

BUILDING MOMENTUM

A photograph of a sailboat's white bow and mast cutting through dark blue water. In the background, there are dark, silhouetted mountain peaks under a sky filled with large, billowing clouds. A bright orange and yellow band of light from a setting or rising sun is visible behind the mountains, creating a reflection on the water.

2020 ANNUAL REPORT

BIRCHCLIFF
ENERGY

Although people will look back on 2020 as being memorable for its challenges, at Birchcliff we will look back at our successes, building out our infrastructure and driving down our costs.

We are building momentum for the future.

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This Annual Report contains forward-looking statements and information within the meaning of applicable securities laws. Such forward-looking statements and information are based upon certain expectations and assumptions and actual results may differ materially from those expressed or implied by such forward-looking statements and information. For further information regarding the forward-looking statements and information contained herein, see "Advisories – Forward-Looking Statements" in this Annual Report. In addition, this Annual Report uses the terms "adjusted funds flow", "adjusted funds flow per basic common share", "free funds flow", "transportation and other expense", "operating netback", "adjusted funds flow netback" 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 Annual Report and in the management's discussion and analysis for the year ended December 31, 2020 (the "MD&A"). Boe amounts in this Annual Report have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil. With respect to the disclosure of Birchcliff's production in this Annual Report, see "Advisories – Production".

Overview

Birchcliff Energy Ltd. is an intermediate oil and gas company based in Calgary, Alberta, with operations concentrated within one core area, the Peace River Arch of Alberta.

In 2020, Birchcliff generated \$184.5 million of adjusted funds flow and averaged 76,401 boe/d of production.

At December 31, 2020, 453 (449.9 net) Montney/Doig horizontal wells have been successfully drilled and cased on Birchcliff's lands. The majority of Birchcliff's natural gas is processed through our 100% owned and operated natural gas plant located in the Pouce Coupe area of Alberta (the **"Pouce Coupe Gas Plant"**). The Pouce Coupe Gas Plant has a processing capacity of 340 MMcf/d and is the cornerstone of our strategy to develop our Montney/Doig Resource Play, to control and expand our production in the play and to further reduce our operating costs per boe.

Our Montney/Doig Resource Play provides us with an extensive inventory of repeatable, low-cost drilling opportunities targeting natural gas, light oil, condensate and NGLs. Birchcliff has the ability to grow when commodity prices warrant doing so, while also having the ability to maintain production in a low commodity price environment.

We continue to operate essentially all of our high working interest production, which is surrounded by large contiguous blocks of high working interest lands where we own control and/or have long-term access to the infrastructure. Our operatorship, land position and infrastructure ownership gives us a competitive advantage in our areas of operation and supports our low-cost structure, which helps us to maximize our returns to shareholders.

Our common shares are listed on the TSX under the symbol BIR. Our Series A and Series C Preferred Shares are listed for trading on the TSX under the symbols BIR.PR.A and BIR.PR.C, respectively.

By the Numbers

As at December 31, 2020

99%

Operated production

99%

New drilling initiated and controlled

89%

Average working interest in undeveloped land

453
(449.9 NET)

Horizontal wells drilled and cased on the Montney/Doig Resource Play

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
OPERATING				
Average production				
Light oil (bbls/d)	3,566	4,435	4,415	4,742
Condensate (bbls/d)	6,658	4,906	5,824	5,145
NGLs (bbls/d)	8,285	7,814	7,650	7,264
Natural gas (Mcfd)	360,839	364,847	351,068	364,958
Total (boe/d)	78,649	77,962	76,401	77,977
Average realized sales price (CDN\$) ⁽¹⁾				
Light oil (per bbl)	49.56	67.58	42.39	68.29
Condensate (per bbl)	52.90	68.80	48.03	68.06
NGLs (per bbl)	16.16	16.62	13.62	13.76
Natural gas (per Mcf)	2.93	2.81	2.49	2.48
Total (per boe)	21.87	22.97	18.90	21.55
NETBACK AND COST (\$/boe)				
Petroleum and natural gas revenue ⁽¹⁾	21.88	22.97	18.90	21.56
Royalty expense	(0.90)	(1.15)	(0.65)	(0.96)
Operating expense	(3.03)	(3.06)	(2.95)	(3.09)
Transportation and other expense	(4.94)	(4.51)	(4.93)	(4.44)
OPERATING NETBACK (\$/boe)	13.01	14.25	10.37	13.07
G&A expense, net	(1.11)	(1.26)	(0.88)	(0.94)
Interest expense	(1.20)	(0.82)	(0.93)	(0.88)
Realized gain (loss) on financial instruments	(1.63)	(0.92)	(2.13)	0.48
Other income	0.12	0.03	0.17	0.02
ADJUSTED FUNDS FLOW NETBACK (\$/boe)	9.19	11.28	6.60	11.75
Depletion and depreciation expense	(7.49)	(7.49)	(7.60)	(7.50)
Unrealized gain (loss) on financial instruments	5.84	(6.50)	(1.27)	(6.77)
Other expenses (income) ⁽²⁾	0.30	(0.28)	(0.16)	(0.51)
Dividends on preferred shares	(0.26)	(0.27)	(0.27)	(0.27)
Income tax recovery (expense)	(2.00)	0.61	0.48	1.21
Net income (loss) to common shareholders (\$/boe)	5.58	(2.65)	(2.22)	(2.09)
FINANCIAL				
Petroleum and natural gas revenue (\$000s) ⁽¹⁾	158,283	164,759	528,505	613,559
Cash flow from operating activities (\$000s)	71,431	85,557	188,180	327,066
Adjusted funds flow (\$000s)	66,509	80,941	184,526	334,504
Per basic common share (\$)	0.25	0.30	0.69	1.26
Net income (loss) to common shareholders (\$000s)	40,407	(18,984)	(62,008)	(59,579)
Per basic common share (\$)	0.15	(0.07)	(0.23)	(0.22)
End of period basic common shares (000s)	265,943	265,935	265,943	265,935
Weighted average basic common shares (000s)	265,940	265,935	265,936	265,930
Dividends on common shares (\$000s)	1,330	6,981	10,968	27,923
Dividends on preferred shares (\$000s)	1,905	1,922	7,654	7,687
F&D capital expenditures (\$000s) ⁽³⁾	41,291	56,800	287,967	256,395
Total capital expenditures (\$000s) ⁽⁴⁾	28,778	58,136	276,785	300,246
Long-term debt (\$000s)	731,372	609,177	731,372	609,177
Total debt (\$000s)	761,951	632,582	761,951	632,582

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

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

(3) See "Advisories – Capital Expenditures".

(4) Includes acquisitions, dispositions and administrative assets. See "Advisories – Capital Expenditures".

Message To Shareholders

Dear Fellow Shareholders,

2020 was a challenging year for Birchcliff and for the industry as a whole. The significant negative impact of the COVID-19 pandemic on economic conditions in Canada and the rest of the world, compounded by production and pricing decisions from OPEC, drove down the price of oil, with WTI moving into negative territory. Needless to say, these events put significant strain on Birchcliff, its employees, and its stakeholders.

2020 OVERVIEW AND ACHIEVEMENTS

We took decisive action in 2020 to strengthen our balance sheet and ensure liquidity and financial flexibility, including reducing our original capital budget by 19% and our common share dividend by 81%. We also implemented a number of initiatives to protect the safety and well-being of our employees and contractors, while effectively executing our 2020 business plan. These initiatives, which are ongoing, include remote work-from-home arrangements, physical distancing measures, enhanced cleaning and sanitization measures and conducting meetings through virtual means. We also brought in industrial

camps for contractors, which significantly reduced interaction with the communities surrounding our operations. We have established a response team to coordinate and implement initiatives relating to COVID-19 and we continue to closely monitor the recommendations of applicable government and health authorities.

While others in our industry struggled to maintain liquidity in 2020, Birchcliff reconfirmed its \$1 billion credit facilities with our syndicate of banks in early May 2020. This was notwithstanding very weak commodity prices and the decimation of our economy and is a testament to the strength and value of our assets. These credit facilities do not contain any financial maintenance covenants and mature on May 11, 2022.

Birchcliff moved forward with its previously planned infrastructure build-out projects in 2020. These projects, which are expected to last for decades, are highlighted by our new inlet liquids-handling facility (the “**Inlet Liquids-Handling Facility**”) at the Pouce Coupe Gas Plant and the completion of a significant trunk line in the southwest of Gordondale. The addition of the



“We are full speed ahead and enthusiastically looking forward to executing our business plan.”

Inlet Liquids-Handling Facility, which was completed ahead of schedule and under budget, increases the operational safety of the Pouce Coupe Gas Plant. It also allows us to process a significant amount of condensate, including from the very successful 14-well pad that we brought on production in Pouce Coupe in 2020. Making the decision to continue with these infrastructure projects during the 2020 downturn required us to outspend our adjusted funds flow in 2020. We believe this has proven to be the correct decision, as these projects reduced our operating costs, allow us to increase our cash flow and make our operations safer.

Other achievements in 2020 include:

- We achieved record low annual operating expense of \$2.95/boe, a 5% decrease from 2019, which speaks to the significant efforts of our team to remain one of industry's lowest-cost producers.
- Our annual average production was 76,401 boe/d. Liquids accounted for approximately 23% of our total production in 2020, with total liquids production increasing by 4% from 2019.
- We successfully executed our 2020 capital program, drilling and bringing on production a total of 34 (34.0 net) wells.
- We adapted rapidly to the unprecedented changes to our operations as a result of the COVID-19 pandemic in order to reduce the risks to our employees and contractors, the communities in which we operate and our business.

COMMITMENT TO CORPORATE RESPONSIBILITY

At Birchcliff, we recognize the importance of, and our responsibility for, environmental stewardship and are committed to the responsible development of our assets. One of our primary goals is to create and preserve a safe and environmentally responsible organization. We strive to maintain excellence in environmental reporting and are continually looking to identify, develop and utilize new technology, systems and processes that will reduce our environmental footprint and create a safer work environment.

2020 was not only challenging for businesses, but also for individuals, families, and communities, and we have been focused on showing compassion for our employees and contractors and giving back to our community and those less fortunate through our community and stakeholder engagement program.

As I look back on 2020, I am proud of the way that Birchcliff balanced its responsibilities to all of its stakeholders. Information regarding our ESG initiatives and activities can be found later in this Annual Report under the heading "*Environmental, Social & Governance*" and in our ESG Report which is available on our website at www.birchcliffenergy.com.

OUTLOOK

In our press release on January 20, 2021, we outlined our guidance for the year. This includes the expectation that Birchcliff will generate approximately \$360 million of adjusted funds flow with F&D capital expenditures of between \$210 million and \$230 million, resulting in free funds flow of \$130 million to \$150 million in 2021.

We are focused on strengthening our balance sheet and free funds flow in 2021 will be used primarily for debt reduction. After the collapse of the public energy markets in 2020, it is clearer than ever that we must return value to our shareholders. We believe that in order to do this we must first drive our debt down in order to confidently move forward with sustainable shareholder returns.

I want to sincerely thank our Board of Directors and the other members of our Executive Team for their hard work, support and determination to be successful, especially during the extraordinary circumstances that arose in the spring of 2020, when significant collaborative discussion about the risks of our business took place frequently.

On behalf of our Executive Team, we want to thank all of our managers and staff for trusting us with the new and often changing processes which were required due to COVID-19. During 2020, we had more than 30 staff meetings, including virtual meetings weekly from mid-March to the end of June, as we focused on maintaining excellent communication despite our work-from-home arrangements, to ensure the safety of our stakeholders and the successful execution of our capital program.

As I write this message, we are on budget and ahead of schedule on our capital program, our drilling results are very encouraging and commodity prices look very strong for 2021. With our best asset in place, our people, we are full speed ahead and enthusiastically looking forward to executing our business plan.



A. Jeffery Tonken
President & Chief Executive Officer

March 10, 2021

Executive Team

Drawing on extensive backgrounds in the energy sector, our Executive Team brings a rich portfolio of skills and experience to Birchcliff's business operations.



MYLES BOSMAN

Vice-President, Exploration
& Chief Operating Officer

JEFF TONKEN

President &
Chief Executive Officer

Under the oversight of our Board of Directors, our Executive Team collectively drives our day-to-day pursuit of operational excellence, while identifying and pursuing responsible growth opportunities. Deeply invested in our success and unified by a genuine sense of camaraderie, our Executive Team works together to provide effective leadership and strategic direction.

**BRUNO GEREMIA**

Vice-President &
Chief Financial Officer

CHRIS CARLSEN

Vice-President,
Engineering

DAVE HUMPHREYS

Vice-President,
Operations

Management Team

Birchcliff's Management Team is comprised of talented, high-performing individuals who are driven to help Birchcliff succeed.



ROBYN BOURGEOIS
General Counsel & Corporate Secretary



RANDY ROUSSON
Drilling & Completions Manager



RYAN SLOAN
Health, Safety &
Environment Manager



JEFF ROGERS
Facilities Manager



BRUCE PALMER
Manager of Geology



GATES AURIGEMMA
Manager, General Accounting



VICTOR SANDHAWALIA
Manager of Finance



ANDREW FULFORD
Surface Land Manager



GEORGE FUKUSHIMA
Manager of Engineering

With guidance from our Executive Team, our Management Team is instrumental in executing our business strategy and managing our day-to-day operations.



BRIAN RITCHIE
Asset Manager – Gordondale



THEO VAN DER WERKEN
Asset Manager – Pouce Coupe



MICHELLE RODGERSON
Manager, Human Resources
& Corporate Services



HUE TRAN
Business Development Manager



JESSE DOENZ
Controller & Investor Relations Manager



PAUL MESSER
Manager of Information Technology



TYLER MURRAY
Mineral Land Manager



DUANE THOMPSON
Production Manager

History

Birchcliff was incorporated as a private corporation on July 6, 2004. Since our inception, we have invested approximately \$4.7 billion of capital in Alberta, primarily in the Montney/Doig Resource Play. These investments have generated \$5.2 billion in revenue, paid \$388 million in royalties to Albertans and delivered \$2.6 billion in adjusted funds flow.

The following describes the major events in our history:

JANUARY 19, 2005

Common shares commenced trading on the TSX Venture Exchange

FEBRUARY 6, 2005

Rig released first Montney/Doig vertical exploration gas well drilled by Birchcliff in the Pouce Coupe area

MAY 31, 2005

Completed acquisition of properties in the Peace River Arch for \$242.8 million, including a significant undeveloped land position on the Montney/Doig Resource Play

SEPTEMBER 22, 2007

Rig released first Montney/Doig horizontal natural gas well drilled by Birchcliff utilizing multi-stage fracture stimulation technology in the Pouce Coupe area

OCTOBER 2012

Phase III of the Pouce Coupe Gas Plant commenced operations with a combined processing capacity of 150 MMcf/d

MARCH 2010

Phase I of the Pouce Coupe Gas Plant commenced operations with a processing capacity of 30 MMcf/d

NOVEMBER 2010

Phase II of the Pouce Coupe Gas Plant commenced operations with a combined processing capacity of 60 MMcf/d

JULY 21, 2005

Common shares commenced trading on the TSX

20
05

20
20

MARCH 31, 2017

Paid first quarterly dividend to common shareholders

SEPTEMBER 2014

Phase IV of the Pouce Coupe Gas Plant commenced operations with a combined processing capacity of 180 MMcf/d

JANUARY 3, 2019

Acquired 18 gross (15.1 net) contiguous sections of Montney land between Pouce Coupe and Gordondale for \$39 million

JULY 13, 2016

Closed equity financings for total gross proceeds of \$690.8 million

SEPTEMBER 2017

Phase V of the Pouce Coupe Gas Plant commenced operations with a combined processing capacity of 260 MMcf/d

JULY 28, 2016

Completed acquisition of assets in Gordondale for approximately \$613.5 million

APRIL 3, 2018

Announced a new long-term processing arrangement at Altagas' Gordondale Gas Plant

AUGUST 2018

Phase VI of the Pouce Coupe Gas Plant commenced operations with a combined processing capacity of 340 MMcf/d

JULY 2020

Completed the Inlet Liquids-Handling Facility at the Pouce Coupe Gas Plant

DECEMBER 31, 2020

453 (449.9 net) Montney/Doig horizontal wells successfully drilled and cased to date

2020 Accomplishments



Achieved annual average
production of 76,401 boe/d



Successfully **executed the 2020 capital program**, drilling and bringing on production a total of 34 (34.0 net) wells



Achieved **record low annual operating expense of \$2.95/boe**



Completed and commissioned Birchcliff's 20,000 bbls/d Inlet Liquids-Handling Facility to increase condensate production capability to 10,000 bbls/d in Pouce Coupe

2021 Key Objectives



Maximizing free funds flow and **strengthening** our balance sheet



Continue to focus on **long-term full cycle profitability** while paying a sustainable quarterly dividend to common shareholders



Optionality on commodity type allows us to focus on Gordondale oil, Pouce Coupe condensate-rich natural gas, or Pouce Coupe dry natural gas wells depending on commodity prices in order to **maximize our returns**



Continued **commitment to science** and **technology** to drive operational excellence and further our learnings on field development planning

“We have been focused on showing compassion for our employees and contractors and giving back to our community and those less fortunate.”

- **A. Jeffery Tonken**
President &
Chief Executive Officer





One Core Area

PEACE

RIVER

ARCH

Peace River Arch

Our operations are concentrated within our one core area, the Peace River Arch, which is centered northwest of Grande Prairie, Alberta, adjacent to the Alberta/British Columbia border. The Peace River Arch is considered by management to be one of the most desirable natural gas and light oil drilling areas in North America.



The Peace River Arch is generally characterized by multiple horizons with a myriad of structural, stratigraphic and hydrodynamic traps. The Peace River Arch is highlighted by the Deep Basin hydrocarbon trapping phenomena. The Deep Basin is a hydrodynamic or permeability trap where the water in the updip position cannot travel through the fine-grained reservoirs with characteristics that include overpressured reservoirs, continuous hydrocarbon columns and low water production, with low terminal declines. The Peace River Arch provides all-season access that allows the Corporation to drill, equip and tie-in wells on an almost continuous basis. In addition, Birchcliff has excellent control of and/or long-term access to infrastructure in the Peace River Arch, which helps us to control our costs and expand our production when market conditions recover.

Montney/Doig Resource Play

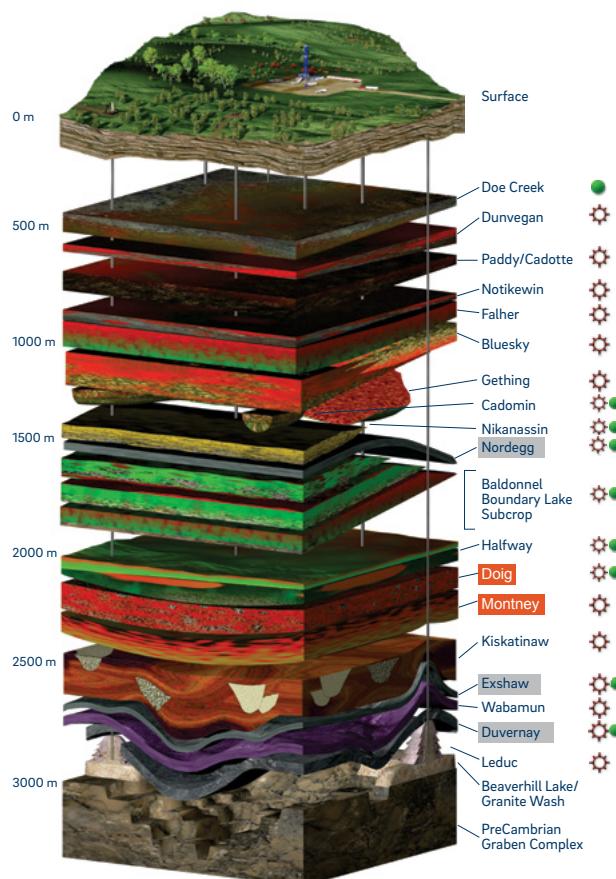
We are focused on the Montney/Doig Resource Play within the Peace River Arch.

ATTRIBUTES OF THE MONTNEY/DOIG RESOURCE PLAY

Birchcliff characterizes its Montney/Doig Resource Play as a regionally pervasive, continuous, low-permeability hydrocarbon accumulation or system that typically requires intensive stimulation to produce. The production characteristics of this play generally include steep initial declines that rapidly trend to much lower decline rates, yielding long-life production. The play exhibits a statistical distribution of estimated ultimate recoveries and therefore provides a repeatable distribution of drilling opportunities. Birchcliff's Montney/Doig Resource Play is ideally suited for the application of horizontal drilling and multi-stage fracture stimulation technology.

As more wells are drilled into a resource play, there is a substantial decrease in both the geological and technical risks. Over the past 16 years, Birchcliff has worked to de-risk its Montney/Doig Resource Play by drilling both vertical and horizontal exploration wells in order to develop an in-depth understanding of the oil and gas pools, rock properties and petrophysical characteristics and reservoir parameters. The Corporation designs, tests and evaluates its drilling, completion and production technologies and practices to achieve continual improvements in productivity and expected ultimate recoveries in order to drive down capital and operating costs. The Corporation's pool delineation strategy de-risks future development and helps to reduce future costs as new well pads and infrastructure are designed and built to support multiple horizontal well locations and increased production.

Stratigraphic Column and Production Zones



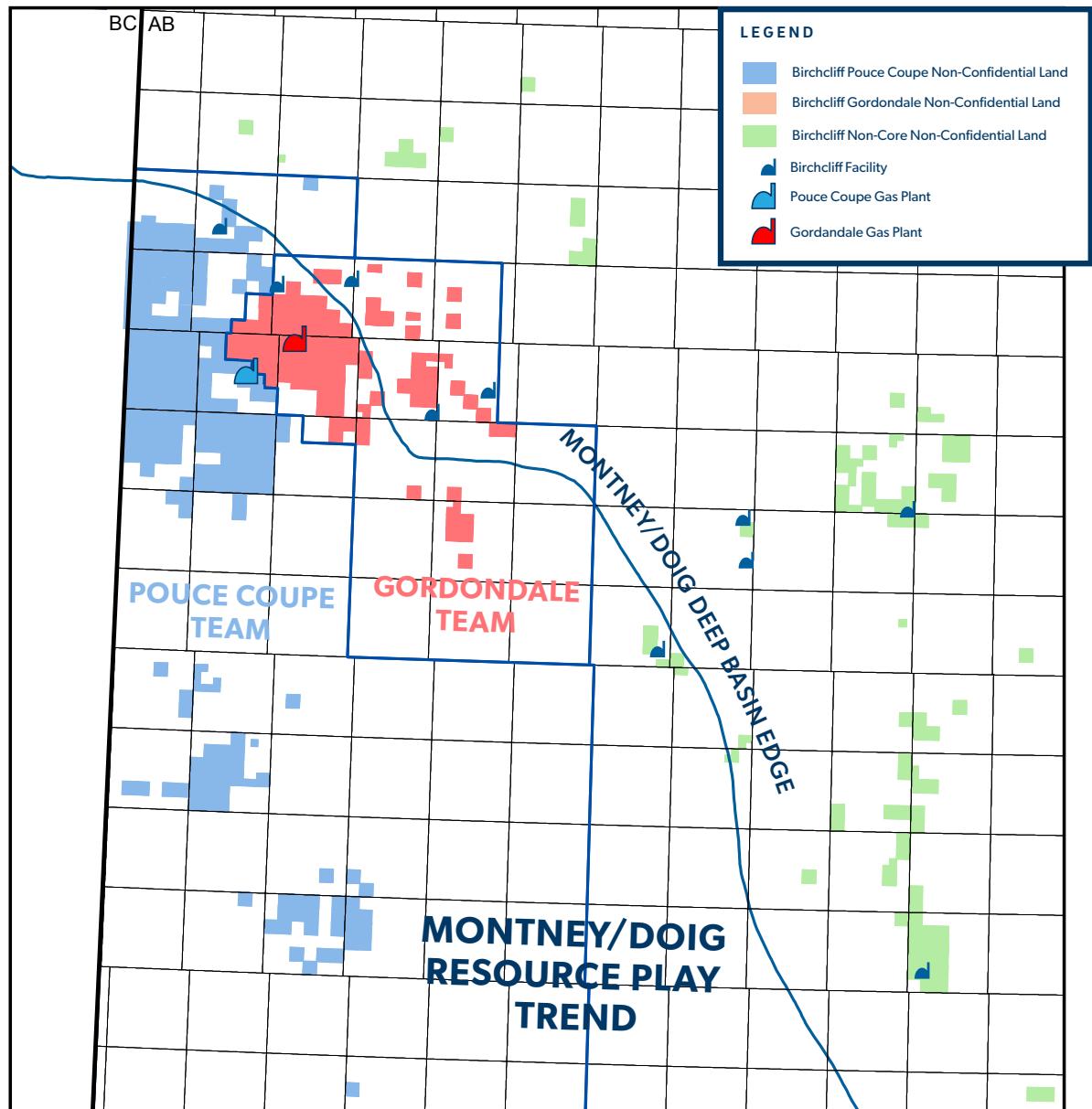
453 MONTNEY/DOIG HORIZONTAL WELLS DRILLED AND CASED

(449.9 NET) At December 31, 2020

BIRCHCLIFF OPERATIONS IN THE PEACE RIVER ARCH

The Montney/Doig Resource Play is managed by two technical teams at Birchcliff: the Pouce Coupe Team and the Gordondale Team. These teams each have a full complement of highly-skilled technical professionals, including engineers, geoscientists and landmen.

Birchcliff Montney/Doig Resource Play in the Peace River Arch

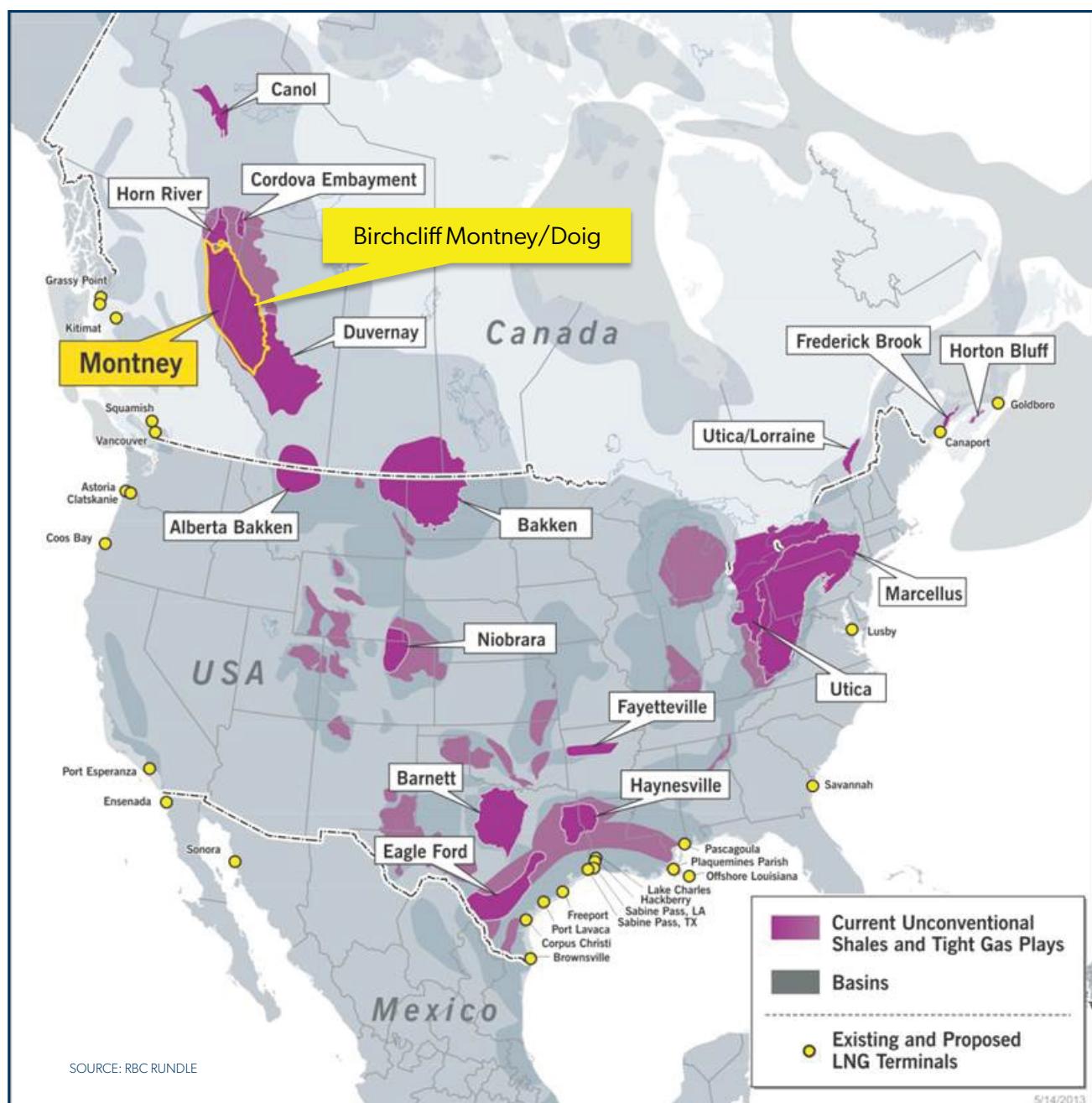


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Our Montney/Doig Resource Play is centred approximately 95 km northwest of Grande Prairie, Alberta, Canada and is considered by management of Birchcliff to be one of the premier resource plays in North America. Within the Montney/Doig Resource Play, Birchcliff is focused on two key operating areas: Pouce Coupe and Gordondale.

There are a number of attributes that the Montney/Doig Resource Play has that contribute to it being a world-class resource play, including resource density, large areal extent, excellent “fracability”, high fracture stability and high permeability, as discussed in further detail on the next page.

Select Unconventional Plays in North America



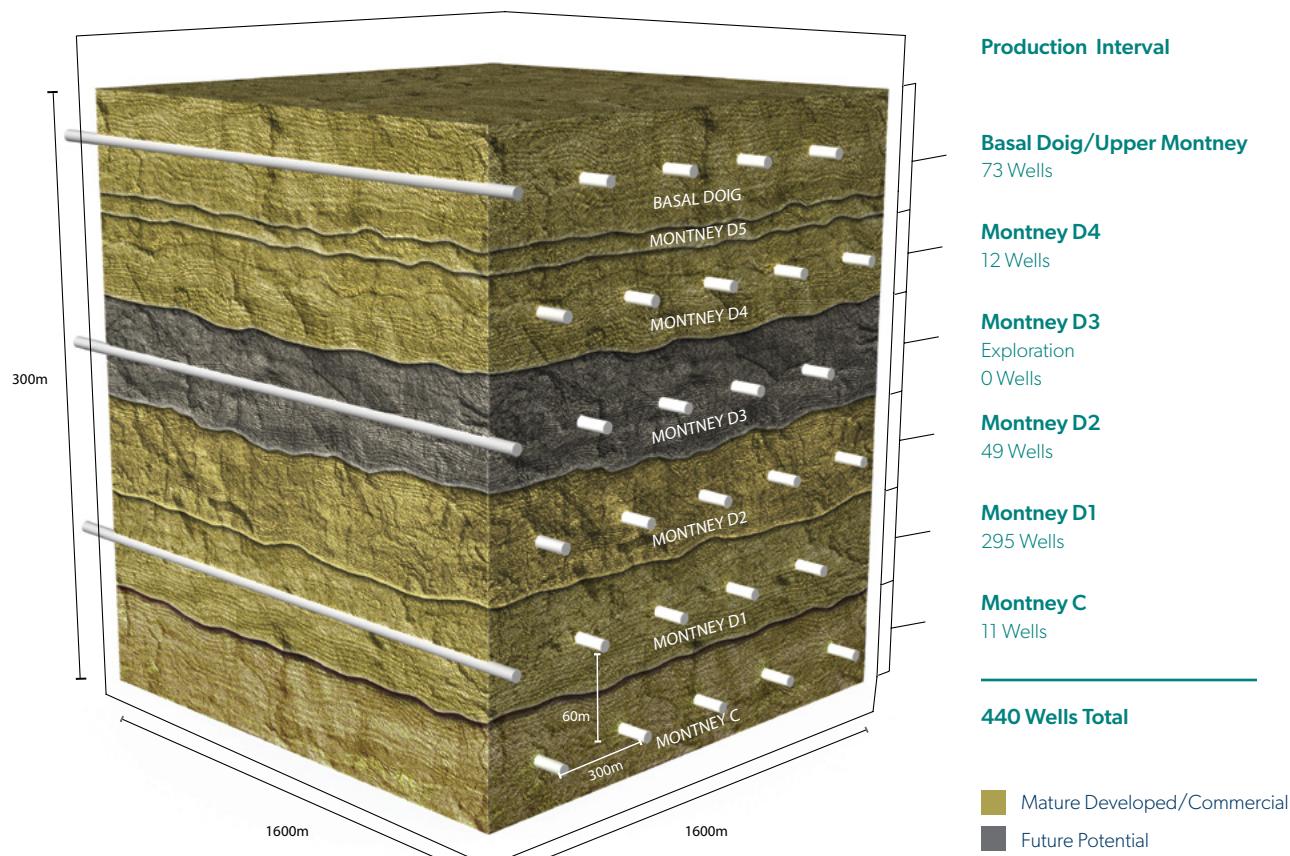
GEOLOGY

The Montney/Doig Resource Play in Birchcliff's areas of operations is approximately 300 metres (1,000 feet) thick. The play has a large areal extent covering in excess of 50,000 square miles. The Montney/Doig is composed of a high percentage of hard minerals and a very low percentage of clay minerals resulting in excellent "fracability". This, combined with the current stress regime, results in the rock shattering more like glass in a complex fracture style versus a simple bi-wing style. The rock parameters also yield excellent fracture stability; the fractures stay open due to low proppant embedment. This is a key contributing factor to the low terminal declines and large estimated ultimate recoveries of the play. Unlike most shale plays that are predominantly shale, the Montney/Doig is classified by management as a hybrid resource play because it is comprised of hydrocarbon-saturated rock with both tight silt and sand reservoir rock interlayered with shale source rock. This results in relatively high permeability and productivity rates.

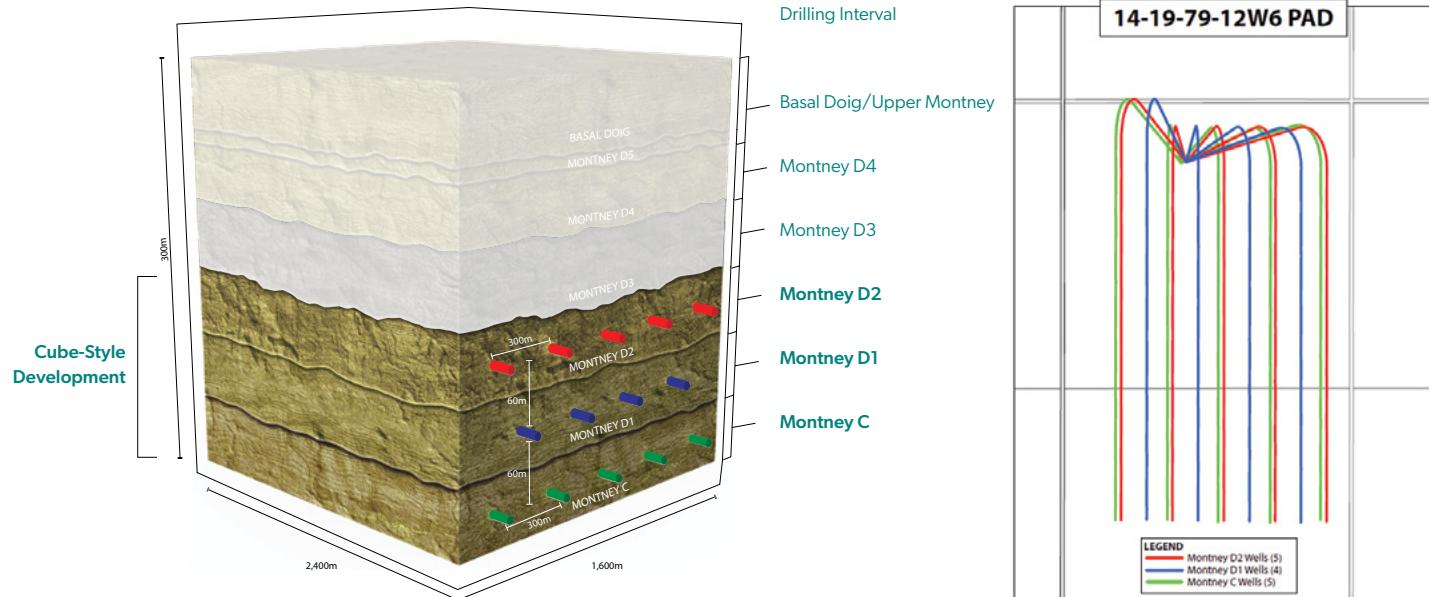
Hydrodynamics is another important attribute for resource plays. A large portion of the Montney/Doig Resource Play is over-pressured which reduces the potential for significant water production. The Pouce Coupe and Gordondale areas are predominantly over-pressured which also results in higher hydrocarbons in-place. The Montney and a majority of the Doig were deposited in a lower to middle shore face environment that is regionally extensive and results in a widespread style deposit that provides for more repeatable results.

The Montney/Doig Resource Play exists in two geological formations (the Montney and the Doig) and Birchcliff has divided the geologic column in its areas of operations into six drilling intervals from the youngest (top) to the oldest (bottom): (i) the Basal Doig/Upper Montney; (ii) the Montney D4; (iii) the Montney D3; (iv) the Montney D2; (v) the Montney D1; and (vi) the Montney C. Part of Birchcliff's long-term strategy is to continue to explore and delineate the Montney/Doig Resource Play, both geographically and stratigraphically.

Birchcliff Montney/Doig Resource Play Full Development Plan: Hexastack



As of December 31, 2020



OUR OPERATIONS

At December 31, 2020, Birchcliff has successfully drilled and cased an aggregate of 453 (449.9 net) Montney/Doig horizontal wells on the Montney/Doig Resource Play. Of these wells, an aggregate of 440 (437.7 net) wells have been completed and brought on production, consisting of 73 (71.9 net) wells in the Basal Doig/Upper Montney interval, 12 (12.0 net) wells in the Montney D4 interval, 49 (49.0 net) wells in the Montney D2 interval, 295 (293.7 net) wells in the Montney D1 interval and 11 (11.0 net) wells in the Montney C interval. To date, Birchcliff has not drilled any wells in the Montney D3 interval.

2020 DRILLING AND COMPLETIONS

During 2020, Birchcliff drilled 34 (34.0 net) horizontal wells. Of these 34 wells, 26 (26.0 net) were condensate-rich natural gas wells in Pouce Coupe and 8 (8.0 net) were oil wells in Gordondale. The Corporation brought on production 34 (34.0 net) wells during 2020, including 6 (6.0 net) wells that were drilled in Q4 2019 and 28 of the 34 wells drilled in 2020. The remaining wells that were drilled in Q4 2020 were brought on production in Q1 2021. All wells drilled in 2020 were drilled on multi-well pads, which allows Birchcliff to reduce its per well costs and environmental footprint.

MULTI-INTERVAL CUBE-STYLE DEVELOPMENT AND CONTINUOUS PERFORMANCE IMPROVEMENT

The 14-well pad in Pouce Coupe, drilled in 2020, highlights the progress Birchcliff has made with its DCCET best practices. Through its many years of exploration and development, Birchcliff has acquired significant proprietary knowledge

respecting all aspects of the Montney/Doig Resource Play in its areas of focus. This competitive advantage has resulted from Birchcliff's commitment to science and technology and striving for continuous performance improvement, as well as the knowledge gained from the drilling, completing and bringing on production of 440 (437.7 net) horizontal wells since its first Montney/Doig horizontal well was drilled in 2007. Building off of the success of its science and technology pad in 2018 that targeted three different intervals (the Montney D1, D2 and C), Birchcliff continues to refine its multi-interval cube-style DCCET practices to improve resource recovery and cost efficiency. This cube-style of development has various benefits, including: (i) it reduces Birchcliff's environmental footprint; (ii) it allows Birchcliff to fracture stimulate (complete) a large number of wells in several different intervals at once to leverage the rock mechanics and achieve better resource recovery; (iii) it helps to minimize frac-driven interaction with offsetting wells; (iv) it reduces per well costs through common well equipment and pipelines; and (v) it maximizes operational scale and repeatability.

Birchcliff's investment in science and technology is critical to its continuous performance improvement. The 14-well pad provided an excellent opportunity to utilize leading-edge diagnostic technology to enhance the Corporation's learnings. The diagnostics on this pad include: (i) surface microseismic; (ii) downhole whip array microseismic; (iii) fibre distributed acoustic sensing, which was used for microseismic and cross-strain measurements; (iv) sealed wellbore pressure monitoring to monitor offsetting well interactions; (v) full-cycle geochemistry sampling; and (vi) accelerated and conventional diagnostic fracture injection testing and interference testing.

The utilization of these diagnostic technologies has provided Birchcliff with significant insights into its DCCET best practices at the stage, well and pad level, including:

- At the stage level: optimal cluster design, including the number of clusters per stage, stage length, tonnes per metre of proppant and proppant concentrations.
- At the well level: optimal number of stages per well, well lengths and wellbore landing depths.
- At the pad level: optimal frac order, flowback order and well spacing, both laterally and vertically.

In 2020, Birchcliff continued to utilize innovative technologies in its completions operations in order to achieve better well results, including zipper fracturing, plug and perf technology and fluid additives to enhance its condensate production and recoveries.

Further, Birchcliff's operations team is focused on maximizing fracture pumping time through surface manifolds, which allows for a quick change over from well to well on multi-well pads and on utilizing new smart coil tubing units for wellbore milling operations post fracture treatment.

With respect to drilling, Birchcliff has modified its drill bit, drilling mud and downhole motor selection to reduce drill times and has trialed the use of rotary steerable technology for smoother well trajectories and faster drilling times.

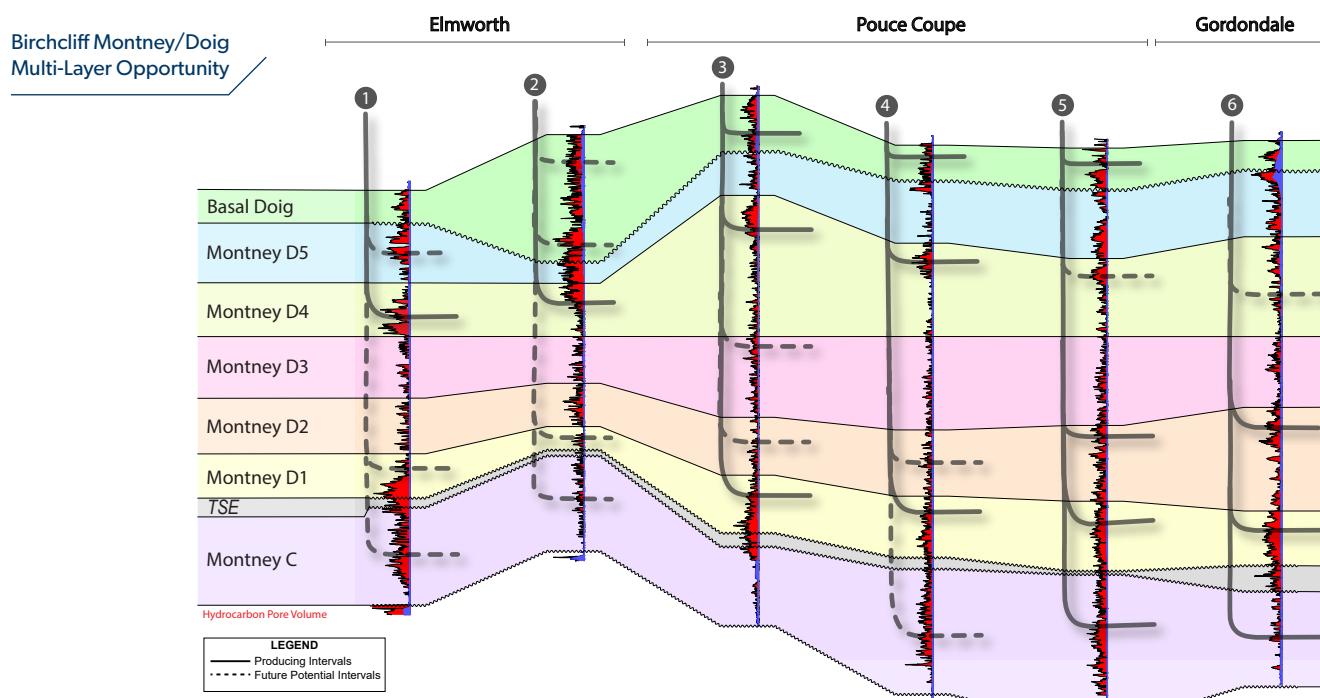
In addition, Birchcliff will continue to utilize compressed natural gas to displace diesel from its drilling and completions

operations in 2021, which helps to reduce costs and lessen its environmental footprint. Birchcliff also continues to implement various initiatives in order to optimize its netbacks and capitalize on its large contiguous land base.

