(000s)*	2,000	2,000	2,000
Series A – dividend distribution *($000s)*	4,000	4,000	4,000
Per Series A preferred share *($)*	2.00	2.00	2.00
Series C preferred shares outstanding – end of period *(000s)*	2,000	2,000	2,000
Series C – dividend distribution *($000s)*	3,500	3,500	1,913
Per Series C preferred share *($)*	1.75	1.75	0.96

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

In 2015, average production was 38,950 boe per day, up 15% from 2014 and up 51% from 2013. These production increases were largely attributed to the success of Birchcliff's capital drilling program, resulting in increased incremental production from new Montney/Doig horizontal natural gas wells producing to the Corporation's 100% owned and operated PCS Gas Plant, which currently has a processing capacity of 180 MMcf per day.

Birchcliff generated lower funds flow in 2015 as compared to the prior two years. These results were largely due to the lower average realized oil and natural gas prices of $22.31 per boe in 2015, down 42% from 2014 and down 33% from 2013 partially offset by increased natural gas production and the continued reduction of total cash costs per boe in the last three years. Birchcliff reduced its total cash costs (comprised of royalty, operating, transportation and marketing, general and administrative and interest expenses) in 2015 to $11.01 per boe, down 21% from 2014 and down 29% from 2013.

Birchcliff recorded a net loss to common shareholders of $16.2 million ($0.11 per basic common share) in 2015 as compared to net income to common shareholders of $110.3 million ($0.75 per basic common share) and $61.4 million ($0.43 per basic common share) in 2014 and 2013, respectively. The net loss to common shareholders in 2015 was largely attributable to lower funds flow and higher aggregate depletion expense resulting from increased natural gas production over the last two years. The net loss in 2015 also included two, one-time, non-cash deferred income tax expense adjustments of $18.0 million, which are non-operational in nature. For more information, see *"Income Taxes"* in this MD&A.

Capital expenditures in the last three years were largely directed towards the expansion of the PCS Gas Plant (including related facilities and gathering systems) to a licensed processing capacity of 180 MMcf per day and the drilling and completion of new Montney/Doig horizontal natural gas wells that have been tied into the PCS Gas Plant.

FUNDS FLOW FROM OPERATIONS

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2015**	**2014**	**2015**	**2014**
Funds flow from operations	**33,697**	**61,717**	**160,756**	**300,498**
Per common share – basic *($)*	0.22	0.41	1.06	2.03
Per common share – diluted *($)*	0.22	0.40	1.04	1.97

Funds flow in the three and twelve month Reporting Periods decreased by 45% and 47%, respectively, from the Comparable Prior Periods. Lower funds flow in the Reporting Periods were largely attributed to a significant decrease in the average realized oil and natural gas wellhead prices as compared to the Comparable Prior Periods, offset by a material increase in natural gas production and lower per unit total cash costs. Average realized oil and natural gas prices in the three and twelve month Reporting Periods were down 33% and 42%, respectively, from the Comparable Prior Periods.

The following table provides a breakdown of total cash costs on a per boe basis and the percentage change period-over-period:

	Three months ended December 31,			Twelve months ended December 31,		
	2015	**2014**	**Change**	**2015**	**2014**	**Change**
	($/boe)	***($/boe)***	***(%)***	***($/boe)***	***($/boe)***	***(%)***
Royalty expense	0.94	1.84	(49)	0.81	2.99	(73)
Operating expense	4.16	5.33	(22)	4.54	5.22	(13)
Transportation and marketing expense	2.31	2.39	(3)	2.45	2.43	1
General & administrative expense, net	2.01	2.02	(0)	1.61	1.81	(11)
Interest expense	1.80	1.42	27	1.60	1.57	2
Total Cash Costs	**11.22**	**13.00**	**(14)**	**11.01**	**14.02**	**(21)**

On a per boe basis, total cash costs in the three and twelve month Reporting Periods are down 14% and 21%, respectively, from the Comparable Prior Periods primarily driven by lower royalty and operating costs in the Reporting Periods, partially offset by higher interest costs in the three month Reporting Period. Management believes that total cash costs assists management and investors in assessing Birchcliff's efficiency and overall cash cost structure.

NET INCOME (LOSS) TO COMMON SHAREHOLDERS

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2015**	**2014**	**2015**	**2014**
Net income (loss)	(9,322)	17,053	(12,160)	114,304
Net income (loss) to common shareholders[(1)]	**(10,322)**	**16,053**	**(16,160)**	**110,304**
Per common share – basic *($)*	(0.07)	0.11	(0.11)	0.75
Per common share – diluted *($)*	(0.07)	0.10	(0.11)	0.72

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

Birchcliff recorded a net loss to common shareholders of $10.3 million for the three month Reporting Period and a net loss to common shareholders of $16.2 million for the twelve month Reporting Period as

compared to net income to common shareholders of $16.1 million and $110.3 million for the Comparable Prior Periods. The decrease was largely due to lower funds flow from operations, higher aggregate depletion costs resulting from increased production and an increase in deferred income tax expenses in the Reporting Periods.

Adjusted Net Income (Loss) to Common Shareholders

Birchcliff recorded an adjusted net loss to common shareholders of $0.1 million in the three month Reporting Period and adjusted net income to common shareholders of $1.8 million in the twelve month Reporting Period, after excluding: (i) a one-time, non-cash deferred income tax expense in the amount of $7.8 million that was recorded in the second quarter of 2015 as a result of the 2015 change in the Alberta corporate income tax rate from 10% to 12%; and (ii) a one-time, non-cash deferred income tax expense in the amount of $10.2 million that was recorded in the fourth quarter of 2015 as a result of the denial by the Tax Court of Canada (the "**Trial Court**") of Birchcliff's appeal of the reassessment by the Canada Revenue Agency (the "**CRA**") of Birchcliff's income tax filings in 2011 in connection with the tax pools available to Veracel Inc. (the "**Reassessment**"). For more information on the deferred income tax adjustments and the Reassessment, see *"Income Taxes"* in this MD&A.

Management has excluded these non-operational, deferred income tax items from adjusted net income (loss) to common shareholders as management believes that excluding such items better reflects the results generated by Birchcliff's principal business activities. The following table provides a reconciliation of net income (loss) to common shareholders, as determined in accordance with International Financial Reporting Standards ("**IFRS**"), to adjusted net income (loss) to common shareholders:

	Three months ended December 31,		**Twelve months ended December 31,**	
($000s)	**2015**	**2014**	**2015**	**2014**
Net income (loss) to common shareholders	(10,322)	16,053	(16,160)	110,304
Adjustments:				
Denial by the Trial Court of the Reassessment appeal	10,208	-	10,208	-
Change in Alberta corporate income tax rates	-	-	7,759	-
Adjusted net income (loss) to common shareholders	**(114)**	**16,053**	**1,807**	**110,304**

The deferred income tax adjustments shown in the table above have no impact on the current cash taxes payable by the Corporation.

PCS GAS PLANT NETBACKS

Processing natural gas at the PCS Gas Plant has materially improved Birchcliff's funds flow and net earnings since it first became operational in March 2010. The following table sets forth Birchcliff's annual net production and estimated operating netback for wells producing to the PCS Gas Plant, on a production month basis:

Production Processed through the PCS Gas Plant

	Twelve months ended December 31, 2015		Twelve months ended December 31, 2014	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		163,641		132,808
Oil & NGL *(bbls)*		1,287		1,065
Total boe *(6:1)*		**28,560**		**23,200**
Sales liquids yield (bbls/MMcf)		*7.9*		*8.0*
% of corporate natural gas production		*81%*		*78%*
% of corporate production		*73%*		*69%*
AECO – C daily *($/Mcf)*	**$2.69**		**$4.50**	
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue	3.17	19.03	5.17	31.02
Royalty expense	(0.11)	(0.63)	(0.24)	(1.42)
Operating expense[(1)]	(0.31)	(1.90)	(0.42)	(2.52)
Transportation and marketing expense	(0.31)	(1.88)	(0.30)	(1.81)
Estimated operating netback	**$2.44**	**$14.62**	**$4.21**	**$25.27**
Operating margin	**77%**	**77%**	**81%**	**81%**

(1) Represents plant and field operating costs.

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

On May 11, 2015, the aggregate limit of Birchcliff's credit facilities was increased to $800 million from $750 million primarily as a result of the material increase in the Corporation's proved developed producing reserves at December 31, 2014. In addition to the increase in the credit facilities limit, Birchcliff's syndicate of lenders also approved the consolidation of the Corporation's $750 million credit facilities, which were comprised of a $620 million revolving term credit facility, a $70 million non-revolving five-year term credit facility and a $60 million non-revolving five-year term credit facility, into three-year term extendible revolving credit facilities in the aggregate principal amount of $800 million with maturity dates of May 11, 2018 (the "**Credit Facilities**"). Concurrently, the financial covenants contained in the credit facilities which previously required the Corporation to ensure that on the last day of each quarter the ratio of EBITDA to interest expense, determined on a historical rolling four quarter basis equaled or exceeded 3.5:1.0, and the ratio of debt to EBITDA, determined on a historical rolling four quarter basis did not exceed 4.0:1.0, were removed. As a result, the Credit Facilities do not contain any financial covenants.

The Credit Facilities are comprised of: (i) an extendible revolving syndicated term credit facility of $760 million (the "**Syndicated Credit Facility**"); and (ii) an extendible revolving working capital facility of $40 million (the "**Working Capital Facility**"). 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.

See *"Capital Resources and Liquidity – Bank Debt"* and *"Risk Factors and Risk Management – Financial Risks and Risks Relating to Economic Conditions – Credit Facilities"* in this MD&A for further information regarding the Credit Facilities.

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 category:

	Three months ended December 31, 2015				Three months ended December 31, 2014			
	Total Revenue *($000s)*	Average Daily Production	*(%)*	Average *($/unit)*	Total Revenue[1] *($000s)*	Average Daily Production	*(%)*	Average[1] *($/unit)*
Light oil *(bbls)*	16,032	3,530	9	49.36	26,167	3,957	11	71.87
Natural gas *(Mcf)*	51,792	211,127	87	2.67	69,287	192,499	85	3.91
NGL *(bbls)*	7,625	1,727	4	47.98	10,118	1,664	4	66.10
Total P&NG sales *(boe)*	75,449	40,445	100	20.28	105,572	37,704	100	30.43
Royalty revenue	27			-	26			0.01
P&NG revenues	**75,476**			**20.28**	**105,598**			**30.44**

	Twelve months ended December 31, 2015				Twelve months ended December 31, 2014			
	Total Revenue *($000s)*	Average Daily Production	*(%)*	Average *($/unit)*	Total Revenue[1] *($000s)*	Average Daily Production	*(%)*	Average[1] *($/unit)*
Light oil *(bbls)*	72,636	3,707	10	53.68	133,431	3,957	12	92.39
Natural gas *(Mcf)*	213,494	201,418	86	2.90	293,660	169,852	84	4.74
NGL *(bbls)*	30,991	1,673	4	50.76	45,638	1,469	4	85.13
Total P&NG sales *(boe)*	317,121	38,950	100	22.31	472,729	33,734	100	38.39
Royalty revenue	183			0.01	159			0.02
P&NG revenues	**317,304**			**22.32**	**472,888**			**38.41**

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

Production

Production averaged 40,445 boe per day in the three month Reporting Period and 38,950 boe per day in the twelve month Reporting Period, a 7% and 15% increase, respectively, from the Comparable Prior Periods. The increase in production growth from the Comparable Prior Periods was largely due to incremental production added from new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant, notwithstanding natural production declines and the numerous transportation service curtailments on TransCanada's NGTL Pipeline System (the "**TCPL System**") that adversely impacted Birchcliff's production throughout 2015.

The majority of Birchcliff's natural gas production is transported on the TCPL System in Alberta pursuant to both firm and interruptible service agreements. Throughout 2015, interruptible service was suspended and transportable volumes were curtailed from time to time to as low as 85% of Birchcliff's firm service entitlements as a result of National Energy Board ordered pipeline integrity testing procedures and other operational issues with the TCPL System.

Production consisted of approximately 87% natural gas, 9% light oil and 4% natural gas liquids ("**NGL**") in the three month Reporting Period as compared to 85% natural gas, 11% light oil and 4% NGL in the Comparable Prior Period. Production consisted of approximately 86% natural gas, 10% light oil and 4%

NGL in the twelve month Reporting Period as compared to 84% natural gas, 12% light oil and 4% NGL in the Comparable Prior Period. The PCS Gas Plant processed approximately 81% of Birchcliff's total corporate natural gas production and 73% of total corporate production in 2015.

