

BIRCHCLIFF ENERGY LTD. ANNOUNCES Q2 2020 FINANCIAL AND OPERATIONAL RESULTS

Calgary, Alberta (August 12, 2020) – Birchcliff Energy Ltd. (“**Birchcliff**” or the “**Corporation**”) (TSX: BIR) is pleased to announce its financial and operational results for the three and six months ended June 30, 2020. Birchcliff’s unaudited interim condensed financial statements for the three and six months ended June 30, 2020 and related management’s discussion and analysis (the “**MD&A**”) will be available on its website at www.birchcliffenergy.com and on SEDAR at www.sedar.com. Birchcliff is also pleased to provide an operational update.

PRESIDENT’S MESSAGE TO SHAREHOLDERS

I am pleased to advise that we were approximately 50% ahead of our internal estimates for adjusted funds flow in Q2 2020, as our operating costs were reduced by 8% from Q1 2020 and commodity prices were stronger than we anticipated, notwithstanding the myriad of issues presented by the COVID-19 pandemic. Based on current strip prices, we expect to return to free funds flow generation in 2021. For the remainder of 2020 and into 2021, our priorities continue to be on debt reduction, free funds flow generation and ensuring our long-term sustainability. We remain on track to meet our 2020 guidance for production and capital expenditures and we have increased our target for adjusted funds flow to \$185 million as a result of an improved outlook for oil prices. As a result of executing the majority of our capital program in the first half of 2020, our total debt is expected to peak early in Q3 2020 and decrease throughout the remainder of 2020, with total debt at year end now expected to be in the range of \$750 million to \$770 million. In May 2020, the borrowing base limit under our credit facilities was confirmed at \$1 billion. These credit facilities, which do not contain any financial maintenance covenants and do not mature until May 2022, provide us with significant liquidity, especially as we return to free funds flow in Q3 2020.

We continue to focus on the disciplined and efficient execution of our business and continuing to reduce our costs. We believe that our strong financial position, low operating cost structure and asset base provide us with the ability to withstand the challenges that our industry is facing and remain in a position of financial strength. Our high-quality, low-decline assets allow us to maintain production at or near current levels with less F&D capital each year. We believe that commodity prices for natural gas will continue to strengthen towards the end of 2020 and into 2021 as a result of the massive reductions in capital spending throughout North America due to the reduced demand for oil and volatile commodity prices. Our owned-and-operated infrastructure, diverse portfolio of assets and production commodity mix provide us with significant optionality, allowing us to target natural gas, liquids-rich natural gas or oil depending on commodity prices.

We have now completed the vast majority of our 2020 capital program, with the remaining wells recently brought on production and all major facilities and infrastructure projects successfully completed. In Pouce Coupe, we recently brought the production on from our 14-well pad, which used multi-interval cube-style development to maximize operational efficiencies through scale and repeatability. Due to these efficiencies and the excellent execution of this pad, we were able to realize substantial per well cost savings of 24% as compared to our 2018 multi-well pads. In addition, our inlet liquids-handling facility at our Pouce Coupe gas plant was brought on-stream in late July 2020 in anticipation of the 14-well pad being brought on production. This facility was completed ahead of schedule and under budget and it represents an important milestone for Birchcliff as it gives us the ability to grow our condensate production in Pouce Coupe to approximately 10,000 bbls/d. With the successful completion of all of these projects, the execution risk of our 2020 capital program is now behind us.

A. Jeffery Tonken
President and Chief Executive Officer

FINANCIAL AND OPERATIONAL HIGHLIGHTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
OPERATING				
Average production				
Light oil (bbls/d)	5,744	4,853	4,849	4,827
Condensate (bbls/d)	4,825	5,505	4,675	4,963
NGLs (bbls/d)	7,455	6,923	7,709	6,834
Natural gas (Mcf/d)	341,558	367,033	342,195	360,327
Total (boe/d)	74,950	78,453	74,265	76,678
Average realized sales price (CDN\$) ⁽¹⁾				
Light oil (per bbl)	25.72	72.25	36.92	69.20
Condensate (per bbl)	31.09	71.69	44.35	68.93
NGLs (per bbl)	12.05	11.13	12.04	14.36
Natural gas (per Mcf)	2.22	1.95	2.25	2.73
Total (per boe)	15.27	19.59	16.83	22.92
NETBACK AND COST (\$/boe)				
Petroleum and natural gas revenue ⁽¹⁾	15.27	19.59	16.83	22.93
Royalty expense	(0.20)	(0.75)	(0.57)	(0.98)
Operating expense	(2.89)	(3.17)	(3.01)	(3.28)
Transportation and other expense	(5.34)	(4.29)	(5.18)	(4.45)
Operating netback (\$/boe)	6.84	11.38	8.07	14.22
G&A expense, net	(0.84)	(0.87)	(0.87)	(0.89)
Interest expense	(0.69)	(0.92)	(0.79)	(0.97)
Realized gain (loss) on financial instruments	(2.51)	0.74	(2.32)	1.34
Other income	0.39	0.03	0.25	0.03
Adjusted funds flow netback (\$/boe)	3.19	10.36	4.34	13.73
Depletion and depreciation expense	(7.66)	(7.40)	(7.68)	(7.47)
Unrealized loss on financial instruments	(1.86)	(6.50)	(3.85)	(6.14)
Other expenses ⁽²⁾	(0.64)	(1.17)	(0.47)	(0.76)
Dividends on preferred shares	(0.28)	(0.27)	(0.28)	(0.28)
Income tax recovery	1.46	3.65	1.67	1.37
Net income (loss) to common shareholders (\$/boe)	(5.79)	(1.33)	(6.27)	0.45
FINANCIAL				
Petroleum and natural gas revenue (\$000s) ⁽¹⁾	104,180	139,857	227,443	318,212
Cash flow from operating activities (\$000s)	13,221	97,857	63,772	192,601
Adjusted funds flow (\$000s)	21,746	73,957	58,640	190,605
Per basic common share (\$)	0.08	0.28	0.22	0.72
Net income (loss) to common shareholders (\$000s)	(39,522)	(9,505)	(84,723)	6,294
Per basic common share (\$)	(0.15)	(0.04)	(0.32)	0.02
End of period basic common shares (000s)	265,935	265,935	265,935	265,935
Weighted average basic common shares (000s)	265,935	265,933	265,935	265,924
Dividends on common shares (\$000s)	1,327	6,981	8,308	13,961
Dividends on preferred shares (\$000s)	1,922	1,922	3,844	3,844
Total capital expenditures (\$000s) ⁽³⁾	83,974	68,532	216,814	200,490
Long-term bank debt (\$000s)	753,092	622,282	753,092	622,282
Total debt (\$000s)	807,573	654,709	807,573	654,709

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

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

(3) See "Advisories – Capital Expenditures".

This report contains forward-looking statements within the meaning of applicable securities laws. For further information regarding the forward-looking statements contained herein, see "Advisories – Forward-Looking Statements". In addition, this report contains references to "adjusted funds flow", "adjusted funds flow per basic common share", "free funds flow", "transportation and other expense", "operating netback", "adjusted funds flow netback", "total cash costs" 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 regarding these non-GAAP measures, see "Non-GAAP Measures". With respect to the disclosure of Birchcliff's production contained in this report, see "Advisories – Production".

Q2 2020 HIGHLIGHTS

- Achieved quarterly average production of 74,950 boe/d in Q2 2020, a 2% increase from Q1 2020 and a 4% decrease from Q2 2019.
- Liquids accounted for approximately 24% of Birchcliff's total production in Q2 2020 as compared to approximately 22% in Q1 2020 and Q2 2019.
- Delivered adjusted funds flow of \$21.7 million (\$0.08 per basic common share), a 41% decrease from Q1 2020 and a 71% decrease from Q2 2019.
- Achieved low operating expense of \$2.89/boe in Q2 2020, an 8% decrease from Q1 2020 and a 9% decrease from Q2 2019.
- Recorded G&A expense of \$0.84/boe in Q2 2020, a 7% decrease from Q1 2020 and a 3% decrease from Q2 2019.
- Recorded interest expense of \$0.69/boe in Q2 2020, a 22% decrease from Q1 2020 and a 25% decrease from Q2 2019.
- Realized an operating netback of \$6.84/boe in Q2 2020, a 27% decrease from Q1 2020 and a 40% decrease from Q2 2019.
- Confirmed the borrowing base limit under Birchcliff's extendible revolving credit facilities (the "**Credit Facilities**") at \$1.0 billion, providing the Corporation with significant liquidity.
- Continued with the successful and efficient execution of its 2020 capital program (the "**2020 Capital Program**"), drilling 10 (10.0 net) wells, completing 6 (6.0 net) wells and bringing 16 (16.0 net) wells on production in Q2 2020. Total F&D capital expenditures were \$83.5 million in the quarter.
- There were no indicators of impairment on Birchcliff's petroleum and natural gas properties and equipment at June 30, 2020.
- Birchcliff's Board of Directors approved the declaration of a cash dividend in the amount of \$0.005 per common share for the quarter ending June 30, 2020, which represented an 81% reduction from the prior quarter. This dividend was paid on June 30, 2020 to shareholders of record at the close of business on June 15, 2020.
- All of Birchcliff's natural gas production and the vast majority of its liquids production is currently unhedged to benchmark commodity index prices, which will allow Birchcliff to take advantage of strengthening commodity prices.

OUTLOOK AND GUIDANCE

Business Outlook

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 10, 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 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 increased economic uncertainty. Birchcliff has taken decisive action to strengthen its liquidity, financial flexibility and long-term sustainability and believes that its strong financial position and other attributes provide it with the ability to withstand the challenges that industry is facing and remain in a position of financial strength.

The Corporation recently brought the production on from its 14-well pad in Pouce Coupe and brought on-stream its 20,000 bbls/d (50% condensate, 50% water) inlet liquids-handling facility (the “**Inlet Liquids-Handling Facility**”) at the Corporation’s 100% owned and operated natural gas processing plant in Pouce Coupe (the “**Pouce Coupe Gas Plant**”). Both projects were completed ahead of schedule and under budget. Birchcliff has now completed the drilling and bringing on production of all wells planned under its 2020 Capital Program (see “*Operational Update*” below). As all such wells are now on production, Birchcliff’s average production in Q3 and Q4 2020 is expected to increase from Q1 and Q2 2020 levels.

Birchcliff expects that its higher production in Q3 and Q4 of 2020 will drive higher adjusted funds flow, as natural gas prices are anticipated to continue to strengthen towards the end of 2020 and into 2021. As a result of executing the majority of the 2020 Capital Program in the first half of 2020, total debt is expected to peak early in Q3 2020 and decrease throughout the remainder of 2020. Birchcliff expects to exit 2020 in a strong position as a result of its higher production and low-cost structure. In addition, the anticipated proved developed producing reserves additions resulting from the 2020 Capital Program should position the Corporation well for the future.

The Corporation has initiated its formal budgeting process for 2021, which will prioritize debt reduction, free funds flow generation and ensuring the Corporation’s long-term sustainability. The 2021 capital program will be designed to provide Birchcliff with significant optionality to take advantage of volatile commodity prices. As a result of Birchcliff’s large inventory of potential future drilling locations, the Corporation has the ability to focus on natural gas, liquids-rich natural gas or light oil drilling, depending on its outlook for commodity prices. Facilities and infrastructure spending in 2021 is expected to be significantly lower than in 2020 given that Birchcliff has now completed the Inlet Liquids-Handling Facility and other major facilities and infrastructure projects in Gordondale. The Corporation expects to release preliminary guidance regarding its 2021 capital program in November 2020.

Corporate Guidance

Birchcliff is maintaining its previous guidance for production and capital expenditures that was issued on May 13, 2020 and has updated its other guidance, all of which is set forth in the table below. Birchcliff has also updated its full year commodity price assumptions for 2020. Significant changes to Birchcliff’s guidance include the following:

- Adjusted funds flow guidance has been increased to \$185 million from \$161 million with a corresponding change to free funds flow guidance, primarily due to the improved price forecast for oil.
- Total debt guidance has been decreased to \$750 million – \$770 million from \$770 million – \$790 million, primarily due to higher anticipated adjusted funds flow in 2020.
- Average operating expense guidance has been decreased to \$2.85/boe – \$3.05/boe from \$3.05/boe – \$3.25/boe, primarily due to increased optimization and efficiencies.
- Average royalty expense guidance has been increased to \$0.70/boe – \$0.90/boe from \$0.65/boe – \$0.85/boe, primarily due to the improved price forecast for oil.
- Average transportation and other expense guidance has been increased to \$5.00/boe – \$5.20/boe from \$4.90/boe – \$5.10/boe, primarily due to higher transportation costs associated with increased AECO and Dawn firm service.

The following table sets forth Birchcliff's revised and previous guidance and commodity price assumptions for 2020:

	Revised 2020 guidance and assumptions ⁽¹⁾	Previous 2020 guidance and assumptions ⁽¹⁾⁽²⁾
Production		
Annual average production (boe/d)	78,000 – 80,000	78,000 – 80,000
% Light oil	7%	7%
% Condensate	8%	8%
% NGLs	9%	9%
% Natural gas	76%	76%
Q4 average production (boe/d)	81,000 – 83,000	81,000 – 83,000
Average Expenses (\$/boe)		
Royalty	0.70 – 0.90	0.65 – 0.85
Operating	2.85 – 3.05	3.05 – 3.25
Transportation and other ⁽³⁾	5.00 – 5.20	4.90 – 5.10
Adjusted Funds Flow (MM\$)	185 ⁽⁴⁾	161
F&D Capital Expenditures (MM\$)	275 – 295 ⁽⁵⁾	275 – 295 ⁽⁵⁾
Free Funds Flow (MM\$)⁽⁶⁾	(90) – (110)	(114) – (134)
Total Debt at Year End (MM\$)	750 – 770 ⁽⁷⁾	770 – 790
Natural Gas Market Exposure⁽⁸⁾		
AECO exposure as a % of total natural gas production	19%	20%
Dawn exposure as a % of total natural gas production	44%	45%
NYMEX HH exposure as a % of total natural gas production	34%	34%
Alliance exposure as a % of total natural gas production	3%	1%
Commodity Prices		
Average WTI price (US\$/bbl)	39.00	33.00
Average WTI-MSW differential (CDN\$/bbl)	8.75	11.00
Average AECO 5A price (CDN\$/GJ)	2.10	2.20
Average Dawn price (US\$/MMBtu) ⁽⁹⁾	1.90	2.00
Average NYMEX HH price (US\$/MMBtu) ⁽⁹⁾	2.10	2.25
Exchange rate (CDN\$ to US\$1)	1.35	1.38

(1) Birchcliff's guidance for its commodity mix, adjusted funds flow and natural gas market exposure in 2020 is based on an annual average production rate of 79,000 boe/d during 2020, which is the mid-point of Birchcliff's annual average production guidance for 2020.

(2) As previously issued on May 13, 2020.

(3) Includes transportation tolls for 175,000 GJ/d of natural gas sold at the Dawn price and includes any unused firm transportation costs associated with Birchcliff's commitments on the NGTL system.

(4) Birchcliff's estimate of adjusted funds flow takes into account the effects of its physical and financial commodity risk management contracts outstanding as at August 12, 2020. See "Discussion of Operations – Risk Management" in the MD&A.

(5) Birchcliff's estimate of F&D capital expenditures excludes any net potential acquisitions and dispositions and corresponds to Birchcliff's 2020 F&D capital budget. For further details regarding Birchcliff's 2020 Capital Program, see "Operational Update". See also "Advisories – Capital Expenditures".

(6) 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".

(7) The total debt amount set forth in the table above assumes the following: (i) that the timing and amount of preferred share dividends paid by the Corporation remains consistent with previous years, with the dividend rates remaining flat; (ii) that a common share dividend of \$0.005 per share is paid for the quarters ending September 30, 2020 and December 31, 2020; (iii) that there are 265,935,229 common shares outstanding; (iv) that there are 2,000,000 cumulative redeemable preferred shares, Series C ("Series C Preferred Shares") outstanding for the period from January 1, 2020 to June 29, 2020 and 1,962,835 Series C Preferred Shares outstanding for the remainder of 2020; (v) that the 2020 Capital Program will be carried out as currently contemplated and the level of capital spending set forth herein will be achieved; and (vi) the targets for 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.

(8) Birchcliff's guidance regarding its natural gas market exposure in 2020 assumes: (i) 175,000 GJ/d being sold at the Dawn index price; (ii) 5 MMcf/d being sold at Alliance's Trading Pool daily index price until October 31, 2020; and (iii) 132,500 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.

(9) See "Advisories – MMBtu Pricing Conversions".

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 2020 of \$185 million, after taking into account the effects of its commodity risk management contracts outstanding as at August 12, 2020:

Forward Six Months' Sensitivity⁽¹⁾	Estimated change to 2020 adjusted funds flow (MMS)⁽²⁾⁽³⁾
Change in WTI US\$1.00/bbl	5.7
Change in NYMEX HH US\$0.10/MMBtu	4.4
Change in Dawn US\$0.10/MMBtu	7.9
Change in AECO CDN\$0.10/GJ	4.7
Change in CDN/US exchange rate CDN\$0.01	2.1

(1) Adjusted funds flow sensitivities take into account actual prices and exchange rates from January 1, 2020 to June 30, 2020.

(2) See the guidance table above.

(3) 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.

Ongoing weakness in commodity prices resulting from the COVID-19 pandemic and market volatility may adversely and materially impact the Corporation's future financial and operational results. Changes in assumed commodity prices and variances in production estimates can have a significant impact on 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 report and "Risk Factors and Risk Management" in the MD&A.