SIGNIFICANT FUTURE DRILLING OPPORTUNITIES

At December 31, 2020, Birchcliff held 227.7 (214.1 net) sections of contiguous land that have potential for the Montney/Doig Resource Play in Pouce Coupe and Gordondale. The 2020 Deloitte Reserves Report attributed proved plus probable reserves to 769.0 potential net future horizontal drilling locations in Pouce Coupe and Gordondale. Based on Birchcliff's five year plan (announced on January 20, 2021), the Corporation is targeting drilling 158 wells in the next five years to achieve average annual production of 91,000 boe/d in 2025. In addition, at December 31, 2020, Birchcliff had approximately 3,065 potential net future horizontal drilling locations in Pouce Coupe and Gordondale that have not had any proved or probable reserves attributed to them by Deloitte.

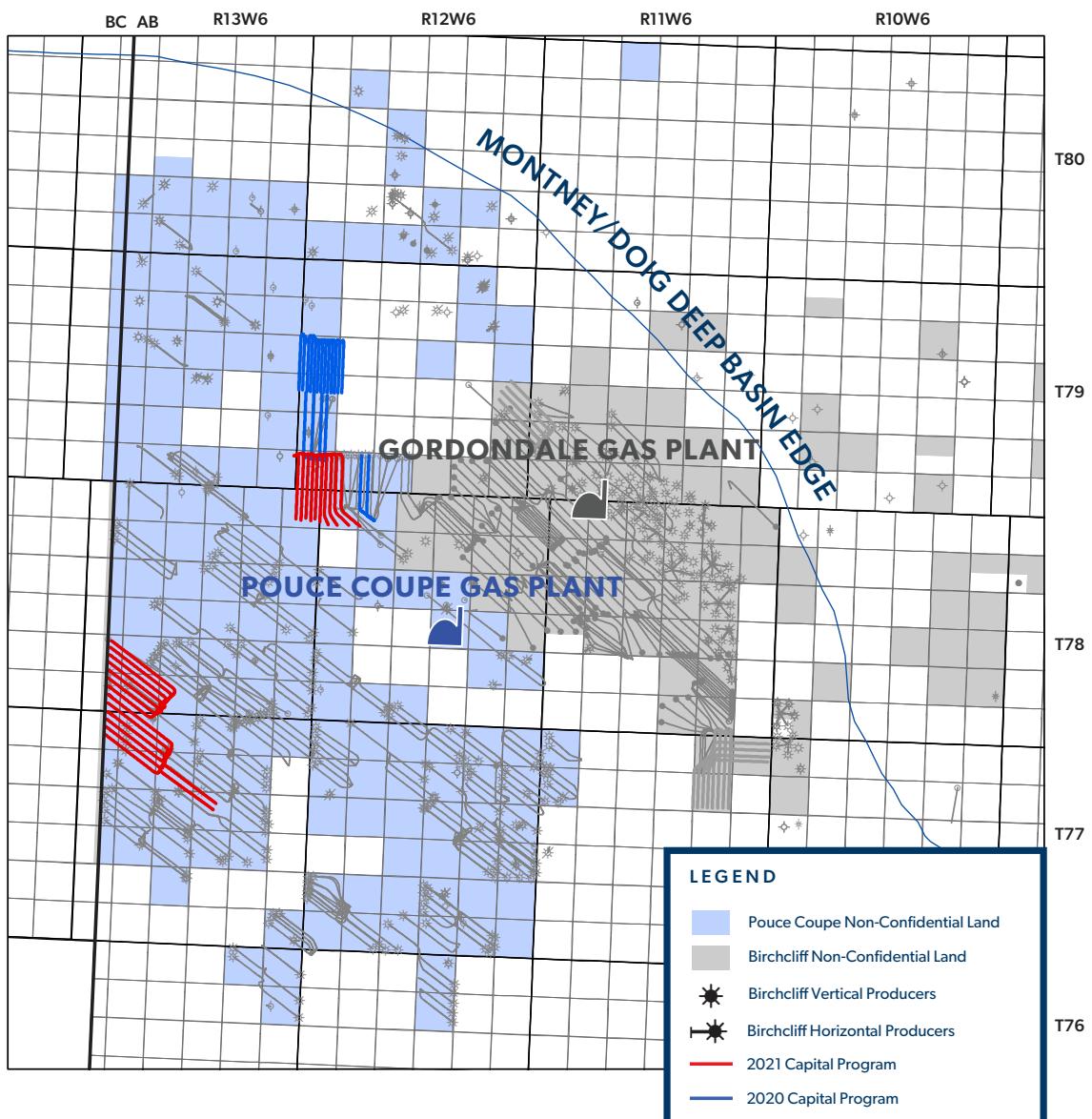
Birchcliff also owns 169.5 (169.5 net) sections of land in the Elmworth area of Alberta with potential for the Montney/Doig Resource Play. At December 31, 2020, the Corporation has approximately 3,300 potential net future horizontal drilling locations in Elmworth that have not had any proved or probable reserves attributed to them by Deloitte. See "2020 Year-End Reserves" and "Advisories – Drilling Locations".



Pouce Coupe Team

The Pouce Coupe key operating area is located west and northwest of Grande Prairie, Alberta and consists of the Corporation's properties in Pouce Coupe and Elmworth. At December 31, 2020, the Corporation held an aggregate of 415.4 (386.7 net) sections of land in the area. Annual average production in 2020 was 47,149 boe/d (249 MMcf/d of natural gas, 1,226 bbls/d of NGLs (excluding condensate), 4,401 bbls/d of condensate and 31 bbls/d of light oil).

Pouce Coupe Team Highlight Map





POUCE COUPE DRILLING AND DEVELOPMENT

Key focus areas for Pouce Coupe in 2020 were the drilling of condensate-rich natural gas wells and the further exploitation and delineation of condensate-rich trends in the Montney D1, D2 and C intervals. Birchcliff drilled 26 (26.0 net) wells and brought 24 (24.0 net) wells on production in Pouce Coupe in 2020.

A highlight for the Pouce Coupe Team in 2020 was the discovery of an extension to the Gordondale light oil pool. In Q3 2020, the Corporation brought the production on from its 14-well pad (14-19-079-12W6) located in the northeastern area of Pouce Coupe. The 14 wells were drilled in 3 different intervals, with 5 wells drilled in the Montney D2, 4 wells drilled in the Montney D1 and 5 in the Montney C. The results from Birchcliff's 14-well pad demonstrate the extension of the Gordondale light oil pool into the northeastern area of Pouce Coupe, which provides the Corporation with significantly more potential condensate/light oil drilling opportunities. The 14 wells are showing strong initial condensate/light oil rates, similar to the light oil wells that Birchcliff drilled in Gordondale over the past year, and are delivering strong rates of return at current commodity prices. The Inlet Liquids-Handling Facility, which was completed in the Q3 2020, allows the Corporation to process and sell the condensate/light oil from these wells in Pouce Coupe to achieve a premium price.

POUCE COUPE GAS PLANT

Our 100% owned and operated Pouce Coupe Gas Plant located in the Pouce Coupe area of Alberta is strategically situated in the heart of our Montney/Doig Resource Play, enabling us to process natural gas at a lower cost than that borne by others who rely on third-party processing. The Pouce Coupe Gas Plant is the cornerstone of our strategy to develop our Montney/Doig Resource Play, to control and expand our production in the play and to further reduce our operating costs on a per boe basis. In 2010, we began executing on our "build & fill" strategy with the construction of the Pouce Coupe Gas Plant. During 2010, we constructed Phases I and II of our Pouce Coupe Gas Plant with 60 MMcf/d of natural gas processing capacity. Processing capacity at the Pouce Coupe Gas Plant was subsequently increased to 150 MMcf/d (Phase III) in 2012, to 180 MMcf/d (Phase IV) in 2014, to 260 MMcf/d (Phase V) in 2017 and to 340 MMcf/d (Phase VI) in 2018. In Q4 2018, Birchcliff completed the re-configuration of Phases V and VI to provide for shallow-cut capability. This shallow-cut capability allows Birchcliff to extract propane plus (C3+) from the natural gas stream, further enhancing Birchcliff's ability to maximize its liquids production. In July 2020, the Inlet Liquids-Handling Facility was brought on-stream. This facility was completed ahead of schedule and under budget and it represents an important milestone for Birchcliff as it increases the operational safety of the Pouce Coupe Gas Plant and provides the ability to optimize condensate and NGLs product streams and pricing, as well as grow its condensate production in Pouce Coupe to approximately 10,000 bbls/d.

Gordondale Team

The Gordondale key operating area is located northwest of Grande Prairie, Alberta and consists of the Corporation's properties in Gordondale and Progress. At December 31, 2020, the Corporation held an aggregate of 126.5 (90.8 net) sections of land in the area. Annual average production in 2020 was 29,250 boe/d (102 MMcf/d of natural gas, 4,382 bbls/d of light oil, 6,424 bbls/d of NGLs (excluding condensate) and 1,424 bbls/d of condensate).

GORDONDALE DRILLING AND DEVELOPMENT

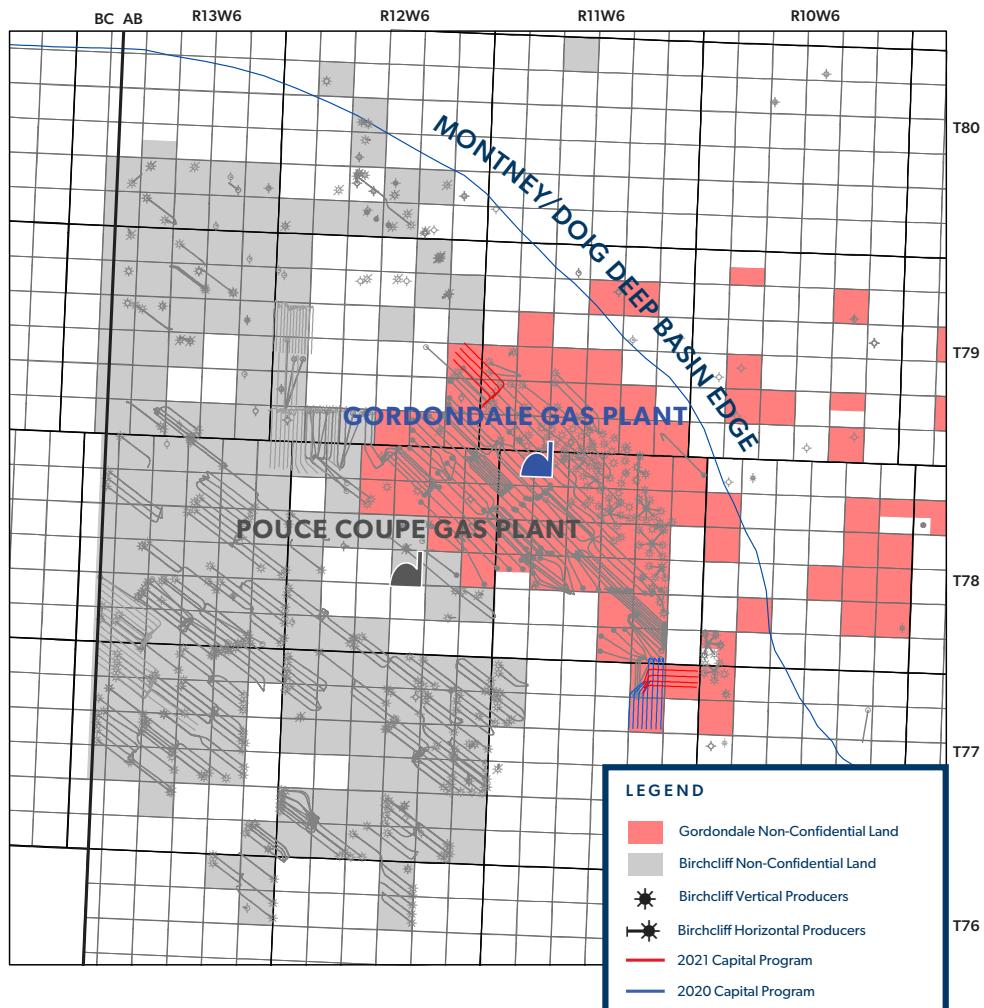
Key focus areas for Gordondale in 2020 were the drilling of crude oil wells and the further exploitation and delineation of oil in the Montney D1 and D2 intervals, specifically in the southeastern part of the Gordondale field. In Gordondale, the Corporation drilled 8 (8.0 net) wells and brought 10 (10.0 net) wells on production. Birchcliff used multi-interval cube-style development to drill the 10 wells, using two drilling rigs on two

proximal pads targeting the Montney D1, D2 and D4 intervals. Two wells were drilled in Q4 2019 and the remaining 8 wells were drilled in Q1 2020. All of the wells were brought on production in Q2 2020.

GORDONDALE INFRASTRUCTURE

In Gordondale in 2020, Birchcliff completed the addition of natural gas compression at both of its 100% owned and operated oil batteries and the construction of its significant trunk line to transport oil, natural gas and water to these batteries from the southeastern portion of the field. Both projects were completed in Q2 2020. The addition of natural gas compression at both batteries allows the existing wells to produce against lower wellhead pressures, which in turn has increased production rates. The addition of the new trunk line allows the compression to become even more effective and handle both the new and existing volumes in the area.

Gordondale Team Highlight Map



Environmental, Social & Governance

OUR

ROLE

Environmental, Social & Governance

Birchcliff recognizes the importance of and its responsibility for environmental stewardship and one of the Corporation's primary goals is to create and preserve a safe and environmentally responsible organization. Birchcliff strives to maintain excellence in environmental reporting and to take proactive steps to eliminate or reduce its environmental impact. As an organization that strives for continuous improvement, Birchcliff continues to identify, develop and utilize new technology, systems and processes that will help reduce its environmental footprint and create a safer work environment.

A copy of the Corporation's ESG Report, which provides additional information regarding Birchcliff's ESG initiatives and activities, is available on the Corporation's website at www.birchcliffenergy.com.

HEALTH, SAFETY AND ENVIRONMENTAL PROGRAMS

Birchcliff is committed to continually evolving and improving its health and safety program (the "**H&S Program**") and its environmental management program (the "**EM Program**") and to conducting its activities in a manner that safeguards its employees, contractors and representatives, the public and the environment. Birchcliff's executives, managers, employees and others engaged on its behalf are responsible for upholding the requirements of its H&S and EM Programs.

Birchcliff's H&S Program provides a framework to safeguard its employees, contractors, visitors and the people in the communities where the Corporation operates from personal injury and health and safety hazards. Pursuant to the H&S Program, Birchcliff maintains a safe work environment with policies, processes, standards, training, equipment and emergency response procedures that meet or exceed governmental regulations and industry practices. Employees and contractors on Birchcliff's worksites are required to follow all health, safety and environmental rules and procedures outlined in the H&S Program and to participate in pertinent health and safety training.

Birchcliff's EM Program focuses on minimizing the environmental impact of its operations while meeting regulatory requirements and corporate standards. The EM Program includes: (i) a suspended well inspection program to support future development or eventual abandonment; (ii) an abandonment and decommissioning program for

wells and facilities ready for abandonment; (iii) a surface reclamation program; (iv) a groundwater monitoring program; (v) a spill prevention, response and clean-up program; (vi) a fugitive emission survey and repair program; (vii) an environmental liability assessment program; (viii) a waste management program; (ix) a naturally occurring radioactive materials program; (x) a storage management program; (xi) a facility land vegetation management program; and (xii) a site planning and construction program.

Emergency Response Plans

The Corporation has developed emergency response plans in conjunction with local authorities, emergency services and the communities in which it operates in order to be prepared to effectively respond to an incident should one arise. The Corporation typically conducts a rigorous emergency response exercise for its staff on an annual basis, as compared to the regulatory requirement of once every three years.

Alberta Certificate of Recognition (COR) Safety Program

Birchcliff participates in Alberta's COR Safety Program and has received and maintained a COR certification since 2011. A COR certification demonstrates that the employer's health and safety management system has been evaluated by a certified auditor and meets provincial standards, as established by Alberta Occupational Health and Safety. Maintaining a COR certification requires a commitment to continuous improvement in health, safety and environment

management practices, including sound planning and implementation. Birchcliff's H&S Program is audited externally every 3 years by an independent auditor and internally every year by a certified professional.

Asset Integrity

Birchcliff works diligently to maintain the safety and integrity of its facility and pipeline infrastructure and maintains two separate integrity programs: a pressure equipment integrity program and a pipeline integrity program. The Corporation's asset integrity group manages its pressure equipment integrity program in compliance with the Alberta Boilers Safety Association requirements and its pipeline integrity program in compliance with AER requirements. These programs are audited internally on an annual basis by a qualified professional and externally on a periodic basis by an independent auditor to evaluate their effectiveness and are updated based on the findings from such audits.

The Corporation's Chief Inspector and asset integrity group make use of databases and associated work tracking systems to ensure that all integrity tasks (inspections, pigging, etc.) are scheduled and completed according to the requirements set forth in the Corporation's programs.

Environmental Assessments and Audits

Environmental assessments are undertaken for new projects or when acquiring new properties or facilities in order to identify, assess and minimize environmental risks and operational exposures. The Corporation conducts audits of operations to confirm compliance with internal standards and to stimulate improvement in practices where needed. Documentation is maintained to support internal accountability and measure operational performance against recognized industry indicators to assist in achieving the objectives of its policies and programs.

COMMUNITY AND STAKEHOLDER RELATIONS

Fostering a strong relationship with the community and its stakeholders is as integral to the success of the Corporation's projects as obtaining the required regulatory approvals. The Corporation believes cooperative, sincere and responsive consultation efforts with stakeholders in the areas in which Birchcliff operates creates a solid foundation for its business. Birchcliff has an experienced team working with local stakeholders to learn their values and priorities and to resolve any issues or concerns that arise.

Birchcliff recognizes the role that communities play in its success and looks for opportunities to give back. The Corporation is a staunch supporter of the community and

the business and educational initiatives of the Indigenous communities who live in the areas where Birchcliff operates. Every year, the Corporation participates in a number of community support endeavours in the areas surrounding its field operations and in Calgary. Two of Birchcliff's key ongoing campaigns are the Corporation's annual United Way of Calgary campaign and its support of STARS Air Ambulance in the Grande Prairie Area. To date, Birchcliff has helped to raise over \$1.4 million and over \$1.5 million, for these programs, respectively.

Other highlights in 2020 include:

- Birchcliff sponsored a group of young adults, along with chaperones and Elders, from the Horse Lake and Sturgeon Lake First Nations for an educational visit to Calgary in order to introduce them to post-secondary educational opportunities and the career opportunities available to them in Alberta's energy industry and to provide them with tools for professional success in an urban setting.
- Birchcliff is a strong supporter of the Calgary Police Foundation (the "CPF"), with a focus on helping vulnerable and at-risk children and youth. In 2020, when schools across Alberta were closed as a result of the COVID-19 pandemic, Birchcliff, through the CPF, donated new laptop computers to students in need, who otherwise would have had significant difficulty accessing online classes and school resources.
- Birchcliff sponsored the Calgary Cares Campaign through the CPF as well as matching its employee donations to the program. The aim of the Calgary Cares Campaign was to support vulnerable children and at-risk youth within the community, by providing them with everything they needed to get through the summer months, including food and activities.

In addition, the Corporation regularly contributes to a number of local community initiatives that help to elevate and enhance the quality of life at the local level, including amateur sports, local schools, agricultural societies and fire departments. Each year, the Corporation also raises funds for the YWCA. Through Birchcliff's support of Momentum, Calgarians living in poverty learn how to achieve a sustainable livelihood. During the holiday season, Birchcliff employees "adopt" a number of families in need and donate gifts, food and decorations to help make the holidays special.

Through these activities and numerous others, Birchcliff creates and maintains long-term, positive partnerships and relationships, while promoting employee engagement in the communities in which it operates.

GOVERNANCE

The Board currently consists of five directors, namely A. Jeffery Tonken, Dennis A. Dawson, Debra A. Gerlach, Stacey E. McDonald and James W. Surbey. Mr. Tonken is the Chairman of the Board and Mr. Dawson is the independent lead director. The Board has four committees: the Audit Committee, the Compensation Committee, the Reserves Evaluation Committee and the Nominating Committee. Additional information on the Corporation's corporate governance practices is contained in the Corporation's information circular for its most recent annual meeting of the holders of Common Shares, which was held on May 14, 2020.

With respect to ESG oversight, the Board has overall responsibility for ESG matters. Each quarter, the Board receives a detailed report from management on things such as the Corporation's safety performance, total recordable incident frequency, asset retirement and reclamation activities and the Corporation's LMR. In addition to the oversight provided by the Board, Birchcliff has established the following committees, which are comprised of members of management:

- Greenhouse Gas Regulatory Compliance Committee: The purpose of this committee to help ensure that there is corporate-wide awareness and compliance with the latest provincial and federal GHG legislation requirements which impact Birchcliff's operations.
- ESG Committee: The purpose of this committee is to drive continuous improvement of Birchcliff's ESG-related corporate metrics by: (i) establishing and monitoring ESG-related key performance indicators; (ii) developing and maintaining an effective strategy to communicate ESG-related key performance indicators; and (iii) identifying, prioritizing and directing initiatives to improve ESG key performance indicators within the Corporation.



ENVIRONMENTAL PROTECTION REGULATION & COSTS

General

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with oil and natural gas industry operations. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. Compliance with environmental legislation can require significant expenditures and/or result in operational restrictions. A breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. In addition, a breach may result in the suspension or revocation of necessary licences and authorizations and/or the Corporation being subject to interim compliance measures, all of which may restrict the Corporation's ability to conduct operations. Further, the Corporation could be subject to civil liability for pollution damage.



The costs of complying with existing or future environmental legislation or regulations, including those relating to climate change and GHG emissions, may have a material adverse effect on the Corporation's financial condition or results of operations. Future changes in environmental legislation could occur and result in stricter standards and enforcement, larger fines and liability and increased capital expenditures and operating costs. At December 31, 2020, the Corporation has not recorded any material costs and liabilities relating to GHG or environmental protection legislation or any material environmental incidents.

See "Advisories – Forward-Looking Statements" and "Risk Factors" in the MD&A.

GHG Emissions

The Corporation's exploration and production facilities and other operations and activities emit GHGs which requires the Corporation to comply with applicable GHG emissions legislation.

The Pouce Coupe Gas Plant exceeded the 100,000 tonnes of GHGs per year threshold in the TIER Regulation in 2018, 2019 and 2020 and is therefore automatically subject to the TIER Regulation. In addition, the Corporation's other facilities have been accepted as an aggregate facility for the purposes of TIER and were therefore subject to the TIER Regulation in 2020 and going forward.

In 2020, the Corporation received 23,571 emission performance credits under the transitional provisions of the CCIR for the 2018 financial year. The Corporation anticipates that it will receive 2019 emission performance credits during the first half of 2021. Future emission performance credits will be determined based on the Corporation's future emission reduction performance as determined by TIER. As the Pouce Coupe Gas Plant and the Corporation's other facilities are currently subject to the TIER Regulation, such facilities are exempt from paying the federal fuel charge under the GGPPA.

At the present time, the operational and financial impacts of complying with applicable GHG legislation are not material to the Corporation. The Corporation will continue to monitor and evaluate any developments in the area in order to assess the potential financial and operational implications on the Corporation. Given the multitude of variables that could cause outcomes to change, it is not currently possible to predict the future incremental compliance costs with any certainty. However, given the evolving nature of climate change policy and the control of GHG and resulting requirements, it is expected that current and future climate change regulations will have the effect of increasing the Corporation's operating expenses and in the long-term, potentially reducing the demand for oil and natural gas resulting in a decrease in the Corporation's profitability and a reduction in the value of its assets.

Decommissioning Obligations

As a result of its net ownership interest in oil and natural gas properties and equipment, including well sites, processing facilities and gathering systems, the Corporation incurs decommissioning obligations. The Corporation's decommissioning obligation at December 31, 2020 was \$146.2 million, calculated on a discounted fair value basis using a nominal risk-free rate of 1.26% and an inflation rate of 1.54%. See Note 8 – *Decommissioning Obligations* to the Corporation's audited annual financial statements for the year ended December 31, 2020 for additional information regarding the Corporation's decommissioning obligations.

LEARN MORE



BIRCHCLIFF ESG REPORT

BirchcliffEnergy.com

2020 Year-End Reserves

Birchcliff retained Deloitte, independent qualified reserves evaluator, to evaluate and prepare a report on 100% of Birchcliff's light crude oil and medium crude oil, conventional natural gas, shale gas and NGLs reserves.

The reserves data set forth below at December 31, 2020 is based upon the evaluation by Deloitte with an effective date of December 31, 2020 as contained in the report of Deloitte dated February 10, 2021 (the "2020 Deloitte Reserves Report"). The forecast commodity prices, inflation and exchange rates utilized were computed using the average of forecasts from Deloitte, McDaniel & Associates Consultants Ltd. ("McDaniel"), GLJ Petroleum Consultants Ltd. and Sproule Associates Ltd. effective January 1, 2021 (the "2020 IQRE Price Forecast"). A copy of the 2020 IQRE Price Forecast is available in our press release dated February 10, 2021.

The 2020 Deloitte Reserves Report has been prepared in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") and National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101").

For additional information regarding the presentation of Birchcliff's reserves disclosure contained herein, see "Presentation of Oil and Gas Reserves" and "Advisories" in this Annual Report. The reserves data provided in this Annual Report presents only a portion of the disclosure required under NI 51-101. The disclosure required under NI 51-101 is contained in Birchcliff's Annual Information Form for the year ended December 31, 2020, which was filed on the System for Electronic Document Analysis and Retrieval (www.sedar.com) on March 10, 2021. In certain of the tables below, numbers may not add due to rounding.

RESERVES SUMMARY

The following table summarizes the estimates of Birchcliff's gross reserves at December 31, 2020 and December 31, 2019, estimated using the forecast price and cost assumptions in effect as at the effective dates of the applicable reserves evaluations:

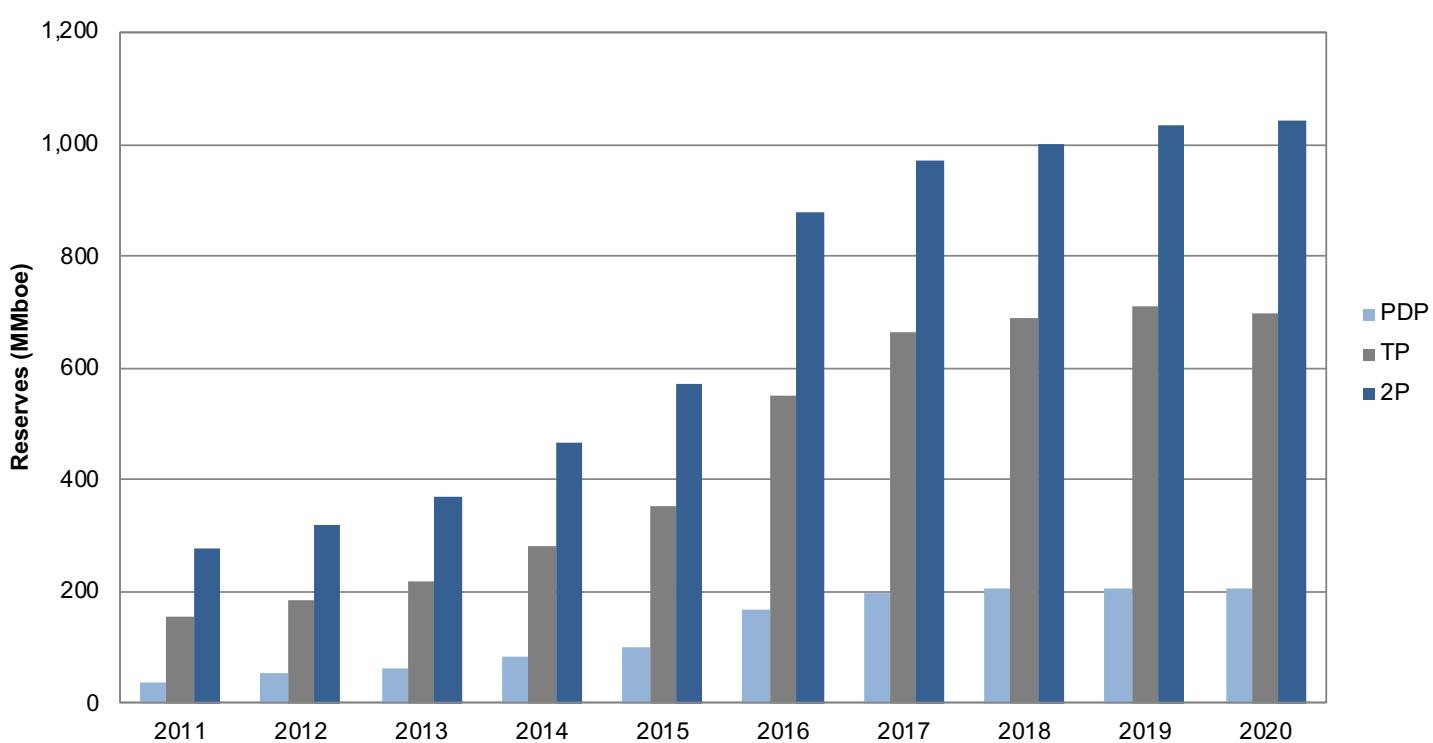
Summary of Gross Reserves

(Forecast Prices and Costs)

Reserves Category	Dec 31, 2020 (Mboe)	Dec 31, 2019 ⁽¹⁾ (Mboe)	Change from Dec 31, 2019
Proved Developed Producing	206,605.6	206,922.4	-
Total Proved	699,066.8	709,061.2	(1)%
Total Probable	341,410.1	323,133.5	6%
Total Proved Plus Probable	1,040,476.9	1,032,194.7	1%

(1) Deloitte prepared an evaluation with an effective date of December 31, 2019 as contained in the report of Deloitte dated February 12, 2020 (the "2019 Deloitte Reserves Report") and McDaniel prepared an evaluation with an effective date of December 31, 2019 as contained in the report of McDaniel dated February 12, 2020 (the "2019 McDaniel Reserves Report"), which are contained in the consolidated report of Deloitte with an effective date of December 31, 2019 (the "2019 Consolidated Reserves Report"). Deloitte prepared the 2019 Consolidated Reserves Report by consolidating the properties evaluated by Deloitte in the 2019 Deloitte Reserves Report with the properties evaluated by McDaniel in the 2019 McDaniel Reserves Report, in each case using the average of forecasts from Deloitte, McDaniel, GLJ Petroleum Consultants Ltd. and Sproule Associates Ltd. effective January 1, 2020 (the "2019 IQRE Price Forecast").

Corporate Reserves



SINCE 2011



20%

compound
annual
growth



PROVED

18%

compound
annual
growth



**PROVED PLUS
PROBABLE**

16%

compound
annual
growth

The following table sets forth Birchcliff's light crude oil and medium crude oil, conventional natural gas, shale gas and NGLs reserves at December 31, 2020, estimated using the 2020 IQRE Price Forecast:

Summary of Reserves at December 31, 2020

(Forecast Prices and Costs)

Reserves Category	Light Crude Oil and Medium Crude Oil		Conventional Natural Gas		Shale Gas		NGLs ⁽¹⁾		Total Boe	
	Gross (Mbbls)	Net (Mbbls)	Gross (MMcf)	Net (MMcf)	Gross (MMcf)	Net (MMcf)	Gross (Mbbls)	Net (Mbbls)	Gross (Mboe)	Net (Mboe)
Proved										
Developed Producing	9,290.7	8,056.8	5,095.3	4,729.1	958,123.9	903,152.6	36,778.3	30,248.4	206,605.6	189,618.8
Developed Non-Producing	54.3	51.6	988.8	931.2	21,037.6	19,841.1	345.2	280.3	4,070.6	3,793.9
Undeveloped	10,223.0	9,113.8	2,379.1	2,260.2	2,530,366.6	2,380,312.2	56,043.3	47,724.2	488,390.6	453,933.3
Total Proved	19,568.0	17,222.2	8,463.2	7,920.4	3,509,528.1	3,303,305.9	93,166.8	78,252.8	699,066.8	647,346.1
Total Probable	11,776.1	9,867.4	5,268.9	4,842.9	1,619,891.4	1,508,888.9	58,774.0	48,392.8	341,410.1	310,548.9
Total Proved Plus Probable	31,344.1	27,089.6	13,732.1	12,763.3	5,129,419.6	4,812,194.8	151,940.8	126,645.7	1,040,476.9	957,895.0

(1) NGLs includes condensate.

NET PRESENT VALUES OF FUTURE NET REVENUE

The following tables set forth the net present values of future net revenue attributable to Birchcliff's reserves at December 31, 2020, estimated using the 2020 IQRE Price Forecast, before and after deducting future income tax expenses and calculated at various discount rates:

Summary of Net Present Values of Future Net Revenue at December 31, 2020⁽¹⁾

(Forecast Prices and Costs)

Reserves Category	Before Income Taxes Discounted At (%/year)					Unit Value Discounted at 10%/yr (\$/boe) ⁽²⁾
	0 (MM\$)	5 (MM\$)	10 (MM\$)	15 (MM\$)	20 (MM\$)	
Proved						
Developed Producing	3,094.0	2,362.3	1,869.4	1,543.5	1,318.2	9.86
Developed Non-Producing	62.0	39.1	27.0	19.8	15.1	7.12
Undeveloped	6,360.8	3,318.3	1,839.8	1,044.0	582.1	4.05
Total Proved	9,516.8	5,719.6	3,736.2	2,607.4	1,915.4	5.77
Total Probable	5,657.8	2,320.2	1,095.5	578.7	334.2	3.53
Total Proved Plus Probable	15,174.7	8,039.9	4,831.7	3,186.1	2,249.5	5.04

(1) Estimates of future net revenue, whether calculated without discount or using a discount rate, do not represent fair market value.

(2) Unit values are based on net reserves volumes.

FUTURE DEVELOPMENT COSTS

FDC reflects Deloitte's best estimate of what it will cost to bring the proved and proved plus probable reserves on production. Changes in forecast FDC occur annually as a result of development activities, acquisition and disposition activities and capital cost estimates. The following table sets forth development costs deducted in the estimation of Birchcliff's future net revenue attributable to the reserves categories noted below:

Future Development Costs

(Forecast Prices and Costs)

	Proved (MM\$)	Proved Plus Probable (MM\$)
2021	143.0	190.3
2022	552.3	552.9
2023	496.3	496.3
2024	691.3	726.7
2025	424.0	484.6
Thereafter	616.6	1,926.2
Total undiscounted	2,923.5	4,377.0

FDC for total proved reserves decreased by \$157.0 million to \$2.92 billion at December 31, 2020 from \$3.08 billion at December 31, 2019. FDC for total proved plus probable reserves decreased by \$41.8 million to \$4.38 billion at December 31, 2020 from \$4.42 billion at December 31, 2019. The decreases in FDC for both proved and proved plus probable reserves were largely due to: (i) the completion of the Inlet Liquids-Handling Facility and compressor installations and large trunk line in Gordondale; (ii) the removal of lower net present value future drilling locations related to the proved reserves as a result of the COGE Handbook mandated development time frame of 5 to 7 years within available plant capacity; and (iii) the removal of 2 gross (2 net) proved undeveloped future natural gas locations and 5 gross (5 net) proved plus probable future natural gas locations in Elmworth that were uneconomic.

The FDC for both proved and proved plus probable reserves are primarily the capital costs required to drill, complete, equip and tie-in the net undeveloped locations. The estimates of FDC on a proved and proved plus probable basis also include approximately \$256 million (unescalated) for the continued expansion of the Pouce Coupe Gas Plant from the existing 340 MMcf/d to 660 MMcf/d of total throughput. The FDC for the expansions of the Pouce Coupe Gas Plant also include the costs of the related gathering pipelines and maintenance capital.

The following table sets forth the average cost to drill, complete, equip and tie-in a multi-stage fractured horizontal well as estimated by Deloitte:

Average Well Cost	December 31, 2020 (MM\$)	December 31, 2019 (MM\$)
Pouce Coupe	4.7	4.7
Gordondale	5.4	5.4

2020YE RESERVES HIGHLIGHTS:

\$10.16
/boe **PDP F&D
COSTS**

130%
**2P RESERVES
REPLACEMENT**

2020 FINDING AND DEVELOPMENT COSTS

During 2020, our F&D capital expenditures were \$288.0 million, which included \$74.8 million of facilities and infrastructure capital spent in 2020 that did not result in the addition of proved developed producing reserves at year-end 2020. FD&A capital expenditures were \$275.1 million in 2020.

The following table sets forth Birchcliff's F&D costs and FD&A costs per boe for its proved developed producing, total proved and total proved plus probable reserves for 2020, 2019 and 2018, including FDC:

(\$/boe) ⁽¹⁾	2020 ⁽²⁾	2019 ⁽³⁾	2018 ⁽⁴⁾	3-Year Average
F&D – Proved Developed Producing	\$10.16	\$8.65	\$8.75	\$9.15
FD&A – Proved Developed Producing	\$9.95	\$9.38	\$8.75	\$9.32
F&D – Proved	\$7.08	\$7.84	\$0.64	\$4.58
F&D – Proved Plus Probable	\$6.66	\$6.22	\$1.27	\$4.70
FD&A – Proved	\$6.57	\$8.71	\$0.45	\$4.69
FD&A – Proved Plus Probable	\$6.44	\$7.25	\$1.47	\$4.87

(1) See "Advisories – Oil and Gas Metrics" for a description of the methodology used to calculate F&D and FD&A costs.

(2) Reflects the 2020 decrease in FDC from 2019 of \$157.0 million on a proved basis and \$41.8 million on a proved plus probable basis.

(3) Reflects the 2019 increase in FDC from 2018 of \$118.8 million on a proved basis and \$127.0 million on a proved plus probable basis.

(4) Reflects the 2018 decrease in FDC from 2017 of \$272.2 million on a proved basis and \$211.2 million on a proved plus probable basis.

2020 RECYCLE RATIOS

The following table sets forth our recycle ratios, on an operating and adjusted funds flow netback basis, for our proved developed producing, total proved and total proved plus probable reserves for 2020 and 2019, including FDC:

	Operating Netback Recycle Ratio ⁽¹⁾⁽²⁾		Adjusted Funds Flow Netback Recycle Ratio ⁽¹⁾⁽³⁾	
	2020	2019	2020	2019
F&D – Proved Developed Producing	1.0	1.5	0.6	1.4
FD&A – Proved Developed Producing	1.0	1.4	0.7	1.3
F&D – Proved	1.5	1.7	0.9	1.5
FD&A – Proved	1.6	1.5	1.0	1.3
F&D – Proved Plus Probable	1.6	2.1	1.0	1.9
FD&A – Proved Plus Probable	1.6	1.8	1.0	1.6

(1) See "Advisories – Oil and Gas Metrics" for a description of the methodology used to calculate recycle ratios.

(2) Birchcliff's operating netback was \$10.37/boe in 2020, as compared to \$13.07/boe in 2019.

(3) Birchcliff's adjusted funds flow netback was \$6.60/boe in 2020, as compared to \$11.75/boe in 2019.

Due to the unprecedented effects of the COVID-19 pandemic, the Corporation believes that its 2020 adjusted funds flow netback does not properly reflect the future profitability of the proved developed producing reserves added in 2020. Birchcliff anticipates that as a result of improved commodity prices, the Corporation's netbacks and recycle ratios will improve in 2021 to be more comparable to its historical recycle ratios prior to COVID-19.

2020 FINANCIALS

Management's Discussion and Analysis

GENERAL

This Management's Discussion and Analysis ("MD&A") for Birchcliff Energy Ltd. ("Birchcliff" or the "Corporation") dated March 10, 2021 is with respect to the three and twelve months ended December 31, 2020 (the "Reporting Periods") as compared to the three and twelve months ended December 31, 2019 (the "Comparable Prior Periods"). This MD&A has been prepared by management and approved by the Corporation's Audit Committee and Board of Directors and should be read in conjunction with the annual audited financial statements of the Corporation and the related notes for the year ended December 31, 2020 which have been prepared in accordance with IFRS. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

This MD&A uses the terms "adjusted funds flow", "adjusted funds flow per common share", "free funds flow", "transportation and other expense", "operating netback", "adjusted funds flow netback", "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, including reconciliations to the most directly comparable GAAP measures where applicable, see "Non-GAAP Measures" in this MD&A.

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

All boe amounts have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil 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 – Boe and Mcfe Conversions" in this MD&A.

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

ABOUT BIRCHCLIFF

Birchcliff is a Calgary, Alberta based intermediate oil and natural gas company with operations concentrated within its one core area, the Peace River Arch of Alberta. Birchcliff's common shares, cumulative redeemable preferred shares, Series A (the "Series A Preferred Shares") and cumulative redeemable preferred shares, Series C (the "Series C Preferred Shares") are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbols "BIR", "BIR.PR.A" and "BIR.PR.C", respectively. Additional information relating to the Corporation, including its Annual Information Form for the financial year ended December 31, 2020 (the "AIF"), is available on the SEDAR website at www.sedar.com and on the Corporation's website at www.birchcliffenergy.com.

CURRENT OPERATING ENVIRONMENT AND COVID-19

On January 30, 2020, the World Health Organization declared the novel Coronavirus disease ("COVID-19") outbreak a public health emergency of international concern and on March 11, 2020, declared it to be a pandemic. The outbreak of the COVID-19 pandemic has had a significant negative impact on global economic conditions. This included a sharp decrease in crude oil demand which, combined with other macro-economic conditions, resulted in significant volatility in oil and natural gas commodity prices, as well as economic uncertainty. In response, Birchcliff took decisive action in 2020 to protect its balance sheet and ensure liquidity and financial flexibility, including reducing its original 2020 capital budget and its common share dividend (see "Capital Resources and Liquidity").

Benchmark oil prices began to recover in the second half of 2020 due to renewed production curtailments by OPEC+, an increase in demand for oil after governments began to ease COVID-19 related restrictions and market optimism generated by COVID-19 vaccine approvals and global vaccine distribution beginning in the three month Reporting Period. This oil price recovery has continued into early 2021.

In response to the COVID-19 pandemic, Birchcliff implemented a number of initiatives to protect the well-being of its employees and contractors. The Corporation has established a response team to coordinate and implement such initiatives and continues to closely

monitor the recommendations of applicable government and health authorities. In addition, the Corporation has established remote working capabilities and procedures to ensure business continuity and the reliability of its operations in the event of future COVID-19 related restrictions or lockdowns.

The COVID-19 pandemic remains an evolving situation that has had, and may continue to have, a significant impact on future demand for the commodities Birchcliff produces and on the Corporation's cash flow, access to capital, results of operations, financial condition and the environment in which it operates, as well as on the Corporation's suppliers and employees. Management cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption will impact the Corporation's go-forward financial position, profit or loss and cash flows. The potential direct and indirect impacts of the economic downturn have been considered in management's estimates and assumptions at December 31, 2020 and have been reflected in the Corporation's results. See also "Risk Factors" in this MD&A.

HIGHLIGHTS

2020 Year-End Highlights

- Achieved annual average production of 76,401 boe/d, a 2% decrease from the twelve month Comparable Prior Period.
- Liquids accounted for approximately 23% of Birchcliff's total production in the twelve month Reporting Period, as compared to approximately 22% in the twelve month Comparable Prior Period, with total liquids production increasing by 4% from the twelve month Comparable Prior Period.
- Delivered \$184.5 million of adjusted funds flow, or \$0.69 per basic common share, each a 45% decrease from the twelve month Comparable Prior Period. Cash flow from operating activities decreased by 42% from the twelve month Comparable Prior Period.
- Recorded a net loss to common shareholders of \$62.0 million, or \$0.23 per basic common share, as compared to a net loss to common shareholders of \$59.6 million and \$0.22 per basic common share in the twelve month Comparable Prior Period.
- Achieved record low annual operating expense of \$2.95/boe, a 5% decrease from the twelve month Comparable Prior Period.
- Realized an operating netback of \$10.37/boe, a 21% decrease from the twelve month Comparable Prior Period.
- Successfully executed the Corporation's 2020 capital program (the "**2020 Capital Program**"), drilling and bringing on production a total of 34 (34.0 net) wells. F&D capital expenditures were \$288.0 million in the twelve month Reporting Period.
- Redeemed 402,820 Series C Preferred Shares during 2020. At December 31, 2020, the Corporation had 1,597,180 Series C Preferred Shares outstanding, with an aggregate redemption value of approximately \$39.9 million.
- Total debt at December 31, 2020 was \$762.0 million, as compared to \$632.6 million at December 31, 2019.

