August 10, 2017

Fellow Shareholders,

We are pleased to report the second quarter financial and operational results for Birchcliff Energy Ltd. ("**Birchcliff**") for the three and six month periods ended June 30, 2017.

HIGHLIGHTS FOR THE SECOND QUARTER 2017

We had a successful second quarter in 2017, with record quarterly average production of 64,636 boe/d and record quarterly funds flow from operations of $88.6 million. In addition, we saw a return to net income as compared to the net loss recorded in the second quarter of 2016, primarily as a result of greater production and improved commodity prices. Highlights of the second quarter include the following:

- We had record quarterly average production of 64,636 boe/d, a 64% increase from 39,513 boe/d in the second quarter of 2016. Production consisted of approximately 77% natural gas and 23% light oil and NGLs as compared to 90% natural gas and 10% light oil and NGLs in the second quarter of 2016.
- We had record quarterly funds flow from operations of $88.6 million ($0.33 per basic common share), a 568% increase from $13.3 million ($0.09 per basic common share) in the second quarter of 2016.
- We had net income to common shareholders of $17.0 million ($0.06 per basic common share), as compared to the net loss to common shareholders of $24.3 million ($0.16 per basic common share) in the second quarter of 2016.
- Our operating costs were $4.67/boe, an 11% decrease from $5.22/boe in the first quarter of 2017 and a 35% increase from $3.45/boe in the second quarter of 2016. Operating costs increased from the second quarter of 2016 primarily as a result of the liquids-rich assets that we acquired in Gordondale on July 28, 2016, which have higher realized sales prices but also have a higher cost structure.
- Our general and administrative expense was $1.07/boe, a 14% decrease from $1.24/boe in the second quarter of 2016.
- Our interest expense was $1.16/boe, a 47% decrease from $2.18/boe in the second quarter of 2016.
- We had net capital expenditures of $120.8 million for the three months ended June 30, 2017 and $245.3 million for the six months ended June 30, 2017. The majority of capital under our planned 2017 capital expenditure program will be spent during the first half of 2017 due to the timing of the completion of the Phase V expansion of our 100% owned and operated natural gas processing plant located in Pouce Coupe (the "**Pouce Coupe Gas Plant**") and the drilling, completion, equipping and tie-in of the wells necessary to fill the expanded plant.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
OPERATING				
Average daily production				
Light oil – *(bbls)*	7,121	2,504	6,212	2,868
Natural gas – *(Mcf)*	297,016	213,130	294,407	217,804
NGLs – *(bbls)*	8,013	1,488	7,877	1,567
Total – boe	**64,636**	**39,513**	**63,157**	**40,736**
Average sales price *($ CDN)* [1]				
Light oil – *(per bbl)*	60.38	51.20	61.32	43.16
Natural gas – *(per Mcf)*	3.13	1.48	3.10	1.74
NGLs – *(per bbl)*	31.10	50.77	31.58	46.19
Total – boe	**24.90**	**13.13**	**24.42**	**14.12**
NETBACK AND COST *($/boe)*				
Petroleum and natural gas revenue[1]	24.92	13.14	24.43	14.13
Royalty expense	(0.80)	(0.25)	(1.37)	(0.46)
Operating expense	(4.67)	(3.45)	(4.93)	(3.58)
Transportation and marketing expense	(2.57)	(2.35)	(2.57)	(2.30)
Operating netback	**16.88**	**7.09**	**15.56**	**7.79**
General & administrative expense, net	(1.07)	(1.24)	(1.06)	(1.28)
Interest expense	(1.16)	(2.18)	(1.26)	(1.94)
Realized gain on financial instruments	0.42	0.02	0.43	0.01
Funds flow netback	**15.07**	**3.69**	**13.67**	**4.58**
Stock-based compensation expense, net	(0.17)	(0.15)	(0.15)	(0.16)
Depletion and depreciation expense	(7.41)	(8.75)	(7.50)	(8.85)
Accretion expense	(0.14)	(0.16)	(0.15)	(0.15)
Amortization of deferred financing fees	(0.06)	(0.06)	(0.06)	(0.06)
Loss on sale of assets	(3.58)	(3.03)	(1.62)	(1.47)
Unrealized gain on financial instruments	0.80	0.03	1.86	0.02
Dividends on Series C preferred shares	(0.15)	(0.24)	(0.15)	(0.24)
Income tax recovery (expense)	(1.30)	2.18	(1.71)	1.56
Net income (loss)	**3.06**	**(6.49)**	**4.19**	**(4.77)**
Dividends on Series A preferred shares	(0.17)	(0.27)	(0.17)	(0.27)
Net income (loss) to common shareholders	**2.89**	**(6.76)**	**4.02**	**(5.04)**
FINANCIAL				
Petroleum and natural gas revenue *($000s)* [1]	146,597	47,261	279,305	104,764
Funds flow from operations *($000s)*	88,612	13,267	156,242	33,962
Per common share – basic *($)*	0.33	0.09	0.59	0.22
Per common share – diluted *($)*	0.33	0.09	0.58	0.22
Net income (loss) *($000s)*	18,015	(23,321)	47,943	(35,356)
Net income (loss) to common shareholders *($000s)*	17,015	(24,321)	45,943	(37,356)
Per common share – basic *($)*	0.06	(0.16)	0.17	(0.25)
Per common share – diluted *($)*	0.06	(0.16)	0.17	(0.25)
Common shares outstanding *(000s)*				
End of period – basic	265,417	152,308	265,417	152,308
End of period – diluted	284,461	169,089	284,461	169,089
Weighted average common shares for period – basic	265,326	152,308	264,716	152,308
Weighted average common shares for period – diluted	268,203	154,279	268,065	153,869
Dividends on common shares *($000s)*	6,635	-	13,239	-
Dividends on Series A preferred shares *($000s)*	1,000	1,000	2,000	2,000
Dividends on Series C preferred shares *($000s)*	875	875	1,750	1,750
Capital expenditures, net *($000s)*	120,782	4,722	245,320	68,582
Revolving term credit facilities *($000s)*	628,401	709,510	628,401	709,510
Adjusted working capital deficit *($000s)*	72,083	6,141	72,083	6,141
Total debt *($000s)*	700,484	715,651	700,484	715,651

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

This Second Quarter Report contains forward-looking information within the meaning of applicable securities laws. For further information, please see "Advisories – Forward-Looking Information". In addition, this Second Quarter Report contains references to "funds flow from operations", "funds flow per common share", "operating netback", "estimated operating netback", "funds flow netback", "operating margin", "total cash costs", "adjusted working capital deficit" and "total debt", which do not have standardized meanings prescribed by GAAP. For further information, please see "Non-GAAP Measures".

- At June 30, 2017, our long-term bank debt was $628.4 million and our total debt was $700.5 million, which does not take into account expected proceeds in the amount of $132 million ($122 million in cash; $10 million in securities) from asset sales which were announced subsequent to the end of the quarter.
- The maturity dates of our credit facilities were extended to May 11, 2020 from May 11, 2018 and the borrowing base was confirmed at $950 million. In addition, our lenders consented to the borrowing base remaining at $950 million after giving effect to certain asset sales.
- We drilled a total of 22 (22.0 net) wells in the second quarter of 2017, consisting of 16 (16.0 net) Montney/Doig horizontal natural gas wells in Pouce Coupe and 6 (6.0 net) Montney horizontal oil and natural gas wells in Gordondale.
- During the second quarter of 2017, we completed the disposition of certain non-core assets for total proceeds of approximately $10 million (prior to closing adjustments).

For further information regarding our financial and operational results for the second quarter of 2017, please see *"Second Quarter 2017 Financial and Operational Results"* below.

SECOND QUARTER 2017 FINANCIAL AND OPERATIONAL RESULTS

Production

Production for the second quarter of 2017 averaged 64,636 boe/d, which represents a 64% increase over our quarterly average production of 39,513 boe/d in the second quarter of 2016. The increase in production from the second quarter of 2016 is primarily attributable to the production from our assets in Gordondale which we acquired on July 28, 2016 (the "**Gordondale Acquisition**").

Production consisted of approximately 77% natural gas, 11% light oil and 12% NGLs in the second quarter of 2017 as compared to 90% natural gas, 6% light oil and 4% NGLs in the second quarter of 2016. The increase in oil and NGLs weighting as compared to the second quarter of 2016 is due to the more heavily-weighted oil and NGLs production from our assets in Gordondale.

Funds Flow from Operations and Net Income

Funds flow from operations was $88.6 million ($0.33 per basic common share), a 568% increase from $13.3 million ($0.09 per basic common share) in the second quarter of 2016. This increase from the second quarter of 2016 was largely due to higher average realized sales prices and the production from our assets in Gordondale which we acquired pursuant to the Gordondale Acquisition.

We saw a return to net income in the second quarter of 2017 as compared to the second quarter of 2016. We had net income of $18.0 million as compared to the net loss of $23.3 million in the second quarter of 2016. We recorded net income to common shareholders of $17.0 million ($0.06 per basic common share) in the second quarter of 2017 as compared to the net loss to common shareholders of $24.3 million ($0.16 per basic common share) in the second quarter of 2016. The changes were largely due to higher funds flow from operations.

Commodity Prices

During the second quarter of 2017, the average benchmark price for WTI oil was US$48.29/bbl, up 6% from US$45.59/bbl during the second quarter of 2016, and the average benchmark price for natural gas sold at AECO was $2.78/MMbtu, up 99% from $1.40/MMbtu during the second quarter of 2016. The average corporate realized sales price during the quarter was $24.90/boe, a 90% increase from $13.13/boe during the second quarter of 2016.

Operating Costs and General and Administrative Expense

Operating costs in the second quarter of 2017 were $4.67/boe, an 11% decrease from $5.22/boe in the first quarter of 2017 and a 35% increase from $3.45/boe in the second quarter of 2016. The increase in operating costs per boe from the second quarter of 2016 was largely due to the higher cost structure associated with our liquids-rich Gordondale assets that were acquired pursuant to the Gordondale Acquisition and additional fees incurred to process natural gas from Gordondale at AltaGas' deep-cut natural gas processing facility located in Gordondale (the "**AltaGas Facility**").

General and administrative expense in the second quarter of 2017 was $1.07/boe, a 14% decrease from $1.24/boe in the second quarter of 2016. The decrease is due to an increase in production, partially offset by an increase in aggregate general administrative expenses in the second quarter of 2017 as compared to the second quarter of 2016.

Interest Expense

Our interest expense was $1.16/boe, a 47% decrease from $2.18/boe in the second quarter of 2016. The decrease is due to an increase in production and a lower average outstanding total credit facilities balance in the second quarter of 2017 as compared to the second quarter of 2016.

Pouce Coupe Gas Plant Netbacks

Approximately 57% of our total corporate natural gas production and 46% of our total corporate production was processed at our Pouce Coupe Gas Plant during the six months ended June 30, 2017 as compared to 79% and 73%, respectively, during the six months ended June 30, 2016. These decreases are primarily due to the liquids-rich production additions associated with our Gordondale assets. The average plant and field operating cost for production processed through the Pouce Coupe Gas Plant for the six months ended June 30, 2017 was $0.33/Mcfe ($1.90/boe) and the estimated operating netback at the Pouce Coupe Gas Plant was $2.63/Mcfe ($15.80/boe), resulting in an operating margin of 77%.

The following table details our average daily production and estimated operating netback for wells producing to the Pouce Coupe Gas Plant on a production month basis for the periods indicated:

	Six months ended June 30, 2017		Six months ended June 30, 2016		Six months ended June 30, 2015	
Average daily production, net to Birchcliff:						
Natural gas *(Mcf)*		169,040		171,422		157,462
Oil & NGLs *(bbls)*		1,081		967		1,249
Total boe		**29,254**		**29,537**		**27,494**
AECO – C daily ***($/Mcf)*** **[1]**	**$2.74**		**$1.61**		**$2.70**	
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[2]	3.41	20.44	1.93	11.61	3.20	19.21
Royalty expense	(0.10)	(0.67)	(0.05)	(0.30)	(0.12)	(0.74)
Operating expense[3]	(0.33)	(1.90)	(0.25)	(1.47)	(0.35)	(2.11)
Transportation and marketing expense	(0.35)	(2.07)	(0.30)	(1.88)	(0.32)	(1.92)
Estimated operating netback	**$2.63**	**$15.80**	**$1.33**	**$7.96**	**$2.41**	**$14.44**
Operating margin	**77%**	**77%**	**69%**	**69%**	**75%**	**75%**

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

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

(3) Represents plant and field operating costs.

Funds Flow Netback and Total Cash Costs

During the second quarter of 2017, we had funds flow netback of $15.07/boe, a 308% increase from $3.69/boe in the second quarter of 2016. The increase was primarily driven by higher production and higher average realized oil and natural gas prices, partially offset by an increase in total cash costs per boe.

During the second quarter of 2017, we had total cash costs of $10.27/boe, an 8% increase from $9.47/boe in the second quarter of 2016. On a per boe basis, the increase in total cash costs in the second quarter of 2017 was primarily driven by higher royalty, operating and transportation and marketing expenses associated with our Gordondale assets, which were partially offset by lower general and administrative and interest expenses when compared to the second quarter of 2016.

Capital Activities and Expenditures

During the second quarter of 2017, we had net capital expenditures of $120.8 million as compared to $4.7 million during the second quarter of 2016. Our total F&D capital during the second quarter of 2017 (which excludes acquisitions, dispositions and administrative expenses) was $130.5 million, which consists of $0.7 million on land and seismic, $79.9 million on drilling and completions, $46.8 million on facilities and infrastructure and $3.1 million on other capital expenditures attributed to the execution of our capital program. Of the $46.8 million spent on facilities and infrastructure, approximately $20.0 million was spent on the Phase V and VI expansions of the Pouce Coupe Gas Plant. See *"Advisories – Capital Expenditures"*.

Drilling and Completions

Our drilling and completions activities during the second quarter of 2017 were focused on our Montney/Doig Resource Play in our Pouce Coupe and Gordondale areas. During the quarter, we drilled a total of 22 (22.0 net) wells with a 100% success rate. In Pouce Coupe, we drilled 16 (16.0 net) Montney/Doig horizontal natural gas wells, of which 10 were Montney D1 natural gas wells, 4 were Basal Doig/Upper Montney natural gas wells and 2 were Montney D4 natural gas wells. In Gordondale, we drilled 6 (6.0 net) Montney horizontal wells, of which 1 was a Montney D1 liquids-rich natural gas well, 1 was a Montney D1 oil well and 4 were Montney D2 oil wells. At June 30, 2017, we have successfully drilled and cased an aggregate of 338 (332.7 net) Montney/Doig horizontal wells, which includes 87 (81.8 net) wells acquired in the Gordondale Acquisition.

Credit Facilities and Debt

Our extendible revolving credit facilities have an aggregate principal amount of $950 million (the "**Credit Facilities**") and are comprised of an extendible revolving syndicated term credit facility of $900 million (the "**Syndicated Credit Facility**") and an extendible revolving working capital facility of $50 million (the "**Working Capital Facility**"). The Credit Facilities are subject to a semi-annual review of the borrowing base limit by our syndicate of lenders. We may each year, at our 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 second quarter of 2017, our syndicate of lenders completed its semi-annual review of the borrowing base limit and in connection therewith, Birchcliff and the lenders agreed to an extension of the maturity dates of each facility from May 11, 2018 to May 11, 2020 and to the borrowing base remaining unchanged at $950 million. In addition, subject to the terms and conditions of the agreement governing the Credit Facilities, the lenders consented to the disposition of certain assets of Birchcliff (which includes the Worsley Disposition and the Additional Disposition) and to the borrowing base remaining at $950 million after giving effect to such disposition. The next semi-annual review is scheduled for November 2017. The Credit Facilities do not contain any financial maintenance covenants.

At June 30, 2017, our long-term bank debt was $628.4 million (June 30, 2016: $709.5 million) from available credit facilities of approximately $950 million (June 30, 2016: $750 million), leaving $302.5

million of unutilized credit capacity after adjusting for outstanding letters of credit and unamortized interest and fees. Total debt at June 30, 2017 was $700.5 million as compared to $715.7 million at June 30, 2016. The decreases in long-term debt and total debt from June 30, 2016 are largely due to the fact that the remaining net proceeds from the equity financings completed in July 2016 (after the payment of the balance of the purchase price for the Gordondale assets acquired pursuant to the Gordondale Acquisition) were used to reduce indebtedness under our credit facilities, offset by increased capital spending in excess of funds flow from operations during the first half of 2017.

Risk Management

At June 30, 2017, we are committed under our financial and physical hedge contracts to the sale of 195,000 GJ/d or approximately 50% of our forecast corporate natural gas production from July 1, 2017 to December 31, 2017 at an average price of $3.03/GJ. At June 30, 2017, we had the following AECO natural gas hedges outstanding on a quarterly basis:

	AECO *(GJ/d)*	AECO *($/GJ)*	Natural Gas Production Hedged *(Mcf/d)*	Estimated Average Natural Gas Wellhead Price *($/Mcf[1])*
Q3 2017	180,000	3.00	157,245	3.44
Q4 2017	210,000	3.05	183,453	3.50
July 1, 2017 to December 31, 2017	**195,000**	**3.03**	**170,349**	**3.47**

(1) See *"Advisories"* for the conversion from GJ to Mcf.

We have outstanding financial derivative contracts for 1,500 bbls/d of crude oil production from July 1, 2017 to December 31, 2017 at an average WTI price of CDN$69.90/bbl for 2017.

FINANCIAL AND OPERATIONAL UPDATE

Series of Asset Sales for Expected Proceeds of $142 Million

We have completed and entered into definitive agreements for a series of asset sales (the "**Asset Sales**") for expected total proceeds to Birchcliff of approximately $142 million ($132 million in cash; $10 million in securities) (subject to closing adjustments). The Asset Sales collectively represent forecast 2017 production of 3,600 boe/d (approximately 62% light oil and NGLs).

During the second quarter of 2017, we completed the disposition of certain non-core assets for total proceeds of approximately $10 million (prior to closing adjustments). On August 1, 2017, we entered into a definitive purchase and sale agreement for the sale of our Worsley Charlie Lake Light Oil Pool for total consideration of approximately $100 million ($90 million in cash; $10 million in securities of an affiliate of the purchaser) (the "**Worsley Disposition**"). Closing of the Worsley Disposition is expected to occur on or about August 31, 2017, subject to the receipt of all necessary regulatory approvals and the satisfaction of other customary closing conditions. In addition, further to our press release of August 1, 2017, we have now entered into a definitive agreement for the sale of some of the remaining assets that were being marketed for sale for total cash consideration of $31.7 million (subject to closing adjustments) (the "**Additional Disposition**"). The effective adjustment date of the Additional Disposition is August 1, 2017 and closing is expected to occur on or about October 2, 2017, subject to the satisfaction of customary closing conditions.