Q2 2020 FINANCIAL AND OPERATIONAL RESULTS

Production

Birchcliff's production averaged 74,950 boe/d in Q2 2020, a 2% increase from 73,580 boe/d in Q1 2020. The increase was primarily due to incremental production from new horizontal oil and condensate-rich natural gas wells brought on production since Q1 2020, partially offset by planned production shut-in and facility maintenance activities in Pouce Coupe and natural production declines. In order to minimize frac-driven interaction associated with offset drilling and completions activities in Pouce Coupe, Birchcliff proactively and temporarily shut-in some production during Q2 2020 in order to protect its existing wells. Birchcliff's average production in Q3 and Q4 2020 is expected to increase from Q1 and Q2 2020 levels, with production expected to average 81,000 – 83,000 boe/d in Q4 2020 and 78,000 – 80,000 boe/d in full year 2020. See "Outlook and Guidance".

Birchcliff's production in Q2 2020 decreased by 4% from 78,453 boe/d in Q2 2019. The decrease was primarily due to the planned production shut-in and facility maintenance activities in Pouce Coupe and natural production declines, partially offset by incremental production from new horizontal oil and condensate-rich natural gas wells brought on production since Q2 2019.

Liquids accounted for approximately 24% of Birchcliff's total production in Q2 2020 as compared to approximately 22% in Q1 2020 and Q2 2019, with total liquids production increasing by 10% from Q1 2020 and by 4% from Q2 2019. The increases were primarily attributable to the successful addition of oil wells brought on production in Gordondale and condensate-rich natural gas wells in Pouce Coupe.

Adjusted Funds Flow

Birchcliff's adjusted funds flow for Q2 2020 was \$21.7 million, or \$0.08 per basic common share, a 41% and a 43% decrease, respectively, from \$36.9 million and \$0.14 per basic common share in Q1 2020. The decreases were primarily due to lower reported revenue as compared to Q1 2020. Petroleum and natural gas revenue decreased by 15% as compared to Q1 2020, largely due to lower average realized light oil and condensate sales prices in Q2 2020. Birchcliff's light oil and condensate revenue in Q2 2020 was negatively impacted by the significant weakness and volatility in oil prices as a result of the COVID-19 pandemic and ensuing global demand destruction. Adjusted funds flow was also negatively impacted by higher realized losses on financial instruments and higher transportation and other expense as a result of Birchcliff's increased Dawn and AECO firm service, and positively impacted by lower operating, royalty and interest expenses as compared to Q1 2020.

Birchcliff's adjusted funds flow in Q2 2020 decreased by 71% from \$74.0 million and \$0.28 per basic common share in Q2 2019. The decreases were primarily due to lower reported revenue and a realized loss on financial instruments of \$17.1 million in Q2 2020 as compared to a realized gain on financial instruments of \$5.3 million in Q2 2019. Petroleum and natural gas revenue decreased by 26% as compared to Q2 2019, largely due to lower average realized light oil and condensate sales prices in Q2 2020. Adjusted funds flow was also negatively impacted by higher transportation and other expense as a result of Birchcliff's increased Dawn and AECO firm service, and positively impacted by lower operating, royalty and interest expenses as compared to Q2 2019.

Net Loss to Common Shareholders

Birchcliff recorded a net loss to common shareholders of \$39.5 million, or \$0.15 per basic common share, in Q2 2020, a decrease from \$45.2 million and \$0.17 per basic common share in Q1 2020. The decreases were primarily due to lower unrealized mark-to-market losses on financial instruments as compared to Q1 2020, partially offset by a decrease in adjusted funds flow as described above and a decrease in income tax recovery.

Birchcliff's net loss to common shareholders in Q2 2020 increased from \$9.5 million and \$0.04 per basic common share in Q2 2019. The increases were primarily due to lower adjusted funds flow as described above and a decrease in income tax recovery, partially offset by lower unrealized mark-to-market losses on financial instruments as compared to Q2 2019.

Operating Expense

Birchcliff's operating expense was \$2.89/boe in Q2 2020, an 8% decrease from \$3.14/boe in Q1 2020 and a 9% decrease from \$3.17/boe in Q2 2019. The decreases were primarily due to various field optimization and cost-saving initiatives in Pouce Coupe and Gordondale, which included the Corporation's expanded liquids-handling capabilities in Pouce Coupe.

Operating Netback

Birchcliff's operating netback was \$6.84/boe in Q2 2020, a 27% decrease from \$9.32/boe in Q1 2020 and a 40% decrease from \$11.38/boe in Q2 2019. The decreases were primarily due to lower average realized light oil and condensate prices and higher per boe transportation and other expense, partially offset by lower per boe operating and royalty expenses as compared to Q1 2020 and Q2 2019.

Total Cash Costs

Birchcliff's total cash costs were \$9.96/boe in Q2 2020, an 8% decrease from \$10.88/boe in Q1 2020. The decrease was primarily due to lower per boe operating, royalty, interest and G&A expenses, partially offset by higher per boe transportation and other expense. Birchcliff's total cash costs on a per boe basis in Q2 2020 were comparable to \$10.00/boe in Q2 2019.

Debt and Credit Facilities

Birchcliff has significant liquidity from its Credit Facilities which have an aggregate principal amount of \$1.0 billion and which 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. At June 30, 2020, Birchcliff had long-term bank debt of \$753.1 million (March 31, 2020: \$619.0 million; June 30, 2019: \$622.3 million), leaving \$241.0 million of unutilized credit capacity after adjusting for outstanding letters of credit and unamortized interest and fees. Total debt at June 30, 2020 was \$807.6 million as compared to \$739.6 million at March 31, 2020 and \$654.7 million at June 30, 2019. Total debt is expected to peak in early Q3 2020 and decrease throughout the remainder of 2020, with total debt at year end 2020 expected to be in the range of \$750 million to \$770 million. See "*Outlook and Guidance*".

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. In May 2020, Birchcliff's syndicate of lenders completed its review and the borrowing base limit was confirmed at \$1.0 billion. The next regularly scheduled review of the borrowing base limit is expected to occur in November 2020.

The maturity dates of the Credit Facilities are 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 connection with the most recently completed borrowing base review, Birchcliff chose to not extend the maturity dates of the Credit Facilities by another year given that the Credit Facilities do not mature for another two years and the increased costs of credit in the current environment.

Pouce Coupe Gas Plant Netbacks

Birchcliff processed approximately 66% of its total corporate natural gas production and 55% of its total corporate production through the Pouce Coupe Gas Plant in the six months ended June 30, 2020 as compared to 69% and 59%,

respectively, in the six months ended June 30, 2019. 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:

	Six months ended June 30, 2020		Six months ended June 30, 2019	
<i>Average production:</i>				
Condensate (bbls/d)		2,872		3,272
NGLs (bbls/d)		940		753
Natural gas (Mcf/d)		224,354		246,920
Total (boe/d)		41,204		45,178
Liquids-to-gas ratio⁽¹⁾ (bbls/MMcf)		17.0		16.3
<i>Netback and cost:</i>				
	\$/Mcf	\$/boe	\$/Mcf	\$/boe
Petroleum and natural gas revenue ⁽²⁾	2.68	16.10	3.38	20.30
Royalty expense	(0.06)	(0.35)	(0.06)	(0.35)
Operating expense ⁽³⁾	(0.41)	(2.47)	(0.39)	(2.34)
Transportation and other expense	(0.90)	(5.44)	(0.75)	(4.55)
Operating netback	\$1.31	\$7.84	\$2.18	\$13.06
Operating margin⁽⁴⁾	49%	49%	64%	64%

(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.

The liquids-to-gas ratio at the Pouce Coupe Gas Plant increased by 4% to 17.0 bbls/MMcf in the six months ended June 30, 2020 as compared to 16.3 bbls/MMcf in the six months ended June 30, 2019 primarily due to specifically targeted condensate-rich natural gas wells in Pouce Coupe.

Commodity Prices

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

	Three months ended June 30, 2020	Three months ended June 30, 2019	% Change
Light oil – WTI Cushing (US\$/bbl)	26.61	59.82	(56)
Light oil – MSW (Mixed Sweet) (CDN\$/bbl)	25.15	73.26	(66)
Natural gas – NYMEX HH (US\$/MMBtu) ⁽¹⁾	1.64	2.64	(38)
Natural gas – AECO 5A Daily (CDN\$/GJ)	1.89	0.98	93
Natural gas – AECO 7A Month Ahead (US\$/MMBtu) ⁽¹⁾	1.33	0.87	53
Natural gas – Dawn Day Ahead (US\$/MMBtu) ⁽¹⁾	1.63	2.34	(30)
Natural gas – ATP 5A Day Ahead (CDN\$/GJ)	1.68	1.17	44
Exchange rate (CDN\$ to US\$1)	1.3860	1.3376	4
Exchange rate (US\$ to CDN\$1)	0.7215	0.7476	(3)

(1) See "Advisories – MMBtu Pricing Conversions".

Marketing and Natural Gas Market Diversification

Birchcliff's physical natural gas sales exposure primarily consists of the AECO, Dawn and Alliance markets. In addition, the Corporation has various financial instruments outstanding that provide it with exposure to NYMEX HH pricing.

The following table details Birchcliff's effective sales, production and average realized sales price for natural gas and liquids for Q2 2020, after taking into account the Corporation's financial instruments:

Three months ended June 30, 2020						
	Effective sales (CDN\$000s)	Percentage of total sales (%)	Effective production (per day)	Percentage of total natural gas production (%)	Percentage of total corporate production (%)	Effective average realized sales price (CDN\$)
Markets						
AECO ⁽¹⁾	10,866	13	56,322 Mcf	16	13	2.12/Mcf
Dawn ⁽²⁾	34,402	38	159,338 Mcf	47	35	2.37/Mcf
Alliance ⁽³⁾	665	1	5,112 Mcf	1	1	1.43/Mcf
NYMEX HH ⁽¹⁾	8,867	9	120,786 Mcf	36	27	0.81/Mcf
Total natural gas	54,800	61	341,558 Mcf	100	76	1.76/Mcf
Light oil	13,445	15	5,744 bbls		8	25.72/bbl
Condensate	13,649	15	4,825 bbls		6	31.09/bbl
NGLs	8,176	9	7,455 bbls		10	12.05/bbl
Total liquids	35,270	39	18,024 bbls		24	21.50/bbl
Total corporate	90,070	100	74,950 boe		100	13.21/boe

- (1) A portion of AECO 5A sales and production that effectively received NYMEX HH pricing under Birchcliff's long-term physical and financial NYMEX/AECO 7A basis swap contracts has been included as effective sales and production in NYMEX HH markets. Birchcliff sold financial and physical AECO 7A basis swaps for 132,500 MMBtu/d at an average contract price of NYMEX HH less US\$1.234/MMBtu during Q2 2020.
- (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.
- (3) Birchcliff has sales agreements with a third party marketer to sell and deliver into the Alliance pipeline system until October 31, 2020. Alliance sales are recorded net of transportation tolls.

Effectively 87% of the Corporation's sales revenue, representing 84% of its total natural gas production and 87% of its total corporate production, was generated from markets outside of AECO in Q2 2020, after taking into account its liquids sales and long-term financial NYMEX/AECO basis swap position.

The following tables set forth Birchcliff's sales, production, average realized sales price, transportation costs and natural gas sales netback by natural gas market for the periods indicated, before taking into account the Corporation's financial instruments:

Three months ended June 30, 2020							
	Natural gas sales ⁽¹⁾ (CDN\$000s)	Percentage of natural gas sales (%)	Natural gas production (Mcf/d)	Percentage of natural gas production (%)	Average realized natural gas sales price ⁽¹⁾ (CDN\$/Mcf)	Natural gas transportation costs ⁽²⁾ (CDN\$/Mcf)	Natural gas sales netback ⁽³⁾ (CDN\$/Mcf)
AECO ⁽⁴⁾	33,840	49	177,108	52	2.12	0.38	1.74
Dawn	34,402	50	159,338	47	2.37	1.43	0.94
Alliance ⁽⁵⁾	665	1	5,112	1	1.43	-	1.43
Total	68,907	100	341,558	100	2.22	0.87	1.35

Three months ended June 30, 2019							
	Natural gas sales ⁽¹⁾ (CDN\$000s)	Percentage of natural gas sales (%)	Natural gas production (Mcf/d)	Percentage of natural gas production (%)	Average realized natural gas sales price ⁽¹⁾ (CDN\$/Mcf)	Natural gas transportation costs ⁽²⁾ (CDN\$/Mcf)	Natural gas sales netback ⁽³⁾ (CDN\$/Mcf)
AECO ⁽⁴⁾	22,049	34	217,353	59	1.11	0.32	0.79
Dawn	41,104	63	135,953	37	3.32	1.38	1.94
Alliance ⁽⁵⁾	1,856	3	13,727	4	1.49	-	1.49
Total	65,009	100	367,033	100	1.95	0.71	1.24

- (1) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.
- (2) Reflects costs to transport natural gas from the field receipt point to the delivery sales trading hub.
- (3) Natural gas sales netback denotes the average realized natural gas sales price less natural gas transportation costs.
- (4) Includes physical AECO 7A basis swaps for 5,000 MMBtu/d at an average contract price of NYMEX less US\$1.205/MMBtu.
- (5) Alliance sales are recorded net of transportation tolls.

Capital Activities and Investment

During Q2 2020, Birchcliff continued with the successful execution of its 2020 Capital Program, drilling 10 (10.0 net) wells and bringing 16 (16.0 net) wells on production as set forth in the table below:

Area	Wells drilled in Q2 2020	Wells brought on production in Q2 2020
Pouce Coupe		
Montney D1 horizontal natural gas wells	3	0
Montney D2 horizontal natural gas wells	3	3
Montney C horizontal natural gas wells	4	3
Total – Pouce Coupe	10	6
Gordondale		
Montney D1 horizontal oil wells	0	5
Montney D2 horizontal oil wells	0	4
Montney D4 horizontal oil wells	0	1
Total – Gordondale	0	10
TOTAL – COMBINED	10	16

Total F&D capital expenditures in Q2 2020 were \$83.5 million, with F&D capital expenditures of \$67.5 million in Pouce Coupe and \$16.0 million in Gordondale.

OPERATIONAL UPDATE

As at the date hereof, Birchcliff has completed the vast majority of its 2020 Capital Program, with all wells brought on production and all major facilities and infrastructure projects successfully completed. The 2020 Capital Program was strategically front-end loaded, allowing Birchcliff to bring new wells on production relatively early in the year in order to optimize producing days for capital spent.

Due to the excellent execution of Birchcliff's DCCET program and the various efficiencies resulting from multi-well pad drilling, Birchcliff was able to realize substantial per well cost savings and the program was completed on time and under budget. The Corporation has been able to reduce its DCCET costs as compared to 2018 and 2019 largely due to continued internal technical improvements resulting in reduced drilling and completion pumping times, reduced frac treatment water use and improvements in drilling trajectories.

Total facilities and infrastructure spending under the 2020 Capital Program is targeted at approximately \$75 million and includes approximately \$35 million for the completion of the Inlet Liquids-Handling Facility and approximately \$25 million for the addition of natural gas compression and a significant trunk line in Gordondale. As these significant one-time projects have been completed, facilities and infrastructure spending in 2021 is expected to be significantly lower than in 2020. See "Outlook and Guidance".

Drilling Activities and Results

Birchcliff completed its drilling program in Q2 2020 and subsequent to the end of the quarter, it brought all remaining wells on production. The following table summarizes the wells that Birchcliff has drilled and brought on production this year:

Area	Total wells drilled	Total wells brought on production ⁽¹⁾
Pouce Coupe		
Montney D1 horizontal natural gas wells	4	4
Montney D2 horizontal natural gas wells	9	12
Montney C horizontal natural gas wells	7	8
Total – Pouce Coupe	20	24
Gordondale		
Montney D1 horizontal oil wells	4	5
Montney D2 horizontal oil wells	4	4
Montney D4 horizontal oil wells	0	1
Total – Gordondale	8	10
TOTAL – COMBINED	28	34

(1) Includes 6 (6.0) net wells that were drilled and rig released in Q4 2019.

In Pouce Coupe, the Corporation drilled 20 (20.0 net) wells and brought 24 (24.0 net) wells on production. The wells were drilled on three multi-well pads as described below:

- 06-32-078-12W6 (4-well pad): The first pad is an existing pad site where Birchcliff drilled an additional 2 wells in Q4 2019 and 2 wells in Q1 2020. All of these wells were drilled in the Montney D2 interval and were brought on production in late Q1 2020.
- 14-06-079-12W6 (6-well pad): The second pad is an existing pad site where Birchcliff drilled an additional 2 wells in Q4 2019 and 4 wells in Q1 2020. These 6 wells were drilled in 2 different intervals (3 in the Montney D2 and 3 in the Montney C) and were all brought on production in Q2 2020. Birchcliff has been encouraged by the results of these wells, which have shown strong condensate and natural gas rates.
- 14-19-079-12W6 (14-well pad): Birchcliff recently brought the production on from its 14-well pad, which used multi-interval cube-style development to maximize operational efficiencies through scale and repeatability, which led to substantial cost savings on a per well basis. The pad is adjacent to the successful condensate-rich wells drilled by Birchcliff in 2019 in the Montney D1, D2 and C intervals at its 14-06-079-12W6 pad. The 14 wells were drilled in 3 different intervals (5 in the Montney D1, 4 in the Montney D2 and 5 in the Montney C).

The pad utilized two fit-for-purpose walking style drilling rigs which each drilled 7 wells. Utilizing two drilling rigs allowed for significant shared service-related synergies and resulted in a more efficient cycle time and cost savings. Significant costs saving were also realized during the completion of this pad due to economies of scale and minimal non-productive time.

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.