Fourth Quarter 2020 Highlights

- Achieved quarterly average production of 78,649 boe/d, a 1% increase from the three month Comparable Prior Period.
- Liquids accounted for approximately 24% of Birchcliff's total production in the three month Reporting Period, as compared to approximately 22% in the three month Comparable Prior Period, with total liquids production increasing by 8% from the three month Comparable Prior Period.
- Delivered \$66.5 million of adjusted funds flow, or \$0.25 per basic common share, an 18% decrease and a 17% decrease, respectively, from the three month Comparable Prior Period. Cash flow from operating activities decreased by 17% from the three month Comparable Prior Period.
- Generated \$25.2 million of free funds flow in the three month Reporting Period, a 4% increase from \$24.1 million in the three month Comparable Prior Period.
- Recorded net income to common shareholders of \$40.4 million, or \$0.15 per basic common share, as compared to a net loss to common shareholders of \$19.0 million and \$0.07 per basic common share in the three month Comparable Prior Period.
- Achieved operating expense of \$3.03/boe, a 1% decrease from the three month Comparable Prior Period.
- Realized an operating netback of \$13.01/boe, a 9% decrease from the three month Comparable Prior Period.
- F&D capital expenditures of \$41.3 million. During the three month Reporting Period, Birchcliff drilled 6 (6.0 net) wells to help ensure the efficient execution of the Corporation's 2021 capital program (the "**2021 Capital Program**").
- Redeemed 364,655 Series C Preferred Shares in the three month Reporting Period for an aggregate of \$9.1 million.

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

2021 OUTLOOK AND GUIDANCE

Birchcliff is focused on maximizing free funds flow and strengthening its balance sheet. On January 20, 2021, the Corporation announced that its Board of Directors had approved an F&D capital budget of \$210 million to \$230 million for 2021, which targets an annual average production rate of 78,000 to 80,000 boe/d in 2021. Birchcliff's 2021 Capital Program contemplates the drilling of 27 (27.0 net) wells and bringing on production of a total of 33 (33.0 net) wells during 2021. For further details regarding the Corporation's 2021 Capital Program, see its press release dated January 20, 2021.

The following table sets forth Birchcliff's guidance and commodity price assumptions for 2021, as well as its 2020 actual audited results and 2020 guidance for comparative purposes:

	2021 guidance and assumptions ⁽¹⁾	2020 actual results	2020 revised guidance and assumptions ⁽²⁾
Production			
Annual average production (boe/d)	78,000 - 80,000	76,401	76,000 - 77,000
% Light oil	5%	6%	6%
% Condensate	9%	8%	8%
% NGLs	10%	9%	9%
% Natural gas	76%	77%	77%
Q4 average production (boe/d)	83,000 - 85,000	78,649	78,000 - 79,000
Average Expenses (\$/boe)			
Royalty	1.15 - 1.35	0.65	0.60 - 0.80
Operating	2.90 - 3.10	2.95	2.85 - 3.05
Transportation and other	5.00 - 5.20	4.93	4.90 - 5.10
Adjusted Funds Flow (MM\$)			
F&D Capital Expenditures (MM\$)	210 - 230 ⁽⁴⁾	288.0	285
Free Funds Flow (MM\$)	130 - 150 ⁽⁵⁾	(103.4)	(90)
Total Debt at Year End (MM\$)	635 - 655 ⁽⁶⁾	762.0	740 - 760
Natural Gas Market Exposure⁽⁷⁾			
AECO exposure as a % of total natural gas production	12% ⁽⁸⁾	17%	16%
Dawn exposure as a % of total natural gas production	44%	45%	46%
NYMEX HH exposure as a % of total natural gas production	38% ⁽⁸⁾	34%	34%
Alliance exposure as a % of total natural gas production	6%	4%	4%
Commodity Prices			
Average WTI price (US\$/bbl)	50.00	38.91	37.50
Average WTI-MSW differential (CDN\$/bbl)	6.00	8.34	8.10
Average AECO 5A price (CDN\$/GJ)	2.50	2.11	2.20
Average Dawn price (US\$/MMBtu) ⁽⁹⁾	2.75	1.88	1.95
Average NYMEX HH price (US\$/MMBtu) ⁽⁹⁾	2.80	2.08	2.10
Exchange rate (CDN\$ to US\$)	1.27	1.3413	1.35

(1) Birchcliff's guidance for its production commodity mix, adjusted funds flow and natural gas market exposure is based on an annual average production rate of 79,000 boe/d during 2021, which is the mid-point of Birchcliff's annual average production guidance range.

(2) As revised on November 12, 2020.

(3) Birchcliff's estimate of adjusted funds flow takes into account the effects of its commodity risk management contracts outstanding as at January 20, 2021.

(4) Birchcliff's estimate of F&D capital expenditures excludes any net potential acquisitions and dispositions and corresponds to Birchcliff's 2021 F&D capital budget. See "Advisories – Capital Expenditures" in this MD&A.

(5) Free funds flow is calculated as adjusted funds flow less F&D capital expenditures and is prior to acquisitions and dispositions, dividend payments, abandonment and reclamation obligations, administrative assets, financing fees and capital lease obligations. See "Non-GAAP Measures" in this MD&A.

(6) The total debt amount set forth in the table above assumes the following: (i) that the timing and amount of common share and preferred share dividends paid by the Corporation remains consistent with previous years, with the dividend rates and applicable taxes remaining unchanged; (ii) that there are 266 million common, 2,000,000 Series A and 1,550,129 Series C Preferred Shares outstanding, with no further redemptions of Series C Preferred Shares or buybacks of common shares occurring during 2021; (iii) that there is no repayment of debt using the proceeds from asset disposals or debt or equity issuances; (iv) that the 2021 Capital Program will be carried out as currently contemplated and the level of capital spending set forth herein will be achieved; and (v) the targets for production, production commodity mix, capital expenditures, adjusted funds flow, free funds flow and natural gas market exposure and the commodity price and exchange rate assumptions set forth herein are met. The amount set forth in the table above does not include annual cash incentive payments.

(7) Birchcliff's guidance regarding its natural gas market exposure in 2021 assumes: (i) 175,000 GJ/d being sold at the Dawn index price; (ii) 25,400 MMcf/d being sold at Alliance's Trading Pool daily index price; and (iii) 152,500 MMBtu/d being hedged on a financial and physical basis at a fixed basis differential between the AECO 7A price and the NYMEX HH price.

(8) Updated to correctly reflect natural gas market exposure to NYMEX HH and AECO. Was previously reported as 17% at AECO and 33% at NYMEX HH in Birchcliff's press release dated January 20, 2021.

(9) See "Advisories – MMBtu Pricing Conversions" in this MD&A.

Adjusted Funds Flow Sensitivity

The following table illustrates the expected impact of changes in commodity prices and the CDN/US exchange rate on the Corporation's estimate of adjusted funds flow for 2021 of \$360 million, after taking into account the effects of its commodity risk management contracts outstanding as at January 20, 2021:

	Estimated change to 2021 adjusted funds flow (MM\$) ⁽¹⁾⁽²⁾
Change in WTI US\$1.00/bbl	5.9
Change in NYMEX HH US\$0.10/MMBtu	6.6
Change in Dawn US\$0.10/MMBtu	8.0
Change in AECO CDN\$0.10/GJ	3.0
Change in CDN/US exchange rate CDN\$0.01	3.3

(1) See the guidance table above.

(2) The calculated impact on adjusted funds flow is only applicable within the limited range of change indicated. Calculations are performed independently and may not be indicative of actual results. Actual results may vary materially when multiple variables change at the same time.

Changes in assumed commodity prices and variances in production estimates may impact the Corporation's estimates of adjusted funds flow and free funds flow and the Corporation's other guidance, which impact may be material. For further information, see "Advisories – Forward-Looking Statements" in this MD&A.

Comparison of 2020 Results to Guidance

Birchcliff's 2020 financial and operational results were generally in line with its guidance. Birchcliff's adjusted funds flow of \$184.5 million in the twelve month Reporting Period was 5% lower than its guidance of \$195 million, primarily due to a lower than anticipated average realized natural gas sales price in the three month Reporting Period. Birchcliff's F&D capital expenditures of \$288.0 million in the twelve month Reporting Period were slightly above its guidance of \$285 million. Birchcliff's negative free funds flow of \$103.4 million in 2020 was 15% below its guidance of \$90 million, primarily due to lower than anticipated adjusted funds flow and higher than anticipated F&D capital expenditures. Birchcliff's total debt at December 31, 2020 of \$762.0 million was slightly above its guidance of \$740 to \$760 million, primarily due to the redemption of \$9.1 million of Series C Preferred Shares in December 2020 and a lower than anticipated average realized natural gas sales price in the three month Reporting Period.

SELECTED ANNUAL INFORMATION

	2020	2019	2018
Average production			
Light oil (bbls/d)	4,415	4,742	4,873
Condensate (bbls/d) ⁽¹⁾	5,824	5,145	4,072
NGLs (bbls/d) ⁽¹⁾	7,650	7,264	6,123
Natural gas (Mcf/d)	351,068	364,958	372,170
Total (boe/d)	76,401	77,977	77,096
Average realized sales price (CDN\$) ⁽²⁾			
Light oil (per bbl)	42.39	68.29	68.66
Condensate (per bbl) ⁽¹⁾	48.03	68.06	77.36
NGLs (per bbl) ⁽¹⁾	13.62	13.76	22.92
Natural gas (per Mcf)	2.49	2.48	2.45
Total (per boe)	18.90	21.55	22.08
Cash flow from operating activities (\$000s)	188,180	327,066	324,434
Adjusted funds flow (\$000s)	184,526	334,504	312,922
Per common share – basic (\$)	0.69	1.26	1.18
Net income (loss) (\$000s)	(57,821)	(55,392)	102,212
Net income (loss) to common shareholders (\$000s)	(62,008)	(59,579)	98,025
Per common share – basic (\$)	(0.23)	(0.22)	0.37
Petroleum and natural gas revenue (\$000s) ⁽²⁾	528,505	613,559	621,421
F&D capital expenditures (\$000s) ⁽³⁾	287,967	256,395	299,654
Total capital expenditures (\$000s) ⁽⁴⁾	276,785	300,246	298,018
Operating expense (\$ per boe)	2.95	3.09	3.52
Total assets (\$000s)	2,902,043	2,816,685	2,762,920
Long-term bank debt (\$000s)	731,372	609,177	605,267
Total debt (\$000s)	761,951	632,582	626,454
End of period basic common shares (000s)	265,943	265,935	265,911
Weighted average basic common shares (000s)	265,936	265,930	265,852
Common share dividend distribution (\$000s)	10,968	27,923	26,586
Per common share (\$)	0.0413	0.1050	0.1000
Series A Preferred Shares outstanding – end of period (000s)	2,000	2,000	2,000
Series A Preferred Share dividend distribution (\$000s)	4,187	4,187	4,187
Per Series A Preferred Share (\$)	2.0935	2.0935	2.0935
Series C Preferred Shares outstanding – end of period (000s)	1,597	2,000	2,000
Series C Preferred Share dividend distribution (\$000s)	3,467	3,500	3,500
Per Series C Preferred Share (\$)	1.7500	1.7500	1.7500

(1) Beginning in Q1 2019, Birchcliff began presenting condensate and NGLs separately. Prior period sales and volumes have been adjusted to conform to this current period presentation. See "Advisories – Production".

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

(3) See "Advisories – Capital Expenditures".

(4) Includes acquisitions, dispositions and administrative assets. See "Advisories – Capital Expenditures".

Annual average production in 2020 decreased by 2% from 2019 and by 1% from 2018. The decreases were primarily due to natural production declines and the impacts of frac-driven interaction in the second half of 2020, partially offset by horizontal light oil and condensate rich natural gas wells brought on production which improved total corporate liquids weighting in 2020. Additionally, in order to manage the higher condensate and frac water flowback volumes associated with the 14-well pad brought on production in Pouce Coupe in the third quarter of 2020, Birchcliff proactively and temporarily restricted production of existing wells in Pouce Coupe during the third quarter of 2020, which negatively impacted production in 2020.

Adjusted funds flow in 2020 decreased by 45% from 2019 and by 41% from 2018. The decreases were primarily due to lower reported revenue and a realized loss on financial instruments recorded in 2020. Revenue decreased largely due to decreases in the average realized light oil and condensate sales prices in 2020. Birchcliff's light oil and condensate sales revenue in 2020 was negatively impacted by the significant weakness and volatility in benchmark oil prices as a result of the COVID-19 pandemic and ensuing global demand destruction. Birchcliff recorded a realized loss on financial instruments of \$59.7 million in 2020, as compared to a realized gain on financial instruments of \$13.7 million in 2019 and a realized loss on financial instruments of \$15.8 million in 2018. Adjusted funds flow in 2020 was also negatively impacted by higher interest and transportation and other expenses, and positively impacted by lower royalty, operating and G&A expenses as compared to 2019 and 2018.

Cash flow from operating activities in 2020 decreased by 42% from 2019 and 2018. The reason for the decreases is consistent with the explanation for adjusted funds flow; however, cash flow from operating activities was also impacted by changes in non-cash operating working capital and decommissioning expenditures.

Birchcliff recorded a net loss to common shareholders of \$62.0 million (\$0.23 per basic common share) in 2020, as compared to net loss to common shareholders of \$59.6 million (\$0.22 per basic common share) in 2019 and net income to common shareholders of \$98.0 million (\$0.37 per basic common share) in 2018. The increase in net loss from 2019 was primarily due to lower adjusted funds flow as described above, partially offset by lower unrealized after-tax mark-to-market losses on financial instruments. The change to a net loss position in 2020 as compared to net income in 2018 was primarily due to lower adjusted funds flow as described above and an unrealized mark-to-market loss on financial instruments in 2020 as compared to an unrealized mark-to-market gain on financial instruments in 2018. Birchcliff recorded an unrealized after-tax mark-to-market loss on financial instruments of approximately \$26.5 million in 2020 as compared to an unrealized after-tax mark-to-market loss of approximately \$148.4 million in 2019 and an unrealized after-tax mark-to-market gain of approximately \$64.2 million in 2018.

Total capital expenditures in 2020 decreased by 8% from 2019 and decreased by 7% from 2018. The Corporation's capital expenditures fluctuate each year based on: (i) the Corporation's outlook for commodity prices and market conditions; (ii) the level of drilling and completions operations and other capital projects and the timing thereof; and (iii) the level of acquisition and disposition activities and the timing thereof. Capital expenditures in the last three years were largely directed towards the Montney/Doig Resource Play, including: (i) the drilling and completion of horizontal light oil and natural gas wells in Pouce Coupe and Gordondale; (ii) the Phase VI expansion of Birchcliff's 100% owned and operated natural gas processing plant in Pouce Coupe (the "**Pouce Coupe Gas Plant**") which was completed in the third quarter of 2019 and increased the licensed natural gas processing capacity to 340 MMcf/d; and (iii) the addition of the inlet-liquids handling facility at the Pouce Coupe Gas Plant (the "**Inlet Liquids-Handling Facility**") which was completed in the third quarter of 2020. Total capital expenditures in 2020 included the \$12.7 million disposition of various lands and assets in Gordondale. Total capital expenditures in 2019 included the \$39.0 million acquisition of 18 gross (15.1 net) contiguous sections of Montney land located between Birchcliff's existing Pouce Coupe and Gordondale properties.

Operating expense on a per boe basis in 2020 decreased by 5% from 2019 and by 16% from 2018. The decreases were primarily due to various field optimization and cost saving initiatives in Pouce Coupe and Gordondale, which included the addition of the Inlet Liquids-Handling Facility in Pouce Coupe in 2020.

Total debt in 2020 increased by 20% from 2019 and by 22% from 2018. The increases were primarily due to adjusted funds flow being less than the aggregate of total capital expenditures, dividends paid on preferred shares and common shares and the redemption of Series C Preferred Shares in 2020.

Total common share dividends in 2020 decreased by 61% from 2019 and 59% from 2018. The decreases were due to the Corporation reducing the amount of its quarterly common share dividend in the second quarter of 2020 from \$0.02625 per share (or \$0.105 per share annually) to \$0.005 per share (or \$0.02 per share annually) in order to preserve cash in 2020.

Birchcliff's Series C Preferred Shares outstanding at the end of 2020 decreased by 20% from 2019 and 2018. During 2020, the Corporation received Notices of Redemption (as such term is defined herein) for 402,820 Series C Preferred Shares. The Corporation elected to settle in cash the redemption of 365,655 Series C Preferred Shares at \$25.00 per share for a total of \$9.1 million. The Corporation elected to convert the remaining 37,165 Series C Preferred Shares into common shares and accordingly issued a total of 464,562 common shares. See "*Outstanding Share Information – Capital Securities*".

CASH FLOW FROM OPERATING ACTIVITIES AND ADJUSTED FUNDS FLOW

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

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Cash flow from operating activities (\$000s)	71,431	85,557	188,180	327,066
Adjusted funds flow (\$000s)	66,509	80,941	184,526	334,504
Per common share – basic (\$)	0.25	0.30	0.69	1.26
Per common share – diluted (\$)	0.25	0.30	0.69	1.26
Adjusted funds flow netback (\$/boe)	9.19	11.28	6.60	11.75

Adjusted funds flow in the three and twelve month Reporting Periods decreased by 18% and 45%, respectively, from the Comparable Prior Periods. The decreases were primarily due to lower reported revenue and a realized loss on financial instruments recorded in the Reporting Periods. Revenue decreased primarily due to a 24% and 33% decrease in the average realized light oil and condensate sales price (combined) from the three and twelve month Comparable Prior Periods, respectively. Birchcliff's light oil and condensate sales revenue in the Reporting Periods was negatively impacted by the significant weakness and volatility in benchmark oil prices as a result of the COVID-19 pandemic and ensuing global demand destruction. Birchcliff recorded a realized loss on financial instruments of \$11.8 million and \$59.7 million in the three and twelve month Reporting Periods, respectively, as compared to a realized loss on financial instruments of \$6.6 million in the three month Comparable Prior Period and a realized gain on financial instruments of \$13.7 million in the twelve month Comparable Prior Period. Birchcliff's realized gains and losses on financial instruments were primarily due to the settlement of its market diversification NYMEX HH/AECO basis swap contracts in the periods indicated. Adjusted funds flow in the Reporting Periods was also negatively impacted by higher interest and transportation and other expenses, and positively impacted by lower royalty, operating and G&A expenses.

Cash flow from operating activities for the three and twelve month Reporting Periods decreased by 17% and 42%, respectively, from the Comparable Prior Periods. The reason for the decreases is consistent with the explanation for adjusted funds flow; however, cash flow from operating activities was also impacted by changes in non-cash operating working capital and decommissioning expenditures.

The following table sets forth a breakdown of the Corporation's total cash costs on a per unit basis for the periods indicated:

(\$/boe)	Three months ended December 31,			Twelve months ended December 31,		
	2020	2019	% Change	2020	2019	% Change
Royalty expense	0.90	1.15	(22)	0.65	0.96	(32)
Operating expense	3.03	3.06	(1)	2.95	3.09	(5)
Transportation and other expense	4.94	4.51	10	4.93	4.44	11
G&A expense, net	1.11	1.26	(12)	0.88	0.94	(6)
Interest expense	1.20	0.82	46	0.93	0.88	6
Total cash costs	11.18	10.80	4	10.34	10.31	-

See "Discussion of Operations" in this MD&A for further details regarding the period-over-period movement in revenue, realized gains and losses on financial instruments and total cash cost inputs.

NET INCOME (LOSS) TO COMMON SHAREHOLDERS

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

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Net income (loss) to common shareholders (\$000s)	40,407	(18,984)	(62,008)	(59,579)
Per common share – basic (\$)	0.15	(0.07)	(0.23)	(0.22)
Per common share – diluted (\$)	0.15	(0.07)	(0.23)	(0.22)
Net income (loss) to common shareholders (\$/boe)	5.58	(2.65)	(2.22)	(2.09)

The change to a net income position from the three month Comparable Prior Period was primarily due to an unrealized after-tax mark-to-market gain on financial instruments of \$32.5 million in the three month Reporting Period as compared to an unrealized after-tax mark-to-market loss of \$35.9 million in the three month Comparable Prior Period, partially offset by lower adjusted funds flow in the three month Reporting Period.

The increase in the net loss to common shareholders from the twelve month Comparable Prior Period was primarily due to lower adjusted funds flow, partially offset by a lower unrealized after-tax mark-to-market loss on financial instruments. Birchcliff recorded an unrealized after-tax mark-to-market loss on financial instruments of \$26.5 million in the twelve month Reporting Period as compared to an unrealized after-tax mark-to-market loss of \$148.4 million in the twelve month Comparable Prior Period.

Birchcliff's unrealized gains and losses on financial instruments for the periods indicated were primarily due to changes in the fair value of its market diversification NYMEX HH/AECO basis swap contracts. See "Discussion of Operations – Risk Management" in this MD&A for further details regarding the period-over-period movement in unrealized gains and losses on financial instruments.

POUCE COUPE GAS PLANT NETBACKS

During the twelve month Reporting Period, Birchcliff processed approximately 68% of its total corporate natural gas production and 59% of its total corporate production through the Pouce Coupe Gas Plant as compared to 72% and 62%, respectively, during the twelve month Comparable Prior Period. The following table sets forth Birchcliff's average daily production and operating netback for wells producing to the Pouce Coupe Gas Plant for the periods indicated:

	Twelve months ended December 31, 2020		Twelve months ended December 31, 2019	
Average production:				
Condensate (bbls/d)		4,284		3,801
NGLs (bbls/d)		1,156		934
Natural gas (MMcf/d)		239,419		263,108
Total (boe/d)		45,343		48,587
Liquids-to-gas ratio⁽¹⁾ (bbls/MMcf)		22.7		18.0
Netback and cost:	\$/Mcfe	\$/boe	\$/Mcfe	\$/boe
Petroleum and natural gas revenue ⁽²⁾	3.05	18.29	3.20	19.17
Royalty expense	(0.06)	(0.37)	(0.07)	(0.42)
Operating expense ⁽³⁾	(0.36)	(2.14)	(0.34)	(2.05)
Transportation and other expense	(0.88)	(5.27)	(0.76)	(4.54)
Operating netback	\$1.75	\$10.51	\$2.03	\$12.16
Operating margin⁽⁴⁾	57%	57%	63%	63%

(1) Liquids consists of condensate and other NGLs.

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

(3) Represents plant and field operating expense.

(4) Operating margin is calculated by dividing the operating netback for the period by the petroleum and natural gas revenue for the period.

Production decreased from the twelve month Comparable Prior Period primarily due to natural production declines and the impacts of frac-driven interaction in the second half of 2020, partially offset by condensate-rich natural gas wells brought on production in 2020, including from the 14-well pad brought on production in Pouce Coupe in the third quarter of 2020. Birchcliff proactively and temporarily restricted production of existing wells flowing to the Pouce Coupe Gas Plant during the third quarter of 2020 in order to manage the higher condensate and frac water flowback volumes associated with the 14-well pad.

The Corporation's liquids-to-gas ratio increased by 26% to 22.7 bbls/MMcf in the twelve month Reporting Period as compared to 18.0 bbls/MMcf in the twelve month Comparable Prior Period primarily due to: (i) the completion of Inlet Liquids-Handling Facility in the third quarter of 2020; and (ii) the addition of the condensate-rich 14-well pad brought on production in Pouce Coupe in the third quarter of 2020.

Operating netback per boe decreased by 14% from the twelve month Comparable Prior Period primarily due to lower per boe petroleum and natural gas revenue and higher per boe operating and transportation and other expenses, partially offset by lower per boe royalty expense. Petroleum and natural gas revenue and royalty expense decreased primarily due to lower average realized sales prices for condensate and NGLs in 2020. Operating expense was higher primarily due to a decrease in production volumes processed at the Pouce Coupe Gas Plant in 2020. Transportation and other expense increased mainly due to additional firm service transportation to AECO and Dawn sales trading hubs in 2020.

DISCUSSION OF OPERATIONS

Petroleum and Natural Gas Revenue

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

(\$000s)	Three months ended December 31, 2020			Three months ended December 31, 2019		
	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾
Light oil	54	16,190	16,261	1,001	26,544	27,571
Condensate	23,495	8,910	32,406	22,935	8,115	31,050
NGLs	2,607	9,713	12,320	2,083	9,862	11,945
Natural gas	69,026	28,268	97,293	70,427	23,761	94,188
P&NG sales ⁽²⁾	95,182	63,081	158,280	96,446	68,282	164,754
Royalty income	1	1	3	2	1	5
P&NG revenue	95,183	63,082	158,283	96,448	68,283	164,759
% of corporate P&NG revenue	60%	40%		59%	41%	
Twelve months ended December 31, 2020						
(\$000s)	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾
	473	68,000	68,498	1,301	116,803	118,182
Light oil	473	68,000	68,498	1,301	116,803	118,182
Condensate	76,736	25,661	102,397	95,614	32,201	127,816
NGLs	8,579	29,544	38,123	6,974	29,513	36,488
Natural gas	229,636	89,838	319,473	250,543	80,428	330,973
P&NG sales ⁽²⁾	315,424	213,043	528,491	354,432	258,945	613,459
Royalty income	4	4	14	14	81	100
P&NG revenue	315,428	213,047	528,505	354,446	259,026	613,559
% of corporate P&NG revenue	60%	40%		58%	42%	

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

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

On a corporate basis, P&NG revenue decreased by 4% and 14% from the three and twelve month Comparable Prior Periods, respectively. Petroleum and natural gas revenue decreased primarily due to lower average realized light oil and condensate sales prices and a decrease in light oil production, partially offset by higher condensate production in the Reporting Periods. Actions taken around the world to mitigate the spread of COVID-19 resulted in significant weakness and volatility in benchmark oil prices which negatively impacted Birchcliff's realized light oil and condensate sales prices in the Reporting Periods.

Production

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

	Three months ended December 31, 2020			Three months ended December 31, 2019		
	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾
Light oil (bbls/d)	11	3,551	3,566	159	4,271	4,435
Condensate (bbls/d)	4,877	1,780	6,658	3,661	1,245	4,906
NGLs (bbls/d)	1,499	6,786	8,285	1,168	6,646	7,814
Natural gas (Mcf/d)	251,500	109,345	360,839	269,314	95,534	364,847
Production (boe/d)	48,305	30,342	78,649	49,873	28,085	77,962
Liquids-to-gas ratio (bbls/MMcf)	25.4	110.8	51.3	18.5	127.3	47.0
% of corporate production	61%	39%		64%	36%	
Twelve months ended December 31, 2020			Twelve months ended December 31, 2019			
	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾
Light oil (bbls/d)	31	4,382	4,415	52	4,686	4,742
Condensate (bbls/d)	4,401	1,424	5,824	3,911	1,235	5,145
NGLs (bbls/d)	1,226	6,424	7,650	986	6,278	7,264
Natural gas (Mcf/d)	248,951	102,119	351,068	274,009	90,947	364,958
Production (boe/d)	47,149	29,250	76,401	50,616	27,357	77,977
Liquids-to-gas ratio (bbls/MMcf)	22.7	119.8	51.0	18.1	134.1	47.0
% of corporate production	62%	38%		65%	35%	

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

Birchcliff's corporate production increased by 1% from the three month Comparable Prior Period and decreased by 2% from the twelve month Comparable Prior Period. Production in the Reporting Periods was positively impacted by horizontal light oil and condensate-rich natural gas wells brought on production in 2020, including from the 14-well pad brought on production in Pouce Coupe in the third quarter of 2020, and negatively impacted by natural production declines and the impacts of frac-driven interaction in the second half of 2020. Additionally, in order to manage the higher condensate and frac water flowback volumes associated with the 14-well pad, Birchcliff proactively and temporarily restricted production of existing wells in Pouce Coupe during the third quarter of 2020, which negatively impacted production.

Corporate liquids production increased by 8% and 4% from the three and twelve month Comparable Prior Periods, respectively. The corporate liquids-to-gas ratio (liquids yield) increased by 9% from both the three and twelve month Comparable Prior Periods. The change in the commodity production mix was primarily due to production from horizontal light oil and condensate-rich natural gas wells brought on production in Gordondale and Pouce Coupe in the Reporting Periods.

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

	Three months ended December 31, 2020			Three months ended December 31, 2019		
	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾
% Light oil production	-	12%	5%	-	15%	6%
% Condensate production	10%	6%	8%	8%	4%	6%
% NGLs production	3%	22%	11%	2%	24%	10%
% Natural gas production	87%	60%	76%	90%	57%	78%

	Twelve months ended December 31, 2020			Twelve months ended December 31, 2019		
	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾
% Light oil production	-	15%	6%	-	17%	6%
% Condensate production	9%	5%	8%	8%	5%	7%
% NGLs production	3%	22%	9%	2%	23%	9%
% Natural gas production	88%	58%	77%	90%	55%	78%

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

Birchcliff's corporate liquids accounted for approximately 24% and 23% of total production in the three and twelve month Reporting Periods, respectively, as compared to approximately 22% in the Comparable Prior Periods.

Commodity Prices

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

	Three months ended December 31,			Twelve months ended December 31,		
	2020	2019	% Change	2020	2019	% Change
Light oil – WTI Cushing (US\$/bbl)	42.57	56.96	(25)	38.91	57.03	(32)
Light oil – MSW (Mixed Sweet) (CDN\$/bbl)	49.57	67.66	(27)	43.52	68.72	(37)
Natural gas – NYMEX HH (US\$/MMBtu) ⁽¹⁾	2.66	2.50	6	2.08	2.63	(21)
Natural gas – AECO 5A Daily (CDN\$/GJ)	2.50	2.35	6	2.11	1.67	26
Natural gas – AECO 7A Month Ahead (US\$/MMBtu) ⁽¹⁾	2.10	1.77	19	1.68	1.22	38
Natural gas – Dawn Day Ahead (US\$/MMBtu) ⁽¹⁾	2.30	2.23	3	1.88	2.40	(22)
Natural gas – ATP 5A Day Ahead (CDN\$/GJ)	2.78	1.92	45	2.05	1.66	23
Exchange rate (CDN\$ to US\$1)	1.3035	1.3201	(1)	1.3413	1.3269	1
Exchange rate (US\$ to CDN\$1)	0.7672	0.7575	1	0.7455	0.7536	(1)

(1) See "Advisories – MMBtu Pricing Conversions" in this MD&A.

Birchcliff physically sells substantially all of its light oil based on the MSW benchmark price and substantially all of its physical natural gas production based on the AECO 5A and Dawn benchmark prices. Effective November 1, 2019, Birchcliff increased its firm service transportation to Dawn by 25,000 GJ/d, bringing its total natural gas production receiving the Dawn benchmark price to 175,000 GJ/d (see "Discussion of Operations – Petroleum and Natural Gas Revenue – Natural Gas Sales, Production and Average Realized Sales Price" in this MD&A). Birchcliff has also diversified a portion of its AECO production to NYMEX HH-based pricing, predominantly on a financial basis, beginning January 1, 2019. Total natural gas production receiving NYMEX HH-based pricing was 100,000 MMBtu/d in 2019 and 132,500 MMBtu/d in 2020. See "Discussion of Operations – Risk Management" in this MD&A.

The average realized sales prices the Corporation receives for its light oil and natural gas production depend on a number of factors, including the average benchmark prices for crude oil and natural gas, the US to Canadian dollar exchange rate, transportation costs, product quality differentials and the heat premium on its natural gas production. The benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for crude oil. The principal benchmark trading exchanges that Birchcliff compares its oil price to are the WTI price and the MSW price. The differential between the WTI price and the MSW price can fluctuate due to a number of factors, including, but not limited to, domestic oil supply and demand balance, North American refinery utilization rates and inventory levels and pipeline infrastructure capacity connecting key consuming oil markets.

The WTI benchmark oil index price decreased by 25% and 32% from the three and twelve month Comparable Prior Periods, respectively. In late February 2020, benchmark oil index prices started a significant drop predominately due to the COVID-19 pandemic, resulting in oil demand destruction. Benchmark oil prices began to recover in the second half of 2020 due to renewed production curtailments by OPEC+, an increase in demand for oil after governments began to ease COVID-19 related restrictions, market optimism generated by COVID-19 vaccine approvals and global vaccine distribution beginning in the three month Reporting Period.

Canadian 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, production growth levels, weather-related conditions in key consuming natural gas markets, changing demographics, economic growth, inventory levels, access to underground storage, net import and export markets,

pipeline supply takeaway capacity, maintenance on key natural gas infrastructure, cost of competing renewable and non-renewable energy alternatives, drilling and completion rates and efficiencies in extracting natural gas from North American natural gas basins.

The AECO 5A benchmark natural gas index price increased by 6% and 26% from the three and twelve month Comparable Prior Periods, respectively, largely due to an improved supply and demand balance in Western Canada. The Dawn benchmark natural gas index price increased by 3% from the three month Comparable Prior Period and decreased by 22% from the twelve month Comparable Prior Period. The Dawn benchmark price was influenced by supply and demand fluctuations throughout 2020 primarily due to seasonal temperature variations.

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

	Three months ended December 31,			Twelve months ended December 31,		
	2020	2019	% Change	2020	2019	% Change
Light oil (\$/bbl)	49.56	67.58	(27)	42.39	68.29	(38)
Condensate (\$/bbl)	52.90	68.80	(23)	48.03	68.06	(29)
NGLs (\$/bbl)	16.16	16.62	(3)	13.62	13.76	(1)
Natural gas (\$/Mcft)	2.93	2.81	4	2.49	2.48	-
Average realized sales price (\$/boe)⁽¹⁾⁽²⁾	21.87	22.97	(5)	18.90	21.55	(12)

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

(2) The average realized sales price for the twelve month Comparable Prior Period also includes the effects of physical natural gas delivery contracts at Dawn for 50,000 MMBtu/d at an average contract price of US\$5.05/MMBtu, which settled in the first quarter of 2019 and improved Birchcliff's average realized sales price in that period.

The average realized sales price decreased from the Comparable Prior Periods primarily due to lower average benchmark oil index prices which negatively impacted the prices Birchcliff received for its light oil and condensate. See "Discussion of Operations – Operating Netbacks" in this MD&A for details on production and average realized pricing for the Corporation's Pouce Coupe and Gordondale assets.

Natural Gas Sales, Production and Average Realized Sales Price

The following table sets forth Birchcliff's sales, average daily production and average realized sales price by natural gas market for the periods indicated:

	Three months ended December 31, 2020			Three months ended December 31, 2019						
	Natural gas sales (\$000s) ⁽¹⁾	Natural gas production (Mcft/d)	Average realized sales price (\$/Mcft) ⁽¹⁾	Natural gas sales (\$000s) ⁽¹⁾	Natural gas production (Mcft/d)	Average realized sales price (\$/Mcft) ⁽¹⁾				
AECO	44,556	46	172,817	48	2.80	48,976	52	204,461	56	2.60
Dawn ⁽²⁾	44,785	46	159,071	44	3.06	43,706	46	152,115	42	3.12
Alliance ⁽³⁾	7,952	8	28,951	8	2.99	1,506	2	8,271	2	1.98
Total	97,293	100	360,839	100	2.93	94,188	100	364,847	100	2.81
	Twelve months ended December 31, 2020			Twelve months ended December 31, 2019						
	Natural gas sales (\$000s) ⁽¹⁾	Natural gas production (Mcft/d)	Average realized sales price (\$/Mcft) ⁽¹⁾	Natural gas sales (\$000s) ⁽¹⁾	Natural gas production (Mcft/d)	Average realized sales price (\$/Mcft) ⁽¹⁾				
AECO	153,007	48	176,827	51	2.37	136,050	41	210,545	58	1.77
Dawn ⁽²⁾	152,728	48	159,002	45	2.62	185,199	56	140,803	39	3.60
Alliance ⁽³⁾	13,738	4	15,239	4	2.46	9,724	3	13,610	3	1.96
Total	319,473	100	351,068	100	2.49	330,973	100	364,958	100	2.48

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

(2) Birchcliff has agreements for the firm service transportation of an aggregate of 175,000 GJ/d of natural gas on TCPL's Canadian Mainline, whereby natural gas is transported to the Dawn trading hub in Southern Ontario. The first tranche of this service (120,000 GJ/d) became available on November 1, 2017, the second tranche (30,000 GJ/d) became available on November 1, 2018 and the third tranche (25,000 GJ/d) became available on November 1, 2019. Each tranche has a 10-year term. During the twelve month Comparable Prior Period, Birchcliff had in place physical natural gas delivery contracts at Dawn for 50,000 MMBtu/d at an average contract price of US\$5.05/MMBtu, which settled in the first quarter of 2019.

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

Risk Management

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

Financial Derivative Contracts

Birchcliff has not designated its financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity price contracts to be effective economic hedges. As a result, all such financial instruments are recorded on the statements of financial position on a mark-to-market fair value basis at December 31, 2020, with the changes in fair value being recognized as a non-cash unrealized gain or loss in profit or loss and realized upon settlement. These contracts are not entered into for trading or speculative purposes.

At December 31, 2020, Birchcliff had the following financial derivative contracts in place in order to manage commodity price risk:

Product	Type of Contract	Notional Quantity	Remaining Term ⁽¹⁾	Contract Price
Natural gas	AECO 7A basis swap ⁽²⁾	30,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2023	NYMEX HH less US\$1.298/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	10,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2023	NYMEX HH less US\$1.320/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	30,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2023	NYMEX HH less US\$1.330/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	15,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2024	NYMEX HH less US\$1.185/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2024	NYMEX HH less US\$1.200/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2024	NYMEX HH less US\$1.200/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	12,500 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US\$1.108/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	10,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US\$1.115/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	10,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US\$1.050/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US\$1.178/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	10,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US\$1.175/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US\$1.190/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	30,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US\$1.114/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	35,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US\$1.081/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US\$1.013/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	20,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US\$1.005/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US\$0.990/MMBtu

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

(2) Birchcliff sold AECO basis swap.

There were no financial derivative contracts entered into subsequent to December 31, 2020.

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

At December 31, 2020, the Corporation had the following physical delivery contract in place:

Product	Type of Contract	Quantity	Remaining Term	Contract Price
Natural gas	AECO 7A basis swap ⁽¹⁾	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2023	NYMEX HH less US\$1.205/MMBtu

(1) Birchcliff sold AECO basis swap.

There were no physical delivery contracts entered into subsequent to December 31, 2020.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation's Credit Facilities are exposed to interest rate risk. The remainder of Birchcliff's financial assets and liabilities are not directly exposed to interest rate risk.

At December 31, 2020, Birchcliff had the following financial derivative contracts in place to manage interest rate risk:

Type of Contract	Index	Remaining Term ⁽¹⁾	Notional value	Fixed Rate
Interest rate swap	One-month banker's acceptance – CDOR ⁽²⁾	Jan. 1 2021 – Mar. 1, 2024	\$350 million	2.215%

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

(2) Canadian Dollar Offered Rate ("CDOR").

Realized and Unrealized Gains and Losses on Financial Instruments

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

	Three months ended December 31,				Twelve months ended December 31,			
	2020		2019		2020		2019	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
Realized gain (loss)	(11,819)	(1.63)	(6,565)	(0.92)	(59,665)	(2.13)	13,673	0.48
Unrealized gain (loss)	42,237	5.84	(46,602)	(6.50)	(35,446)	(1.27)	(192,765)	(6.77)

Birchcliff realized a cash loss of \$11.8 million and \$59.7 million during the three and twelve month Reporting Periods, respectively, primarily due to the settlement of financial NYMEX HH/AECO basis swap contracts in those periods.

Birchcliff recorded an unrealized non-cash gain on financial instruments of \$42.2 million in the three month Reporting Period and an unrealized non-cash loss of \$35.4 million in the twelve month Reporting Period. The unrealized gains and losses for the periods indicated were due to changes in the fair value of the Corporation's financial instruments. The changes in the fair value of financial instruments were primarily due to: (i) fluctuations in the forward basis spread between NYMEX HH and AECO 7A contracts outstanding at December 31, 2020, as compared to the fair value previously assessed at September 30, 2020 and December 31, 2019; and (ii) the settlement of financial NYMEX HH/AECO basis swap contracts in the periods. The unrealized gains and losses on financial instruments can fluctuate materially from period-to-period due to movement in the forward strip commodity prices and interest rates. Unrealized gains and losses on financial instruments do not impact adjusted funds flow and may differ materially from the actual gains or losses realized on the eventual cash settlement of financial contracts in the period.

Royalties

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

	Three months ended December 31,		Twelve months ended December 31,	
	2020		2019	
	(\$000s) ⁽¹⁾	(\$/boe)	(\$000s)	(\$/boe)
Royalty expense (\$000s) ⁽¹⁾	6,522	8,263	18,204	27,452
Royalty expense (\$/boe)	0.90	1.15	0.65	0.96
Effective royalty rate (%) ⁽²⁾	4%	5%	3%	4%

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

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

Birchcliff's per unit royalties decreased by 22% and 32% from the three and twelve month Comparable Prior Periods, respectively, primarily due to the decline in the average realized light oil and condensate sales prices in the Reporting Periods and the effect these prices had on the sliding scale royalty calculation.

Operating Expense

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

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Field operating expense	22,990	22,903	87,120	91,679
Recoveries	(1,048)	(926)	(4,763)	(3,776)
Operating expense	21,942	21,977	82,357	87,903
Operating expense per boe	\$3.03	\$3.06	\$2.95	\$3.09

On a per unit basis, operating expense decreased by 1% and 5% from the three and twelve month Comparable Prior Periods, respectively. The decreases were primarily due to various field optimization and cost-saving initiatives in Pouce Coupe and Gordondale, which included the addition of the Inlet Liquids-Handling Facility in Pouce Coupe. Birchcliff's operating cost structure remained largely unaffected by the COVID-19 pandemic in the Reporting Periods.

Transportation and Other

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

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Natural gas transportation	26,904	25,433	106,409	96,044
Liquids transportation	7,431	6,806	28,732	26,830
Fractionation	2,059	1,084	5,305	4,761
Other fees	33	30	128	128
Transportation expense	36,427	33,353	140,574	127,763
Transportation expense per boe	\$5.03	\$4.65	\$5.03	\$4.49
Marketing purchases ⁽ⁱ⁾	1,152	7,196	11,127	18,503
Marketing revenue ⁽ⁱ⁾	(1,889)	(8,271)	(13,687)	(20,131)
Marketing gain ⁽ⁱ⁾	(737)	(1,075)	(2,560)	(1,628)
Marketing gain per boe	\$(0.09)	\$(0.14)	\$(0.10)	\$(0.05)
Transportation and other expense	35,690	32,278	138,014	126,135
Transportation and other expense per boe	\$4.94	\$4.51	\$4.93	\$4.44

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

On a per unit basis, transportation expense increased by 8% and 12% from the three and twelve month Comparable Prior Periods, respectively. The increases were primarily due to: (i) an additional 25,000 GJ/d of firm service transportation to Dawn that became available on November 1, 2019; (ii) additional AECO firm service transportation associated with Birchcliff's commitments on the NGTL system; and (iii) increased total liquids production in the Reporting Periods.

Operating Netback

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

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Pouce Coupe assets:				
Average production:				
Light oil (bbls/d)	11	159	31	52
Condensate (bbls/d)	4,877	3,661	4,401	3,911
NGLs (bbls/d)	1,499	1,168	1,226	986
Natural gas (Mcf/d)	251,500	269,314	248,951	274,009
Total (boe/d)	48,305	49,873	47,149	50,616
% of corporate production	61%	64%	62%	65%
Liquids-to-gas ratio (bbls/MMcf)	25.4	18.5	22.7	18.1
Netback and cost (\$/boe):				
Petroleum and natural gas revenue ⁽¹⁾	21.42	21.02	18.28	19.19
Royalty expense	(0.64)	(0.78)	(0.41)	(0.47)
Operating expense	(2.35)	(2.22)	(2.18)	(2.07)
Transportation and other expense	(5.20)	(4.71)	(5.25)	(4.58)
Operating netback	13.23	13.31	10.44	12.07
Gordondale assets:				
Average production:				
Light oil (bbls/d)	3,551	4,271	4,382	4,686
Condensate (bbls/d)	1,780	1,245	1,424	1,235
NGLs (bbls/d)	6,786	6,646	6,424	6,278
Natural gas (Mcf/d)	109,345	95,534	102,119	90,947
Total (boe/d)	30,342	28,085	29,250	27,357
% of corporate production	39%	36%	38%	35%
Liquids-to-gas ratio (bbls/MMcf)	110.8	127.3	119.8	134.1
Netback and cost (\$/boe):				
Petroleum and natural gas revenue ⁽¹⁾	22.60	26.43	19.90	25.94
Royalty expense	(1.31)	(1.81)	(1.03)	(1.88)
Operating expense	(4.12)	(4.54)	(4.17)	(4.93)
Transportation and other expense	(4.51)	(4.13)	(4.42)	(4.18)
Operating netback	12.66	15.95	10.28	14.95
Total Corporate:				
Average production:				
Light oil (bbls/d)	3,566	4,435	4,415	4,742
Condensate (bbls/d)	6,658	4,906	5,824	5,145
NGLs (bbls/d)	8,285	7,814	7,650	7,264
Natural gas (Mcf/d)	360,839	364,847	351,068	364,958
Total (boe/d)⁽²⁾	78,649	77,962	76,401	77,977
Liquids-to-gas ratio (bbls/MMcf)	51.3	47.0	51.0	47.0
Netback and cost (\$/boe):				
Petroleum and natural gas revenue ⁽¹⁾	21.88	22.97	18.90	21.56
Royalty expense	(0.90)	(1.15)	(0.65)	(0.96)
Operating expense	(3.03)	(3.06)	(2.95)	(3.09)
Transportation and other expense	(4.94)	(4.51)	(4.93)	(4.44)
Operating netback	13.01	14.25	10.37	13.07

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

(2) Includes adjustments for other minor oil and natural gas properties which were not individually significant.