Update on Birchcliff Gas Plant Expansions

Pouce Coupe Gas Plant – Phase V

We have commenced the commissioning of our 80 MMcf/d Phase V expansion of our Pouce Coupe Gas Plant, which will increase the processing capacity from the current 180 MMcf/d to 260 MMcf/d. We anticipate that Phase V will be brought on-stream in early September 2017, under budget and ahead of our initially scheduled on-stream date of October 1, 2017.

Pouce Coupe Gas Plant – Phase VI

The engineering and licensing work has been completed for the 80 MMcf/d Phase VI expansion, which will increase processing capacity from 260 MMcf/d to 340 MMcf/d. Fabrication of the major components has commenced and it is currently expected that Phase VI will be brought on-stream in October 2018. The total estimated cost for the Phase VI expansion is approximately $46 million, of which we expect to spend approximately $26.5 million in 2017 and approximately $19.5 million in 2018.

Pouce Coupe Gas Plant – Phases VII and VIII

As previously announced, we have commenced the planning and initial work to further expand the processing capacity of our Pouce Coupe Gas Plant: (i) by 150 MMcf/d to 490 MMcf/d (Phase VII), which expansion would include deep-cut capability; and (ii) by 100 MMcf/d to 590 MMcf/d (Phase VIII). An engineering and design study for Phases VII and VIII was completed in June 2017. Once we have finalized the design scope for Phases VII and VIII, we expect to commence the regulatory approval process.

We had initially been planning for an on-stream date of 2019 for Phase VII and 2020 for Phase VIII; however, given our focus on maintaining a strong balance sheet, reducing indebtedness and funding capital expenditures from internally generated funds flow from operations, Birchcliff has made the decision to defer these dates by one year to 2020 for Phase VII and 2021 for Phase VIII. Birchcliff feels that this is a prudent decision which will help to ensure that no unnecessary stress is placed on our balance sheet over the next few years as capital is required to construct these plant expansions. Our revised arrangement with AltaGas which is discussed below, allows us to defer our planned expansions for each of Phase VII and VIII by approximately one year, ensuring that natural gas processing is available to Birchcliff until the construction of Phase VII is complete.

Elmworth Gas Plant

We have commenced the preliminary planning for the construction of a 100% owned and operated natural gas plant in the Elmworth area (the "**Elmworth Gas Plant**") with a planned processing capacity of 40 MMcf/d. We had initially planned for an on-stream date in the fall of 2021; however, Birchcliff has also made the decision to defer this date by one year to 2022 for similar reasons set forth above with respect to the Pouce Coupe Gas Plant.

Update on Processing Arrangements at the AltaGas Facility

We have access to 90 MMcf/d of firm processing capacity at the AltaGas Facility and a right of first refusal with respect to firm processing capacity in excess of 90 MMcf/d. Our processing agreement with AltaGas also contains a take-or-pay obligation. On June 29, 2017, we modified our take-or-pay agreement with AltaGas effective January 1, 2017 to incent volumes above our existing take-or-pay commitment at the AltaGas Facility. Effective January 1, 2017, all volumes over our existing take-or-pay volumes (the "**Additional Volumes**") will be processed for a significantly reduced fee. Additional Volumes shall not apply to satisfy any portion of our existing take-or-pay obligations and the Reduced Fee only applies to Additional Volumes.

As a result of this revised arrangement, we expect that our operating costs will be reduced by approximately $4.7 million in 2017. In addition, as we now expect that our take-or-pay obligation will not be fulfilled until 2020, we will not be required to build our own plant until that time. This removes the requirement to spend any material capital in 2017 and 2018 on our Phase VII expansion as discussed above.

Expansion to 2017 Capital Expenditure Budget

Given our completed and planned dispositions for 2017, our Board of Directors has approved an increased 2017 capital expenditure budget to approximately $404 million, from the $355 million that was previously announced. Net capital expenditures in 2017 are expected to be approximately $262 million.

The additional capital under our increased 2017 capital program (the "**2017 Capital Program**") will be primarily directed towards the infrastructure needed for the Phase VI expansion of our Pouce Coupe Gas Plant and the drilling of eight additional wells as outlined below. The following table provides the details of our 2017 Capital Program, including a comparison to our original 2017 capital expenditure program:

2017 Capital Program[(1)]

	Gross Wells		Net Wells		Capital (MM$)[(1)]		Difference in Capital (MM$)[(1)]
	New	Old	New	Old	New	Old	
Drilling & Development							
Pouce Coupe – Montney D1 HZ Gas Wells	26	22	26.0	22.0	113.9	86.1	27.8
Pouce Coupe – Basal Doig/Upper Montney HZ Gas Wells	7	7	7.0	7.0	30.6	30.2	0.4
Pouce Coupe – Montney D4 HZ Gas Wells	3	3	3.0	3.0	13.0	12.9	0.1
Pouce Coupe – Montney/Doig Vertical Science/Technology Well[(2)]	1	-	1.0	-	3.0	-	3.0
Gordondale – Montney D2 HZ Oil Wells	9	7	9.0	7.0	45.9	40.7	5.3
Gordondale – Montney D1 HZ Oil Wells	5	5	5.0	5.0	27.2	28.9	(1.7)
Gordondale – Montney D1 HZ Gas Wells	2	2	2.0	2.0	11.4	11.6	(0.2)
2018 Pre-Spend Capital[(3)]	1	-	1.0	-	9.9	-	9.9
2016 Carry Forward Capital[(4)]	-	-	-	-	17.0	19.4	(2.4)
Total Drilling & Development[(5)]	**54**	**46**	**54.0**	**46.0**	**272.0**	**229.8**	**42.2**
Facilities & Infrastructure[(6)]					87.7	85.6	2.1
Production Optimization[(7)]					23.9	19.4	4.5
Land & Seismic					4.5	4.6	(0.0)
Other					15.9	15.9	0.0
TOTAL CAPITAL					**404.0**	**355.2**	**48.8**
Acquisitions & Dispositions[(8)]					(141.6)	(0.2)	(141.4)
TOTAL NET CAPITAL					**262.4**	**355.0**	**(92.6)**

(1) Numbers may not add due to rounding.

(2) Capital includes pad construction, drilling and core cutting and analysis.

(3) Capital includes the drilling of 1 (1.0) Montney D1 horizontal natural gas well in Pouce Coupe, 3 surface holes and surface pad construction in anticipation of our 2018 drilling program.

(4) Primarily completion, equipping and tie-in costs associated with 10 (10.0 net) wells rig released at the end of 2016.

(5) All drilling and development costs have been presented on a drill, case, complete, equip and tie-in basis except for 1 Montney D1 well referred to in note (3) above and the Montney/Doig vertical science/technology well.

(6) Includes approximately $26.3 million of capital in 2017 for the Phase V expansion and $26.5 million of capital in 2017 for the Phase VI expansion.

(7) Includes $12.3 million of sustaining capital.

(8) The 2017 Capital Program has been presented on both a total and net basis (net of acquisitions and dispositions). Dispositions that have been completed or announced at the date of this Second Quarter Report have been accounted for in the table above. See *"Advisories – Capital Expenditures"*.

The additional 8 (8.0 net) wells consist of 2 Montney D2 horizontal oil wells in Gordondale, 5 Montney D1 horizontal natural gas wells in Pouce Coupe and 1 Montney/Doig vertical science and technology well in Pouce Coupe (see *"Science and Technology Multi-Well Pad Program"*). Of these additional wells, the 2 Montney D2 horizontal oil wells in Gordondale are expected to be brought on production in October 2017 and 4 Montney D1 horizontal natural gas wells in Pouce Coupe are expected to be brought on production in late December 2017. The remaining D1 horizontal well in Pouce Coupe will not be brought on production until 2018. See *"Operational Update"* below.

The expanded portion of our 2017 Capital Program also includes capital for longer-lead time items related to our 2018 capital program and the Phase VI expansion of our Pouce Coupe Gas Plant, including the construction of multi-well pads for use in 2018, the commencement of part of our 2018 drilling program in December 2017 and pipeline infrastructure commitments for Phase VI (which is scheduled to come on-stream in October 2018).

Operational Update

Our 2017 Capital Program is progressing well, is on schedule and is meeting our expectations for capital costs and results. Our increased 2017 Capital Program contemplates the drilling of a total of 54 (54.0 net) wells during 2017, 38 (38.0 net) in Pouce Coupe and 16 (16.0 net) in Gordondale. The following table summarizes the wells we have drilled and brought on production year-to-date, as well as the remaining wells to be drilled and brought on production during 2017:

Wells Drilled – 2017

Area	Wells drilled to-date	Remaining wells to be drilled in 2017	Total wells to be drilled in 2017
Pouce Coupe			
Montney D1 HZ Gas Wells	21	6	27
Basal Doig/Upper Montney HZ Gas Wells	7	0	7
Montney D4 HZ Gas Wells	3	0	3
Montney/Doig Vertical Science/Tech Well	0	1	1
Total – Pouce Coupe	**31**	**7**	**38**
Gordondale			
Montney D2 HZ Oil Wells	9	0	9
Montney D1 HZ Oil Wells	5	0	5
Montney D1 HZ Liquids Rich Gas Wells	2	0	2
Total – Gordondale	**16**	**0**	**16**
TOTAL – COMBINED	**47**	**7**	**54**

Wells Drilled and Brought on Production – 2017

Area	Wells brought on production to-date	Remaining wells to be brought on production in 2017	Total wells to be brought on production in 2017
Pouce Coupe			
Montney D1 HZ Gas Wells	8	18	26[(1)]
Basal Doig/Upper Montney HZ Gas Wells	1	6	7
Montney D4 HZ Gas Wells	1	2	3
Montney/Doig Vertical Science/Tech Well	N/A	N/A	N/A[(1)]
Total – Pouce Coupe	**10**	**26**	**36[(1)]**
Gordondale			
Montney D2 HZ Oil Wells	3	6	9
Montney D1 HZ Oil Wells	4	1	5
Montney D1 HZ Liquids Rich Gas Wells	2	0	2
Total – Gordondale	**9**	**7**	**16**
TOTAL – COMBINED	**19**	**33**	**52[(1)]**

(1) A total of 27 Montney D1 horizontal natural gas wells are expected to be drilled in Pouce Coupe in 2017. Of these 27 wells, one well is expected be drilled in December 2017 and will not be completed or brought production until 2018. Accordingly, only 26 of the Montney D1 horizontal natural gas wells drilled in 2017 are expected to be brought on production during the year. In addition, the Montney/Doig vertical science/technology well will not be a producing well and will not brought on production. Accordingly, of the 54 wells expected to be drilled during 2017, only 52 will be brought on production during 2017.

We have drilled a total of 47 (47.0 net) wells year-to-date (21 during the first quarter, 22 during the second quarter and an additional 4 wells subsequent to the end of the second quarter), all of which were successful. Of the 54 (54.0 net) wells planned to be drilled during 2017, a total of 52 wells are anticipated to be brought on production this year as one Montney D1 horizontal natural gas well is scheduled to be drilled in December 2017 and will not be brought on production until 2018 and the Montney/Doig vertical science/technology well will not be a producing well. In addition, our 2017 Capital Program also included the capital associated with the completion, equipping and tie-in of 10 wells drilled in 2016, all of which were brought on production in the first quarter of 2017. Accordingly, a total of 62 (62.0 net) wells are expected to be brought on production during 2017. Of the 33 wells remaining to be brought on production, 15 have already been completed, 13 are awaiting completion and 5 are remaining to be drilled.

All wells drilled in 2017 were drilled on multi-well pads, which allows us to reduce our per well costs and our environmental footprint. In addition, we actively employ the evolving technology utilized by the industry regarding horizontal well drilling and the related multi-stage fracture stimulation technology.

We currently have 2 drilling rigs at work, both in Pouce Coupe. In addition to these drilling rigs, we have multiple completion rigs and pipeline crews working on various projects.

In Pouce Coupe, there are 26 wells left to bring on production during the remainder of 2017. It is currently expected that all but 4 of these wells will be brought on production by October 1, 2017 in connection with Phase V coming on-stream. The remaining 4 wells are anticipated to be brought on production in December 2017.

In Gordondale, we drilled 6 (6.0 net) Montney horizontal wells in the fourth quarter of 2016, 3 of which were Montney D2 oil wells and 3 of which were Montney D1 liquids-rich natural gas wells. These wells were completed, equipped and brought on production in the first quarter of 2017 and continue to meet our expectations. We have 7 wells left to bring on production in Gordondale during the remainder of 2017. It is expected that 3 wells will be brought on production in August and the remaining 4 wells will be brought on production in October 2017. After these remaining wells have been brought on production, we will have drilled, cased, completed and equipped a total of 22 wells on our Gordondale assets (12 Montney D2 oil wells, 5 Montney D1 oil wells and 5 Montney D1 liquids-rich natural gas wells) since we acquired the assets in July 2016.

Science and Technology Multi-Well Pad Program

We are finalizing the planning on the execution of a science and technology multi-well pad program later this year in order to optimize field development and develop an improved understanding of wells drilled on the Montney/Doig Resource Play. The first phase of the program involves the drilling of the vertical science and technology well, which is expected to be drilled in August 2017. The well will be drilled to the top of the Montney where we will extract a full diameter core through the entire Montney section (approximately 300 metres). The extracted rock core will provide analytical data to increase our knowledge of rock properties, which will be incorporated in our petrophysical models and help us to more accurately represent the geology of the area. The vertical well will be open holed logged with both conventional logging techniques, as well as advanced logging techniques, including formation imager, sonic scanner, geochemical spectroscopy and nuclear magnetic resonance. The second phase of the program which is expected to commence in early 2018 involves the drilling, completing, equipping and bringing on production of a Montney/Doig multi-layer four well pad utilizing the reservoir learnings from the vertical well. During the completion of the 4 horizontal wells, we intend to utilize the vertical well as a seismic monitoring well to gain further insight into fracture parameters and complexity. In addition to the vertical well, we plan to install a permanent fiber optic cable within the horizontal portion of one of the Montney horizontal wells, allowing further data to be collected on fracture parameters and ongoing production performance along the horizontal well length.

The purpose of this program is to collect high quality and high value data from the vertical well and the straddling horizontal wells, which can be used to accelerate our technical capabilities and understanding with respect to the drilling, completion and production from a multi-layer resource play.

Update on Natural Gas Transportation Capacity – Additional Firm Service

TCPL Mainline

We have entered into agreements with TransCanada Pipelines ("**TCPL**") for the firm service transportation of 175,000 GJ/d in aggregate (approximately 155 MMcf/d) of natural gas on TCPL's Canadian Mainline for a ten year term, whereby natural gas will be transported from the Empress receipt point in Alberta to the Dawn trading hub located in Southern Ontario. The toll for the Empress to Dawn portion of the service is $0.77/GJ plus fuel. Subject to regulatory approval, this service is expected to become available in three tranches on November 1 of each of 2017, 2018 and 2019. Provision of the service is conditional on, among other things, TCPL receiving National Energy Board approval on terms and conditions satisfactory to TCPL.

Alliance System

In addition, we have sales agreements with a third party marketer to sell approximately 40 MMcf/d of natural gas under contracts commencing November 1, 2017 and expiring March 31, 2018 and approximately 5 MMcf/d of natural gas under contracts commencing April 1, 2017 and expiring October 31, 2020. This production will be delivered into the Alliance Pipeline system and sold at Alliance's Trading Pool daily index price. We have completed the installation of the pipeline facilities necessary to access the Alliance pipeline system, including the construction of a new meter station. We expect to sell gas at various quantities to the Alliance system until November 1, 2017 where we will flow over 40 MMcf/d as outlined above.

As virtually all of our natural gas production is currently transported on the NGTL system in Alberta and sold at AECO, we expect that the above arrangements will provide us with access to a more diverse portfolio of natural gas markets and prices beyond AECO.

OUTLOOK AND GUIDANCE

We have updated our 2017 production guidance to take into account the Asset Sales (which represent forecast 2017 production of approximately 3,600 boe/d) and our increased 2017 Capital Program. The following table sets forth our previous and updated guidance for 2017:

	Previous Guidance	**Updated Guidance**
Estimated 2017 Annual Average Production	70,000 – 74,000 boe/d	67,000 – 68,000 boe/d
% Oil and NGLs	23%	21%
Estimated 2017 Q4 Average Production	80,000 – 82,000 boe/d	79,000 – 80,000 boe/d
% Oil and NGLs	21%	20%
Total capital expenditures	$355 million	$404 million
Net capital expenditures	$355 million	$262 million

(1) For further information regarding our guidance, including the assumptions surrounding such guidance, please see *"Advisories – Forward-Looking Information"* in this Second Quarter Report.

We expect that our operating costs in the fourth quarter of 2017 will be less than $4.00/boe, assuming the successful completion of the Asset Sales and the Phase V expansion of our Pouce Coupe Gas Plant coming on-stream as planned.

We have hedged approximately 50% of our forecast 2017 natural gas production at an estimated average wellhead price of $3.47/Mcf, which helps to protect our balance sheet and our 2017 Capital Program. Although the majority of our capital expenditures are planned to be spent during the first half of 2017, we expect that the entirety of our 2017 Capital Program will be fully funded out of our forecast 2017 funds flow from operations, as well as the proceeds from the Asset Sales. The foregoing is based on our revised budgeted forecast average prices of approximately WTI US$50.00 per barrel of oil and approximately AECO CDN$2.35 per GJ of natural gas during 2017.

We are currently in the process of updating our Five Year Plan, which we expect to announce in the fall of 2017. We have deferred the construction of Phases VII and VIII of our Pouce Coupe Gas Plant, reduced the number of wells required to be drilled as a result of the Asset Sales and reduced both the cost of drilling wells and the per unit operating costs associated with our production. We intend to continue to maintain a strong balance sheet and financial flexibility, while we continue to pay a sustainable dividend.

SHAREHOLDER SUPPORT

We thank Mr. Seymour Schulich, our largest shareholder, for his leadership, unwavering commitment and his ongoing support. It is this kind of leadership that keeps our staff motivated and focused on the execution of our business plan. Mr. Schulich currently holds 40 million common shares, which represents approximately 15% of the current issued and outstanding common shares.

THANK YOU

We would like to take this opportunity to specifically thank our staff who are leaving Birchcliff as a result of the Asset Sales. These people are committed employees who were part of the Birchcliff Team. These people helped to create significant value for our shareholders and were part of the fabric of our culture. On behalf of our Board of Directors and our Management Team, we thank them for their hard work and dedication and wish them the best in the future.

Our Management Team and our employees are excited, committed and remain enthusiastic about executing our long-term plan and delivering value to our shareholders. Thank you to all of our shareholders for your support and to our employees who continue to go that extra mile for the benefit of all of us.