- 06-35-077-11W6 (4-well pad): Birchcliff drilled 4 wells on this pad in Q1 2020. These 4 wells were drilled in 2 different intervals (2 in the Montney D1 and 2 in the Montney D2) and were all brought on production in Q2 2020. Birchcliff has been encouraged by the results of these wells, which have shown strong light oil and natural gas rates.
- 02-02-078-11W6 (6-well pad): Birchcliff drilled 6 wells on this pad, which is adjacent to an existing pad site. Two of the wells were drilled in Q4 2019 and 4 wells were drilled in Q1 2020. These 6 wells were drilled in 3 different intervals (3 in the Montney D1, 2 in the Montney D2 and 1 in the Montney D4). All of the wells were brought on production in Q2 2020. Birchcliff has been encouraged by the results of these wells, which include production rates from the first Montney D4 well that the Corporation has drilled in Gordondale. The Montney D4 interval has been proven commercial in the Pouce Coupe area (with 12 producing wells) and Birchcliff anticipates that the extension of the Montney D4 into Gordondale will add more light oil inventory utilizing the Corporation's existing infrastructure.

Multi-Interval Cube-Style Development and Continuous Performance Improvement

The 14-well pad in Pouce Coupe 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 over 364 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 in both Pouce Coupe and Gordondale. 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 all 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 (“**DAS**”), 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. Birchcliff also plans to evaluate the use of fibre DAS production profiling on one or two wells on the 14-well pad.

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.

Facilities and Infrastructure

At the Pouce Coupe Gas Plant, the Inlet Liquids-Handling Facility was brought on-stream in late July 2020. This facility was completed ahead of schedule and under budget and it represents an important milestone for Birchcliff as it gives the Corporation the ability to grow its condensate production in Pouce Coupe to approximately 10,000 bbls/d.

In Gordondale, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

This Management's Discussion and Analysis ("**MD&A**") for Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") dated August 12, 2020 is with respect to the three and six months ended June 30, 2020 (the "**Reporting Periods**") as compared to the three and six months ended June 30, 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, 2019 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 measure 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, 2019 (the "**AIF**"), is available on the SEDAR website at www.sedar.com and on the Corporation's website at www.birchcliffenergy.com.

COVID-19 OPERATING ENVIRONMENT

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 10, 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 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 increased economic uncertainty. 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. See *“Risk Factors and Risk Management”* in this MD&A.

Birchcliff has taken a number of proactive measures to ensure liquidity and financial flexibility in the current environment as described in this MD&A under the heading *“Capital Resources and Liquidity”*. 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. The Corporation continues to expect that its receivables were substantially collectible at June 30, 2020.

In response to the COVID-19 pandemic, Birchcliff implemented a number of initiatives during the Reporting Periods to protect the well-being of its employees and contractors, including remote work-from-home arrangements, physical distancing measures, enhanced cleaning and sanitization measures and conducting meetings through virtual means. At various critical field sites, only essential personnel are authorized to be physically present and a rotational work schedule has been implemented. Birchcliff has established a response team to coordinate and implement initiatives relating to COVID-19 and continues to closely monitor the recommendations of applicable government and health authorities.

Birchcliff determined there were no impairment indicators present at June 30, 2020 due to the improvement in the current and forward commodity prices for oil and natural gas and the increase in its market capitalization since March 31, 2020, when impairment indicators were last identified.

See also *“Risk Factors and Risk Management”* in this MD&A.

2020 SECOND QUARTER FINANCIAL AND OPERATIONAL HIGHLIGHTS

- Achieved quarterly average production of 74,950 boe/d in the three month Reporting Period, a 2% increase from the first quarter of 2020 and a 4% decrease 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 first quarter of 2020 and the three month Comparable Prior Period.
- Delivered adjusted funds flow of \$21.7 million, a 41% decrease from the first quarter of 2020 and a 71% decrease from the three month Comparable Prior Period.
- Achieved low operating expense of \$2.89/boe in the three month Reporting Period, an 8% decrease from the first quarter of 2020 and a 9% decrease from the three month Comparable Prior Period.
- Recorded G&A expense of \$0.84/boe in the three month Reporting Period, a 7% decrease from the first quarter of 2020 and a 3% decrease from the three month Comparable Prior Period.
- Recorded interest expense of \$0.69/boe in the three month Reporting Period, a 22% decrease from the first quarter of 2020 and a 25% decrease from the three month Comparable Prior Period.
- Realized an operating netback of \$6.84/boe in the three month Reporting Period, a 27% decrease from the first quarter of 2020 and a 40% decrease from the three month Comparable Prior Period.
- Confirmed the borrowing base limit under Birchcliff’s extendible revolving credit facilities (the **“Credit Facilities”**) at \$1.0 billion, providing the Corporation with significant liquidity.
- Continued with the successful and efficient execution of its 2020 capital program (the **“2020 Capital Program”**), drilling 10 (10.0 net) wells, completing 6 (6.0 net) wells and bringing 16 (16.0 net) wells on production in the three month Reporting Period. Total F&D capital expenditures were \$83.5 million in the three month Reporting Period.
- There were no indicators of impairment on Birchcliff’s petroleum and natural gas properties and equipment at June 30, 2020.
- Birchcliff’s Board of Directors approved the declaration of a cash dividend in the amount of \$0.005 per common share for the quarter ending June 30, 2020, which represented an 81% reduction from the prior quarter. This dividend was paid on June 30, 2020 to shareholders of record at the close of business on June 15, 2020.

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.

OUTLOOK AND GUIDANCE

Business Outlook

Birchcliff has now completed the drilling and bringing on production of all wells planned under the 2020 Capital Program. The Corporation also recently brought the production on from its 14-well pad in Pouce Coupe and brought on-stream its 20,000 bbls/d (50% condensate, 50% water) inlet liquids-handling facility (the “**Inlet Liquids-Handling Facility**”) at the Corporation’s 100% owned and operated natural gas processing plant in Pouce Coupe (the “**Pouce Coupe Gas Plant**”). Both projects were completed ahead of schedule and under budget. As all such wells are now on production, Birchcliff’s average production in Q3 and Q4 2020 is expected to increase from Q1 and Q2 2020 levels.

Birchcliff expects that its higher production in Q3 and Q4 of 2020 will drive higher adjusted funds flow, as natural gas prices are anticipated to continue to strengthen towards the end of 2020 and into 2021. As a result of executing the majority of the 2020 Capital Program in the first half of 2020, total debt is expected to peak early in Q3 2020 and decrease throughout the remainder of 2020. Birchcliff expects to exit 2020 in a strong position as a result of its higher production and low-cost structure. In addition, the anticipated proved developed producing reserves additions resulting from the 2020 Capital Program should position the Corporation well for the future.

The Corporation has initiated its formal budgeting process for 2021, which will prioritize debt reduction, free funds flow generation and ensuring the Corporation’s long-term sustainability. The 2021 capital program will be designed to provide Birchcliff with significant optionality to take advantage of volatile commodity prices. As a result of Birchcliff’s large inventory of potential future drilling locations, the Corporation has the ability to focus on natural gas, liquids-rich natural gas or light oil drilling, depending on its outlook for commodity prices. Facilities and infrastructure spending in 2021 is expected to be significantly lower than in 2020 given that Birchcliff has now completed the Inlet Liquids-Handling Facility and other major facilities and infrastructure projects in Gordondale. The Corporation expects to release preliminary guidance regarding its 2021 capital program in November 2020.

Corporate Guidance

Birchcliff is maintaining its previous guidance for production and capital expenditures that was issued on May 13, 2020 and has updated its other guidance, all of which is set forth in the table below. Birchcliff has also updated its full year commodity price assumptions for 2020. Significant changes to Birchcliff’s guidance include the following:

- Adjusted funds flow guidance has been increased to \$185 million from \$161 million with a corresponding change to free funds flow guidance, primarily due to the improved price forecast for oil.
- Total debt guidance has been decreased to \$750 million – \$770 million from \$770 million – \$790 million, primarily due to higher anticipated adjusted funds flow in 2020.
- Average operating expense guidance has been decreased to \$2.85/boe – \$3.05/boe from \$3.05/boe – \$3.25/boe, primarily due to increased optimization and efficiencies.
- Average royalty expense guidance has been increased to \$0.70/boe – \$0.90/boe from \$0.65/boe – \$0.85/boe, primarily due to the improved price forecast for oil.
- Average transportation and other expense guidance has been increased to \$5.00/boe – \$5.20/boe from \$4.90/boe – \$5.10/boe, primarily due to higher transportation costs associated with increased AECO and Dawn firm service.

The following table sets forth Birchcliff’s revised and previous guidance and commodity price assumptions for 2020:

	Revised 2020 guidance and assumptions ⁽¹⁾	Previous 2020 guidance and assumptions ⁽¹⁾⁽²⁾
Production		
Annual average production (boe/d)	78,000 – 80,000	78,000 – 80,000
% Light oil	7%	7%
% Condensate	8%	8%
% NGLs	9%	9%
% Natural gas	76%	76%
Q4 average production (boe/d)	81,000 – 83,000	81,000 – 83,000
Average Expenses (\$/boe)		
Royalty	0.70 – 0.90	0.65 – 0.85
Operating	2.85 – 3.05	3.05 – 3.25
Transportation and other ⁽³⁾	5.00 – 5.20	4.90 – 5.10
Adjusted Funds Flow (MM\$)	185 ⁽⁴⁾	161
F&D Capital Expenditures (MM\$)	275 – 295 ⁽⁵⁾	275 – 295 ⁽⁵⁾
Free Funds Flow (MM\$)⁽⁶⁾	(90) – (110)	(114) – (134)
Total Debt at Year End (MM\$)	750 – 770 ⁽⁷⁾	770 – 790
Natural Gas Market Exposure⁽⁸⁾		
AECO exposure as a % of total natural gas production	19%	20%
Dawn exposure as a % of total natural gas production	44%	45%
NYMEX HH exposure as a % of total natural gas production	34%	34%
Alliance exposure as a % of total natural gas production	3%	1%
Commodity Prices		
Average WTI price (US\$/bbl)	39.00	33.00
Average WTI-MSW differential (CDN\$/bbl)	8.75	11.00
Average AECO 5A price (CDN\$/GJ)	2.10	2.20
Average Dawn price (US\$/MMBtu) ⁽⁹⁾	1.90	2.00
Average NYMEX HH price (US\$/MMBtu) ⁽⁹⁾	2.10	2.25
Exchange rate (CDN\$ to US\$1)	1.35	1.38

(1) Birchcliff's guidance for its commodity mix, adjusted funds flow and natural gas market exposure in 2020 is based on an annual average production rate of 79,000 boe/d during 2020, which is the mid-point of Birchcliff's annual average production guidance for 2020.

(2) As previously issued on May 13, 2020.

(3) Includes transportation tolls for 175,000 GJ/d of natural gas sold at the Dawn price and includes any unused firm transportation costs associated with Birchcliff's commitments on the NGTL system.

(4) Birchcliff's estimate of adjusted funds flow takes into account the effects of its physical and financial commodity risk management contracts outstanding as at August 12, 2020. See "Discussion of Operations – Risk Management" in this MD&A.

(5) Birchcliff's estimate of F&D capital expenditures excludes any net potential acquisitions and dispositions and corresponds to Birchcliff's 2020 F&D capital budget. For further details regarding Birchcliff's 2020 Capital Program, see "Capital Expenditures". See also "Advisories – Capital Expenditures" in this MD&A.

(6) 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".

(7) The total debt amount set forth in the table above assumes the following: (i) that the timing and amount of preferred share dividends paid by the Corporation remains consistent with previous years, with the dividend rates remaining flat; (ii) that a common share dividend of \$0.005 per share is paid for the quarters ending September 30, 2020 and December 31, 2020; (iii) that there are 265,935,229 common shares outstanding; (iv) that there are 2,000,000 cumulative redeemable preferred shares, Series C ("Series C Preferred Shares") outstanding for the period from January 1, 2020 to June 29, 2020 and 1,962,835 Series C Preferred Shares outstanding for the remainder of 2020; (v) that the 2020 Capital Program will be carried out as currently contemplated and the level of capital spending set forth herein will be achieved; and (vi) the targets for 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.

(8) Birchcliff's guidance regarding its natural gas market exposure in 2020 assumes: (i) 175,000 GJ/d being sold at the Dawn index price; (ii) 5 MMcf/d being sold at Alliance's Trading Pool daily index price until October 31, 2020; and (iii) 132,500 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.

(9) See "Advisories – MMBtu Pricing Conversions".

Ongoing weakness in commodity prices resulting from the COVID-19 pandemic and market volatility may adversely and materially impact the Corporation's future financial and operational results. Changes in assumed commodity prices and variances in production estimates can have a significant impact on 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" and "Risk Factors and Risk Management" in this MD&A.

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 June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Cash flow from operating activities (\$000s)	13,221	97,857	63,772	192,601
Adjusted funds flow (\$000s)	21,746	73,957	58,640	190,605
Per common share – basic (\$)	0.08	0.28	0.22	0.72
Per common share – diluted (\$)	0.08	0.28	0.22	0.72
Adjusted funds flow netback (\$/boe)	3.19	10.36	4.34	13.73

Adjusted funds flow in the three and six month Reporting Periods decreased by 71% and 69%, respectively, from the Comparable Prior Periods. The decreases were primarily due to lower reported revenue and realized losses on financial instruments recorded in the Reporting Periods as compared to realized gains in the Comparable Prior Periods. Petroleum and natural gas revenue decreased by 26% and 29%, respectively, from the Comparable Prior Periods largely due to lower average realized light oil and condensate sales prices. Birchcliff's light oil and condensate revenue was negatively impacted by the significant weakness and volatility in oil prices as a result of the COVID-19 pandemic and ensuing global demand destruction. Adjusted funds flow was also negatively impacted by higher transportation and other expense as a result of Birchcliff's increased Dawn and AECO firm service, and positively impacted by lower operating, royalty and interest expenses as compared to the Comparable Prior Periods.

Cash flow from operating activities for the three and six month Reporting Periods decreased by 86% and 67%, respectively, from the Comparable Prior Periods. The reason for the change 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 June 30,			Six months ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Royalty expense	0.20	0.75	(73)%	0.57	0.98	(42)%
Operating expense	2.89	3.17	(9)%	3.01	3.28	(8)%
Transportation and other expense	5.34	4.29	24%	5.18	4.45	16%
G&A expense, net	0.84	0.87	(3)%	0.87	0.89	(2)%
Interest expense	0.69	0.92	(25)%	0.79	0.97	(19)%
Total cash costs	9.96	10.00	-	10.42	10.57	(1)%

See "Discussion of Operations" in this MD&A for further details.

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 June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net income (loss) to common shareholders (\$000s)	(39,522)	(9,505)	(84,723)	6,294
Per common share – basic (\$)	(0.15)	(0.04)	(0.32)	0.02
Per common share – diluted (\$)	(0.15)	(0.04)	(0.32)	0.02
Net income (loss) to common shareholders (\$/boe)	(5.79)	(1.33)	(6.27)	0.45

The increase in the net loss to common shareholders from the three month Comparable Prior Period was primarily due to lower adjusted funds flow and a decrease in income tax recovery, partially offset by lower unrealized mark-to-market losses on financial instruments in the three month Reporting Period.

The change to a net loss position from a net income position in the six month Comparable Prior Period was primarily due to lower adjusted funds flow, partially offset by lower unrealized mark-to-market losses on financial instruments in the six month Reporting Period.

See “Discussion of Operations” in this MD&A for further details.

POUCE COUPE GAS PLANT NETBACKS

During the six month Reporting Period, Birchcliff processed approximately 66% of its total corporate natural gas production and 55% of its total corporate production through its Pouce Coupe Gas Plant as compared to 69% and 59%, respectively, during the six 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:

	Six months ended June 30, 2020		Six months ended June 30, 2019	
<i>Average production:</i>				
Condensate (bbls/d)		2,872		3,272
NGLs (bbls/d)		940		753
Natural gas (Mcf/d)		224,354		246,920
Total (boe/d)		41,204		45,178
Liquids-to-gas ratio⁽¹⁾ (bbls/MMcf)		17.0		16.3
<i>Netback and cost:</i>	<i>\$/Mcf</i>	<i>\$/boe</i>	<i>\$/Mcf</i>	<i>\$/boe</i>
Petroleum and natural gas revenue ⁽²⁾	2.68	16.10	3.38	20.30
Royalty expense	(0.06)	(0.35)	(0.06)	(0.35)
Operating expense ⁽³⁾	(0.41)	(2.47)	(0.39)	(2.34)
Transportation and other expense	(0.90)	(5.44)	(0.75)	(4.55)
Operating netback	\$1.31	\$7.84	\$2.18	\$13.06
Operating margin⁽⁴⁾	49%	49%	64%	64%

(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.

The liquids-to-gas ratio at the Pouce Coupe Gas Plant increased by 4% to 17.0 bbls/MMcf in the six month Reporting Period as compared to 16.3 bbls/MMcf in the six month Comparable Prior Period primarily due to specifically targeted condensate-rich natural gas wells in Pouce Coupe.