Pouce Coupe Montney/Doig Resource Play

Birchcliff's average production from its Pouce Coupe assets decreased by 3% and 7% from the three and twelve month Comparable Prior Periods, respectively. The decreases were primarily due to natural production declines and the impacts of frac-driven interaction in the second half of 2020, partially offset by horizontal condensate-rich natural gas wells that were brought on production in Pouce Coupe, including from the 14-well pad brought on production in the third quarter of 2020. Additionally, in order to manage the higher condensate and frac water flowback volumes associated with the 14-well pad, Birchcliff proactively and temporarily restricted production of existing wells in Pouce Coupe during the third quarter of 2020, which negatively impacted production.

Birchcliff's liquids-to-gas ratio for the Pouce Coupe assets increased by 37% and 25% from the three and twelve month Comparable Prior Periods, respectively. The increases were primarily due to higher condensate recoveries and lower natural gas production rates from the 14-well pad brought on production in the third quarter of 2020.

Royalty expense for the Pouce Coupe assets decreased by 18% and 13% from the three and twelve month Comparable Prior Periods, respectively. The decreases were primarily due to the decline in the average realized condensate sales price.

Operating expense for the Pouce Coupe assets increased by 6% and 5% from the three and twelve month Comparable Prior Periods, respectively. The increases were primarily due to increased costs associated with higher total liquids production in Pouce Coupe as compared with the Comparable Prior Periods.

Transportation and other expense for the Pouce Coupe assets increased by 10% and 15% from the three and twelve month Comparable Prior Periods, respectively. The increases were primarily due to additional firm service transportation to the AECO and Dawn sales trading hubs and increased total liquids production in Pouce Coupe.

Gordondale Montney/Doig Resource Play

Birchcliff's average production from its Gordondale assets increased by 8% and 7% from the three and twelve month Comparable Prior Periods, respectively. The increases were primarily due to horizontal light oil wells that were brought on production in Gordondale in the Reporting Periods, partially offset by natural production declines.

Birchcliff's liquids-to-gas ratio for the Gordondale assets decreased by 13% and 11% from the three and twelve month Comparable Prior Periods, respectively. The decreases were primarily due to higher natural gas production rates on the incremental production from the horizontal light oil wells that were brought on production in Gordondale in the twelve month Reporting Period.

Royalty expense for the Gordondale assets decreased by 28% and 45% from the three and twelve month Comparable Prior Periods, respectively. The decreases were primarily due to the decline in the average realized light oil and condensate sales prices.

Operating expense for the Gordondale assets decreased by 9% and 15% from the three and twelve month Comparable Prior Periods, respectively. The decreases were primarily due to various field optimization initiatives which increased operating efficiencies in the Gordondale area.

Transportation and other expense for the Gordondale assets increased by 9% and 6% from the three and twelve month Comparable Prior Periods, respectively. The increases were primarily due to additional firm service transportation to the AECO and Dawn sales trading hubs.

Administrative Expense

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

	Three months ended December 31,				Twelve months ended December 31,			
	2020		2019		2020		2019	
	(\$000s)	(%)	(\$000s)	(%)	(\$000s)	(%)	(\$000s)	(%)
Cash:								
Salaries and benefits ⁽¹⁾	14,939	86	14,561	81	33,404	74	32,335	70
Other ⁽²⁾	2,399	14	3,440	19	11,633	26	14,057	30
G&A expense, gross	17,338	100	18,001	100	45,037	100	46,392	100
Operating overhead recoveries	(33)	(1)	(40)	(1)	(133)	(1)	(156)	(1)
Capitalized overhead ⁽³⁾	(9,277)	(53)	(8,926)	(49)	(20,289)	(44)	(19,421)	(41)
G&A expense, net	8,028	46	9,035	50	24,615	55	26,815	58
G&A expense, net per boe	\$1.11		\$1.26		\$0.88		\$0.94	
Non-cash:								
Other compensation	1,302	100	1,886	100	5,527	100	8,684	100
Capitalized compensation ⁽³⁾	(740)	(57)	(1,088)	(58)	(3,098)	(56)	(4,406)	(51)
Other compensation, net	562	43	798	42	2,429	44	4,278	49
Other compensation, net per boe	\$0.08		\$0.11		\$0.09		\$0.15	
Administrative expense, net	8,590		9,833		27,044		31,093	
Administrative expense, net per boe	\$1.19		\$1.37		\$0.97		\$1.09	

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

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

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

Net G&A expense decreased by 11% and 8% from the three and twelve month Comparable Prior Periods, respectively, primarily due to COVID-19 and its impacts on reduced corporate expenses in the Reporting Periods. Net other compensation expense decreased by 29% and 43% from the three and twelve month Comparable Prior Periods, respectively, primarily due to a decrease in stock-based compensation expense resulting from lower fair value stock option grants outstanding during the Reporting Periods.

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

	Three months ended December 31,				Twelve months ended December 31,			
	2020		2019		2020		2019	
	Number	Price (\$) ⁽¹⁾	Number	Price (\$) ⁽¹⁾	Number	Price (\$) ⁽¹⁾	Number	Price (\$) ⁽¹⁾
Outstanding, beginning	21,035,501	3.99	18,532,368	4.85	23,483,368	4.28	15,847,570	5.74
Granted ⁽²⁾	5,225,700	1.81	5,152,000	2.32	5,403,200	1.79	10,107,200	2.90
Exercised	(7,500)	(1.91)	-	-	(7,500)	(1.91)	(23,867)	(3.08)
Forfeited	(69,000)	(2.77)	(27,334)	(3.74)	(194,067)	(2.92)	(229,736)	(4.22)
Expired	(50,500)	(4.74)	(173,666)	(7.39)	(2,550,800)	(6.52)	(2,217,799)	(8.47)
Outstanding, ending	26,134,201	3.56	23,483,368	4.28	26,134,201	3.56	23,483,368	4.28

(1) Calculated on a weighted average basis.

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

At December 31, 2020, there were also 2,939,732 performance warrants outstanding with an exercise price of \$3.00 and an expiry date of January 31, 2025.

Depletion and Depreciation Expense

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

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Depletion and depreciation expense	54,199	53,757	212,404	213,565
Depletion and depreciation expense per boe	\$7.49	\$7.49	\$7.60	\$7.50

D&D expense on an aggregate basis for the Reporting Periods was consistent with the Comparable Prior Periods. Included in the depletion assessment at December 31, 2020 were 1,040.5 MMboe of proved plus probable reserves and \$4.4 billion of future development costs required to recover those reserves as estimated by the Corporation's independent qualified reserves evaluator.

Asset Impairment Assessment

In accordance with IFRS, an impairment test is performed if Birchcliff identifies an indicator of impairment at the end of the reporting period. At December 31, 2020, Birchcliff determined there were no impairment indicators present and therefore an impairment test was not required.

Birchcliff determined there were indicators of impairment at March 31, 2020 due to the decline in forecasted oil and gas commodity prices and reduction in market capitalization since its previously completed impairment assessment at December 31, 2019. An impairment is recognized if the carrying value of a Cash Generating Unit ("CGU") exceeds the estimated recoverable amount for that CGU. A CGU's estimated recoverable amount is the greater of its fair value less cost to sell and its current value in use. The estimated recoverable amount involves significant estimates including the estimate of proved and probable oil and gas reserves and the related cash flows and the discount rate. The estimate of proved and probable oil and gas reserves and the related cash flows is sensitive to the significant forecasted assumptions regarding oil and gas commodity prices, production, operating costs, royalty costs and future development costs.

At March 31, 2020, the Corporation used value in use derived from the estimate of its proved and probable oil and gas reserves and the related cash flows estimated by the Corporation's independent third-party reserves evaluators at December 31, 2019, which were internally updated to forecasted period-end oil and gas commodity prices, future development costs and production. The estimated future cash flows are discounted at pre-tax rates between 8% and 17.5% depending on the risk profile of the reserves category. Birchcliff's P&NG properties and equipment were not impaired at March 31, 2020 and December 31, 2019.

For further details on the methodology used in the impairment test, see the notes to the annual audited financial statements of the Corporation for the Reporting Periods.

Finance Expense

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

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Cash:				
Interest expense ⁽¹⁾	8,652	5,852	26,067	25,073
Interest expense per boe ⁽¹⁾	\$1.20	\$0.82	\$0.93	\$0.88
Non-cash:				
Accretion ⁽²⁾	629	963	2,815	3,517
Amortization of deferred financing fees	248	386	1,229	1,528
Other expenses	877	1,349	4,044	5,045
Other expenses per boe	\$0.12	\$0.18	\$0.14	\$0.17
Finance expense	9,529	7,201	30,111	30,118
Finance expense per boe	\$1.34	\$1.00	\$1.05	\$1.05

(1) The Credit Facilities are comprised of an extendible revolving syndicated term credit facility (the "Syndicated Credit Facility") of \$900.0 million and an extendible revolving working capital facility (the "Working Capital Facility") of \$100.0 million. Birchcliff can draw on its Syndicated Credit Facility using CDN dollar denominated bankers' acceptances and US dollar denominated LIBOR loans.

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

Birchcliff's aggregate interest expense in the three and twelve month Reporting Periods increased by 48% and 4%, respectively, from the Comparable Prior Periods. The increases were primarily due to a higher average outstanding Syndicated Credit Facility balance as compared to the Comparable Prior Periods and higher stamping fees applicable to the Syndicated Credit Facility, partially offset by lower average market interest rates on drawn loans.

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

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Working Capital Facility	5.5%	4.7%	5.5%	4.7%
Syndicated Credit Facility ⁽¹⁾	4.3%	3.6%	3.5%	4.1%

(1) The average effective interest rate under the Syndicated Credit Facility is determined primarily based on: (i) the market interest rate of its drawn bankers' acceptances and/or LIBOR loans; and (ii) stamping fees. Birchcliff's stamping fees are calculated using 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 Corporation's agreement governing the Credit Facilities. EBITDA is defined as earnings before interest and non-cash items, including (if any) income taxes, other compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments, gains and losses on securities, depletion, depreciation and amortization and impairment charges.

Birchcliff's average outstanding total Credit Facilities balance was approximately \$754 million and \$702 million in the three and twelve month Reporting Periods, respectively, as compared to \$605 million and \$613 million in the Comparable Prior Periods, calculated as the simple average of the month-end amounts.

Other Income

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

	Three months ended December 31,		Twelve months ended December 31,	
	2020		2019	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
Other income	879	0.12	152	0.03
			4,943	0.17
			650	0.02

Birchcliff's other cash income in the Reporting Periods primarily consisted of wage subsidies under the Federal Government's Canada Emergency Wage Subsidy Program.

Other Gains and Losses

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

	Three months ended December 31,		Twelve months ended December 31,	
	2020		2019	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
Other (gains) and losses⁽ⁱ⁾	(3,589)	(0.50)	-	-
			(2,026)	(0.07)
			5,549	0.19

(i) Primarily comprised of non-cash long-term investments gains and losses.

Loss on Investment

On August 31, 2017, Birchcliff acquired securities consisting of 4,500,000 common A units in a limited partnership and 10,000,000 preferred units in a trust (collectively, the "Securities") at a combined investment value of \$10 million. The Securities are not publicly listed and do not constitute significant investments. Birchcliff recorded a loss on investment of \$0.6 million and \$2.6 million during the three and twelve month Reporting Periods, respectively.

Gain on Sale of Assets

During the three month Reporting Period, Birchcliff completed the disposition of various Gordondale lands and assets with a net book value totaling \$14.3 million, relinquished \$5.9 million related to decommissioning obligations and received cash consideration of \$12.7 million, before customary closing adjustments. As a result of the disposition, Birchcliff recognized a gain on sale of \$4.2 million. This disposition was considered non-core as it represented less than 1% of both Birchcliff's production during the Reporting Periods and proved and probable reserves at December 31, 2020 and therefore was not significant to the Corporation's financial results or operational performance.

Income Taxes

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

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Deferred tax recovery (expense)	(13,623)	5,228	16,479	37,881
Dividend tax expense on preferred shares	(762)	(769)	(3,062)	(3,075)
Income tax recovery (expense)	(14,385)	4,459	13,417	34,806
Income tax recovery (expense) per boe	(\$2.00)	\$0.61	\$0.48	\$1.21

Birchcliff's income taxes are primarily impacted by the before-tax net income or loss recorded in the respective periods. During the twelve month Comparable Prior Period, Birchcliff recorded a deferred tax recovery of \$37.9 million of which \$18.9 million related to the reduction in the general corporate income tax rate from 12% to 8% as set forth by the Government of Alberta.

The Corporation's estimated income tax pools were \$2.2 billion at December 31, 2020. 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 December 31, 2020
Canadian oil and gas property expense	345,589
Canadian development expense	258,300
Canadian exploration expense	274,468
Undepreciated capital costs	291,006
Non-capital losses	968,796
SR&ED ⁽ⁱ⁾ & Investment tax credits	23,941
Financing costs and other	5,858
Estimated income tax pools	2,167,958

(i) Scientific research and experimental development ("SR&ED") tax pools.

CAPITAL EXPENDITURES

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

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Land	1,466	962	2,785	2,947
Seismic	158	761	840	4,848
Workovers	1,917	570	11,135	6,609
Drilling and completions	29,042	40,763	174,304	178,468
Well equipment and facilities	8,708	13,744	98,903	63,523
F&D capital	41,291	56,800	287,967	256,395
Acquisitions	10	800	10	41,407
Dispositions	(12,902)	-	(12,887)	-
FD&A capital	28,399	57,600	275,090	297,802
Administrative assets	379	536	1,695	2,444
Total capital expenditures	28,778	58,136	276,785	300,246

During the three month Reporting Period, Birchcliff had FD&A capital expenditures of \$28.4 million which included the \$12.7 million disposition of Gordondale lands and assets completed during the three month Reporting Period. F&D capital expenditures were \$41.3 million in the three month Reporting Period which included approximately \$23.7 million (57%) on the drilling and completion of Montney horizontal wells in Pouce Coupe and \$5.4 million (13%) on the drilling and completion of Montney horizontal wells in Gordondale.

During the twelve month Reporting Period, Birchcliff had FD&A capital expenditures of \$275.1 million which included \$12.9 million of dispositions during the period. F&D capital expenditures were \$288.0 million in the twelve month Reporting Period which included approximately \$122.1 million (42%) on the drilling and completion of Montney horizontal wells in Pouce Coupe, \$52.2 million (18%) on the drilling and completion of Montney horizontal wells in Gordondale, \$23.9 million (8%) on pipeline twinning and battery compression projects in Gordondale and \$35.5 million (12%) on the Inlet Liquids-Handling Facility.

During the three month Reporting Period, Birchcliff drilled a total of 6 (6.0 net) wells, consisting of 6 (6.0 net) Montney horizontal natural gas wells in Pouce Coupe. During the twelve month Reporting Period, Birchcliff drilled a total of 34 (34.0 net) wells, consisting of 8 (8.0 net) Montney horizontal light oil wells in Gordondale and 26 (26.0 net) Montney horizontal natural gas wells in Pouce Coupe.

The remaining capital during the Reporting Periods was primarily spent on land, seismic, well equipment, infrastructure expansion, gas gathering and optimization projects in the Montney/Doig Resource Play and other oil and gas development projects in the Peace River Arch.

CAPITAL RESOURCES AND LIQUIDITY

Liquidity and Capital Resources

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

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Adjusted funds flow	66,509	80,941	184,526	334,504
Changes in non-cash working capital from operations	6,269	5,058	5,977	(5,153)
Decommissioning expenditures	(1,347)	(442)	(2,323)	(2,285)
Issue (repurchase) of common shares	14	-	(596)	73
Repurchase of capital securities	(9,116)	-	(9,141)	-
Financing fees paid on revolving term credit facilities	-	-	-	(990)
Lease payments	(573)	(561)	(2,292)	(2,172)
Dividends paid	(3,235)	(8,903)	(18,622)	(35,610)
Net change in revolving term credit facilities	(40,583)	(29,761)	121,120	3,683
Deposit on acquisition	-	-	-	3,900
Changes in non-cash working capital from investing	10,867	11,804	(1,874)	4,313
Capital resources	28,805	58,136	276,775	300,263

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

The COVID-19 pandemic had a significant negative impact on oil prices and global capital markets in 2020. In response, Birchcliff took a number of initiatives in 2020 to protect its balance sheet and maintain adequate sources of liquidity and financial flexibility, including:

- a 19% (\$65 million) reduction of the Corporation's original 2020 capital budget;
- an 81% reduction in the Corporation's quarterly common share dividend, which resulted in the preservation of approximately \$17.0 million in 2020. See "*Outstanding Share Information – Dividends*" in this MD&A;
- continued field optimization and cost-saving capital initiatives in Pouce Coupe and Gordondale, which resulted in a 5% decrease in operating costs per boe in 2020;
- increased its monitoring of receivables due from petroleum and natural gas marketers and from joint asset partners to manage credit risk. Birchcliff historically has not experienced any significant collection issues with petroleum and natural gas marketers as a significant portion of these receivables are with creditworthy purchasers; and
- maintained a borrowing base limit under the Credit Facilities of \$1.0 billion at the end of 2020. The Credit Facilities do not mature until May 11, 2022 and do not contain any financial maintenance covenants. At December 31, 2020, the Corporation had \$263.2 million in unused credit capacity available under its Credit Facilities. See "*Bank Debt*" in this section.

Birchcliff continues to proactively look for strategic risk management and market diversification opportunities. Birchcliff's existing market diversification initiatives have increased its exposure to various natural gas sales trading hubs in North America. Birchcliff has agreements for the firm service transportation of an aggregate of 175,000 GJ/d of natural gas on TCPL's Canadian Mainline whereby natural gas is transported to the Dawn sales trading hub in Southern Ontario. Birchcliff also has various financial and physical risk management contracts in place to 2025 with exposure to NYMEX HH pricing. See "*Discussion of Operations – Petroleum and Natural Gas Revenue*" and "*Discussion of Operations – Risk Management*" in this MD&A.

Birchcliff's priority is to strengthen its balance sheet in the current operating environment. The Corporation believes that its anticipated adjusted funds flow of \$360 million in 2021 will provide sufficient liquidity to fund its 2021 Capital Program, dividend distributions and working capital requirements and also decrease the Corporation's outstanding debt. Birchcliff's anticipated adjusted funds flow in 2021 depends on a number of factors, including, but not limited to, commodity prices and market diversification initiatives, production and sales volumes, royalties, operating and transportation expenses and foreign exchange rates. For further information, see "*2021 Outlook and Guidance*" and "*Advisories – Forward-Looking Statements*" in this MD&A.

The disruption and volatility that has resulted from the COVID-19 pandemic may continue and could impact future oil demand recovery and increase future costs of capital. See "*Risk Factors – Public Health Crises*".

Working Capital

The Corporation's adjusted working capital deficit increased to \$30.6 million at December 31, 2020 from \$23.4 million at December 31, 2019. The deficit at December 31, 2020 was primarily comprised of costs incurred for the drilling of wells in Pouce Coupe.

At December 31, 2020, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of December 2020 production (87%), which was subsequently received in January 2021. Birchcliff continues to monitor the financial strength of its marketers. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations. Current liabilities at December 31, 2020 primarily consisted of trade payables and accrued capital and operating expenses.

Adjusted working capital includes items expected from normal operations, including trade receivables and payables, accruals, deposits and prepaid expenses and excludes the current portion of the fair value of financial instruments and capital securities. The Corporation's adjusted working capital varies from quarter to quarter primarily due to the timing of such items, as well as the size and timing of the Corporation's capital expenditures, volatility in commodity prices and changes in revenue, among other things. Birchcliff manages its adjusted working capital deficit using adjusted funds flow and advances under its Credit Facilities. The adjusted working capital deficit position does not reduce the amount available under Birchcliff's Credit Facilities.

Bank Debt

Management of debt levels continues to be a priority for Birchcliff given the current volatility in the commodity price environment. Total debt, including the adjusted working capital deficit, was \$762.0 million at December 31, 2020 compared to \$632.6 million at December 31, 2019. Total debt increased from December 31, 2019 primarily due to adjusted funds flow being less than the aggregate of total capital expenditures and dividends paid in the Reporting Periods. Birchcliff spent \$276.8 million in capital expenditures in the twelve month Reporting Period primarily on the drilling and completions of horizontal light oil and condensate-rich natural gas wells in Pouce Coupe and Gordondale and infrastructure costs related to the Inlet Liquids-Handling Facility.

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

As at, (\$000s)	December 31, 2020	December 31, 2019
<i>Maximum borrowing base limit⁽¹⁾:</i>		
Revolving term credit facilities	1,000,000	1,000,000
<i>Principal amount utilized:</i>		
Drawn revolving term credit facilities	(732,603)	(611,483)
Outstanding letters of credit ⁽²⁾	(4,185)	(4,185)
	(736,788)	(615,668)
Unused credit	263,212	384,332
% unused credit	26%	38%

(1) The Credit Facilities are subject to a semi-annual review of the borrowing base limit, which is directly impacted by the value of Birchcliff's oil and gas reserves. In connection with the semi-annual review of the borrowing base limit under the Credit Facilities which was completed by the Corporation's syndicate of lenders in December 2020, the borrowing base limit was confirmed at \$1.0 billion.

Birchcliff's Credit Facilities include a provision giving the lenders the right to redetermine the borrowing base if the Corporation's liability management rating ("LMR") is less than 2.0. Birchcliff's LMR at December 31, 2020 was 18.0. The Credit Facilities do not mature until May 11, 2022 and do not contain any financial maintenance covenants. See "Risk Factors – 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.

Contractual Obligations and Commitments

The Corporation enters into various contractual obligations and commitments in the normal course of operations. The following table lists Birchcliff's estimated material contractual obligations and commitments at December 31, 2020:

(\$000s)	2021	2022	2023-2025	Thereafter
Accounts payable and accrued liabilities	97,507	-	-	-
Drawn revolving term credit facilities	-	732,603	-	-
Firm transportation and fractionation ⁽¹⁾	136,813	130,858	307,912	183,269
Natural gas processing ⁽²⁾	17,155	17,155	51,512	120,179
Operating commitments ⁽³⁾	1,996	1,996	5,989	4,159
Lease payments	3,008	3,174	7,795	6,061
Capital securities ⁽⁴⁾	39,930	-	-	-
Estimated contractual obligations⁽⁵⁾	296,409	885,786	373,208	313,668

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

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

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

(4) Birchcliff has 1,597,180 Series C Preferred Shares outstanding at December 31, 2020, which are redeemable by their holders at \$25.00 per share. For further details, see "Outstanding Share Information - Capital Securities" in this MD&A and the annual audited financial statements of the Corporation and related notes for the Reporting Periods.

(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 December 31, 2020 to be approximately \$221.3 million and are estimated to be incurred as follows: 2021 – \$2.2 million, 2022 – \$2.2 million and \$216.9 million thereafter. The estimate for determining the undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

OFF-BALANCE SHEET TRANSACTIONS

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

OUTSTANDING SHARE INFORMATION

At March 9, 2021, Birchcliff had common shares, Series A Preferred Shares and Series C Preferred Shares that were outstanding. Birchcliff's common shares are listed on the TSX under the symbol "BIR". Birchcliff's Series A Preferred Shares and Series C Preferred Shares are individually listed on the TSX under the symbols "BIR.PR.A" and "BIR.PR.C", respectively.

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

(\$000s)	Common Shares
Balance at December 31, 2019	265,935,229
Conversion of Series C Preferred Shares ⁽¹⁾	464,562
Repurchase of common shares ⁽²⁾	(464,562)
Exercise of options	7,500
Balance at December 31, 2020	265,942,729
Exercise of options	99,497
Balance at March 9, 2021	266,042,226

(1) See "Capital Securities" below.

(2) Birchcliff purchased for cancellation 464,562 common shares pursuant to its normal course issuer bid.

At March 9, 2021, the Corporation had the following securities outstanding: 266,042,226 common shares; 2,000,000 Series A Preferred Shares; 1,597,180 Series C Preferred Shares; 23,805,902 stock options to purchase an equivalent number of common shares; and 2,939,732 performance warrants to purchase an equivalent number of common shares.

Capital Securities

Subject to the provisions of the *Business Corporations Act (Alberta)* (the “**ABC**”) and the provisions governing the Series C Preferred Shares (the “**Provisions**”), a holder of Series C Preferred Shares may, at its option, upon giving notice in accordance with the Provisions (the “**Notice of Redemption**”), redeem for cash, all or any number of Series C Preferred Shares held by such holder on the last day of a financial quarter at \$25.00 per share, together with all accrued and unpaid dividends to but excluding the date fixed for redemption.

Upon receipt of the Notice of Redemption, the Corporation may, at its option (subject, if required, to stock exchange approval), upon not less than 20 days’ prior written notice, elect to convert all such Series C Preferred Shares into common shares. The number of common shares into which each Series C Preferred Share may be so converted will be determined by dividing the amount of \$25.00, together with all accrued and unpaid dividends to but excluding the date fixed for conversion, by the greater of \$2.00 and 95% of the “Current Market Price” (as determined in accordance with the Provisions) of the common shares.

The Corporation received Notices of Redemption for 402,820 Series C Preferred Shares in the twelve month Reporting Period. The Corporation elected to settle in cash the redemption of 365,655 Series C Preferred Shares at \$25.00 per share for a total of \$9.1 million. The Corporation elected to convert the remaining 37,165 Series C Preferred Shares into common shares and accordingly issued a total of 464,562 common shares.

Dividends

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

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Common shares:				
Dividend distribution (\$000s)	1,330	6,981	10,968	27,923
Per common share (\$)	0.0050	0.0263	0.0413	0.1050
Series A Preferred Shares:				
Series A dividend distribution (\$000s)	1,047	1,047	4,187	4,187
Per Series A Preferred Share (\$)	0.5234	0.5234	2.0935	2.0935
Series C Preferred Shares:				
Series C dividend distribution (\$000s)	858	875	3,467	3,500
Per Series C Preferred Share (\$)	0.4375	0.4375	1.7500	1.7500

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

In the second quarter of 2020, the Corporation reduced the amount of its quarterly common share dividend from \$0.02625 per share (or \$0.105 per share annually) to \$0.005 per share (or \$0.02 per share annually).

Normal Course Issuer Bid

On November 18, 2020, Birchcliff announced that the TSX had accepted the Corporation’s notice of intention to make a normal course issuer bid (the “**2021 NCIB**”). Pursuant to the 2021 NCIB, Birchcliff may purchase up to 13,296,936 of its outstanding common shares over a period of twelve months commencing on November 25, 2020. The 2021 NCIB will terminate no later than November 24, 2021. Under the 2021 NCIB, common shares may be purchased in open market transactions on the TSX and/or alternative Canadian trading systems at the prevailing market price at the time of such transaction. Pursuant to the rules of the TSX, the total number of common shares that Birchcliff is permitted to purchase is subject to a daily purchase limit of 286,843 common shares. However, Birchcliff may make one block purchase per calendar week which exceeds the daily purchase restriction. All common shares purchased under the 2021 NCIB will be cancelled. The 2021 NCIB effectively renewed the Corporation’s previous normal course issuer bid under which the Corporation was permitted to purchase up to 13,296,761 common shares over the period from November 25, 2019 to November 24, 2020 (the “**2020 NCIB**”). During the twelve month Reporting Period, Birchcliff purchased 464,562 common shares pursuant to the 2020 NCIB for an aggregate value of approximately \$610,000, before fees. All such common shares were cancelled.

A security holder or the Corporation may obtain, for no charge, a copy of the notice in respect of the 2021 NCIB filed with the TSX by contacting the Corporation at 403-261-6401.

SUMMARY OF QUARTERLY RESULTS

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

Quarter ending,	Dec. 31, 2020	Sep. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019
Average light oil production (bbls/d)	3,566	4,405	5,744	3,954	4,435	4,882	4,853	4,800
Average condensate production (bbls/d)	6,658	7,266	4,825	4,524	4,906	5,744	5,505	4,416
Average NGLs production (bbls/d)	8,285	6,898	7,455	7,962	7,814	7,559	6,923	6,743
Average natural gas production (Mcf/d)	360,839	358,851	341,558	342,831	364,847	374,180	367,033	353,548
Average production (boe/d)	78,649	78,376	74,950	73,580	77,962	80,548	78,453	74,884
Average realized light oil sales price (\$/bbl) ⁽¹⁾	49.56	48.50	25.72	53.18	67.58	67.15	72.25	66.08
Average realized condensate sales price (\$/bbl) ⁽¹⁾	52.90	48.27	31.09	58.48	68.80	65.94	71.69	65.45
Average realized NGLs sales price (\$/bbl) ⁽¹⁾	16.16	14.05	12.05	12.02	16.62	9.75	11.13	17.71
Average realized natural gas sales price (\$/Mcf) ⁽¹⁾	2.93	2.48	2.22	2.29	2.81	1.71	1.95	3.55
Average realized sales price (\$/boe)	21.87	19.80	15.27	18.41	22.97	17.62	19.59	26.45
P&NG revenue (\$000s) ⁽¹⁾	158,283	142,779	104,180	123,263	164,759	130,588	139,857	178,355
Operating expense (\$/boe)	3.03	2.73	2.89	3.14	3.06	2.75	3.17	3.40
F&D capital expenditures (\$000s)	41,291	30,842	83,473	132,361	56,800	40,192	67,937	91,466
Total capital expenditures (\$000s)	28,778	31,193	83,974	132,840	58,136	41,621	68,532	131,958
Cash flow from operating activities (\$000s)	71,431	52,977	13,221	50,551	85,557	48,908	97,857	94,744
Adjusted funds flow (\$000s)	66,509	59,377	21,746	36,894	80,941	62,958	73,957	116,648
Per common share – basic (\$)	0.25	0.22	0.08	0.14	0.30	0.24	0.28	0.44
Per common share – diluted (\$)	0.25	0.22	0.08	0.14	0.30	0.24	0.28	0.44
Free funds flow (\$000s)	25,218	28,535	(61,727)	(95,467)	24,141	22,766	6,020	25,182
Net income (loss) (\$000s)	41,454	(16,646)	(38,475)	(44,154)	(17,937)	(45,843)	(8,458)	16,846
Net income (loss) to common shareholders (\$000s) ⁽²⁾	40,407	(17,692)	(39,522)	(45,201)	(18,984)	(46,889)	(9,505)	15,799
Per common share – basic (\$)	0.15	(0.07)	(0.15)	(0.17)	(0.07)	(0.18)	(0.04)	0.06
Per common share – diluted (\$)	0.15	(0.07)	(0.15)	(0.17)	(0.07)	(0.18)	(0.04)	0.06
Total assets (\$ million)	2,902	2,912	2,929	2,871	2,817	2,822	2,840	2,860
Long-term bank debt (\$000s)	731,372	771,706	753,092	619,055	609,177	638,631	622,282	611,911
Total debt (\$000s)	761,951	784,414	807,573	739,631	632,582	644,407	654,709	626,454
Dividends on common shares (\$000s)	1,330	1,330	1,327	6,981	6,981	6,981	6,981	6,980
Dividends on Series A Preferred Shares (\$000s)	1,047	1,046	1,047	1,047	1,047	1,046	1,047	1,047
Dividends on Series C Preferred Shares (\$000s)	858	859	875	875	875	875	875	875
Series A Preferred Shares outstanding (000s)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Series C Preferred Shares outstanding (000s)	1,597	1,962	1,963	2,000	2,000	2,000	2,000	2,000
Common shares outstanding (000s)								
Basic	265,943	265,935	265,935	265,935	265,935	265,935	265,935	265,924
Diluted	295,017	290,009	290,014	290,037	292,358	287,407	287,381	287,480
Weighted average common shares outstanding (000s)								
Basic	265,940	265,935	265,935	265,935	265,935	265,935	265,933	265,914
Diluted	265,985	265,935	265,935	265,935	265,935	265,935	265,933	266,382

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

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

Quarterly average daily production volumes were impacted primarily by Birchcliff's successful drilling of horizontal wells brought on production in Pouce Coupe and Gordondale and natural production declines during those periods.

P&NG revenue and adjusted funds flow in the last eight quarters were largely impacted by quarterly production and the average realized sales price received for Birchcliff's production. Over the last eight quarters, Birchcliff's adjusted funds flow was also impacted by lower trending operating expenses, realized gains and losses on the settlement of financial instruments due to added market diversification initiatives and higher trending transportation and other expense primarily as a result of additional AECO and Dawn firm service.

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

The Corporation's capital expenditures fluctuate quarter-to-quarter based on: (i) the Corporation's outlook for commodity prices and market conditions; (ii) the level of drilling and completions operations and other capital projects and the timing thereof; and (iii) the level of acquisition and disposition activities and the timing thereof.

Quarterly variances in free funds flow are primarily due to fluctuations in adjusted funds flow and F&D capital expenditures.

Long-term bank debt and total debt fluctuate quarter-to-quarter primarily based on changes in adjusted funds flow, capital expenditures and dividends paid. Long-term bank debt in the last eight quarters has trended higher due to adjusted funds flow being less than the aggregate of total capital expenditures, dividends paid on preferred shares and common shares and the redemptions of Series C Preferred Shares in 2020.

The Corporation pays dividends on its common shares, Series A Preferred Shares and Series C Preferred Shares when declared and approved by the Board of Directors. On June 2, 2020, the Corporation reduced the amount of its quarterly common share dividend from \$0.02625 per share to \$0.005 per share with the first reduced payment taking effect for the quarter ended June 30, 2020. As a result of this reduction, the dividends paid on the common shares over the last three quarters of 2020 were significantly lower than the previous five quarters. Birchcliff's Series C Preferred Shares outstanding in the last three quarters of 2020 decreased from the previous five quarters. During 2020, the Corporation received Notices of Redemptions for 402,820 Series C Preferred Shares at \$25.00 per share for an aggregate of \$10.1 million.

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

Disclosure Controls and Procedures

The Corporation's Chief Executive Officer and Chief Financial Officer (the "**Certifying Officers**") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("**DC&P**"), as defined in National Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings* ("**NI 52-109**"), to provide reasonable assurance that:

(i) material information relating to the Corporation is made known to the Certifying Officers by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings, or other reports filed or submitted by the Corporation under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's DC&P at December 31, 2020 and have concluded that the Corporation's DC&P were effective at December 31, 2020.

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

Internal Control over Financial Reporting

The Certifying Officers have designed, or caused to be designed under their supervision, internal control over financial reporting ("ICFR"), as defined in NI 52-109, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles applicable to the Corporation. The control framework the Certifying Officers used to design the Corporation's ICFR is *Internal Control – Integrated Framework* (2013) published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's ICFR at December 31, 2020 and have concluded that the Corporation's ICFR was effective at December 31, 2020. There were no changes in the Corporation's ICFR that occurred during the period beginning on October 1, 2020 and ended on December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR. Birchcliff's ICFR was not impacted by the COVID-19 pandemic during the Reporting Periods.

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

CRITICAL ACCOUNTING ESTIMATES

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical Judgments in Applying Accounting Policies

The following are the critical judgments that management has made in the process of applying the Corporation's accounting policies and that have the most significant effect on the amounts recognized in its financial statements:

Identification of Cash-Generating Units

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

Identification of Impairment Indicators

IFRS requires Birchcliff to assess, at each reporting date, whether there are any internal or external indicators that its petroleum and natural gas properties and equipment within a CGU may be impaired. Birchcliff is required to consider information from both external sources (such as negative downturn in forecasted oil and gas commodity prices, significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in proved and probable oil and gas reserves and the related cash flows, significant adverse effect on the financial and operational performance of a CGU, evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgment.

Tax Uncertainties

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

Lease Obligation

IFRS requires Birchcliff to make certain judgements in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

Key Sources of Estimation Uncertainty

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

Reserves

Reported recoverable quantities of proved and probable oil and gas reserves and the related cash flows requires estimation and are subject to assumptions regarding forecasted production profile, forecasted oil and gas commodity prices, forecasted operating costs, forecasted royalty costs and forecasted future development costs. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economical, geological and technical factors used to estimate proved and probable oil and gas reserves may change from period to period. Changes in reported proved and probable oil and gas reserves can impact the carrying values of the Corporation's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The estimated recoverable quantities of proved and probable oil and gas reserves and the related cash flows from Birchcliff's petroleum and natural gas interests are evaluated by independent third party reserve evaluators at least annually.

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

Share-Based Payments

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

Decommissioning Obligations

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

Post-Employment Benefit Obligation

The Corporation estimates the post-employment benefit obligation at the end of each reporting period. In most instances, the obligation occurs many years into the future. The Corporation uses estimates related to the initial measurement of the obligation for eligible employees including expected age of employee retirement, employee turnover, probability of early retirement, discount rate and inflation rate on salary and benefits. From time to time, these estimates may change causing the obligation recorded by the Corporation to change.

Lease Obligation

Lease obligations are estimated using the rate implicit in the lease unless this rate is not readily determinable, in which case a discount rate equal to the Corporation's incremental borrowing rate is used. This rate represents the rate that the Corporation would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

Impairment of Non-Financial Assets

For the purposes of determining the extent of any impairment or its reversal, estimates must be made regarding proved and probable oil and gas reserves and the related cash flows considering significant assumptions including forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, forecasted royalty costs and forecasted future development costs. These significant assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the discount rate estimate used to discount the cash flow estimates related to proved and probable oil and gas reserves. Changes in the aforementioned assumptions could affect the carrying amount of the Corporation's assets, and impairment charges and reversal will affect profit or loss.

Income Taxes

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

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

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

CHANGES IN ACCOUNTING POLICIES

Accounting Pronouncements Adopted

Business Combinations

On January 1, 2020, Birchcliff adopted the amendment as issued on October 22, 2018 to IFRS 3: *Business Combinations* ("IFRS 3"). IFRS 3 sets out the principles in accounting for the acquisition of a business.

The amendments to this standard include a change in the definition of a business and the addition of an optional concentration test to determine if the acquisition is a business for any acquisition occurring on or after January 1, 2020. The amended definition of a business under IFRS 3 is that a business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. The three elements of a business are defined as follows:

- Input: any economic resource that creates outputs, or has the ability to contribute to the creation of outputs, when one or more processes are applied to it.
- Process: any system, standard, protocol, convention or rule that, when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs.
- Output: the result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income or generate other income from ordinary activities.

The optional concentration test permits a simplified assessment of whether an acquired set of activities and assets is in fact a business. An entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other event. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. The adoption had no impact.

RISK FACTORS

Investors should carefully consider the risk factors set out below and consider all other information contained herein and in the Corporation's other public filings before making an investment decision. The risks set out below are not an exhaustive list and should not be taken as a complete summary or description of all the risks associated with the Corporation's business and the oil and natural gas business generally. If any of the risks set out below materialize, the Corporation's business, financial condition, results of operations, prospects, cash flow and reputation may be adversely affected, which may, in turn, reduce or restrict the Corporation's ability to pay dividends and may materially affect the market price of the Corporation's securities.

Prices, Markets and Marketing

Various factors may adversely impact the prices and marketability of oil, natural gas and NGLs, affecting the Corporation's revenue, production volumes, development and exploration activities, value of its reserves, cash flow and ability to access capital

The Corporation's revenue, operating results and financial condition depend substantially on prevailing prices for oil and natural gas and the Corporation's ability to successfully market its oil and natural gas production from its properties. Numerous factors beyond the Corporation's control do, and will continue to, affect the marketability and price of oil and natural gas acquired, produced or discovered by the Corporation.

The Corporation's ability to market its oil and natural gas may depend upon its ability to acquire capacity on pipelines that deliver natural gas, crude oil and NGLs to commercial markets or contract for the delivery of crude oil by rail (see "Risk Factors – Weakness and Volatility in the Oil and Natural Gas Industry" and "Risk Factors – Gathering and Processing Facilities, Pipeline Systems and Rail"). Deliverability uncertainties include the distance the Corporation's reserves are from pipelines, railway lines, processing and storage facilities and operational problems affecting pipelines, railway lines and facilities.

Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors that are beyond the Corporation's control. These factors include, but are not limited to, the following:

- global energy supply and demand;
- the actions taken by OPEC and other oil and natural gas exporting nations;
- political conditions, instability and hostilities;
- domestic and foreign supplies of crude oil, NGLs and natural gas;
- the level of consumer demand for different qualities and types of crude oil and NGLs, including the level of demand destruction resulting from, and the pace of recovery following the COVID-19 pandemic;
- the production and storage levels of North American natural gas and crude oil and the supply and price of imported oil;
- the ability to export crude oil, LNG and NGLs from North America;
- the availability, proximity and capacity of gathering, transportation, processing and/or refining facilities in regional or localized areas that may affect the realized prices for oil and natural gas;
- weather conditions;
- government regulations, including existing and proposed changes to such regulations;
- the effect of world-wide environmental regulations and energy conservation and GHG reduction measures;
- the price and availability of alternative energy supplies; and
- global and domestic economic conditions, including currency fluctuations.

Oil and natural gas prices are expected to remain volatile for the near future because of market uncertainties over the supply and demand of these commodities. Market events and conditions, including the current state of the world economy, OPEC actions, sanctions imposed on certain oil producing nations by other countries, ongoing credit and liquidity concerns, the impact of protectionist measures on foreign trade and public sentiment regarding fossil fuels have caused significant volatility in commodity prices. For instance, in 2020, oil prices deteriorated due to softening global demand caused by the COVID-19 pandemic. In March 2020, OPEC and Russia were unable to reach an agreement to further manage oil production volumes to support global oil prices. Saudi Arabia responded by reducing its pricing and promising to increase production to over 10 million bbls/d. These actions led to the deepest drop in crude oil prices that global markets have seen since 1991. With the rapid spread of COVID-19 and additional oil supply, oil prices and global equity markets deteriorated significantly and remain under pressure. Prices for crude oil and natural gas are also impacted by the availability of foreign markets and the ability to access such markets.

Any substantial and prolonged decline in the price of oil and natural gas would have an adverse effect on the carrying value of the Corporation's assets, borrowing capacity, revenue, profitability and cash flow from operations and may have a material adverse effect on the Corporation's business, financial condition, results of operations, prospects, its ability to pay dividends and ultimately on the market prices of the Corporation's securities.

A material decline in oil and natural gas prices could result in a reduction in the Corporation's net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas. The Corporation might also elect not to produce from certain wells at lower prices. In addition, any prolonged period of low crude oil or natural gas prices could result in a decision by the Corporation to suspend or slow exploration and development activities or the construction or expansion of new or existing facilities or reduce its production levels.

Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisitions and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on the value or terms of such arrangements. Price volatility also makes it difficult to budget for and project the return on potential acquisitions, divestitures or exploitation projects.

Lower commodity prices may also affect the volume and value of the Corporation's reserves, rendering certain reserves uneconomic for development. The Corporation's reserves at December 31, 2020 are estimated using forecast prices and costs. If oil and natural gas prices stay at current levels or decrease, the Corporation's reserves may be substantially reduced as economic limits of developed reserves are reached earlier and undeveloped reserves become uneconomic at such prices. Even if some reserves remain economic at lower price levels, sustained low prices may compel the Corporation to re-evaluate its development plans and reduce or eliminate various projects with marginal economics. Any decrease in the value of the Corporation's reserves may reduce the borrowing base under the Credit Facilities, which, depending on the level of the Corporation's indebtedness, could result in the Corporation having to repay a portion of its indebtedness. See "*Risk Factors – Credit Facilities*".

In addition, lower commodity prices restrict the Corporation's cash flow resulting in less funds from operations being available to fund the Corporation's capital expenditure programs. The Corporation's capital expenditure plans are impacted by the Corporation's cash flow. Consequently, the Corporation may not be able to replace its production with additional reserves and both the Corporation's production and reserves could be reduced on a year-over-year basis.

In addition to possibly resulting in a decrease in the value of the Corporation's economically recoverable reserves, lower commodity prices may also result in a decrease in the value of the Corporation's infrastructure and facilities, all of which could also have the effect of requiring a write-down of the carrying value of its oil and natural gas assets on its balance sheet and the recognition of an impairment charge on its income statement.

Weakness and Volatility in the Oil and Natural Gas Industry

Declining general economic, business or industry conditions may have a material adverse effect on the Corporation's results of operations, liquidity and financial condition

Concerns over global economic conditions, fluctuations in interest rates and foreign exchange rates, stock market volatility, energy costs, geopolitical issues, OPEC actions, inflation, the availability and cost of credit, the volatility of major stock exchanges in the People's Republic of China, the deceleration of economic growth in the People's Republic of China, trade disputes between the United States and the People's Republic of China, civil unrest in Venezuela and Iran and the COVID-19 pandemic have contributed to increased economic uncertainty and diminished expectations for the global economy over the past few years. In addition, continued hostilities in the Middle East and the occurrence or threat of terrorist attacks, including attacks on oil infrastructure in oil producing nations, in the United States or other countries could adversely affect the economies of Canada, the United States and other countries.