With Respect,

(signed) "*A. Jeffery Tonken*"

President and Chief Executive Officer
Birchcliff Energy Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

This Management's Discussion and Analysis ("**MD&A**") for Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is dated August 10, 2017. This MD&A and the unaudited interim condensed financial statements with respect to the three and six months ended June 30, 2017 (the "**Reporting Periods**") as compared to the three and six months ended June 30, 2016 (the "**Comparable Prior Periods**") have been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the interim condensed financial statements of the Corporation and related notes for the Reporting Periods, as well as the audited financial statements of the Corporation and the related notes and MD&A for the year ended December 31, 2016. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

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

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

All boe amounts have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil and all Mcfe amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. For further information, see "*Advisories"* in this MD&A.

ABOUT BIRCHCLIFF

Birchcliff is a Calgary, Alberta based intermediate oil and natural gas company with operations concentrated in its one core area, the Peace River Arch of Alberta, which is centred northwest of Grande Prairie, Alberta. Birchcliff's common shares are listed for trading on the Toronto Stock Exchange (the "**TSX**") under the symbol "BIR" and are included in the S&P/TSX Composite Index. Additional information relating to the Corporation, including its Annual Information Form for the financial year ended December 31, 2016, is available on the SEDAR website at www.sedar.com and on the Corporation's website at www.birchcliffenergy.com.

2017 SECOND QUARTER FINANCIAL AND OPERATIONAL HIGHLIGHTS

Birchcliff had a successful second quarter in 2017, with record quarterly average production of 64,636 boe/d and record quarterly funds flow from operations of $88.6 million. In addition, the Corporation saw a return to net income in the three month Reporting Period as compared to the net loss recorded in the three month Comparable Prior Period, primarily as a result of greater production and improved commodity prices.

Highlights of the second quarter include the following:

- Record quarterly average production of 64,636 boe/d, a 64% increase from 39,513 boe/d in the three month Comparable Prior Period. Production consisted of approximately 77% natural gas and

23% light oil and NGLs as compared to 90% natural gas and 10% light oil and NGLs in the three month Comparable Prior Period.

- Record quarterly funds flow from operations of $88.6 million ($0.33 per basic common share), a 568% increase from $13.3 million ($0.09 per basic common share) in the three month Comparable Prior Period.
- Net income to common shareholders of $17.0 million ($0.06 per basic common share), as compared to the net loss to common shareholders of $24.3 million ($0.16 per basic common share) in the three month Comparable Prior Period.
- Operating costs of $4.67/boe, a 35% increase from $3.45/boe in the three month Comparable Prior Period. Operating costs increased primarily as a result of the liquids-rich assets that Birchcliff acquired in Gordondale on July 28, 2016, which have higher realized sales prices but also have a higher cost structure.
- General and administrative expense of $1.07/boe, a 14% decrease from $1.24/boe in the three month Comparable Prior Period.
- Interest expense of $1.16/boe, a 47% decrease from $2.18/boe in the three month Comparable Prior Period.
- Net capital expenditures of $120.8 million in the three month Reporting Period and $245.3 million in the six month Reporting Period. The majority of capital under Birchcliff's planned 2017 capital expenditure program will be spent during the first half of 2017 due to the timing of the completion of the Phase V expansion of Birchcliff's 100% owned and operated natural gas processing plant located in Pouce Coupe (the "**Pouce Coupe Gas Plant**") and the drilling, completion, equipping and tie-in of the wells necessary to fill the expanded plant.
- At June 30, 2017, Birchcliff's long-term bank debt was $628.4 million and its total debt was $700.5 million.
- The maturity dates of Birchcliff's credit facilities were extended to May 11, 2020 from May 11, 2018 and the borrowing base was confirmed at $950 million. In addition, Birchcliff's lenders consented to the borrowing base remaining at $950 million after giving effect to certain asset sales.
- Birchcliff drilled a total of 22 (22.0 net) wells in the three month Reporting Period, consisting of 16 (16.0 net) Montney/Doig horizontal natural gas wells in Pouce Coupe and 6 (6.0 net) Montney horizontal oil and natural gas wells in Gordondale.
- During the three month Reporting Period, Birchcliff completed the disposition of certain non-core assets for total proceeds of approximately $10 million (prior to closing adjustments).

See *"Cash Flow from Operating Activities and Funds Flow from Operations", "Net Income (Loss) to Common Shareholders", "Pouce Coupe Gas Plant Netbacks",* "*Discussion of Operations",* "*Capital Expenditures*" and "*Capital Resources and Liquidity*" in this MD&A for further information regarding the financial and operational results for the Reporting Periods.

OUTLOOK

The Corporation has completed and entered into definitive agreements for a series of asset sales (the "**Asset Sales**") for expected total proceeds to Birchcliff of approximately $142 million ($132 million in cash; $10 million in securities) (subject to closing adjustments). These Asset Sales represent forecast 2017 production of approximately 3,600 boe/d. See *"Discussion of Operations", "Subsequent Events"* and *"Capital Resources and Liquidity".*

Given the Corporation's completed and planned dispositions for 2017, Birchcliff's Board of Directors has approved an increased 2017 capital expenditure budget to approximately $404 million, from the $355 million that was previously announced. The additional capital under the Corporation's increased 2017 capital program (the "**2017 Capital Program**") will be primarily directed towards the infrastructure needed for the Phase VI expansion of the Pouce Coupe Gas Plant and the drilling of eight additional wells. The increased 2017 Capital Program contemplates the drilling of a total of 54 (54.0 net) wells during 2017, 38 (38.0 net) in Pouce Coupe and 16 (16.0 net) in Gordondale.

The Corporation has updated its 2017 production guidance to take into account the Asset Sales and the increased 2017 Capital Program. The following table sets forth the Corporation's previous and updated guidance for 2017:

	Previous Guidance	Updated Guidance
Estimated 2017 Annual Average Production	70,000 – 74,000 boe/d	67,000 – 68,000 boe/d
% Oil and NGLs	23%	21%
Estimated 2017 Q4 Average Production	80,000 – 82,000 boe/d	79,000 – 80,000 boe/d
% Oil and NGLs	21%	20%
Total capital expenditures	$355 million	$404 million
Net capital expenditures	$355 million	$262 million

(1) For further information regarding Birchcliff's guidance, including the assumptions surrounding such guidance, please see *"Advisories – Forward-Looking Information"* in this MD&A.

CASH FLOW FROM OPERATING ACTIVITIES AND FUNDS FLOW FROM OPERATIONS

	Three months ended June 30,		Six months ended June 30,	
($000s)	**2017**	**2016**	**2017**	**2016**
Cash flow from operating activities	**57,467**	**7,049**	**128,081**	**27,796**
Funds flow from operations	**88,612**	**13,267**	**156,242**	**33,962**
Per common share – basic *($)*	0.33	0.09	0.59	0.22
Per common share – diluted *($)*	0.33	0.09	0.58	0.22

Cash flow from operating activities for the three and six month Reporting Periods increased by 715% and 361%, respectively, from the Comparable Prior Periods. Funds flow from operations in the three and six month Reporting Periods increased by 568% and 360%, respectively, from the Comparable Prior Periods. The increases in cash flow from operating activities and funds flow from operations from the Comparable Prior Periods were largely due to higher reported oil, natural gas and NGLs revenues in the Reporting Periods primarily as a result of higher average realized commodity sales prices and higher production. During the three and six month Reporting Periods, Birchcliff's average realized commodity sales price increased 90% and 73%, respectively, from the Comparable Prior Periods. Production volumes increased in the three and six month Reporting Periods by 64% and 55%, respectively, from the Comparable Prior Periods largely due to incremental production volumes from the Corporation's assets in Gordondale (the "**Gordondale Assets**") which the Corporation acquired on July 28, 2016.

Funds flow from operations in the Reporting Periods was also increased by lower interest costs and a realized cash gain on financial commodity price risk management contracts and reduced by higher aggregate royalty, operating, transportation and marketing costs mainly associated with the Gordondale Assets.

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

($/boe)	Three months ended June 30, 2017	2016	% Change	Six months ended June 30, 2017	2016	% Change
Royalty expense	0.80	0.25	220%	1.37	0.46	198%
Operating expense	4.67	3.45	35%	4.93	3.58	38%
Transportation and marketing expense	2.57	2.35	9%	2.57	2.30	12%
General & administrative expense, net	1.07	1.24	(14%)	1.06	1.28	(17%)
Interest expense	1.16	2.18	(47%)	1.26	1.94	(35%)
Total cash costs	**10.27**	**9.47**	**8%**	**11.19**	**9.56**	**17%**

On a per boe basis, total cash costs for the three and six month Reporting Periods increased 8% and 17%, respectively, as compared to the Comparable Prior Periods, primarily driven by higher royalty, operating and transportation and marketing expenses associated with the increased liquids-rich production from the Gordondale Assets, partially offset by lower general and administrative and interest costs.

See "*Discussion of Operations*" in this MD&A for further details regarding the period-over-period movement in commodity prices, production volumes and cash costs discussed above.

NET INCOME (LOSS) TO COMMON SHAREHOLDERS

($000s)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Net income (loss)	18,015	(23,321)	47,943	(35,356)
Net income (loss) to common shareholders[(1)]	**17,015**	**(24,321)**	**45,943**	**(37,356)**
Per common share – basic *($)*	0.06	(0.16)	0.17	(0.25)
Per common share – diluted *($)*	0.06	(0.16)	0.17	(0.25)

(1) Net income (loss) to common shareholders is calculated by adjusting net income (loss) for dividends paid on the 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.

During the three and six month Reporting Periods, Birchcliff reported net income to common shareholders of $17.0 million and $45.9 million, respectively, compared to the net loss to common shareholders of $24.3 million and $37.4 million in the three and six month Comparable Prior Periods, respectively.

The change to a net income position in the Reporting Periods was primarily driven by: (i) higher funds flow from operations as noted above; (ii) a $4.7 million and $21.3 million non-cash "mark to market" unrealized gain in the three and six month Reporting Periods, respectively, from the financial commodity price risk management contracts outstanding at June 30, 2017; (iii) a $21.0 million and $18.6 million loss on the sale of assets in the three and six month Reporting Periods, respectively; and (iv) higher depletion costs in the Reporting Periods resulting from increased production associated with the Gordondale Assets.

POUCE COUPE GAS PLANT NETBACKS

During the six month Reporting Period, Birchcliff processed approximately 57% of its total corporate natural gas production and 46% of its total corporate production through the Pouce Coupe Gas Plant, with an average plant and field operating cost of $0.33/Mcfe ($1.90/boe). The estimated operating netback at the Pouce Coupe Gas Plant was $2.63/Mcfe ($15.80/boe), resulting in an operating margin of 77% in the six month Reporting Period.

The following table details Birchcliff's average daily production and estimated operating netback for wells producing to the Pouce Coupe Gas Plant:

	Six months ended June 30, 2017		Six months ended June 30, 2016	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		169,040		171,422
Oil & NGLs *(bbls)*		1,081		967
Total boe		**29,254**		**29,537**
AECO – C daily *($/Mcf)*[1]	**$2.74**		**$1.61**	
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[2]	3.41	20.44	1.93	11.61
Royalty expense	(0.10)	(0.67)	(0.05)	(0.30)
Operating expense[3]	(0.33)	(1.90)	(0.25)	(1.47)
Transportation and marketing expense	(0.35)	(2.07)	(0.30)	(1.88)
Estimated operating netback	**$2.63**	**$15.80**	**$1.33**	**$7.96**
Operating margin	**77%**	**77%**	**69%**	**69%**

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

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

(3) Represents plant and field operating costs.

DISCUSSION OF OPERATIONS

The following table sets forth Birchcliff's P&NG revenues, production and percentage of production and sales price by product category:

	Three months ended June 30, 2017				Three months ended June 30, 2016			
	Total Revenue[1] *($000s)*	Average Daily Production	*(%)*	Average *($/unit)*	Total Revenue[1] *($000s)*	Average Daily Production	*(%)*	Average *($/unit)*
Light oil *(bbls)*	39,125	7,121	11	60.38	11,666	2,504	6	51.20
Natural gas *(Mcf)*	84,681	297,016	77	3.13	28,703	213,130	90	1.48
NGLs *(bbls)*[2]	22,678	8,013	12	31.10	6,873	1,488	4	50.77
Total P&NG sales *(boe)*	146,484	**64,636**	100	24.90	47,242	39,513	100	13.13
Royalty revenue	113			0.02	19			0.01
P&NG revenues	**146,597**			**24.92**	**47,261**			**13.14**

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

(2) NGLs prices are Birchcliff's realized prices adjusted for fractionation costs associated with the Gordondale Assets.

	Six months ended June 30, 2017				Six months ended June 30, 2016			
	Total Revenue[1] *($000s)*	Average Daily Production	*(%)*	Average *($/unit)*	Total Revenue[1] *($000s)*	Average Daily Production	*(%)*	Average *($/unit)*
Light oil *(bbls)*	68,946	6,212	10	61.32	22,527	2,868	7	43.16
Natural gas *(Mcf)*	165,132	294,407	78	3.10	69,019	217,804	89	1.74
NGLs *(bbls)*[2]	45,031	7,877	12	31.58	13,175	1,567	4	46.19
Total P&NG sales *(boe)*	279,109	**63,157**	100	24.42	104,721	40,736	100	14.12
Royalty revenue	196			0.01	43			0.01
P&NG revenues	**279,305**			**24.43**	**104,764**			**14.13**

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

(2) NGLs prices are Birchcliff's realized prices adjusted for fractionation costs associated with the Gordondale Assets.

The increase in P&NG revenues from the Comparable Prior Periods was largely attributable to incremental production from the Gordondale Assets and from higher average realized commodity sales price in the Reporting Periods.

Petroleum and Natural Gas Revenues

Production

Production averaged 64,636 boe/d in the three month Reporting Period and 63,157 boe/d in the six month Reporting Period, a 64% and 55% increase, respectively, from the Comparable Prior Periods. Birchcliff's oil, natural gas and NGLs production for the three month Reporting Period increased by 184%, 39% and 439%, respectively, from the Comparable Prior Period. During the six month Reporting Period, production from oil, natural gas and NGLs increased by 117%, 35% and 403%, respectively, from the Comparable Prior Period. The increase in production from the Comparable Prior Periods was largely due to production additions from the Gordondale Assets, as well as the Corporation's 2017 capital drilling program which resulted in incremental production from new horizontal wells brought on production in Pouce Coupe and Gordondale in the Reporting Periods, partially offset by natural production declines. During the three month Reporting Period, production from the Montney/Doig Resource Play was comprised of 34,584 boe/d in Pouce Coupe and 26,933 boe/d in Gordondale. During the six month Reporting Period, production from the Montney/Doig Resource Play was comprised of 34,891 boe/d in Pouce Coupe and 25,144 boe/d in Gordondale. See "*Operating Netbacks*" in this MD&A for further details on the production in the Montney/Doig Resource Play.

Production consisted of approximately 77% natural gas, 11% light oil and 12% NGLs in the three month Reporting Period as compared to 90% natural gas, 6% light oil and 4% NGLs in the three month Comparable Prior Period. The change in corporate production mix was a result of the more heavily-weighted oil and NGLs production attributed to the Gordondale Assets.

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 sales 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 average benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for crude oil. The principal benchmark 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 the 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 to key consuming oil markets.

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

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Average benchmark prices:				
Light oil – WTI Cushing *(US$/bbl)*	48.29	45.59	50.10	39.52
Light oil – Edmonton Par *($/bbl)*	61.50	56.45	62.52	49.07
Natural gas – AECO – C daily *($/MMbtu)*(1)	2.78	1.40	2.74	1.61
Exchange rate – *(US$/CDN$)*	1.34	1.29	1.33	1.32
Birchcliff's average realized sales price: (2)				
Light oil *($/bbl)*	60.38	51.20	61.32	43.16
Natural gas *($/Mcf)*	3.13	1.48	3.10	1.74
NGLs *($/bbl)*	31.10	50.77	31.58	46.19
Average corporate realized sales price *($/boe)*	24.90	13.13	24.42	14.12

(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 corporate realized sales price was $24.90/boe for the three month Reporting Period and $24.42/boe for the six month Reporting Period, a 90% and 73% increase, respectively, from the Comparable Prior Periods. The increase from the Comparable Prior Periods was largely due to higher oil and natural gas spot prices, partially offset by lower NGLs pricing. During the three and six month Reporting Periods: (i) Birchcliff's average realized natural gas sales price increased 111% and 78%, respectively, from the Comparable Prior Periods; (ii) Birchcliff's average realized oil sales price increased 18% and 42%, respectively, from the Comparable Prior Periods; and (iii) Birchcliff's average realized NGLs sales price decreased 39% and 32%, respectively, from the Comparable Prior Periods.

The Gordondale Assets receive a higher average sales price compared to the Corporation's assets in Pouce Coupe, largely as a result of higher volume weighting of NGLs produced in the Gordondale area which receive a higher value on a per boe basis than Birchcliff's natural gas sales. The higher weighting of NGLs in the total corporate production mix improved Birchcliff's overall average realized sales price for the Reporting Periods. During the three month Reporting Period, the average realized oil, natural gas and NGLs sales price was $28.20/boe for the Gordondale Montney/Doig Resource Play as compared to $20.81/boe for the Pouce Coupe Montney/Doig Resource Play. During the six month Reporting Period, the average realized oil, natural gas and NGLs sales price was $27.43/boe for the Gordondale Montney/Doig Resource Play as compared to $20.63/boe for the Pouce Coupe Montney/Doig Resource Play.

With respect to the Gordondale Assets, NGLs (ethane, propane, butane) are substantially recovered from the raw natural gas stream at a third party deep-cut natural gas processing facility which reduces the heat content value and realized sales price of natural gas from the area. During the three and six month Reporting Period, the average realized natural gas sales price for the Gordondale Montney/Doig Resource Play was $3.04/Mcf and $3.01/Mcf, respectively, as compared to $3.17/Mcf and $3.14/Mcf, respectively, for the Pouce Coupe Montney/Doig Resource Play.

During the Reporting Periods, the average realized NGLs sales price on a corporate basis was lower than the Comparable Prior Periods primarily due to increased production weighting of ethane, propane and butane in respect of the Gordondale Assets in the Reporting Periods. Ethane, propane and butane typically receive a price below condensate (C5+). During the three month Reporting Period, the NGLs production mix in Gordondale consisted of approximately 31% ethane, 33% propane, 19% butane and 16% condensate (C5+). During the six month Reporting Period, the NGLs production mix in Gordondale consisted of approximately 32% ethane, 33% propane, 19% butane and 17% condensate (C5+). In comparison, approximately 97% of Birchcliff's NGLs production mix in Pouce Coupe was comprised of high value condensate (C5+) during the Reporting Periods. The realized NGLs sales price averaged $24.31/boe for the Gordondale Montney/Doig Resource Play as compared to $60.30/boe for the Pouce Coupe Montney/Doig Resource Play during the three month Reporting Period. For the six month Reporting Period, the realized NGLs sales price averaged $24.40/boe for the Gordondale Montney/Doig Resource Play as compared to $62.22/boe for the Pouce Coupe Montney/Doig Resource Play.