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 oil-rich trend of the Montney/Doig Resource Play (the “**Gordondale assets**”) and on a corporate basis for the periods indicated:

	Three months ended June 30, 2020			Three months ended June 30, 2019		
	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾
<i>(\$000s)</i>						
Light oil	84	13,357	13,445	-	31,983	31,907
Condensate	9,226	4,423	13,650	27,315	8,500	35,906
NGLs	1,581	6,595	8,176	1,732	5,279	7,011
Natural gas	49,171	19,736	68,907	49,787	15,221	65,009
P&NG sales ⁽²⁾	60,062	44,111	104,178	78,834	60,983	139,833
Royalty income	1	1	2	4	18	24
P&NG revenue	60,063	44,112	104,180	78,838	61,001	139,857
% of corporate P&NG revenue	58%	42%		56%	44%	

	Six months ended June 30, 2020			Six months ended June 30, 2019		
	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾
<i>(\$000s)</i>						
Light oil	309	32,267	32,583	250	60,176	60,454
Condensate	27,406	10,323	37,730	45,775	16,145	61,919
NGLs	4,142	12,744	16,886	3,531	14,230	17,761
Natural gas	102,769	37,470	140,239	135,291	42,690	177,985
P&NG sales ⁽²⁾	134,626	92,804	227,438	184,847	133,241	318,119
Royalty income	2	1	5	8	84	93
P&NG revenue	134,628	92,805	227,443	184,855	133,325	318,212
% of corporate P&NG revenue	59%	41%		58%	42%	

(1) Includes 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 26% and 29% from the three and six month Comparable Prior Periods, respectively, primarily due to a lower average realized sales price received for Birchcliff's production. Actions taken around the world to mitigate the spread of COVID-19 resulted in significant oil demand destruction and weakness and volatility in global oil prices which impacted Birchcliff's light oil and condensate revenue in the Reporting Periods. Revenue for natural gas was negatively impacted by lower natural gas production and lower benchmark prices in non-AECO markets, partially offset by higher benchmark prices in AECO markets during 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 June 30, 2020			Three months ended June 30, 2019		
	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾
Light oil (bbls/d)	46	5,696	5,744	-	4,865	4,853
Condensate (bbls/d)	3,519	1,306	4,825	4,262	1,227	5,505
NGLs (bbls/d)	1,115	6,341	7,455	1,100	5,823	6,923
Natural gas (Mcf/d)	240,487	101,071	341,558	278,301	88,726	367,033
Production (boe/d)	44,760	30,187	74,950	51,746	26,703	78,453
Liquids-to-gas ratio (bbls/MMcf)	19.5	132.0	52.8	19.3	134.3	47.1
% of corporate production	60%	40%		66%	34%	

	Six months ended June 30, 2020			Six months ended June 30, 2019		
	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾
Light oil (bbls/d)	44	4,803	4,849	20	4,805	4,827
Condensate (bbls/d)	3,430	1,245	4,675	3,756	1,207	4,963
NGLs (bbls/d)	1,135	6,574	7,709	869	5,965	6,834
Natural gas (Mcf/d)	247,214	94,981	342,195	272,187	88,135	360,327
Production (boe/d)	45,811	28,453	74,265	50,009	26,666	76,678
Liquids-to-gas ratio (bbls/MMcf)	18.6	132.9	50.4	17.1	135.9	46.1
% of corporate production	62%	38%		65%	35%	

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

Birchcliff's corporate production decreased by 4% and 3% from the three and six month Comparable Prior Periods, respectively. The decreases were primarily due to planned production shut-in and facility maintenance activities in Pouce Coupe and natural production declines, partially offset by incremental production from new horizontal oil and condensate-rich natural gas wells brought on production in Gordondale and Pouce Coupe since the Comparable Prior Periods. In order to minimize frac-driven interaction associated with offset drilling and completions activities in Pouce Coupe, Birchcliff proactively and temporarily shut-in some production during the Reporting Periods in order to protect its existing wells.

Corporate liquids production increased by 4% from each of the three and six month Comparable Prior Periods and the corporate liquids-to-gas ratio (liquids yield) increased by 12% and 9% from the three and six month Comparable Prior Periods, respectively. These increases were largely attributable to incremental production from new horizontal oil wells and condensate-rich natural gas wells that were brought on production in Gordondale and Pouce Coupe, respectively.

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 June 30, 2020			Three months ended June 30, 2019		
	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾
% Light oil production	-	19%	8%	-	18%	6%
% Condensate production	8%	4%	6%	8%	5%	7%
% NGLs production	2%	21%	10%	2%	22%	9%
% Natural gas production	90%	56%	76%	90%	55%	78%

	Six months ended June 30, 2020			Six months ended June 30, 2019		
	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾	Pouce Coupe assets	Gordondale assets	Corporate ⁽¹⁾
% Light oil production	-	17%	7%	-	18%	6%
% Condensate production	8%	4%	6%	8%	5%	7%
% NGLs production	2%	23%	10%	2%	22%	9%
% Natural gas production	90%	56%	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 production accounted for approximately 24% and 23% of total production in three and six month Reporting Periods, respectively, as compared to approximately 22% in each of the three and six month 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 June 30,		
	2020	2019	Change
Light oil – WTI Cushing (US\$/bbl)	26.61	59.82	(56)%
Light oil – MSW (Mixed Sweet) (CDN\$/bbl)	25.15	73.26	(66)%
Natural gas – NYMEX HH (US\$/MMBtu) ⁽¹⁾	1.64	2.64	(38)%
Natural gas – AECO 5A Daily (CDN\$/GJ)	1.89	0.98	93%
Natural gas – AECO 7A Month Ahead (US\$/MMBtu) ⁽¹⁾	1.33	0.87	53%
Natural gas – Dawn Day Ahead (US\$/MMBtu) ⁽¹⁾	1.63	2.34	(30)%
Natural gas – ATP 5A Day Ahead (CDN\$/GJ)	1.68	1.17	44%
Exchange rate (CDN\$ to US\$1)	1.3860	1.3376	4%
Exchange rate (US\$ to CDN\$1)	0.7215	0.7476	(3)%

	Six months ended June 30,		
	2020	2019	Change
Light oil – WTI Cushing (US\$/bbl)	36.39	57.36	(37)%
Light oil – MSW (Mixed Sweet) (CDN\$/bbl)	38.21	69.63	(45)%
Natural gas – NYMEX HH (US\$/MMBtu) ⁽¹⁾	1.80	2.89	(38)%
Natural gas – AECO 5A Daily (CDN\$/GJ)	1.91	1.73	10%
Natural gas – AECO 7A Month Ahead (US\$/MMBtu) ⁽¹⁾	1.47	1.17	26%
Natural gas – Dawn Day Ahead (US\$/MMBtu) ⁽¹⁾	1.69	2.63	(36)%
Natural gas – ATP 5A Day Ahead (CDN\$/GJ)	1.65	1.90	(13)%
Exchange rate (CDN\$ to US\$1)	1.3651	1.3335	2%
Exchange rate (US\$ to CDN\$1)	0.7325	0.7499	(2)%

(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 natural gas production based on the AECO 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 financially diversified a portion of its AECO production to NYMEX HH-based pricing beginning January 1, 2019 (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 trading hub 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 oil consuming markets. In late February 2020, benchmark oil index prices started a significant drop predominately due to the COVID-19 pandemic and its negative impact on the global economy. Demand for oil has decreased since the outbreak of COVID-19. As a result, differentials between the WTI price and MSW price began to widen in early March 2020 and demand continued to be depressed throughout 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. Benchmark natural gas index prices declined in non-AECO trading hub markets since the Comparable Prior Periods primarily due to an increased supply and demand imbalance in North America during the Reporting Periods. Benchmark natural gas index prices in AECO trading hub markets have increased since the Comparable Prior Periods largely due to an improved supply and demand balance in Western Canada.

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		
	2020	2019	Change
Light oil (\$/bbl)	25.72	72.25	(64)%
Condensate (\$/bbl)	31.09	71.69	(57)%
NGLs (\$/bbl)	12.05	11.13	8%
Natural gas (\$/Mcf)	2.22	1.95	14%
Average realized sales price (\$/boe)⁽¹⁾	15.27	19.59	(22)%
	Six months ended		
	2020	2019	Change
Light oil (\$/bbl)	36.92	69.20	(47)%
Condensate (\$/bbl)	44.35	68.93	(36)%
NGLs (\$/bbl)	12.04	14.36	(16)%
Natural gas (\$/Mcf)	2.25	2.73	(18)%
Average realized sales price (\$/boe)⁽¹⁾	16.83	22.92	(27)%

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

The average realized sales price decreased by 22% and 27% from the three and six month Comparable Prior Periods, respectively, primarily due to lower oil benchmark index prices in the Reporting Periods. The average realized sales price for the six month Comparable Prior Period also included 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.

The average realized sales price for the Pouce Coupe assets was \$14.75/boe in the three month Reporting Period and \$16.15/boe in the six month Reporting Period, a 12% and 21% decrease, respectively, from the Comparable Prior Periods. The average realized sales price for the Gordondale assets was \$16.06/boe in the three month Reporting Period and \$17.92/boe in the six month Reporting Period, a 36% and 35% decrease, respectively from the Comparable Prior Periods. The Gordondale assets received a higher average realized sales price compared to the Pouce Coupe assets, largely as a result of the higher volume weighting of liquids produced in the Gordondale area, which received a higher value on a per boe basis than Birchcliff's natural gas sales. The higher volume weighting of liquids in the total corporate production mix generally improves Birchcliff's average realized sales price.

For further production and average realized pricing details for Birchcliff's Pouce Coupe assets and Gordondale assets, see "Discussion of Operations – Operating Netbacks" in this MD&A.

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 June 30, 2020					Three months ended June 30, 2019				
	Natural gas sales (\$000s) ⁽¹⁾		Natural gas production (Mcf/d)		Average realized sales price (\$/Mcf) ⁽¹⁾	Natural gas sales (\$000s) ⁽¹⁾		Natural gas production (Mcf/d)		Average realized sales price (\$/Mcf) ⁽¹⁾
	(%)	(%)	(%)	(%)		(%)	(%)	(%)	(%)	
AECO	33,840	49	177,108	52	2.12	22,049	34	217,353	59	1.11
Dawn ⁽²⁾	34,402	50	159,338	47	2.37	41,104	63	135,953	37	3.32
Alliance ⁽³⁾	665	1	5,112	1	1.43	1,856	3	13,727	4	1.49
Total	68,907	100	341,558	100	2.22	65,009	100	367,033	100	1.95

	Six months ended June 30, 2020					Six months ended June 30, 2019				
	Natural gas sales (\$000s) ⁽¹⁾		Natural gas production (Mcf/d)		Average realized sales price (\$/Mcf) ⁽¹⁾	Natural gas sales (\$000s) ⁽¹⁾		Natural gas production (Mcf/d)		Average realized sales price (\$/Mcf) ⁽¹⁾
	(%)	(%)	(%)	(%)		(%)	(%)	(%)	(%)	
AECO	68,191	49	176,221	51	2.15	66,731	37	205,854	57	1.77
Dawn ⁽²⁾	70,220	50	159,166	47	2.42	103,965	58	136,901	38	4.20
Alliance ⁽³⁾	1,828	1	6,808	2	1.48	7,289	5	17,572	5	2.29
Total	140,239	100	342,195	100	2.25	177,985	100	360,327	100	2.73

(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 six 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. There were no physical delivery contracts in place at Dawn subsequent to June 30, 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 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.

In addition to the Corporation's long-term natural gas risk management contracts, as a result of the COVID-19 pandemic, Birchcliff entered into a number of short-term risk management contracts in the three month Reporting Period to help reduce its exposure to volatility in oil and condensate prices during the spring and summer months.

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 June 30, 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 June 30, 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	Jul. 1, 2020 – Dec. 31, 2023	NYMEX HH less US\$1.298/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	10,000 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2023	NYMEX HH less US\$1.320/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	30,000 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2023	NYMEX HH less US\$1.330/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	15,000 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2024	NYMEX HH less US\$1.185/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2024	NYMEX HH less US\$1.200/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2024	NYMEX HH less US\$1.200/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	12,500 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2025	NYMEX HH less US\$1.108/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	10,000 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2025	NYMEX HH less US\$1.115/MMBtu
Natural gas	AECO 7A basis swap ⁽²⁾	10,000 MMBtu/d	Jul. 1, 2020 – 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
Crude oil	MSW fixed price	500 bbls/d	Jul. 1, 2020 – Jul. 31, 2020	CDN\$30.00/bbl
Crude oil	MSW fixed price	1,000 bbls/d	Jul. 1, 2020 – Jul. 31, 2020	CDN\$32.00/bbl
Condensate	C5+ fixed price	500 bbls/d	Aug. 1, 2020 – Aug. 31, 2020	CDN\$32.50/bbl

(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 June 30, 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 June 30, 2020, the Corporation had the following physical delivery contracts in place:

Product	Type of Contract	Quantity	Remaining Term	Contract Price
Natural gas	AECO 7A basis swap ⁽¹⁾	5,000 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2023	NYMEX HH less US\$1.205/MMBtu
Crude oil	MSW fixed price	1,000 bbls/d	Jul. 1, 2020 – Jul. 31, 2020	CDN\$34.10/bbl

(1) Birchcliff sold AECO basis swap.

There were no physical delivery contracts entered into subsequent to June 30, 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 June 30, 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⁾	Jul. 1 2020 – 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 (losses) on financial instruments for the periods indicated:

	Three months ended June 30,				Six months ended June 30,			
	2020		2019		2020		2019	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
Realized gain (loss)	(17,146)	(2.51)	5,317	0.74	(31,406)	(2.32)	18,635	1.34
Unrealized (loss)	(12,712)	(1.86)	(46,373)	(6.50)	(52,051)	(3.85)	(85,248)	(6.14)

Birchcliff realized a cash loss of \$17.1 million and \$31.4 million during the three and six month Reporting Periods primarily due to the settlement of financial NYMEX HH/AECO basis swap contracts that were outstanding in the periods.

Birchcliff recorded an unrealized non-cash loss on financial instruments of \$12.7 and \$52.1 million in the three and six month Reporting Periods, primarily due to the change in the fair value of the Corporation’s financial instruments to a liability position of \$184.6 million at June 30, 2020 from a liability position of \$171.9 million and \$132.6 million at March 31, 2020 and December 31, 2019, respectively. The fair value of the liability is the estimated discounted value to settle outstanding financial contracts at a point in time. The increase in the fair value net liability position of Birchcliff’s financial instruments was primarily attributable to: (i) the decrease in the forward basis spread between NYMEX HH and AECO 7A for contracts outstanding at June 30, 2020 as compared to the fair value previously assessed at March 31, 2020 and December 31, 2019; and (ii) the settlement of financial NYMEX HH/AECO basis swap contracts during the Reporting 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, foreign exchange 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 June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Royalty expense (\$000s) ⁽¹⁾	1,386	5,347	7,747	13,556
Royalty expense (\$/boe)	0.20	0.75	0.57	0.98
Effective royalty rate (%) ⁽²⁾	1%	4%	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 73% and 42% from the three and six month Comparable Prior Periods, respectively, primarily due to the decline in the average realized light oil and condensate sales prices and the effect these prices have 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 June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Field operating expense	20,881	23,442	42,749	47,010
Recoveries	(1,181)	(790)	(2,002)	(1,441)
Operating expense	19,700	22,652	40,747	45,569
Operating expense per boe	\$2.89	\$3.17	\$3.01	\$3.28

On a per unit basis, operating expense decreased by 9% and 8% from the three and six 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 Corporation's expanded liquids-handling capabilities 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 June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Natural gas transportation	26,679	23,425	53,522	47,279
Liquids transportation	7,495	6,598	13,928	12,661
Fractionation	1,920	545	3,282	1,671
Other fees	32	31	66	65
Transportation expense	36,126	30,599	70,798	61,676
Transportation expense per boe	\$5.30	\$4.29	\$5.25	\$4.45
Marketing purchases ⁽¹⁾	2,841	-	6,443	-
Marketing revenue ⁽¹⁾	(2,554)	-	(7,376)	-
Marketing loss (gain) ⁽¹⁾	287	-	(933)	-
Marketing loss (gain) per boe	\$0.04	-	\$(0.07)	-
Transportation and other expense	36,413	30,599	69,865	61,676
Transportation and other expense per boe	\$5.34	\$4.29	\$5.18	\$4.45

(1) Marketing purchases and marketing revenue 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 24% and 18% from the three and six 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 June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Pouce Coupe assets:				
<i>Average production:</i>				
Light oil (bbls/d)	46	-	44	20
Condensate (bbls/d)	3,519	4,262	3,430	3,756
NGLs (bbls/d)	1,115	1,100	1,135	869
Natural gas (Mcf/d)	240,487	278,301	247,214	272,187
Total (boe/d)	44,760	51,746	45,811	50,009
% of corporate production	60%	66%	62%	65%
Liquids-to-gas ratio (bbls/MMcf)	19.5	19.3	18.6	17.1
<i>Netback and cost (\$/boe):</i>				
Petroleum and natural gas revenue ⁽¹⁾	14.75	16.74	16.15	20.42
Royalty expense	(0.07)	(0.11)	(0.37)	(0.43)
Operating expense	(2.10)	(2.10)	(2.21)	(2.22)
Transportation and other expense	(5.66)	(4.45)	(5.47)	(4.58)
Operating netback	6.92	10.08	8.10	13.19
Gordondale assets:				
<i>Average production:</i>				
Light oil (bbls/d)	5,696	4,865	4,803	4,805
Condensate (bbls/d)	1,306	1,227	1,245	1,207
NGLs (bbls/d)	6,341	5,823	6,574	5,965
Natural gas (Mcf/d)	101,071	88,726	94,981	88,135
Total (boe/d)	30,187	26,703	28,453	26,666
% of corporate production	40%	34%	38%	35%
Liquids-to-gas ratio (bbls/MMcf)	132.0	134.3	132.9	135.9
<i>Netback and cost (\$/boe):</i>				
Petroleum and natural gas revenue ⁽¹⁾	16.06	25.10	17.92	27.63
Royalty expense	(0.41)	(1.99)	(0.90)	(2.01)
Operating expense	(4.02)	(5.18)	(4.29)	(5.24)
Transportation and other expense	(4.86)	(3.95)	(4.68)	(4.18)
Operating netback	6.77	13.98	8.05	16.20
Total Corporate:				
<i>Average production:</i>				
Light oil (bbls/d)	5,744	4,853	4,849	4,827
Condensate (bbls/d)	4,825	5,505	4,675	4,963
NGLs (bbls/d)	7,455	6,923	7,709	6,834
Natural gas (Mcf/d)	341,558	367,033	342,195	360,327
Total (boe/d)⁽²⁾	74,950	78,453	74,265	76,678
Liquids-to-gas ratio (bbls/MMcf)	52.8	47.1	50.4	46.1
<i>Netback and cost (\$/boe):</i>				
Petroleum and natural gas revenue ⁽¹⁾	15.27	19.59	16.83	22.93
Royalty expense	(0.20)	(0.75)	(0.57)	(0.98)
Operating expense	(2.89)	(3.17)	(3.01)	(3.28)
Transportation and other expense	(5.34)	(4.29)	(5.18)	(4.45)
Operating netback	6.84	11.38	8.07	14.22

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

(2) Includes 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 was 44,760 boe/d in the three month Reporting Period and 45,811 boe/d in the six month Reporting Period, a 14% and 8% decrease, respectively, from the Comparable Prior Periods. The decreases were primarily due to natural production declines, proactive temporary production shut-ins to minimize frac-driven interactions and scheduled facility maintenance, partially offset by the incremental production from horizontal condensate-rich natural gas wells that were brought on production in Pouce Coupe since the Comparable Prior Periods.