Concerns about global economic growth have had a significant adverse impact on global financial markets and commodity prices. If the economic climate in Canada, the United States or abroad deteriorates, worldwide demand for petroleum products could diminish, which could impact the price at which the Corporation can sell its oil, NGLs and natural gas, affect the ability of the Corporation's vendors, suppliers and customers to continue operations and ultimately adversely impact the Corporation's results of operations, liquidity and financial condition.

These events and conditions have caused a significant reduction in the valuation of oil and natural gas companies and a decrease in the confidence in the oil and natural gas industry. These difficulties have been exacerbated in Canada by political and other actions resulting in uncertainty surrounding regulatory, tax, royalty changes and environmental regulation. In addition, difficulties encountered by midstream proponents to obtain the necessary approvals on a timely basis to build pipelines, LNG plants and other facilities to provide better access to markets for the oil and natural gas industry in Western Canada has led to additional downward price pressure on oil and natural gas produced in Western Canada. The resulting price differential between Western Canadian Select crude oil, Brent and WTI crude oil has created uncertainty and reduced confidence in the oil and natural gas industry in Western Canada.

Exploration, Development and Production Risks

The Corporation's business, operations and financial condition may be affected by the financial, operational, environmental and safety risks associated with the exploration, development and production of oil and natural gas

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

Future oil and natural gas exploration may involve unprofitable efforts from dry wells or wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, completing (including hydraulic fracturing), operating and other costs. Completion of a well does not ensure a profit on the investment or recovery of drilling, completion and operating costs.

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

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

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

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

Public Health Crises

Public health crises, including COVID-19, could adversely affect the Corporation's business

The Corporation's business, operations and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics or other health crises. On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, prompting governments and regulatory authorities around the world to implement measures designed to contain the COVID-19 pandemic, including widespread business closures, social distancing protocols, travel restrictions, quarantines, curfews and restrictions on gatherings and events. While a number of containment measures have been and continue to be gradually eased or lifted across some regions, additional safety precautions and operating protocols aimed at containing the spread of COVID-19 have been and continue to be instituted in line with guidance from public health authorities. In addition, the emergence of a second wave of the COVID-19 pandemic, together with the emergence of variant COVID-19 strains, has led to the imposition of containment measures

in many regions within Canada and globally. The COVID-19 pandemic has had a significant negative impact on global economic conditions, including a sharp decrease in crude oil demand which, combined with other macro-economic conditions, has resulted in significant volatility in oil and natural gas commodity prices, as well as increased economic uncertainty.

There is significant ongoing uncertainty surrounding COVID-19 and the extent and duration of the impacts that Birchcliff may experience. While the duration and full impact of the COVID-19 pandemic is not yet known, the effect of low commodity prices as a result of reduced demand associated with the impact of COVID-19 has had, and may continue to have a negative impact on the Corporation's business, results of operations, financial condition and the environment in which it operates. Low prices for crude oil and natural gas will reduce Birchcliff's cash flow, impact its level of capital investment and may result in the reduction of production at certain producing properties. Further declines in commodity prices could lead to future impairments on the Corporation's properties and assets. Furthermore, the Corporation may from time to time have restricted access to capital and increased borrowing costs. In addition to the economic impacts associated with falling commodity prices, the effects of COVID-19 may also include disruptions to production operations, challenges accessing materials and services, increased employee absenteeism from illness and temporary closures of the Corporation's facilities. COVID-19 may also increase the Corporation's third-party credit risk and the risk that counterparties default on their contractual obligations to the Corporation or declare force majeure. All of the foregoing may adversely and materially affect Birchcliff's business, results of operations, financial condition, prospects and its ability to pay dividends. The ultimate impacts will depend on future developments that are highly uncertain and cannot be predicted, including the scope, severity, duration and additional subsequent waves of the COVID-19 pandemic, as well as the effectiveness of actions and measures taken by the various levels of government. Despite recent positive vaccine developments, the ongoing evolution of the development and distribution of effective vaccines also continues to raise uncertainty.

Additionally, the COVID-19 pandemic and its effect on local and global economic conditions could aggravate the other risk factors identified in this MD&A, the extent of which is not yet known.

Project Risks

The success of the Corporation's operations may be negatively impacted by factors outside of its control resulting in operational delays and cost overruns

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

- the availability and proximity of processing and pipeline capacity;
- the availability of storage capacity;
- the availability of, and the ability to acquire, water supplies needed for drilling and hydraulic fracturing and the Corporation's ability to dispose of water used or removed from strata at a reasonable cost and in accordance with applicable environmental regulations;
- the effects of inclement and severe weather events, including fire, drought and flooding;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- regulatory changes;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

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

Gathering and Processing Facilities, Pipeline Systems and Rail

Lack of capacity and/or regulatory constraints on gathering and processing facilities, pipeline systems and railway lines may have a negative impact on the Corporation's ability to produce and sell its oil and natural gas

The Corporation delivers its products through gathering and processing facilities, pipeline systems and, in certain circumstances, by rail. The amount of oil and natural gas produced and sold by the Corporation is subject to the accessibility, availability, proximity and capacity of these gathering and processing facilities, pipeline systems and railway lines. The lack of firm pipeline capacity, production limits and limits on availability of capacity in gathering and processing facilities continues to affect the oil and natural gas industry and limits the ability to transport produced oil and natural gas to market. In addition, the pro-rationing of capacity on inter-provincial pipeline systems continues to affect the ability of oil and natural gas companies to export oil and natural gas and could result in the inability of the Corporation to realize the full economic potential of the produced oil or natural gas or a reduction of the price offered for the production from its properties. Unexpected shutdowns or curtailment of capacity of pipelines for maintenance or integrity work or because of actions taken by regulators could also affect the Corporation's production and operations which may have a material adverse effect on its business and financial condition. As a result, producers have considered rail lines as an alternative means of transportation. The Federal Government and various provincial governments have been active in recent years in their support for and opposition to major infrastructure projects in Canada, leading to increased awareness of and challenges to, interprovincial and international infrastructure projects. On August 28, 2019, with the passing of Bill C-69, the *Canadian Energy Regulator Act* (Canada) and the *Impact Assessment Act* (Canada) came into force. The impact of the new federal regulatory scheme on the oil and natural gas industry and the timing for receipt of approvals of major projects is unclear.

The Corporation's production passes through Birchcliff owned or third-party infrastructure prior to it being ready for sale. There is a risk that should this infrastructure fail and cause a significant portion of the Corporation's production to be shut-in and unable to be sold, this could have a material adverse effect on the Corporation's available cash flow. With respect to facilities owned by third parties and over which the Corporation has no control, these facilities may discontinue or decrease operations, either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could have a material adverse effect on the Corporation's ability to process its production and deliver the same to market. Midstream and pipeline companies may take actions to maximize their return on investment which may in turn adversely affect producers and shippers, especially when combined with a regulatory framework that may not always align with the interests of particular shippers.

Further, the Corporation has certain long-term take-or-pay commitments to deliver products through third-party owned infrastructure which creates a financial liability and there can be no assurance that future volume commitments will be met which may adversely affect the Corporation's financial condition and cash flow from operations.

Credit Facilities

The Corporation's borrowing base under the Credit Facilities could be redetermined and the Corporation could fail to comply with covenants under the Credit Facilities, resulting in restricted access to capital or a requirement to repay all amounts owing thereunder

The amount authorized under the Credit Facilities is dependent on the borrowing base determined by the Corporation's lenders. The Credit Facilities are subject to semi-annual reviews of the borrowing base limit by Birchcliff's syndicate of lenders, which limit is directly impacted by the value of Birchcliff's oil and natural gas reserves. The Corporation's lenders use the Corporation's reserves, commodity prices and other factors to determine the Corporation's borrowing base. Commodity prices continue to be depressed and have fallen dramatically since 2014. Continued depressed commodity prices or further declines in commodity prices could result in a reduction in the Corporation's borrowing base, thereby reducing the funds available to the Corporation under the Credit Facilities. As the borrowing base is determined based on the lender's interpretation of the Corporation's reserves and future commodity prices, there can be no assurance as to the amount of the borrowing base determined at each review.

In addition to the semi-annual reviews of the borrowing limit, the lenders have the right to redetermine the borrowing base limit in certain other circumstances. In the event that: (i) the Corporation, any material subsidiary of the Corporation or any of its borrowing base properties become subject to an abandonment/reclamation order by an energy regulator where the aggregate estimated current cost to the Corporation and its material subsidiaries to comply with all outstanding orders exceeds 10% of the borrowing base; or (ii) the liability management rating (as such term is defined in the agreement governing the Credit Facilities) of the Corporation or any material subsidiary is less than 2.0, then, unless agreed to by all of the lenders, a redetermination of the borrowing base shall be completed within 45 days of receipt by the Corporation or the applicable material subsidiary of such order or demand in the case of (i) above, and of receipt by the agent of notice that the liability management rating is less than 2.0 in the case of (ii) above. Further, a majority of lenders have the right once per year to redetermine the borrowing base in between scheduled redeterminations and the borrowing base may also be reduced in connection with asset dispositions.

If, at the time of a borrowing base redetermination, the outstanding borrowings under the Credit Facilities were to exceed the borrowing base as a result of any such redetermination, the Corporation would be required to make principal repayments or otherwise eliminate the borrowing base shortfall. If the Corporation is forced to repay a portion of its indebtedness under the Credit Facilities, it may not have sufficient funds to make such repayments. If it does not have sufficient funds and is otherwise unable to negotiate renewals of its borrowings or arrange new financing, it may have to sell significant assets. Any such sale could have a material adverse effect on the Corporation's business and financial results.

The maturity date of the Credit Facilities is currently May 11, 2022. The Corporation may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made. In the event that either of the Credit Facilities is not extended before the maturity date, all outstanding indebtedness under such Credit Facility will be repayable at the maturity date. There is also a risk that the Credit Facilities will not be renewed for the same principal amount or on the same terms. Any of these events could adversely affect the Corporation's ability to fund its ongoing operations and to pay dividends.

The Corporation is required to comply with covenants under the Credit Facilities. In the event that the Corporation does not comply with these covenants, the Corporation's access to capital could be restricted or repayment could be required. Events beyond the Corporation's control may contribute to the failure of the Corporation to comply with such covenants. A failure to comply with covenants could result in an event of default under the Credit Facilities, which could result in the Corporation being required to repay amounts owing thereunder and may prevent the payment of dividends to shareholders. The acceleration of the Corporation's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross-default or cross-acceleration provisions. In addition, the Credit Facilities impose certain restrictions on the Corporation, including, but not limited to, restrictions on the payment of dividends, incurring of additional indebtedness, dispositions of properties and the entering into of amalgamations, mergers, plans of arrangements, reorganizations or consolidations with any person. The Credit Facilities do not currently contain any financial maintenance covenants; however, there is no assurance that the Corporation's lenders will not impose any such covenants on the Corporation in the future. Any such covenants may either affect the availability or price of additional funding.

If the Corporation's lenders require repayment of all or portion of the amounts outstanding under the Credit Facilities for any reason, including for a default of a covenant, there is no certainty that the Corporation would be in a position to make such repayment. Even if the Corporation is able to obtain new financing in order to make any required repayment under the Credit Facilities, it may not be on commercially reasonable terms or terms that are acceptable to the Corporation. If the Corporation is unable to repay amounts owing under the Credit Facilities, the lenders under the Credit Facilities could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness.

Substantial Capital and Additional Funding Requirements

The Corporation may require additional financing from time to time to fund the acquisition, exploration and development of properties and its ability to obtain such financing in a timely fashion and on acceptable terms may be negatively impacted by the current economic and global market volatility

The Corporation anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As future capital expenditures are expected to be financed out of cash generated from operations, borrowings and possible future equity sales, the Corporation's ability to do so is dependent on, among other factors:

- the overall state of the capital markets;
- the Corporation's credit rating (if applicable);
- commodity prices;
- interest rates;
- royalty rates;
- tax burden due to current and future tax laws; and
- investor appetite for investments in the energy industry and the Corporation's securities in particular.

The Corporation's cash flow from its properties may not be sufficient to fund its ongoing activities at all times and from time to time the Corporation may require additional financing. The inability of the Corporation to access sufficient capital for its operations and activities could have a material adverse effect on the Corporation's financial condition, results of operations and prospects.

Due to the conditions in the oil and natural gas industry, global economic and political conditions and the domestic landscape, the Corporation may from time to time have restricted access to capital and increased borrowing costs. The conditions in or affecting the oil and natural gas industry have negatively impacted the ability of oil and natural gas companies to access additional financing. Failure

to obtain financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce its operations.

There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet the Corporation's requirements or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. To the extent that external sources of capital become limited, unavailable or available on onerous terms, the Corporation's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result. In addition, the Corporation may be required to seek additional equity financing on terms that are highly dilutive to existing shareholders. Moreover, future activities may require the Corporation to alter its capitalization significantly.

Uncertainty of Reserves Estimates

The Corporation's estimated reserves are based on numerous factors and assumptions which may prove incorrect and which may affect the Corporation

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

The estimation of proved reserves that may be developed and produced in the future is often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas are often estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

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

Actual production and cash flow derived from the Corporation's reserves will vary from the estimates contained in the Corporation's independent reserves evaluation and such variations could be material. The independent reserves evaluation is based in part on the assumed success of activities the Corporation intends to take in future years. The reserves and estimated future net revenue to be derived therefrom and contained in the Corporation's independent reserves evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the evaluation.

Political Uncertainty

The Corporation's business may be adversely affected by recent political and social events and decisions made in Canada, the United States, Europe and elsewhere

In the last several years, the United States and certain European countries have experienced significant political events that have cast uncertainty on global financial and economic markets. During its tenure, the former U.S. administration withdrew the United States from the Trans-Pacific Partnership and the United States Congress passed sweeping tax reforms, which, among other things, significantly reduced U.S. corporate tax rates. This has affected the competitiveness of other jurisdictions, including Canada.

In addition, the United States-Mexico-Canada Agreement (the "USMCA"), which replaced NAFTA, was ratified on July 1, 2020 and may impact the Corporation's business. The newly-inaugurated Biden administration in the U.S. has indicated that it will roll-back certain policies of the former administration and has revoked the presidential permit for TC Energy's Keystone XL Pipeline. While it is unclear which other legislation or policies of the former U.S. administration will be rolled-back and if such roll-backs will be a priority of the new administration in light of the ongoing COVID-19 pandemic, any future actions taken by the new U.S. administration could have a negative impact on the Canadian economy and on the businesses, financial condition, results of operations, prospects and the valuation of Canadian oil and natural gas companies, including the Corporation.

In addition to the political disruption in the United States, the impact of the United Kingdom's exit from the European Union remains to be determined. Some European countries have also experienced the rise of anti-establishment political parties and public protests held against open-door immigration policies, trade and globalization. Conflict and political uncertainty also continues in the Middle East. To the extent that certain political actions taken in North America, Europe and elsewhere in the world result in a marked decrease in free trade, access to personnel and freedom of movement could have an adverse effect on the Corporation's ability to market its products internationally, increase costs for goods and services required for the Corporation's business, reduce access to skilled labour and negatively impact the Corporation's business, financial condition, results of operations, prospects and the market value of its securities.

A change in federal, provincial or municipal governments in Canada may have an impact on the directions taken by such governments on matters that may impact the oil and natural gas industry, including the balance between economic development and environmental policy. Alberta elected a new government in 2019 that is supportive of the Trans Mountain Pipeline expansion project. Although the Supreme Court of Canada unanimously rejected the Government of British Columbia's proposed regulation of the transport of heavy oil products into and through British Columbia in January 2020, tensions remain between provincial and federal governments. Continued uncertainty and delays have led to decreased investor confidence, increased capital costs and operational delays for producers and service providers operating in the jurisdictions where the Corporation's properties are located.

The Federal Government was re-elected in 2019, but in a minority position. The ability of the minority Federal Government to pass legislation will be subject to whether it is able to come to agreement with, and garner the support of, the other elected parties, most of whom are opposed to the development of the oil and natural gas industry. The minority Federal Government will also be required to rely on the support of the other elected parties to remain in power, which provides less stability and may lead to an earlier subsequent federal election. Lack of political consensus, at both the federal and provincial government level, continues to create regulatory uncertainty, the effects of which become apparent on an ongoing basis, particularly with respect to carbon pricing regimes, curtailment of crude oil production and transportation and export capacity, and may affect the business of participants in the oil and natural gas industry.

Climate Change

Climate change may pose varied and far ranging risks to the business and operations of the Corporation, both known and unknown, which may adversely affect its business, operations and financial condition

Public support for climate change action has grown in recent years, as has the impetus to pursue new technologies to mitigate the effects of climate change. Governments in Canada and around the world have responded by adopting ambitious emissions reduction targets and supporting legislation, including measures relating to carbon pricing, clean energy and fuel standards, and alternative energy incentives and mandates.

The Corporation has grouped its risks related to climate change into two main categories: physical risks and transition risks. Physical risks have been further sub-divided into acute physical risks (those that are event-driven, including increased severity of extreme weather events) and chronic physical risks (those that relate to longer-term shifts in climate patterns). Transition risks have been further sub-divided into reputational, market, regulatory and policy, legal and technology risks.

Physical Risks – Acute

Climate change has been linked to extreme weather conditions. Extreme hot and cold weather, heavy snowfall, heavy rainfall and wildfires may restrict or interfere with the Corporation's operations, increasing its costs and negatively impacting its production. Moreover, extreme weather conditions may lead to disruptions in the Corporation's ability to transport its production, as well as goods and services in its supply chains. Certain of the Corporation's properties are located in locations that are proximate to forests and rivers and a wildfire or flood, respectively, may lead to significant downtime and/or damage to such assets which may affect production. At this time, the Corporation is unable to determine the extent to which climate change may lead to increased storm or weather hazards affecting its operations.

Physical Risks – Chronic

Climate change has been linked to long-term shifts in climate patterns, including sustained higher temperatures. As the level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns, long-term shifts in climate patterns pose the risk of exacerbating operational delays and other risks posed by seasonal weather patterns. See also "Risk Factors – Seasonality".

In addition, long-term shifts in weather patterns such as water scarcity, increased frequency of storms and fires and prolonged heat waves may, among other things, require the Corporation to incur greater expenditures (time and capital) to deal with the challenges posed by such changes to its premises, operations, supply chain, transport needs, and employee safety, which may in turn have a material adverse effect on the Corporation's business, operations and financial condition. In the event of water shortages or sourcing issues, the Corporation may not be able to, or will incur greater costs to, carry out hydraulic fracturing. See also "Risk Factors – Hydraulic Fracturing".

Transition Risks – Reputational

The Corporation's business, financial condition, operations or prospects may be negatively impacted as a result of any negative public opinion towards the Corporation or as a result of any negative sentiment towards, or in respect of, the Corporation's reputation with stakeholders, special interest groups, political leadership, the media or other entities. Public opinion may be influenced by certain media and special interest groups' negative portrayal of the industry in which the Corporation operates, as well as their opposition to certain oil and natural gas projects. Concerns about climate change have resulted in a number of environmental activists and members of the public opposing the continued exploitation and development of fossil fuels which has influenced investors' willingness to invest in the oil and natural gas industry. Historically, political and legal opposition to the fossil fuel industry focused on public opinion and the regulatory process. More recently, however, there has been a movement to more directly hold governments and oil and natural gas companies responsible for climate change through climate litigation. In November 2018, ENvironment JEUnesse, a Québec advocacy group, applied to the Québec Superior Court to certify all Quebecois under 35 as a class in a proposed class action lawsuit against the Government of Canada for climate-related matters. While the application was denied, the group has appealed. In January 2019, the City of Victoria became the first municipality in Canada to endorse a class action lawsuit against oil and natural gas producers for alleged climate-related harms. The Union of British Columbia Municipalities defeated the City of Victoria's motion to initiate a class action lawsuit to recover costs it claims are related to climate change. See also "*Risk Factors – Changing Investor Sentiment*", "*Risk Factors – Public Opinion and Reputational Risk*" and "*Risk Factors – Public Opposition and Non-Governmental Organizations*".

Transition Risks – Market

Concerns over climate change, fossil fuels, GHG emissions and water and land-use could lead to reduced demand for the oil, natural gas and NGLs that the Corporation produces, which would have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. See also "*Risk Factors – Alternatives to and Changing Demand for Petroleum Products*".

Transition Risks – Regulatory and Policy

Climate change policy is evolving at regional, national and international levels and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place to prevent climate change or mitigate its effects. Existing and future laws and regulations may impose significant liabilities for a failure to comply with their requirements. Concerns over climate change, fossil fuels, GHG emissions and water and land-use could lead to the enactment of more stringent laws and regulations applicable to the Corporation. Any new laws and regulations (or additional requirements to existing laws and regulations) could have a material impact on the Corporation's business, financial condition, results of operations and prospects.

Adverse impacts to the Corporation's business as a result of GHG legislation may include, but are not limited to, increased compliance costs, permitting delays, increased operating costs and capital expenditures. Given the evolving nature of climate change policy and the control of GHG and resulting requirements, it is expected that current and future climate change regulations will have the effect of increasing the Corporation's operating expenses and in the long-term, potentially reducing the demand for oil and natural gas resulting in a decrease in the Corporation's profitability and a reduction in the value of its assets or requiring impairments for financial statement purposes.

The Corporation's exploration and production facilities and other operations and activities emit GHGs which requires the Corporation to comply with applicable GHG emissions legislation. The Corporation is subject to Alberta's *Technology Innovation and Emissions Reduction Regulation* and may become subject to future regional, provincial and/or federal climate change regulations to manage GHG emissions. See "*Risk Factors – Regulatory*", "*Risk Factors – Environmental*", "*Risk Factors – Evolving Corporate Governance, Sustainability and Reporting Framework*" and "*Risk Factors – Carbon Pricing Risk*" for further details.

Transition Risks – Legal

The Corporation may become involved in, be named as a party to or be the subject of, various legal proceedings related to climate change. See also "*Risk Factors – Litigation*".

Transition Risks – Technology

The adoption of new technologies by the Corporation to deal with climate change could require a significant capital investment. See also "*Risk Factors – Cost of New Technologies*".

Changing Investor Sentiment

Changing investor sentiment towards the oil and natural gas industry may impact the Corporation's access to, and cost of, capital

A number of factors, including the effects of the use of fossil fuels on climate change, the impact of oil and natural gas operations on the environment, environmental damage relating to spills of petroleum products during production and transportation and Indigenous rights, have affected certain investors' sentiments towards investing in the oil and natural gas industry. As a result of these concerns, some institutional, retail and governmental investors have announced that they no longer are willing to fund or invest in oil and natural gas properties or companies or are reducing the amount of their investments of such entities over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust social, environmental and governance policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from the Corporation's Board of Directors, management and employees. Failing to implement the policies and practices as requested by institutional investors may result in such investors reducing their investment in the Corporation or not investing in the Corporation at all. Any reduction in the investor base interested or willing to invest in the oil and natural gas industry and more specifically, in the Corporation, may result in limiting Birchcliff's access to capital, increasing the cost of capital and decreasing the price and liquidity of the Corporation's securities, even if the Corporation's operating results, underlying asset value or prospects have not changed. Additionally, these factors, as well as other related factors, may cause a decrease in the value of the Corporation's assets which may result in an impairment charge.

Public Opinion and Reputational Risk

The Corporation relies on its reputation to continue its operations and to attract and retain investors and employees

The Corporation's business, financial condition, operations and prospects may be negatively impacted as a result of any negative public opinion towards the Corporation or as a result of any negative sentiment towards, or in respect of, the Corporation's reputation with stakeholders, special interest groups, political leadership, the media or other entities. Public opinion may be influenced by certain media and special interest groups' negative portrayal of the industry in which the Corporation operates, as well as their opposition to certain oil and natural gas projects. Potential impacts of negative public opinion or reputational issues may include delays or interruptions in operations, legal or regulatory actions or challenges, blockades, increased regulatory oversight, reduced support for, delays in, challenges to, or the revocation of regulatory approvals, permits and/or licences and increased costs and/or cost overruns. See also "Risk Factors – Public Opposition and Non-Governmental Organizations".

Any environmental damage, loss of life, injury or damage to property caused by the Corporation's operations could damage its reputation. Negative sentiment towards the Corporation could result in a lack of willingness of governmental authorities to grant the necessary licences or permits for the Corporation to operate its business. In addition, negative sentiment towards the Corporation could result in the residents of the areas where the Corporation is doing business opposing further operations in the area by the Corporation. If the Corporation develops a reputation of having an unsafe workplace, this may impact its ability to attract and retain the necessary skilled employees and consultants to operate its business. Further, the Corporation's reputation could be affected by actions and activities of other corporations operating in the oil and natural gas industry, particularly other producers, over which the Corporation has no control. In addition, opposition from special interest groups opposed to oil and natural gas development and the possibility of climate-related litigation against governments and fossil fuel companies may harm the Corporation's reputation. See "Risk Factors – Climate Change".

Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, operational, insurance, regulatory and legal risks, among others, must all be managed effectively to safeguard the Corporation's reputation. Damage to the Corporation's reputation could result in negative investor sentiment towards the Corporation, which may result in limiting the Corporation's access to capital, increasing the cost of capital and decreasing the price and liquidity of the Corporation's securities.

Public Opposition and Non-Governmental Organizations

The oil and natural gas industry and the Corporation may be subject to public opposition and other actions by non-governmental organizations

The oil and natural gas industry may, at times, be subject to public opposition. The oil and natural gas industry has become an increasingly politically polarizing topic in Canada, which has resulted in a rise in civil disobedience surrounding oil and natural gas development, particularly with respect to infrastructure projects. Such public opposition could expose the Corporation to the risk of higher costs, operational delays and disruptions or even project cancellations due to increased pressure on governments and regulators by special interest groups, which may include Indigenous groups, landowners, environmental interest groups (including those opposed to oil and natural gas production operations) and other non-governmental organizations. Potential impacts of such pressure and opposition include blockades, legal or regulatory actions or challenges, increased regulatory oversight, reduced support

of the federal, provincial or municipal governments, and delays in, challenges to, or the revocation of regulatory approvals, permits and/or licences, as well as direct legal challenges, including the possibility of climate-related litigation. There is no guarantee that the Corporation will be able to satisfy the concerns of the special interest groups and non-governmental organizations and attempting to address such concerns may require significant and unanticipated capital and operating expenditures which may negatively impact the Corporation's business, financial condition, results of operations and prospects.

In addition, the Corporation's oil and natural gas properties, wells and facilities or the third-party facilities and pipelines utilized by the Corporation could be the subject of a terrorist attack. If any of such properties, wells or facilities are the subject of terrorist attack, it may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Alternatives to and Changing Demand for Petroleum Products

Changes to the demand for oil and natural gas products and the rise of petroleum alternatives may negatively affect the Corporation's business, financial condition, results of operations and cash flow

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas and technological advances in fuel economy and renewable energy generation systems could reduce the demand for oil, natural gas and liquid hydrocarbons. Recently, certain jurisdictions have implemented policies or incentives to decrease the use of fossil fuels and encourage the use of renewable fuel alternatives, which may lessen the demand for petroleum products and put downward pressure on commodity prices. Advancements in energy efficient products have a similar effect on the demand for oil and natural gas products. The Corporation cannot predict the impact of the changing demand for oil and natural gas products and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flow by decreasing the Corporation's profitability, increasing its costs, limiting its access to capital or decreasing the value of its assets.

Regulatory

Modification to current, or implementation of additional, regulations may reduce the demand for oil and natural gas, increase the Corporation's costs and/or delay planned operations

The implementation of new regulations or the modification to existing regulations affecting the oil and natural gas industry could reduce the demand for crude oil and natural gas, increase the Corporation's costs or make certain projects uneconomic, any of which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. Further, the ongoing third-party challenges to regulatory decisions and orders has reduced the efficiency of the regulatory regime, as the implementation of the decisions and orders has been delayed resulting in uncertainty and interruption to the business of the oil and natural gas industry.

In order to conduct oil and natural gas operations, the Corporation requires regulatory permits, licences, registrations, approvals and authorizations from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all of the permits, licences, registrations, approvals and authorizations that may be required to conduct operations that it may wish to undertake in the time required or on acceptable terms and conditions. Any failure to renew, maintain or obtain required permits, licences, registrations, approvals and authorizations or the revocation or termination of existing permits, licences, registrations, approvals and authorizations may disrupt such third-party lessee and/or operator operations and could have a resulting material adverse effect on the Corporation's business and financial condition. In addition, the Corporation may have to comply with the requirements of certain federal legislation such as the *Competition Act* (Canada) and the *Investment Canada Act* (Canada), which may adversely affect its business and financial condition and the market value of its securities or assets, particularly when undertaking, or attempting to undertake, an acquisition or disposition.

Environmental

Compliance with environmental regulations requires the dedication of a portion of the Corporation's financial and operational resources

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

Compliance with environmental legislation can require significant expenditures and/or result in operational restrictions. A breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially

increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it is in material compliance with current applicable environmental legislation, no assurance can be given that environmental compliance requirements will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

In addition, political and economic events may significantly affect the scope and timing of climate change measures that are put in place. The implementation of new environmental regulations or the modification of existing environmental regulations affecting the oil and natural gas industry generally could reduce demand for oil and natural gas and increase costs. See "Risk Factors – Climate Change".

Carbon Pricing Risk

Taxes on carbon emissions affect the demand for oil and natural gas and the Corporation's operating expenses and may impair the Corporation's ability to compete

The majority of countries across the globe have agreed to reduce their carbon emissions in accordance with the Paris Agreement. In Canada, the Federal Government has implemented legislation aimed at incentivizing the use of alternative fuels and in turn reducing carbon emissions. The federal system currently applies in provinces and territories without their own system that meets federal standards. The federal regime is subject to a number of court challenges.

Any taxes placed on carbon emissions may have the effect of decreasing the demand for oil and natural gas products and at the same time, increasing the Corporation's operating expenses, each of which may have a material adverse effect on the Corporation's profitability and financial condition. Further, the imposition of carbon taxes puts companies at an economic disadvantage with their counterparts who operate in jurisdictions where there are less costly carbon regulations. See also "Risk Factors – Climate Change" and "Risk Factors – Environmental".

Issuance of Debt

Increased debt levels may impair the Corporation's ability to borrow additional capital on a timely basis to fund opportunities as they arise

From time to time, the Corporation may finance its activities (including asset acquisitions) in whole or in part with debt, which may increase the Corporation's debt levels above industry standards for peers of similar size. Depending on future exploration and development plans, the Corporation may require additional debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness from time to time could impair the Corporation's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Hedging

Hedging activities expose the Corporation to the risk of financial loss and counter-party risk

From time to time, the Corporation may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline. Similarly, the Corporation may enter into agreements to fix the differential or discount pricing gap which exists and may fluctuate between different grades of oil, NGLs and natural gas and the various market prices received for such products. However, to the extent that the Corporation engages in price risk management activities to protect itself from commodity price declines, it may also be prevented from realizing the full benefits of price increases above the levels of the derivative instruments used to manage price risk. In addition, the Corporation's hedging arrangements expose it to the risk of financial loss in certain circumstances, including instances in which:

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

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

Further, the Corporation may enter into hedging arrangements to fix interest rates applicable to the Corporation's debt. However, if interest rates decrease as compared to the interest rate fixed by the Corporation, the Corporation will not benefit from the lower interest rate.

Market Prices of the Corporation's Securities

The trading price of the Corporation's securities may be volatile and adversely affected by factors related and unrelated to the oil and natural gas industry and cannot be accurately predicted

The market price of the Corporation's securities may be volatile, which may affect the ability of holders to sell such securities at an advantageous price. The trading price of the securities of oil and natural gas issuers, including the Corporation, is subject to substantial volatility often based on factors related and unrelated to the financial performance or prospects of the issuers involved. Factors unrelated to the Corporation's performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices and/or current perceptions of the oil and natural gas market. This includes, but is not limited to, changing (and in some cases negative) investor sentiment towards energy-related businesses. In recent years, the volatility of oil and natural gas commodity prices, and the securities of issuers involved in the oil and natural gas business, has increased due, in part, to the implementation of computerized trading and the decrease of discretionary commodity trading. Similarly, recent market prices in the securities of oil and natural gas issuers relative to other industry sectors have led to lower oil and natural gas representation in certain key equity market indices. The volatility, trading volume and market price of oil and natural gas issuers have been impacted by increasing investment levels in passive funds that track major indices and only purchase securities included in such indices and subsequently dispose of those securities if they are excluded from such indices. In addition, many institutional investors, pension funds and insurance companies, including government sponsored entities, have implemented investment strategies increasing their investments in low-carbon assets and businesses while decreasing the carbon intensity of their portfolios through, among other measures, divestments. These factors have impacted the volatility and liquidity of certain securities and put downward pressure on the market price of those securities.

Similarly, the market prices of the Corporation's securities could be subject to significant fluctuations in response to variations in the Corporation's operating results, financial condition, liquidity and other internal factors. In addition, market price fluctuations in the Corporation's securities may also be due to the Corporation's results failing to meet the expectations of securities analysts or investors in any quarter, downward revisions in securities analysts' estimates and material public announcements by the Corporation, along with a variety of additional factors, including, without limitation, those set forth under "Advisories – Forward-Looking Statements". Accordingly, the prices at which the Corporation's securities will trade cannot be accurately predicted.

Hydraulic Fracturing

Implementation of new regulations on hydraulic fracturing may lead to operational delays, increased costs and/or decreased production volumes, adversely affecting the Corporation's business and financial position

Hydraulic fracturing involves the injection of water, sand and small amounts of additives under high pressure into rock formations to stimulate the production of oil and natural gas. Specifically, hydraulic fracturing enables the production of commercial quantities of oil and natural gas from reservoirs that were previously unproductive. While hydraulic fracturing has been in use for many years, there has been increased focus on the environmental aspects of hydraulic fracturing practices in recent years. Increased regulation and attention given to the hydraulic fracturing process could lead to greater opposition (including litigation) to oil and natural gas production activities using hydraulic fracturing techniques. Any new laws, regulations or permitting requirements regarding hydraulic fracturing could lead to operational delays, increased operating costs, third-party or governmental claims and could increase the Corporation's costs of compliance and doing business, as well as delay the development of oil and natural gas resources from certain formations which are not commercial without the use of hydraulic fracturing. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that the Corporation is ultimately able to produce from its reserves and, therefore, could adversely affect the Corporation's business, financial condition, results of operations and prospects.

Seismic events are common in certain parts of Alberta and the Alberta Energy Regulator (the "AER") has introduced seismic monitoring and reporting requirements for hydraulic fracturing operators in the Fox Creek, Red Deer and Brazeau regions. These requirements include, among others, an assessment of the potential for seismicity prior to conducting operations, the implementation of a response plan to address potential seismic events, and the suspension of operations if a seismic event above a particular threshold occurs. These requirements remain in effect as long as the AER deems them necessary. Although the Corporation does not currently have operations subject to these requirements, the AER continues to monitor seismic activity around the province and may extend these requirements to other areas of the province if necessary.

Competition

The Corporation competes with other oil and natural gas companies, some of which have greater financial and operational resources

The oil and natural gas industry is highly competitive in all of its phases. The Corporation competes with numerous other entities in the exploration, development, production and marketing of oil and natural gas, including land, acquisitions of reserves, access to drilling and service rigs and other equipment, access to transportation and access to skilled technical and operating personnel. The Corporation's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Corporation. Some of these companies not only explore for, develop and produce oil and natural gas, but also carry on refining operations and market oil and natural gas on an international basis. As a result of these complementary activities, some of these competitors may have greater and more diverse competitive resources to draw on than the Corporation. The Corporation's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling.

Variations in Foreign Exchange Rates and Interest Rates

Variations in foreign exchange rates and interest rates could adversely affect the Corporation's financial condition

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

To the extent that the Corporation engages in risk management activities related to foreign exchange and interest rates, there is credit risk associated with the counterparties with whom the Corporation may contract. See also "Risk Factors – Hedging".

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

Availability and Cost of Equipment, Materials and Services

Restrictions on the availability and cost of equipment, materials and services may impede the Corporation's exploration, development and operating activities

Oil and natural gas exploration, development and operating activities are dependent on the availability and cost of specialized equipment and other materials (typically leased from third parties) and skilled personnel trained to use such equipment in the areas where such activities will be conducted. The availability of such equipment, materials and personnel is limited. An increase in demand or cost, or a decrease in the availability of, such equipment, materials or personnel may impede the Corporation's exploration, development and operating activities, which, in turn, could materially adversely affect the Corporation's business and financial condition.

Potential Future Drilling Locations

The Corporation's identified potential future drilling locations are susceptible to uncertainties that could materially alter the occurrence or timing of their drilling

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

Seasonality

Oil and natural gas operations are subject to seasonal conditions and the Corporation may experience significant operational delays as a result

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments may enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Road bans and other restrictions generally result in a reduction of drilling and exploratory activities and may also result in the shut-in of some of the Corporation's production if not otherwise tied-in. In addition, certain oil and natural gas producing properties are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Further, extreme cold weather, heavy snowfall and heavy rainfall may restrict the Corporation's ability to access its properties and cause operational difficulties including damage to machinery or contribute to personnel injury because of dangerous working conditions. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and also to volatility in commodity prices as the demand for natural gas typically fluctuates during cold winter months and hot summer months.

All Assets in One Area

All of the Corporation's properties are located in the Peace River Arch area of Alberta, making the Corporation vulnerable to risks associated with having its production concentrated in one area

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

Cost of New Technologies

The Corporation's ability to successfully implement new technologies into its operations in a timely and efficient manner will affect its ability to compete

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

Dividends

The payment of dividends could vary

The declaration and payment of future dividends (and the amount thereof) is subject to the discretion of the Board of Directors and may vary depending on a variety of factors and conditions existing from time to time, including fluctuations in commodity prices, the financial condition of Birchcliff, production levels, results of operations, capital expenditure requirements, working capital requirements, debt service requirements, operating costs, royalty burdens, foreign exchange rates, interest rates, contractual restrictions, Birchcliff's hedging activities or programs, available investment opportunities, Birchcliff's business plan, strategies and objectives, the satisfaction of the solvency and liquidity tests imposed by the ABCA for the declaration and payment of dividends and other factors that the Board of Directors may deem relevant. Depending on these and various other factors, many of which are beyond the control of Birchcliff, the dividend policy of the Corporation may vary from time to time and, as a result, future cash dividends could be reduced or suspended entirely.

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

Dividends may be reduced or suspended during periods of lower cash flow from operations. The timing and amount of Birchcliff's capital expenditures, and the ability of the Corporation to repay or refinance existing debt as it becomes due, directly affects the amount of cash dividends that may be declared by the Board of Directors. Future acquisitions, expansions of Birchcliff's assets, and other capital expenditures and the repayment or refinancing of existing debt as it becomes due may be financed from sources such as cash flow from operations, the issuance of additional shares or other securities of Birchcliff, and borrowings. Dividends may be reduced, or even eliminated, at times when significant capital or other expenditures are made. There can be no assurance that sufficient capital will be available on terms acceptable to Birchcliff, or at all, to make additional investments, fund future expansions or make other required capital expenditures. To the extent that external sources of capital, including the issuance of additional shares or other securities or the availability of additional credit facilities, become limited or unavailable on favourable terms or at all due to credit market conditions or otherwise, the ability of the Corporation to make the necessary capital investments to maintain or expand its operations, to repay outstanding debt and to invest in assets, as the case may be, may be impaired. To the extent Birchcliff is required to use cash flow from operations to finance capital expenditures or acquisitions or to repay existing debt as it becomes due, the cash available for dividends may be reduced and the level of dividends declared may be reduced or suspended entirely.

Over time, the Corporation's capital and other cash needs may change significantly from its current needs, which could affect whether the Corporation pays dividends and the amount of dividends, if any, it may pay in the future. If the Corporation continues to pay dividends at the current levels, it may not retain a sufficient amount of cash to finance external growth opportunities, meet any large unanticipated liquidity requirements or fund its activities in the event of a significant business downturn.

The market value of the Corporation's securities may deteriorate if dividends are reduced or suspended. Furthermore, the future treatment of dividends for tax purposes will be subject to the nature and composition of dividends paid by Birchcliff and potential legislative and regulatory changes.

Reliance on a Skilled Workforce and Key Personnel

An inability to recruit and retain a skilled workforce and key personnel would negatively impact the Corporation

The operations and management of the Corporation require the recruitment and retention of a skilled workforce, including engineers, technical personnel and other professionals. The loss of key members of such workforce, or a substantial portion of the workforce as a whole, could result in the failure to implement the Corporation's business plans, which could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

There is competition for qualified personnel in the oil and natural gas industry and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Contributions of the existing management team to the immediate and near-term operations of the Corporation are likely to be of central importance. In addition, certain of the Corporation's current employees are senior and have significant institutional knowledge that must be transferred to other employees prior to their departure from the workforce. If the Corporation is unable to: (i) retain current employees; (ii) successfully complete effective knowledge transfers; and/or (iii) recruit new employees with the requisite knowledge and experience, the Corporation could be negatively impacted. In addition, the Corporation could experience increased costs to retain and recruit these professionals.

Earnings Volatility

Earnings of the Corporation may fluctuate in each reporting period

The Corporation's accounting policies conform to IFRS which constitutes generally accepted accounting principles in Canada. Accounting under IFRS may result in non-cash charges and/or write-downs of net assets in the financial statements on a quarterly basis. Similarly, non-cash gains and reversals of asset write-downs may also be recorded from time to time. Income statement volatility resulting from such non-cash gains and losses under IFRS may be viewed unfavourably by the market and could result in an inability to borrow funds and/or could result in a decline in the price of the Corporation's securities.

Management of Growth and Integration

The Corporation may not be able to effectively manage the growth of its business

The Corporation may be subject to both integration and growth-related risks, including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to effectively manage growth and the integration of additional assets will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Corporation to effectively deal with this integration and growth could have a material adverse impact on its business, financial condition, results of operations and prospects.

Information Technology Systems and Cyber-Security

A disruption of information technology services or a cyber-security breach may adversely affect the Corporation

The Corporation has become increasingly dependent upon the availability, capacity, reliability and security of its information technology infrastructure and its ability to expand and continually update this infrastructure to conduct daily operations. The Corporation depends on various information technology systems to estimate reserves, process and record financial data, manage its financial resources and land base, analyze seismic information, administer its contracts with its operators and lessees and communicate with employees and third-party partners.

In the event the Corporation is unable to regularly deploy software and hardware, effectively upgrade systems and network infrastructure and take other steps to maintain or improve the efficiency and efficacy of its information technology systems, the operation of such systems could be interrupted or result in the loss, corruption or release of data. Further, the Corporation is subject to a variety of information technology and system risks as a part of its normal course operations, including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of the Corporation's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to its business activities or its competitive position. In addition, cyber-phishing attempts, in which a malicious party attempts to obtain sensitive information such as usernames, passwords, and credit card details (and money) by disguising as a trustworthy entity in an electronic communication, have become more widespread and sophisticated in recent years. If the Corporation becomes a victim to a cyber-phishing attack it could result in a loss or theft of the Corporation's financial resources or critical data and information or could result in a loss of control of the Corporation's technological infrastructure or financial resources. The Corporation's employees are often the targets of such cyber-phishing attacks, as they are and will continue to be targeted by parties using fraudulent "spoof" emails to misappropriate information or to introduce viruses or other malware through "trojan horse" programs to the Corporation's computers. These emails appear to be legitimate emails, but direct recipients to fake websites operated by the sender of the email or request recipients to send a password or other confidential information through email or to download malware.

In addition to the oversight provided by the Corporation's Information Technology Committee, there is further reporting on the Corporation's information technology and cyber-security risks to the Board of Directors. Further, the Corporation maintains policies and procedures, including a cyber-security incident response plan, that address and implement employee protocols with respect to electronic communications and electronic devices and the Corporation periodically conducts cyber-security risk assessments. The Corporation also employs encryption protection for some of its confidential information. Despite the Corporation's efforts to mitigate such cyber-phishing attacks through education and training, phishing activities remain a serious problem that may damage its information technology infrastructure. The Corporation applies technical and process controls in line with industry-accepted standards to protect its information assets and systems, including a written incident response plan for responding to a cyber-security incident. However, these controls may not adequately prevent cyber-security breaches. Disruption of critical information technology services, or breaches of information security, could have a negative effect on the Corporation's performance, earnings and its reputation and any damages sustained may not be adequately covered by the Corporation's current insurance coverage, or at all. The significance of any such event is difficult to quantify, but may in certain circumstances be material and could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

To date, the Corporation has not been subject to a cyber-security attack or other breach that has had a material impact on its business or operations or resulted in material losses to the Corporation; however, there is no assurance that the measures the Corporation takes to protect its business systems and operational control systems will be effective in protecting against a breach in the future and that the Corporation will not incur such losses in the future.