Commodity Price Risk Management

The Corporation maintains an ongoing commodity price risk management program in order to reduce volatility in its financial results and to protect a portion of its funds flow from operations, its capital expenditure programs and its dividend payments. As a part of this program, the Corporation utilizes various financial derivative and physical delivery sales contracts. The Board of Directors of the Corporation has authorized the Corporation to hedge such portion of its forecast production as is permitted by the Corporation's credit facilities, which permit the Corporation to hedge up to 65% of its forecast production over the following four fiscal quarters for terms not exceeding three years. Birchcliff's current strategy is to hedge approximately 50% of its estimated annual average natural gas production and up to 50% of its estimated annual average oil production using a combination of financial derivatives and physical sales contracts, depending on its outlook for commodity prices.

As at June 30, 2017, Birchcliff is committed under its financial and physical sales contracts to the sale of 195,000 GJ/d of natural gas from July 1, 2017 to December 31, 2017 at an average price of $3.03/GJ.

Financial derivative contracts

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

Product	Type of contract	Notional quantity	Term(1)	Contract price	Fair value *($000s)*
Natural gas	Financial swap	40,000 GJ/d	July 1, 2017 – December 31, 2017	AECO CDN $2.97/GJ	4,995
Natural gas	Financial swap	20,000 GJ/d	July 1, 2017 – December 31, 2017	AECO CDN $2.98/GJ	2,636
Natural gas	Financial swap	10,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN $3.35/GJ	789
Natural gas	Financial swap	10,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN $3.40/GJ	831
Crude oil	Financial swap	1,500 bbls/d	July 1, 2017 – December 31, 2017	WTI CDN $69.90/bbl	2,578
Fair value assets(2)					**11,829**

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

(2) Birchcliff has not designated its financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity price contracts to be effective economic hedges. As a result, all such financial derivative contracts are recorded on the statement of financial position on a "mark to market" fair value basis at June 30, 2017, with the changes in fair value being recognized as a non-cash unrealized gain or loss in profit or loss. These contracts are not entered into for trading or speculative purposes.

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

	Three months ended June 30,				Six months ended June 30,			
	2017		**2016**		**2017**		**2016**	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Realized gain on derivatives	2,484	0.42	83	0.02	4,895	0.43	83	0.01
Unrealized gain on derivatives	4,711	0.80	124	0.03	21,263	1.86	124	0.02

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

Physical delivery sales contracts

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

Product	Type of contract	Volume	Term[1]	Contract price
Natural gas	Fixed price	20,000 GJ/d	July 1, 2017 – December 31, 2017	AECO CDN$2.99/GJ
Natural gas	Fixed price	20,000 GJ/d	July 1, 2017 – December 31, 2017	AECO CDN$2.98/GJ
Natural gas	Fixed price	20,000 GJ/d	July 1, 2017 – December 31, 2017	AECO CDN$3.00/GJ
Natural gas	Fixed price	10,000 GJ/d	July 1, 2017 – December 31, 2017	AECO CDN$3.00/GJ
Natural gas	Fixed price	50,000 GJ/d	July 1, 2017 – December 31, 2017	AECO CDN$3.05/GJ
Natural gas	Fixed price	10,000 GJ/d	Oct 1, 2017 – December 31, 2017	AECO CDN$3.35/GJ

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

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

Royalties

The following table details Birchcliff's royalty expense:

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
Oil & natural gas royalties *($000s)*[1]	4,711	885	15,677	3,436
Oil & natural gas royalties *($/boe)*	0.80	0.25	1.37	0.46
Effective royalty rate *(%)*[2]	3%	2%	6%	3%

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

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

Birchcliff's effective royalty rate increased from the Comparable Prior Periods primarily due to increased oil and NGLs production weighting from the Gordondale Assets and higher average realized commodity prices during the Reporting Periods and the effect these higher prices have on the sliding scale royalty calculation, partially offset by prior period gas cost allowance ("**GCA**") adjustments.

During the three and six month Reporting Periods, the effective royalty rate for the Gordondale Montney/Doig Resource Play averaged 5% and 9%, respectively, and for the Pouce Coupe Montney/Doig Resource Play the effective royalty rate averaged 0% and 2%, respectively. The effective royalty rate for the Reporting Periods was impacted by prior period GCA credits of $0.8 million for the Gordondale properties and $1.6 million for the Pouce Coupe properties which reduced Birchcliff's aggregate royalty expense in the three month Reporting Period.

Operating Costs

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

	Three months ended June 30,				Six months ended June 30,			
	2017		2016		2017		2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Field operating costs	27,886	4.74	12,672	3.52	57,283	5.01	27,245	3.67
Recoveries	(437)	(0.07)	(350)	(0.10)	(885)	(0.08)	(868)	(0.12)
Field operating costs, net	27,449	4.67	12,322	3.42	56,398	4.93	26,377	3.55
Expensed workovers and other	4	-	81	0.03	5	-	178	0.03
Operating costs	**27,453**	**4.67**	**12,403**	**3.45**	**56,403**	**4.93**	**26,555**	**3.58**

On an aggregate and per unit basis, operating costs increased in the Reporting Periods as compared to the Comparable Prior Periods largely due to additional operating, processing and service costs associated with the Gordondale Assets, partially offset by cost reductions and infrastructure optimization initiatives implemented by the Corporation. The Gordondale Assets have a higher cost structure primarily resulting from higher oil and NGLs production weighting and additional fees incurred to process natural gas from the Gordondale area at the AltaGas deep-cut natural gas processing facility (the "**AltaGas Facility**").

Birchcliff has access to 90 MMcf/d of firm processing capacity at the AltaGas Facility and a right of first refusal with respect to firm processing capacity in excess of 90 MMcf/d. Birchcliff's processing agreement with AltaGas also contains a take-or-pay obligation. On June 29, 2017, Birchcliff and AltaGas modified the take-or-pay agreement effective January 1, 2017 to incent volumes above Birchcliff's existing take-or-pay commitment at the AltaGas Facility. Effective January 1, 2017, all volumes over Birchcliff's existing take-or-pay volumes (the "**Additional Volumes**") will be processed for a significantly reduced fee. Additional Volumes shall not apply to satisfy any portion of Birchcliff's existing take-or-pay obligations and the Reduced Fee only applies to Additional Volumes. With the recent modification to the AltaGas processing arrangement, Birchcliff received a $1.2 million processing fee credit for Additional Volumes above its take-or-pay commitment at the AltaGas Facility for the period from January 1, 2017 to June 30, 2017 which was applied as a reduction to operating costs in the Reporting Periods.

During the three and six month Reporting Periods, operating costs for the Gordondale Montney/Doig Resource Play averaged approximately $6.11/boe and $6.60/boe, respectively. For the Pouce Coupe Montney/Doig Resource Play operating costs averaged approximately $2.76/boe and $2.92/boe during the three and six month Reporting Periods, respectively. Birchcliff is currently working on reducing the overall operating cost structure of the Gordondale Assets.

Transportation and Marketing Expenses

The following table details Birchcliff's transportation and marketing expenses:

	Three months ended June 30,				Six months ended June 30,			
	2017		2016		2017		2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Transportation and marketing expenses	**15,175**	**2.57**	**8,496**	**2.35**	**29,381**	**2.57**	**16,999**	**2.30**

The increase in aggregate transportation and marketing costs from the Comparable Prior Periods was largely due to an increase in trucking and pipeline transportation costs associated with higher weighting of oil and NGLs production from the Gordondale Assets and increased firm service commitments on the

NGTL system. During the three and six month Reporting Periods, transportation and marketing costs for the Gordondale Montney/Doig Resource Play averaged approximately $2.70/boe and $2.66/boe, respectively. For the Pouce Coupe Montney/Doig Resource Play transportation and marketing costs averaged approximately $2.29/boe and $2.28/boe during the three and six month Reporting Periods, respectively.

Operating Netbacks

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

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
Montney/Doig Resource Play				
Average daily production, net:				
Natural gas *(Mcf)*	289,643	202,823	286,928	205,511
Oil & NGLs *(bbls)*	13,243	1,587	12,213	1,697
Total boe	61,517	35,391	60,035	35,948
% of corporate production[(1)]	*95%*	*90%*	*95%*	*88%*
Netback and cost *($/boe):*				
Petroleum and natural gas revenue[(2)]	24.04	10.81	23.48	12.15
Royalty expense	(0.63)	(0.12)	(1.24)	(0.33)
Operating expense, net of recoveries	(4.23)	(2.35)	(4.45)	(2.55)
Transportation and marketing expense	(2.47)	(2.06)	(2.43)	(1.97)
Operating netback	16.71	6.28	15.36	7.30
Worsley Charlie Lake Light Oil Resource Play				
Average daily production, net:				
Natural gas *(Mcf)*	4,423	5,581	4,012	6,628
Oil & NGLs *(bbls)*	1,833	2,076	1,798	2,307
Total boe	2,570	3,006	2,467	3,412
% of corporate production[(1)]	*4%*	*8%*	*4%*	*8%*
Netback and cost *($/boe):*				
Petroleum and natural gas revenue[(2)]	46.04	37.76	47.56	32.29
Royalty expense	(4.92)	(1.16)	(4.57)	(1.33)
Operating expense, net of recoveries	(12.68)	(10.28)	(14.48)	(9.93)
Transportation and marketing expense	(5.13)	(6.14)	(5.84)	(5.96)
Operating netback	23.31	20.18	22.67	15.07
Total Corporate				
Average daily production, net:				
Natural gas *(Mcf)*	297,016	213,130	294,407	217,804
Oil & NGLs *(bbls)*	15,134	3,992	14,089	4,435
Total boe	64,636	39,513	63,157	40,736
Netback and cost *($/boe)*				
Petroleum and natural gas revenue[(2)]	24.92	13.14	24.43	14.13
Royalty expense	(0.80)	(0.25)	(1.37)	(0.46)
Operating expense, net of recoveries	(4.67)	(3.45)	(4.93)	(3.58)
Transportation and marketing expense	(2.57)	(2.35)	(2.57)	(2.30)
Operating netback	16.88	7.09	15.56	7.79

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

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

Montney/Doig Resource Play

Birchcliff's production from the Montney/Doig Resource Play was 61,517 boe/d in the three month Reporting Period and 60,035 boe/d in the six month Reporting Period, a 74% and 67% increase, respectively, from the Comparable Prior Periods. This increase was largely due to the production volumes associated with the Gordondale Assets which on average accounted for approximately 44% and 42% of the total production from the Montney/Doig Resource Play during the three and six month Reporting Periods, respectively.

Birchcliff's recoveries of NGLs from its Montney/Doig Resource Play were 27.4 bbls/MMcf in the three month Reporting Period and 27.2 bbls/MMcf in the six month Reporting Period as compared to 7.8 bbls/MMcf and 8.3 bbls/MMcf in the three and six month Comparable Prior Periods, respectively. The increase in the NGLs yield during the Reporting Periods can be attributed to higher NGLs weighting from the Gordondale Assets. The NGLs recoveries averaged approximately 71.1 bbls/MMcf and 73.5 bbls/MMcf in Gordondale during the three and six month Reporting Periods, respectively, as compared to 7.4 bbls/MMcf and 7.3 bbls/MMcf in Pouce Coupe during the three and six month Comparable Prior Periods, respectively. Any NGLs not recovered from the raw natural gas stream increases the heat content value of Birchcliff's natural gas sales and the realized sales price.

Birchcliff's operating netback from the Montney/Doig Resource Play was $16.71/boe in the three month Reporting Period and $15.36/boe in the six month Reporting Period, an increase of 166% and 110%, respectively, from the Comparable Prior Periods. The increase in the operating netback from the Comparable Prior Periods was primarily driven by higher average realized sales price received for Birchcliff's oil and natural gas production, partially offset by lower NGLs pricing and higher per boe royalties, operating and transportation and marketing costs mainly associated with the Gordondale Assets. The Gordondale Assets have a higher cost structure primarily resulting from higher production weighting to oil and NGLs and additional fees incurred to process natural gas from the Gordondale Assets at the AltaGas Facility.

Worsley Charlie Lake Light Oil Resource Play

Birchcliff's production from the Worsley Charlie Lake Light Oil Resource Play was 2,570 boe/d in the three month Reporting Period and 2,467 boe/d in the six month Reporting Period, a decrease of 15% and 28%, respectively, from the Comparable Prior Periods. The decrease in production was largely due to the fact no new wells were drilled during 2017, as well as natural declines and unplanned downtime resulting from pipeline integrity issues and maintenance activities in the Worsley area. The decrease in production was partially offset by production optimization initiatives in the Worsley field that were ongoing during 2016 and into the Reporting Periods.

Birchcliff's operating netback from the Worsley Charlie Lake Light Oil Resource Play was $23.31/boe in the three month Reporting Period and $22.67/boe in the six month Reporting Period, a 16% and 50% increase, respectively, from the Comparable Prior Periods. The increase in the Worsley operating netback in the Reporting Periods was largely due to higher average realized commodity prices received for Birchcliff's production and lower transportation and marketing costs, partially offset by increased royalty and operating costs as compared to the Comparable Prior Periods.

Subsequent to June 30, 2017, the Corporation entered into a definitive purchase and sale agreement for the sale of its Worsley Charlie Lake Light Oil Pool. See "*Subsequent Events"*.

Administrative Expenses

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

	Three months ended June 30,				Six months ended June 30,			
	2017		2016		2017		2016	
	($000s)	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*
Cash:								
Salaries and benefits[1]	6,172	59	5,066	64	12,342	62	10,351	63
Other[2]	4,207	41	2,803	36	7,645	38	5,953	37
	10,379	100	7,869	100	19,987	100	16,304	100
Operating overhead recoveries	(54)	(1)	(48)	(1)	(94)	(1)	(90)	(1)
Capitalized overhead[3]	(4,039)	(38)	(3,353)	(42)	(7,754)	(38)	(6,733)	(41)
General & administrative expenses, net	6,286	61	4,468	57	12,139	61	9,481	58
General & administrative expenses, net per boe	$1.07		$1.24		$1.06		$1.28	
Non-cash:								
Stock-based compensation	2,409	100	1,376	100	4,218	100	2,945	100
Capitalized stock-based compensation[3]	(1,438)	(60)	(852)	(62)	(2,493)	(59)	(1,771)	(60)
Stock-based compensation, net	971	40	524	38	1,725	41	1,174	40
Stock-based compensation, net per boe	$0.17		$0.15		$0.15		$0.16	
Administrative expenses, net	**7,257**		**4,992**		**13,864**		**10,655**	
Administrative expenses, net per boe	**$1.24**		**$1.39**		**$1.21**		**$1.44**	

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

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

(3) Includes a portion of general and administrative costs and stock-based compensation directly attributable to the exploration and development activities of the Corporation which have been capitalized.

The increase in aggregate net administrative costs in the Reporting Periods as compared to the Comparable Prior Periods was primarily due to the acquisition of the Gordondale Assets which resulted in additional staff needed to manage the larger production, reserves and land base of the Corporation and higher general business expenditures. On a per boe basis, net administrative expenses have decreased in the Reporting Periods compared to the Comparable Prior Periods primarily due to the disproportionate increase in production volumes from the Gordondale Assets as compared to net administrative expenses.

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

	Three months ended June 30, 2017		Six months ended June 30, 2017	
	Number	**Exercise price($)[1]**	**Number**	**Exercise price($)[1]**
Outstanding, beginning of period	16,778,476	6.82	12,899,775	6.45
Granted	367,500	6.91	4,660,400	7.78
Forfeited	(974,932)	(5.82)	(1,374,731)	(5.83)
Expired	(66,468)	(7.56)	(80,868)	(7.54)
Outstanding, end of period	**16,104,576**	**6.88**	**16,104,576**	**6.88**

(1) Determined on a weighted average basis.

At June 30, 2017, there were also 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 applicable exercise price.

Depletion and Depreciation Expenses

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

The following table details Birchcliff's D&D expenses:

	Three months ended June 30,				Six months ended June 30,			
	2017		2016		2017		2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Depletion and depreciation expenses	43,603	7.41	**31,473**	**8.75**	85,740	7.50	**65,619**	**8.85**

D&D expenses for the Reporting Periods were higher on an aggregate basis compared to the Comparable Prior Periods mainly due to the incremental production from the Gordondale Assets. On a per boe basis, D&D expenses decreased from the Comparable Prior Periods mainly as a result of the significant reserves added in both Birchcliff's Pouce Coupe and Gordondale properties in 2016 and into the Reporting Periods.

Asset impairment assessment

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

The Corporation's CGUs are reviewed at each reporting date for both internal and external indicators of potential impairment. Potential CGU impairment indicators include, but are not limited to: changes to Birchcliff's business plan; deterioration in commodity prices; negative changes in the technological, economic, legal, capital or operating environment; adverse changes to the physical condition of a CGU; current expectations that a material CGU (or a significant component thereof) is more likely than not to be sold or otherwise disposed of before the end of its previously estimated useful life; non-compliance with the agreements governing the Corporation's bank credit facilities; deterioration in the financial and operational performance of a CGU; net assets exceeding market capitalization; and significant downward revisions of estimated recoverable proved plus probable reserves of a CGU. If impairment indicators exist, an impairment test is performed by comparing a CGU's carrying value to its recoverable amount.

Subsequent to June 30, 2017, the Corporation committed to a plan to dispose of certain oil and gas properties in Alberta, negotiated the sales terms and executed definitive sales agreements with unrelated third parties for total consideration of approximately $132 million, subject to certain closing adjustments and costs (see note 11 to the financial statements for the Reporting Periods). The Corporation did assess if these oil and gas properties, which were part of larger CGUs, were individually impaired at June 30, 2017 to which the recoverable amount was determined to be in excess of the carrying value based on a value in use calculation. Accordingly, no impairment was required to be recognized at June 30, 2017 for these assets.

Finance Expenses

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

	Three months ended June 30,				Six months ended June 30,			
	2017		2016		2017		2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Cash:								
Interest on credit facilities	6,844	1.16	7,825	2.18	14,358	1.26	14,414	1.94
Non-cash:								
Accretion on decommissioning obligations	846	0.14	571	0.16	1,676	0.15	1,135	0.15
Amortization of deferred financing fees	378	0.06	230	0.06	709	0.06	465	0.06
Finance expenses	**8,068**	**1.36**	**8,626**	**2.40**	**16,743**	**1.47**	**16,014**	**2.15**

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

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Effective interest rates:				
Revolving working capital facility	4.5%	4.7%	4.5%	4.7%
Revolving syndicated term credit facility	4.6%	4.7%	5.0%	4.4%

Birchcliff's average outstanding total credit facilities balance was approximately $597 million and $582 million in the three and six month Reporting Periods, respectively, as compared to $666 million and $649 million in the Comparable Prior Periods, calculated as the simple average of the month-end amounts.