Birchcliff's liquids-to-gas ratio for the Pouce Coupe assets was 19.5 bbls/MMcf in the three month Reporting Period and 18.6 bbls/MMcf in the six month Reporting Period, a 1% and 9% increase, respectively from the Comparable Prior Periods. The increases were primarily due to the specifically targeted condensate-rich natural gas wells in Pouce Coupe.

Royalty expense for the Pouce Coupe assets was \$0.07/boe in the three month Reporting Period and \$0.37/boe in the six month Reporting Period, a 36% and 14% decrease, respectively, from the Comparable Prior Periods. The decreases in the Reporting Periods were primarily due to the decline in the average realized condensate sales price and the effect this price has on the sliding scale royalty calculation.

Operating expense for the Pouce Coupe assets was \$2.10/boe in the three month Reporting Period and \$2.21/boe in the six month Reporting Period and remained largely unchanged from the Comparable Prior Periods.

Transportation and other expense for the Pouce Coupe assets was \$5.66/boe in the three month Reporting Period and \$5.47/boe in the six month Reporting Period, a 27% and 19% increase, respectively, from the Comparable Prior Periods. The increases were primarily due to additional firm service transportation to AECO and Dawn sales trading hubs and increased totals liquids production in Pouce Coupe.

Birchcliff's operating netback for the Pouce Coupe assets was \$6.92/boe in the three month Reporting Period and \$8.10/boe in the six month Reporting Period, a 31% and 39% decrease, respectively, from the Comparable Prior Periods. The decreases in the Reporting Periods were primarily due to a lower average realized sales price received for Birchcliff's Pouce Coupe production and higher per boe transportation and other expense, partially offset by lower per boe royalty expense.

Gordondale Montney/Doig Resource Play

Birchcliff's average production from its Gordondale assets was 30,187 boe/d in the three month Reporting Period and 28,453 boe/d in the six month Reporting Period, a 13% and 7% increase, respectively, from the Comparable Prior Periods. The increases were primarily due to incremental production from new horizontal oil wells that were brought on production in Gordondale since the Comparable Prior Periods, partially offset by natural production declines.

Birchcliff's liquids-to-gas ratio for the Gordondale assets was 132.0 bbls/MMcf in the three month Reporting Period and 132.9 bbls/MMcf in the six month Reporting Period, which was comparable with the Comparable Prior Periods.

Royalty expense for the Gordondale assets was \$0.41/boe in the three month Reporting Period and \$0.90/boe in the six month Reporting Period, a 79% and 55% decrease, respectively, from the Comparable Prior Periods. The decreases in the Reporting Periods were primarily due to the decline in the average realized light oil and condensate sales prices and the effect these prices have on the sliding scale royalty calculation.

Operating expense for the Gordondale assets was \$4.02/boe in the three month Reporting Period and \$4.29/boe in the six month Reporting Period, a 22% and 18% decrease, respectively, from the Comparable Prior Periods. The decrease was primarily due to various field optimization initiatives which increased operating efficiencies in the Gordondale area.

Transportation and other expense for the Gordondale assets was \$4.86/boe in the three month Reporting Period and \$4.68/boe in the six month Reporting Period, a 23% and 12% increase, respectively, from the Comparable Prior Periods. The increases were primarily due to additional firm service transportation to AECO and Dawn sales trading hubs.

Birchcliff's operating netback for the Gordondale assets was \$6.77/boe in the three month Reporting Period and \$8.05/boe in the six month Reporting Period, a 52% and 50% decrease, respectively, from the Comparable Prior Periods. The decreases were primarily due to a lower average realized sales price received for Birchcliff's Gordondale production and higher transportation and other expense, partially offset by lower per boe royalty and operating expenses.

Administrative Expense

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

	Three months ended June 30,				Six months ended June 30,			
	2020		2019		2020		2019	
	(\$000s)	(%)	(\$000s)	(%)	(\$000s)	(%)	(\$000s)	(%)
<i>Cash:</i>								
Salaries and benefits ⁽¹⁾	5,922	63	5,853	60	12,457	65	12,063	62
Other ⁽²⁾	3,535	37	3,908	40	6,713	35	7,340	38
	9,457	100	9,761	100	19,170	100	19,403	100
Operating overhead recoveries	(33)	(1)	(43)	(1)	(66)	(1)	(79)	(1)
Capitalized overhead ⁽³⁾	(3,684)	(38)	(3,498)	(35)	(7,321)	(37)	(7,016)	(35)
G&A expense, net	5,740	61	6,220	64	11,783	62	12,308	64
G&A expense, net per boe	\$0.84		\$0.87		\$0.87		\$0.89	
<i>Non-cash:</i>								
Other compensation	1,227	100	3,304	100	2,950	100	5,051	100
Capitalized compensation ⁽³⁾	(677)	(55)	(1,350)	(41)	(1,655)	(56)	(2,330)	(46)
Other compensation, net	550	45	1,954	59	1,295	44	2,721	54
Other compensation, net per boe	\$0.08		\$0.27		\$0.10		\$0.20	
Administrative expense, net	6,290		8,174		13,078		15,029	
Administrative expense, net per boe	\$0.92		\$1.14		\$0.97		\$1.09	

(1) Includes salaries and benefits 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.

There was no significant impact to G&A expenditures recorded during the Reporting Periods as a result of the COVID-19 pandemic. Other compensation expense decreased from the Comparable Prior Periods mainly due to a \$1.3 million expense related to the extension of the performance warrants in the three month Comparable Prior Period. Birchcliff was eligible under the Federal Government's Canadian Emergency Wage Subsidy and received \$2.8 million in subsidies during the three month Reporting Period which have been recorded to "other income" in profit or loss.

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

	Three months ended June 30,				Six months ended June 30,			
	2020		2019		2020		2019	
	Number	Price (\$) ⁽¹⁾	Number	Price (\$) ⁽¹⁾	Number	Price (\$) ⁽¹⁾	Number	Price (\$) ⁽¹⁾
Outstanding, beginning	21,162,001	4.03	18,615,436	4.89	23,483,368	4.28	15,847,570	5.74
Granted ⁽²⁾	89,000	0.93	87,000	3.40	124,500	1.22	4,819,200	3.54
Exercised	-	-	(10,867)	(3.08)	-	-	(23,867)	(3.08)
Forfeited	-	-	(128,501)	(4.34)	(57,567)	(3.18)	(168,501)	(4.40)
Expired	(112,000)	(7.37)	(56,600)	(7.80)	(2,411,300)	(6.60)	(1,967,934)	(8.64)
Outstanding, ending	21,139,001	4.00	18,506,468	4.88	21,139,001	4.00	18,506,468	4.88

(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 June 30, 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 plus probable reserve 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:

	Three months ended		Six months ended	
	June 30,		June 30,	
(\$000s)	2020	2019	2020	2019
Depletion and depreciation expense	52,223	52,841	103,831	103,700
Depletion and depreciation expense per boe	\$7.66	\$7.40	\$7.68	\$7.47

D&D expense on an aggregate basis for the Reporting Periods was comparable with the Comparable Prior Periods.

Finance Expense

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

	Three months ended		Six months ended	
	June 30,		June 30,	
(\$000s)	2020	2019	2020	2019
<i>Cash:</i>				
Interest expense ⁽¹⁾	4,690	6,596	10,679	13,532
Interest expense per boe ⁽¹⁾	\$0.69	\$0.92	\$0.79	\$0.97
<i>Non-cash:</i>				
Accretion ⁽²⁾	717	512	1,560	1,559
Amortization of deferred financing fees	346	382	731	756
Other expenses	1,063	894	2,291	2,315
Other expenses per boe	\$0.16	\$0.12	\$0.17	\$0.16
Finance expense	5,753	7,490	12,970	15,847
Finance expense per boe	\$0.85	\$1.04	\$0.96	\$1.13

(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 primarily draws on its Syndicated Credit Facility using CDN dollar denominated bankers' acceptances and US dollar denominated LIBOR loans. The average effective interest rate under the Syndicated Credit Facility is determined based on: (i) the market interest rate of its drawn bankers' acceptances and/or LIBOR loans; and (ii) Birchcliff's 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.

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

Birchcliff's aggregate interest expense in the three and six month Reporting Periods decreased by 29% and 21%, respectively, from the Comparable Prior Periods. The decreases were primarily due to: (i) higher drawn US dollar denominated LIBOR loans in the Reporting Periods, which had a lower average market interest rate component compared to higher drawn CDN dollar denominated bankers' acceptances in the Comparable Prior Periods; and (ii) lower stamping fees applicable to Birchcliff's Syndicated Credit Facility, which were partially offset by a higher average outstanding total Credit Facilities balance in the Reporting Periods. The following table sets forth the Corporation's effective interest rates under its Credit Facilities for the periods indicated:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Working Capital Facility	3.2%	5.0%	3.2%	5.0%
Syndicated Credit Facility	2.5%	4.6%	3.2%	4.6%

Birchcliff's average outstanding total Credit Facilities balance was approximately \$684 and \$647 million in the three and six month Reporting Periods, respectively, as compared to \$593 million and \$597 million in the Comparable Prior Periods, calculated as the simple average of the month-end amounts.

Other Losses

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

	Three months ended				Six months ended			
	June 30,				June 30,			
	2020		2019		2020		2019	
(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	
Other losses⁽¹⁾	2,700	0.40	5,593	0.78	2,663	0.20	5,593	0.40

(1) Primarily consists of non-cash long-term investments losses.

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 value of \$10 million. The Securities are not publicly listed and do not constitute significant investments. The Corporation determined the Securities had a fair value of \$1.3 million and \$4.4 million at June 30, 2020 and June 30, 2019, respectively. As such, Birchcliff recorded a non-cash loss on investment of \$3.1 million and \$5.6 million during the Reporting Periods and Comparable Prior Periods, respectively.

Income Taxes

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

(\$000s)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Deferred tax recovery	10,669	26,884	23,149	20,648
Dividend tax expense on preferred shares	(768)	(769)	(537)	(1,538)
Income tax recovery	9,901	26,115	22,612	19,110
Income tax recovery per boe	\$1.46	\$3.65	\$1.67	\$1.37

Birchcliff’s income taxes are primarily impacted by the before-tax net income or losses recorded in the respective periods. During the Comparable Prior Periods, Birchcliff recorded a deferred tax recovery of \$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 June 30, 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 June 30, 2020
Canadian oil and gas property expense	401,742
Canadian development expense	467,591
Canadian exploration expense	313,548
Undepreciated capital costs	370,503
Non-capital losses	641,414
SR&ED ⁽¹⁾ & Investment tax credits	25,592
Financing costs and other	8,107
Estimated income tax pools	2,228,497

(1) 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 June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Land	251	728	1,028	1,252
Seismic	204	459	518	3,783
Workovers	3,083	3,571	6,609	4,476
Drilling and completions	55,798	41,538	130,061	101,996
Well equipment and facilities	24,137	21,641	77,618	47,896
Finding and development capital	83,473	67,937	215,834	159,403
Acquisitions	-	139	14	39,399
Finding, development and acquisition capital	83,473	68,076	215,848	198,802
Administrative assets	501	456	966	1,688
Total capital expenditures	83,974	68,532	216,814	200,490

During the three month Reporting Period, Birchcliff had total capital expenditures of \$84.0 million, which primarily included approximately \$46.2 million (55%) on the drilling and completion of Montney horizontal wells in Pouce Coupe, \$9.6 million (11%) on the drilling and completion of Montney horizontal wells in Gordondale and \$12.1 million (14%) on the Inlet Liquids-Handling Facility. During the three month Reporting Period, Birchcliff drilled 10 (10.0 net) wells and completed 6 (6.0 net) wells.

During the six month Reporting Period, Birchcliff had total capital expenditures of \$216.8 million, which primarily included approximately \$84.6 million (39%) on the drilling and completion of Montney horizontal wells in Pouce Coupe, \$45.5 million (21%) on the drilling and completion of Montney horizontal wells in Gordondale, \$31.0 million (14%) on the Inlet Liquids-Handling Facility and \$23.4 million (11%) on compression and pipeline infrastructure in Gordondale.

The remaining capital during the Reporting Periods was primarily spent on land, seismic, 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		Six months ended	
	2020	2019	2020	2019
Adjusted funds flow	21,746	73,957	58,640	190,605
Changes in non-cash working capital from operations	(8,280)	24,351	5,928	3,320
Decommissioning expenditures	(245)	(451)	(796)	(1,324)
Exercise of stock options	-	33	-	73
Repurchase of common shares	(610)	-	(610)	-
Financing fees paid on credit facilities	-	(990)	-	(990)
Lease payments	(573)	(537)	(1,146)	(1,074)
Dividends paid	(3,249)	(8,903)	(12,152)	(17,805)
Net change in revolving term credit facilities	133,770	11,057	143,339	17,404
Deposit on acquisition	-	-	-	3,900
Changes in non-cash working capital from investing	(58,596)	(30,017)	23,601	6,349
Capital resources	83,963	68,500	216,804	200,458

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. The COVID-19 pandemic has had a significant negative impact on oil prices and global capital markets. 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. Notwithstanding this, the Corporation believes that its internally generated adjusted funds flow and its existing undrawn Credit Facilities will provide sufficient liquidity to fund the remainder of its 2020 Capital Program as well as its dividend distributions and working capital requirements for the foreseeable future. Birchcliff's adjusted funds flow 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.

The Corporation closely monitors commodity prices and its capital spending and has taken proactive measures to ensure liquidity and financial flexibility in the current environment, including the following:

- On March 11, 2020, the Corporation announced the deferral of \$65 million of capital spending in 2020, which represented approximately 19% of its original 2020 capital budget.
- 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 May 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. At June 30, 2020, the Corporation had \$241.0 million in unused credit capacity available under its Credit Facilities, after adjusting for outstanding letters of credit and unamortized fees.
- Birchcliff continues to engage in strategic risk management activities and the Corporation added short-term crude oil and condensate hedges for the spring and summer months in 2020 to reduce the Corporation's exposure to volatility in oil prices. In addition, Birchcliff's 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 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) commencing with the quarter ending June 30, 2020, which is expected to result in the preservation of approximately \$17.0 million in 2020.
- Birchcliff has received \$2.8 million in subsidies under the Federal Government’s Canadian Emergency Wage Subsidy as of June 30, 2020. Birchcliff continues to actively monitor all government announcements to determine its eligibility for any relief that is being provided through this highly volatile and challenging period.

Working Capital

The Corporation’s adjusted working capital deficit increased to \$54.5 million at June 30, 2020 from \$23.4 million at December 31, 2019. The deficit at June 30, 2020 was largely comprised of costs incurred from the drilling and completion of new wells in Pouce Coupe and Gordondale.

At June 30, 2020, the major component of Birchcliff’s current assets was revenue to be received from its marketers in respect of June 2020 production (78%), which was subsequently received in July 2020. Current liabilities largely consisted of trade payables (57%) and accrued capital and operating expense (7%). Birchcliff monitors the financial strength of its marketers. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations.

Adjusted working capital includes items expected 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 the Credit Facilities.

Total Debt and Credit Facilities

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 \$807.6 million at June 30, 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 \$216.8 million in capital expenditures in the six month Reporting Period primarily on the drilling and completions of new horizontal oil and condensate-rich natural gas wells and costs related to the Inlet Liquids-Handling Facility and other infrastructure.