Insurance

Not all risks are insurable and the occurrence of an uninsurable event may have a material adverse effect on the Corporation

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

Litigation

The Corporation may be involved in litigation in the course of its normal operations and the outcome of the litigation may adversely affect the Corporation and its reputation

In the normal course of the Corporation's operations, it may become involved in, be named as a party to or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions. Such proceedings may develop in relation to personal injury (including claims resulting from exposure to hazardous substances), property damage, property taxes, land and access rights, royalty rights, environmental issues (including claims relating to contamination) and lease and contractual disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Corporation and, as a result, could have a material adverse effect on the Corporation's business, financial condition and results of operations. Even if the Corporation prevails in any such legal proceedings, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from the Corporation's business operations, which may adversely affect the Corporation.

Due to the rapid development of oil and natural gas technology, the Corporation may become involved in, be named as a party to or be the subject of, various legal proceedings in which it is alleged that the Corporation has infringed the intellectual property rights of others or conversely, the Corporation may commence lawsuits against others who the Corporation believes are infringing upon its intellectual property rights. The Corporation's involvement in intellectual property litigation could result in significant expense, adversely affecting the development of its assets or intellectual property or diverting the efforts of its technical and management personnel, whether or not such litigation is resolved in the Corporation's favour. In the event of an adverse outcome as a defendant in any such litigation, the Corporation may, among other things, be required to: (i) pay substantial damages; (ii) cease the use of infringing intellectual property; (iii) expend significant resources to develop or acquire non-infringing intellectual property; (iv) discontinue processes incorporating infringing technology; or (v) obtain licences to the infringing intellectual property. However, the Corporation may not be successful in such development or acquisition or such licences may not be available on reasonable terms. Any such development, acquisition or licence could require the expenditure of substantial time and other resources and could have a material adverse effect on the Corporation's business and financial results.

Indigenous Claims

Indigenous claims may affect the Corporation

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

In addition, claims and protests of Indigenous peoples may disrupt or delay third-party operations or new development on the Corporation's properties.

Credit Risk

The Corporation is exposed to credit risk through its contractual arrangements and its third-party operators or partners of properties in which it has an interest

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

Conversely, the Corporation's counterparties may deem the Corporation to be at risk of defaulting on its contractual obligations. These counterparties may require that the Corporation provide additional credit assurance by prepaying anticipated expenses or posting letters of credit, which would decrease the Corporation's available liquidity.

Internal Controls

Material weaknesses in the Corporation's internal controls may negatively affect the Corporation and the market price of the Corporation's securities

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

Liability Management Programs

Liability management programs enacted by regulators may prevent or interfere with the Corporation's ability to acquire properties or require a substantial cash deposit with the regulator

Alberta has developed a liability management rating program (the "AB LMR Program") which is designed to prevent taxpayers from incurring costs associated with the suspension, abandonment, remediation and reclamation of wells, facilities and pipelines in the event that a licensee or permit holder is unable to satisfy its regulatory obligations. Changes to the licensee liability rating program administered by the AER or other changes to the requirements of the AB LMR Program may result in the requirement for security to be posted in the future, may result in the denial of licence or permit transfers and may result in significant increases to the Corporation's compliance obligations.

The impact and consequences of the Supreme Court of Canada's decision in the *Redwater Energy Corporation (Re)* case on the AER's rules and policies, lending practices in the oil and natural gas industry and on the nature and determination of secured lenders to take enforcement proceedings are expected to evolve as the consequences of the decision are evaluated and considered by regulators, lenders and receivers/trustees. In addition, the AB LMR Program may prevent or interfere with the Corporation's ability to acquire or dispose of assets as both the vendor and the purchaser of oil and natural gas assets must be in compliance with the AB LMR Program (both before and after the transfer of the assets) for the applicable regulatory agency to allow for the transfer of such assets.

Title to and Right to Produce from Assets

Defects in the Corporation's title or rights to produce from its properties may result in a financial loss

The Corporation's actual title to and interest in its properties, and its right to produce and sell the oil and natural gas therefrom, may vary from the Corporation's records. In addition, there may be valid legal challenges or legislative changes that affect the Corporation's title to and right to produce from its oil and natural gas properties, which could impair the Corporation's activities on them and result in a reduction of the revenue received by the Corporation.

If a defect exists in the chain of title or in the Corporation's right to produce, or a legal challenge or legislative change arises, it is possible that the Corporation may lose all or a portion of the properties to which the title defect relates and/or its right to produce from such properties. This may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Expiration of Licences and Leases

The Corporation, or its working interest partners, may fail to meet the requirements of a licence or lease, causing its termination or expiry

The Corporation's properties are held in the form of licences and leases and working interests in licences and leases held by others. If the Corporation or the holder of the licence or lease fails to meet the specific requirements of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of the Corporation's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on the business, financial condition, results of operations and prospects of the Corporation.

Disposal of Fluids Used in Operations

Regulations regarding the disposal of fluids used in operations may increase costs of compliance or subject the Corporation to regulatory penalties or litigation

The safe disposal of hydraulic fracturing fluids (including the additives) and water recovered from oil and natural gas wells is subject to ongoing regulatory review by the federal and provincial governments, including its effect on fresh water supplies and the ability of such water to be recycled, amongst other things. While it is difficult to predict the impact of any regulations that may be enacted in response to such review, the implementation of stricter regulations may increase the Corporation's costs of compliance which may impact the economics of certain projects and, in turn, impact activity levels and new capital spending on the Corporation's oil and natural gas properties.

Breaches of Confidentiality

Breach of confidentiality by a third party could impact the Corporation's competitive advantage or put it at risk of litigation

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

Operational Dependence

The Corporation is subject to risk as it pertains to other parties operating assets it has an interest in

Other companies operate some of the assets in which the Corporation has an interest. The Corporation has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect the Corporation's business, financial condition, results of operations and prospects. The Corporation's return on assets operated by others depends upon a number of factors that may be outside of the Corporation's control, including, but not limited to, the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

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

Risks Associated with Acquisitions and Dispositions

The anticipated benefits of acquisitions may not be achieved and the Corporation may dispose of certain assets for less than their carrying value on the financial statements as a result of weak market conditions

The Corporation considers acquisitions and dispositions of assets in the ordinary course of business. Typically, once an acquisition opportunity is identified, a review of available information relating to the assets is conducted. There is a risk that even a detailed review of records and assets may not necessarily reveal every existing or potential problem, nor will it permit the Corporation to become sufficiently familiar with the assets to fully assess their deficiencies and potential. There is no guarantee that defects in the chain of title will not arise to defeat the Corporation's title to certain assets or that environmental defects, liabilities or deficiencies do not exist or are greater than anticipated. Inspections may not always be performed on every well, and environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, the Corporation may assume certain environmental and other risk liabilities in connection with acquired assets.

In addition, acquisitions of oil and natural gas properties or companies are based in large part on engineering, environmental and economic assessments. These assessments include a series of assumptions regarding such factors as recoverability and marketability of oil and natural gas, environmental restrictions and prohibitions regarding releases and emissions of various substances, future prices of oil and natural gas, future operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of the Corporation. All such assessments involve a measure of geological, engineering, environmental and regulatory uncertainty that could result in lower production and reserves or higher operating or capital expenditures than anticipated.

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

Management continually assesses the value and contribution of the various assets within its portfolio. In this regard, certain assets may be periodically disposed of so the Corporation can focus its efforts and resources more efficiently. Depending on market conditions for such assets, there is a risk that certain assets of the Corporation could realize less than their carrying value on the Corporation's financial statements.

Royalty Regimes

Changes to royalty regimes may negatively impact the Corporation's cash flow

There can be no assurance that the Government of Alberta will not adopt a new royalty regime or modify the existing royalty regime, which may have an impact on the economics of the Corporation's projects. An increase in royalties would reduce the Corporation's earnings and could make future capital investments, or the Corporation's operations, less economic or uneconomic.

Negative Impact of Additional Sales or Issuances of Securities

The Corporation may issue additional securities, diluting current shareholders

The Corporation may issue an unlimited number of Common Shares without any vote or action by the shareholders, subject to the rules of any stock exchange on which the Corporation's securities may be listed. The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation. If the Corporation issues additional securities, the percentage ownership of existing shareholders will be reduced and diluted and the price of the Corporation's securities could decrease.

Conflicts of Interest

Conflicts of interest may arise for the Corporation's directors and officers

Certain directors or officers of the Corporation may also be directors or officers of other oil and natural gas companies and as such may, in certain circumstances, have a conflict of interest. Conflicts of interest, if any, will be subject to and governed by procedures prescribed by the ABCA which require a director or officer of a Corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with the Corporation to disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

Income Taxes

Taxation authorities may reassess the Corporation's tax returns

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

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

Additional Taxation Applicable to Non-Residents

Non-resident shareholders are required to pay additional taxes on their dividends

Tax legislation in Canada may impose withholding or other taxes on the cash dividends, stock dividends or other property transferred by the Corporation to non-resident shareholders. These taxes may be reduced pursuant to tax treaties between Canada and the non-resident shareholder's jurisdiction of residence. Evidence of eligibility for a reduced withholding rate must be filed by the non-resident shareholder in prescribed form with their broker (or in the case of registered shareholders, with the transfer agent). In addition, the country in which the non-resident shareholder is resident may impose additional taxes on such dividends. Any of these taxes may change from time to time.

Foreign Exchange Risk for Non-Resident Shareholders

Variations in foreign exchange rates may affect the amount of cash dividends received by shareholders who receive dividends in currencies other than Canadian dollars

The Corporation's cash dividends are declared in Canadian dollars and may be converted in certain instances to foreign denominated currencies at the spot exchange rate at the time of payment. As a consequence, non-resident shareholders and shareholders who calculate their return in currencies other than the Canadian dollar are subject to foreign exchange risk. To the extent that the Canadian dollar strengthens with respect to their currency, the amount of any dividend will be reduced when converted to the shareholder's home currency.

Evolving Corporate Governance, Sustainability and Reporting Framework

Evolving corporate governance, sustainability and reporting framework may increase both compliance costs and the risk of non-compliance that may have an adverse effect on the Corporation

The Corporation's business is subject to evolving corporate governance and public disclosure regulations that have increased both compliance costs and the risk of non-compliance, which could have an adverse effect on the Corporation's costs of doing business. The Corporation is subject to changing rules and regulations promulgated by a number of governmental and self-regulated organizations, including the Canadian Securities Administrators, the TSX and the Financial Accounting Standards Board. These rules and regulations continue to evolve in scope and complexity, making compliance more difficult and uncertain. Further, the Corporation's efforts to comply with these and other new and existing rules and regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

Social Media

The Corporation faces compliance and supervisory challenges in respect of the use of social media as a means of communicating

Increasingly, social media is used as a vehicle to carry out cyber-phishing attacks. Information posted on social media sites, for business or personal purposes, may be used by attackers to gain entry into the Corporation's systems and obtain confidential information. As social media continues to grow in influence and access to social media platforms becomes increasingly prevalent, there are significant risks that the Corporation may not be able to properly regulate social media use and preserve adequate records of business activities and client communications conducted through the use of social media platforms.

Expansion into New Activities

Expanding the Corporation's business may expose it to new risks and uncertainties

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

Forward-Looking Information

Forward-looking information may prove inaccurate

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

ABBREVIATIONS

AECO	benchmark price for natural gas determined at the AECO 'C' hub in southeast Alberta
ATP	Alliance Trading Pool
bbl	barrel
bbls	barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day
condensate	pentanes plus (C5+)
F&D	finding and development
FD&A	finding, development and acquisition
G&A	general and administrative
GAAP	generally accepted accounting principles for Canadian public companies which are currently IFRS
GHG	greenhouse gas
GJ	gigajoule
GJ/d	gigajoules per day
HH	Henry Hub
IFRS	International Financial Reporting Standards as issued by the International Accounting Standards Board
LNG	liquefied natural gas
m³	cubic metres
McF	thousand cubic feet
McF/d	thousand cubic feet per day
Mcfe	thousand cubic feet of gas equivalent
MJ	megajoule
MM\$	millions of dollars
MMboe	million barrels of oil equivalent
MMBtu	million British thermal units
MMBtu/d	million British thermal units per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
MSW	price for mixed sweet crude oil at Edmonton, Alberta
NGLs	natural gas liquids consisting of ethane (C2), propane (C3) and butane (C4) and specifically excluding condensate
NGTL	NOVA Gas Transmission Ltd.
NYMEX	New York Mercantile Exchange
OPEC+	Organization of the Petroleum Exporting Countries ("OPEC"), with certain non-OPEC oil exporting countries
P&NG	petroleum and natural gas
TCPL	TransCanada PipeLines Limited
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma, for crude oil of standard grade
000s	thousands
\$000s	thousands of dollars

NON-GAAP MEASURES

This MD&A uses the terms “adjusted funds flow”, “adjusted funds flow per common share”, “free funds flow”, “transportation and other expense”, “operating netback”, “adjusted funds flow netback”, “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.

“Adjusted funds flow” denotes cash flow from operating activities before the effects of decommissioning expenditures and changes in non-cash operating working capital and “adjusted funds flow per common share” denotes adjusted funds flow divided by the basic or diluted weighted average number of common shares outstanding for the period. Birchcliff eliminates settlements of decommissioning expenditures from cash flow from operating activities as the amounts can be discretionary and may vary from period-to-period depending on its capital programs and the maturity of its operating areas. The settlement of decommissioning expenditures is managed with Birchcliff’s capital budgeting process which considers available adjusted funds flow. Changes in non-cash operating working capital are eliminated in the determination of adjusted funds flow as the timing of collection and payment are variable and by excluding them from the calculation, the Corporation believes that it is able to provide a more meaningful measure of its operations and ability to generate cash on a continuing basis. Management believes that adjusted funds flow and adjusted funds flow per common share assist management and investors in assessing Birchcliff’s operating performance, as well as its ability to generate cash necessary to fund sustaining and/or growth capital expenditures, repay debt, settle decommissioning obligations and pay common share and preferred share dividends. Investors are cautioned that adjusted funds flow should not be construed as an alternative to or more meaningful than cash flow from operating activities or net income or loss as determined in accordance with GAAP as an indicator of Birchcliff’s performance. “Free funds flow” denotes adjusted funds flow less F&D capital expenditures. Management believes that free funds flow assists management and investors in assessing Birchcliff’s ability to further generate shareholder returns through a number of initiatives, including but not limited to, potential debt repayment, common share repurchases, preferred share redemptions, dividend increases and acquisitions. The following table provides a reconciliation of cash flow from operating activities, as determined in accordance with GAAP, to adjusted funds flow and free funds flow for the periods indicated:

(\$000s)	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Cash flow from operating activities	71,431	85,557	188,180	327,066
Change in non-cash operating working capital	(6,269)	(5,058)	(5,977)	5,153
Decommissioning expenditures	1,347	442	2,323	2,285
Adjusted funds flow	66,509	80,941	184,526	334,504
F&D capital expenditures	(41,291)	(56,800)	(287,967)	(256,395)
Free funds flow	25,218	24,141	(103,441)	78,109

“Transportation and other expense” denotes transportation expense plus marketing purchases minus marketing revenue on a per boe basis. Birchcliff may enter into certain marketing purchase and sales arrangements with the objective of reducing any available transportation and/or fractionation fees associated with its take-or-pay commitments. Management believes that transportation and other expense assists management and investors in assessing Birchcliff’s total cost structure related to transportation activities.

"Operating netback" denotes petroleum and natural gas revenue less royalty expense, less operating expense and less transportation and other expense. "Adjusted funds flow netback" denotes petroleum and natural gas revenue less royalty expense, less operating expense, less transportation and other expense, less net G&A expense, less interest expense, less any realized losses (plus realized gains) on financial instruments and plus any other cash income sources. Netbacks are calculated on a per unit basis, unless otherwise indicated. Management believes that operating netback and adjusted funds flow netback assist management and investors in assessing Birchcliff's operating results by isolating the impact of production volumes to better analyze its performance against prior periods on a comparable basis. The following table provides a breakdown of Birchcliff's operating netback and adjusted funds flow netback for the periods indicated:

	Three months ended December 31,				Twelve months ended December 31,			
	2020		2019		2020		2019	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
Petroleum and natural gas revenue	158,283	21.88	164,759	22.97	528,505	18.90	613,559	21.56
Royalty expense	(6,522)	(0.90)	(8,263)	(1.15)	(18,204)	(0.65)	(27,452)	(0.96)
Operating expense	(21,942)	(3.03)	(21,977)	(3.06)	(82,357)	(2.95)	(87,903)	(3.09)
Transportation and other expense	(35,690)	(4.94)	(32,278)	(4.51)	(138,014)	(4.93)	(126,135)	(4.44)
Operating netback	94,129	13.01	102,241	14.25	289,930	10.37	372,069	13.07
G&A, net	(8,028)	(1.11)	(9,035)	(1.26)	(24,615)	(0.88)	(26,815)	(0.94)
Interest expense	(8,652)	(1.20)	(5,852)	(0.82)	(26,067)	(0.93)	(25,073)	(0.88)
Realized gain (loss) on financial instruments	(11,819)	(1.63)	(6,565)	(0.92)	(59,665)	(2.13)	13,673	0.48
Other income	879	0.12	152	0.03	4,943	0.17	650	0.02
Adjusted funds flow netback	66,509	9.19	80,941	11.28	184,526	6.60	334,504	11.75

The breakdown for the operating netback from the Pouce Coupe Gas Plant is provided under the heading "Pouce Coupe Gas Plant Netbacks" in this MD&A.

"Total cash costs" denotes royalty, operating, transportation and other, G&A and interest expenses on a per unit 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 current portion of financial instruments and capital securities. Management believes that adjusted working capital deficit assists management and investors in assessing Birchcliff's short-term liquidity requirements. The following table reconciles working capital deficit (current assets minus current liabilities), as determined in accordance with GAAP, to adjusted working capital deficit:

As at, (\$000s)	December 31, 2020	December 31, 2019
Working capital deficit	93,988	100,199
Financial instrument – current liability	(23,479)	(26,949)
Capital securities – current liability	(39,930)	(49,845)
Adjusted working capital deficit	30,579	23,405

"Total debt" is calculated as the amount outstanding under the 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 GAAP, to total debt:

As at, (\$000s)	December 31, 2020	December 31, 2019
Revolving term credit facilities	731,372	609,177
Adjusted working capital deficit	30,579	23,405
Total debt	761,951	632,582

ADVISORIES

Currency

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

MMBtu Pricing Conversions

\$1.00 per MMBtu equals \$1.00 per Mcf based on a standard heat value of 37.4 MJ/m³ or a heat uplift of 1.055 when converting from \$/GJ.

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.

Oil and Gas Metrics

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

Capital Expenditures

Unless otherwise indicated, references in this MD&A to: (i) “F&D capital” denotes capital for land, seismic, workovers, drilling and completions and well equipment and facilities; and (ii) “total capital expenditures” denotes F&D capital plus acquisitions, less any dispositions, plus administrative assets.

Reserves

Birchcliff retained independent qualified reserves evaluator, Deloitte LLP (“**Deloitte**”), to evaluate and prepare reports on 100% of Birchcliff’s light crude oil and medium crude oil (combined), conventional natural gas, shale gas and NGLs reserves effective December 31, 2020. Such evaluation was prepared in accordance with the standards contained in the COGE Handbook and NI 51-101. Further information regarding the Corporation’s reserves can be found in the Corporation’s Annual Information Form for the financial year ended December 31, 2020.

Certain terms used herein are defined in NI 51-101 or the COGE Handbook and, unless the context otherwise requires, shall have the same meanings in this MD&A as in NI 51-101 or the COGE Handbook, as the case may be.

Forward-Looking Statements

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

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

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

- Birchcliff's plans and other aspects of its anticipated future financial performance, results, operations, focus, objectives, strategies, opportunities, priorities and goals;
- the information set forth under the heading "*Current Operating Environment and COVID-19*", "*Risk Factors*" and elsewhere in this MD&A as it relates to the expected impacts of the COVID-19 pandemic (including that the COVID-19 pandemic is expected to continue to have a significant impact on future demand for the commodities Birchcliff produces and on the Corporation's cash flow, access to capital, results of operations, financial condition and the environment in which it operates, as well as on the Corporation's suppliers and employees);
- the information set forth under the heading "*2021 Outlook and Guidance*" and elsewhere in this MD&A as it relates to Birchcliff's outlook and guidance for 2021 and the 2021 Capital Program (including: that Birchcliff is focused on maximizing free funds flow and strengthening its balance sheet; that Birchcliff's F&D capital budget of \$210 million to \$230 million for 2021 targets an annual average production rate of 78,000 to 80,000 boe/d; that the 2021 Capital Program contemplates the drilling of 27 (27.0 net) wells and bringing on production of a total of 33 (33.0 net) wells during 2021; estimates of annual and Q4 average production, annual commodity mix, average expenses, adjusted funds flow, F&D capital expenditures, free funds flow, total debt and natural gas market exposure; and the expected impact of changes in commodity prices and the CDN/US exchange rate on Birchcliff's estimate of adjusted funds flow);
- Birchcliff's market diversification and risk management activities and any anticipated benefits to be derived therefrom;
- estimates of reserves and future development costs;
- the Corporation's estimated income tax pools and management's expectation that future taxable income will be available to utilize the accumulated tax pools;
- the information set forth under the heading "*Capital Resources and Liquidity*" and elsewhere in this MD&A as it relates to the Corporation's liquidity and capital resources (including: that the capital-intensive nature of Birchcliff's operations requires it to maintain adequate sources of liquidity to fund its short-term and long-term financial obligations; that Birchcliff's capital resources primarily consist of adjusted funds flow and available Credit Facilities, which the Corporation believes are sufficient to fund its working capital requirements, capital expenditure programs and dividend payments for the foreseeable future; that the Corporation continues to proactively look for strategic risk management and market diversification activities; that Birchcliff's priority is to strengthen its balance sheet in the current operating environment; the Corporation's belief that its internally generated adjusted funds flow and its existing undrawn Credit Facilities will provide sufficient liquidity to fund the 2021 Capital Program, dividend distributions and working capital requirements and also decrease the Corporation's outstanding debt; that the disruption and volatility that has resulted from the COVID-19 pandemic may continue and could impact future oil price recovery and increase future costs of capital; the Corporation's expectation that counterparties will be able to meet their financial obligations; and that management of debt levels continues to be a priority for Birchcliff);
- estimates of Birchcliff's material contractual obligations and commitments and decommissioning obligations;
- statements relating to the Corporation's 2021 NCIB (including: potential purchases under the 2021 NCIB; and the cancellation of common shares under the 2021 NCIB); and
- statements regarding potential transactions.

Statements relating to reserves are forward-looking as they involve the implied assessment, based on certain estimates and assumptions, that the reserves exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

With respect to the forward-looking statements contained in this MD&A, assumptions have been made regarding, among other things: the degree to which the Corporation's results of operations and financial condition will be disrupted by circumstances attributable to the COVID-19 pandemic and the responses of governments and the public to the pandemic; prevailing and future commodity prices and differentials, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; the state of the economy, financial markets and the exploration, development and production business; the political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes, environmental, climate change and other laws; the Corporation's ability to comply with existing and future environmental, climate change and other laws; future cash flow, debt and dividend levels; future operating, transportation, marketing, G&A and other expenses; Birchcliff's ability to access capital and obtain financing on acceptable terms; the timing and amount of capital expenditures and the sources of funding for capital expenditures and other activities; the sufficiency

of budgeted capital expenditures to carry out planned operations; the successful and timely implementation of capital projects and the timing, location and extent of future drilling and other operations; results of operations; Birchcliff's ability to continue to develop its assets and obtain the anticipated benefits therefrom; the performance of existing and future wells; the success of new wells drilled; reserves volumes and Birchcliff's ability to replace and expand reserves through acquisition, development or exploration; the impact of competition on Birchcliff; the availability of, demand for and cost of labour, services and materials; the ability to obtain any necessary regulatory or other approvals in a timely manner; the satisfaction by third parties of their obligations to Birchcliff; the ability of Birchcliff to secure adequate processing and transportation for its products; Birchcliff's ability to successfully market natural gas and liquids; the availability of hedges on terms acceptable to Birchcliff; and Birchcliff's natural gas market exposure. In addition to the foregoing assumptions, Birchcliff has made the following assumptions with respect to certain forward-looking statements contained in this MD&A:

- Birchcliff's 2021 guidance assumes the following commodity prices and exchange rate: an average WTI price of US\$50.00/bbl; an average WTI-MSW differential of CDN\$6.00/bbl; an average AECO 5A price of CDN\$2.50/GJ; an average Dawn price of US\$2.75/MMBtu; an average NYMEX HH price of US\$2.80/MMBtu; and an exchange rate (CDN\$ to US\$1) of 1.27.
- With respect to estimates of 2021 capital expenditures and Birchcliff's spending plans for 2021, such estimates and plans assume that the 2021 Capital Program will be carried out as currently contemplated. Birchcliff makes acquisitions and dispositions in the ordinary course of business. Any acquisitions and dispositions completed could have an impact on Birchcliff's capital expenditures, production, adjusted funds flow, free funds flow, costs and total debt, which impact could be material. The amount and allocation of capital expenditures for exploration and development activities by area and the number and types of wells to be drilled and brought on production is dependent upon results achieved and is subject to review and modification by management on an ongoing basis throughout the year. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials.
- With respect to Birchcliff's estimates of adjusted and free funds flow for 2021, such estimates assume that: the 2021 Capital Program will be carried out as currently contemplated and the level of capital spending for 2021 set forth herein will be achieved; and the targets for production, production commodity mix, costs and natural gas market exposure and the commodity price and exchange rate assumptions set forth herein are met.
- With respect to Birchcliff's production guidance for 2021, such guidance assumes that: the 2021 Capital Program will be carried out as currently contemplated; no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that any transportation service curtailments or unplanned outages that occur will be short in duration or otherwise insignificant; the construction of new infrastructure meets timing and operational expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations. Birchcliff's production guidance may be affected by acquisition and disposition activity.
- With respect to statements regarding 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 estimates of reserves, the key assumption is the validity of the data used by Deloitte in its independent reserves evaluation.

Birchcliff's actual results, performance or achievements could differ materially from those anticipated in the forward-looking statements as a result of both known and unknown risks and uncertainties including, but not limited to: the risks posed by pandemics (including COVID-19) and epidemics and their impacts on supply and demand and commodity prices; actions taken by OPEC and other major producers of crude oil and the impact such actions may have on supply and demand and commodity prices; general economic, market and business conditions which will, among other things, impact the demand for and market prices of Birchcliff's products and Birchcliff's access to capital; volatility of oil and natural gas prices; fluctuations in currency exchange and interest rates; stock market volatility; loss of market demand; an inability to access sufficient capital from internal and external sources on terms acceptable to the Corporation; risks associated with Birchcliff's Credit Facilities, including a failure to comply with covenants under the agreement governing the Credit Facilities and the risk that the borrowing base limit may be redetermined; fluctuations in the costs of borrowing; operational risks and liabilities inherent in oil and natural gas operations; the occurrence of unexpected events such as fires, severe weather, explosions, blow-outs, equipment failures, transportation incidents and other similar events affecting Birchcliff or other parties whose operations or assets directly or indirectly affect Birchcliff; an inability to access sufficient water or other fluids needed for operations; uncertainty that development activities in connection with Birchcliff's assets will be economic; an inability to access or implement some or all of the technology necessary to efficiently and effectively operate its assets and achieve expected future results; uncertainties associated with estimating oil and natural gas reserves; the accuracy of estimates of reserves, future net revenue and production levels; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; horizontal drilling and completions techniques and the failure of drilling results to meet expectations for reserves or production; uncertainties related to Birchcliff's future potential drilling locations; delays or changes in plans with respect to exploration or

development projects or capital expenditures, including delays in the completion of gas plants and other facilities; the accuracy of cost estimates and variances in Birchcliff's actual costs and economic returns from those anticipated; incorrect assessments of the value of acquisitions and exploration and development programs; changes to the regulatory framework in the locations where the Corporation operates, including changes to tax laws, Crown royalty rates, environmental laws, climate change laws, carbon tax regimes, incentive programs and other regulations that affect the oil and natural gas industry and other actions by government authorities; an inability of the Corporation to comply with existing and future environmental, climate change and other laws; the cost of compliance with current and future environmental laws; political uncertainty and uncertainty associated with government policy changes; dependence on facilities, gathering lines and pipelines, some of which the Corporation does not control; uncertainties and risks associated with pipeline restrictions and outages to third-party infrastructure that could cause disruptions to production; the lack of available pipeline capacity and an inability to secure adequate and cost-effective processing and transportation for Birchcliff's products; an inability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements; shortages in equipment and skilled personnel; the absence or loss of key employees; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; management of Birchcliff's growth; environmental and climate change risks, claims and liabilities; potential litigation; default under or breach of agreements by counterparties and potential enforceability issues in contracts; claims by Indigenous peoples; the reassessment by taxing or regulatory authorities of the Corporation's prior transactions and filings; unforeseen title defects; third-party claims regarding the Corporation's right to use technology and equipment; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainties associated with counterparty credit risk; risks associated with Birchcliff's risk management activities and the risk that hedges on terms acceptable to Birchcliff may not be available; risks associated with the declaration and payment of future dividends, including the discretion of Birchcliff's Board of Directors to declare dividends and change the Corporation's dividend policy; the failure to obtain any required approvals in a timely manner or at all; the failure to complete or realize the anticipated benefits of acquisitions and dispositions and the risk of unforeseen difficulties in integrating acquired assets into Birchcliff's operations; negative public perception of the oil and natural gas industry and fossil fuels, including transportation and hydraulic fracturing involving fossil fuels; the Corporation's reliance on hydraulic fracturing; market competition, including from alternative energy sources; changing demand for petroleum products; the availability of insurance and the risk that certain losses may not be insured; breaches or failure of information systems and security (including risks associated with cyber-attacks); risks associated with the ownership of the Corporation's securities; the accuracy of the Corporation's accounting estimates and judgments; and potential requirements under applicable accounting standards for the impairment or reversal of estimated recoverable amounts of the Corporation's assets from time to time.

There is significant ongoing uncertainty surrounding COVID-19 and the extent and duration of the impacts that Birchcliff may experience. While the duration and full impact of the COVID-19 pandemic is not yet known, the effect of low commodity prices as a result of reduced demand associated with the impact of COVID-19 has had, and may continue to have, a negative impact on the Corporation's business, results of operations, financial condition and the environment in which it operates. The Corporation's current expectations, estimates, projections, beliefs and assumptions underlying the Corporation's forward-looking statements, including those that pertain to the 2021 Capital Program are subject to change in light of the COVID-19 pandemic, including potential future waves and actions taken by governments and businesses in response thereto.

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 this MD&A and Birchcliff's most recent Annual Information Form under the heading "Risk Factors" and in other reports filed with Canadian securities regulatory authorities.

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

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

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

Management's Report

To the Shareholders of Birchcliff Energy Ltd.

The annual financial statements of Birchcliff Energy Ltd. for the year ended December 31, 2020 were prepared by management within the acceptable limits of materiality and are in accordance with International Financial Reporting Standards. Management is responsible for ensuring that the financial and operating information presented in the annual report is consistent with that shown in the financial statements.

The financial statements have been prepared by management in accordance with the accounting policies as described in the notes to the financial statements. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. When necessary, such estimates are based on informed judgments made by management.

Management has designed and maintains an appropriate system of internal controls to provide reasonable assurance that all assets are safeguarded and financial records properly maintained to facilitate the preparation of financial statements for reporting purposes.

KPMG LLP, an independent firm of Chartered Professional Accountants appointed by shareholders, have conducted an examination of the corporate and accounting records in order to express their opinion on the financial statements.

The Audit Committee, consisting of non-management directors, has met with representatives of KPMG LLP and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

Respectfully,

(signed) "Bruno P. Geremia"

Bruno P. Geremia

Vice-President and Chief Financial Officer

(signed) "A. Jeffery Tonken"

A. Jeffery Tonken

President and Chief Executive Officer

Calgary, Canada

March 10, 2021

Independent Auditors' Report

To the Shareholders of Birchcliff Energy Ltd.

Opinion

We have audited the financial statements of Birchcliff Energy Ltd. (the "Company"), which comprise:

- the statements of financial position as at December 31, 2020 and December 31, 2019
- the statements of net loss and comprehensive loss for the years then ended
- the statements of changes in shareholders' equity for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and December 31, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Assessment of the recoverable amount of the cash generating unit

Description of the matter

We draw attention to notes 3 and 5 to the financial statements. The Company identified an indicator of impairment at March 31, 2020 and performed an impairment test to estimate the recoverable value of the cash generating unit ("CGU").

The estimated recoverable amount of the CGU involves significant estimates, including:

- The estimate of proved and probable oil and gas reserves and the related cash flows
- The discount rates.

The estimate of proved and probable oil and gas reserves and the related cash flows includes significant assumptions related to:

- Forecasted oil and gas commodity prices
- Forecasted production
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Company engaged independent third-party reserve evaluators to estimate the proved and probable oil and gas reserves and the related cash flows as at December 31, 2019, which were updated by internal reserve evaluators to March 31, 2020.

Why the matter is a key audit matter

We identified the assessment of the recoverable amount of the CGU as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable oil and gas reserves and the related cash flows and the discount rates.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

With respect to the estimate of proved and probable oil and gas reserves and the related cash flows as at March 31, 2020:

- We evaluated the competence, capabilities and objectivity of the internal reserve evaluators
- We compared forecasted oil and gas commodity prices to those published by independent third-party reserve evaluators
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to the corresponding amounts in the proved and probable oil and gas reserves and the related cash flows estimated by the independent third-party reserve evaluators as at December 31, 2019 and by comparing to 2020 actual results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

With respect to the estimate of proved and probable oil and gas reserves and the related cash flows as at December 31, 2019:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Company
- We compared forecasted oil and gas commodity prices to those published by independent third-party reserve evaluators
- We compared the 2019 actual production, operating costs, royalty costs and development costs of the Company to those estimates used in the prior year's estimate of proved oil and gas reserves and the related cash flows to assess the Company's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to 2019 historical results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the Company's discount rates by comparing the discount rates to market and other external data
- Assessing the reasonableness of the Company's estimate of the recoverable amount of the CGU by comparing the Company's estimate to market metrics and other external data.

Assessment of indicators of impairment for the cash generating unit

Description of the matter

We draw attention to notes 3 and 5 to the financial statements. The Company assesses at each reporting date if there is an indication that petroleum and natural gas properties and equipment within the cash generating unit (the "CGU") may be impaired.

Management judgement is required to assess when external and internal indicators of impairment exist with the estimate of proved and probable oil and gas reserves and the related cash flows being significant to the assessment.

The estimate of proved and probable oil and gas reserves and the related cash flows includes significant assumptions related to:

- Forecasted oil and gas commodity prices
- Forecasted production
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Company engaged independent third-party reserve evaluators to estimate the proved and probable oil and gas reserves and the related cash flows as at December 31, 2020.

Why the matter is a key audit matter

We identified the assessment of indicators of impairment for the CGU as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures with respect to the internal and external indicators of impairment including the estimate of proved and probable oil and gas reserves and the related cash flows.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We evaluated the Company's assessment of internal and external indicators of impairment by considering whether quantitative and qualitative information in the analysis was consistent with external market and industry data, the Company's press releases and certain minutes of the meetings of the Board of Directors and the estimate of proved and probable oil and gas reserves and the related cash flows.

With respect to the estimate of proved and probable oil and gas reserves and the related cash flows as at December 31, 2020:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Company
- We compared forecasted oil and gas commodity prices to those published by independent third-party reserve evaluators
- We compared the 2020 actual production, operating costs, royalty costs and development costs of the Company to those estimates used in the prior year's estimate of proved oil and gas reserves and the related cash flows to assess the Company's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to 2020 actual results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions
- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "2020 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and the information, other than financial statements and the auditors' report thereon, included in a document entitled "2020 Annual Report" as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is Timothy Arthur Richards.

(signed) "KPMG LLP"

Chartered Professional Accountants

Calgary, Canada

March 10, 2021

Birchcliff Energy Ltd.

Statements of Financial Position

(Expressed in thousands of Canadian dollars)

As at December 31,	2020	2019
ASSETS		
Current assets:		
Cash	60	70
Accounts receivable	64,691	64,747
Prepaid expenses and deposits	2,177	4,385
	66,928	69,202
Non-current assets:		
Investment in securities (Note 6)	1,805	4,405
Petroleum and natural gas properties and equipment (Note 5)	2,833,310	2,743,078
	2,835,115	2,747,483
Total assets	2,902,043	2,816,685
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	97,507	92,607
Financial instruments (Note 19)	23,479	26,949
Capital securities (Note 10)	39,930	49,845
	160,916	169,401
Non-current liabilities:		
Revolving term credit facilities (Note 7)	731,372	609,177
Decommissioning obligations (Note 8)	146,232	128,128
Deferred income taxes (Note 9)	65,192	81,672
Other liabilities (Note 15)	26,207	27,046
Financial instruments (Note 19)	144,557	105,640
	1,113,560	951,663
Total liabilities	1,274,476	1,121,064
SHAREHOLDERS' EQUITY		
Share capital (Note 10)		
Common shares	1,478,294	1,478,356
Preferred shares (<i>perpetual</i>)	41,434	41,434
Contributed surplus	89,868	84,884
Retained earnings	17,971	90,947
	1,627,567	1,695,621
Total shareholders' equity and liabilities	2,902,043	2,816,685

Commitments and Contingencies (Note 20)

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

Approved by the Board

(signed) "Dennis A. Dawson"

Dennis A. Dawson

Lead Independent Director

(signed) "A. Jeffery Tonken"

A. Jeffery Tonken

Director

Birchcliff Energy Ltd.

Statements of Net Loss and Comprehensive Loss

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

Years Ended December 31,	2020	2019
REVENUE		
Petroleum and natural gas revenue (Note 12)	528,505	613,559
Marketing revenue (Note 12)	13,687	20,131
Royalties	(18,204)	(27,452)
Realized gain (loss) on financial instruments (Note 19)	(59,665)	13,673
Unrealized loss on financial instruments (Note 19)	(35,446)	(192,765)
Other income	4,943	650
	433,820	427,796
EXPENSES		
Operating (Note 13)	82,357	87,903
Transportation	140,574	127,763
Marketing purchases (Note 12)	11,127	18,503
Administrative, net (Note 14)	27,044	31,093
Depletion and depreciation (Note 5)	212,404	213,565
Finance (Note 16)	30,111	30,118
Dividends on capital securities (Note 10)	3,467	3,500
Other (gains) and losses (Notes 5 & 6)	(2,026)	5,549
	505,058	517,994
Net loss before taxes	71,238	90,198
Income tax recovery (Note 9)	(13,417)	(34,806)
NET LOSS AND COMPREHENSIVE LOSS		57,821
Net loss per common share (Note 11)		
Basic	\$0.23	\$0.22
Diluted	\$0.23	\$0.22

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

Birchcliff Energy Ltd.

Statements of Changes in Shareholders' Equity

(Expressed in thousands of Canadian dollars)

	Share Capital				
	Common Shares	Preferred Shares	Contributed Surplus	Retained Earnings (Deficit)	Total
As at December 31, 2018	1,478,260	41,434	76,747	178,449	1,774,890
Dividends on common shares (Note 10)	-	-	-	(27,923)	(27,923)
Dividends on perpetual preferred shares (Note 10)	-	-	-	(4,187)	(4,187)
Exercise of stock options (Note 17)	96	-	(23)	-	73
Stock-based compensation (Notes 14 & 17)	-	-	8,160	-	8,160
Net loss and comprehensive loss	-	-	-	(55,392)	(55,392)
As at December 31, 2019	1,478,356	41,434	84,884	90,947	1,695,621
As at December 31, 2019	1,478,356	41,434	84,884	90,947	1,695,621
Dividends on common shares (Note 10)	-	-	-	(10,968)	(10,968)
Dividends on perpetual preferred shares (Note 10)	-	-	-	(4,187)	(4,187)
Exercise of stock options (Note 17)	18	-	(4)	-	14
Conversion of Series C Preferred Shares (Note 10)	530	-	-	-	530
Repurchase of common shares (Note 10)	(610)	-	-	-	(610)
Stock-based compensation (Notes 14 & 17)	-	-	4,988	-	4,988
Net loss and comprehensive loss	-	-	-	(57,821)	(57,821)
As at December 31, 2020	1,478,294	41,434	89,868	17,971	1,627,567

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

Birchcliff Energy Ltd.

Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

Years ended December 31,	2020	2019
Cash provided by (used in):		
OPERATING		
Net loss	57,821	55,392
Adjustments for items not affecting operating cash:		
Unrealized loss on financial instruments (Note 19)	35,446	192,765
Depletion and depreciation (Note 5)	212,404	213,565
Other compensation (Note 14)	2,429	4,278
Finance (Note 16)	30,111	30,118
Other (gains) and losses (Notes 5 & 6)	(2,026)	5,549
Income tax recovery (Note 9)	(13,417)	(34,806)
Interest paid (Note 16)	(26,067)	(25,073)
Dividends on capital securities (Note 10)	3,467	3,500
Decommissioning expenditures (Note 8)	(2,323)	(2,285)
Changes in non-cash working capital (Note 21)	5,977	(5,153)
	188,180	327,066
FINANCING		
Issue (repurchase) of common shares (Notes 10 &17)	(596)	73
Repurchase of capital securities (Note 10)	(9,141)	-
Lease payments (Note 15)	(2,292)	(2,172)
Financing fees on paid credit facilities	-	(990)
Dividends on common shares (Note 10)	(10,968)	(27,923)
Dividends on perpetual preferred shares (Note 10)	(4,187)	(4,187)
Dividends on capital securities (Note 10)	(3,467)	(3,500)
Net change in revolving term credit facilities (Note 7)	121,120	3,683
	90,469	(35,016)
INVESTING		
Exploration and development of petroleum and natural gas assets (Note 5)	(289,672)	(258,839)
Acquisition of petroleum and natural gas assets (Note 5)	-	(37,507)
Disposition of petroleum and natural gas assets (Note 5)	12,887	-
Changes in non-cash working capital (Note 21)	(1,874)	4,313
	(278,659)	(292,033)
Net change in cash	(10)	17
Cash, beginning of year	70	53
CASH, END OF YEAR	60	70

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

Birchcliff Energy Ltd.

Notes to the Financial Statements

For the Years Ended December 31, 2020 and 2019

(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 oil and gas reserves in Western Canada. The Corporation's financial year end is December 31. The address of the Corporation's registered office is Suite 1000, 600 – 3rd Avenue S.W., Calgary, Alberta, Canada T2P 0G5. Birchcliff's common shares, cumulative redeemable preferred shares, Series A (the "Series A Preferred Shares") and cumulative redeemable preferred shares, Series C (the "Series C Preferred Shares") are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbols "BIR", "BIR.PR.A" and "BIR.PR.C", respectively.

These financial statements were approved and authorized for issuance by the Board of Directors on March 10, 2021.

2. BASIS OF PREPARATION

These financial statements present Birchcliff's financial results of operations and financial position under International Financial Reporting Standards ("IFRS") as at and for the years ended December 31, 2020 and December 31, 2019. The financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Note 3.

Operating and transportation and other expenses in profit or loss are presented as a combination of function and nature in conformity with industry practices. Depletion and depreciation, finance, dividends on capital securities and other gains and losses in profit or loss are presented in a separate line by their nature, while net administrative expenses are presented on a functional basis. Significant expenses such as salaries and benefits and other compensation are presented by their nature in the notes to the financial statements.

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.

COVID-19 Estimation Uncertainty

On January 30, 2020, the World Health Organization declared the novel Coronavirus disease ("COVID-19") outbreak a public health emergency of international concern and, on March 11, 2020, declared it to be a pandemic. The outbreak of the COVID-19 pandemic has had a significant negative impact on global economic conditions in 2020. This has included a sharp decrease in crude oil demand which, combined with other macro-economic conditions, has resulted in significant volatility in oil and natural gas commodity prices, as well as economic uncertainty. The extent and duration of the impacts of COVID-19 on future demand for the commodities Birchcliff produces, on the Corporation's cash flow and access to capital, on the Corporation's suppliers and employees continues to remain uncertain.

Birchcliff has taken a number of proactive measures to ensure liquidity and financial flexibility in the current environment, including reducing its original capital budget and its common share dividend. The Corporation has also increased its monitoring of receivables due from petroleum and natural gas marketers and from joint asset partners to manage credit risk. Birchcliff historically has not experienced any significant collection issues with petroleum and natural gas marketers as a significant portion of these receivables are with creditworthy purchasers.

In response to the COVID-19 pandemic, Birchcliff has implemented a number of initiatives to protect the well-being of its employees and contractors. The Corporation has established a response team to coordinate and implement such initiatives and continues to closely monitor the recommendations of applicable government and health authorities. In addition, the Corporation has established remote working capabilities and procedures to ensure business continuity and the reliability of its operations in the event of future COVID-19 related restrictions or lockdowns.