Loss on Sale of Assets

The following table details Birchcliff's loss on its sale of assets:

	Three months ended June 30,				Six months ended June 30,			
	2017		2016		2017		2016	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Loss on sale of assets	**21,030**	**3.58**	**10,902**	**3.03**	**18,550**	**1.62**	**10,902**	**1.47**

In May 2017, Birchcliff completed the disposition of certain non-core miscellaneous petroleum and natural gas properties and related assets and interests in the Progress area. The cash consideration was

$6.0 million, before closing adjustments. As a result of the disposition, Birchcliff recorded a loss on the sale of assets of approximately $19.8 million ($14.4 million, net of tax) in the three month Reporting Period.

In April 2017, Birchcliff completed the dispositions of certain non-core miscellaneous petroleum and natural gas properties and related assets and interests in each of the Valhalla, Gordondale and Rycroft areas. The cash consideration was approximately $4.3 million, before closing adjustments. As a result of the dispositions, Birchcliff recorded a loss on the sale of assets of approximately $1.2 million ($0.9 million, net of tax) in the three month Reporting Period.

In March 2017, Birchcliff completed the dispositions of certain non-core miscellaneous petroleum and natural gas properties and related assets and interests in each of the Elmworth and Rycroft areas. The cash consideration was $300,000, before closing adjustments. As a result of the dispositions, Birchcliff recorded a gain on the sale of assets of approximately $0.7 million ($0.5 million, net of tax) in the first quarter of 2017.

In February 2017, Birchcliff completed the disposition of non-core assets in the Gold Creek area of Alberta for cash consideration of approximately $5.0 million. As a result of the disposition, Birchcliff recorded a gain on the sale of assets of approximately $1.8 million ($1.3 million, net of tax) in the first quarter of 2017.

All dispositions noted above were considered non-core asset dispositions as they individually represented less than 1% of both Birchcliff's production for the Reporting Periods and proved plus probable reserves at June 30, 2017 and therefore were not significant to the Corporation's financial results and operational performance.

Income Taxes

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

	Three months ended March 31, 2017		**Six months ended June 30,**	
($000s)	**2017**	**2016**	**2017**	**2016**
Deferred income tax expense (recovery)	6,855	(8,613)	17,912	(13,103)
Dividend income tax expense on preferred shares	750	750	1,500	1,500
Income tax expense (recovery)	**7,605**	**(7,863)**	**19,412**	**(11,603)**
Income tax expense (recovery) per boe	**$1.30**	**($2.18)**	**$1.71**	**($1.56)**

Birchcliff had an income tax expense in the Reporting Periods resulting from net income before tax recorded in the Reporting Periods. In the Comparable Prior Periods, Birchcliff had an income tax recovery due to a net loss before tax recorded in the Comparable Prior Periods.

The Corporation's estimated income tax pools were $2.2 billion at June 30, 2017. Management expects that future taxable income will be available to utilize the accumulated tax pools. The components of the Corporation's estimated income tax pools are set forth in the table below:

($000s)	**Tax pools as at June 30, 2017**
Canadian oil and gas property expense	577,325
Canadian development expense	347,891
Canadian exploration expense	266,392
Undepreciated capital costs	378,921
Non-capital losses	615,737
Financing costs and other	19,423
Estimated income tax pools[(1)]	**2,205,689**

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

Veracel tax pools

Birchcliff's 2006 income tax filings were reassessed by the Canada Revenue Agency (the "**CRA**") in 2011 (the "**Reassessment**"). The Reassessment was based on the CRA's position that the tax pools available to Veracel Inc. ("**Veracel**"), prior to its amalgamation with Birchcliff, ceased to be available to Veracel after Birchcliff and Veracel amalgamated on May 31, 2005. The Veracel tax pools in dispute totalled $39.3 million. Birchcliff appealed the Reassessment to the Tax Court of Canada (the "**Trial Court**") and the trial of that appeal occurred in November 2013. On October 1, 2015, the Trial Court issued its decision (the "**Trial Decision**") and dismissed Birchcliff's appeal on the basis of the general anti-avoidance rule contained in the *Income Tax Act* (Canada). The Trial Decision was rendered by a judge based on the written record and not by the judge who conducted the trial. As a result of the Trial Decision, Birchcliff recorded a non-cash deferred income tax expense in the amount of $10.2 million in the fourth quarter of 2015.

Birchcliff appealed the Trial Decision to the Federal Court of Appeal (the "**FCA**"), which appeal was heard in January 2017. On April 28, 2017, the FCA issued its decision and allowed the appeal and set aside the Trial Decision, based on the lack of jurisdiction by the judge who rendered the Trial Decision. In setting aside the Trial Decision, the FCA referred the matter back to the judge of the Trial Court who initially conducted the trial in 2013 to render a judgement.

SUBSEQUENT EVENTS

On August 1, 2017, Birchcliff entered into a definitive purchase and sale agreement for the sale of its Worsley Charlie Lake Light Oil Pool (the "**Worsley Assets**") for total consideration of approximately $100 million consisting of: (i) cash consideration of $90 million; and (ii) securities of an affiliate of the purchaser with a total value of $10 million (the "**Worsley Disposition**"). The effective adjustment date of the Worsley Disposition is July 1, 2017. Closing of the Worsley Disposition is expected to occur on or about August 31, 2017, subject to the receipt of all necessary regulatory approvals and the satisfaction of other customary closing conditions. The Worsley Assets represent approximately 3,080 boe/d of forecast 2017 production (approximately 69% light oil and NGLs).

On August 10, 2017, Birchcliff entered into a definitive purchase and sale agreement for the sale of some of the remaining assets that were being marketed for sale (the "**Additional Assets**") for total cash consideration of $31.7 million (subject to closing adjustments) (the "**Additional Disposition**"). Closing of the Additional Disposition is expected to occur on or about October 2, 2017, subject to the satisfaction of customary closing conditions.

The Corporation estimates that in the third quarter of 2017 it will recognize an after-tax accounting loss of approximately $129 million on the sale of the Worsley Assets and in the fourth quarter of 2017 an after-tax accounting gain of approximately $10 million on the sale of the Additional Assets, in each case estimated before closing adjustments and costs.

CAPITAL EXPENDITURES

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

	Three months ended June 30,		Six months ended June 30,	
($000s)	**2017**	**2016**	**2017**	**2016**
Land	461	663	881	1,524
Seismic	227	3	535	800
Workovers	3,120	931	5,410	1,595
Drilling and completions	79,827	10,954	156,278	41,242
Well equipment and facilities	46,824	10,371	96,854	41,492
Finding and development capital	130,459	22,922	259,958	86,653
Acquisitions	-	7	-	7
Dispositions	(10,151)	(18,717)	(15,493)	(18,748)
Finding, development and acquisition capital	120,308	4,212	244,465	67,912
Administrative assets	474	510	855	670
Capital expenditures, net	**120,782**	**4,722**	**245,320**	**68,582**

During the three month Reporting Period, Birchcliff had net capital expenditures of $120.8 million which included approximately $46.8 million (39%) on the drilling and completion of Montney/Doig horizontal wells in Pouce Coupe, $35.6 million (29%) on the drilling and completion of Montney horizontal wells in Gordondale, $9.6 million (8%) on the field construction of Phase V of the Pouce Coupe Gas Plant which will increase processing capacity from 180 MMcf/d to 260 MMcf/d and $10.4 million (9%) on the fabrication of the major components of Phase VI of the Pouce Coupe Gas Plant which will increase processing capacity from 260 MMcf/d to 340 MMcf/d. It is currently expected that Phase V will be on-stream in early September 2017 and that Phase VI will be on-stream in October 2018.

During the six month Reporting Period, Birchcliff had net capital expenditures of $245.3 million which included approximately $90.4 million (37%) on the drilling and completion of Montney/Doig horizontal wells in Pouce Coupe, $70.3 million (29%) on the drilling and completions of Montney horizontal wells in Gordondale, $20.4 million (8%) on the field construction of Phase V of the Pouce Coupe Gas Plant and $24.9 million (10%) on the fabrication of the major components of Phase VI of the Pouce Coupe Gas Plant.

The remaining capital during the Reporting Periods was spent on land and seismic, infrastructure and expansion projects in the Montney/Doig Resource Play and the Worsley Charlie Lake Light Oil Resource Play and on other oil and gas exploration and development projects in the Peace River Arch.

During the three month Reporting Period, Birchcliff drilled a total of 22 (22.0 net) wells, consisting of 16 (16.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area and 6 (6.0 net) Montney horizontal oil and natural gas wells in the Gordondale area.

CAPITAL RESOURCES AND LIQUIDITY

Liquidity and Capital Resources

The Corporation generally relies on its funds flow from operations and available credit under its existing credit facilities to fund its capital requirements, including its dividend payments. In addition, the Corporation may from time to time seek additional capital in the form of debt and/or equity or dispose of non-core properties to fund its on-going capital expenditure programs and protect its balance sheet.

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

	Three months ended June 30,		Six months ended June 30,	
($000s)	**2017**	**2016**	**2017**	**2016**
Funds flow from operations	88,612	13,267	156,242	33,962
Changes in non-cash working capital from operations	(31,075)	(6,202)	(27,790)	(5,573)
Decommissioning expenditures	(70)	(16)	(371)	(593)
Exercise of stock options	5,671	-	8,020	-
Financing fees paid on credit facilities	(2,375)	-	(2,375)	-
Share issue costs	-	(16)	-	(16)
Dividends paid on common shares	(6,635)	-	(13,239)	-
Dividends paid on preferred shares	(1,875)	(1,875)	(3,750)	(3,750)
Net change in revolving term credit facilities	51,521	61,999	57,705	87,127
Deposit on acquisition	-	(31,250)	-	(31,250)
Changes in non-cash working capital from investing	16,974	(31,220)	70,844	(11,360)
Capital resources	**120,748**	**4,687**	**245,286**	**68,547**

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

Birchcliff has hedged approximately 50% of its 2017 forecast natural gas production at $3.03/GJ to help protect its funds flow from operations and capital expenditure programs. Birchcliff has also entered into financial swaps for 1,500 bbls/d of crude oil at an average price of CDN$69.90/bbl for 2017. See *"Commodity Price Risk Management".*

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

During the three month Reporting Period, the Corporation completed the disposition of certain non-core assets for total proceeds of approximately $10 million (prior to closing adjustments). See *"Discussion of Operations – Loss on Sale of Assets"*. On August 1, 2017, the Corporation entered into a definitive purchase and sale agreement with respect to the Worsley Disposition for total consideration of approximately $100 million. On August 10, 2017, the Corporation entered into a definitive purchase and sale with respect to the Additional Disposition for total consideration of $31.7 million. See *"Subsequent Events"*. The proceeds from the Asset Sales have been and are anticipated to be used to initially reduce Birchcliff's indebtedness under the Credit Facilities, which will be subsequently redrawn as needed to fund Birchcliff's capital expenditure program and for general corporate purposes. This is expected to improve the Corporation's balance sheet and increase its financial flexibility.

On June 29, 2017, Birchcliff and AltaGas modified the take-or-pay agreement effective January 1, 2017 to incent volumes above Birchcliff's existing take-or-pay commitment at the AltaGas Facility. Effective January 1, 2017, all Additional Volumes will be processed for a significantly reduced fee. As a result of this revised arrangement, the Corporation expects that its operating costs will be reduced by approximately $4.7 million in 2017 (which includes the $1.2 million processing fee credit the Corporation received for the period from January 1, 2017 to June 30, 2017). See *"Discussion of Operations – Operating Costs".*

Management believes that its funds flow from operations and available credit under the Credit Facilities will be sufficient to fund the Corporation's planned capital expenditures for the remainder of 2017 and to meet its current and future working capital requirements as they become due. Should commodity prices deteriorate materially, Birchcliff may adjust the 2017 Capital Program accordingly, seek additional equity financing and/or consider the potential sale of additional non-core assets to fund planned growth. See *"Advisories".*

Working Capital

The Corporation's adjusted working capital deficit increased to $72.1 million at June 30, 2017 from a $27.5 million deficit at December 31, 2016. The Corporation's adjusted working capital deficit increased from December 31, 2016 primarily as a result of increased capital spending during the Reporting Periods. The deficit at June 30, 2017 is largely comprised of costs incurred from the drilling and completion of new wells in Pouce Coupe and Gordondale and the field construction of Phase V of the Pouce Coupe Gas Plant during the Reporting Periods.

At June 30, 2017, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of June 2017 production (59%), which was subsequently received in July 2017. In contrast, current liabilities largely consisted of trade payables (67%) and accrued capital and operating costs (32%). Birchcliff routinely assesses the financial strength of its marketers. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations.

Adjusted working capital includes items expected for normal operations, including trade receivables and payables, accruals, deposits and prepaid expenses, and excludes the fair value of financial instruments. The Corporation's adjusted working capital varies from quarter to quarter primarily due to the timing of such items, as well as due to the size and timing of the Corporation's capital expenditures, volatility in commodity prices and changes in revenue, among other things. Birchcliff manages any adjusted working capital deficit using funds flow from operations and advances under its Credit Facilities. Any adjusted working capital deficit position will not reduce the amount available under the Credit Facilities. Management believes that its funds flow from operations and, if needed, available credit under the Credit Facilities will be sufficient to fund the Corporation's current and future working capital requirements throughout 2017.

Bank Debt

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

As of June 30, 2017, the Credit Facilities are comprised of: (i) an extendible revolving syndicated term credit facility of $900 million (the "**Syndicated Credit Facility**"); and (ii) an extendible revolving working capital credit facility of $50 million (the "**Working Capital Facility**"). 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 May 2017, Birchcliff's syndicate of lenders completed its semi-annual review of the borrowing base limit and consented to an extension of the maturity dates of the Syndicated Credit Facility and Working Capital Facility from May 11, 2018 to May 11, 2020 and to the borrowing base remaining unchanged at $950 million.

Total debt, including the adjusted working capital deficit, was $700.5 million at June 30, 2017 as compared to $600.0 million at December 31, 2016. A significant portion of the funds drawn under the Credit Facilities in the Reporting Periods was used to pay costs relating to the drilling and completion of horizontal wells in Pouce Coupe and Gordondale, including related facilities and infrastructure.

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

As at, ***($000s)***	**June 30, 2017**	**December 31, 2016**
Maximum borrowing base limit:		
Revolving term credit facilities	950,000	950,000
Principal amount utilized:		
Drawn revolving term credit facilities(1)	(634,419)	(580,770)
Outstanding letters of credit(2)	(13,050)	(12,310)
	(647,469)	(593,080)
Unused credit	**302,531**	**356,920**
% unused credit	**32%**	**38%**

(1) The drawn amounts are not reduced for unamortized costs and fees applicable to the Credit Facilities.

(2) Letters of credit are issued to various service providers. The letters of credit reduce the amount available under the Working Capital Facility from $50 million to approximately $37 million. There were no amounts drawn on the letters of credit during the periods ended June 30, 2017 and December 31, 2016.

As discussed above, the proceeds from the Asset Sales have been and are anticipated to be used to initially reduce Birchcliff's indebtedness under the Credit Facilities, which will be subsequently redrawn as needed to fund Birchcliff's capital expenditure program and for general corporate purposes.

Contractual Obligations & Commitments

The Corporation enters into various contractual obligations and commitments in the normal course of operations. The following table lists Birchcliff's estimated material contractual obligations and commitments at June 30, 2017:

($000s)	**2017**	**2018**	**2019 - 2021**	**Thereafter**
Accounts payable and accrued liabilities	140,912	-	-	-
Drawn revolving term credit facilities(1)	-	-	634,419	-
Operating leases(2)	1,457	4,117	13,625	29,317
Capital commitments(3)	2,740	16,813	-	-
Firm transportation, processing and fractionation(4)	54,902	99,541	275,751	211,138
Estimated contractual obligations(5)	**200,011**	**120,471**	**923,795**	**240,455**

(1) During the three month Reporting Period, the maturity dates of the Credit Facilities were extended to May 11, 2020. 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.

(2) The Corporation is committed under an existing operating lease relating to its office premises, beginning December 1, 2007 and expiring on November 30, 2017. On December 2, 2015, the Corporation entered into an operating lease commitment relating to a new office premise beginning February 1, 2018 and expiring on January 31, 2028. The commitment amount under the new 10 year office lease is estimated to be $47.1 million, which includes costs allocated to base rent, parking and building operating expenses. The office lease commitment amounts disclosed in the above table have not been reduced for any rents receivable by the Corporation.

(3) Includes drilling commitments and facility spending commitments relating to the Phase VI expansions of the Pouce Coupe Gas Plant.

(4) As a result of the acquisition of the Gordondale Assets, Birchcliff's firm transportation, processing and fractionation obligations increased. The amounts exclude the potential impacts from firm service transportation agreements on TCPL's Canadian Mainline to the Southern Ontario Dawn trading hub. The Corporation has negotiated firm service for a 10-year period estimated to commence in November 2017; however, provision of the service is conditional on, among other factors, TCPL receiving approval from the National Energy Board.

(5) Contractual obligations and commitments that are not material to Birchcliff are excluded from the above table. The Corporation's decommissioning obligations are excluded from the table as these obligations arose from a regulatory requirement rather than from a contractual arrangement. Birchcliff estimates the total undiscounted cash flow to settle its decommissioning obligations on its wells and facilities at June 30, 2017 to be approximately $272 million and will be incurred as follows: 2017 - $2.1 million, 2018 - $2.0 million and $267.9 million thereafter. The estimate for determining the undiscounted

decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

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 Period. Upon receipt of a notice of redemption, the Corporation has an obligation to redeem the Series C Preferred Shares, at its option, for cash or common shares.

OFF-BALANCE SHEET TRANSACTIONS

The Corporation has certain lease arrangements, all of which are reflected in the contractual obligations and commitments table above, which were entered into in the normal course of operations. All leases have been treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. Other than the foregoing, Birchcliff was not involved in any off-balance sheet transactions during the Reporting Period and Comparable Prior Period.

OUTSTANDING SHARE INFORMATION

At June 30, 2017, Birchcliff had common shares, Series A Preferred Shares and Series C Preferred Shares that were outstanding. Birchcliff's common shares are listed on the TSX under the symbol "**BIR**" and are included in the S&P/TSX Composite Index. Birchcliff's Series A Preferred Shares and Series C Preferred Shares are individually listed on the TSX under the symbols "**BIR.PR.A**" and "**BIR.PR.C**", respectively.