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

As at, (\$000s)	June 30, 2020	December 31, 2019
<i>Maximum borrowing base limit</i> ⁽¹⁾ :		
Revolving term credit facilities ⁽²⁾	1,000,000	1,000,000
<i>Principal amount utilized:</i>		
Drawn revolving term credit facilities	(754,821)	(611,483)
Outstanding letters of credit ⁽³⁾	(4,185)	(4,185)
	(759,006)	(615,668)
Unused credit	240,994	384,332
% unused credit	24%	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 P&NG 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 May 2020, the borrowing base limit was confirmed at \$1.0 billion.
- (2) The Credit Facilities do not contain any financial maintenance covenants, but do contain various industry standard non-financial covenants. 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 June 30, 2020 was 18.3. As at June 30, 2020, the Corporation was in compliance with all covenants.
- (3) 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 June 30, 2020:

(\$000s)	2020	2021	2022-2024	Thereafter
Accounts payable and accrued liabilities	108,912	-	-	-
Drawn revolving term credit facilities	-	-	754,821	-
Firm transportation and fractionation ⁽¹⁾	65,899	137,787	368,414	304,130
Natural gas processing ⁽²⁾	8,648	17,155	51,512	137,334
Operating commitments ⁽³⁾	985	2,260	6,780	6,968
Lease payments	2,137	3,008	7,791	8,821
Capital securities ⁽⁴⁾	49,071	-	-	-
Estimated contractual obligations⁽⁵⁾	235,652	160,210	1,189,318	457,253

(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 1,962,835 Series C Preferred Shares outstanding at June 30, 2020, which are redeemable by their holders at \$25.00 per share. For further details, see the interim condensed 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 June 30, 2020 to be approximately \$207.0 million and are estimated to be incurred as follows: 2020 - \$2.2 million, 2021 - \$2.9 million and \$201.9 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 August 12, 2020, 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:

	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)
Balance at June 30, 2020 and August 12, 2020	265,935,229

(1) See capital securities note below.

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

At June 30, 2020, the Corporation had the following securities outstanding: 265,935,229 common shares; 2,000,000 Series A Preferred Shares; 1,962,835 Series C Preferred Shares; 21,139,001 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

On and after June 30, 2020, 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.

During the three month Reporting Period, the Corporation received Notices of Redemptions for a total of 37,165 Series C Preferred Shares and elected to convert such shares into common shares. As a result, the Corporation issued 464,562 common shares on June 30, 2020.

Dividends

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
<i>Common shares:</i>				
Dividend distribution (\$000s)	1,327	6,981	8,308	13,961
Per common share (\$)	0.0050	0.0263	0.0156	0.0263
<i>Preferred shares - Series A:</i>				
Series A dividend distribution (\$000s)	1,047	1,047	2,094	2,094
Per Series A preferred share (\$)	0.5234	0.5234	0.5234	0.5234
<i>Preferred shares - Series C:</i>				
Series C dividend distribution (\$000s)	875	875	1,750	1,750
Per Series C preferred share (\$)	0.4375	0.4375	0.4375	0.4375

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

In the three month Reporting Period, 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). This reduced quarterly cash dividend was declared by the Corporation’s Board of Directors on June 2, 2020 and was paid on June 30, 2020 to shareholders of record at the close of business on June 15, 2020.

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,	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sep. 30, 2018
Average production (boe/d)	74,950	73,580	77,962	80,548	78,453	74,884	76,408	79,331
Average realized light oil sales price (\$/bbl) ⁽¹⁾	25.72	53.18	67.58	67.15	72.25	66.08	41.39	80.16
Average realized condensate sales price (\$/bbl) ⁽¹⁾	31.09	58.48	68.80	65.94	71.69	65.45	55.99	84.10
Average realized NGLs sales price (\$/bbl) ⁽¹⁾	12.05	12.02	16.62	9.75	11.13	17.71	21.60	23.39
Average realized natural gas sales price (\$/Mcf) ⁽¹⁾	2.22	2.29	2.81	1.71	1.95	3.55	3.03	2.06
Average realized sales price (\$/boe)	15.27	18.41	22.97	17.62	19.59	26.45	22.01	21.45
P&NG revenue (\$000s) ⁽¹⁾	104,180	123,263	164,759	130,588	139,857	178,355	154,720	156,609
Operating expense (\$/boe)	2.89	3.14	3.06	2.75	3.17	3.40	3.51	3.45
F&D capital expenditures (\$000s)	83,473	132,361	56,800	40,192	67,937	91,466	52,321	44,984
Total capital expenditures (\$000s)	83,974	132,840	58,136	41,621	68,532	131,958	52,886	45,524
Cash flow from operating activities (\$000s)	13,221	50,551	85,557	48,908	97,857	94,744	92,200	68,556
Adjusted funds flow (\$000s)	21,746	36,894	80,941	62,958	73,957	116,648	81,517	75,378
Per common share – basic (\$)	0.08	0.14	0.30	0.24	0.28	0.44	0.31	0.28
Per common share – diluted (\$)	0.08	0.14	0.30	0.24	0.28	0.44	0.30	0.28
Free funds flow (\$000s)	(61,727)	(95,467)	24,141	22,766	6,020	25,182	29,196	30,394
Net income (loss) (\$000s)	(38,475)	(44,154)	(17,937)	(45,843)	(8,458)	16,846	71,947	7,703
Net income (loss) to common shareholders (\$000s) ⁽²⁾	(39,522)	(45,201)	(18,984)	(46,889)	(9,505)	15,799	70,900	6,657
Per common share – basic (\$)	(0.15)	(0.17)	(0.07)	(0.18)	(0.04)	0.06	0.27	0.03
Per common share – diluted (\$)	(0.15)	(0.17)	(0.07)	(0.18)	(0.04)	0.06	0.27	0.02
Total assets (\$ million)	2,929	2,871	2,817	2,822	2,840	2,860	2,763	2,707
Long-term bank debt (\$000s)	753,092	619,055	609,177	638,631	622,282	611,911	605,267	635,120
Total debt (\$000s)	807,573	739,631	632,582	644,407	654,709	626,454	641,484	661,409
Dividends on common shares (\$000s)	1,327	6,981	6,981	6,981	6,981	6,980	6,648	6,647
Dividends on pref. shares – Series A (\$000s)	1,047	1,047	1,047	1,046	1,047	1,047	1,047	1,046
Dividends on pref. shares – Series C (\$000s)	875	875	875	875	875	875	875	875
Pref. shares outstanding – Series A (000s)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Pref. shares outstanding – Series C (000s)	1,963	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Common shares outstanding (000s)								
Basic	265,935	265,935	265,935	265,935	265,935	265,924	265,911	265,885
Diluted	290,014	290,037	292,358	287,407	287,381	287,480	284,699	285,825
Wtd. avg. common shares outstanding (000s)								
Basic	265,935	265,935	265,935	265,935	265,933	265,914	265,910	265,877
Diluted	265,935	265,935	265,935	265,935	265,933	266,382	267,288	268,605

(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.

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

Quarterly variances in revenue, adjusted funds flow and net income (loss) are primarily due to fluctuations in commodity prices and production volumes. Oil and gas 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. In the last two quarters, Birchcliff's adjusted funds flow was impacted by oil demand destruction and price volatility caused by the COVID-19 pandemic. Over the last eight quarters, Birchcliff's adjusted funds flow was also impacted by the realized gains and losses on the settlement of financial instruments, lower trending operating expenses primarily due to reduced third-party processing fees and increased natural gas processing capacity at Birchcliff's low cost Pouce Coupe Gas Plant and higher trending transportation and other expense primarily due to added market diversification initiatives and additional AECO firm service.

Birchcliff's net income (loss) in each of the last eight quarters were 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 after giving effect to income taxes.

The Corporation's F&D and total capital expenditures fluctuate quarter-to-quarter based on the outlook in commodity prices and market conditions, the timing of drilling and completions operations and the timing of acquisitions and dispositions. Quarterly variances in long-term bank debt and total debt are primarily due to fluctuations in adjusted funds flow and the amount and timing of capital expenditures (including acquisitions and dispositions) and dividends paid.

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

POTENTIAL TRANSACTIONS

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Corporation's internal control over financial reporting ("ICFR") that occurred during the period beginning on April 1, 2020 and ended on June 30, 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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies, reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The Corporation's use of estimates, judgments and assumptions in preparing the interim condensed financial statements for the Reporting Periods and the Comparable Prior Periods is discussed in Note 3 of the annual audited financial statements for the year ended December 31, 2019.

Management cannot reasonably estimate the length or severity of the COVID-19 pandemic, or the extent to which the disruption will impact the Corporation's statements of net income (loss) and comprehensive income (loss), statements of financial position or statements of cash flows in fiscal 2020. The potential direct and indirect impacts of the economic downturn have been considered in management's estimates and assumptions at June 30, 2020 and have been reflected in the Corporation's unaudited interim financial statements for the Reporting Periods.

CHANGES IN ACCOUNTING POLICIES

Accounting Pronouncements Adopted

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 amendment to IFRS 3 had no effect to the Corporation for the Reporting Periods.

Accounting Policies Adopted

Government 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, it is recognized as other income in profit or loss on a systematic basis in the period in which the costs are incurred.

RISK FACTORS AND RISK MANAGEMENT

Birchcliff's financial and operational performance is potentially affected by a number of factors, including, but not limited to, financial risks, risks relating to economic conditions, business and operational risks, environmental and regulatory risks and other risks. A detailed discussion of the risk factors affecting the Corporation is presented under the headings "*Risk Factors and Risk Management*" in the MD&A for the year ended December 31, 2019 and "*Risk Factors*" in the AIF. The following risk factor supplements those disclosed in Birchcliff's AIF and MD&A for the year ended December 31, 2019.

COVID-19 Pandemic

The COVID-19 pandemic has adversely affected and could continue to adversely affect the Corporation's business

On March 10, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic prompting many countries around the world to close international borders and order the closure of institutions and businesses. The outbreak of the COVID-19 pandemic has had a significant negative impact on global economic conditions. 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 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. Although Birchcliff determined there were no impairment indicators present at June 30, 2020, further declines in commodity prices could lead to future impairments on the Corporation's P&NG 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, access to 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 extent to which the Corporation's business, results of operations, financial condition and prospects are affected by COVID-19 will depend on various factors and consequences beyond its control, such as the duration and scope of the pandemic, additional actions taken by business and government in response to the pandemic and the speed and effectiveness of responses to combat the virus.

Additionally, the COVID-19 pandemic and its effect on local and global economic conditions stemming from the pandemic could also aggravate the other risk factors identified in Birchcliff's AIF and MD&A for the year ended December 31, 2019, the extent of which is not yet known.

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
G&A	general and administrative
GAAP	generally accepted accounting principles for Canadian public companies which are currently IFRS
GJ	gigajoule
GJ/d	gigajoules per day
HH	Henry Hub
IFRS	International Financial Reporting Standards as issued by the International Accounting Standards Board
m ³	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
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
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, future 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 June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Cash flow from operating activities	13,221	97,857	63,772	192,601
Change in non-cash operating working capital	8,280	(24,351)	(5,928)	(3,320)
Decommissioning expenditures	245	451	796	1,324
Adjusted funds flow	21,746	73,957	58,640	190,605
F&D capital expenditures	(83,473)	(67,937)	(215,834)	(159,403)
Free funds flow	(61,727)	6,020	(157,194)	31,202

"Transportation and other expense" denotes transportation expense plus marketing purchases minus marketing revenue. 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 and less any realized losses (plus realized gains) on financial instruments and plus any other cash income sources. All 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 June 30,				Six months ended June 30,			
	2020		2019		2020		2019	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
Petroleum and natural gas revenue	104,180	15.27	139,857	19.59	227,443	16.83	318,212	22.93
Royalty expense	(1,386)	(0.20)	(5,347)	(0.75)	(7,747)	(0.57)	(13,556)	(0.98)
Operating expense	(19,700)	(2.89)	(22,652)	(3.17)	(40,747)	(3.01)	(45,569)	(3.28)
Transportation and other expense	(36,413)	(5.34)	(30,599)	(4.29)	(69,865)	(5.18)	(61,676)	(4.45)
Operating netback	46,681	6.84	81,259	11.38	109,084	8.07	197,411	14.22
G&A, net	(5,740)	(0.84)	(6,220)	(0.87)	(11,783)	(0.87)	(12,308)	(0.89)
Interest expense	(4,691)	(0.69)	(6,596)	(0.92)	(10,679)	(0.79)	(13,532)	(0.97)
Realized gain (loss) on financial instruments	(17,146)	(2.51)	5,317	0.74	(31,406)	(2.32)	18,635	1.34
Other income	2,642	0.39	197	0.03	3,424	0.25	399	0.03
Adjusted funds flow netback	21,746	3.19	73,957	10.36	58,640	4.34	190,605	13.73

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

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" are comprised of royalty, operating, transportation and other, G&A and interest expenses. Total cash costs are calculated 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. In the Comparable Prior Periods, Birchcliff's capital securities were long-term in nature and therefore no adjustment for capital securities was made to adjusted working

capital deficit for that period. Management believes that adjusted working capital deficit assists management and investors in assessing Birchcliff's short-term liquidity. 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)	June 30, 2020	December 31, 2019	June 30, 2019
Working capital deficit	145,748	100,199	81,617
Financial instrument – current asset	-	-	1,927
Financial instrument – current liability	(42,196)	(26,949)	(1,427)
Capital securities – current liability	(49,071)	(49,845)	(49,690)
Adjusted working capital deficit	54,481	23,405	32,427

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

As at, (\$000s)	June 30, 2020	December 31, 2019	June 30, 2019
Revolving term credit facilities	753,092	609,177	622,282
Adjusted working capital deficit	54,481	23,405	32,427
Total debt	807,573	632,582	654,709

ADVISORIES

Unaudited Information

All financial and operational information contained in this MD&A for the Reporting Periods and the Comparable Prior Periods is unaudited.

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.

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 or performance 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 “*COVID-19 Operating Environment*”, “*Risk Factors and Risk Management*” and elsewhere in this MD&A as it relates to the expected impacts of the COVID-19 pandemic, including that the COVID-19 pandemic may continue to have a significant impact on Birchcliff’s business, results of operations, financial condition and the environment in which it operates; and that the Corporation continues to expect that its receivables were substantially collectible at June 30, 2020;
- the information set forth under the heading “*Outlook and Guidance*” and elsewhere in this MD&A as it relates to Birchcliff’s 2020 Capital Program and outlook and guidance, including: statements that Birchcliff’s average production in Q3 and Q4 2020 is expected to increase from Q1 and Q2 2020 levels; statements that Birchcliff expects that its higher production in Q3 and Q4 of 2020 will drive higher adjusted funds flow, as natural gas prices are anticipated to continue to strengthen towards the end of 2020 and into 2021; statements that Birchcliff’s total debt is expected to peak early in Q3 2020 and decrease throughout the remainder of 2020; statements that Birchcliff expects to exit 2020 in a strong position as a result of its higher production and low-cost structure; statements that the anticipated proved developed producing reserves additions resulting from the 2020 Capital Program should position the Corporation well for the future; statements regarding the Corporation’s 2021 capital program (including: that the program will prioritize debt reduction, free funds flow generation and ensuring the Corporation’s long-term sustainability; that the program will be designed to provide Birchcliff with significant optionality to take advantage of volatile commodity prices; that as a result of Birchcliff’s large inventory of potential future drilling locations, the Corporation has the ability to focus on natural gas, liquids-rich natural gas or light oil drilling; that facilities and infrastructure spending in 2021 is expected to be significantly lower than in 2020; and that the Corporation expects to release preliminary guidance regarding its 2021 capital program in November 2020); and 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;
- Birchcliff’s market diversification and risk management activities and any anticipated benefits to be derived therefrom;

- 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: statements 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; statements that Birchcliff's capital resources primarily consist of adjusted funds flow and available Credit Facilities; statements 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 belief that its internally generated adjusted funds flow and its existing undrawn Credit Facilities will provide sufficient liquidity to fund the remainder of its 2020 Capital Program, as well as its dividend distributions and working capital requirements for the foreseeable future; statements that the Corporation's reduced common share dividend is expected to result in the preservation of approximately \$17.0 million in 2020; statements regarding the Corporation's financial flexibility; the Corporation's expectation that counterparties will be able to meet their financial obligations; and statements that management of debt levels continues to be a priority for Birchcliff;
- estimates of Birchcliff's material contractual obligations and commitments and decommissioning obligations; and
- statements regarding potential transactions.

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 and resource 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 2020 guidance (as updated August 12, 2020) assumes the following commodity prices and exchange rate: an average WTI price of US\$39.00/bbl; an average WTI-MSW differential of CDN\$8.75/bbl; an average AECO 5A price of CDN\$2.10/GJ; an average Dawn price of US\$1.90/MMBtu; an average NYMEX HH price of US\$2.10/MMBtu; and an exchange rate (CDN\$ to US\$1) of 1.35
- With respect to estimates of 2020 capital expenditures and Birchcliff's spending plans for 2020, such estimates and plans assume that the 2020 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 2020, such estimates assume that: the 2020 Capital Program will be carried out as currently contemplated and the level of capital spending for 2020 set forth herein will be achieved; and the targets for production, commodity mix 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, such guidance assumes that: the 2020 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.

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 crude 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 and resources; 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. Without limitation of the foregoing, the declaration and payment of future dividends (and the amount thereof) may vary depending on a variety of factors and conditions existing from time to time and is subject to the satisfaction of the solvency and liquidity tests imposed by the *Business Corporations Act* (Alberta). For further information relating to risks relating to dividends, see "Risk Factors – Dividends" in the AIF.

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 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 AIF, this MD&A and in other reports filed with Canadian securities regulatory authorities.

This MD&A contains information that may constitute future-orientated financial information or financial outlook information (collectively, "FOFI") about Birchcliff's prospective results of operations including, without limitation, adjusted funds flow, free funds flow and total debt, 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.

BIRCHCLIFF ENERGY LTD.