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 December 31,		Twelve months ended December 31,	
	2015	**2014**	**2015**	**2014**
Average benchmark prices:				
Light oil – WTI Cushing *($USD/bbl)*	42.18	73.15	48.80	92.99
Light oil – Edmonton Par *($/bbl)*	53.78	73.16	57.76	93.38
Natural gas – AECO – C daily *($/MMbtu)*[(1)]	2.46	3.60	2.69	4.50
Exchange rate – *(USD$/CDN$)*	1.34	1.14	1.29	1.11
Birchcliff's average realized sales price[(2)]**:**				
Light oil *($/bbl)*	49.36	71.87	53.68	92.39
Natural gas *($/Mcf)*	2.67	3.91	2.90	4.74
NGL *($/bbl)*	47.98	66.10	50.76	85.13
Barrels of oil equivalent *($/boe) (6:1)*	20.28	30.43	22.31	38.39

(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 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.

Natural gas prices are mainly driven by North American supply and demand fundamentals which can be impacted by a number of factors, including 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.

Beginning in the latter half of 2014 and continuing throughout 2015, the WTI oil spot price and AECO natural gas spot price declined significantly due to the global and regional supply/demand imbalance which negatively impacted reported revenues in 2015. The AECO natural gas spot price averaged $2.46 per Mcf for the three month Reporting Period and averaged $2.69 per Mcf for the twelve month Reporting Period, a 32% and 40% decrease, respectively, from the Comparable Prior Periods. The WTI oil spot price in the three and twelve month Reporting Periods were 42% and 48% lower, respectively, than the Comparable Prior Periods.

Birchcliff's realized natural gas sales price at the wellhead averaged $2.67 per Mcf for the three month Reporting Period, a 9% premium from 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, heat content premium and other price differentials from its natural gas production:

	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
AECO – C daily *($/MMbtu)*[1]	2.46	3.60	2.69	4.50
Heat content premium	0.21	0.35	0.21	0.44
Price differential between physical sales contracts and AECO – C daily	-	(0.04)	-	(0.20)
Average realized natural gas sales price *($/Mcf)*	**2.67**	**3.91**	**2.90**	**4.74**

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

Risk Management Contracts

Birchcliff had no risk management contracts during the Reporting Periods. During the Comparable Prior Periods, the Corporation did have certain commodity price risk management contracts in place which expired on December 31, 2014. The Corporation actively monitors the market to determine whether any additional commodity price risk management contracts are warranted. There were no risk management contracts entered into subsequent to December 31, 2015.

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

	Three months ended December 31,				Twelve months ended December 31,			
	2015		2014		2015		2014	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Realized gain on derivatives	-	-	1,222	0.35	-	-	291	0.01
Unrealized gain on derivatives	-	-	172	0.05	-	-	379	0.03

Royalties

The following table details the Corporation's royalty expense:

	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Oil & natural gas royalties *($000s)*[1]	3,499	6,376	11,548	36,803
Oil & natural gas royalties *($/boe)*	0.94	1.84	0.81	2.99
Effective royalty rate *(%)*[2]	5%	6%	4%	8%

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

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

The decrease in the effective royalty rates from the Comparable Prior Periods was mainly due to production royalty incentives for a number of Montney/Doig horizontal natural gas wells that are receiving a 5% royalty rate and lower oil and natural gas wellhead prices received for Birchcliff's production during the Reporting Periods and the effect these lower prices have on the sliding scale royalty calculation.

Operating Costs

The following table provides a breakdown of operating costs:

	Three months ended December 31,				Twelve months ended December 31,			
	2015		2014		2015		2014	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Field operating costs	15,711	4.22	18,737	5.40	65,281	4.59	65,331	5.31
Recoveries	(385)	(0.10)	(340)	(0.10)	(1,500)	(0.10)	(1,284)	(0.10)
Field operating costs, net	15,326	4.12	18,397	5.30	63,781	4.49	64,047	5.21
Expensed workovers and other	143	0.04	89	0.03	730	0.05	170	0.01
Operating costs	**15,469**	**4.16**	**18,486**	**5.33**	**64,511**	**4.54**	**64,217**	**5.22**

Birchcliff continues to focus on controlling the infrastructure it uses to produce its oil and natural gas and on reducing operating costs on a per boe basis.

Corporate operating costs per boe decreased 22% and 13% from the three and twelve month Comparable Prior Periods, respectively, largely due to lower service costs resulting from reduced industry activity, the continued cost benefits achieved from processing incremental volumes of natural gas at the PCS Gas Plant and the implementation of various infrastructure optimization initiatives.

On a production month basis, operating costs averaged $1.90 per boe at the PCS Gas Plant during 2015, down 25% from $2.52 per boe in 2014. Birchcliff processed 81% of its total corporate natural gas production at the PCS Gas Plant during 2015 compared to 78% in 2014.

Transportation and Marketing Expenses

Transportation and marketing expenses were $8.6 million ($2.31 per boe) for the three month Reporting Period and $34.8 million ($2.45 per boe) for the twelve month Reporting Period compared to $8.3 million ($2.39 per boe) and $30.0 million ($2.43 per boe), respectively, for the Comparable Prior Periods. The increased aggregate costs from the Comparable Prior Periods are primarily due to increased firm service commitments on the TCPL System partially offset by reduced costs associated with transporting Birchcliff's condensate from the PCS Gas Plant and lower oil trucking service costs in the Reporting Periods.

Operating Netbacks

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

	Three months ended December 31,		Twelve months ended December 31,	
	2015	**2014**	**2015**	**2014**
Montney/Doig Natural Gas Resource Play[1]				
Average daily production, net:				
Natural gas *(Mcf)*	195,262	177,075	186,260	155,149
Oil & NGL *(bbls)*	1,929	1,804	1,846	1,526
Total boe *(6:1)*	34,473	31,316	32,890	27,384
% of corporate production[2]	85%	83%	84%	81%
Netback and cost *($/boe):*				
Petroleum and natural gas revenue	17.89	25.96	19.43	31.63
Royalty expense	(0.61)	(0.61)	(0.47)	(1.39)
Operating expense, net of recoveries	(2.92)	(4.08)	(3.22)	(3.83)
Transportation and marketing expense	(1.85)	(1.81)	(1.94)	(1.81)
Operating netback	12.51	19.46	13.80	24.60
Worsley Charlie Lake Light Oil Resource Play[1]				
Average daily production, net:				
Natural gas *(Mcf)*	8,054	10,176	8,497	9,684
Oil & NGL *(bbls)*	2,708	3,280	2,819	3,377
Total boe *(6:1)*	4,050	4,976	4,236	4,991
% of corporate production[2]	10%	13%	11%	15%
Netback and cost *($/boe):*				
Petroleum and natural gas revenue	37.41	55.58	40.58	71.73
Royalty expense	(3.12)	(8.67)	(2.89)	(10.68)
Operating expense, net of recoveries	(11.10)	(10.97)	(10.48)	(10.13)
Transportation and marketing expense	(5.99)	(5.65)	(6.06)	(5.69)
Operating netback	17.20	30.29	21.15	45.23
Total Corporate				
Average daily production, net:				
Natural gas *(Mcf)*	211,127	192,499	201,418	169,852
Oil & NGL *(bbls)*	5,257	5,621	5,380	5,426
Total boe *(6:1)*	40,445	37,704	38,950	33,734
Netback and cost *($/boe)*				
Petroleum and natural gas revenue	20.28	30.44	22.32	38.41
Royalty expense	(0.94)	(1.84)	(0.81)	(2.99)
Operating expense, net of recoveries	(4.16)	(5.33)	(4.54)	(5.22)
Transportation and marketing expense	(2.31)	(2.39)	(2.45)	(2.43)
Operating netback	12.87	20.88	14.52	27.77

(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.

Montney/Doig Natural Gas Resource Play

Birchcliff's production from the Montney/Doig Natural Gas Resource Play was 34,473 boe per day in the three month Reporting Period and 32,890 boe per day in the twelve month Reporting Period, a 10% and a 20% increase, respectively, from the Comparable Prior Periods. These increases were largely due to

higher production of natural gas and liquids from new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant.

Birchcliff's recoveries of liquids from its Montney/Doig natural gas production was 9.9 bbls per MMcf in both the three and twelve month Reporting Periods, a decrease of 3% and an increase of 1%, respectively, from the Comparable Prior Periods. Of the 9.9 bbls per MMcf of liquids produced in the three month Reporting Period, approximately 9.7 bbls per MMcf (98%) are high value oil and condensate (C5+). Of the 9.9 bbls per MMcf of liquids produced in the twelve month Reporting Period, approximately 9.6 bbls per MMcf (97%) are 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 Natural Gas Resource Play was $12.51 per boe ($2.09 per Mcfe) in the three month Reporting Period and $13.80 per boe ($2.30 per Mcfe) for the twelve month Reporting Period, a decrease of 36% and 44%, respectively, from the Comparable Prior Periods. The 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 4,050 boe per day in the three month Reporting Period and 4,236 boe per day in the twelve month Reporting Period, a 19% decrease and a 15% decrease, respectively, from the Comparable Prior Periods. The decrease in production was largely due to natural declines partially offset by production optimization initiatives in the Worsley field that were ongoing throughout 2015.

Operating netback from the Worsley Charlie Lake Light Oil Resource Play was $17.20 per boe in the three month Reporting Period and $21.15 per boe in the twelve month Reporting Period, a 43% decrease and a 53% decrease, 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 net administrative expenses are detailed in the table below:

	Three months ended December 31,				Twelve months ended December 31,			
	2015		2014		2015		2014	
	($000s)	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*
Cash:								
Salaries and benefits[1]	12,036	80	11,065	80	27,067	69	24,298	66
Other[2]	3,041	20	2,833	20	12,297	31	12,644	34
	15,077	100	13,898	100	39,364	100	36,942	100
Operating overhead recoveries	(47)	(1)	(55)	(1)	(232)	(1)	(247)	(1)
Capitalized overhead[3]	(7,536)	(50)	(6,845)	(49)	(16,308)	(41)	(14,355)	(39)
General & administrative, net	7,494	49	6,998	50	22,824	58	22,340	60
General & administrative, net per boe	$2.01		$2.02		$1.61		$1.81	
Non-cash:								
Stock-based compensation	1,694	100	2,046	100	7,732	100	9,977[4]	100
Capitalized stock-based compensation[3]	(921)	(54)	(1,136)	(56)	(4,526)	(59)	(5,181)	(52)
Stock-based compensation, net	773	46	910	44	3,206	41	4,796	48
Stock-based compensation, net per boe	$0.21		$0.26		$0.23		$0.39	
Administrative expenses, net	**8,267**		**7,908**		**26,030**		**27,136**	
Administrative expenses, net per boe	**$2.22**		**$2.28**		**$1.84**		**$2.20**	

(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 salaries, benefits and stock-based compensation directly attributable to the exploration and development activities of the Corporation which have been capitalized.

(4) In May 2014, the Corporation's outstanding performance warrants were amended to extend the ultimate expiration date to January 31, 2020 from January 31, 2015. The Corporation recorded a non-cash stock-based compensation expense of approximately $1.7 million relating to the extension of the performance warrants in the twelve month Comparable Prior Period.

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

	Twelve months ended December 31, 2015		Twelve months ended December 31, 2014	
	Number	**Exercise price *($)*[1]**	**Number**	**Exercise price *($)*[1]**
Outstanding at beginning of period	11,147,672	8.45	10,931,520	8.31
Granted	3,358,500	6.62	3,112,500	9.08
Exercised	(93,333)	(6.26)	(2,550,846)	(8.55)
Forfeited	(699,201)	(9.70)	(345,502)	(8.96)
Expired	(1,144,400)	(9.66)	-	-
Outstanding, End of Period	**12,569,238**	**7.80**	**11,147,672**	**8.45**

(1) Determined on a weighted average basis.

At December 31, 2015, 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 $35.9 million ($9.66 per boe) for the three month Reporting Period and $147.2 million ($10.35 per boe) for the twelve month Reporting Period as compared to $38.8 million ($11.17 per boe) and $136.3 million ($11.07 per boe), respectively, for the Comparable Prior Periods. D&D expenses were higher on an aggregate basis mainly due to a 7% and 15% increase in production from the three and twelve month Comparable Prior Periods, respectively.

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. Included in the depletion calculation for 2015 were 572.9 MMboe of proved plus probable reserves and $3.17 billion of future development capital required to recover those reserves. 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 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, the 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 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.