The COVID-19 pandemic remains an evolving situation that has had, and may continue to have, a significant impact on Birchcliff's business, results of operations, financial condition and the environment in which it operates. Management cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption will impact the Corporation's go-forward

financial position, profit or loss and cash flows. The potential direct and indirect impacts of the economic downturn have been considered in management's estimates and assumptions at December 31, 2020 and have been reflected in the Corporation's results.

Birchcliff determined there were no impairment indicators present at December 31, 2020. Current and forward commodity prices for oil and natural gas have improved and market capitalization have increased since March 31, 2020, when impairment indicators were last identified.

Capital Management

During this period of uncertainty, Birchcliff remains committed to preserving its strong balance sheet and financial liquidity. At December 31, 2020, the Corporation has \$263.2 million in unused credit capacity available under its extendible revolving credit facilities (the "**Credit Facilities**"). In connection with the semi-annual review of the borrowing base limit under the Credit Facilities which was last completed by the Corporation's syndicate of lenders in December 2020, the borrowing base limit was confirmed at \$1.0 billion. The Credit Facilities do not mature until May 11, 2022 and do not contain any financial maintenance covenants. Birchcliff was eligible under the Federal Government's Canada Emergency Wage Subsidy Program and has received \$3.8 million in assistance in the year ended December 31, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue Recognition

Revenue from the sale of crude oil, natural gas and natural gas liquids ("NGLs") is measured based on the consideration specified in contracts with marketers and other third parties. Birchcliff recognizes revenue when it transfers control of the product to the contract customer. In making this evaluation, management considers if Birchcliff has the ability to direct the use of, and obtain substantially all of the remaining benefits from the delivery of the product.

Birchcliff evaluates its arrangements with marketers and other third parties to determine if the Corporation acts as the principal or as an agent. In making this evaluation, the Corporation considers if it obtains control of the product delivered or services provided, which is indicated by the Corporation having the primary responsibility for the delivery of the product or rendering of the service, having the ability to establish prices or having inventory risk. If the Corporation acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Corporation from the transaction

(b) Cash and Cash Equivalents

Cash may consist of cash on hand, deposits and term investments held with a financial institution, with an original maturity of three months or less. Restricted cash is not considered part of cash and cash equivalents.

(c) Jointly Owned Assets

Certain activities of the Corporation are conducted jointly with others where the participants have a direct ownership interest in the related assets. Accordingly, the accounts of Birchcliff reflect only its working interest share of revenues, expenses and capital expenditures related to these jointly owned assets. The relationship with jointly owned asset partners have been referred to as jointly owned assets in the remainder of the financial statements as this is common terminology in the Canadian oil and natural gas industry.

(d) Exploration and Evaluation Assets

Costs incurred prior to obtaining the right to explore a mineral resource are recognized as an expense in the period incurred.

Intangible exploration and evaluation expenditures are initially capitalized and may include mineral license acquisitions, geological and geophysical evaluations, technical studies, exploration drilling and testing and other directly attributable administrative costs. Tangible assets acquired which are consumed in developing an intangible exploration asset are recorded as part of the cost of the exploration asset. These costs are accumulated in cost centres by exploration area pending the determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a mineral resource in an exploration area is considered to be determinable when economic quantities of proved reserves are determined to exist. A review of each exploration project by area is carried out at each reporting date to ascertain whether such reserves have been discovered. Upon determination of commercial proved reserves, associated exploration costs are transferred from exploration and evaluation to developed and producing petroleum and natural gas asset category. Exploration and evaluation assets are reviewed for impairment prior to any such transfer. Assets classified as exploration and evaluation are not subject to depletion and depreciation until they are reclassified to developed and producing petroleum and natural gas assets.

(e) Petroleum and Natural Gas Properties and Equipment

(i) Recognition and measurement

Developed and producing petroleum and natural gas assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses, if any. Such assets consists of the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Developed and producing petroleum and natural gas asset interests include mineral lease acquisitions, geological and geophysical costs, facility and production equipment and associated turnarounds, other directly attributable administrative costs and the initial estimate of the costs of dismantling and removing an asset and restoring the site on which it was located.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability are recognized as developed and producing petroleum and natural gas interests when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized developed and producing petroleum and natural gas interests generally represent costs incurred in developed proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on an area basis. The cost of day-to-day servicing of an item of petroleum and natural gas properties and equipment is expensed in profit or loss as incurred.

Petroleum and natural gas properties and equipment are de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal of an asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

(iii) Asset exchanges

For exchanges or parts of exchanges that involve only exploration and evaluation assets, the exchange is accounted for at carrying value. Exchanges of development and production assets are measured at fair value, unless the exchange transaction lacks commercial substance or the fair value of the assets given up or the assets received cannot be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more reliable. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gain or loss on the de-recognition of the asset given up is recognized in profit and loss.

(iv) Depletion and depreciation

The net carrying value of developed and producing petroleum and natural gas assets, net of estimated residual value, is depleted on an area basis using the unit of production method. This depletion calculation includes actual production in the period and total estimated proved and probable oil and gas reserves attributable to the assets being depreciated, taking into account total capitalized costs plus estimated future development costs necessary to bring those reserves into production. Relative volumes of reserves and production (before royalties) are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. These estimates are reviewed by the Corporation's independent reserves evaluator at least annually.

Capitalized plant turnaround costs are depreciated on a straight-line basis over the estimated time until the next turnaround is completed. Corporate assets, which include office furniture and equipment, software, computer equipment and leasehold improvements, are depreciated on a straight-line basis over the estimated useful lives of the assets, which are estimated to be four years.

When significant parts of property and equipment, including petroleum and natural gas interests, have different useful lives, they are accounted for as separate items (major components). Depreciation methods, useful lives and residual values for petroleum and natural gas properties and equipment are reviewed at each reporting date.

(f) Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive), as a result of a past event, if it is probable that the Corporation will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is significant).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third-party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are not recognized for future operating losses.

(g) Decommissioning Obligations

The Corporation's activities give rise to dismantling, restoration and site disturbance remediation activities. Costs related to abandonment activities are estimated by management in consultation with the Corporation's independent reserves evaluators based on risk-adjusted current costs which take into consideration current technology in accordance with existing legislation and industry practices.

Decommissioning obligations are measured at the present value of the best estimate of expenditures required to settle the future obligations at the reporting date. When the best estimate of the liability is initially measured, the estimated risk-adjusted cost, discounted using a pre-tax risk-free discount rate, is capitalized by increasing the carrying amount of the related petroleum and natural gas properties and equipment. The increase in the provision due to the passage of time, which is referred to as accretion, is recognized as a finance expense. Actual costs incurred upon settlement of the liability are charged against the obligation to the extent that the obligation was previously established. The carrying amount capitalized in petroleum and natural gas properties and equipment is depleted in accordance with the Corporation's depletion and depreciation policy. The Corporation reviews the obligation at each reporting date and revisions to the estimated timing of cash flows, discount rates and estimated costs result in an increase or decrease to the obligations and the related petroleum and natural gas properties and equipment. Any difference between the actual costs incurred upon settlement of the obligation and the recorded liability is recognized as a gain or loss in profit or loss.

(h) Share-Based Payments

Equity-settled share-based awards granted by the Corporation include stock options and performance warrants granted to officers and employees. The fair value determined at the grant date of an award is expensed on a graded basis over the vesting period of each respective tranche of an award with a corresponding increase to contributed surplus. In calculating the expense of share-based awards, the Corporation revises its estimate of the number of equity instruments expected to vest by applying an estimated forfeiture rate for each vesting tranche and subsequently revising this estimate throughout the vesting period, as necessary, with a final adjustment to reflect the actual number of awards that vest. Upon the exercise of share-based awards, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. In the event that vested share-based awards expire without being exercised, previously recognized compensation costs associated with such awards are not reversed. The expense related to share-based awards is included within administrative expenses in profit or loss.

The fair value of equity-settled share-based awards is measured using the Black-Scholes option-pricing model taking into account the terms and conditions upon which the awards were granted. Measurement inputs as at the grant date include: share price, exercise price, expected volatility (based on weighted average historical traded daily volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds) applicable to the term of the award.

A portion of share-based compensation expense directly attributable to the exploration and development of the Corporation's assets are capitalized.

(i) Finance Income and Expenses

Finance expenses include interest expense on borrowings, accretion of the discount on decommissioning, capital lease and post-employment benefit obligations, amortization of deferred charges and impairment losses (if any) recognized on financial assets. Interest and dividend income is recognized as it is earned and is presented as "other income" in profit and loss.

(j) Borrowing Costs

Borrowing costs incurred for the acquisition, construction or production of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Assets are considered to be qualifying assets when this period of time is substantial. The capitalization rate, used to determine the amount of borrowing costs to be capitalized, is the weighted average interest rate applicable to the Corporation's outstanding borrowings during the period. All other borrowing costs are charged to profit or loss using the effective interest method.

(k) Financial Instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments are comprised of cash, accounts receivable, deposits, investment in securities, accounts payable and accrued liabilities, revolving term credit facilities and capital securities. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured based on their classification. The Corporation has made the following classifications:

- Cash, accounts receivable, and deposits are classified as loans and receivables and are measured at amortized cost using the effective interest method. Typically, the fair value of these balances approximates their carrying value due to their short-term to maturity.
- Investment in securities have been categorized as fair value through profit and loss which requires the securities to be fair valued at the end of each reporting period with any gains or losses recognized in profit and loss. Distributions declared are recorded to profit or loss and presented as an operating activity on the statement of cash flow.
- Accounts payable and accrued liabilities and revolving term credit facilities are measured at amortized cost using the effective interest method. Due to the short-term nature of accounts payable and accrued liabilities, their carrying values approximate their fair values. The Corporation's revolving term credit facilities bear interest at a floating rate and accordingly the fair market value approximates the carrying value before the carrying value is reduced for any remaining unamortized costs. Any interest costs and financing fees associated with the Corporation's credit facilities have been deferred and netted against the amounts drawn, and are being amortized to profit or loss using the effective interest method over the applicable term.
- The proceeds from the issuance of Series C Preferred Shares, which are presented as "capital securities" on the statement of financial position, are measured at amortized cost. The incremental costs directly attributable to the issuance of Series C Preferred Shares are initially recognized as a reduction to capital securities and subsequently amortized to profit and loss, using the effective interest rate method, as a finance expense. Dividend distributions on capital securities are recorded as an expense directly to profit and loss and presented as a financing activity on the statements of cash flows.

(ii) Derivative financial instruments

Derivatives may be used by the Corporation to manage economic exposure to market risk relating to commodity prices, interest rates and foreign exchange. Birchcliff's policy is not to utilize derivative financial instruments for speculative purposes. The Corporation does not designate its financial derivative contracts as hedges, and as such does not apply hedge accounting. As a result, financial derivatives are classified at fair value through profit or loss and are recorded on the statements of financial position at fair value.

The fair value of risk management contracts is determined by discounting the difference between the contracted prices/rates and published forward price/rates as at the statement of financial position date. The fair value of options and costless collars, if any, is based on option models that use published information with respect to volatility, prices and interest rates.

The Corporation accounts for any forward physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items, in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statements of financial position. Settlements on physical commodity sales contracts are recognized in petroleum and natural gas revenue in profit and loss.

(iii) Share capital

Common shares and perpetual preferred shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a reduction in share capital, net of any tax effects.

(l) Impairment

(i) Impairment of financial assets

Impairment of financial assets is determined by measuring the assets' expected credit loss ("ECL"). Birchcliff's financial assets are not considered to have a significant financing component and a lifetime ECL is measured at the date of initial recognition of the financial asset. ECL allowances have not been recognized for cash and cash equivalents due to the virtual certainty associated with their collection. The ECL pertaining to accounts receivable is assessed at initial recognition and

this provision is re-assessed at each reporting date. ECLs are a probability-weighted estimate of all possible default events related to the financial asset (over the lifetime or within 12 months after the reporting period, as applicable) and are measured as the difference between the present value of the cash flows due to Birchcliff and the cash flows the Corporation expects to receive, including cash flows expected from collateral and other credit enhancements that are a part of contractual terms. In making an assessment as to whether financial assets are credit-impaired, the Corporation considers historically realized bad debts, evidence of a debtor's present financial condition and whether a debtor has breached certain contracts, the probability that a debtor will enter bankruptcy or other financial reorganization, changes in economic conditions that correlate to increased levels of default, the number of days a debtor is past due in making a contractual payment, and the term to maturity of the specified receivable. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized within general and administrative expense in profit and loss.

Based on contractual terms and conditions, the Corporation considers its financial assets to be in default when the counterparty fails to make contractual payments as required. Once the Corporation has pursued collection activities and it has been determined that the incremental cost of pursuing collection outweighs the benefits, Birchcliff derecognizes the gross carrying amount of the financial asset and the associated allowance from the statement of financial position.

(ii) Impairment of non-financial assets

The Corporation's petroleum and natural gas properties and equipment are grouped into Cash Generating Units ("CGUs") for the purpose of assessing 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.

CGUs are reviewed at each reporting date for internal and external indicators of impairment. Such indicators may include, but are not limited to, changes in the Corporation's business plan, deterioration in forecasted oil and gas commodity prices or a significant downward revision of the estimated recoverable amount from proved and probable oil and gas reserves and the related cash flows. If indicators of impairment exist, an impairment test is performed by comparing a CGU's carrying value to its estimated recoverable amount. A CGU's recoverable amount is the greater of its fair value less cost to sell and its current value in use. The estimated recoverable amount involves significant estimates including the estimate of proved and probable oil and gas reserves and the related cash flows and the discount rates. The estimate of proved and probable oil and gas reserves and the related cash flows is sensitive to the significant assumptions regarding forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, forecasted royalty costs and forecasted future development costs. Any excess of carrying value over recoverable amount is recognized as impairment loss in profit or loss.

In assessing the value in use, the estimated future cash flows from proved and probable oil and gas reserves are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. The forecasted oil and gas commodity prices used in the impairment test are based on period-end forecasted oil and gas commodity prices estimated by the Corporation's independent third-party reserves evaluators.

Where circumstances change such that an impairment no longer exists or is less than the amount previously recognized, the carrying amount of the CGU is increased to the revised estimate of its recoverable amount as long as the revised estimate does not exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the CGU in prior periods. A reversal of an impairment loss is recognized immediately through profit or loss.

Exploration and evaluation assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability of an exploration area, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to the respective CGUs.

(m) Income Taxes

Birchcliff is a corporation as defined under the *Income Tax Act (Canada)* and is subject to Canadian Federal and provincial taxes. Birchcliff is subject to provincial taxes in Alberta as the Corporation operates in this jurisdiction. The Corporation's income tax expenses include current and/or deferred tax. Income tax expense is recognized through profit or loss except to the extent that it relates to items recognized directly in equity, in which case the related income taxes are also recognized in equity.

Current tax is the expected tax payable on taxable income and Part VI.I dividend tax payable on taxable preferred shares for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is expected to be settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Birchcliff expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(n) Per Common Share

The Corporation calculates per common share amounts using net income available to Birchcliff's shareholders, reduced for perpetual preferred share dividends and divided by the weighted average number of common shares outstanding. Basic per share information is computed using the weighted average number of basic common shares outstanding during the period. Diluted per share information is calculated using the treasury stock method, which assumes that any proceeds from the exercise of "in-the-money" stock options and performance warrants, plus the unamortized stock-based compensation expense amounts, would be used to purchase common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of these calculations is anti-dilutive. The average market value of the Corporation's shares for the purpose of calculating the dilutive effect is based on average quoted market prices for the time that the stock options and performance warrants were outstanding during the period.

(o) Business Combinations

The purchase method of accounting is used to account for acquisitions of businesses and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. If the consideration given up is less than the fair value of the net assets received, the difference is recognized immediately in the income statement. If the consideration is greater than the fair value of the net assets received, the difference is recognized as goodwill on the statement of financial position. Acquisition costs incurred are expensed.

(p) Post-Employment Benefit Obligation

Birchcliff's post-employment benefits are defined benefit obligations under IFRS. The cost of the post-employment benefit obligation is determined using the projected unit credit method. The obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related liability. Post-employment benefit obligation is presented on the statements of financial position as other liabilities. Past service cost is the change in the present value of the obligation and can arise from the introduction, amendment or curtailment of a plan. Current service cost is the increase in the present value of the obligation resulting from the service provided by an employee in the current period. Current and past service costs are recognized as post-employment benefit expenses of the Corporation when incurred and presented in profit and loss as an administrative expense. The unwinding of the present value of the post-employment benefit obligation is recorded as accretion (interest) expense and is presented in profit and loss as a finance expense.

Remeasurements of the post-employment benefit obligation will result in gains and losses and will be included in other comprehensive income. Remeasurements result from increases or decreases in the present value of the obligation as a result of changes in assumptions including unexpectedly high or low rates of employee turnover, early retirement, change in expected future salaries and benefits and revision to the discount rate. Settlements will be recorded as a reduction to the obligation in the period incurred. Any difference between the actual costs incurred upon settlement of the obligation and the recorded liability is recognized as a gain or loss in profit or loss.

(q) Lease Obligation

When Birchcliff is a party to a lease arrangement as the lessee, a lease liability, herein referred to as a "lease obligation", and corresponding right-of-use asset, herein referred to as a "lease asset", for each identified lease is recognized under IFRS. The lease obligation is determined by discounting the remaining lease payments using the interest rate implicit in the lease, if available, or the Corporation's incremental borrowing rate. The lease obligation is reduced by actual cash lease payments made during the

period. Lease obligations are presented as other liabilities on the statements of financial position. The lease assets are included in petroleum and natural gas properties and equipment on the statements of financial position. Lease assets are depreciated over the remaining term of the lease and included in depletion and depreciation expense in profit and loss. The unwinding of the present value of the lease obligation is recorded as accretion (interest) and included in finance expense in profit and loss. Cash lease payments are classified as a financing activity and accretion expense classified as an operating activity in the statements of cash flows.

Remeasurements of the lease obligation will result in an adjustment to the right-of-use asset. Remeasurements result from increases or decreases in the present value of the obligation as a result of changes in assumptions including lease term, payment or discount rate.

(r) Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical judgments in applying accounting policies:

The following are the critical judgments that management has made in the process of applying the Corporation's accounting policies and that have the most significant effect on the amounts recognized in these financial statements:

(i) Identification of Cash-Generating Units

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

(ii) Identification of Impairment Indicators

IFRS requires Birchcliff to assess, at each reporting date, whether there are any internal or external indicators that its petroleum and natural gas properties and equipment within a CGU may be impaired. Birchcliff is required to consider information from both external sources (such as negative downturn in forecasted oil and gas commodity prices, significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in proved and probable oil and gas reserves and the related cash flows, significant adverse effect on the financial and operational performance of a CGU, evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgment.

(iii) Tax Uncertainties

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

(iv) Lease Obligation

IFRS requires Birchcliff to make certain judgements in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

Key sources of estimation uncertainty:

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

(i) Reserves

Reported recoverable quantities of proved and probable oil and gas reserves and the related cash flows requires estimation and are subject to assumptions regarding forecasted production profile, forecasted oil and gas commodity prices, forecasted operating costs, forecasted royalty costs and forecasted future development costs. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economical, geological and technical factors used to estimate proved

and probable oil and gas reserves may change from period to period. Changes in reported proved and probable oil and gas reserves can impact the carrying values of the Corporation's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The estimated recoverable quantities of proved and probable oil and gas reserves and the related cash flows from Birchcliff's petroleum and natural gas interests are evaluated by independent third-party reserves evaluators at least annually.

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

(ii) Share-Based Payments

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

(iii) Decommissioning Obligations

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

(iv) Post-Employment Benefit Obligation

The Corporation estimates the post-employment benefit obligation at the end of each reporting period. In most instances, the obligation occurs many years into the future. The Corporation uses estimates related to the initial measurement of the obligation for eligible employees including expected age of employee retirement, employee turnover, probability of early retirement, discount rate and inflation rate on salary and benefits. From time to time, these estimates may change causing the obligation recorded by the Corporation to change.

(v) Lease Obligation

Lease obligations are estimated using the rate implicit in the lease, unless this rate is not readily determinable, in which case a discount rate equal to the Corporation's incremental borrowing rate is used. This rate represents the rate that the Corporation would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

(vi) Impairment of Non-Financial Assets

For the purposes of determining the extent of any impairment or its reversal, estimates must be made regarding proved and probable oil and gas reserves and the related cash flows considering significant assumptions including forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, forecasted royalty costs and forecasted future development costs. These significant assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the discount rate estimate used to discount the cash flow estimates related to proved and probable oil and gas reserves. Changes in the aforementioned assumptions could affect the carrying amount of the Corporation's assets, and impairment charges and reversal will affect profit or loss.

(vii) Income Taxes

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

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

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

(s) Governments Grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. If a grant is received but reasonable assurance and compliance with conditions is not achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the grant relates to an expense item in nature, it is recognized as "other income" in profit or loss on a systematic basis in the period in which the costs are incurred.

4. CHANGES IN ACCOUNTING POLICIES

Accounting Pronouncements Adopted

Business Combinations

On January 1, 2020, Birchcliff adopted the amendment as issued on October 22, 2018 to IFRS 3: *Business Combinations* ("IFRS 3"). IFRS 3 sets out the principles in accounting for the acquisition of a business.

The amendments to this standard include a change in the definition of a business and the addition of an optional concentration test to determine if the acquisition is a business for any acquisition occurring on or after January 1, 2020. The amended definition of a business under IFRS 3 is that a business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. The three elements of a business are defined as follows:

- Input: any economic resource that creates outputs, or has the ability to contribute to the creation of outputs, when one or more processes are applied to it.
- Process: any system, standard, protocol, convention or rule that, when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs.
- Output: the result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income or generate other income from ordinary activities.

The optional concentration test permits a simplified assessment of whether an acquired set of activities and assets is in fact a business. An entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other event. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. The adoption had no impact.

5. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

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

(\$000s)	Exploration & Evaluation Assets ⁽⁵⁾	Developed & Producing Assets	Lease Assets	Corporate Assets	Total
Cost:					
As at December 31, 2018	112	3,549,526	-	17,737	3,567,375
Additions	209	253,060	19,931	2,480	275,680
Acquisitions ⁽¹⁾	-	47,503	-	-	47,503
As at December 31, 2019	321	3,850,089	19,931	20,217	3,890,558
Additions	33	315,200	-	1,713	316,946
Dispositions ⁽²⁾	-	(17,563)	-	-	(17,563)
As at December 31, 2020 ⁽³⁾	354	4,147,726	19,931	21,930	4,189,941
 <i>Accumulated depletion and depreciation:</i>					
As at December 31, 2018	-	(920,923)	-	(12,992)	(933,915)
Depletion and depreciation expense ⁽⁴⁾	-	(209,315)	(1,925)	(2,325)	(213,565)
As at December 31, 2019	-	(1,130,238)	(1,925)	(15,317)	(1,147,480)
Dispositions ⁽²⁾	-	3,253	-	-	3,253
Depletion and depreciation expense ⁽⁴⁾	-	(208,137)	(2,021)	(2,246)	(212,404)
As at December 31, 2020	-	(1,335,122)	(3,946)	(17,563)	(1,356,631)
 <i>Net book value:</i>					
As at December 31, 2019	321	2,719,851	18,006	4,900	2,743,078
As at December 31, 2020	354	2,812,604	15,985	4,367	2,833,310

(1) Birchcliff completed the acquisition of various Montney lands and assets on January 3, 2019 for total cash consideration of \$39.4 million and assumed decommissioning obligations totalling \$6.1 million (see Note 8).

(2) Birchcliff completed the disposition of various Gordondale lands and assets on December 22, 2020, with a net book value totaling \$14.3 million, relinquished \$5.9 million related to decommissioning obligations (see Note 8) and received cash consideration of \$12.7 million. Birchcliff recognized a gain on sale of \$4.2 million.

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

(4) Future development costs required to develop and produce proved and probable oil and gas reserves totalled \$4.4 billion at December 31, 2020 (December 31, 2019 – \$4.4 billion) and are included in the depletion expense calculation.

(5) 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 year. 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 2020 and 2019.

Impairment Assessment

In accordance with IFRS, an impairment test is performed if Birchcliff identifies an indicator of impairment at the end of the reporting period. At December 31, 2020, Birchcliff determined there were no impairment indicators present and therefore an impairment test was not required.

Birchcliff determined there were indicators of impairment at March 31, 2020 due to the decline in forecasted oil and gas commodity prices and reduction in market capitalization since its previously completed impairment assessment at December 31, 2019. An impairment is recognized if the carrying value of a Cash Generating Unit ("CGU") exceeds the estimated recoverable amount for that CGU. A CGU's estimated recoverable amount is the greater of its fair value less cost to sell and its current value in use. The estimated recoverable amount involves significant estimates including the estimate of proved and probable oil and gas reserves and the related cash flows and the discount rate. The estimate of proved and probable oil and gas reserves and the related cash flows is sensitive to the significant forecasted assumptions regarding oil and gas commodity prices, production, operating costs, royalty costs and future development costs.

At March 31, 2020, the Corporation used value in use derived from the estimate of proved and probable oil and gas reserves and the related cash flows estimated by the Corporation's independent third-party reserves evaluators at December 31, 2019, which were internally updated to forecasted period-end oil and gas commodity prices, future development costs and production. The estimated future cash flows are discounted at pre-tax rates between 8% and 17.5% depending on the risk profile of the reserves category. Birchcliff's P&NG properties and equipment were not impaired at March 31, 2020 and December 31, 2019.

The following forecasted oil and gas commodity prices and exchange rate were used in determining whether an impairment to the carrying value of the P&NG properties and equipment existed at March 31, 2020:

Year	WTI Oil (US\$/bbl)⁽¹⁾	AECO Natural Gas (CDN\$/mcf)⁽¹⁾	NYMEX Henry Hub Gas (US\$/mcf)⁽¹⁾	Dawn Gas (US\$/mcf)⁽¹⁾	Foreign Exchange Rate (CDN\$/US\$)⁽¹⁾
2020	30.00	1.78	2.08	1.93	0.71
2021	41.18	2.22	2.54	2.40	0.73
2022	49.88	2.42	2.79	2.65	0.75
2023	55.87	2.54	2.92	2.78	0.76
2024	57.98	2.61	2.99	2.85	0.76
2025	59.22	2.69	3.05	2.92	0.76
2026	60.39	2.75	3.11	2.98	0.76
2027	61.60	2.81	3.18	3.04	0.76
2028	62.84	2.86	3.24	3.10	0.76
2029	65.38	3.00	3.30	3.16	0.76
Thereafter	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	0.76

(1) The forecast commodity prices, inflation and exchange rates were determined using the average forecasts from Deloitte, McDaniel, GLJ Petroleum Consultants Ltd. and Sproule Associates Ltd. effective April 1, 2020.

Birchcliff and its independent third-party reserves evaluators also assess many other forecasted financial estimates regarding operating costs, royalty costs and future development costs along with several other non-financial assumptions that affect reserves volumes. Birchcliff has considered these assumptions for the impairment test at March 31, 2020, however, it should be noted that all estimates are subject to uncertainty. For the period ended March 31, 2020, a 1% increase in the assumed discount rate or a 5% decrease in the future cash flows would not have resulted in an impairment.

6. INVESTMENT IN SECURITIES

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

The Securities have limited voting rights, certain participation rights in the event of the liquidation, dissolution or wind-up of the Limited Partnership or the Trust, as the case may be, and, in the case of the Common A LP Units, no redemption rights. Holders of the Securities are entitled to, if, as and when declared, quarterly distributions for each three month period ending March 31, June 30, September 30 and December 31.

The Preferred Trust Units are redeemable on demand by Birchcliff. For each Preferred Trust Unit redeemed by Birchcliff, the redemption price will be equal to the redemption proceeds received by the Trust from the Limited Partnership with respect to a redemption by the Trust of a corresponding unit of the Limited Partnership that was acquired by the Trust with the proceeds the Trust received from the issuance of such Preferred Trust Unit. Payment of the redemption price by the Trust is limited to an aggregate maximum amount of \$10,000 in cash in respect of all redemptions per calendar month, unless the trustees of the Trust determine a greater amount. Any portion of the redemption price in excess of such cash amount (the "Balance") will be repaid through the Trust's issuance of redemption notes ("Redemption Note") and/or distribution, *in specie*, of Trust property. Redemption Notes shall be due and payable on or prior to the fifth anniversary of the date of issuance.

As at December 31, 2020, the Corporation determined the Securities had a fair value of \$1.8 million (December 31, 2019 - \$4.4 million). Birchcliff recorded a loss on investment of \$2.6 million during 2020 (2019 - \$5.6 million). Birchcliff did not receive any dividend distributions in respect to the Securities in 2020 (2019 - \$0.6 million).

7. REVOLVING TERM CREDIT FACILITIES

The components of the Corporation's Credit Facilities include:

As at December 31, (\$000s)	2020	2019
Syndicated credit facility	727,645	593,557
Working capital facility	4,958	17,926
Drawn revolving term credit facilities	732,603	611,483
Unamortized deferred financing fees	(1,231)	(2,306)
Revolving term credit facilities	731,372	609,177

At December 31, 2020, the aggregate principal amount of the Corporation's Credit Facilities was \$1.0 billion with maturity dates of May 11, 2022 which were comprised of: (i) an extendible revolving syndicated term credit facility (the "**Syndicated Credit Facility**") of \$900 million; and (ii) an extendible revolving working capital facility (the "**Working Capital Facility**") of \$100 million. Birchcliff has outstanding \$4.2 million in letters of credit at December 31, 2020. The letters of credit reduces the amount available under the Working Capital Facility from \$100 million to approximately \$95.8 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, other compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments, gains and losses on securities, depletion, depreciation and amortization and impairment charges.

The Credit Facilities are subject to semi-annual reviews of the borrowing base limit by Birchcliff's syndicate of lenders, which limit is directly impacted by the value of Birchcliff's oil and 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. Birchcliff's Credit Facilities include a provision giving the lenders the right to redetermine the borrowing base if the Corporation's liability management rating ("**LMR**") is less than 2.0. Birchcliff's LMR at December 31, 2020 was 18.0. 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. In December 2020, Birchcliff's syndicate of lenders completed its review and the borrowing base limit was confirmed at \$1.0 billion.

The maturity dates of the Credit Facilities are May 11, 2022. 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. During 2020, Birchcliff did not request an extension on the Credit Facilities.

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.

8. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning obligations result from its net ownership interests in petroleum and natural gas assets, including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted (inflated) amount of cash flow required to settle its decommissioning obligations is approximately \$221.3 million at December 31, 2020 (December 31, 2019 - \$226.7 million) and is expected to be incurred up until 2067. A reconciliation of the decommissioning obligations is set forth below:

As at December 31, (\$000s)	2020	2019
Balance, beginning	128,128	129,264
Obligations incurred	3,624	5,236
Obligations acquired ⁽¹⁾	258	6,096
Obligations divested ⁽²⁾	(5,867)	(51)
Changes in estimated future cash flows ⁽³⁾	20,512	(12,724)
Accretion	1,900	2,592
Decommissioning expenditures	(2,323)	(2,285)
Balance, ending⁽⁴⁾	146,232	128,128

(1) Includes decommissioning obligations from the acquisition of various Montney lands and assets in January 2019.

(2) Includes decommissioning obligations from the disposition of various Gordondale lands and assets in December 2020.

(3) Primarily relates to changes in the nominal risk-free rate, inflation rate, abandonment cost and abandonment date estimates of future obligations used to calculate the present value of the decommissioning obligation.

(4) Birchcliff applied a nominal risk-free rate of 1.26% and an inflation rate of 1.54% to calculate the present value of the decommissioning obligation at December 31, 2020 and a nominal risk-free rate of 1.74% and an inflation rate of 1.33% at December 31, 2019.

9. INCOME TAXES

Included in income tax expense is a deferred income tax recovery of \$16.5 million in 2020 (2019 – \$37.9 million). Part VI.I dividend tax totalling \$3.1 million in 2020 (2019 – \$3.1 million) resulted from preferred share dividends paid during the year. For the purposes of determining the current and deferred income taxes, the Corporation applied a combined Canadian federal and provincial income tax rate of 24% in 2020 (2019 – 26.5%).

On May 28, 2019, the Government of Alberta reduced the general provincial corporate income tax rate to 8% (from 12%) over a four year period. Starting July 1, 2019, the general corporate tax rate decreased to 11% (from 12%), with further 1% rate reductions expected every year on January 1 until the general corporate tax rate is 8% on January 1, 2022. On July 1, 2020, the Alberta Government, as part of Alberta's Recovery Plan, accelerated the planned reduction of the corporate tax rate to 8% resulting in a combined Canadian federal and provincial income tax rate of 23%.

The components of income tax recovery are set forth below:

Years ended December 31, (\$000s)	2020	2019
Net loss before taxes	71,238	90,198
Computed expected income tax recovery	(17,097)	(23,916)
Decrease (increase) in taxes resulting from:		
Non-deductible stock-based compensation	872	1,393
Non-deductible dividends on capital securities	867	928
Non-deductible expenses and other	580	470
Change in tax rate	763	(14,969)
Change in deferred tax assets not recognized	598	1,288
Balance, ending	(13,417)	(34,806)

The components of net deferred income tax liabilities are set forth below:

As at December 31, (\$000s)	2020	2019
<i>Deferred income tax liabilities:</i>		
P&NG properties and equipment and E&E assets	372,456	303,058
Deferred financing fees	283	530
Capital securities	-	35
<i>Deferred income tax assets:</i>		
Decommissioning obligations	(33,633)	(29,470)
Other obligations	(3,917)	(4,267)
Risk management contracts	(38,648)	(30,496)
Bank financing and share issue costs	(960)	(2,672)
Non-capital losses and other	(230,389)	(155,046)
Deferred income tax liabilities	65,192	81,672

A continuity of the net deferred income tax liabilities is set forth below:

(\$000s)	Balance Jan. 1, 2020	Recognized in Profit or Loss	Balance Dec. 31, 2020
P&NG and E&E assets	303,058	69,398	372,456
Deferred financing fees	530	(247)	283
Decommissioning obligations	(29,470)	(4,163)	(33,633)
Other obligations	(4,267)	350	(3,917)
Risk management contracts	(30,496)	(8,152)	(38,648)
Bank financing and share issue costs	(2,672)	1,712	(960)
Non-capital losses and other	(155,011)	(75,378)	(230,389)
	81,672	(16,480)	65,192
(\$000s)	Balance Jan. 1, 2019	Recognized in Profit or Loss	Balance Dec. 31, 2019
P&NG and E&E assets	322,526	(19,468)	303,058
Deferred financing fees	684	(154)	530
Decommissioning obligations	(34,901)	5,431	(29,470)
Other Obligations	-	(4,267)	(4,267)
Risk management contracts	16,247	(46,743)	(30,496)
Bank financing and share issue costs	(3,599)	927	(2,672)
Non-capital losses and other	(181,404)	26,393	(155,011)
	119,553	(37,881)	81,672

As at December 31, 2020, the Corporation had approximately \$2.2 billion (2019 – \$2.1 billion) in tax pools available for deduction against future taxable income. Included in this tax basis are estimated non-capital loss carry forwards of approximately \$968.8 million that expire between 2029 and 2040 and unrecognized temporary differences on marketable securities of \$7.9 million. Discretionary tax deductions, including Canadian Development Expenses, Canadian Oil and Gas Property Expense and Capital Cost Allowance, were maximized in the respective tax years in order to reduce Birchcliff's accounting profits into a loss position for tax purposes.

10. CAPITAL STOCK

Share Capital

(a) Authorized:

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

Unlimited number of preferred shares, with no par value.

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

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

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

As at December 31, (000s)	2020	2019
<i>Common shares:</i>		
Outstanding at beginning of year	265,935	265,911
Conversion of Series C Preferred Shares ⁽¹⁾	465	-
Repurchase of common shares ⁽²⁾	(465)	-
Exercise of stock options	8	24
Outstanding at end of year⁽¹⁾	265,943	265,935
<i>Series A Preferred Shares (perpetual):</i>		
Outstanding at beginning of year	2,000	2,000
Outstanding at end of year⁽³⁾	2,000	2,000

(1) See "Capital Securities" below.

(2) On November 18, 2020, Birchcliff announced that the TSX had accepted the Corporation's notice of intention to make a normal course issuer bid (the "2021 NCIB"). Pursuant to the 2021 NCIB, Birchcliff may purchase up to 13,296,936 of its outstanding common shares over the period from November 25, 2020 to November 24, 2021. Under the 2021 NCIB, common shares may be purchased in open market transactions on the TSX and/or alternative Canadian trading systems at the prevailing market price at the time of such transaction. Pursuant to the rules of the TSX, the total number of common shares that Birchcliff is permitted to purchase is subject to a daily purchase limit of 286,843 common shares. However, Birchcliff may make one block purchase per calendar week which exceeds the daily purchase restriction. All common shares purchased under the 2021 NCIB will be cancelled. The 2021 NCIB effectively renewed the Corporation's previous normal course issuer bid under which the Corporation was permitted to purchase up to 13,296,761 common shares over the period from November 25, 2019 to November 24, 2020 (the "2020 NCIB"). During 2020, Birchcliff purchased 464,562 common shares under the 2020 NCIB for an aggregate value of approximately \$610,000, before fees. All such common shares were cancelled.

(3) The holders of the Series A Preferred Shares are entitled to receive, as and when declared by the Board of Directors of Birchcliff, fixed cumulative preferential cash dividends, payable quarterly. The dividend rate of the Series A Preferred Shares reset on September 30, 2017 and will reset every five years thereafter at a rate equal to the then current five-year Government of Canada bond yield plus 6.83%. The dividend rate for the five-year period from and including September 30, 2017 to, but excluding September 30, 2022, is 8.374% (\$2,0935 per annum or \$0.523375 quarterly). The Series A Preferred Shares are redeemable by the Corporation on September 30, 2022 and on September 30 in every fifth year thereafter at a redemption price of \$25.00 per share, plus all accrued and unpaid dividends. In addition, the holders of the Series A Preferred Shares have the right, subject to certain conditions, to convert their Series A Preferred Shares into cumulative redeemable floating rate Series B Preferred Shares on September 30, 2022 and on September 30 in every fifth year thereafter. The holders of the Series B Preferred Shares will be entitled to receive quarterly floating rate cumulative preferential cash dividends, if declared by Birchcliff's Board of Directors, at a rate equal to the sum of the then current 90 day Government of Canada Treasury Bill rate plus 6.83%.

Capital Securities

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

As at December 31, (000s)	2020		2019	
	Number	Amount (\$)	Number	Amount (\$)
Outstanding at beginning of year	2,000	49,845	2,000	49,535
Conversion of Series C Preferred Shares ⁽¹⁾⁽²⁾	(37)	(929)	-	-
Cash redemption of Series C Preferred Shares ⁽¹⁾	(366)	(9,141)	-	-
Amortization	-	155	-	310
Outstanding at end of year⁽³⁾	1,597	39,930	2,000	49,845

(1) Subject to the provisions of the *Business Corporations Act* (Alberta) and the provisions governing the Series C Preferred Shares (the "Provisions"), a holder of Series C Preferred Shares may, at its option, upon giving notice in accordance with the Provisions (the "Notice of Redemption"), redeem for cash, all or any number of Series C Preferred Shares held by such holder on the last day of a financial quarter at \$25.00 per share, together with all accrued and unpaid dividends to but excluding the date fixed for redemption.

Upon receipt of the Notice of Redemption, the Corporation may, at its option (subject, if required, to stock exchange approval), upon not less than 20 days' prior written notice, elect to convert all such Series C Preferred Shares into common shares. The number of common shares into which each Series C Preferred Share may be so converted will be determined by dividing the amount of \$25.00, together with all accrued and unpaid dividends to but excluding the date fixed for conversion, by the greater of \$2.00 and 95% of the "Current Market Price" (as determined in accordance with the Provisions) of the common shares.

(2) The Corporation elected to convert 37,165 Series C Preferred Shares into common shares and accordingly issued a total of 464,562 common shares. This increased share capital by approximately \$530,000 using an implied value of \$1.14 per common share based on the closing price of the common shares on the TSX at the date conversion.

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

Dividends

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

Years ended December 31,	2020	2019
<i>Common shares:</i>		
Dividend distribution (\$000s)	10,968	27,923
Per common share (\$)	0.0413	0.1050
<i>Series A Preferred Shares:</i>		
Series A dividend distribution (\$000s)	4,187	4,187
Per Series A Preferred Share (\$)	2.0935	2.0935
<i>Series C Preferred Shares:</i>		
Series C dividend distribution (\$000s)	3,467	3,500
Per Series C Preferred Share (\$)	1.7500	1.7500

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

11. LOSS PER SHARE

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

Years ended December 31, (\$000s, except for per share information)	2020	2019
Net loss	57,821	55,392
Dividends on Series A Preferred Shares	4,187	4,187
Net loss to common shareholders	62,008	59,579
<i>Weighted average common shares (000s):</i>		
Weighted average basic common shares outstanding	265,936	265,930
Weighted average diluted common shares outstanding ⁽¹⁾	265,936	265,930
<i>Net loss per common share:</i>		
Basic	\$0.23	\$0.22
Diluted	\$0.23	\$0.22

(1) As the Corporation reported a loss in 2020 and 2019, the basic and diluted weighted average shares outstanding are the same for the periods and all stock options and performance warrants were considered anti-dilutive.

12. REVENUE

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

Years ended December 31, (\$000s)	2020	2019
Light oil sales	68,498	118,182
Condensate ⁽¹⁾	102,397	127,816
NGLs sales ⁽²⁾	38,123	36,488
Natural gas sales	319,473	330,973
P&NG sales ⁽³⁾⁽⁴⁾	528,491	613,459
Royalty income	14	100
P&NG revenue	528,505	613,559
Marketing revenue ⁽⁵⁾	13,687	20,131
Revenue from contracts with customers	542,192	633,690

(1) Includes pentanes plus.

(2) Includes ethane, propane and butane.

(3) Excludes the effects of financial instruments but includes the effects of any physical delivery contracts outstanding during the year.

(4) Included in accounts receivable at December 31, 2020 was \$58.1 million (December 31, 2019 - \$60.0 million) in P&NG sales to be received from its marketers in respect of December 2020 production, which was subsequently received in January 2021.

(5) Marketing revenue represents the sale of commodities purchased from third parties less applicable fees. Birchcliff enters into certain marketing purchase and sales arrangements to reduce its take-or-pay fractionation fees associated with third-party commitments. For the year ended December 31, 2020, the Corporation had marketing purchases from third parties of \$11.1 million (December 31, 2019 - \$18.5 million).

13. OPERATING EXPENSE

The Corporation's operating expenses include all costs with respect to day-to-day production operations. The components of operating expenses are set forth below:

Years ended December 31, (\$000s)	2020	2019
Field operating costs	87,120	91,679
Recoveries	(4,763)	(3,776)
Operating expense	82,357	87,903

14. ADMINISTRATIVE EXPENSE

The components of administrative expenses are set forth below:

Years ended December 31, (\$000s)	2020	2019
<i>Cash:</i>		
Salaries and benefits ⁽¹⁾	33,404	32,335
Other ⁽²⁾	11,633	14,057
General and administrative, gross	45,037	46,392
Operating overhead recoveries	(133)	(156)
Capitalized overhead ⁽³⁾	(20,289)	(19,421)
General and administrative, net	24,615	26,815
<i>Non-cash:</i>		
Other compensation ⁽⁴⁾	5,527	8,684
Capitalized compensation ⁽³⁾	(3,098)	(4,406)
Other compensation, net	2,429	4,278
Administrative expense, net	27,044	31,093

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

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

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

(4) Includes stock-based compensation expense of \$5.0 million and post-employment benefit expense of \$0.5 million in 2020 (2019 - \$8.2 million and \$0.5 million, respectively) (Notes 15 & 17).

Gross compensation for the Corporation's executive officers and directors are comprised of the following:

Years ended December 31, (\$000s)	2020	2019
Salaries and benefits ⁽¹⁾	7,267	6,710
Stock-based compensation ⁽²⁾	1,027	3,171
Post-employment benefit ⁽³⁾	539	524
Executive officer's and director's compensation	8,833	10,405

(1) Includes salaries, benefits and other incentives paid to officers of the Corporation and directors' fees and benefits paid to the directors of the Corporation.

(2) Represents stock-based compensation expense associated with options and performance warrants granted to the executive officers.

(3) Represents service costs associated with post-employment benefits of the Corporation's executive officers (Note 15).

15. OTHER LIABILITIES

Post-Employment Benefit Obligation

The Corporation has established a post-employment benefit plan for eligible participants, which provides for post-employment benefits based upon the age at retirement and their period of service with Birchcliff (the "Plan"). The Plan is not funded and as such no plan assets exist. The post-employment benefit obligation arising from the Plan is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related liability. The expenses associated with the Plan are comprised of current and past service costs and the interest (accretion) on the unwinding of the present value of the post-employment benefit obligation.

The Corporation estimates the total undiscounted (inflated) amount of cash flow required to settle its obligations for all participants meeting the eligibility requirements under the post-employment benefit plan is approximately \$14.8 million at December 31, 2020 (December 31, 2019 – \$14.8 million).