CONDENSED STATEMENTS OF FINANCIAL POSITION

Unaudited (Expressed in thousands of Canadian dollars)

As at,	June 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash	60	70
Accounts receivable	46,470	64,747
Prepaid expenses and deposits	7,901	4,385
	54,431	69,202
Non-current assets:		
Investment in securities (Note 14)	1,305	4,405
Petroleum and natural gas properties and equipment (Note 4)	2,872,873	2,743,078
	2,874,178	2,747,483
Total assets	2,928,609	2,816,685
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	108,912	92,607
Financial instruments (Note 13)	42,196	26,949
Capital securities (Note 7)	49,071	49,845
	200,179	169,401
Non-current liabilities:		
Revolving term credit facilities (Note 5)	753,092	609,177
Decommissioning obligations (Note 6)	143,549	128,128
Deferred income taxes	57,522	81,672
Other liabilities (Note 10)	26,631	27,046
Financial instruments (Note 13)	142,444	105,640
	1,123,238	951,663
Total liabilities	1,323,417	1,121,064
SHAREHOLDERS' EQUITY		
Share capital (Note 7)		
Common shares	1,478,276	1,478,356
Preferred shares (perpetual)	41,434	41,434
Contributed surplus	87,566	84,884
Retained earnings (deficit)	(2,084)	90,947
	1,605,192	1,695,621
Total shareholders' equity and liabilities	2,928,609	2,816,685

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

BIRCHCLIFF ENERGY LTD.

CONDENSED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
REVENUE				
Petroleum and natural gas revenue (Note 9)	104,180	139,857	227,443	318,212
Marketing revenue (Note 9)	2,554	-	7,376	-
Royalties	(1,386)	(5,347)	(7,747)	(13,556)
Realized gain (loss) on financial instruments (Note 13)	(17,146)	5,317	(31,406)	18,635
Unrealized loss on financial instruments (Note 13)	(12,712)	(46,373)	(52,051)	(85,248)
Other income	2,642	197	3,424	399
	78,132	93,651	147,039	238,442
EXPENSES				
Operating	19,700	22,652	40,747	45,569
Transportation	36,126	30,599	70,798	61,676
Marketing purchases (Note 9)	2,841	-	6,443	-
Administrative, net	6,290	8,174	13,078	15,029
Depletion and depreciation (Note 4)	52,223	52,841	103,831	103,700
Finance	5,753	7,490	12,970	15,847
Dividends on capital securities (Note 7)	875	875	1,750	1,750
Other losses (Note 14)	2,700	5,593	2,663	5,593
	126,508	128,224	252,280	249,164
Net (loss) before taxes	(48,376)	(34,573)	(105,241)	(10,722)
Income tax recovery	9,901	26,115	22,612	19,110
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	(38,475)	(8,458)	(82,629)	8,388
Net income (loss) per common share (Note 8)				
Basic	\$(0.15)	\$(0.04)	\$(0.32)	\$0.02
Diluted	\$(0.15)	\$(0.04)	\$(0.32)	\$0.02

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

BIRCHCLIFF ENERGY LTD.

CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Unaudited (Expressed in thousands of Canadian dollars)

	Share Capital			Retained Earnings (Deficit)	Total
	Common Shares	Preferred Shares	Contributed Surplus		
As at December 31, 2018	1,478,260	41,434	76,747	178,449	1,774,890
Dividends on common shares (Note 7)	-	-	-	(13,961)	(13,961)
Dividends on perpetual preferred shares (Note 7)	-	-	-	(2,094)	(2,094)
Exercise of stock options	96	-	(23)	-	73
Stock-based compensation (Note 11)	-	-	4,791	-	4,791
Net income and comprehensive income	-	-	-	8,388	8,388
As at June 30, 2019	1,478,356	41,434	81,515	170,782	1,772,087
As at December 31, 2019	1,478,356	41,434	84,884	90,947	1,695,621
Dividends on common shares (Note 7)	-	-	-	(8,308)	(8,308)
Dividends on perpetual preferred shares (Note 7)	-	-	-	(2,094)	(2,094)
Conversion of Series C preferred shares (Note 7)	530	-	-	-	530
Repurchase of common shares (Note 7)	(610)	-	-	-	(610)
Stock-based compensation (Note 11)	-	-	2,682	-	2,682
Net loss and comprehensive loss	-	-	-	(82,629)	(82,629)
As at June 30, 2020	1,478,276	41,434	87,566	(2,084)	1,605,192

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

BIRCHCLIFF ENERGY LTD.

CONDENSED STATEMENTS OF CASH FLOWS

Unaudited (Expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Cash provided by (used in):				
OPERATING				
Net income (loss)	(38,475)	(8,458)	(82,629)	8,388
Adjustments for items not affecting operating cash:				
Unrealized loss on financial instruments (Note 13)	12,712	46,373	52,051	85,248
Depletion and depreciation (Note 4)	52,223	52,841	103,831	103,700
Other compensation	550	1,954	1,295	2,721
Finance	5,753	7,490	12,970	15,847
Other losses	2,700	5,593	2,663	5,593
Income tax recovery	(9,901)	(26,115)	(22,612)	(19,110)
Interest paid	(4,691)	(6,596)	(10,679)	(13,532)
Dividends on capital securities (Note 7)	875	875	1,750	1,750
Decommissioning expenditures (Note 6)	(245)	(451)	(796)	(1,324)
Changes in non-cash working capital	(8,280)	24,351	5,928	3,320
	13,221	97,857	63,772	192,601
FINANCING				
Repurchase of common shares (Note 7)	(610)	-	(610)	-
Exercise of stock options (Note 11)	-	33	-	73
Lease payments (Note 10)	(573)	(537)	(1,146)	(1,074)
Financing fees on paid credit facilities	-	(990)	-	(990)
Dividends on common shares (Note 7)	(1,327)	(6,981)	(8,308)	(13,961)
Dividends on perpetual preferred shares (Note 7)	(1,047)	(1,047)	(2,094)	(2,094)
Dividends on capital securities (Note 7)	(875)	(875)	(1,750)	(1,750)
Net change in revolving term credit facilities (Note 5)	133,770	11,057	143,339	17,404
	129,338	660	129,431	(2,392)
INVESTING				
Exploration and development of petroleum and natural gas assets (Note 4)	(83,974)	(68,393)	(216,814)	(161,091)
Acquisition of petroleum and natural gas assets (Note 4)	-	(139)	-	(35,499)
Changes in non-cash working capital	(58,596)	(30,017)	23,601	6,349
	(142,570)	(98,549)	(193,213)	(190,241)
Net change in cash	(11)	(32)	(10)	(32)
Cash, beginning of period	71	53	70	53
CASH, END OF PERIOD	60	21	60	21

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

BIRCHCLIFF ENERGY LTD.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2020

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

1. NATURE OF OPERATIONS

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

These unaudited interim condensed financial statements were approved and authorized for issuance by the Board of Directors on August 12, 2020.

2. BASIS OF PREPARATION

These unaudited interim condensed financial statements present Birchcliff’s financial results of operations and financial position under International Financial Reporting Standards (“**IFRS**”) as at and for the three and six months ended June 30, 2020, including the 2019 comparative period. The financial statements have been prepared in accordance with International Accounting Standard (“**IAS**”) 34: *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“**IASB**”).

These unaudited interim condensed financial statements have been prepared following the same IFRS accounting policies and methods of computation as disclosed in the annual audited financial statements for the year ended December 31, 2019, except as described in Note 3. Certain information and disclosures normally required to be included in the notes to the annual audited financial statements have been condensed, omitted or have been disclosed on an annual basis only. Accordingly, these financial statements should be read in conjunction with the annual audited financial statements and the notes thereto for the year ended December 31, 2019.

Birchcliff’s unaudited interim condensed 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 unaudited interim condensed 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 10, 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 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 increased economic uncertainty.

There is significant ongoing uncertainty surrounding COVID-19 and the extent and duration of the impacts that Birchcliff may experience on demand for the commodities that Birchcliff produces, on the Corporation’s cash flow and access to capital, on the Corporation’s suppliers and on the Corporation’s employees.

Birchcliff has taken a number of proactive measures to ensure liquidity and financial flexibility in the current environment. 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. The Corporation continues to expect that its receivables were substantially collectible at June 30, 2020.

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 statements of net income (loss) and comprehensive income (loss), statements of financial position or statements of cash flows in fiscal 2020. The potential direct and indirect impacts of the economic downturn have been considered in management's estimates and assumptions at June 30, 2020 and have been reflected in the Corporation's results.

Birchcliff determined there were no impairment indicators present at June 30, 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 June 30, 2020, the Corporation has \$241.0 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 completed by the Corporation's syndicate of lenders in May 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 Canadian Emergency Wage Subsidy and has received \$2.8 million in subsidies as of June 30, 2020, which has been recorded to "other income" in profit or loss. Birchcliff continues to actively monitor all Government announcements to determine its eligibility for any relief that is being provided through this highly volatile and challenging period.

3. 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 amendment to IFRS 3 had no effect to the Corporation for the period ended June 30, 2020.

Accounting Policies Adopted

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. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

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

<i>(\$000s)</i>	Exploration & Evaluation Assets	Developed & Producing Assets	Lease Assets	Corporate Assets	Total
<i>Cost:</i>					
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 ⁽²⁾	-	47,503	-	-	47,503
As at December 31, 2019	321	3,850,089	19,931	20,217	3,890,558
Additions	-	232,643	-	983	233,626
As at June 30, 2020 ⁽¹⁾	321	4,082,732	19,931	21,200	4,124,184
<i>Accumulated depletion and depreciation:</i>					
As at December 31, 2018	-	(920,923)	-	(12,992)	(933,915)
Depletion and depreciation expense ⁽³⁾	-	(209,315)	(1,925)	(2,325)	(213,565)
As at December 31, 2019	-	(1,130,238)	(1,925)	(15,317)	(1,147,480)
Depletion and depreciation expense ⁽³⁾	-	(101,619)	(1,010)	(1,202)	(103,831)
As at June 30, 2020	-	(1,231,857)	(2,935)	(16,519)	(1,251,311)
<i>Net book value:</i>					
As at December 31, 2019	321	2,719,851	18,006	4,900	2,743,078
As at June 30, 2020	321	2,850,875	16,996	4,681	2,872,873

- (1) 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.
- (2) 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 6).
- (3) Future development costs required to develop and produce proved plus probable reserves totalled \$4.4 billion at June 30, 2020 (December 31, 2019 – \$4.4 billion) and are included in the depletion expense calculation.

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 June 30, 2020, Birchcliff determined there were no impairment indicators present and therefore an impairment test on its P&NG properties and equipment was not required.

At March 31, 2020 and December 31, 2019, Birchcliff identified indicators of impairment resulting from the decline in the then forward commodity price for oil and natural gas and reduction in the market capitalization since its previously completed impairment test. Birchcliff determined that its P&NG properties and equipment were not impaired at March 31, 2020 and December 31, 2019.

5. REVOLVING TERM CREDIT FACILITIES

The components of the Corporation’s Credit Facilities include:

<i>As at, (\$000s)</i>	June 30, 2020	December 31, 2019
Syndicated credit facility	747,093	593,557
Working capital facility	7,728	17,926
Drawn revolving term credit facilities	754,821	611,483
Unamortized deferred financing fees	(1,729)	(2,306)
Revolving term credit facilities	753,092	609,177

At June 30, 2020, the Corporation’s Credit Facilities in the aggregate principal amount of \$1.0 billion were comprised of: (i) an extendible revolving syndicated term credit facility (the “**Syndicated Credit Facility**”) of \$900.0 million; and (ii) an extendible revolving working capital facility (the “**Working Capital Facility**”) of \$100.0 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 natural gas reserves. In addition, pursuant to the terms of the credit agreement governing the Credit Facilities, the borrowing base of the Credit Facilities may be adjusted in certain other circumstances. 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 June 30, 2020 was 18.3. 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 May 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. In connection with the most recently completed borrowing base review, Birchcliff elected to not extend the Credit Facilities by another year.

The Credit Facilities do not contain any financial maintenance covenants.

6. DECOMMISSIONING OBLIGATIONS

The Corporation estimates the total undiscounted (inflated) amount of cash flow required to settle its decommissioning obligations is approximately \$207.0 million at June 30, 2020 (June 30, 2019 – \$285.9 million). A reconciliation of the decommissioning obligations is set forth below:

As at, (\$000s)	June 30, 2020	December 31, 2019
Balance, beginning	128,128	129,264
Obligations incurred	1,932	5,236
Obligations acquired ⁽¹⁾	-	6,096
Obligations divested	(37)	(51)
Changes in estimated future cash flows ⁽²⁾	13,226	(12,724)
Accretion	1,096	2,592
Decommissioning expenditures	(796)	(2,285)
Balance, ending⁽³⁾	143,549	128,128

(1) Includes decommissioning obligations acquired from the acquisition of various Montney lands and assets in January 2019.

(2) 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.

(3) Birchcliff applied a nominal risk-free rate of 1.02% and an inflation rate of 0.96% to calculate the present value of the decommissioning obligation at June 30, 2020 and a nominal risk-free rate of 1.74% and an inflation rate of 1.33% at December 31, 2019.

7. CAPITAL STOCK

Share Capital

(a) Authorized:

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

Unlimited number of preferred shares, with no par value.

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

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

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

As at, (000s)	June 30, 2020	December 31, 2019
<i>Common shares:</i>		
Outstanding at beginning of period	265,935	265,911
Conversion of Series C preferred shares ⁽¹⁾	465	-
Repurchase of common shares ⁽²⁾	(465)	-
Exercise of stock options	-	24
Outstanding at end of period⁽¹⁾	265,935	265,935
<i>Series A preferred shares (perpetual):</i>		
Outstanding at beginning of period	2,000	2,000
Outstanding at end of period	2,000	2,000

(1) See capital securities note below.

(2) On November 19, 2019, Birchcliff announced that the TSX had accepted the Corporation's notice of intention to make a normal course issuer bid (the "NCIB"). Pursuant to the NCIB, Birchcliff may purchase up to 13,296,761 of its outstanding common shares. The total number of common shares that Birchcliff is permitted to purchase is subject to a daily purchase limit of 309,858 common shares; provided, however, that the Corporation may make one block purchase per calendar week which exceeds the daily purchase restriction. The NCIB commenced on November 25, 2019 and will terminate on November 24, 2020, or such earlier time as the NCIB is completed or is terminated at the option of Birchcliff. Purchases under the NCIB will be effected through the facilities of the TSX and/or Canadian alternative trading systems at the prevailing market price at the time of such transaction. All common shares purchased under the NCIB will be cancelled. During the three months ended June 30, 2020, Birchcliff purchased 464,562 common shares pursuant to the NCIB for an aggregate value of approximately \$610,000 before fees.

Capital Securities

The following table sets forth the number of capital securities outstanding:

As at, (000s)	June 30, 2020	December 31, 2019
Outstanding at beginning of period	2,000	2,000
Redemption of Series C preferred shares	(37)	-
Outstanding at end of period⁽¹⁾⁽²⁾	1,963	2,000

(1) Each Series C Preferred Share recorded at \$25.00 on the statements of financial position less any amortized fees.

(2) On and after June 30, 2020, 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.

For the three months ended June 30, 2020, the Corporation received Notices of Redemptions for a total of 37,165 Series C Preferred Shares and elected to convert such shares into common shares. As a result, the Corporation issued 464,562 common shares on June 30, 2020 and increased share capital by approximately \$530,000 using an implied value of \$1.14 per common share based on the share trading price on the Toronto Stock Exchange at June 30, 2020.

Dividends

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

	Three months ended		Six months ended	
	2020	2019	2020	2019
<i>Common shares:</i>				
Dividend distribution (\$000s)	1,327	6,981	8,308	13,961
Per common share (\$)	0.0050	0.0263	0.0156	0.0263
<i>Preferred shares - Series A:</i>				
Series A dividend distribution (\$000s)	1,047	1,047	2,094	2,094
Per Series A preferred share (\$)	0.5234	0.5234	0.5234	0.5234
<i>Preferred shares - Series C:</i>				
Series C dividend distribution (\$000s)	875	875	1,750	1,750
Per Series C preferred share (\$)	0.4375	0.4375	0.4375	0.4375

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

In the three months ended June 30, 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). This reduced quarterly cash dividend was declared by the Corporation's Board of Directors on June 2, 2020 and was paid on June 30, 2020 to shareholders of record at the close of business on June 15, 2020.

8. EARNINGS (LOSS) PER SHARE

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

<i>(\$000s, except for per share information)</i>	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Net income (loss)	(38,475)	(8,458)	(82,629)	8,388
Dividends on Series A preferred shares	(1,047)	(1,047)	(2,094)	(2,094)
Net income (loss) to common shareholders	(39,522)	(9,505)	(84,723)	6,294
<i>Weighted average common shares:</i>				
Weighted average basic common shares outstanding	265,935	265,933	265,935	265,924
Effects of dilutive securities	-	-	-	373
Weighted average diluted common shares outstanding ⁽¹⁾	265,935	265,933	265,935	266,297
<i>Net income (loss) per common share:</i>				
Basic	\$(0.15)	\$(0.04)	\$(0.32)	\$0.02
Diluted	\$(0.15)	\$(0.04)	\$(0.32)	\$0.02

- (1) The weighted average diluted common shares outstanding for the six months ended June 30, 2019 excludes 16,246,767 common shares that were anti-dilutive. As the Corporation reported a loss for the three and six months ended June 30, 2020, the basic and diluted weighted average common shares outstanding are the same for the periods and all dilutive securities were considered anti-dilutive.

9. REVENUE

The following table sets forth Birchcliff's revenue by source:

<i>(\$000s)</i>	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Light oil sales	13,445	31,907	32,583	60,454
Condensate ⁽¹⁾	13,650	35,906	37,730	61,919
NGLs sales ⁽²⁾	8,176	7,011	16,886	17,761
Natural gas sales	68,907	65,009	140,239	177,985
P&NG sales ⁽³⁾⁽⁴⁾	104,178	139,833	227,438	318,119
Royalty income	2	24	5	93
P&NG revenue	104,180	139,857	227,443	318,212
Marketing revenue ⁽⁵⁾	2,554	-	7,376	-
Revenue from contracts with customers	106,734	139,857	234,819	318,212

- (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 period.
(4) Included in accounts receivable at June 30, 2020 was \$42.7 million (June 30, 2019 - \$47.0 million) in P&NG sales to be received from its marketers in respect of June 2020 production, which was subsequently received in July 2020.
(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 three and six months ended June 30, 2020, the Corporation had marketing purchases from third parties of \$2.8 million and \$6.4 million, respectively.