In light of the current low commodity price environment, Birchcliff performed an impairment test for its petroleum and natural gas assets on a CGU basis to assess for recoverability at December 31, 2015. Management has determined that the recoverable amount of Birchcliff's CGU exceeds the carrying amount at December 31, 2015 and therefore no impairment exists.

Management has determined that the calculation of the recoverable amount is most sensitive to key assumptions regarding discount rates, commodity prices and estimated quantities of proved plus probable reserves and future production profile of those reserves. Each of these underlying key assumptions are reviewed by management and corroborated independently to assess for reasonableness. In determining the recoverable amount, Birchcliff applied a pre-tax discount rate of 10% on cash flows from proved plus probable reserves. The petroleum and natural gas future prices are based on December 31, 2015 commodity price forecast assumptions determined by Deloitte LLP ("**Deloitte**"), the Corporation's independent reserves evaluator.

Finance Expenses

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

	Three months ended December 31,				Twelve months ended December 31,			
	2015		2014		2015		2014	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Cash:								
Interest on credit facilities	6,713	1.80	4,924	1.42	22,861	1.60	19,332	1.57
Non-cash:								
Accretion on decommissioning obligations	570	0.15	547	0.16	2,235	0.16	2,424	0.20
Amortization of deferred financing fees	235	0.06	219	0.06	919	0.06	932	0.08
Finance expenses	**7,518**	**2.01**	**5,690**	**1.64**	**26,015**	**1.82**	**22,688**	**1.85**

The aggregate interest expense is impacted by pricing margins established under Birchcliff's bank credit agreements which are used to determine Birchcliff's average effective interest rate and the average balance outstanding under its bank credit facilities during the period.

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

	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Revolving working capital facility	4.7%	4.5%	4.7%	4.5%
Revolving syndicated term credit facility	4.0%	4.4%	4.0%	4.2%
Non-revolving term credit facility[(1)]	-	4.3%	4.0%	4.5%

(1) During the three month Reporting Period, the Corporation did not have an outstanding non-revolving term credit facility.

Birchcliff's average outstanding total credit facilities balance was approximately $625 million and $655 million in the three and twelve month Reporting Periods, respectively, as compared to $447 million and $445 million in the Comparable Prior Periods, calculated as the simple average of the month end amounts.

Gain on Sale of Assets

Birchcliff recorded a gain on sale of assets of approximately $6.7 million ($1.80 per boe) and $7.3 million ($0.52 per boe) in the three and twelve month Reporting Periods, respectively, as compared to $3.2 million ($0.91 per boe) and $3.2 million ($0.26 per boe) in the Comparable Prior Periods.

In February 2015, 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 disposition, Birchcliff recorded a gain of $0.6 million in the first quarter of 2015.

In November 2015, Birchcliff completed a transaction whereby it disposed of non-core reserve assets in the Mirage area of Alberta in exchange for strategic assets acquired in the Pouce Coupe area of Alberta. The fair value of the swap transaction was estimated to be $1.3 million. As a result of the disposition, Birchcliff recorded a gain of $1.4 million in the fourth quarter of 2015.

In December 2015, Birchcliff completed a transaction whereby it disposed of non-core reserve assets in the Dawson and Pouce Coupe areas of Alberta for $9.1 million in cash. As a result of the disposition, Birchcliff recorded a gain of $5.3 million in the fourth quarter of 2015.

All 2015 dispositions noted above are considered non-core asset dispositions as they collectively represent less than 1% of both Birchcliff's 2015 production and proved plus probable reserves at

December 31, 2015 and therefore are not significant to the Corporation's financial results and operational performance.

Income Taxes

The components of income tax expense are shown in the table below:

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2015**	**2014**	**2015**	**2014**
Deferred income tax expense	10,552	5,941	20,232	38,814
Dividend tax expense on preferred shares	750	750	3,000	3,000
Income tax expense	**11,302**	**6,691**	**23,232**	**41,814**
Income tax expense per boe	**$3.05**	**$1.93**	**$1.64**	**$3.39**

The income tax expense for the Reporting Periods included: (i) a one-time, non-cash, deferred income tax expense in the amount of $7.8 million that was recorded in the second quarter of 2015 as a result of the 2015 change in the Alberta corporate income tax rate from 10% to 12%; and (ii) a one-time, non-cash deferred income tax expense in the amount of $10.2 million that was recorded in the fourth quarter of 2015 as a result of the denial by the Trial Court of Birchcliff's appeal of the Reassessment.

After excluding these deferred income tax adjustments note above, the income tax expense for the three and twelve month Reporting Periods was $1.1 million and $5.3 million, respectively, compared to $6.7 million and $41.8 million in the Comparable Prior Periods. The decrease in income tax expense was a result of lower net income before tax recorded in the Reporting Periods.

The Corporation's estimated income tax pools were $1.5 billion at December 31, 2015 (2014 - $1.4 billion). 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 shown in the table below:

($000s)	**Tax pools as at December 31, 2015**
Canadian oil and gas property expense	221,883
Canadian development expense	303,076
Canadian exploration expense	257,199
Undepreciated capital costs	244,229
Non-capital losses	426,480
Financing costs	1,925
Estimated income tax pools	**1,454,792**

Veracel tax pools

Birchcliff's 2006 income tax filings were reassessed by the CRA in 2011. 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 which includes approximately $16.2 million in non-capital losses, $15.6 million in scientific research and experimental development expenditures and $7.5 million in investment tax credits.

Birchcliff appealed the Reassessment to 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 (the "**Court of Appeal**") and expects that appeal to be heard in 2016. While management continues to believe that its tax position is supportable, Birchcliff has recognized a deferred income tax liability of $10.2 million in the fourth quarter of 2015 as a result of the Trial Decision being rendered. The Trial Decision does not result in any current cash taxes payable by Birchcliff.

CAPITAL EXPENDITURES

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

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2015**	**2014**	**2015**	**2014**
Land	3,468	4,650	9,261	17,694
Seismic	355	814	3,542	7,176
Workovers	1,213	1,321	6,015	7,889
Drilling and completions	32,024	80,097	160,091	271,455
Well equipment and facilities	6,346	25,761	78,146	92,342
Finding and development capital	43,406	112,643	257,055	396,556
Acquisitions	-	-	-	56,677
Dispositions	(10,281)	(3,692)	(10,947)	(3,823)
Finding, development and acquisition capital	33,125	108,951	246,108	449,410
Administrative assets	408	731	1,099	1,522
Capital expenditures, net	**33,533**	**109,682**	**247,207**	**450,932**

Capital expenditures of $33.5 million in the three month Reporting Period included approximately $26.7 million (80%) on drilling and completing new Montney/Doig horizontal natural gas wells that produced to the PCS Gas Plant during the year and the remaining $6.8 million (20%) on other infrastructure, expansion of the Montney/Doig Natural Gas Resource Play and the Charley Lake Light Oil Resource Play, the acquisition of land and other oil and gas exploration and development projects in the Peace River Arch. Drilling activities during the fourth quarter of 2015 resulted in 4 (4.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area.

Capital expenditures of $247.2 million in the twelve month Reporting Period included $32.7 million (13%) spent on Phase V expansion of the PCS Gas Plant and related infrastructure, approximately $144.9 million (59%) on drilling and completing new Montney/Doig horizontal natural gas wells that produced to the PCS Gas Plant during the year and the remaining $69.6 million (28%) on other infrastructure, expansion of the Montney/Doig Natural Gas Resource Play and the Charley Lake Light Oil Resource Play, the acquisition of land and other oil and gas exploration and development projects in the Peace River Arch.

Birchcliff drilled 32 (31.5 net) wells in 2015, consisting of 30 (30.0 net) natural gas wells and 2 (1.5 net) oil wells. The natural gas wells included 28 (28.0 net) Montney/Doig horizontal wells in the Pouce Coupe area, 1 (1.0 net) Montney Doig horizontal well in the Elmworth area and 1 (1.0 net) Belloy vertical well drilled as an acid gas disposal well in the Elmworth area. The oil wells included 1 (1.0 net) Charlie Lake horizontal light oil well in the Progress area and 1 (0.5 net) Halfway horizontal light oil well in the Progress area.

CAPITAL RESOURCES AND LIQUIDITY

In response to low commodity prices in 2015, the Corporation initiated proactive measures with a view to ensuring financial flexibility in a low commodity price environment, including establishing a revised capital expenditure program for 2015 of approximately $250 million (decreased from the original capital

expenditure program of $266.7 million, with actual capital expenditures of $247.2 million in 2015), negotiating reductions in both capital and operating service costs and implementing various cost optimization initiatives.

The 2016 Revised Capital Budget is projected to be less than Birchcliff's expected funds flow for 2016, assuming an average WTI price of US$40.00 per barrel of oil and an average AECO price of CDN$2.50 per GJ of natural gas during 2016. Birchcliff will continue to monitor economic conditions and commodity prices and, where deemed prudent, will adjust the 2016 Revised Capital Budget to respond to changes in commodity prices and other material changes in the assumptions underlying the 2016 Revised Capital Budget. In addition, the Corporation 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 material.

Management does not foresee any liquidity issues with respect to the operation of Birchcliff's oil and natural gas business in 2016 and expects that the Corporation will be able to meet its future obligations as they become due. Should commodity prices deteriorate materially, Birchcliff may adjust the 2016 Revised Capital Budget accordingly and/or consider the potential sale of its non-core assets to fund planned growth. See *"Advisories"*.

Capital Resources

Birchcliff's capital resources consist primarily of funds flow from operations and available credit under its Credit Facilities. Management believes that its funds flow from operations and available credit under its Credit Facilities will be sufficient to fund the Corporation's planned growth and to meet its current and future working capital requirements in 2016. Birchcliff's funds flow from operations depends on a number of factors, including commodity prices, production and sales volumes, operating expenses, royalties and foreign exchange rates.

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

	Three months ended December 31,		**Twelve months ended December 31,**	
($000s)	**2015**	**2014**	**2015**	**2014**
Funds flow from operations	33,697	61,717	160,756	300,498
Changes in non-cash working capital from operations	11,336	16,059	(11,066)	11,066
Decommissioning expenditures	(247)	(263)	(893)	(1,663)
Exercise of stock options	-	558	585	21,820
Exercise of preferred warrants(1)	-	-	-	49,690
Financing fees paid on credit facilities	-	-	(940)	(1,018)
Dividends paid on preferred shares	(1,875)	(1,875)	(7,500)	(7,500)
Net change in non-revolving term credit facilities	-	(30)	(129,970)	703
Net change in revolving term credit facilities	(4,923)	33,378	283,340	73,362
Changes in non-cash working capital from investing	(4,455)	138	(47,102)	3,932
Capital resources	**33,533**	**109,682**	**247,210**	**450,890**

(1) For details regarding the preferred warrants, see Note 11 – *Capital Stock* to the Corporation's audited financial statements for the year ended December 31, 2015.

Working Capital

The Corporation's working capital deficit (current assets minus current liabilities) decreased to $21.5 million at December 31, 2015 from $76.7 million at December 31, 2014. The deficit at the end of the Reporting Period is largely comprised of costs incurred from the drilling and completion of new wells.

At December 31, 2015, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of December 2015 production (85%), which was subsequently received in January 2016. In contrast, current liabilities largely consisted of trade and joint venture payables (55%)

and accrued capital and operating costs (43%). 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.

Birchcliff manages its working capital deficit using funds flow from operations and advances under the Credit Facilities. The Corporation's working capital deficit does not reduce the amount available under the Credit Facilities. The Corporation did not identify any liquidity issues with respect to the operation of its petroleum and natural gas business during the Reporting Periods.

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. Birchcliff believes a phased and flexible approach to existing and future growth plans should assist management in maintaining its ability to manage capital expenditures and debt levels. Management is able to quickly respond to changing commodity prices by increasing or decreasing its capital spending programs in an effort to protect the Corporation's balance sheet.

Total debt, including the working capital deficit, was $643.6 million at December 31, 2015 as compared to $545.7 million at December 31, 2014. A significant portion of the funds drawn under Birchcliff's bank credit facilities in 2015 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 Natural Gas Play and the Worsley Charlie Lake Light Oil Resource Play.

In May 2015, Birchcliff's credit facilities were consolidated and increased into the Credit Facilities in the aggregate principal amount of $800 million from credit facilities previously in the aggregate amount of $750 million. See *"Major Transactions Affecting Financial Results"* in this MD&A. The Credit Facilities are no longer subject to the quarterly financial covenants review (interest coverage & debt to EBITDA), which further improves Birchcliff's financial flexibility.