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

	Common Shares
Balance at December 31, 2016	**264,041,902**
Exercise of options	1,374,731
Balance at June 30, 2017	**265,416,633**

At August 10, 2017, the Corporation had the following securities outstanding: 265,425,966 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 16,029,576 stock options to purchase an equivalent number of common shares; and 2,939,732 performance warrants to purchase an equivalent number of common shares.

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

On May 30, 2017, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A Preferred Share and $0.875 million or $0.4375 per Series C Preferred Share for the calendar quarter ending June 30, 2017. These dividends were payable on June 30, 2017 to shareholders of record on June 15, 2017.

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

SUMMARY OF QUARTERLY RESULTS

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

Quarter ending,	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015
Average daily production *(boe)*	64,636	61,662	60,750	54,538	39,513	41,958	40,445	38,433
Realized natural gas sales price *($/Mcf)*(1)	3.13	3.06	3.31	2.53	1.48	1.99	2.67	3.12
Realized oil sales price *($/bbl)*(1)	60.38	62.59	60.75	52.12	51.20	36.93	49.36	52.91
Total revenues *($000s)*(1)	146,597	132,708	135,457	97,365	47,261	57,503	75,476	82,011
Operating costs *($/boe)*	4.67	5.22	4.54	4.65	3.45	3.71	4.16	4.39
Capital expenditures, net *($000s)*	120,782	124,538	62,482	599,716	4,722	63,860	33,533	50,013
Cash flow from operating activities *($000s)*	57,467	70,614	90,574	22,144	7,049	20,747	44,786	41,933
Funds flow from operations *($000s)*	88,612	67,630	71,806	41,675	13,267	20,695	33,697	44,587
Per common share – basic *($)*	0.33	0.26	0.27	0.18	0.09	0.14	0.22	0.29
Per common share – diluted *($)*	0.33	0.25	0.27	0.18	0.09	0.13	0.22	0.29
Net income (loss) *($000s)*	18,015	29,928	12,085	(1,064)	(23,321)	(12,035)	(9,322)	4,815
Net income (loss) to common shareholders *($000s)*(2)	17,015	28,928	11,085	(2,064)	(24,321)	(13,035)	(10,322)	3,815
Per common share – basic *($)*	0.06	0.11	0.04	(0.01)	(0.16)	(0.09)	(0.07)	0.03
Per common share – diluted *($)*	0.06	0.11	0.04	(0.01)	(0.16)	(0.09)	(0.07)	0.02
Total assets *($ million)*	2,871	2,797	2,710	2,704	2,059	2,053	2,025	2,022
Long-term bank debt *($000s)*	628,401	578,954	572,517	634,534	709,510	647,359	622,074	626,839
Total debt *($000s)*	700,484	664,352	600,012	612,080	715,651	690,138	643,612	640,751
Dividends on common shares *($000s)*(3)	6,635	6,604	-	-	-	-	-	-
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	265,417	264,442	264,042	263,065	152,308	152,308	152,308	152,308
Diluted	284,461	284,160	279,881	279,826	169,089	169,239	167,817	168,112
Wtd. average common shares outstanding (000s)								
Basic	265,326	264,099	263,396	229,287	152,308	152,308	152,308	152,303
Diluted	268,203	268,077	268,974	234,295	154,279	153,418	153,627	153,916

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

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

(3) Birchcliff paid its first common share dividend in the first quarter of 2017.

Average daily production volumes in the last four quarters has increased largely due to incremental production volumes from both the Gordondale Assets and new horizontal wells in Pouce Coupe and Gordondale, partially offset by natural production declines from those wells.

Quarterly variances in revenues, funds flow from operations and net income are primarily due to fluctuations in commodity prices and production volumes. Oil and gas revenues and funds flow from operations in the last four quarters are higher largely due to an increase in the average realized oil and natural gas prices and incremental production volumes attributed to the Gordondale Assets. Birchcliff had net income in the three most recently completed quarters primarily in response to increases in funds flow from operations. Net income or loss in the last eight quarters was also impacted by certain non-cash adjustments including depletion expense, non-recurring tax expenses, unrealized gains and losses on commodity price risk management contracts and gains and losses on the sale of assets recognized in the period.

In general, capital expenditures have fluctuated over the past eight quarters primarily as a result of the timing of the Corporation's development capital expenditures. Capital expenditures are also impacted by commodity prices and market conditions, as well as the timing of acquisitions and dispositions. In the third quarter of 2016, Birchcliff completed the acquisition of the Gordondale Assets for $613.5 million which significantly increased net capital expenditures in comparison to the other quarters.

Birchcliff paid a common share dividend of $6.6 million or $0.025 per common share in each of the quarters ending March 31, 2017 and June 30, 2017.

In connection with the acquisition of the Gordondale Assets, Birchcliff issued a total of 110,520,000 common shares in the third quarter of 2016 pursuant to a prospectus offering and a concurrent private placement (the "**Financings**") which increased both the number of common shares and the weighted average common shares outstanding at the end of the period compared to the previous quarters.

Quarterly variances in long-term debt and total debt are primarily due to amount and timing of capital expenditures. The decreases in long-term debt and total debt from the three month Comparable Prior Period are largely due to the fact that the remaining net proceeds from the Financings (after the payment of the balance of the purchase price for the Gordondale assets acquired pursuant to the Gordondale Acquisition) were used to reduce indebtedness under the Credit Facilities, partially offset by increased capital spending in excess of funds flow from operations during the first half of 2017.

POTENTIAL TRANSACTIONS

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Corporation's internal control over financial reporting ("**ICFR**") that occurred during the period beginning on April 1, 2017 and ending on June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies, reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The Corporation's use of estimates, judgments and assumptions in preparing the interim condensed financial statements for the Reporting Period is discussed in Note 3 of the annual audited financial statements for the year ended December 31, 2016.

FUTURE ACCOUNTING PRONOUNCEMENTS

Future accounting pronouncements with a potential impact on the Corporation are summarized in Note 4 of the Corporation's annual audited financial statements for the year ended December 31, 2016.

RISK FACTORS AND RISK MANAGEMENT

The Corporation's financial and operational performance is potentially affected by a number of factors, including, but not limited to, financial risks, risks relating to economic conditions, business and operational risks, environmental and regulatory risks and other risks. The impact of any risk or a combination of risks may adversely affect the Corporation's business, financial condition, results of operations, prospects, cash flow and reputation, which may reduce or restrict the Corporation's ability to pay common share and preferred share dividends and may materially affect the market price of the Corporation's securities. The Corporation's approach to risk management includes an ongoing review of principal and emerging risks, an analysis of the severity and likelihood of each risk and an evaluation of the effectiveness of current mitigation procedures. A more detailed discussion of the risk factors affecting the Corporation is presented under the headings *"Risk Factors and Risk Management"* in the MD&A for the year ended December 31, 2016 and *"Risk Factors"* in the Annual Information Form for the year ended December 31, 2016.

ABBREVIATIONS

AECO	physical storage and trading hub for natural gas on the TransCanada Alberta transmission system which is the delivery point for various benchmark Alberta index prices
bbl	barrel
bbls	barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
boe/d	barrels of oil equivalent per day
GAAP	generally accepted accounting principles
GJ	gigajoule
GJ/d	gigajoules per day
IFRS	International Financial Reporting Standards
Mcf	thousand cubic feet
Mcfe	thousand cubic feet of gas equivalent
MMbtu	million British thermal units
MMcf	million cubic feet
MMcf/d	million cubic feet per day
NGLs	natural gas liquids
NGTL	NOVA Gas Transmission Ltd.
P&NG	petroleum and natural gas
WTI	West Texas Intermediate oil at Cushing, Oklahoma, the benchmark for North American crude oil pricing
000s	thousands
$000s	thousands of dollars

NON-GAAP MEASURES

This MD&A uses "funds flow from operations", "funds flow per common share", "operating netback", "estimated operating netback", "operating margin", "total cash costs", "adjusted working capital deficit" and "total debt". These measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Management believes that these non-GAAP measures assist management and investors in assessing Birchcliff's profitability, efficiency, liquidity and overall performance. Each of these measures is discussed in further detail below.

"Funds flow from operations" denotes 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 from operations divided by the basic or diluted weighted average number of common shares outstanding for the period. Management believes that funds flow from operations and funds flow per common share assist 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 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:

($000s)	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Cash flow from operating activities	57,467	7,049	128,081	27,796
Adjustments:				
Decommissioning expenditures	70	16	371	593
Change in non-cash working capital	31,075	6,202	27,790	5,573
Funds flow from operations	**88,612**	**13,267**	**156,242**	**33,962**

"Operating netback" denotes petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. "Estimated operating netback" of the Pouce Coupe Gas Plant (and the components thereof) is based upon certain cost allocations and accruals directly attributable to the Pouce Coupe Gas Plant and related wells and infrastructure on a production month basis. All netbacks are calculated on a per boe basis, unless otherwise indicated. Management believes that operating netback and estimated operating netback assist 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. The following table provides a breakdown of operating netback:

	Three months ended June 30, 2017		Three months ended June 30, 2016		Six months ended June 30, 2017		Six months ended June 30, 2016	
	($000s)	*($/boe)*(1)	*($000s)*	*($/boe)*(1)	*($000s)*	*($/boe)*(1)	*($000s)*	*($/boe)*(1)
Petroleum and natural gas revenue	146,597	24.92	47,261	13.14	279,305	24.43	104,764	14.13
Royalty expense	(4,711)	(0.80)	(885)	(0.25)	(15,677)	(1.37)	(3,436)	(0.46)
Operating expense	(27,453)	(4.67)	(12,403)	(3.45)	(56,403)	(4.93)	(26,555)	(3.58)
Transportation and marketing expense	(15,175)	(2.57)	(8,496)	(2.35)	(29,381)	(2.57)	(16,999)	(2.30)
Operating netback	**99,258**	**16.88**	**25,477**	**7.09**	**177,844**	**15.56**	**57,774**	**7.79**

(1) All per boe figures are calculated by dividing each aggregate financial amount by the production (boe) in the respective period.

"Operating margin" for the Pouce Coupe 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 Pouce Coupe Gas Plant and Birchcliff's ability to generate operating cash flows (equal to petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses).

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

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

As at, *($000s)*	June 30, 2017	December 31, 2016	June 30, 2016
Working capital deficit	60,254	36,928	6,017
Fair value of financial instruments	11,829	(9,433)	124
Adjusted working capital deficit	**72,083**	**27,495**	**6,141**

"Total debt" is calculated as the revolving term credit facilities plus adjusted working capital deficit. Management believes that total debt assists management and investors in assessing Birchcliff's liquidity. The following table provides a reconciliation of the revolving term credit facilities, as determined in accordance with IFRS, to total debt:

As at, *($000s)*	June 30, 2017	December 31, 2016	June 30, 2016
Revolving term credit facilities	628,401	572,517	709,510
Adjusted working capital deficit	72,083	27,495	6,141
Total debt	**700,484**	**600,012**	**715,651**

ADVISORIES

Unaudited Numbers

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

Operating Costs

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

Boe and Mcfe Conversions

Boe amounts have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil and Mcfe amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. Boe and Mcfe amounts may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl and an Mcfe conversion ratio of 1 bbl: 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.

Oil and Gas Metrics

This MD&A contains metrics commonly used in the oil and natural gas industry, including "operating netback". These oil and gas metrics do not have any standardized meanings or standard methods of calculation and therefore may not be comparable to similar measures presented by other companies where similar terminology is used and should not be used to make comparisons. Such metrics have been included herein to provide readers with additional measures to evaluate Birchcliff's performance; however, such measures are not reliable indicators of Birchcliff's future performance and future performance may not compare to Birchcliff's performance in previous periods and therefore such metrics should not be unduly relied upon. For information on how operating netback is calculated, please see *"Non-GAAP Measures".*

Capital Expenditures

Unless otherwise stated, references in this MD&A to "net capital expenditures" denote finding and development costs plus administrative costs plus acquisition capital, less any dispositions.

The 2017 Capital Program has been presented both on a total and a net basis (net of acquisitions and dispositions). Birchcliff makes acquisitions and dispositions in the ordinary course of business. Any further acquisitions and dispositions completed during 2017 could have an impact on Birchcliff's capital expenditures, production and funds flow from operations for 2017, which impact could be material. In addition, Birchcliff's estimate of 2017 net capital expenditures is subject to change if any unplanned acquisition and disposition activity is carried out during 2017. See also *"Advisories – Forward-Looking Information"* below.

Forward-Looking Information

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

In particular, this MD&A contains forward-looking information relating to the following: Birchcliff's plans and other aspects of its anticipated future financial performance, operations, focus, objectives, strategies, opportunities, priorities and goals; the 2017 Capital Program and Birchcliff's proposed exploration and development activities and the timing thereof, including estimates of total and net capital expenditures, the focus of the program, the number of wells to be drilled and statements that the majority of capital will be spent during the first half of 2017; the Asset Sales, including the total expected proceeds from the Asset Sales, the estimates of 2017 production for the assets, the anticipated closing dates of the Worsley Disposition and the Additional Disposition, the anticipated use of proceeds from the Asset Sales, the anticipated benefits of the Asset Sales (including that Birchcliff's balance sheet will be improved and that its financial flexibility will be increased) and Birchcliff's expectation that in the third quarter of 2017 it will recognize an after-tax accounting loss of approximately $129 million on the sale of the Worsley Assets and in the fourth quarter of 2017 an after-tax accounting gain of approximately $10 million on the sale of the Additional Assets, in each case estimated before closing adjustments and costs; Birchcliff's production guidance, including its estimates of its annual average and fourth quarter average production and commodity mix in 2017; proposed expansions of the Pouce Coupe Gas Plant, including the anticipated processing capacities of the Pouce Coupe Gas Plant after such expansions, the anticipated timing of such expansions and the anticipated cost of such expansions; Birchcliff's expectation that as a result of its revised arrangement with AltaGas, its operating costs will be reduced by approximately $4.7 million in 2017; that Birchcliff is currently working on reducing the overall operating cost structure of the Gordondale assets; the performance characteristics of Birchcliff's oil and natural gas properties and expected results from its assets; firm service on TCPL's Canadian Mainline and the timing thereof; Birchcliff's hedging strategy and the use of risk-management techniques, including that Birchcliff's current strategy is to hedge approximately 50% of its estimated annual average natural gas production and up to 50% of its estimated annual average oil production using a combination of financial derivatives and physical sales contracts; the Corporation's estimated income tax pools and management's expectation that future taxable income will be available to utilize the accumulated tax pools; the Corporation's liquidity, including Birchcliff's financial flexibility, the sources of funding for the Corporation's activities and capital requirements, that the Corporation generally relies on its funds flow operations and available credit under its existing credit facilities to fund its capital requirements, statements that the Corporation may from time to time seek additional capital in the form of debt and/or equity or dispose of non-core properties to fund its on-going capital expenditure programs and protect its balance sheet, management's belief that its funds flow from operations and available credit under the Credit Facilities will be sufficient to fund the Corporation's planned capital expenditures for the remainder of 2017 and to meet its current and future working capital requirements and the Corporation's expectation that counterparties will be able to meet their financial obligations; and estimates of contractual and decommissioning obligations.

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

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

- With respect to the 2017 Capital Program (including estimates of capital expenditures), such program is based on the following commodity price and exchange rate assumptions during 2017: an annual average WTI price of approximately US$50.00 per bbl of oil (revised from US$55.00 as announced on February 8, 2017); an AECO price of approximately CDN $2.35 per GJ of natural gas (revised from $3.00 as announced on February 8, 2017); and an exchange rate of US$/CDN$ of 1.30 (revised from 1.29 as announced on February 8, 2017).

- With respect to Birchcliff's estimates of capital expenditures, such estimates assume that the 2017 Capital Program will be carried out as currently contemplated and, in the case of its estimate of net capital expenditures, that the Worsley Disposition and the Additional Disposition are completed on the terms and timing anticipated. See *"Advisories – Capital Expenditures".*
- Birchcliff had previously disclosed that it expected that the entirety of its 2017 Capital Program would be fully funded out of its forecast funds flow from operations as such funds flow was expected to exceed its 2017 capital expenditures over the course of 2017, based on its budgeted forecast average prices of WTI US$55.00 per barrel of oil and AECO CDN$3.00 per GJ of natural gas during 2017. Birchcliff has revised its budgeted forecast commodity price assumptions to an average price of WTI US$50.00 per barrel of oil and an average price of AECO CDN$2.35 per GJ of natural gas during 2017. Given the Asset Sales and Birchcliff's increased 2017 Capital Program, its updated production guidance and its revised commodity price assumptions for 2017, Birchcliff now expects that the entirety of its 2017 Capital Program will be fully funded out of its forecast funds flow from operations, as well as the proceeds of the Asset Sales based on such revised commodity price assumptions and assuming completion of the Worsley Disposition and the Additional Disposition on the terms and timing anticipated.
- The amount and allocation of capital expenditures for exploration and development activities by area and the number and types of wells to be drilled is dependent upon results achieved and is subject to review and modification by management on an ongoing basis throughout the year. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials.

- With respect to Birchcliff's production guidance, the key assumptions are that: Birchcliff's capital expenditure programs will be carried out as currently contemplated; no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that any transportation service curtailments or unplanned outages that occur will be short in duration or otherwise insignificant; the construction of new infrastructure meets timing and operational expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations. In addition, Birchcliff's production may be affected by acquisition and disposition activity and acquisitions and dispositions could occur that may impact expected production.
- With respect to statements of future wells to be drilled and brought on production, the key assumptions are: the continuing validity of the geological and other technical interpretations performed by Birchcliff's technical staff, which indicate that commercially economic volumes can be recovered from Birchcliff's lands as a result of drilling future wells; and that commodity prices and general economic conditions will warrant proceeding with the drilling of such wells.
- With respect to statements regarding proposed expansions of the Pouce Coupe Gas Plant, including the anticipated processing capacities of the Pouce Coupe Gas Plant after such expansions and the anticipated timing of such expansions, the key assumptions are that: future drilling is successful; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund those projects; the key components of the plant will

operate as designed; and commodity prices and general economic conditions will warrant proceeding with the construction of such facilities and the drilling of associated wells.