10. OTHER LIABILITIES

Post-Employment Benefit Obligation

Birchcliff's discounted post-employment benefit obligation at June 30, 2020 was \$8.8 million. 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 June

30, 2020 (December 31, 2019 – \$14.8 million). A reconciliation of the discounted post-employment benefit obligation is set forth below:

As at, (\$000s)	June 30, 2020	December 31, 2019
Balance, beginning	8,494	7,844
Obligations incurred ⁽¹⁾	267	524
Accretion	70	126
Balance, ending⁽²⁾	8,831	8,494
Current portion	-	-
Long-term portion	8,831	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 June 30, 2020 and December 31, 2019.

Lease Obligation

Birchcliff's discounted post-employment benefit obligation at June 30, 2020 was \$17.8 million. The Corporation's total undiscounted (inflated) amount of cash flow required to settle its lease obligations is approximately \$21.2 million at June 30, 2020 (December 31, 2019 – \$22.3 million). A reconciliation of the discounted lease obligation is set forth below:

As at, (\$000s)	June 30, 2020	December 31, 2019
Balance, beginning	18,552	17,311
Obligations incurred	-	2,620
Lease payments	(1,146)	(2,172)
Accretion	394	793
Balance, ending⁽¹⁾	17,800	18,552
Current portion	1,558	1,522
Long-term portion	16,242	17,030

(1) Birchcliff applied a discount rate of 4.7% to calculate the discounted value of the lease obligation at June 30, 2020 and December 31, 2019.

11. SHARE-BASED PAYMENT

Stock Option

At June 30, 2020, the Corporation's stock option plan (the "Option Plan") permitted the grant of options in respect of a maximum of 26,593,523 (June 30, 2019 – 26,593,523) common shares. At June 30, 2020, there remained available for issuance options in respect of 5,454,522 (June 30, 2019 – of 8,087,055) common shares. For the three months ended June 30, 2020, the weighted average common share trading price on the Toronto Stock Exchange was \$1.30 (June 30, 2019 – \$3.34) per common share.

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

	Three months ended				Six months ended			
	June 30,				June 30,			
	2020		2019		2020		2019	
	Number	Price (\$) ⁽¹⁾	Number	Price (\$) ⁽¹⁾	Number	Price (\$) ⁽¹⁾	Number	Price (\$) ⁽¹⁾
Outstanding, beginning	21,162,001	4.03	18,615,436	4.89	23,483,368	4.28	15,847,570	5.74
Granted ⁽²⁾	89,000	0.93	87,000	3.40	124,500	1.22	4,819,200	3.54
Exercised	-	-	(10,867)	(3.08)	-	-	(23,867)	(3.08)
Forfeited	-	-	(128,501)	(4.34)	(57,567)	(3.18)	(168,501)	(4.40)
Expired	(112,000)	(7.37)	(56,600)	(7.80)	(2,411,300)	(6.60)	(1,967,934)	(8.64)
Outstanding, ending	21,139,001	4.00	18,506,468	4.88	21,139,001	4.00	18,506,468	4.88

(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 the three months ended June 30, 2020 was \$0.24 (June 30, 2019 – \$1.09). In determining the stock-based compensation expense for options issued during the three months ended June 30, 2020, the Corporation applied a weighted average estimated forfeiture rate of 9% (June 30, 2019 – 10%).

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

Three months ended,	June 30, 2020	June 30, 2019
Risk-free interest rate	0.5%	1.5%
Expected life (years)	4.0	4.1
Expected volatility	59.5%	49.7%
Dividend yield	10.0%	3.1%

A summary of the stock options outstanding and exercisable under the Option Plan at June 30, 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	5,387,500	4.45	2.29	1,333	3.98	2.71
3.01	6.00	11,554,001	2.64	3.42	6,801,390	2.17	3.38
6.01	9.43	4,197,500	1.60	7.80	4,184,832	1.60	7.80
		21,139,001	2.90	4.00	10,987,555	1.95	5.06

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 June 30, 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.

12. 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. Birchcliff's reduction of the common share dividend in the three months ended June 30, 2020 is expected to result in the preservation of cash during this period of oil price volatility due to the COVID-19 pandemic. There were no further changes in the Corporation's approach to capital management during the three and six months ended June 30, 2020.

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

As at, (\$000s)	June 30, 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	(754,821)	(611,483)
Outstanding letters of credit ⁽²⁾	(4,185)	(4,185)
	(759,006)	(615,668)
Unused credit	240,994	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 petroleum and natural 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 on May 11, 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, (\$000s)	June 30, 2020	December 31, 2019	% Change
Shareholders' equity ⁽¹⁾	1,605,192	1,695,621	
Capital securities	49,071	49,845	
Shareholders' equity & capital securities	1,654,263	1,745,466	5%
Shareholders' equity & capital securities as a % of total capital ⁽²⁾	67%	73%	
Working capital deficit ⁽³⁾	54,481	23,405	
Drawn revolving term credit facilities	754,821	611,483	
Drawn debt	809,302	634,888	27%
Drawn debt as a % of total capital	33%	27%	
Total capital	2,463,565	2,380,354	3%

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

(2) Of the 67%, approximately 95% relates to common capital stock and 5% relates to preferred capital stock.

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

13. 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. The following table provides a summary of the realized and unrealized gains (losses) on financial derivatives:

(\$000s)	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Realized gain (loss) on derivatives	(17,146)	5,317	(31,406)	18,635
Unrealized (loss) on derivatives	(12,712)	(46,373)	(52,051)	(85,248)

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 June 30, 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 June 30, 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	Fair Value Liability (\$000s)
Natural gas	AECO 7A basis swap ⁽²⁾	30,000 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2023	NYMEX HH less US\$1.298/MMBtu	27,404
Natural gas	AECO 7A basis swap ⁽²⁾	10,000 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2023	NYMEX HH less US\$1.320/MMBtu	9,465
Natural gas	AECO 7A basis swap ⁽²⁾	30,000 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2023	NYMEX HH less US\$1.330/MMBtu	28,987
Natural gas	AECO 7A basis swap ⁽²⁾	15,000 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2024	NYMEX HH less US\$1.185/MMBtu	14,184
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2024	NYMEX HH less US\$1.200/MMBtu	4,796
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2024	NYMEX HH less US\$1.200/MMBtu	4,773
Natural gas	AECO 7A basis swap ⁽²⁾	12,500 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2025	NYMEX HH less US\$1.108/MMBtu	11,717
Natural gas	AECO 7A basis swap ⁽²⁾	10,000 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2025	NYMEX HH less US\$1.115/MMBtu	9,514
Natural gas	AECO 7A basis swap ⁽²⁾	10,000 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2025	NYMEX HH less US\$1.050/MMBtu	7,391
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US\$1.178/MMBtu	4,727
Natural gas	AECO 7A basis swap ⁽²⁾	10,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US\$1.175/MMBtu	9,402
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US\$1.190/MMBtu	4,853
Natural gas	AECO 7A basis swap ⁽²⁾	30,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US\$1.114/MMBtu	10,684
Natural gas	AECO 7A basis swap ⁽²⁾	35,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US\$1.081/MMBtu	11,418
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US\$1.013/MMBtu	1,310
Natural gas	AECO 7A basis swap ⁽²⁾	20,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US\$1.005/MMBtu	2,640
Natural gas	AECO 7A basis swap ⁽²⁾	5,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US\$0.990/MMBtu	625
Crude oil	MSW fixed price	500 bbls/d	Jul. 1, 2020 – Jul. 31, 2020	CDN\$30.00/bbl	306
Crude oil	MSW fixed price	1,000 bbls/d	Jul. 1, 2020 – Jul. 31, 2020	CDN\$32.00/bbl	553
Condensate	C5+ fixed price	500 bbls/d	Aug. 1, 2020 – Aug. 31, 2020	CDN\$32.50/bbl	214
					164,963

(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 June 30, 2020 if the future AECO/NYMEX basis was US\$0.10/MMBtu higher, with all other variables held constant, after-tax net loss in the six months ended June 30, 2020 would have decreased by approximately \$28.0 million.

There were no financial derivative contracts entered into subsequent to June 30, 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 June 30, 2020 the Corporation had the following physical delivery contracts in place:

Product	Type of Contract	Quantity	Remaining Term	Contract Price
Natural gas	AECO 7A basis swap ⁽¹⁾	5,000 MMBtu/d	Jul. 1, 2020 – Dec. 31, 2023	NYMEX HH less US\$1.205/MMBtu
Crude oil	MSW fixed price	1,000 bbls/d	Jul. 1, 2020 – Jul. 31, 2020	CDN\$34.10/bbl

(1) Birchcliff sold AECO basis swap.

There were no physical delivery contracts entered into subsequent to June 30, 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 June 30, 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⁾	Jul. 1, 2020 – Mar. 1, 2024	350	2.215	19,677

(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 June 30, 2020 if the one-month banker's acceptance CDOR index was 0.10% higher, with all other variables held constant, after-tax net loss in the six months ended June 30, 2020 would have decreased by approximately \$0.6 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 period ended June 30, 2020.

14. INVESTMENT IN SECURITIES

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 value of \$10 million. The Securities are not publicly listed and do not constitute a significant investment.

As at June 30, 2020, the Corporation determined the Securities had a fair value of \$1.3 million (June 30, 2019 - \$4.4 million). Birchcliff recorded a loss on investment of \$3.1 million during the three and six months ended June 30, 2020 (June 30, 2019 - \$5.6 million).

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+)
DCCET	drilling, casing, completion, equipping and tie-in
F&D	finding and development
G&A	general and administrative
GAAP	generally accepted accounting principles for Canadian public companies which are currently International Financial Reporting Standards as issued by the International Accounting Standards Board
GJ	gigajoule
GJ/d	gigajoules per day
HH	Henry Hub
m ³	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
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
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 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”, “total cash costs” and “total debt”. These measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Management believes that these non-GAAP measures assist management and investors in assessing Birchcliff’s profitability, efficiency, liquidity and overall performance.

“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. “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 and less any realized losses (plus realized gains) on financial instruments and plus any other cash income sources. “Total cash costs” are comprised of royalty, operating, transportation and other, G&A and interest expenses. “Total debt” is calculated as the revolving term credit facilities plus adjusted working capital deficit.

For additional information regarding these non-GAAP measures, including reconciliations to the most directly comparable GAAP measures where applicable, see “*Non-GAAP Measures*” in management’s discussion and analysis for the three and six months ended June 30, 2020 (the “**MD&A**”).

ADVISORIES

Unaudited Information

All financial and operational information contained in this report for the three and six months ended June 30, 2020 and 2019 is unaudited.

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.

Production

With respect to the disclosure of Birchcliff’s production contained in this report: (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.

Oil and Gas Metrics

This report 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*”.

Capital Expenditures

Unless otherwise indicated, references in this 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 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 report relate to future events or Birchcliff’s future plans, operations or performance 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 report 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, including: statements that for the remainder of 2020 and into 2021, the Corporation’s priorities continue to be on debt reduction, free funds flow generation and ensuring its long-term sustainability; and statements that Birchcliff continues to focus on the disciplined and efficient execution of its business and continuing to reduce its costs;
- statements regarding the Corporation’s liquidity and financial flexibility, including that the Corporation’s Credit Facilities provide it with significant liquidity;
- Birchcliff’s belief that its strong financial position, low operating cost structure and asset base provide it with the ability to withstand the challenges that its industry is facing and remain in a position of financial strength;
- statements that Birchcliff’s high-quality, low-decline assets allow it to maintain production at or near current levels with less F&D capital each year;
- statements regarding the Corporation’s outlook for commodity prices, including Birchcliff’s belief that natural gas prices will continue to strengthen towards the end of 2020 and into 2021;
- statements that Birchcliff’s owned-and-operated infrastructure, diverse portfolio of assets and production commodity mix provide it with significant optionality, allowing it to target natural gas, liquids-rich natural gas or oil depending on commodity prices;
- statements that as all of Birchcliff’s natural gas production and the vast majority of its liquids production is currently unhedged to benchmark commodity index prices, this will allow Birchcliff to take advantage of strengthening commodity prices;
- the information set forth under the headings “*President’s Message to Shareholders*” and “*Outlook and Guidance*” and elsewhere in this report as it relates to Birchcliff’s outlook and guidance, including: statements that Birchcliff expects to return to free funds flow generation in 2021; statements that Birchcliff remains on track to meet its 2020 guidance for production and capital expenditures and that it is now targeting adjusted funds flow of \$185 million; statements that Birchcliff’s total debt is expected to peak early in Q3 2020 and decrease throughout the remainder of 2020, with total debt at year end now expected to be in the range of \$750 million to \$770 million; statements regarding the return to free funds flow in Q3 2020; statements that Birchcliff’s average production in Q3 and Q4 2020 is expected to increase from Q1 and Q2 2020 levels; statements that Birchcliff expects that its higher production in Q3 and Q4 of 2020 will drive higher adjusted

funds flow, as natural gas prices are anticipated to continue to strengthen towards the end of 2020 and into 2021; statements that Birchcliff expects to exit 2020 in a strong position as a result of its higher production and low-cost structure; statements that the anticipated proved developed producing reserves additions resulting from the 2020 Capital Program should position the Corporation well for the future; statements regarding the Corporation's 2021 capital program (including: that the program will prioritize debt reduction, free funds flow generation and ensuring the Corporation's long-term sustainability; that the program will be designed to provide Birchcliff with significant optionality to take advantage of volatile commodity prices; that as a result of Birchcliff's large inventory of potential future drilling locations, the Corporation has the ability to focus on natural gas, liquids-rich natural gas or light oil drilling; that facilities and infrastructure spending in 2021 is expected to be significantly lower than in 2020; and that the Corporation expects to release preliminary guidance regarding its 2021 capital program in November 2020); 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;

- the information set forth under the headings "*President's Message to Shareholders*", "*Outlook and Guidance*" and "*Operational Update*" and elsewhere in this report as it relates to the 2020 Capital Program and Birchcliff's proposed exploration and development activities and the timing thereof, including: the focus of, the objectives of, the anticipated results from and expected benefits of the 2020 Capital Program; statements that the Inlet Liquids-Handling Facility will give Birchcliff the ability to grow its condensate production to 10,000 bbls/d in Pouce Coupe; targeted facilities and infrastructure spending; and the benefits associated with multi-interval cube-style development;
- that the next regularly scheduled review of the borrowing base limit under the Credit Facilities is expected to occur in November 2020;
- the performance and other characteristics of Birchcliff's oil and natural gas properties and expected results from its assets; and
- the forward-looking statements identified in the MD&A under the heading "*Advisories – Forward-Looking Statements*".

With respect to the forward-looking statements contained in this 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, 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 and resource 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 report:

- Birchcliff's 2020 guidance (as updated August 12, 2020) assumes the following commodity prices and exchange rate: an average WTI price of US\$39.00/bbl; an average WTI-MSW differential of CDN\$8.75/bbl; an average AECO 5A price of CDN\$2.10/GJ; an average Dawn price of US\$1.90/MMBtu; an average NYMEX HH price of US\$2.10/MMBtu; and an exchange rate (CDN\$ to US\$1) of 1.35.
- With respect to estimates of 2020 capital expenditures and Birchcliff's spending plans for 2020, such estimates and plans assume that the 2020 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 2020, such estimates assume that: the 2020 Capital Program will be carried out as currently contemplated and the level of capital spending for 2020 set forth herein will be achieved; and the targets for production, commodity mix 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, such guidance assumes that: the 2020 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 the future potential and prospectivity of properties and assets, such statements assume: the continuing validity of the geological and other technical interpretations determined 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.

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 crude 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 and resources; 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. Without limitation of the foregoing, the declaration and payment of future dividends (and the amount thereof) may vary depending on a variety of factors and conditions existing from time to time and is subject to the satisfaction of the solvency and liquidity tests imposed by the *Business Corporations Act* (Alberta). For further information relating to risks relating to dividends, see "Risk Factors – Dividends" in the Corporation's Annual Information Form for the year ended December 31, 2019.

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 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, the MD&A and in other reports filed with Canadian securities regulatory authorities.

This report contains information that may constitute future-orientated financial information or financial outlook information (collectively, "FOFI") about Birchcliff's prospective results of operations including, without limitation, adjusted funds flow, free funds flow and total debt, 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 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 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 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.

CORPORATE INFORMATION

EXECUTIVE OFFICERS

A. Jeffery Tonken

President & Chief Executive Officer

Myles R. Bosman

Vice-President, Exploration & Chief Operating Officer

Chris A. Carlsen

Vice-President, Engineering

Bruno P. Geremia

Vice-President & Chief Financial Officer

David M. Humphreys

Vice-President, Operations

DIRECTORS

A. Jeffery Tonken (Chairman)

President & Chief Executive Officer
Calgary, Alberta

Dennis A. Dawson

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

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 Sandhwalia

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

BANKERS

The Bank of Nova Scotia

HSBC Bank Canada

National Bank of Canada

Canadian Imperial Bank of Commerce

Bank of Montreal

The Toronto-Dominion Bank

ATB Financial

Business Development Bank of Canada

Wells Fargo Bank, N.A., Canadian Branch

United Overseas Bank Limited

ICICI Bank Canada

AUDITORS

KPMG LLP, Chartered Professional Accountants

Calgary, Alberta

RESERVES EVALUATORS

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Calgary, Alberta

McDaniel & Associates Consultants Ltd.

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