The following table sets forth the Corporation's unused bank credit facilities:

As at, *($000s)*	**December 31, 2015**	**December 31, 2014**
Maximum borrowing base limit[1]*:*		
Non-revolving term credit facilities	-	130,000
Revolving term credit facilities	800,000	620,000
	800,000	750,000
Principal amount utilized:		
Drawn non-revolving term credit facilities[2]	-	(130,000)
Drawn revolving term credit facilities[2]	(630,037)	(342,433)
Outstanding letters of credit[3]	(242)	(184)
	(630,279)	(472,617)
Unused credit	**169,721**	**277,383**
% unused credit	**21%**	**37%**

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

(2) The drawn amounts are not reduced for unamortized costs and fees associated with each credit facility.

(3) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit during the periods ended December 31, 2014 and December 31, 2015.

The aggregate limit of the Credit Facilities was $800 million at December 31, 2015, leaving $169.7 million (21%) undrawn at the end of 2015.

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. The Corporation's lenders use the Corporation's reserves, commodity prices, applicable discount rate and other factors to determine the Corporation's borrowing base. A material decline in commodity prices could result in a reduction in the Corporation's borrowing base, thereby reducing the funds available to the Corporation under the Credit Facilities. Notwithstanding the significant increase in proved developed producing reserve volumes at the end of 2015, Birchcliff currently expects that as a result of the continued deterioration in commodity prices, the aggregate borrowing base limit of the Credit Facilities will remain at $800 million during the normal credit review in May 2016.

The maturity date of the Credit Facilities is May 11, 2018. The Corporation 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. On March 8, 2016, Birchcliff requested an extension to the maturity dates of the Credit Facilities from May 11, 2018 to May 11, 2019.

See *"Risk Factors and Risk Management – Financial Risks and Risks Relating to Economic Conditions – Credit Facilities"* in this MD&A.

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 December 31, 2015:

($000s)	**2016**	**2017**	**2018 - 2020**	**Thereafter**
Accounts payable and accrued liabilities	47,584	-	-	-
Drawn revolving term credit facilities	-	-	630,037	-
Office lease(1)	3,616	3,315	12,862	33,344
Purchase obligations(2)	20,807	-	-	-
Transportation and processing	38,611	35,028	75,724	65,644
Estimated contractual obligations(3)	**110,618**	**38,343**	**718,623**	**98,988**

(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 $46.2 million, which includes costs allocated to base rent, parking and building operating expenses.

(2) The Corporation is committed to spend approximately $20.8 million in 2016 under a purchasing agreement relating to the construction of Phase V of the PCS Gas Plant.

(3) Contractual commitments that are routine in nature and form part of the normal course of operations for Birchcliff are not included. 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 December 31, 2015 to be approximately $159.9 million and will be incurred as follows: 2017 - $1.6 million, 2018 - $1.8 million and $156.5 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 December 31, 2015, Birchcliff had outstanding common shares, Series A Preferred Shares and Series C Preferred Shares. Birchcliff's common shares began trading on the TSX on July 21, 2005 under the symbol "**BIR**" and were at the same time de-listed from the TSX Venture Exchange where they were trading under the same symbol prior to such time. Birchcliff's common shares 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, 2013	143,676,661
Exercise of options	2,550,846
Exercise of preferred warrants	5,986,699
Balance at December 31, 2014	152,214,206
Exercise of options	93,333
Balance at December 31, 2015	**152,307,539**

As of March 16, 2016, the Corporation had outstanding: 152,307,539 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 13,973705 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 December 2, 2015, 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 December 31, 2015.

Both dividends are designated as an eligible dividend for purposes of the *Income Tax Act* (Canada).

In 2015, cash dividends totalled $4.0 million or $2.00 per Series A Preferred Share (2014 - $4.0 million or $2.00 per Series A) and $3.5 million or $1.75 per Series C Preferred Share (2014 - $3.5 million or $1.75 per Series C).

SUMMARY OF QUARTERLY RESULTS

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

Quarter ending,	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014	Mar. 31, 2014
Average daily production *(boe 6:1)*	40,445	38,433	38,489	38,416	37,704	34,235	31,178	31,749
Realized natural gas price *($/Mcf)*	2.67	3.12	2.86	2.98	3.91	4.37	4.81	6.10
Realized oil price *($/bbl)*[1]	49.36	52.91	64.93	47.66	71.87	95.94	104.72	97.30
Total revenues *($000s)*[1]	75,476	82,011	82,791	77,026	105,598	116,424	117,308	133,558
Operating costs *($/boe)*	4.16	4.39	4.53	5.11	5.33	5.06	5.25	5.21
Capital expenditures, net *($000s)*	33,533	50,013	65,122	98,539	109,682	104,363	75,484	161,403
Funds flow from operations *($000s)*	33,697	44,587	45,752	36,720	61,717	75,030	75,382	88,369
Per common share – basic *($)*	0.22	0.29	0.30	0.24	0.41	0.50	0.52	0.61
Per common share – diluted *($)*	0.22	0.29	0.30	0.24	0.40	0.48	0.49	0.60
Net income (loss) *($000s)*	(9,322)	4,815	(4,174)	(3,479)	17,053	29,665	28,087	39,499
Net income (loss) to common shareholders *($000s)*[2]	(10,322)	3,815	(5,174)	(4,479)	16,053	28,665	27,087	38,499
Per common share – basic *($)*	(0.07)	0.03	(0.03)	(0.03)	0.11	0.19	0.19	0.27
Per common share – diluted *($)*	(0.07)	0.02	(0.03)	(0.03)	0.10	0.19	0.18	0.26
Total assets *($ million)*	2,025	2,022	2,009	1,983	1,919	1,846	1,771	1,730
Long-term bank debt *($000s)*	622,074	626,839	599,998	536,570	469,033	435,545	452,183	453,772
Total debt *($000s)*	643,612	640,751	632,306	610,170	545,745	495,307	514,637	524,720
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	152,294	152,284	152,214	152,154	145,912	144,504
Diluted	167,817	168,112	168,181	168,108	166,302	166,190	166,285	166,085
Wtd. average common shares outstanding *(000s)*								
Basic	152,308	152,303	152,289	152,243	152,183	149,594	145,145	144,026
Diluted	153,627	153,916	154,650	154,215	155,304	154,800	152,623	147,090

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

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

Average daily production volumes have generally increased over the past eight quarters, which can be attributed primarily to the Corporation's exploration and development activities on the Montney/Doig Natural Gas Resource Play.

Over the past eight quarters, the Corporation's successful drilling program along with fluctuations in commodity prices have contributed to the fluctuations in oil and gas revenues and funds flow from operations.

Net income has fluctuated primarily due to changes in funds flow from operations (attributed generally to fluctuating oil and natural gas spot prices over the last eight quarters).

Capital expenditures have fluctuated over the past eight quarters as a result of the timing of the Corporation's development capital expenditures as well as a significant asset acquisition that occurred during the first quarter of 2014.

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.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Corporation's Chief Executive Officer and Chief Financial Officer (the "**Certifying Officers**") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("**DC&P**"), as defined in National Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings* ("**NI 52-109**"), to provide reasonable assurance that: (i) material information relating to the Corporation is made known to the Certifying Officers by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by the Corporation under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's DC&P at December 31, 2015 and have concluded that the Corporation's DC&P were effective at December 31, 2015.

While the Certifying Officers believe that the Corporation's DC&P provide a reasonable level of assurance and are effective, they do not expect that the DC&P will prevent all errors and fraud. A control system, no matter how well conceived, maintained and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met.

Internal Control over Financial Reporting

The Certifying Officers have designed, or caused to be designed under their supervision, internal control over financial reporting ("**ICFR**"), as defined in NI 52-109, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the generally accepted accounting principles applicable to the Corporation. The control framework the Certifying Officers used to design the Corporation's ICFR is *"Internal Control – Integrated Framework (May 2013)"* published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's ICFR at December 31, 2015 and have concluded that the Corporation's ICFR were effective at December 31, 2015. There were no changes in the Corporation's ICFR that occurred during the period beginning on October 1, 2015 and ended on December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

While the Certifying Officers believe that the Corporation's ICFR provide a reasonable level of assurance and are effective, they do not expect that the ICFR will prevent all errors and fraud. A control system, no matter how well conceived, maintained and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met.

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.

Critical Judgments in Applying Accounting Policies

The following are critical judgments that management has made in the process of applying the Corporation's IFRS accounting policies and that have the most significant effect on the amounts recognized in the audited financial statements for the Reporting Periods.

Identification of cash-generating units

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

Identification of impairment indicators

IFRS requires Birchcliff to assess, at each reporting date, whether there are any indicators that its assets may be impaired. Birchcliff is required to consider information from both external sources (such as negative downturn in commodity prices, significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in reserves, significant adverse effect on the financial and operational performance of a CGU, evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgment and may impact the carrying value of the Corporation's assets in future periods.

Tax uncertainties

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

Key Sources of Estimation Uncertainty

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

Reserves

Reported recoverable quantities of proved and probable reserves requires estimation regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Corporation's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations and the recognition of deferred tax assets due to changes in expected future cash flows. The

recoverable quantities of reserves and estimated cash flows from Birchcliff's petroleum and natural gas interests are independently evaluated by reserve engineers at least annually.

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

Share-based payments

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

Decommissioning obligations

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

Impairment of non-financial assets

For the purposes of determining the extent of any impairment or its reversal, estimates must be made regarding future cash flows taking into account key assumptions, including future petroleum and natural gas prices, expected forecasted production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Changes in the aforementioned assumptions could affect the carrying amount of the Corporation's assets, and impairment charges and reversal will affect profit or loss.

Income taxes

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

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

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

FUTURE ACCOUNTING PRONOUNCEMENTS

In January 2016, the International Accounting Standards Board (the "**IASB**") issued IFRS 16 *Leases*. The standard will be effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided IFRS 15 *Revenue from Contracts with Customers*, has been applied, or is applied at the same date as IFRS 16. Birchcliff is currently evaluating the impact of adopting IFRS 16 on the financial statements.

On May 28, 2014, the IASB issued IFRS 15 *Revenue From Contracts With Customers* replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue* and several revenue-related interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Birchcliff is currently assessing the impact of adopting IFRS 15; however, it anticipates that this standard will not have a material impact on the Corporation's financial statements.

On July 24, 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 aligns hedge accounting more closely with risk management. The new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness. However, under the new standard, more hedging strategies that are used for risk management will qualify for hedge accounting. IFRS 9 is effective for years beginning on or after January 1, 2018. As the Corporation does not currently apply hedge accounting it anticipates that this standard will not have a material impact on the Corporation's financial statements.

RISK FACTORS AND RISK MANAGEMENT

The Corporation's operations are exposed to a number of risks, some that impact the oil and natural gas industry as a whole and others that are unique to the Corporation. 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 annual 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.

Investors should carefully consider the risk factors set out below and consider all other information contained herein and in the Corporation's other public filings before making an investment decision.

The risks set out below are not an exhaustive list and should not be taken as a complete summary or description of all the risks associated with the Corporation's business and the oil and natural gas business generally.

Financial Risks and Risks Relating to Economic Conditions

Commodity Price Volatility and Weakness in the Oil and Gas Industry

The Corporation's revenues, operating results and financial condition are substantially dependent upon the prices that it receives for oil, natural gas and NGL and the prices that it receives for such products is closely correlated to the price of crude oil and natural gas. Historically, crude oil and natural gas markets have been volatile and are likely to continue to be volatile in the future. Crude oil and natural gas prices have fluctuated widely during recent years and are subject to fluctuations in response to changes in supply, demand, market uncertainty and other factors that are beyond the Corporation's control. These factors include, but are not limited to:

- global energy policy, including (without limitation) the ability of the Organization of the Petroleum Exporting Countries ("**OPEC**") to set and maintain production levels and influence prices for crude oil;
- political instability and hostilities;
- domestic and foreign supplies of crude oil;
- the overall level of energy demand;
- weather conditions;
- government regulations;
- taxes;
- currency exchange rates;
- the availability of refining capacity and transportation infrastructure;
- the effect of worldwide environmental and/or energy conservation measures;
- the price and availability of alternative energy supplies; and
- the overall economic environment.