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

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

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

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

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

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF FINANCIAL POSITION

Unaudited (Expressed in thousands of Canadian dollars)

As at,	**June 30, 2017**	**December 31, 2016**
ASSETS		
Current assets:		
Cash	13	47
Accounts receivable	61,463	62,572
Prepaid expenses and deposits	7,353	2,001
Fair value of financial instruments *(Note 10)*	11,829	-
	80,658	64,620
Non-current assets:		
Exploration and evaluation *(Note 3)*	53	53
Petroleum and natural gas properties and equipment *(Note 4)*	2,790,306	2,645,784
	2,790,359	2,645,837
Total assets	**2,871,017**	**2,710,457**
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	140,912	92,115
Fair value of financial instruments *(Note 10)*	-	9,433
	140,912	101,548
Non-current liabilities:		
Revolving term credit facilities *(Note 5)*	628,401	572,517
Decommissioning obligations *(Note 6)*	135,776	133,470
Deferred income taxes	117,509	99,599
Capital securities	49,071	48,916
	930,757	854,502
Total liabilities	**1,071,669**	**956,050**
SHAREHOLDERS' EQUITY		
Share capital *(Note 7)*		
Common shares	1,475,957	1,464,567
Preferred shares *(perpetual)*	41,434	41,434
Contributed surplus	64,694	63,847
Retained earnings	217,263	184,559
	1,799,348	1,754,407
Total shareholders' equity and liabilities	**2,871,017**	**2,710,457**

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

Approved by the Board

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

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

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

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

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
REVENUE				
Petroleum and natural gas sales	146,597	47,261	279,305	104,764
Royalties	(4,711)	(885)	(15,677)	(3,436)
Net revenue from oil and natural gas sales	141,886	46,376	263,628	101,328
Realized gain on financial instruments *(Note 10)*	2,484	83	4,895	83
Unrealized gain on financial instruments *(Note 10)*	4,711	124	21,263	124
	149,081	46,583	289,786	101,535
EXPENSES				
Operating	27,453	12,403	56,403	26,555
Transportation and marketing	15,175	8,496	29,381	16,999
Administrative, net	7,257	4,992	13,864	10,655
Depletion and depreciation *(Note 4)*	43,603	31,473	85,740	65,619
Finance	8,068	8,626	16,743	16,014
Dividends on capital securities *(Note 7)*	875	875	1,750	1,750
Loss on sale of assets *(Note 4)*	21,030	10,902	18,550	10,902
	123,461	77,767	222,431	148,494
Net income (loss) before taxes	25,620	(31,184)	67,355	(46,959)
Income tax recovery (expense)	(7,605)	7,863	(19,412)	11,603
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**18,015**	**(23,321)**	**47,943**	**(35,356)**
Net income (loss) per common share *(Note 7)*				
Basic	$0.06	($0.16)	$0.17	($0.25)
Diluted	$0.06	($0.16)	$0.17	($0.25)

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

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

Unaudited (Expressed in thousands of Canadian dollars)

	Share Capital				
	Common Shares	**Preferred Shares**	**Contributed Surplus**	**Retained Earnings**	**Total**
As at December 31, 2015	783,481	41,434	60,625	212,894	1,098,434
Dividends on perpetual preferred shares	-	-	-	(2,000)	(2,000)
Share issue costs	(16)	-	-	-	(16)
Stock-based compensation	-	-	2,945	-	2,945
Net loss and comprehensive loss	-	-	-	(35,356)	(35,356)
As at June 30, 2016	783,465	41,434	63,570	175,538	1,064,007
As at December 31, 2016	1,464,567	41,434	63,847	184,559	1,754,407
Dividends on common shares *(Note 7)*	-	-	-	(13,239)	(13,239)
Dividends on perpetual preferred shares *(Note 7)*	-	-	-	(2,000)	(2,000)
Exercise of stock options *(Note 8)*	11,390	-	(3,370)	-	8,020
Stock-based compensation *(Note 8)*	-	-	4,217	-	4,217
Net income and comprehensive income	-	-	-	47,943	47,943
As at June 30, 2017	**1,475,957**	**41,434**	**64,694**	**217,263**	**1,799,348**

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

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF CASH FLOWS

Unaudited (Expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
Cash provided by (used in):				
OPERATING				
Net income (loss) and comprehensive income (loss)	18,015	(23,321)	47,943	(35,356)
Adjustments for items not affecting operating cash:				
Unrealized gain on financial instruments	(4,711)	(124)	(21,263)	(124)
Depletion and depreciation	43,603	31,473	85,740	65,619
Stock-based compensation	971	524	1,725	1,174
Finance	8,068	8,626	16,743	16,014
Loss on sale of assets	21,030	10,902	18,550	10,902
Income taxes expense (recovery)	7,605	(7,863)	19,412	(11,603)
Interest paid	(6,844)	(7,825)	(14,358)	(14,414)
Dividends on capital securities	875	875	1,750	1,750
Decommissioning expenditures	(70)	(16)	(371)	(593)
Changes in non-cash working capital	(31,075)	(6,202)	(27,790)	(5,573)
	57,467	7,049	128,081	27,796
FINANCING				
Exercise of stock options	5,671	-	8,020	-
Share issue costs	-	(16)	-	(16)
Financing fees paid on credit facilities	(2,375)	-	(2,375)	-
Dividends on common shares	(6,635)	-	(13,239)	-
Dividends on perpetual preferred shares	(1,000)	(1,000)	(2,000)	(2,000)
Dividends on capital securities	(875)	(875)	(1,750)	(1,750)
Net change in revolving term credit facilities	51,521	61,999	57,705	87,127
	46,307	60,108	46,361	83,361
INVESTING				
Petroleum and natural gas properties and equipment	(130,933)	(23,430)	(260,813)	(87,316)
Exploration and evaluation assets	-	(9)	-	(14)
Sale of petroleum and natural gas properties and equipment	10,151	18,717	15,493	18,748
Deposit on acquisition	-	(31,250)	-	(31,250)
Changes in non-cash working capital	16,974	(31,220)	70,844	(11,360)
	(103,808)	(67,192)	(174,476)	(111,192)
Net change in cash	(34)	(35)	(34)	(35)
Cash, beginning of period	47	57	47	57
CASH, END OF PERIOD	**13**	**22**	**13**	**22**

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

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

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

1. NATURE OF OPERATIONS

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

These financial statements were approved and authorized for issuance by the Board of Directors on August 10, 2017.

2. BASIS OF PREPARATION

These unaudited interim condensed financial statements present Birchcliff's financial results of operations and financial position under International Financial Reporting Standards ("**IFRS**") as at and for the three and six months ended June 30, 2017, including the 2016 comparative periods. The financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**").

These financial statements have been prepared following the same IFRS accounting policies and methods of computation as disclosed in the annual audited financial statements for the year ended December 31, 2016. Certain information and disclosures normally required to be included in the notes to the annual audited financial statements have been condensed, omitted or have been disclosed on an annual basis only. Accordingly, these financial statements should be read in conjunction with the annual audited financial statements and the notes thereto for the year ended December 31, 2016.

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

3. EXPLORATION AND EVALUATION ASSETS

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

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

(1) E&E assets consist of the Corporation's exploration activities which are pending the determination of economic quantities of commercially producible proved reserves. Additions represent the Corporation's net share of costs incurred on E&E activities during the period. A review of each exploration project

by area is carried out at each reporting date to ascertain whether economical quantities of proved reserves have been discovered and whether such costs should be transferred to depletable petroleum and natural gas components. There were no exploration costs reclassified from the E&E category to petroleum and natural gas properties and equipment category during 2017 and 2016.

4. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

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

($000s)	P&NG Assets	Corporate Assets	Total
Cost:			
As at December 31, 2015	2,588,350	10,969	2,599,319
Additions	190,546	2,981	193,527
Acquisitions	634,345	-	634,345
Dispositions	(37,005)	-	(37,005)
As at December 31, 2016	3,376,236	13,950	3,390,186
Additions	265,703	854	266,557
Dispositions(1)	(40,670)	-	(40,670)
As at June 30, 2017(2)	3,601,269	14,804	3,616,073
Accumulated depletion and depreciation:			
As at December 31, 2015	(592,590)	(7,649)	(600,239)
Depletion and depreciation expense	(147,837)	(1,532)	(149,369)
Dispositions	5,206	-	5,206
As at December 31, 2016	(735,221)	(9,181)	(744,402)
Depletion and depreciation expense	(84,828)	(912)	(85,740)
Disposition(1)	4,375	-	4,375
As at June 30, 2017	(815,674)	(10,093)	(825,767)
Net book value:			
As at December 31, 2016	2,641,015	4,769	2,645,784
As at June 30, 2017(3)	**2,785,595**	**4,711**	**2,790,306**

(1) Consists largely of an asset disposition in the Gordondale and Pouce Coupe areas of Alberta with a net book value of $26.5 million for net proceeds of $6.1 million.

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

(3) Subsequent to June 30, 2017, the Corporation committed to a plan to dispose of certain oil and gas properties in Alberta, negotiated the sales terms and executed definitive sales agreements with unrelated third parties for total consideration of approximately $132 million, subject to certain closing adjustments and costs (see note 11). The Corporation did assess if these oil and gas properties, which were part of larger CGU's, were individually impaired at June 30, 2017 to which the recoverable amount was determined to be in excess of the carrying value based on a value in use calculation.

5. REVOLVING TERM CREDIT FACILITIES

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

As at, *($000s)*	**June 30, 2017**	**December 31, 2016**
Syndicated credit facility	617,000	569,000
Working capital facility	17,419	11,770
Drawn revolving term credit facilities	634,419	580,770
Unamortized prepaid interest on bankers' acceptances	(2,565)	(6,621)
Unamortized deferred financing fees	(3,453)	(1,632)
Revolving term credit facilities	**628,401**	**572,517**

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

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

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

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

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

6. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is set forth below:

As at, *($000s)*	**June 30, 2017**	**December 31, 2016**
Balance, beginning	133,470	92,504
Obligations incurred	2,984	2,772
Obligations acquired	269	20,072
Obligations divested	(2,252)	(1,579)
Change in discount rate on acquisition	-	22,599
Changes in estimated future cash flows	-	(4,102)
Accretion expense	1,676	2,547
Actual expenditures	(371)	(1,343)
Balance, ending(1)	**135,776**	**133,470**

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

7. CAPITAL STOCK

Share Capital

(a) Authorized:

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

Unlimited number of preferred shares, with no par value.

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

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

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

As at, *(000s)*	**June 30, 2017**	**December 31, 2016**
Common Shares:		
Outstanding at beginning of period - Jan 1	264,042	152,308
Issue of common shares	-	110,525
Exercise of stock options	1,375	1,209
Outstanding at end of period	265,417	264,042
Series A Preferred Shares (perpetual):		
Outstanding at beginning of period - Jan 1	2,000	2,000
Outstanding at end of period	2,000	2,000

Capital Securities

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

Dividends

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

On May 30, 2017, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A Preferred Share and $0.875 million or $0.4375 per Series C Preferred Share for the calendar quarter ending June 30, 2017. These dividends was payable on June 30, 2017 to shareholders of record on June 15, 2017.

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

Per Common Share

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

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
Net income (loss) *($000s)*	18,015	(23,321)	47,943	(35,356)
Dividends on Series A preferred shares *($000s)*	(1,000)	(1,000)	(2,000)	(2,000)
Net income (loss) to common shareholders *($000s)*	17,015	(24,321)	45,943	(37,356)
Weighted average common shares *(000s)*:				
Weighted average basic common shares outstanding	265,326	152,308	264,716	152,308
Effects of dilutive securities	2,877	-	3,349	-
Weighted average diluted common shares outstanding[(1)]	268,203	152,308	268,065	152,308
Net income (loss) per common share				
Basic	**$0.06**	($0.16)	**$0.17**	($0.25)
Diluted	**$0.06**	($0.16)	**$0.17**	($0.25)

(1) The weighted average diluted common shares outstanding as of June 30, 2017 excludes 13,117,175 common shares issuable pursuant to outstanding stock options and performance warrants that are anti-dilutive (June 30, 2016 – 10,924,638). As the Corporation reported a loss for the three and six months ended June 30, 2016, the basic and diluted weighted average shares outstanding are the same for the period.

8. SHARE-BASED PAYMENTS

Stock Options

At June 30, 2017, the Corporation's Amended and Restated Stock Option Plan (the "**Option Plan**") permitted the grant of options in respect of a maximum of 26,541,663 (June 30, 2016 – 15,230,754) common shares. At June 30, 2017, there remained available for issuance options in respect of 10,437,087 (June 30, 2016 – 1,388,616) common shares. During the three months ended June 30, 2017, the weighted average common share trading price on the Toronto Stock Exchange was $6.60 (June 30, 2016 – $5.85) per common share.

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

	Three months ended June 30, 2017		Six months ended June 30, 2017	
	Number	**Exercise Price *($)*[(1)]**	**Number**	**Exercise Price *($)*[(1)]**
Outstanding, beginning of period	16,778,476	6.82	12,899,775	6.45
Granted[(2)]	367,500	6.91	4,660,400	7.78
Exercised	(974,932)	(5.82)	(1,374,731)	(5.83)
Forfeited	(66,468)	(7.56)	(80,868)	(7.54)
Outstanding, June 30, 2017	**16,104,576**	**6.88**	**16,104,576**	**6.88**

(1) Determined on a weighted average basis.

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

The weighted average fair value per option granted during the three months ended June 30, 2017 was $2.41 (June 30, 2016 – $2.27). In determining the stock-based compensation expense for options issued during the three months ended June 30, 2017, the Corporation applied a weighted average estimated forfeiture rate of 11% (June 30, 2016 – 12%).

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

Three months ended,	June 30, 2017	June 30, 2016
Risk-free interest rate	0.9%	0.6%
Expected life *(years)*	4.1	4.0
Expected volatility	49.1%	48.0%
Dividend yield	1.4%	-

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

Exercise Price *($)*		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price *($)*	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price *($)*
3.35	6.00	2,971,401	3.58	3.45	973,099	3.56	3.42
6.01	9.00	12,902,175	2.79	7.62	6,935,949	1.55	7.63
9.01	12.00	228,000	2.43	9.86	152,665	2.02	10.01
12.01	12.31	3,000	1.81	12.31	3,000	1.81	12.31
		16,104,576	**2.93**	**6.88**	**8,064,713**	**1.80**	**7.17**

Performance Warrants

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

9. CAPITAL MANAGEMENT

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations (including potential obligations arising from additional acquisitions), to maintain a capital structure that allows Birchcliff to finance its growth strategy using primarily internally-generated cash flow and its available debt capacity and to optimize the use of its capital to provide an appropriate investment return to its shareholders. There were no changes in the Corporation's approach to capital management during the six months ended June 30, 2017.

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

As at, *($000s)*	**June 30, 2017**	**December 31, 2016**
Maximum borrowing base limit[1]:		
Revolving term credit facilities	950,000	950,000
Principal amount utilized:		
Drawn revolving term credit facilities	(634,419)	(580,770)
Outstanding letters of credit[2]	(13,050)	(12,310)
	(647,469)	(593,080)
Unused credit	**302,531**	**356,920**

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

(2) Letters of credit are issued to various service providers. The letters of credit has reduced the amount available under the Working Capital Facility from $50 million to approximately $37 million. There were no amounts drawn on the letters of credit during the six months ended June 30, 2017.

The capital structure of the Corporation is as follows:

As at, *($000s)*	**June 30, 2017**	**December 31, 2016**	**% Change**
Shareholders' equity[1]	1,799,348	1,754,407	
Capital securities	49,071	48,916	
Shareholders' equity & capital securities	1,848,419	1,803,323	3%
Shareholders' equity & capital securities as a % of total capital[2]	72%	75%	
Working capital deficit[3]	72,083	27,495	
Drawn revolving term credit facilities	634,419	580,770	
Drawn debt	706,502	608,265	16%
Drawn debt as a % of total capital	28%	25%	
Capital	**2,554,921**	**2,411,588**	**6%**

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

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

(3) Working capital deficit is defined as current assets less current liabilities (excluding fair value of financial instruments).

10. FINANCIAL RISK MANAGEMENT

Birchcliff is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and periodically reviews the results of all risk management activities and all outstanding positions. Birchcliff's exposure to credit risk, liquidity risk and market risk are consistent with those disclosed in the annual audited financial statements for the year ended December 31, 2016.

Financial derivative contracts

As of June 30, 2017, Birchcliff had certain financial derivative contracts outstanding in order to manage commodity price risk. These instruments are not used for trading or speculative purposes. Birchcliff has not designated its financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity contracts to be effective economic hedges. As a result, all such financial derivative contracts are recorded on the statement of financial position at fair value, with the changes in fair value being recognized as an unrealized gain or loss in profit or loss.

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

Product	Type of contract	Notional quantity	Term[(1)]	Contract price	Fair value ($000s)
Natural gas	Financial swap	40,000 GJ/d	July 1, 2017 – December 31, 2017	AECO CDN $2.97/GJ	4,995
Natural gas	Financial swap	20,000 GJ/d	July 1, 2017 – December 31, 2017	AECO CDN $2.98/GJ	2,636
Natural gas	Financial swap	10,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN $3.35/GJ	789
Natural gas	Financial swap	10,000 GJ/d	October 1, 2017 – December 31, 2017	AECO CDN $3.40/GJ	831
Crude oil	Financial swap	1,500 bbls/d	July 1, 2017 – December 31, 2017	WTI CDN 69.90/bbl	2,578
Fair value assets					**11,829**

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

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

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
Realized gain on derivatives	2,484	83	4,895	83
Unrealized gain on derivatives	4,711	124	21,263	124

As of June 30, 2017, if the future strip prices for AECO natural gas had been CDN$0.10/GJ higher, with all other variables held constant, the after-tax net income in the six month Reporting Period would have decreased by $1.1 million. As of June 30, 2017, if the future strip prices for WTI crude oil had been CDN$1.00/bbl higher, with all other variables held constant, the after-tax net income in the six month Reporting Period would have decreased by $0.2 million.

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

Physical delivery sales contracts

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

Product	Type of contract	Volume	Term[(1)]	Contract price
Natural gas	Fixed price	20,000 GJ/d	July 1, 2017 – December 31, 2017	AECO CDN$2.99/GJ
Natural gas	Fixed price	20,000 GJ/d	July 1, 2017 – December 31, 2017	AECO CDN$2.98/GJ
Natural gas	Fixed price	20,000 GJ/d	July 1, 2017 – December 31, 2017	AECO CDN$3.00/GJ
Natural gas	Fixed price	10,000 GJ/d	July 1, 2017 – December 31, 2017	AECO CDN$3.00/GJ
Natural gas	Fixed price	50,000 GJ/d	July 1, 2017 – December 31, 2017	AECO CDN$3.05/GJ
Natural gas	Fixed price	10,000 GJ/d	Oct 1, 2017 – December 31, 2017	AECO CDN$3.35/GJ

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

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

11. SUBSEQUENT EVENT

Subsequent to June 30, 2017, the Corporation committed to a plan, negotiated the sales terms and executed the definitive sales agreements to dispose of: (i) its Worsley Charlie Lake Light Oil Play assets (the "**Worsley Assets**") in Alberta for total consideration of approximately $100 million (subject to customary closing adjustments) with closing expected to occur on August 31, 2017; and (ii) certain other remaining assets that were being marketed for sale (the "**Additional Assets**") for total consideration of approximately $32 million (subject to customary closing adjustments) with closing expected to occur in the fourth quarter of 2017. The Corporation estimates that in the third quarter of 2017, it will recognize an after-tax accounting loss of approximately $129 million on the sale of the Worsley Assets and in the fourth quarter of 2017 an after-tax accounting gain of approximately $10 million on the sale of the Additional Assets, in each case estimated before closing adjustments and costs.