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

As at December 31, (\$000s)	2020	2019
Balance, beginning	8,494	7,844
Obligations incurred ⁽¹⁾	539	524
Accretion	144	126
Balance, ending⁽²⁾	9,177	8,494
Current portion	-	-
Long-term portion	9,177	8,494

(1) Represents the service costs associated with post-employment benefits.

(2) Birchcliff applied a discount rate of 2.8% and an inflation rate of 3.0% to calculate the present value of the post-employment benefit obligation at December 31, 2020 and December 31, 2019.

Lease Obligation

The Corporation's total undiscounted (inflated) amount of cash flow required to settle its lease obligations is approximately \$20.0 million at December 31, 2020 (December 31, 2019 – \$22.3 million) and is expected to be substantially settled by 2029. A reconciliation of the discounted lease obligation is set forth below:

As at December 31, (\$000s)	2020	2019
Balance, beginning	18,552	17,311
Obligations incurred	-	2,620
Lease payments	(2,292)	(2,172)
Accretion	770	793
Balance, ending⁽¹⁾	17,030	18,552
Current portion	1,596	1,522
Long-term portion	15,434	17,030

(1) Birchcliff applied a discount rate of 4.7% to calculate the discounted value of the lease obligation.

16. FINANCE EXPENSE

The components of finance expenses are set forth below:

Years ended December 31, (\$000s)	2020	2019
Cash:		
Interest on credit facilities	26,067	25,073
Non-cash:		
Accretion ⁽¹⁾	2,815	3,517
Amortization of deferred financing fees	1,229	1,528
Finance expense	30,111	30,118

(1) Includes accretion on decommissioning obligations, lease obligations and post-employment benefits.

17. SHARE-BASED PAYMENT

Stock Option

At December 31, 2020, the Corporation's stock option plan (the "Option Plan") permitted the grant of options in respect of a maximum of 26,594,273 (December 31, 2019 – 26,593,523) common shares. At December 31, 2020, there remained available for issuance options in respect of 460,072 (December 31, 2019 – 3,110,155) common shares. For the stock options exercised during 2020, the weighted average common share trading price on the TSX was \$1.50 (2019 – \$2.69) per common share.

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

	2020	2019
	Number	Price (\$) ⁽¹⁾
Outstanding, beginning	23,483,368	4.28
Granted ⁽²⁾	5,403,200	1.79
Exercised	(7,500)	(1.91)
Forfeited	(194,067)	(2.92)
Expired	(2,550,800)	(6.52)
Outstanding, ending	26,134,201	3.56
		4.28

(1) Calculated on a weighted average basis.

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

The weighted average fair value per option granted during 2020 was \$0.78 (2019 – \$0.93). In determining the stock-based compensation expense for options issued during 2020, the Corporation applied a weighted average estimated forfeiture rate of 9% (2019 – 10%).

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

Years ended December 31,	2020	2019
Risk-free interest rate	0.4%	1.7%
Expected life (years)	4.2	4.1
Expected volatility	61.1%	50.8%
Dividend yield	1.2%	3.7%

A summary of the stock options outstanding and exercisable under the Option Plan at December 31, 2020 is set forth below:

Grant Price (\$)		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$)	Quantity	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$)
0.78	3.00	10,582,200	4.44	2.05	1,748,785	3.92	2.32
3.01	6.00	11,416,001	2.14	3.41	6,881,057	1.69	3.40
6.01	9.43	4,136,000	1.11	7.81	4,136,000	1.11	7.81
		26,134,201	2.91	3.56	12,765,842	1.81	4.68

Performance Warrants

On January 18, 2005, Birchcliff issued 4,049,665 performance warrants as part of its initial restructuring to become a public entity. There are 2,939,732 performance warrants outstanding and exercisable at December 31, 2020 (December 31, 2019 – 2,939,732) with an expiry date of January 31, 2025. Each performance warrant is exercisable at a price of \$3.00 to purchase one common share of Birchcliff.

18. CAPITAL MANAGEMENT

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations, to maintain a capital structure that allows Birchcliff to finance its business strategy using primarily internally-generated cash flow and its available debt capacity and to optimize the use of its capital to provide an appropriate investment return to its shareholders. Except for the common share dividend reduction, there were no further changes in the Corporation's approach to capital management during 2020 and 2019.

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

As at December 31, (\$000s)	2020	2019
<i>Maximum borrowing base limit⁽¹⁾:</i>		
Revolving term credit facilities	1,000,000	1,000,000
<i>Principal amount utilized:</i>		
Drawn revolving term credit facilities	(732,603)	(611,483)
Outstanding letters of credit ⁽²⁾	(4,185)	(4,185)
	(736,788)	(615,668)
Unused credit	263,212	384,332

(1) The Credit Facilities are subject to a semi-annual review of the borrowing base limit, which is directly impacted by the value of Birchcliff's oil and gas reserves. In connection with the semi-annual review of the borrowing base limit under the Credit Facilities, which was completed by the Corporation's syndicate of lenders in December 2020, the borrowing base limit was confirmed at \$1.0 billion.

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

The capital structure of the Corporation is as follows:

As at December 31, (\$000s)	2020	2019	% Change
Shareholders' equity ⁽¹⁾	1,627,567	1,695,621	
Capital securities	39,930	49,845	
Shareholders' equity & capital securities	1,667,497	1,745,466	(4%)
Shareholders' equity & capital securities as a % of total capital ⁽²⁾	69%	73%	
Working capital deficit ⁽³⁾	30,579	23,405	
Drawn revolving term credit facilities	732,603	611,483	
Drawn debt	763,182	634,888	20%
Drawn debt as a % of total capital	31%	27%	
Total capital	2,430,679	2,380,354	2%

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

(2) Of the 69%, approximately 94% relates to common capital stock and 6% relates to preferred capital stock.

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

19. 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.

Credit Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial asset fails to meet its contractual obligation, and arises principally from Birchcliff's receivables from its oil and natural gas marketers. Cash is comprised of bank balances. Historically, the Corporation has not carried short-term investments. Should this change in the future, counterparties will be selected based on credit ratings, management will monitor all investments to ensure a stable return and complex investment vehicles with higher risk will be avoided. The Corporation's exposure to cash credit risk at the statement of financial position date is low.

The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers. The following table illustrates the Corporation's maximum exposure for accounts receivable:

As at December 31, (\$000s)	2020	2019
Marketers ⁽¹⁾	58,075	59,963
Jointly owned assets	5,363	3,488
Other	1,253	1,296
Accounts receivable	64,691	64,747

(1) At December 31, 2020, approximately 29% was due from one marketer (2019 – 28%, one marketer). During 2020, the Corporation received 29%, 13% and 16% of its revenue, respectively, from three marketers (2019 – 29%, 13% and 15% of its revenue, respectively, from three marketers).

Typically, Birchcliff's maximum credit exposure from its marketers is revenue from its commodity sales. Receivables from marketers are normally collected on the 25th day of the month following production. Birchcliff mitigates the credit risk associated with these receivables by establishing marketing relationships with credit worthy purchasers, obtaining guarantees from their ultimate parent companies and obtaining letters of credit, if and as appropriate. The Corporation historically has not experienced any material collection issues with its marketers.

Birchcliff's accounts receivables are aged as follows:

As at December 31, (\$000s)	2020	2019
Current (less than 30 days)	58,057	58,676
30 to 60 days	3,477	3,208
61 to 90 days	2,392	1,926
Over 90 days	765	937
Accounts receivable	64,691	64,747

At December 31, 2020, approximately \$0.8 million or 1.2% (2019 – \$0.9 million or 1.4%) of Birchcliff's total accounts receivable are aged over 90 days. The majority of these accounts are due from various partners of jointly owned assets. Birchcliff attempts to mitigate the credit risk of receivables from jointly owned assets by obtaining pre-approval of significant capital expenditures. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with partners of jointly owned assets as disagreements occasionally arise that increases the potential for non-collection. The Corporation does not typically obtain collateral from partners of jointly owned assets; however, the Corporation does have the ability to withhold production or proceeds from the eventual sale of jointly owned assets in the event of non-payment. Birchcliff determined that the ultimate collection of accounts receivable were not in doubt and therefore no allowance to profit or loss was recorded in 2020 and 2019.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations associated with financial liabilities that are settled by cash as they become due. Birchcliff's approach to managing liquidity is to ensure, as much as possible, that it will have sufficient liquidity to meet its short-term and long-term financial obligations when due, under both normal and unusual conditions without incurring unacceptable losses or risking harm to the Corporation's reputation. Birchcliff actively manages its liquidity using cash and debt management programs. Strategies include monitoring forecast and actual cash flows from operating, financing, and investing activities and managing available credit and working capital under its Credit Facilities.

All of the Corporation's contractual financial liabilities can be settled in cash. Typically, the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations. To achieve this objective, the Corporation prepares annual capital expenditure budgets, which are approved by the Board of Directors and are regularly reviewed and updated as considered necessary. Petroleum and natural gas production is monitored daily and is used to provide monthly cash flow estimates. Further, the Corporation utilizes authorizations for expenditures on both operated and non-operated projects to manage capital expenditure. The Corporation also attempts to match its payment cycle with collection of petroleum and natural gas revenue on the 25th of each month. Should commodity prices deteriorate materially, Birchcliff may adjust its capital spending accordingly to ensure that it is able to service its short-term financial obligations.

To facilitate the capital expenditure program, the Corporation has an aggregate \$1.0 billion reserve-based bank credit facilities at the end of 2020 (2019 – \$1.0 billion) which are reviewed semi-annually by its lenders. The principal amount drawn under the Corporation's total credit facilities including letters of credit at December 31, 2020 was \$736.8 million (2019 – \$615.7 million) and \$263.2 million in unused credit was available at the end of 2020 (2019 – \$384.3 million) to fund future obligations.

The following table details the undiscounted cash flows of the Corporation's significant contractual financial liabilities at December 31, 2020 in the period they are due:

(\$000s)	2021	2022	2023-2025	Thereafter
Accounts payable and accrued liabilities	97,507	-	-	-
Drawn revolving credit facilities	-	732,603	-	-
Capital securities	39,930	-	-	-
Lease payments	3,008	3,174	7,795	6,061
Financial liabilities	140,445	735,777	7,795	6,061

Market Risk

Market risk is the risk that changes in market conditions, such as commodity prices, exchange rates and interest rates, will affect the Corporation's net income or the value of its financial instruments, if any. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. These risks are consistent with prior years. All risk management transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can materially impact cash flows and the Corporation's borrowing base limit. Lower commodity prices can also reduce the Corporation's ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by Canadian ("CDN") and United States ("US") demand, but also by world events that dictate the levels of supply and demand.

Financial Derivative Contracts

At December 31, 2020, Birchcliff had certain financial derivative contracts outstanding in order to manage commodity price risk. These instruments are not used for trading or speculative purposes. Birchcliff has not designated its financial instruments as effective accounting hedges, even though the Corporation considers all commodity contracts to be effective economic hedges. As a result, all such financial instruments are recorded on the statements of financial position at fair value, with the changes in fair value being recognized as an unrealized gain or loss in profit or loss and realized upon settlement.

At December 31, 2020, Birchcliff had the following financial derivative contracts in place in order to manage commodity price risk:

Product	Type of Contract	Notional Quantity	Remaining Term ⁽¹⁾	Contract Price	Liability (\$000s)
Natural gas	AECO 7A basis swap ⁽²⁾	30,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2023	NYMEX HH less US\$1.298/MMBtu	22,891
Natural gas	AECO 7A basis swap ⁽²⁾	10,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2023	NYMEX HH less US\$1.320/MMBtu	7,910
Natural gas	AECO 7A basis swap ⁽²⁾	30,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2023	NYMEX HH less US\$1.330/MMBtu	24,315
Natural gas	AECO 7A basis swap ⁽²⁾	15,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2024	NYMEX HH less US\$1.185/MMBtu	12,055
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2024	NYMEX HH less US\$1.200/MMBtu	4,130
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2024	NYMEX HH less US\$1.200/MMBtu	4,176
Natural gas	AECO 7A basis swap ⁽²⁾	12,500 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US\$1.108/MMBtu	10,638
Natural gas	AECO 7A basis swap ⁽²⁾	10,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US\$1.115/MMBtu	8,840
Natural gas	AECO 7A basis swap ⁽²⁾	10,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US\$1.050/MMBtu	7,255
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US\$1.178/MMBtu	5,099
Natural gas	AECO 7A basis swap ⁽²⁾	10,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US\$1.175/MMBtu	10,056
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US\$1.190/MMBtu	5,286
Natural gas	AECO 7A basis swap ⁽²⁾	30,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US\$1.114/MMBtu	11,143
Natural gas	AECO 7A basis swap ⁽²⁾	35,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US\$1.081/MMBtu	11,458
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US\$1.013/MMBtu	1,369
Natural gas	AECO 7A basis swap ⁽²⁾	20,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US\$1.005/MMBtu	3,119
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US\$0.990/MMBtu	707
					Fair value 150,447

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

(2) Birchcliff sold AECO basis swap.

At December 31, 2020 if the future AECO/NYMEX basis changed by US\$0.10/MMBtu, with all other variables held constant, after-tax net loss in 2020 would have changed by approximately \$24.7 million.

There were no financial derivative contracts entered into subsequent to December 31, 2020.

Physical Delivery Contracts

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

At December 31, 2020 the Corporation had the following physical delivery contract in place:

Product	Type of Contract	Quantity	Remaining Term	Contract Price
Natural gas	AECO 7A basis swap ⁽¹⁾	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2023	NYMEX HH less US\$1.205/MMBtu

(1) Birchcliff sold AECO basis swap.

There were no physical delivery contracts entered into subsequent to December 31, 2020.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation's Credit Facilities are exposed to interest rate risk. The remainder of Birchcliff's financial assets and liabilities are not directly exposed to interest rate risk.

At December 31, 2020, Birchcliff had the following financial derivative contracts in place in order to manage interest rate risk:

Type of Contract	Index	Remaining Term ⁽¹⁾	Notional Amount (\$million)	Fixed Rate (%)	Fair Value Liability (\$000s)
Interest rate swap	One-month banker's acceptance – CDOR ⁽²⁾	Jan. 1, 2021 – Mar. 1, 2024	350	2.215	17,589

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

(2) Canadian Dollar Offered Rate ("CDOR").

At December 31, 2020 if the one-month banker's acceptance CDOR index changed by 0.10%, with all other variables held constant, after-tax net loss in 2020 would have changed by approximately \$0.9 million.

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

Years ended December 31, (\$000s)	2020	2019
Realized gain (loss) on derivatives	(59,665)	13,673
Unrealized loss on derivatives	(35,446)	(192,765)

The fair value liability of the Corporation's financial derivative contracts at December 31, 2020 was \$168.0 million (2019 – \$132.6 million).

Foreign Currency Risk

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The exchange rate effect cannot be quantified but generally an increase in the value of the CDN dollar as compared to the US dollar will reduce the CDN dollar prices received by Birchcliff for its petroleum and natural gas sales. The Corporation had no long-term forward exchange rate contracts in place as at or during the year ended December 31, 2020.

Fair Value of Financial Instruments

Birchcliff's financial instruments include cash, accounts receivable, deposits, investment in securities, accounts payable and accrued liabilities, financial derivative contracts, outstanding revolving term credit facilities and capital securities. Substantially all of Birchcliff's financial instruments are transacted in active markets. Financial instruments carried at fair value are assessed using the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The carrying value and fair value of the Corporation's financial assets and liabilities at December 31, 2020 are set forth below:

(\$000s)	Carrying Value	Fair Value
<i>Loans and receivables:</i>		
Cash	60	60
Accounts receivable	64,691	64,691
Deposits	1,629	1,629
Investment in securities ⁽¹⁾	1,805	1,805
<i>Other liabilities:</i>		
Accounts payable and accrued liabilities	97,507	97,507
Capital Securities	39,930	39,131
Drawn revolving term credit facilities	732,603	732,603
Financial derivatives ⁽²⁾	168,036	168,036

(1) Investment in securities are fair valued based on level 3.

(2) Financial derivative contracts are fair valued based on level 2.

20. COMMITMENTS AND CONTINGENCIES

The Corporation enters into contracts and commitments in the normal course of operations. The following table lists Birchcliff's commitments at December 31, 2020:

(\$000s)	2021	2022	2023 - 2025	Thereafter
Operating commitments ⁽¹⁾	1,996	1,996	5,989	4,159
Firm transportation and fractionation ⁽²⁾	136,813	130,858	307,912	183,269
Natural gas processing ⁽³⁾	17,155	17,155	51,512	120,179
Commitments	155,964	150,009	365,413	307,607

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

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

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

The Corporation may be involved in litigation and disputes arising in the normal course of operations. Management is of the opinion that any potential litigation will not have a material adverse impact on the Corporation's financial position or results of operations at December 31, 2020.

21. SUPPLEMENTARY CASH FLOW INFORMATION

Years ended December 31, (\$000s)	2020	2019
Provided by (used in):		
Accounts receivable	56	(12,806)
Prepaid expenses and deposits	2,209	(999)
Accounts payable and accrued liabilities	4,913	16,040
Dividend tax	(3,075)	(3,075)
	4,103	(840)
Provided by (used in):		
Operating	5,977	(5,153)
Investing	(1,874)	4,313
	4,103	(840)

Glossary

DEFINITIONS

In this Annual Report, the terms set forth below have the following meanings:

"AER"	means the Alberta Energy Regulator.
"Birchcliff", the "Corporation", "its", "our", "us" or "we"	means Birchcliff Energy Ltd.
"CSA Staff Notice 51-324"	means CSA Staff Notice 51-324 – <i>Revised Glossary to NI 51-101 Standards of Disclosure for Oil and Gas Activities</i> .
"DCCET"	means drilling, casing, completion, equipping and tie-in.
"ESG"	means environmental, social and governance.
"GAAP"	means generally accepted accounting principles for Canadian public companies which are currently International Financial Reporting Standards as issued by the International Accounting Standards Board.
"GHG"	means greenhouse gas.
"Gordondale Gas Plant"	means the deep-cut sour gas processing facility in Gordondale which is owned and operated by AltaGas Ltd.
"Montney/Doig Resource Play"	means Birchcliff's Montney and Doig formations resource play located northwest of Grande Prairie, Alberta.
"OPEC"	means the Organization of the Petroleum Exporting Countries.
"TIER" and "TIER Regulation"	means the <i>Technology Innovation and Emissions Reduction Regulation (Alberta)</i> .
"TSX"	means the Toronto Stock Exchange.

ABBREVIATIONS

2P	proved plus probable
AECO	benchmark price for natural gas determined at the AECO 'C' hub in southeast Alberta
bbl	barrel
bbls/d	barrels per day
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day
condensate	pentanes plus (C5+)
F&D	finding and development
FD&A	finding, development and acquisition
FDC	future development costs
G&A	general and administrative
GJ	gigajoule
HH	Henry Hub
km	kilometre
m	metre
Mbbls	thousand barrels
Mboe	thousand barrels of oil equivalent
McF	thousand cubic feet
McF/d	thousand cubic feet per day
MM\$	millions of dollars
MMboe	million barrels of oil equivalent
MMBtu	million British thermal units
MMcf	million cubic feet
MMcf/d	million cubic feet per day
MSW	price for mixed sweet crude oil at Edmonton, Alberta
NGLs	natural gas liquids
NYMEX	New York Mercantile Exchange
PDP	proved developed producing
TP	total proved
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma, for crude oil of standard grade
000s	thousands
\$000s	thousands of dollars

CONVENTIONS

Certain terms used herein are defined in NI 51-101, CSA Staff Notice 51-324 or the COGE Handbook and, unless the context otherwise requires, shall have the same meanings in this Annual Report as in NI 51-101, CSA Staff Notice 51-324 or the COGE Handbook, as the case may be.

Unless otherwise indicated, all information contained herein is given at or for the year ended December 31, 2020. Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars and all references to "\$", "CDN\$" or "dollars" are to Canadian dollars and all references to "US\$" are to United States dollars. Except where otherwise indicated, all financial information contained in this Annual Report has been presented in accordance with GAAP. Words importing the singular number only include the plural, and vice versa, and words importing any gender include all genders.

Non-GAAP Measures

This Annual Report uses the terms "adjusted funds flow", "adjusted funds flow per basic common share", "free funds flow", "transportation and other expense", "operating netback", "adjusted funds flow netback" 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.

"Adjusted funds flow" denotes cash flow from operating activities before the effects of decommissioning expenditures and changes in non-cash operating working capital and "adjusted funds flow per basic common share" denotes adjusted funds flow divided by the basic weighted average number of common shares outstanding for the period. "Free funds flow" denotes adjusted funds flow less F&D capital expenditures. "Transportation and other expense" denotes transportation expense plus marketing purchases minus marketing revenue on a per boe basis. "Operating netback" denotes petroleum and natural gas revenue less royalty expense, less operating expense and less transportation and other expense. "Adjusted funds flow netback" denotes petroleum and natural gas revenue less royalty expense, less operating expense, less transportation and other expense, less net G&A expense, less interest expense, less any realized losses (plus realized gains) on financial instruments and plus any other cash income sources. Netbacks are calculated on a per unit basis, unless otherwise indicated. "Total debt" is calculated as the amount outstanding under the Corporation's extendible revolving credit facilities plus adjusted working capital deficit, which is calculated as current assets minus current liabilities excluding the effects of any current portion of financial instruments and capital securities. For additional information regarding these non-GAAP measures, including reconciliations to the most directly comparable GAAP measure where applicable, see "Non-GAAP Measures" in the MD&A.

Presentation of Oil and Gas Reserves

Deloitte prepared the 2019 Deloitte Reserves Report, the 2019 Consolidated Reserves Report and the 2020 Deloitte Reserves Report. McDaniel prepared the 2019 McDaniel Reserves Report. In addition, Deloitte and/or McDaniel prepared reserves evaluations in respect of Birchcliff's oil and natural gas properties effective December 31, 2011 to December 31, 2018. Such evaluations were prepared in accordance with the standards contained in NI 51-101 and the COGE Handbook that were in effect at the relevant time. Reserves estimates stated herein are extracted from the relevant evaluation.

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and NGLs reserves and the future net revenue attributed to such reserves. The reserves and associated future net revenue information set forth in this Annual Report are estimates only. In general, estimates of economically recoverable oil, natural gas and NGLs reserves and the future net revenue therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserves recovery, commodity prices, the timing and amount of capital expenditures, marketability of oil, natural gas and NGLs, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For these reasons, estimates of the economically recoverable oil, natural gas and NGLs reserves attributable to any particular group of properties, the classification of such reserves based on risk of recovery and estimates of future net revenue associated with reserves prepared by different engineers, or by the same engineer at different times, may vary. Birchcliff's actual production, revenue, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

It should not be assumed that the undiscounted or discounted net present value of future net revenue attributable to the Corporation's reserves estimated by the Corporation's independent qualified reserves evaluator represent the fair market value of those reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. Actual oil, natural gas and NGLs reserves may be greater than or less than the estimates provided herein and variances could be material. With respect to the disclosure of reserves contained herein relating to portions of Birchcliff's properties, the estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

In this Annual Report, unless otherwise stated all references to "reserves" are to Birchcliff's gross company reserves (Birchcliff's working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of Birchcliff).

The information set forth in this Annual Report relating to the reserves, future net revenue and FDC constitutes forward-looking statements and is subject to certain risks and uncertainties. See "Advisories – Forward-Looking Statements".

Advisories

BOE CONVERSIONS

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

MMBTU PRICING CONVERSIONS

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

OIL AND GAS METRICS

This Annual Report contains metrics commonly used in the oil and natural gas industry, including netbacks, recycle ratio, reserves replacement, F&D costs and FD&A costs, which have been determined by Birchcliff as set out below. These oil and gas metrics do not have any standardized meanings or standard methods of calculation and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. As such, they should not be used to make comparisons. Management uses these oil and gas metrics for its own performance measurements and to provide shareholders with measures to compare Birchcliff's performance over time; however, such measures are not reliable indicators of Birchcliff's future performance, which may not compare to Birchcliff's performance in previous periods, and therefore should not be unduly relied upon.

- Recycle ratios are calculated by dividing the average operating netback per boe or adjusted funds flow netback per boe, as the case may be, by F&D costs and FD&A costs, as the case may be. Recycle ratios may be used as a measure of a company's profitability.
- Reserves replacement is calculated by dividing proved plus probable reserves additions before production by total annual production in the applicable period. Reserves replacement may be used as a measure of a company's sustainability and its ability to replace its proved plus probable reserves.
- With respect to F&D and FD&A costs:
 - F&D costs for proved developed producing reserves, proved reserves or proved plus probable reserves, as the case may be, are calculated by taking the sum of: (i) exploration and development costs (F&D capital expenditures) incurred in the period; and (ii) where appropriate, the change during the period in FDC for the reserves category; divided by the additions to the reserves category before production during the period. F&D costs exclude the effects of acquisitions and dispositions. FD&A costs are calculated in the same manner as F&D costs but include the effects of acquisitions and dispositions.

- In calculating the amounts of F&D and FD&A costs for a year, the changes during the year in estimated reserves and estimated FDC are based upon the evaluations of Birchcliff's reserves prepared by its independent qualified reserves evaluators, effective December 31 of such year.
- The aggregate of the exploration and development costs incurred in the most recent financial year and any change during that year in estimated FDC generally will not reflect total F&D costs related to reserves additions for that year.
- F&D and FD&A costs may be used as a measure of a company's efficiency with respect to finding and developing its reserves.
- For information regarding netbacks, see "Non-GAAP Measures".

DRILLING LOCATIONS

This Annual Report discloses potential net future horizontal drilling locations, specifically: (i) in Pouce Coupe and Gordondale, 769 potential net future horizontal drilling locations to which proved plus probable reserves have been attributed by Deloitte, and approximately 3,065 unbooked potential net future horizontal drilling locations; and (ii) in Elmworth, approximately 3,300 unbooked potential net future horizontal drilling locations.

Proved plus probable locations consist of proposed drilling locations identified in the 2020 Deloitte Reserves Report that have proved and/or probable reserves, as applicable, attributed to them. Unbooked locations are internal estimates based on Birchcliff's prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal technical analysis review. Unbooked locations have been identified by management as an estimate of Birchcliff's multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves information. Unbooked locations do not have proved or probable reserves attributed to them in the 2020 Deloitte Reserves Report.

Birchcliff's ability to drill and develop these locations and the drilling locations on which Birchcliff actually drills wells depends on a number of uncertainties and factors, including, but not limited to, the availability of capital, equipment and personnel, oil and natural gas prices, costs, inclement weather, seasonal restrictions, drilling results, additional geological, geophysical and reservoir information that is obtained, production rate recovery, gathering system and transportation constraints, the net price received for commodities produced, regulatory approvals and regulatory changes. As a result of these uncertainties, there can be no assurance that the potential future drilling locations that Birchcliff has identified will ever be drilled and, if drilled, that such locations will result in additional oil, NGLs or natural gas production and, in the case of unbooked locations, additional reserves. As such, Birchcliff's actual drilling activities may differ materially from those presently identified, which could adversely affect Birchcliff's business. While certain of the unbooked drilling locations have been de-risked by drilling existing wells in relatively close proximity to such unbooked drilling locations, some of the other unbooked drilling locations are farther away from existing wells, where management has less information about the characteristics of the reservoir and there is therefore more uncertainty whether wells will be drilled in such locations and, if drilled, there is more uncertainty that such wells will result in additional proved or probable reserves, resources or production.

PRODUCTION

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

CAPITAL EXPENDITURES

Unless otherwise stated, references in this Annual Report to: (i) "F&D capital" denotes capital for land, seismic, workovers, drilling and completions and well equipment and facilities; and (ii) "total capital expenditures" denotes F&D capital plus acquisitions, less any dispositions, plus administrative assets.

FORWARD-LOOKING STATEMENTS

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

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

In particular, this Annual Report contains forward-looking statements 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: that the Pouce Coupe Gas Plant is the cornerstone of the Corporation's strategy to develop its Montney/Doig Resource Play, to control and expand its production in the play and to further reduce its operating costs per boe; that Birchcliff has the ability to grow when commodity prices warrant doing so, while also having the ability to maintain production in a low commodity price environment; that the Corporation's operatorship, land position and infrastructure ownership gives it a competitive advantage in its areas of operation and supports its low-cost structure, which helps Birchcliff to maximize returns to shareholders; that Birchcliff's control of and/or long-term access to infrastructure in the Peace River Arch helps it to control its costs and expand its production when market conditions recover; and that Birchcliff is focused on the Montney/Doig Resource Play);
- the performance and other characteristics of Birchcliff's oil and natural gas properties and expected results from its assets (including statements regarding the potential or prospectivity of Birchcliff's properties) (including: that the Corporation's Montney/Doig Resource Play provides it with an extensive inventory of repeatable, low-cost drilling opportunities targeting natural gas, light oil, condensate and NGLs; and that the results from Birchcliff's 14-well pad demonstrate the extension of the Gordondale light oil pool into the northeastern area of Pouce Coupe, which provides the Corporation with significantly more potential condensate/light oil drilling opportunities);
- the information set forth under the heading "*Message to Shareholders*" as it relates to Birchcliff's outlook and guidance (including: Birchcliff's expectation that it will generate approximately \$360 million of adjusted funds flow with F&D capital expenditures of between \$210 million and \$230 million, resulting in free funds flow of \$130 million to \$150 million in 2021; that Birchcliff is focused on strengthening its balance sheet and free funds flow in 2021 will be used primarily for debt reduction; and that Birchcliff must return value to shareholders and that in order to do this, it must first drive its debt down in order to confidently move forward with sustainable shareholder returns; and that commodity prices look very strong for 2021);
- the benefits of the infrastructure build-out projects completed in 2020 (including: that these projects are expected to last for decades; that they allow Birchcliff to increase its cash flow and make its operations safer; and that the Inlet-Liquids Handling Facility gives Birchcliff the ability to increase its condensate production to 10,000 bbls/d in Pouce Coupe);
- the information set forth under the heading "*2021 Key Objectives*";
- statements regarding Birchcliff's 2021 capital program and exploration, production and development activities and the timing thereof;
- the benefits of multi-interval cube style development and other technologies;
- estimates of potential future drilling locations and opportunities;
- the Corporation's five year plan (including the Corporation is targeting drilling 158 wells in the next five years to achieve average annual production of 91,000 boe/d in 2025);

- the information set forth under the heading “*Environmental, Social & Governance*” regarding the treatment under and the impact of existing and proposed governmental regulatory regimes and laws, including climate change and GHG legislation (including: the Corporation’s expectation that it will receive emission performance credits for 2019 in the first half of 2021; that at the present time, the operational and financial impacts of complying with applicable GHG legislation are not material to the Corporation; the Corporation’s expectation that current and future climate change regulations will have the effect of increasing the Corporation’s operating expenses and in the long-term, potentially reducing the demand for oil and natural gas resulting in a decrease in the Corporation’s profitability and a reduction in the value of its assets; and estimates of decommissioning obligations); and
- the information set forth under the heading “*2020 Year-End Reserves*” and elsewhere in this Annual Report relating to the Corporation’s reserves (including: estimates of reserves; estimates of the net present values of future net revenue associated with Birchcliff’s reserves; FDC; and that Birchcliff anticipates that as a result of improved commodity prices, the Corporation’s netbacks and recycle ratios will improve in 2021 to be more comparable to its historical recycle ratios prior to COVID-19).

In addition, forward-looking statements in this Annual Report include the forward-looking statements identified in the MD&A under the heading “*Advisories – Forward-Looking Statements*”. Information relating to reserves is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves exist in the quantities predicted or estimated and that the reserves can profitably be produced in the future. See “*Presentation of Oil and Gas Reserves*”.

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

- Birchcliff’s 2021 guidance and five year plan assume the following commodity prices and exchange rate: an average WTI price of US\$50.00/bbl; an average WTI-MSW differential of CDN\$6.00/bbl; an average AECO 5A price of CDN\$2.50/GJ; an average Dawn price of US\$2.75/MMBtu; an average NYMEX HH price of US\$2.80/MMBtu; and an exchange rate (CDN\$ to US\$1) of 1.27.
- With respect to estimates of 2021 capital expenditures, such estimates assume that the 2021 capital program will be carried out as currently contemplated. Birchcliff makes acquisitions and dispositions in the ordinary course of business. Any acquisitions and dispositions completed could have an impact on Birchcliff’s capital expenditures, production, adjusted funds flow, free funds flow, costs and total debt, which impact could be material. The amount and allocation of capital expenditures for exploration and development activities by area and the number and types of wells to be drilled and brought on production is dependent upon results achieved and is subject to review and modification by management on an ongoing basis throughout the year. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials.
- With respect to Birchcliff’s estimates of adjusted funds flow and free funds flow for 2021, such estimates assume: that the 2021 capital program will be carried out as currently contemplated and the level of capital spending for 2021 set forth herein will be achieved; and that the Corporation’s targets for production, production commodity mix, costs and natural gas market exposure and the commodity price and exchange rate assumptions are met.

- Birchcliff's targeted annual average production of 91,000 boe/d for 2025 in its five year plan assumes: that the Corporation's capital 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. Birchcliff's production guidance may be affected by acquisition and disposition activity.
- With respect to statements of future wells to be drilled and brought on production and estimates of potential future drilling locations and opportunities, such statements and estimates assume: the continuing validity of the geological and other technical interpretations performed by Birchcliff's technical staff, which indicate that commercially economic volumes can be recovered from Birchcliff's lands as a result of drilling future wells; and that commodity prices and general economic conditions will warrant proceeding with the drilling of such wells.
- With respect to statements regarding the future potential and prospectivity of properties and assets, such statements assume: the continuing validity of the geological and other technical interpretations performed by Birchcliff's technical staff with respect to such properties; and that, over the long-term, commodity prices and general economic conditions will warrant proceeding with the exploration and development of such properties.
- With respect to estimates of reserves volumes and the net present values of future net revenue associated with Birchcliff's reserves, the key assumption is the validity of the data used by Deloitte in the 2020 Deloitte Reserves Report.

Birchcliff's actual results, performance or achievements could differ materially from those anticipated in the forward-looking statements as a result of both known and unknown risks and uncertainties including, but not limited to: the risks posed by pandemics (including COVID-19) and epidemics and their impacts on supply and demand and commodity prices; actions taken by OPEC and other major producers of crude oil and the impact such actions may have on supply and demand and commodity prices; general economic, market and business conditions which will, among other things, impact the demand for and market prices of Birchcliff's products and Birchcliff's access to capital; volatility of oil and natural gas prices; fluctuations in currency exchange and interest rates; stock market volatility; loss of market demand; an inability to access sufficient capital from internal and external sources on terms acceptable to the Corporation; risks associated with Birchcliff's credit facilities, including a failure to comply with covenants under the agreement governing the credit facilities and the risk that the borrowing base limit may be redetermined; fluctuations in the costs of borrowing; operational risks and liabilities inherent in oil and natural gas operations; the occurrence of unexpected events such as fires, severe weather, explosions, blow-outs, equipment failures, transportation incidents and other similar events affecting Birchcliff or other parties whose operations or assets directly or indirectly affect Birchcliff; an inability to access sufficient water or other fluids needed for operations; uncertainty that development activities in connection with Birchcliff's assets will be economic; an inability to access or implement some or all of the technology necessary to efficiently and effectively operate its assets and achieve expected future results; uncertainties associated with estimating oil and natural gas reserves; the accuracy of estimates of reserves, future net revenue and production levels; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; horizontal drilling and completions techniques and the failure of drilling results to meet expectations for reserves or production; uncertainties related to Birchcliff's future potential drilling locations; delays or changes in plans with respect to exploration or development projects or capital expenditures, including delays in the completion of gas plants and other facilities; the accuracy of cost estimates and variances in Birchcliff's actual costs and economic returns from those anticipated; incorrect assessments of the value of acquisitions and exploration and development programs; changes to the regulatory framework in the locations where the Corporation operates, including changes to tax laws, Crown royalty rates, environmental laws, climate change laws, carbon tax regimes, incentive programs and other regulations that affect the oil and natural gas industry and other actions by government authorities; an inability of the Corporation to comply with existing and future environmental, climate change and other laws; the cost of compliance with current and future environmental laws; political uncertainty and uncertainty associated with government policy changes; dependence on facilities, gathering lines and pipelines, some of which the Corporation does not control; uncertainties and risks associated with pipeline restrictions and outages to third-party infrastructure that could cause disruptions to production; the lack of available pipeline capacity and an inability to secure adequate and cost-effective processing and transportation for Birchcliff's products; an inability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements; shortages in equipment and skilled personnel; the absence or loss of key employees; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; management of Birchcliff's growth; environmental and climate change risks, claims and liabilities; potential litigation; default under or breach of agreements by counterparties and potential enforceability issues in contracts; claims by Indigenous peoples; the reassessment by taxing or regulatory authorities of the Corporation's prior transactions and filings; unforeseen title defects; third-party claims regarding the Corporation's right to use technology and equipment; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainties associated with counterparty credit risk; risks associated with Birchcliff's risk management activities and the risk that hedges on terms acceptable to Birchcliff may not be available; risks associated with the declaration and payment of future dividends, including the discretion of Birchcliff's Board of Directors to declare

dividends and change the Corporation's dividend policy; the failure to obtain any required approvals in a timely manner or at all; the failure to complete or realize the anticipated benefits of acquisitions and dispositions and the risk of unforeseen difficulties in integrating acquired assets into Birchcliff's operations; negative public perception of the oil and natural gas industry and fossil fuels, including transportation and hydraulic fracturing involving fossil fuels; the Corporation's reliance on hydraulic fracturing; market competition, including from alternative energy sources; changing demand for petroleum products; the availability of insurance and the risk that certain losses may not be insured; breaches or failure of information systems and security (including risks associated with cyber-attacks); risks associated with the ownership of the Corporation's securities; the accuracy of the Corporation's accounting estimates and judgments; and potential requirements under applicable accounting standards for the impairment or reversal of estimated recoverable amounts of the Corporation's assets from time to time.

There is significant ongoing uncertainty surrounding COVID-19 and the extent and duration of the impacts that Birchcliff may experience. While the duration and full impact of the COVID-19 pandemic is not yet known, the effect of low commodity prices as a result of reduced demand associated with the impact of COVID-19 has had, and may continue to have, a negative impact on the Corporation's business, results of operations, financial condition and the environment in which it operates. The Corporation's current expectations, estimates, projections, beliefs and assumptions underlying the Corporation's forward-looking statements, including those that pertain to the 2021 capital program and the five year plan, are subject to change in light of the COVID-19 pandemic, including potential future waves and actions taken by governments and businesses in response thereto.

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.

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

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

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

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Photo taken in 2019

Thank You Team Birchcliff

Jeffrey Akeroyd, Bradley Alexander, Karen Allen, Diana Almeida, Tracy Anderson, Camille Ashton, Gaetano Aurigemma, Angela Belbeck, Tyrus Bender, Riley Berge, Lindsey Berlinger, Daniel Blattler, Calvin Bohdan, Angela Boire, Darryl Bolch, Deborah Borthwick, Myles Bosman, Jeff Boswell, Robyn Bourgeois, David Boyle, Tony Bozzi, Monica Brookwell, Shane Burgess, Jordan Calderwood, Haley Campbell, Matthew Campbell, Chris Carlsen, Caitlin Carrigy, Ann Ceccanese, Scott Cedergren, Benjamin Christenson, Ian Clarke, Wendy Clay, Dallas Cline, Jacob Cloutier, Kalen Conrad, Laura Conroy, Michael Cordingley, Kaleigh Cuthbertson, Loren Damer, Lara De Paula, Elle Devost, Mark Dilworth, Jesse Doenz, Joe Doenz, Tommy Doenz, Kelly Dolen, Terrance Dyck, Darryl Easter, Jennifer Elder, Luke Embree, Cliff Ennis, Tim Etcheverry, Eric Ewin, Lindsay Fast, Laura Ferguson, Mikaela Fero, Grant Friesen, Marshall Fritz, Colin Fry, George Fukushima, Andy Fulford, Carrie Fyfe, Bruno Geremia, Melina Geremia, Katie Giesbrecht, Chad Goddard, David Graham, Lee Grant, Hannah Grigore, Ryan Gugyelka, Rylan Gulka, Tania Haberlack-Dolan, Mike Hale, Samuel Hampton, Trevor Harley, Ryley Harrigan, Wanda Hiebert, Warren Hingley, Paul Hirsekorn, Jasen Holmstrom, Lory-Ann Hoppe, Daryl Hudak, Dave Humphreys, Derek Jamieson, Anna Johnson, David Johnson, Lorn Johnson, Dustin Kelm, Melissa Kinzner, Phyllis Kinzner, Diane Knoblauch, Jesse Kurjata, Danny Kutrowski, Chase Lajeunesse, Anji Lawrence, Katherine Lazaruk, Calvin Leithead, Kirby Lenart, Kristen Lewicki, Ryan Linsley, Scott Lundquist, Thomas Lundquist, Joseph Lyste, John Macgillivray, Mason Mackay, Dallas Maclean, Darcy Macleod, Mary Macneill,

Curtis Mah, Maggie Malapad, Kevin Matiasz, Angie Mcgonigal, Tyler Mcinnis, Marc McIntosh, Ryan McIntosh, Jerilyn Mcpherson, Richard Melling, Paul Messer, Alfred Michetti, Derek Michetti, Nicole Mitchell, Emelyia Moghaddami, Thomas Moult, Steve Mueller, McKenzie Murdoch, Tyler Murray, Kody Naka, Sarah Nance-Redcliffe, Michael Ng, Tam Nguyen, Matteo Niccoli, Matthew O'Connell, Keely Olivier-Lintner, Christopher Olson, Hilary Ostrander, Tammy Page, Philomena Paisley, Bruce Palmer, Dean Paterson, Chase Peirce, Jess Peterson, Paul Picco, Allan Pickel, Landon Poffenroth, Luisa Porras, Austin Power, Glenn Power, Terrence Power, Thomas Power, Adam Preston, Shoni Proctor, Evan Pugh, Kate Ramage, Lisa Reusch, Brian Ritchie, Michelle Rodgerson, Jeff Rogers, Blaine Rogers, Sherri Rosia, Randy Rousson, Jared Rousson, Brandon Rowley, Todd Sajtovich, Lee Sallenbach, Victor Sandhawalia, Aaron Sandnes, Wade Schultz, Sadeq Shahamat, Dan Sharp, Ryan Sloan, Colin Smith, Tanner St.julian, Brent Sterling, Darby Stolk, Lindsay Sturrock, Tracey Suchlandt, Tyson Suderman, Jim Surbey, Theresa Sutton, Ryan Swanson, Mathew Thiessen, Duane Thompson, Austen Thompson, Gerald Thornton, Dejan Timotijevic, Janet Tkachuk, Jeff Tonken, Gillian Topping, Terry Tracey, Hue Tran, Kevin Urness, Joshua Uy, Joshua Van Der Raadt, Theo Van Der Werken, Kara Vance, Kris Veach, Greg Vreim, Blair Walsh, Linda Wang, Michael Warrick, Shelby Watson, Matthew Weiss, David Wetta, Blake Wilson, Philip Wu, John Yeo, Kent Zahara, Mike Zimmerman

Corporate Information

OFFICERS

A. Jeffery Tonken

President, Chief Executive Officer &
Chairman of the Board

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

Lead Independent Director
Calgary, Alberta

Debra A. Gerlach

Independent Director
Calgary, Alberta

Stacey E. McDonald

Independent Director
Calgary, Alberta

James W. Surbey

Non-Independent Director
Calgary, Alberta

MANAGEMENT

Gates Aurigemma

Manager, General Accounting

Robyn Bourgeois

General Counsel &
Corporate Secretary

Jesse Doenz

Controller &
Investor Relations Manager

MANAGEMENT CONT'D

George Fukushima

Manager of Engineering

Andrew Fulford

Surface Land Manager

Paul Messer

Manager of IT

Tyler Murray

Mineral Land Manager

Bruce Palmer

Manager of Geology

Brian Ritchie

Asset Manager – Gordondale

Michelle Rodgerson

Manager of Human Resources &
Corporate Services

Jeff Rogers

Facilities Manager

Randy Rousson

Drilling & Completions Manager

Vic Sandhawalia

Manager of Finance

Ryan Sloan

Health, Safety & Environment Manager

Duane Thompson

Production Manager

Hue Tran

Business Development Manager

Theo van der Werken

Asset Manager – Pouce Coupe

AUDITORS

KPMG LLP,

Chartered Professional Accountants

Calgary, Alberta

RESERVES EVALUATORS

Deloitte LLP

Calgary, Alberta

BANKERS

The Bank of Nova Scotia

Alberta Treasury Branches

Bank of Montreal

Business Development Bank of Canada

Canadian Branch

Canadian Imperial Bank of Commerce

HSBC Bank Canada

ICICI Bank Canada

National Bank of Canada

The Toronto-Dominion Bank

United Overseas Bank Limited

Wells Fargo Bank, N.A.,

Canadian Branch

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2020 ANNUAL REPORT

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