Through the latter half of 2014 and into 2016, the price for crude oil has declined significantly. In addition, recent prices for natural gas have declined substantially from 2015 levels. Recent market events and conditions, including global excess oil and natural gas supply, recent actions taken by OPEC, slowing growth in China and other emerging economies, market volatility and disruptions in Asia, and sovereign debt levels in various countries, have caused significant weakness and volatility in commodity prices. These events and conditions have caused a significant decrease in the valuation of oil and natural gas companies and a decrease in confidence in the oil and natural gas industry. These difficulties have been exacerbated in Canada by the recent changes in government at a federal level and, in case of Alberta, the provincial level and the resultant uncertainty surrounding regulatory, tax and royalty changes that may be implemented by the new governments. In addition, the inability to get the necessary approvals to build pipelines and other facilities to provide better access to markets for the oil

and natural gas industry in western Canada has led to additional uncertainty and reduced confidence in the oil and natural gas industry in western Canada.

Any prolonged period of low crude oil or natural gas prices could result in a decision by the Corporation to suspend or slow exploration and development activities, the construction or expansion of new or existing facilities or reduce production levels. Any such actions could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects and ultimately on the market price of the Corporation's securities, the Corporation's ability to pay dividends on its Series A Preferred Shares and Series C Preferred Shares and on the value of the Corporation's reserves.

Volatility in oil and natural gas prices makes it difficult to estimate the value of producing properties for acquisitions and often causes disruption in the market for oil and natural gas producing properties, as buyers and sellers may have difficultly agreeing on the value of such properties. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

The Corporation's financial performance also depends on revenues from the sale of commodities which differ in quality and location from underlying commodity prices quoted on financial exchanges. Of particular importance are the price differentials between the Corporation's light/medium oil and natural gas and quoted market prices. Not only are these discounts influenced by regional supply and demand factors, they are also influenced by other factors such as transportation costs, capacity and interruptions and the quality of the oil and natural gas produced, all of which are beyond the Corporation's control.

The Corporation's reserves as at December 31, 2015 are estimated using forecast prices and costs. These prices are substantially above current crude oil and natural gas prices. If crude oil and natural gas prices stay at current levels, the Corporation's reserves may be substantially reduced as economic limits of developed reserves are reached earlier and undeveloped reserves become uneconomic at such prices. Even if some reserves remain economic at lower price levels, sustained low prices may compel the Corporation to re-evaluate its development plans and reduce or eliminate various projects with marginal economics. In addition, lower commodity prices have restricted, and are anticipated to continue to restrict, the Corporation's cash flow. The Corporation's capital expenditure plans are impacted by the Corporation's cash flow. If commodity prices continue to deteriorate and the Corporation reduces its capital expenditures, the Corporation may not be able to replace its production with additional reserves and both its production and reserves could be reduced on a year-over-year basis.

Birchcliff conducts an assessment of the carrying value of its assets to the extent required by IFRS. If forecasted oil or natural gas prices decline, the carrying value of the Corporation's assets could be subject to downward revision, and the Corporation's earnings could be adversely affected by any reduction in such carrying value.

Additional Funding Requirements and Access to Credit Markets

Due to the nature of the Corporation's business, it is necessary from time to time for the Corporation to access other sources of capital beyond its internally generated cash flow in order to fund its acquisition, exploration and development activities. As part of this strategy, the Corporation obtains some of this necessary capital by incurring debt; therefore, the Corporation is dependent to a certain extent on continued availability of the credit markets. The continued availability of the credit markets for the Corporation is primarily dependent on the state of the economy and the health of the banking industry in Canada and the United States. There is a risk that if the economy and banking industry experienced unexpected or prolonged deterioration, the Corporation's access to credit markets may contract or

disappear altogether. The Corporation tries to mitigate this risk by dealing with reputable lenders and tries to structure its lending agreements to give it the most flexibility possible should these situations arise. However, situations that give rise to credit markets tightening or disappearing are largely beyond the Corporation's control.

Due to the conditions in the oil and natural gas industry and/or global economic volatility, the Corporation may from time to time have restricted access to capital and increased borrowing costs. The current conditions in the oil and natural gas industry have negatively impacted the ability of oil and natural gas companies to access additional financing. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. Continued depressed oil and natural gas prices have caused decreases, and may cause further decreases, in the Corporation's revenues from its reserves, which may affect its ability to expend the necessary capital to replace its reserves or to maintain its production. To the extent that external sources of capital become limited, unavailable or available on onerous terms, the Corporation's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result. In addition, the future development of the Corporation's petroleum properties may require additional financing and there are no assurances that such financing will be available or, if available, will be available upon acceptable terms. Failure to obtain any financing necessary for the Corporation's capital expenditure plans may result in a delay in development or production on the Corporation's properties.

The Corporation is also dependent, to a certain extent, on continued access to equity capital markets. The Common Shares are listed on the TSX and management maintains an active investor relations program. In addition to the other factors outlined herein, continued access to capital is dependent on the Corporation's ability to continue to perform at a level that meets market expectations.

Issuance of Debt

From time to time, the Corporation may enter into transactions to acquire assets or shares of other organizations. These transactions may be financed in whole or in part with debt, which may increase the Corporation's debt *l*evels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, the Corporation may require additional debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness from time to time could impair the Corporation's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Credit Facilities

The amount authorized under the Credit Facilities is dependent on the borrowing base determined by the Corporation's lenders. As at December 31, 2015, the borrowing base limit under the Credit Facilities is $800 million and long-term bank debt is $622.1 million. The Credit Facilities are subject to a semi-annual review of the borrowing base limit by Birchcliff's syndicate of lenders, which limit is directly impacted by the value of Birchcliff's oil and natural gas reserves. The Corporation's lenders use the Corporation's reserves, commodity prices, applicable discount rate and other factors to determine the Corporation's borrowing base. A material decline in commodity prices could result in a reduction in the Corporation's borrowing base, thereby reducing the funds available to the Corporation under the Credit Facilities. As the borrowing base is determined based on the lender's interpretation of the

Corporation's reserves and future commodity prices, there can be no assurance as to the amount of the borrowing base determined at each review. In addition, the lenders are able to request one additional borrowing base redetermination in between scheduled redeterminations and the borrowing base may be reduced in connection with asset dispositions. If, at the time of a borrowing base redetermination, the outstanding borrowings under the Credit Facilities were to exceed the borrowing base as a result of any such recalculation, the Corporation would be required to eliminate this excess. If the Corporation is forced to repay a portion of its indebtedness under the Credit Facilities, it may not have sufficient funds to make such repayments. If it does not have sufficient funds and is otherwise unable to negotiate renewals of its borrowings or arrange new financing, it may have to sell significant assets. Any such sale could have a material adverse effect on the Corporation's business and financial results.

The maturity date of the Credit Facilities is May 11, 2018. The Corporation 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. In the event that either of the Credit Facilities is not extended before the maturity date, all outstanding indebtedness under such Credit Facility will be repayable at the maturity date. There is also a risk that the Credit Facilities will not be renewed for the same principal amount or on the same terms. Any of these events could adversely affect the Corporation's ability to fund its ongoing operations and to pay dividends on its Series A Preferred Shares and Series C Preferred Shares.

The Corporation is required to comply with covenants under the Credit Facilities. In the event that the Corporation does not comply with these covenants, the Corporation's access to capital could be restricted or repayment could be required. Events beyond the Corporation's control may contribute to the failure of the Corporation to comply with such covenants. A failure to comply with covenants could result in default under the Credit Facilities, which could result in the Corporation being required to repay amounts owing thereunder. Even if the Corporation is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to the Corporation. If the Corporation is unable to repay amounts owing under the Credit Facilities, the lenders under the Credit Facilities could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness. The acceleration of the Corporation's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross default or cross-acceleration provisions. In addition, the Credit Facilities impose certain restrictions on the Corporation, including, but not limited to, restrictions on the payment of dividends, incurring of additional indebtedness, dispositions of properties and the entering into of amalgamations, mergers, plans of arrangements, reorganizations or consolidations with any person.

Dividends

Dividends on the Corporation's Series A Preferred Shares and Series C Preferred Shares are payable at the discretion of the Board. The Corporation may not declare or pay a dividend if there are reasonable grounds for believing that: (i) the Corporation is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realizable value of the Corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of its outstanding shares. Additionally, pursuant to the Credit Facilities, Birchcliff is not permitted to make any distribution (which includes dividends) at any time when an event of default exists or would reasonably be expected to exist upon making such distribution, unless such event of default arose subsequent to the ordinary course declaration of the applicable distribution.

The Corporation has never paid any dividends on its Common Shares or made distributions to holders of Common Shares. Any decision to declare and pay dividends will be made at the discretion of the Board

and will depend on, among other things, the cash flow, results of operations and financial condition of the Corporation, current and future capital requirements, working capital requirements, commodity prices and the Corporation's outlook for commodity prices, contractual restrictions, financing agreement covenants, liquidity and solvency tests imposed by corporate law and other factors that the Board may deem relevant.

Hedging

From time to time, the Corporation may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline. However, to the extent that the Corporation engages in price risk management activities to protect it from commodity price declines, the Corporation may also be prevented from realizing the full benefits of price increases above the levels of the derivative instruments used to manage price risk. In addition, the Corporation's hedging arrangements may expose it to the risk of financial loss in certain circumstances, including instances in which:

- production falls short of the hedged volumes or prices fall significantly lower than projected;
- there is a widening of price-basis differentials between delivery points for production and the delivery point assumed in the hedge arrangement;
- the counterparties to the hedging arrangements or other price risk management contracts fail to perform under those arrangements; or
- a sudden unexpected event materially impacts oil and natural gas prices.

Similarly, from time to time the Corporation may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar. However, if the Canadian dollar declines in value compared to the United States dollar, the Corporation will not benefit from the fluctuating exchange rate.

During the year ended December 31, 2015, the Corporation had no financial derivatives in place.

Counterparty Credit Risk

The Corporation may be exposed to third-party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In addition, the Corporation may be exposed to third party credit risk from operators of properties in which the Corporation has a working or royalty interest. In the event such entities fail to meet their contractual obligations to the Corporation, such failures may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may affect a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner. To the extent that any of such third parties go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in the Corporation being unable to collect all or portion of any money owing from such parties. Any of these factors could materially adversely affect the Corporation's financial and operational results.

Variations in Foreign Exchange Rates and Interest Rates

World oil and natural gas prices are quoted in United States dollars. The Canadian/United States dollar exchange rate, which fluctuates over time, consequently affects the price received by Canadian producers of oil and natural gas. Material increases in the value of the Canadian dollar relative to the United States dollar may negatively affect the Corporation's production revenues. Future Canadian/United States exchange rates could also impact the future value of the Corporation's reserves as determined by independent evaluators. Although a low value of the Canadian dollar relative to the United States dollar may positively affect the price the Corporation receives for its oil and natural gas production, it could also result in an increase in the price for certain goods used for the Corporation's operations, which may have a negative impact on the Corporation's financial results.

To the extent that the Corporation engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which the Corporation may contract. The Corporation has not hedged any of its foreign exchange risk at the date hereof. See "– *Hedging".*

An increase in interest rates could result in a significant increase in the amount the Corporation pays to service debt, resulting in a reduced amount available to fund its exploration and development activities, and if applicable, the cash available for dividends and could negatively impact the market price of the Corporation's securities.

Business and Operational Risks

Exploration, Development and Production

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time and the production therefrom, will decline over time as such existing reserves are exploited. A future increase in the Corporation's reserves will depend on both the ability of the Corporation to explore and develop its existing properties and its ability to select and acquire suitable producing properties or prospects. There is no assurance that the Corporation will be able continue to find satisfactory properties to acquire or participate in. Moreover, management of the Corporation may determine that current markets, terms of acquisition, participation or pricing conditions make potential acquisitions or participations uneconomic. There is also no assurance that the Corporation will discover or acquire further commercial quantities of oil and natural gas. In addition, the success of the Corporation's business is highly dependent on its ability to acquire or discover new reserves in a cost efficient manner as substantially all of the Corporation's cash flow is derived from the sale of the petroleum and natural gas reserves that it accumulates and develops. In order to remain financially viable, the Corporation must be able to replace reserves over time at a lesser cost on a per unit basis than its cash flow on a per unit basis.

The Corporation remains subject to the risk that the production rate of a significant well may decrease in an unpredictable and uncontrollable manner, which could result in a decrease in the Corporation's overall production and associated cash flows. The Corporation mitigates this risk by having a large number of wells on production, reducing the ability of any one well to materially affect overall production and associated cash flow.

Future oil and natural gas exploration may involve unprofitable efforts from dry wells as well as from wells that are productive but do not produce sufficient petroleum substances to return a profit after

drilling, completing (including hydraulic fracturing), operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs.