ABBREVIATIONS

AECO	physical storage and trading hub for natural gas on the TransCanada Alberta transmission system which is the delivery point for various benchmark Alberta index prices
bbl	barrel
bbls	barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
boe/d	barrels of oil equivalent per day
F&D	finding and development
GAAP	generally accepted accounting principles
GJ	gigajoule
GJ/d	gigajoules per day
HZ	horizontal
IFRS	International Financial Reporting Standards
m^3	cubic metres
Mcf	thousand cubic feet
Mcfe	thousand cubic feet of gas equivalent
MJ	megajoules
MMbtu	million British thermal units
MMcf	million cubic feet
MMcf/d	million cubic feet per day
NGLs	natural gas liquids
NGTL	NOVA Gas Transmission Ltd.
WTI	West Texas Intermediate oil at Cushing, Oklahoma, the benchmark for North American crude oil pricing
000s	thousands
$000s	thousands of dollars

NON-GAAP MEASURES

This Second Quarter Report uses "funds flow from operations", "funds flow per common share", "operating netback", "estimated operating netback", "operating margin", "total cash costs", "adjusted working capital deficit" and "total debt". These measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. For further details on these non-GAAP measures, please see *"Non-GAAP Measures"* in the management's discussion and analysis for the three months ended June 30, 2017.

In addition, this Second Quarter Report uses "funds flow netback" which does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. "Funds flow netback" denotes petroleum and natural gas revenue less royalties, less operating expenses, less transportation and marketing expenses, less net general and administrative expenses, less interest expenses and less any realized losses (plus realized gains) on financial instruments and plus any other cash income sources. Funds flow netback is calculated on a per boe basis, unless otherwise indicated. Management believes that funds flow 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. The following table provides a breakdown of funds flow netback for the periods indicated:

	Three months ended June 30,				Six months ended June 30,			
	2017		2016		2017		2016	
	($000s)	*($/boe)*[(1)]	*($000s)*	*($/boe)*[(1)]	*($000s)*	*($/boe)*[(1)]	*($000s)*	*($/boe)*[(1)]
Petroleum and natural gas revenue	146,597	24.92	47,261	13.14	279,305	24.43	104,764	14.13
Royalty expense	(4,711)	(0.80)	(885)	(0.25)	(15,677)	(1.37)	(3,436)	(0.46)
Operating expense	(27,453)	(4.67)	(12,403)	(3.45)	(56,403)	(4.93)	(26,555)	(3.58)
Transportation and marketing expense	(15,175)	(2.57)	(8,496)	(2.35)	(29,381)	(2.57)	(16,999)	(2.30)
General & administrative expense, net	(6,286)	(1.07)	(4,468)	(1.24)	(12,139)	(1.06)	(9,481)	(1.28)
Interest expense	(6,844)	(1.16)	(7,825)	(2.18)	(14,358)	(1.26)	(14,414)	(1.94)
Realized gain on financial instruments	2,484	0.42	83	0.02	4,895	0.43	83	0.01
Funds flow netback	**88,612**	**15.07**	**13,267**	**3.69**	**156,242**	**13.67**	**33,962**	**4.58**

(1) All per boe figures are calculated by dividing each aggregate financial amount by the production (boe) in the respective period.

ADVISORIES

UNAUDITED INFORMATION

All financial and operating information contained in this Second Quarter Report for the three and six months ended June 30, 2017 is unaudited.

CURRENCY

All amounts in this Second Quarter Report are stated in Canadian dollars unless otherwise specified.

OPERATING COSTS

References in this Second Quarter Report to "operating costs" exclude transportation and marketing costs.

BOE AND MCFE CONVERSIONS

Boe amounts have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil and Mcfe amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. Boe and Mcfe amounts may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl and an Mcfe conversion ratio of 1 bbl: 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.

CONVERSION FROM GJ TO MCF – WELLHEAD PRICE

Birchcliff receives premium pricing for its natural gas production due to its high heat content from its properties. With respect to Birchcliff's natural gas hedging contracts outstanding as of June 30, 2017, the prices have been presented in both AECO CDN $/GJ and $/Mcf, with the latter representing the average expected natural gas wellhead price under contract. The conversion from GJ to Mcf is based on an expected corporate average natural gas heat content value of 40.63 MJ/m^3 for the period from July 1, 2017 to December 31, 2017.

INITIAL PRODUCTION RATES

Any references in this Second Quarter Report to initial production rates and other short-term production rates are useful in confirming the presence of hydrocarbons; however, such rates are not determinative of the rates at which such wells will continue to produce and decline thereafter and are not indicative of the long-term performance or of the ultimate recovery of such wells.

OIL AND GAS METRICS

This Second Quarter Report contains metrics commonly used in the oil and natural gas industry, including “operating netback” and “funds flow netback”. These oil and gas metrics do not have any standardized meanings or standard methods of calculation and therefore may not be comparable to similar measures presented by other companies where similar terminology is used and should not be used to make comparisons. Such metrics have been included herein to provide readers with additional measures to evaluate Birchcliff’s performance; however, such measures are not reliable indicators of Birchcliff’s future performance and future performance may not compare to Birchcliff’s performance in previous periods and therefore such metrics should not be unduly relied upon. For information on how such netbacks are calculated, please see *“Non-GAAP Measures”*.

CAPITAL EXPENDITURES

Unless otherwise stated, references in this Second Quarter Report to “net capital expenditures” and “capital expenditures, net” denote F&D costs plus administrative costs plus acquisition capital, less any dispositions.

The 2017 Capital Program has been presented both on a total and a net basis (net of acquisitions and dispositions). Certain dispositions that have been completed or announced at the date of this Second Quarter Report have been accounted for in Birchcliff’s estimate of net capital expenditures as disclosed under the heading *“Expansion to 2017 Capital Expenditure Budget”*. Birchcliff makes acquisitions and dispositions in the ordinary course of business. Any further acquisitions and dispositions completed during 2017 could have an impact on Birchcliff’s capital expenditures, production and funds flow from operations for 2017, which impact could be material. In addition, Birchcliff’s estimate of 2017 net capital expenditures is subject to change if any unplanned acquisition and disposition activity is carried out during 2017. See also *“Advisories – Forward-Looking Information”* below.

FORWARD-LOOKING INFORMATION

Certain statements contained in this Second Quarter Report constitute forward-looking statements and information (collectively referred to as “**forward-looking information**”) within the meaning of applicable Canadian securities laws. Such forward-looking information relates to future events or Birchcliff’s future performance. All information other than historical fact may be forward-looking information. Such forward-looking information is often, but not always, identified by the use of words such as “seek”, “plan”, “expect”, “project”, “intend”, “believe”, “anticipate”, “estimate”, “forecast”, “potential”, “proposed”, “predict”, “budget”, “continue”, “targeting”, “may”, “will”, “could”, “might”, “should” and other similar words and expressions. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Birchcliff believes that the expectations reflected in the forward-looking information are reasonable in the current circumstances but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this Second Quarter Report should not be unduly relied upon.

In particular, this Second Quarter Report contains forward-looking information relating to the following: Birchcliff's plans and other aspects of its anticipated future financial performance, operations, focus, objectives, strategies, opportunities, priorities and goals, including Birchcliff's focus on maintaining a strong balance sheet, reducing indebtedness and funding capital expenditures from internally generated funds flow; the Asset Sales, including the total expected proceeds from the Asset Sales, the estimates of 2017 production for the assets and the anticipated closing dates of the Worsley Disposition and the Additional Disposition; the 2017 Capital Program and Birchcliff's proposed exploration and development activities and the timing thereof, including the amount and allocation of capital expenditures, the number and types of wells to be drilled and brought on production and the timing thereof, estimates of total and net capital expenditures, that the majority of capital will be spent during the first half of 2017, the focus of the program and Birchcliff's expectation that the entirety of the 2017 Capital Program will be fully funded out of Birchcliff's forecast funds flow from operations for 2017 and the proceeds from the Asset Sales; Birchcliff's science and technology multi-well pad program; Birchcliff's production guidance, including its estimates of its annual average and fourth quarter average production and commodity mix in 2017; proposed expansions of the Pouce Coupe Gas Plant, including the anticipated processing capacities of the Pouce Coupe Gas Plant after such expansions, the anticipated timing of such expansions, the anticipated cost of and the capital required for such expansions and the timing thereof (including that Phase V will be under budget and that Birchcliff will not be required to spend any material capital in 2017 and 2018 on Phase VII), the proposed design and capabilities of such expansions, that no unnecessary stress is expected to be placed on Birchcliff's balance sheet over the next few years as capital is required to construct these plant expansions and that natural gas processing will be available to Birchcliff until the construction of Phase VII is complete; the Elmworth Gas Plant, including the anticipated processing capacity of the Elmworth Gas Plant and the anticipated timing of such plant; Birchcliff's expectation that as a result of its revised arrangement with AltaGas, its operating costs will be reduced by approximately $4.7 million in 2017 and that its take-or-pay obligation will not be fulfilled until 2020; Birchcliff's expectation that its operating costs in the fourth quarter of 2017 will be less than $4.00/boe; the performance characteristics of Birchcliff's oil and natural gas properties and expected results from its assets; the timing of the next semi-annual review under Birchcliff's Credit Facilities; firm service on TCPL's Canadian Mainline and the timing thereof and statements that Birchcliff's arrangements to sell natural gas into the Alliance system and the proposed firm service on TCPL's Canadian Mainline will provide Birchcliff with a more diverse portfolio of natural gas markets and prices beyond AECO; Birchcliff's expectation that it will announce its updated Five Year Plan in the fall of 2017; and that Birchcliff intends to continue to maintain a strong balance sheet and financial flexibility, while it continues to pay a sustainable dividend. In addition, this Second Quarter Report includes the forward-looking information identified in the management's discussion and analysis for the three and six months ended June 30, 2017 under the heading "*Advisories – Forward-Looking Information*".

With respect to forward-looking information contained in this Second Quarter Report, assumptions have been made regarding, among other things: that the Worsley Disposition and the Additional Disposition will be completed on the terms and the timing anticipated; the ability to obtain any necessary regulatory approvals and the satisfaction of all conditions to the Worsley Disposition and the Additional Disposition in a timely manner; the scope of and the effects of the expected benefits of the Asset Sales; Birchcliff's ability to continue to develop its assets and obtain the anticipated benefits therefrom; prevailing and future commodity prices and differentials, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; expected funds flow from operations; Birchcliff's future debt levels; the state of the economy and the exploration and production business; the economic and political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes and environmental laws; the sources of funding for Birchcliff's capital expenditure programs and other activities; anticipated timing and results of capital expenditures; the sufficiency of budgeted capital expenditures to carry out planned operations; results of future operations; future operating, transportation, marketing and general and administrative costs; the performance of existing and future wells, well production rates and well decline rates; well drainage areas; success rates for future drilling; reserves and resource volumes and Birchcliff's ability to replace and expand oil and gas reserves through acquisition, development or exploration; the impact of competition on Birchcliff; the availability of, demand for and cost of labour, services and materials; Birchcliff's ability to access capital; the ability to obtain financing on acceptable terms; the ability to obtain any necessary regulatory approvals in a timely manner; the ability of Birchcliff to secure adequate transportation for its products; Birchcliff's ability to market oil and gas; and the availability of hedges on terms acceptable to Birchcliff.

In addition to the foregoing assumptions, Birchcliff has made the following assumptions with respect to certain forward-looking information contained in this Second Quarter Report:

- With respect to the 2017 Capital Program (including estimates of capital expenditures and statements that the entirety of the 2017 Capital Program will be fully funded out of Birchcliff's forecast 2017 funds flow from operations and the proceeds from the Asset Sales), such program is based on the following commodity price and exchange rate assumptions during 2017: an annual average WTI price of approximately US$50.00 per bbl of oil (revised from US$55.00 as announced on February 8, 2017); an AECO price of approximately CDN $2.35 per GJ of natural gas (revised from $3.00 as announced on February 8, 2017); and an exchange rate of US$/CDN$ of 1.30 (revised from 1.29 as announced on February 8, 2017).
    - With respect to Birchcliff's estimates of capital expenditures, such estimates assume that the 2017 Capital Program will be carried out as currently contemplated and, in the case of its estimate of net capital expenditures, that the Worsley Disposition and the Additional Disposition are completed on the terms and timing anticipated. See *"Advisories – Capital Expenditures"*.
    - With respect to statements that the entirety of the 2017 Capital Program will be fully funded out of Birchcliff's forecast 2017 funds flow from operations and the proceeds from the Asset Sales, such estimates and statements assume that: the 2017 Capital Program will be carried out as currently contemplated; the production targets and commodity price assumptions set forth herein are achieved; Birchcliff's forecast commodity mix is achieved; and the Worsley Disposition and the Additional Disposition are completed on the terms and timing anticipated.
    - Birchcliff had previously disclosed that it expected that the entirety of its 2017 Capital Program would be fully funded out of its forecast funds flow from operations as such funds flow was expected to exceed its 2017 capital expenditures over the course of 2017, based on its budgeted forecast average prices of WTI US$55.00 per barrel of oil and AECO CDN$3.00 per GJ of natural gas during 2017. Birchcliff has revised its budgeted forecast commodity price assumptions to an average price of WTI US$50.00 per barrel of oil and an average price of AECO CDN$2.35 per GJ of natural gas during 2017. Given the Asset Sales and Birchcliff's increased 2017 Capital Program, its updated production guidance and its revised commodity price assumptions for 2017, Birchcliff now expects that the entirety of its 2017 Capital Program will be fully funded out of its forecast funds flow from operations, as well as the proceeds of the Asset Sales based on such revised commodity price

assumptions and assuming completion of the Worsley Disposition and the Additional Disposition on the terms and timing anticipated.

  - The amount and allocation of capital expenditures for exploration and development activities by area and the number and types of wells to be drilled is dependent upon results achieved and is subject to review and modification by management on an ongoing basis throughout the year. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials.

- With respect to Birchcliff's production guidance, the key assumptions are that: Birchcliff's capital expenditure programs will be carried out as currently contemplated; no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that any transportation service curtailments or unplanned outages that occur will be short in duration or otherwise insignificant; the construction of new infrastructure meets timing and operational expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations. In addition, Birchcliff's production may be affected by acquisition and disposition activity and acquisitions and dispositions could occur that may impact expected production.
- With respect to statements of future wells to be drilled and brought on production, the key assumptions are: the continuing validity of the geological and other technical interpretations performed by Birchcliff's technical staff, which indicate that commercially economic volumes can be recovered from Birchcliff's lands as a result of drilling future wells; and that commodity prices and general economic conditions will warrant proceeding with the drilling of such wells.
- With respect to statements regarding proposed expansions of the Pouce Coupe Gas Plant, including the anticipated processing capacities of the Pouce Coupe Gas Plant after such expansions and the anticipated timing of such expansions, the key assumptions are that: future drilling is successful; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund those projects; the key components of the plant will operate as designed; and commodity prices and general economic conditions will warrant proceeding with the construction of such facilities and the drilling of associated wells.
- With respect to statements regarding Birchcliff's intention to construct the Elmworth Gas Plant, including the anticipated processing capacity of such plant and the anticipated timing thereof, the key assumptions are that: future drilling in the Elmworth area is successful; the acid gas disposal well drilled by Birchcliff is capable of handling the volumes of acid gas to be produced at the plant and complies with all regulatory requirements; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund the Elmworth Gas Plant; and commodity prices and general economic conditions warrant proceeding with the construction of the Elmworth Gas Plant and the drilling of associated wells.

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

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

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

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

The forward-looking information contained in this Second Quarter Report is expressly qualified by the foregoing cautionary statements. The forward-looking information contained in this Second Quarter Report is made as of the date of this Second Quarter Report. Birchcliff is not under any duty to update or revise any of the forward-looking information except as expressly required by applicable securities laws.

CORPORATE INFORMATION

OFFICERS

A. Jeffery Tonken
President & Chief Executive Officer

Myles R. Bosman
Vice-President, Exploration & Chief Operating Officer

Chris A. Carlsen
Vice-President, Engineering

Bruno P. Geremia
Vice-President & Chief Financial Officer

David M. Humphreys
Vice-President, Operations

DIRECTORS

A. Jeffery Tonken (Chairman)
President & Chief Executive Officer
Calgary, Alberta

Dennis A. Dawson
Calgary, Alberta

Rebecca J. Morley
Calgary, Alberta

Larry A. Shaw
Calgary, Alberta

James W. Surbey
Calgary, Alberta

MANAGEMENT

Gates Aurigemma
Manager, General Accounting

Perry Billard
Asset Manager – Worsley

Robyn Bourgeois
General Counsel & Corporate Secretary

Jesse Doenz
Controller & Investor Relations Manager

George Fukushima
Manager of Engineering

Andrew Fulford
Surface Land Manager

MANAGEMENT CONT'D

Paul Messer
Manager of IT

Tyler Murray
Land Manager

Bruce Palmer
Manager of Geology

Bill Partridge
Engineering Lead

Brian Ritchie
Asset Manager – Gordondale

Michelle Rodgerson
Office Manager

Jeff Rogers
Facilities Manager

Randy Rousson
Drilling & Completions Manager

Vic Sandhawalia
Manager of Financial Accounting, Taxation & Insurance

Ryan Sloan
Health, Safety & Environment Manager

Hue Tran
Joint Venture & Marketing Manager

Theo van der Werken
Asset Manager – Pouce Coupe

SOLICITORS

Borden Ladner Gervais LLP
Calgary, Alberta

AUDITORS

KPMG LLP, Chartered Professional Accountants
Calgary, Alberta

RESERVES EVALUATORS

Deloitte LLP
Calgary, Alberta

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

BANKERS

The Bank of Nova Scotia

HSBC Bank Canada

National Bank of Canada

Canadian Imperial Bank of Commerce

Bank of Montreal

The Toronto-Dominion Bank

Alberta Treasury Branches

Business Development Bank of Canada

Wells Fargo Bank, N.A., Canadian Branch

United Overseas Bank Limited

ICICI Bank Canada

HEAD OFFICE

Suite 1000, 600 – 3rd Avenue S.W.
Calgary, Alberta T2P 0G5
Phone: 403-261-6401
Fax: 403-261-6424

SPIRIT RIVER OFFICE

5604 – 49th Avenue
Spirit River, Alberta T0H 3G0
Phone: 780-864-4624
Fax: 780-864-4628

Email: info@birchcliffenergy.com

TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta and
Toronto, Ontario

TSX: BIR, BIR.PR.A, BIR.PR.C

WWW.BIRCHCLIFFENERGY.COM