Drilling hazards, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. Field operating conditions include, but are not limited to, delays in obtaining governmental approvals or consents, and shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, spills and other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment and personal injury. Particularly, the Corporation may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to the Corporation.

Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

As is standard industry practice, the Corporation is not fully insured against all risks, nor are all risks insurable. Although the Corporation maintains liability insurance in an amount that it considers consistent with industry practice, liabilities associated with certain risks could exceed policy limits or not be covered. In either event, the Corporation could incur significant costs. See *"– Other Risks – Insurance"*.

Project Risks

The Corporation manages a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. The Corporation's ability to execute projects and market oil and natural gas depends upon numerous factors beyond the Corporation's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the availability of, and the ability to acquire, water supplies needed for drilling and hydraulic fracturing, or the Corporation's ability to dispose of water used or removed from strata at a reasonable cost and in accordance with applicable environmental regulations;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;

- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- regulatory changes;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, the Corporation could be unable to execute projects on time, on budget, or at all, and may be unable to effectively market the oil and natural gas that it produces.

Gathering and Processing Facilities and Pipeline Systems

The Corporation delivers its products through gathering and processing facilities and pipeline systems, some of which it does not own. The amount of oil and natural gas that the Corporation can produce and sell is subject to the accessibility, availability, proximity and capacity of these gathering and processing facilities and pipeline systems. The lack of availability of capacity in any of the gathering and processing facilities and pipeline systems could result in the Corporation's inability to realize the full economic potential of its production or in a reduction of the price offered for the Corporation's production. Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and market oil and natural gas production. In addition, the pro-rationing of capacity on inter-provincial pipeline systems continues to affect the ability to export oil and natural gas. Unexpected shut downs or curtailment of capacity of pipelines for maintenance or integrity work or because of actions taken by regulators could also affect the Corporations production, operations and financial results. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays in constructing new infrastructure systems and facilities could harm the Corporation's business and, in turn, the Corporation's financial condition, results of operations and cash flows. The federal government has signaled that it plans to review the National Energy Board approval process for large projects. This may cause the timeframe for project approvals to increase for current and future applications.

The majority of the Corporation's production passes through Birchcliff owned or third party infrastructure prior to it being ready for transfer at designated commodity sales points. There is a risk that should this infrastructure fail and cause a significant portion of the Corporation's production to be shut-in and be unable to be sold, this could have a material adverse effect on the Corporation's available cash flow. With respect to facilities owned by third parties and over which the Corporation has no control, these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could have a material adverse effect on the Corporation's ability to process its production and deliver the same for sale.

Hydraulic Fracturing

Hydraulic fracturing is the process of pumping a fluid or a gas under pressure down a well, which causes the surrounding rock to crack or fracture. The fluid, typically consisting of water, sand, chemicals and other additives, flows into the cracks where the sand remains to keep the cracks open and allow natural gas or liquids to be recovered. Fracturing fluids are produced back to the surface through the wellbore and are stored for reuse or future disposal in accordance with applicable regulations, which may include injection into underground wells.

While hydraulic fracturing has been in use and improved upon for many years, there has been increased focus on environmental aspects of hydraulic fracturing practices in recent years. In the United States, the process is regulated by state and local governments, but the United States Environmental Protection Agency is considering undertaking a broad study as it pertains to the national *Clean Water Act* (United States). Any U.S. rules on hydraulic fracturing could influence other jurisdictions' regulations and force oil and natural gas companies, including the Corporation, to cease using the process or to add pollution control technology to their operations. Increased regulation and attention given to the hydraulic fracturing process could lead to greater opposition, including litigation, to oil and natural gas production activities using hydraulic fracturing techniques. Additional legislation or regulation could also lead to operational delays or increased operating costs in the production of oil, natural gas, and NGL or could make it more difficult to perform hydraulic fracturing. The adoption of additional federal, provincial or local laws or the implementation of regulations regarding hydraulic fracturing could potentially cause a decrease in the completion of new oil and natural gas wells, increased compliance costs and time, which could adversely affect the Corporation's financial position, results of operations and cash flows.

Effective December 2012, AER rules require that licensees comply with enhanced requirements to report amounts and sources of water and chemicals used in every hydraulic fracturing job. The AER requires that any hydraulic fracturing fluids used above the base of groundwater protection be non-toxic and that the operator reveal the contents of the fluids to the AER upon request. The AER also requires that the type and volume of all additives used in fracturing fluids be recorded in the daily record of operations for any well and such information must be submitted to the AER.

Uncertainty of Reserves Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and NGL reserves and the future cash flows attributed to such reserves, including many factors beyond the control of the Corporation. In general, estimates of economically recoverable oil, natural gas and NGL reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, initial production rates, production decline rates, ultimate reserve recovery, the timing and amount of capital expenditures, the success of future development activities, future commodity prices, marketability of oil, natural gas and NGL, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For those reasons, estimates of the economically recoverable oil, natural gas and NGL reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers or by the same engineer at different times, may vary substantially. The Corporation's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates with respect to reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual

production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations in the estimated reserves, which may be substantial.

In accordance with applicable securities laws in Canada, the Corporation's independent qualified reserves evaluator has used forecast prices and costs in estimating the Corporation's reserves and future net cash flows. Actual future net cash flows also will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulations or taxation and the impact of inflation on costs.

Actual production and cash flows derived from the Corporation's reserves will vary from the estimates contained in the reserves estimation and economic evaluation effective December 31, 2015 in respect of the Corporation's oil and gas properties prepared by Deloitte (the "**2015 Reserves Evaluation**"), and such variations could be material. The 2015 Reserves Evaluation is based in part on the expected success of activities the Corporation intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom and contained in the 2015 Reserves Evaluation may be reduced to the extent that such activities do not achieve the expected level of success.

Costs and Availability of Equipment and Services

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities. During times of high commodity prices for oil and natural gas, there is a risk of substantially increased cost of operation, which impacts both the amount of capital required to perform operations and the netback the Corporation achieves from its production sales. Although the Corporation strives for continuous improvement in its planning, operations and procurement of materials, unexpected changes in the market for such equipment and services could negatively affect the Corporation's business, financial condition, results of operations and prospects.

Potential Future Drilling Locations

The Corporation's identified potential future drilling locations represent a significant part of the Corporation's growth strategy. The Corporation's ability to drill and develop these locations depends on a number of uncertainties and factors, including, but not limited to, the availability of capital, equipment and personnel, oil and natural gas prices, capital and operating costs, inclement weather, seasonal restrictions, drilling results, additional geological, geophysical and reservoir information that is obtained production rate recovery, gathering system and transportation constraints, net price received for commodities produced, regulatory approvals, regulatory changes. As a result of these uncertainties, there can be no assurance that the potential future drilling locations the Corporation has identified will ever be drilled or if the Corporation will be able to produce oil, NGL or natural gas from these or any other potential future drilling locations. As such, the Corporation's actual drilling activities may materially differ from those presently identified, which could adversely affect the Corporation's business.

Operational Dependence

Other companies operate some of the assets in which the Corporation has an interest. The Corporation has limited ability to exercise influence over the operation of those assets or their associated costs,

which could adversely affect the Corporation's business, financial condition, results of operations and prospects. The Corporation's return on assets operated by others depends upon a number of factors that may be outside of the Corporation's control, including, but not limited to, the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

In addition, due to the current low and volatile commodity prices, many companies, including companies that may operate some of the assets in which the Corporation has an interest, may be in financial difficulty, which could impact their ability to fund and pursue capital expenditures, carry out their operations in a safe and effective manner and satisfy regulatory requirements with respect to abandonment and reclamation obligations. If companies that operate some of the assets in which the Corporation has an interest fail to satisfy regulatory requirements with respect to abandonment and reclamation obligations, the Corporation may be required to satisfy such obligations and to seek recourse from such companies. To the extent that any of such companies go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in such assets being shut-in, the Corporation potentially becoming subject to additional liabilities relating to such assets and the Corporation having difficulty collecting revenue due from such operators. Any of these factors could materially adversely affect the Corporation's financial and operational results.

Cost of New Technologies

The oil and natural gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil and natural gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before the Corporation. There can be no assurance that the Corporation will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by the Corporation or implemented in the future may become obsolete. In such case, the Corporation's business, financial condition, results of operations and prospects could be affected adversely and materially. If the Corporation is unable to utilize the most advanced commercially available technology, its business, financial condition, results of operations and prospects could also be adversely affected in a material way.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas and technological advances in fuel economy and energy generation devices could reduce the demand for oil, natural gas and other liquid hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Health, Safety and Environment

Health, safety and environmental risks influence the workforce, operating costs and the establishment of regulatory standards. These risks include, but are not limited to, encountering unexpected formations or pressures; premature declines of reservoirs; blow-outs; equipment failures; human error or wilful misconduct by field workers; other accidents such as, cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluid spills; adverse weather conditions, pollution, fires and other environmental risks. The Corporation provides staff with the training and resources they

need to complete work safely and effectively; incorporates hazard assessment and risk management as an integral part of everyday operations; monitors performance to ensure its operations comply with legal obligations and internal standards; and identifies and manages environmental liabilities associated with its existing asset base. The Corporation has a site inspection program and a corrosion risk management program designed to ensure compliance with environmental laws and regulations. The Corporation carries insurance to cover a portion of property losses, liability to third parties and business interruption resulting from unusual events.

The Corporation is subject to the risk that the unexpected failure of its equipment used in drilling, completing or producing wells or in transporting production could result in release of fluid substances that pollute or contaminate lands at or near its facilities, which could result in significant liability to the Corporation for costs of clean up, remediation and reclamation of contaminated lands. The Corporation conducts its operations with due regard for the potential impact on the environment. This includes hiring skilled personnel, providing adequate training to all staff involved with operations, and by retaining expert advice and assistance to deal with environmental remediation and reclamation work where such expertise is needed.

Seasonality

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. A mild winter or wet spring may result in limited access and, as a result, reduced operations or a cessation of operations. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of the Corporation.

Expiration of Licences and Leases

The Corporation's properties are held in the form of licences and leases and working interests in licences or leases held by others. If the Corporation or the holder of the licence or lease fails to meet specific requirements of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of licences or leases may have a material adverse effect on the business, financial condition, results of operations and prospects of the Corporation. To mitigate this risk, the Corporation carefully monitors its undeveloped land position and plans operations in order to keep key licences and leases from terminating or expiring.

Competition

The oil and natural gas industry is highly competitive, particularly as it pertains to the exploration for and development of new sources of oil and natural gas reserves. The industry also competes with other industries in supplying non-petroleum energy products. The Corporation actively competes for land, production and reserves acquisitions, exploration leases, licences and concessions and skilled technical and operating personnel with a substantial number of other oil and natural gas companies, many of which have greater financial resources, staff and facilities than the Corporation. Competitive factors in the distribution and marketing of oil and natural gas include price, methods, and reliability of delivery and storage. Competition may also be presented by alternate fuel sources.

All Assets in One Area

All of the Corporation's producing properties are geographically concentrated in the Peace River Arch area of Alberta. As a result of this concentration, the Corporation may be disproportionately exposed to the impact of delays or interruptions of production from that area caused by significant governmental regulation in Alberta, transportation capacity constraints, curtailment of production, natural disasters, availability of equipment, facilities or services, adverse weather conditions or other events which impact that area. Due to the concentrated nature of the Corporation's portfolio of properties, a number of the Corporation's properties could experience any of the same conditions at the same time, resulting in a relatively greater impact on the Corporation's results of operations than they might have on other companies that have a more diversified portfolio of properties. Such delays or interruptions could have a material adverse effect on the Corporation's financial condition and results of operations.

Expansion into New Activities

The operations and expertise of the Corporation's management are currently focused primarily on oil and natural gas production, exploration and development in Peace River Arch area of Alberta. In the future, the Corporation may acquire or move into new industry related activities or new geographical areas, may acquire different energy related assets, and as a result may face unexpected risks or alternatively, significantly increase the Corporations exposure to one or more existing risk factors, which may in turn result in the Corporation's future operational and financial conditions being adversely affected.

Environmental and Regulatory Risks

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil and natural gas industry operations. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites.

Compliance with environmental legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material, as well as the responsibility to remedy environmental problems caused by the Corporation's operations. A serious breach could result in the Corporation being required to suspend operations or enter into an interim compliance measure which may restrict the Corporation's ability to conduct operations. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it will be in material compliance with current applicable environmental legislation, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. See also *"– Changes in Legislation".*

Political and economic events may significantly affect the scope and timing of climate change measures that are put in place. Some of the Corporation's facilities may be subject to future provincial or federal climate change regulations to manage emissions and there can be no assurance that the compliance costs will be immaterial. The implementation of new environmental regulations or the modification of existing environmental regulations affecting the oil and natural gas industry generally could reduce demand for oil and natural gas and increase costs. See also *"– Changes in Legislation"* and *"– Climate Change".*

Regulatory

Various levels of governments impose extensive controls and regulations on oil and natural gas operations (including exploration, development, production, pricing, marketing and transportation). Governments may regulate or intervene with respect to exploration and production activities, prices, taxes, royalties and the exportation of oil and natural gas. Amendments to these controls and regulations may occur from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for crude oil and natural gas and increase the Corporation's costs, either of which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In order to conduct oil and natural gas operations, the Corporation will require regulatory permits, licences, registrations, approvals and authorizations from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all of the permits, licences, registrations, approvals and authorizations that may be required to conduct operations that it may wish to undertake. In addition to regulatory requirements pertaining to the production, marketing and sale of oil and natural gas mentioned above, the Corporation's business and financial condition could be influenced by federal legislation affecting, in particular, foreign investment, through legislation such as the *Competition Act* (Canada) and the *Investment Canada Act* (Canada).

Changes in Legislation

Government royalties, income tax laws, environmental laws and regulatory requirements can have a significant financial and operational impact on the Corporation. As an oil and natural gas producer, the Corporation is subject to a broad range of regulatory requirements. Negative consequences which could arise as a result of changes to the current regulatory environment include, but are not limited to, extraordinary environmental and emissions regulation of current and future projects by governmental authorities, which could result in changes to facility design and operating requirements, thereby potentially increasing the cost of construction, operation and abandonment. The Corporation hires and retains skilled personnel that are knowledgeable regarding changes to the regulatory regime under which it operates.

There can be no assurance that the federal government and the provincial government of Alberta will not adopt new royalty regimes or modify the existing royalty regimes which may have an impact on the economics of the Corporation's projects and could adversely affect the Corporation's results of operations, financial condition or prospects. An increase in royalties would reduce the Corporation's earnings and could make future capital investments, or the Corporation's operations, less economic. On January 29, 2016, the Government of Alberta released its Royalty Review Advisory Panel Report (the "**Royalty Review**"). The Royalty Review recommends new rules coming into effect in 2017, but also recommends grandfathering, under the current rules, all wells drilled before 2017 for a ten year period. The Royalty Review also recommends modernization of Alberta's royalty framework for crude oil, liquids and natural gas. The Government of Alberta has accepted the recommendations set out in the Royalty Review and additional details regarding the royalty framework, including the applicable royalty rates

and formulas, are expected to be released by March 31, 2016. It is not anticipated that the new rules will materially impact the Corporation's financial condition; however, the specific nature in which the new rules will be applied has not yet been determined and may alter this view.

Climate Change

The Corporation's exploration and production facilities and other operations and activities emit greenhouse gases ("**GHG**"). Various federal and provincial governments have announced intentions to regulate GHG emissions and other air pollutants. Some of these regulations are in effect while others remain in various phases of review, discussion or implementation in the U.S. and Canada. Uncertainties exist relating to the timing and effects of these regulations. Additionally, lack of certainty regarding how any future federal legislation will harmonize with provincial regulations makes it difficult to accurately determine the cost estimate of climate change legislation compliance with certainty.

The *Specified Gas Emitters Regulation* (Alberta) (the "**SGER**"), which imposes GHG emissions intensity limits and reduction requirements for owners of facilities that emit 100,000 tonnes per year or more of GHG, was recently amended. Previously, an owner of such a facility was required to reduce the emissions intensity of that facility by a minimum of 12%. The amendments have increased the minimum emission intensity reduction requirement for facility owners to 15% in 2016 and 20% starting in 2017. One of the options for complying with the SGER is for facility owners to purchase technology fund credits. The amendments have increased the price for such credits from $15/tonne to $20/tonne for 2016 and $30/tonne beginning in 2017. The Corporation is not currently subject to the SGER as Birchcliff does not currently emit more than 100,000 tonnes per year; however, should the Corporation emit more than 100,000 tonnes per year, it would be subject to such requirements.

The direct or indirect costs of compliance with these regulations may have a material adverse effect on the Corporation's business, financial results of operations and prospects. Any such regulations could also increase the cost of consumption and thereby reduce the demand for the oil, natural gas and NGL that the Corporation produces. Given the evolving nature of the debate related to climate change and the control of GHG, it is not possible to predict with certainty the impact on the Corporation and its operations and financial condition.

Alberta Climate Leadership Plan

In November 2015, the Alberta government announced its climate leadership plan (the "**CLP**") and released to the public the climate leadership report to the Minister of Environment and Parks (the "**Report**") that it commissioned from the Climate Change Advisory Panel and on which the CLP is based. The CLP includes four strategies that the government will implement to address climate change: (i) the complete phase-out of coal-fired sources of electricity by 2030; (ii) implementing an Alberta economy-wide price on GHG emissions of $30 per tonne; (iii) reducing oil sands emissions to a province-wide total of 100 megatonnes per year (compared to current industry emissions levels of approximately 70 megatonnes per year), with certain exceptions for cogeneration power sources and new upgrading capacity; and (iv) reducing methane emissions from oil and gas activities by 45% by 2025. Uncertainties exist with respect to the implementation of the CLP and the effects that the CLP, including the overall emissions limit, may have on the industry.

Adverse impacts to the Corporation's business as a result of comprehensive GHG legislation or regulation, including legislation to implement the CLP and the amendments to the SGER, to be enacted and applied to the Corporation's business in Alberta or any jurisdiction in which the Corporation operates, may include, but are not limited to: increased compliance costs; permitting delays; substantial costs to generate or purchase emission credits or allowances adding costs to the products the

Corporation produces; and reduced demand for crude oil and certain refined products. Emission allowances or offset credits may not be available for acquisition or may not be available on an economic basis. Required emission reductions may not be technically or economically feasible to implement, in whole or in part, and failure to meet such emission reduction requirements or other compliance mechanisms may have a material adverse effect on the Corporation's business resulting in, among other things, fines, permitting delays, penalties and the suspension of operations. Consequently, no assurances can be given that the effect of future climate change regulations will not be significant to the Corporation.

Beyond existing legal requirements, the extent and magnitude of any adverse impacts of any additional programs or additional regulations cannot be reliably or accurately estimated at this time because specific legislative and regulatory requirements have not been finalized and uncertainty exists with respect to the additional measures being considered and the time frames for compliance.

The Paris Agreement

Canada and 195 other countries that are members of the United Nations Framework Convention on Climate Change met in Paris, France in December, 2015, and signed the Paris Agreement on climate change. The stated objective of the Paris Agreement is to hold "the increase in global average temperature to well below 2 degrees Celcius above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 degrees Celcius". Signatory countries agreed to meet every five years to review their individual progress on GHG emissions reductions and to consider amendments to individual country targets, which are not legally binding. Canada is required to report and monitor its GHG emissions, though details of how such reporting and monitoring will take place have yet to be determined. Additionally, the Paris Agreement contemplates that, by 2020, the parties will develop a new market-based mechanism related to carbon trading. It is expected that this mechanism will largely be based on the best practices and lessons learned from the Kyoto Protocol. The government of Canada has stated that it will develop and announce a Canada-wide approach to implementing the Paris Agreement in early 2016.

Mandatory emissions reduction requirements may result in increased operating costs and capital expenditures for oil and gas producers. The Corporation is unable to predict the impact of emissions reduction legislation on the Corporation and it is possible that such legislation may have a material adverse effect on the Corporation's financial condition, results of operations and prospects.

Liability Management Programs

The Alberta government has developed a liability management program designed to prevent taxpayers from incurring costs associated with suspension, abandonment, remediation and reclamation of wells, facilities and pipelines in the event that a licensee or permit holder becomes defunct. The program generally involves an assessment of the ratio of a licensee's deemed assets to deemed liabilities. If a licensee's deemed liabilities exceed its deemed assets, a security deposit is required. Although the Corporation does not currently have to post security under the existing program, changes to the ratio of the Corporation's deemed assets to deemed liabilities or changes to the requirements of the liability management program may result in the requirement for security to be posted in the future. In addition, the liability management program may prevent or interfere with the Corporation's ability to acquire or dispose of assets as both the vendor and the purchaser of oil and natural gas assets must be in compliance with the liability management programs (both before and after the transfer of the assets) for the applicable regulatory agency to allow for the transfer of such assets.

Other Risks

Volatility of Market Price of Securities

The trading price of securities of oil and natural gas issuers is subject to substantial volatility often based on factors related and unrelated to the financial performance or prospects of the issuers involved. The market price of the Corporation's securities may be volatile, which may affect the ability of holders to sell such securities at an advantageous price. Market price fluctuations in the Corporation's securities may be due to the Corporation's operating results failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Corporation or its competitors, along with a variety of additional factors, including, without limitation, those set forth under *"Advisories – Forward-Looking Information"*. In addition, the market price for securities in the stock markets, including the TSX, has recently experienced significant price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that are often unrelated or disproportionate to changes in operating performance. Factors unrelated to the Corporation's performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices or current perceptions of the oil and natural gas market. These broad market fluctuations may adversely affect the market prices of the Corporation's securities, and, as such, the price at which the Corporation's securities will trade cannot be accurately predicted.

Insurance

The Corporation obtains insurance in accordance with industry standards to address business risks. However, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, certain risks may not in all circumstances be insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on its business, financial condition, results of operations or prospects.

Management of Growth

The Corporation may be subject to growth-related risks. including capacity constraints and pressure on its internal systems and controls. An inability of the Corporation to effectively deal with this growth could have a material adverse impact on its business, financial condition, results of operations and prospects. Management mitigates this risk by continually implementing appropriate procedures and policies for its size, upgrading its systems, training its employees and providing effective supervision and management of its staff.

Reliance on Key Personnel

The Corporation's success depends, in large measure, on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on the Corporation. The Corporation does not have "key person" insurance in effect for management and the contributions of these individuals to the Corporation's immediate operations is of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Shareholders must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the Corporation's management.

Litigation

In the normal course of the Corporation's operations, it may become involved in, be named as a party to, or be the subject of various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to personal injuries, property damage, property tax, land rights, the environment and contract disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Corporation and as a result, could have a material adverse effect on the Corporation's assets, liabilities, business, financial condition and results of operations. Even if the Corporation prevails in any such legal proceeding, the proceeding could be costly and time-consuming and may divert the attention of management and key personnel from the Corporation's business operations. For specific disclosure of current legal proceedings, see *"Legal Proceedings and Regulatory Actions"* in the Annual Information Form for the financial year ended December 31, 2015.

Title to Assets

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the Corporation's ownership claims. If a title defect does exist, this could result in the Corporation losing all or a portion of its right title and interest in and to the properties to which the title defects relate which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. There may be valid challenges to title or legislative changes, which affect the Corporation's title to the oil and natural gas properties the Corporation controls that could impair the Corporation's activities on them and result in a reduction of the revenue received by the Corporation.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights in portions of Western Canada. The Corporation is not aware that any claims have been made in respect of its properties or assets; however, the legal basis of an aboriginal land claim and aboriginal rights is a matter of considerable legal complexity and the impact of the assertion of such a claim, or the possible effect of a settlement of such claim, upon the Corporation cannot be predicted with any degree of certainty at this time. In addition, no assurance can be given that any recognition of aboriginal rights or claims whether by way of a negotiated settlement or by judicial pronouncement (or through the grant of an injunction prohibiting exploration or development pending resolution of any such claim) would not delay or even prevent the Corporation's exploration and development activities. If a claim arose and was successful, such claim may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Corporation makes acquisitions and dispositions of properties and other assets in the ordinary course of business. Typically, once an opportunity is identified, a review of available information relating to the assets is conducted with most of the review effort being focused on the most significant assets. There is a risk that even a detailed review of records and assets may not necessarily reveal every existing or potential problem, nor will it permit the Corporation to become sufficiently familiar with the assets to fully assess their deficiencies and potential. Inspections may not always be performed on every well, and environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, the Corporation may assume certain environmental and other risk liabilities in connection with acquired assets. There are numerous uncertainties inherent in estimating quantities of oil, natural gas and NGL reserves and

actual future production rates and associated costs with respect to acquired properties, and actual results may vary substantially from those assumed in estimates.

Achieving the benefits of acquisitions depends on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner and the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation. The integration of acquired businesses may require substantial management effort, time and resources, diverting management's focus from other strategic opportunities and operational matters.

Management continually assesses the value of the Corporation's assets and may dispose of non-core assets so that the Corporation can focus its efforts and resources more efficiently. Depending on the state of the market, there is a risk that certain non-core assets could realize less than their carrying value in the Corporation's financial statements.

Internal Controls

Effective internal controls are necessary for the Corporation to provide reliable financial reports and to help prevent fraud. Although the Corporation undertakes a number of procedures in order to help ensure the reliability of its financial reports, including those imposed on it under Canadian securities laws, the Corporation cannot be certain that such measures will ensure that the Corporation will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Corporation's results of operations or cause it to fail to meet its reporting obligations. If the Corporation or its independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Corporation's financial statements and harm the trading price of the Corporation's securities.

Income Taxes

The Corporation files all required income tax returns and believes that it is in full compliance with the provisions of the *Income Tax Act* (Canada) and all other applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Corporation, whether by re-characterization of exploration and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

Income tax laws relating to the oil and natural gas industry, such as the treatment of resource taxation or dividends, may in the future be changed or interpreted in a manner that adversely affects the Corporation. Furthermore, tax authorities having jurisdiction over the Corporation may disagree with how the Corporation calculates its income for tax purposes or could change administrative practices to the Corporation's detriment.

Breaches of Confidentiality

While discussing potential business relationships or other transactions with third parties, the Corporation may disclose confidential information relating to the business, operations or affairs of the Corporation. Although confidentiality agreements are signed by third parties prior to the disclosure of confidential information, a breach could put the Corporation at competitive risk and may cause significant damage to its business. The harm to the Corporation's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, the Corporation will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a

timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

Dilution

The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive.

Forward-Looking Information May Prove Inaccurate

Shareholders and prospective investors are cautioned not to place undue reliance on the Corporation's forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties regarding forward-looking information are found under the heading *"Advisories – Forward-Looking Information"* in this MD&A.

NON-GAAP MEASURES

This MD&A uses "funds flow", "funds flow from operations", "funds flow per common share", "adjusted net income to common shareholders", "adjusted net loss to common shareholders", "netback", "operating netback", "estimated operating netback", "operating margin", "total cash costs" and "total debt". These measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. 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 December 31,		**Twelve months ended December 31,**	
($000s)	**2015**	**2014**	**2015**	**2014**
Cash flow from operating activities	44,786	77,513	148,797	309,901
Adjustments:				
Decommissioning expenditures	247	263	893	1,663
Change in non-cash working capital	(11,336)	(16,059)	11,066	(11,066)
Funds flow from operations	**33,697**	**61,717**	**160,756**	**300,498**

"Adjusted net income (loss) to common shareholders" is calculated as net income (loss) to common shareholders, as determined in accordance with IFRS, after excluding: (i) a one-time, non-cash deferred income tax expense in the amount of $7.8 million that was recorded in the second quarter of 2015 as a result of the 2015 change in the Alberta corporate income tax rate from 10% to 12%; and (ii) a one-time,

non-cash deferred income tax expense in the amount of $10.2 million that was recorded in the fourth quarter of 2015 as a result of the denial by the Trial Court of Birchcliff's appeal of the Reassessment in connection with the tax pools available to Veracel. See *"Income Taxes"* in this MD&A for further information. Management has excluded these non-operational, deferred income tax items from adjusted net income to common shareholders as management believes that excluding such items better reflects the results generated by Birchcliff's principal business activities. The following table provides a reconciliation of net income (loss) to common shareholders, as determined in accordance with IFRS, to adjusted net income (loss) to common shareholders:

	Three months ended December 31,		**Twelve months ended December 31,**	
($000s)	**2015**	**2014**	**2015**	**2014**
Net income (loss) to common shareholders	(10,322)	16,053	(16,160)	110,304
Adjustments:				
Denial by the Trial Court of the Reassessment Appeal	10,208	-	10,208	-
Change in Alberta corporate income tax rates	-	-	7,759	-
Adjusted net income (loss) to common shareholders	**(114)**	**16,053**	**1,807**	**110,304**

"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.

"Total debt" is calculated as the revolving term credit facilities plus non-revolving term credit facilities plus 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 non-revolving term credit facilities plus the revolving term credit facilities, as determined in accordance with IFRS, to total debt:

As at, *($000s)*	**December 31, 2015**	**December 31, 2014**
Non-revolving term credit facilities	-	129,476
Revolving term credit facilities	622,074	339,557
Long-term bank debt	622,074	469,033
Working capital deficit	21,538	76,712
Total debt	**643,612**	**545,745**

PRESENTATION OF OIL AND GAS RESERVES

Deloitte, independent qualified reserves evaluators of Calgary, Alberta, prepared the 2015 Reserves Evaluation. Reserves estimates stated herein are effective as at December 31, 2015 and are extracted from the 2015 Reserves Evaluation. There are numerous uncertainties inherent in estimating the quantities of reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserves estimates of Birchcliff's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided herein and variances could be material.

Reserves Categories

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on the analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable.

Reserves are classified according to the degree of certainty associated with the estimates:

- "**Proved reserves**" are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- "**Probable reserves**" are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- "**Possible reserves**" are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

Development and Production Status of Reserves

Each of the reserves categories (proved, probable and possible) may be divided into developed and undeveloped categories:

- "**Developed reserves**" are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g., when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.
  - "**Developed producing reserves**" are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
  - "**Developed non-producing reserves**" are those reserves that either have not been on production, or have previously been on production but are shut-in and the date of resumption of production is unknown.
- "**Undeveloped reserves**" are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g., when compared to the cost of drilling a

well) is required to render them capable of production. They must fully meet the requirements of the reserves category (proved, probable, possible) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities, and completion intervals in the pool and their respective development and production status.

Interest in Reserves, Production, Wells and Properties

"**Gross**" means:

(a) in relation to Birchcliff's interest in production or reserves, Birchcliff's working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of Birchcliff;

(b) in relation to wells, the total number of wells in which Birchcliff has an interest; and

(c) in relation to properties, the total area of properties in which Birchcliff has an interest.

"**Net**" means:

(a) in relation to Birchcliff's interest in production or reserves, Birchcliff's working interest (operating or non-operating) share after deduction of royalty obligations, plus Birchcliff's royalty interests in production or reserves;

(b) in relation to Birchcliff's interest in wells, the number of wells obtained by aggregating Birchcliff's working interest in each of its gross wells; and

(c) in relation to Birchcliff's interest in a property, the total area in which Birchcliff has an interest multiplied by the working interest owned by Birchcliff.

Forecast Prices and Costs

"**Forecast prices and costs**" means future prices and costs that are:

(a) generally accepted as being a reasonable outlook of the future;

(b) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which Birchcliff is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

Gross Volumes of Reserves

Unless otherwise indicated, all volumes of Birchcliff's reserves presented herein are on a "gross" basis.

ADVISORIES

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.

Mcfe Conversions

Thousands of cubic feet of gas equivalent ("**Mcfe**") amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. Mcfe 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.

Operating Costs

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

Forward-Looking Information

This MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking information relates to future events or future performance and is based upon Birchcliff's current internal expectations, estimates, projections, assumptions and beliefs. All information other than historical fact is forward-looking information. 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. Words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "estimated", "forecast", "may", "will", "potential", "proposed" and other similar words that convey certain events or conditions "may" or "will" occur are intended to identify forward-looking information.

In particular, this MD&A contains forward-looking information relating to: Birchcliff's plans and other aspects of its anticipated future operations, management focus, strategies and priorities; the 2016 Revised Capital Budget, including planned capital expenditures, the objectives of and anticipated results from the 2016 Revised Capital Budget and Birchcliff's expectation that the 2016 Revised Capital Budget will be less than expected funds flow for 2016; proposed expansions of the PCS Gas Plant; Birchcliff's production guidance for 2016, including its estimates of its annual average production for 2016 and 2016 annual average production growth; the Corporation's estimated income tax pools and management's expectation that future taxable income will be available to utilize the accumulated tax pools; statements with respect to the Reassessment, including Birchcliff's expectation that its appeal to the Court of Appeal will be heard in 2016 and management's belief that its tax position is supportable; the Corporation's liquidity, including statements that should commodity prices deteriorate materially, the Corporation may adjust the 2016 Revised Capital Budget and/or consider the potential sale of its non-core assets, management's expectation that the Corporation will be able to meet its future obligations as they become due, management's belief that its funds flow from operations and available credit facilities will be sufficient to fund the Corporation's planned growth and to meet its working capital requirements in 2016 and the Corporation's expectation that counterparties will be able to meet their financial obligations; management's ability to manage capital expenditures and debt levels and its ability to respond to changing commodity prices by increasing or decreasing its capital spending programs; the Corporation's expectation that the aggregate borrowing base of the Credit Facilities will remain at $800 million during the normal credit review in 2016; estimates of contractual and

decommissioning obligations; Birchcliff's financial flexibility; estimates of reserves; and future development capital.

The forward-looking information contained in this MD&A is based upon certain expectations and assumptions, including: prevailing and future commodity prices, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; 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; anticipated timing and results of capital expenditures; the sufficiency of budgeted capital expenditures to carry out planned operations; 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; 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; and Birchcliff's ability to market oil and gas. In addition, Birchcliff has made the following key assumptions with respect to certain forward-looking information contained in this MD&A:

- With respect to statements regarding the 2016 Revised Capital Budget, including Birchcliff's expectation that the 2016 Revised Capital Budget will be less than expected funds flow for 2016, the key assumption is that Birchcliff realizes the annual average production target of 40,000 to 41,000 boe per day and the commodity prices upon which the 2016 Revised Capital Budget is based, being an expected annual average WTI price of US$40.00 per barrel of oil and an AECO price of CDN$2.50 per GJ of natural gas during 2016 with an exchange rate of $CDN/$US of 1.40. Birchcliff will continue to monitor economic conditions and commodity prices and, where deemed prudent, will adjust the 2016 Revised Capital Budget to respond to changes in commodity prices and other material changes in the assumptions underlying the 2016 Revised Capital Budget.

- With respect to statements regarding proposed expansions 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; and commodity prices and general economic conditions warrant proceeding with the construction of such facilities and the drilling of associated wells.

- With respect to estimates as to Birchcliff's annual average production for 2016 and 2016 annual average production growth, the key assumptions are that: the 2016 Revised Capital Budget 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 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 management's belief that its tax position with respect to the Veracel Transaction is supportable, the key assumption is the validity of Birchcliff's interpretation of how the *Income Tax Act* (Canada) applies to the Veracel Transaction.

- With respect to statements that the Credit Facilities will remain at $800 million during Birchcliff's normal credit review in May 2016, the key assumptions are that: commodity prices do not further deteriorate from current levels; the criteria applied by Birchcliff's syndicate of bank lenders remains consistent with historical practice; and the bank syndicate's forecast of commodity prices are consistent with the forecast used by Deloitte in the preparation of the 2015 Reserves Evaluation.

- With respect to estimates of reserves, the key assumption is the validity of the data used by Deloitte in their independent evaluations, which includes technical information and forecast commodity prices.

Undue reliance should not be placed on forward-looking information, as there can be no assurance that the plans, intentions, expectations or assumptions upon which they are based will occur. Although Birchcliff believes that the expectations and assumptions reflected in the forward-looking information are reasonable, there can be no assurance that such expectations will prove to be correct. As a consequence, actual results may differ materially from those anticipated.

Forward-looking information necessarily involves both known and unknown risks and uncertainties that could cause actual results to differ materially from those anticipated, including, but not limited to: general economic, market and business conditions which will, among other things, impact the demand for and market prices of Birchcliff's products and Birchcliff's access to capital; volatility of crude oil and natural gas prices; fluctuations in currency 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; 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 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; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; and uncertainties associated with credit facilities and counterparty credit risk.

The foregoing list of risk factors is not exhaustive. Additional information on these and other risk factors that could affect operations or financial results are included in Birchcliff's most recent Annual Information Form and in other reports filed with Canadian securities regulatory authorities. Forward-looking information is based on estimates and opinions of management at the time the information is presented. Birchcliff is not under any duty to update the forward-looking information after the date of this MD&A to conform such information to actual results or to changes in Birchcliff's plans or expectations, except as otherwise required by applicable securities laws.

Any “financial outlook” contained in this MD&A, as such term is defined by applicable securities laws, is provided for the purpose of providing information about management’s current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes.