

August 10, 2016

Fellow Shareholders,

We are pleased to report the second quarter financial and operational results for Birchcliff Energy Ltd. (“**Birchcliff**”) for the three and six month periods ended June 30, 2016.

HIGHLIGHTS FOR THE 2016 SECOND QUARTER

Birchcliff’s production continues to be strong, with low declines, which is reflected by the minimal capital we have spent on production additions to keep our 100% owned and operated natural gas plant located in the Pouce Coupe area (the “**PCS Gas Plant**”) at capacity. Our costs, both operating and capital, continue to fall as a result of more efficient project execution, the implementation of operating and capital cost reduction initiatives and an intense focus on all aspects of our business. We had strong quarterly average production of 39,513 boe/d during the second quarter of 2016. Production consisted of 90% natural gas, 6% light oil and 4% NGL. Production was approximately 3% above the average production in the second quarter of 2015, which was 38,489 boe/d.

Notwithstanding the fact that we had strong production and record low operating costs, Birchcliff had funds flow of \$13.3 million (\$0.09 per basic common share), a decrease from \$45.8 million (\$0.30 per basic common share) in the second quarter of 2015, primarily as a result of weak commodity prices. We recorded a net loss to common shareholders of \$24.3 million (\$0.16 per basic common share), as compared to the net loss to common shareholders of \$5.2 million (\$0.03 per basic common share) in the second quarter of 2015.

Our operating costs were \$3.45 per boe, a 24% decrease from \$4.53 per boe in the second quarter of 2015 and a new record low for Birchcliff. Our general and administrative expense was \$1.24 per boe, a 17% decrease from \$1.50 per boe in the second quarter of 2015.

STRATEGIC MONTNEY/DOIG ACQUISITION IN THE GORDONDALE AREA

On July 28, 2016, we completed the acquisition (the “**Gordondale Acquisition**”) of certain petroleum and natural gas properties, interests and related assets primarily located in the Gordondale area of Alberta (the “**Assets**”). The purchase price for the Assets was approximately \$625 million, prior to closing adjustments and costs of the Gordondale Acquisition. The Assets include high working interest operated production and a large contiguous land base which fits between Birchcliff’s existing Pouce Coupe and Gordondale properties. The Gordondale Acquisition has an effective date of January 1, 2016. After giving effect to the Gordondale Acquisition, we now have a Montney/Doig land position of 261 contiguous sections of land and a total of 416.2 (406.9 net) Montney/Doig sections.

In connection with the announcement of the Gordondale Acquisition, Birchcliff launched a bought deal financing and concurrent private placement for aggregate gross proceeds of approximately \$690.8 million (the “**Financings**”), which closed concurrently on July 13, 2016. On the closing of the Gordondale Acquisition, the aggregate gross proceeds were released from escrow in order for Birchcliff to complete the Gordondale Acquisition and the balance of the aggregate net proceeds was used to reduce indebtedness under our credit facilities by approximately \$50 million. As a result, we have now significantly de-levered our balance sheet, while at the same time adding material low decline production

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
OPERATING				
Average daily production				
Light oil – (barrels)	2,504	3,736	2,868	3,876
Natural gas – (thousands of cubic feet)	213,130	198,714	217,804	197,332
NGL – (barrels)	1,488	1,634	1,567	1,688
Total – barrels of oil equivalent (6:1)⁽¹⁾	39,513	38,489	40,736	38,453
Average sales price (\$ CDN) ⁽²⁾				
Light oil – (per barrel)	51.20	64.93	43.16	56.03
Natural gas – (per thousand cubic feet)	1.48	2.86	1.74	2.92
NGL – (per barrel)	50.77	59.57	46.19	52.84
Total – barrels of oil equivalent (6:1)⁽¹⁾	13.13	23.62	14.12	22.95
NETBACK AND COST (\$ per barrel of oil equivalent at 6:1)⁽¹⁾				
Petroleum and natural gas revenue ⁽²⁾	13.14	23.64	14.13	22.96
Royalty expense	(0.25)	(0.61)	(0.46)	(0.72)
Operating expense	(3.45)	(4.53)	(3.58)	(4.82)
Transportation and marketing expense	(2.35)	(2.46)	(2.30)	(2.52)
Netback⁽³⁾	7.09	16.04	7.79	14.90
General & administrative expense, net	(1.24)	(1.50)	(1.28)	(1.60)
Interest expense	(2.18)	(1.48)	(1.94)	(1.45)
Realized gain on financial instruments	0.02	-	0.01	-
Funds flow netback⁽³⁾	3.69	13.06	4.58	11.85
Stock-based compensation expense, net	(0.15)	(0.25)	(0.16)	(0.23)
Depletion and depreciation expense	(8.75)	(10.75)	(8.85)	(10.99)
Accretion expense	(0.16)	(0.15)	(0.15)	(0.16)
Amortization of deferred financing fees	(0.06)	(0.07)	(0.06)	(0.06)
Gain (loss) on sale of assets	(3.03)	-	(1.47)	0.09
Unrealized gain on financial instruments	0.03	-	0.02	-
Dividends on Series C preferred shares	(0.24)	(0.25)	(0.24)	(0.25)
Income tax recovery (expense)	2.18	(2.78)	1.56	(1.35)
Net loss	(6.49)	(1.19)	(4.77)	(1.10)
Dividends on Series A preferred shares	(0.27)	(0.29)	(0.27)	(0.29)
Net loss to common shareholders	(6.76)	(1.48)	(5.04)	(1.39)
FINANCIAL				
Petroleum and natural gas revenue (\$000s) ⁽²⁾	47,261	82,791	104,764	159,817
Funds flow from operations (\$000s) ⁽³⁾	13,267	45,752	33,962	82,472
Per common share – basic (\$) ⁽³⁾	0.09	0.30	0.22	0.54
Per common share – diluted (\$) ⁽³⁾	0.09	0.30	0.22	0.53
Net loss (\$000s)	(23,321)	(4,174)	(35,356)	(7,653)
Net loss to common shareholders (\$000s)	(24,321)	(5,174)	(37,356)	(9,653)
Per common share – basic (\$) ⁽³⁾	(0.16)	(0.03)	(0.25)	(0.06)
Per common share – diluted (\$) ⁽³⁾	(0.16)	(0.03)	(0.25)	(0.06)
Common shares outstanding (000s)				
End of period – basic	152,308	152,294	152,308	152,294
End of period – diluted	169,089	168,181	169,089	168,181
Weighted average common shares for period – basic	152,308	152,289	152,308	152,266
Weighted average common shares for period – diluted	154,279	154,650	153,869	154,422
Dividends on Series A preferred shares (\$000s)	1,000	1,000	2,000	2,000
Dividends on Series C preferred shares (\$000s)	875	875	1,750	1,750
Capital expenditures, net (\$000s)	4,722	65,122	68,582	163,661
Revolving term credit facilities (\$000s)	709,510	599,998	709,510	599,998
Adj. working capital deficit (\$000s) ⁽³⁾	6,141	32,308	6,141	32,308
Total debt (\$000s) ⁽³⁾	715,651	632,306	715,651	632,306

(1) See "Advisories" in this Second Quarter Report.

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

(3) See "Non-GAAP Measures" in this Second Quarter Report.

of approximately 20%, material reserves and high quality development opportunities.

We have not left our map sheet, our eye is on the same ball, in the same area, on the same plays using the same people and services.

INCREASE TO CREDIT FACILITIES

In connection with the closing of the Gordondale Acquisition, our extendible revolving credit facilities (the “**Credit Facilities**”) were amended to increase the borrowing base to \$950 million from \$750 million. After giving effect to the increase in the borrowing base, the Credit Facilities are comprised of: (i) an extendible revolving syndicated term credit facility of \$900 million (increased from \$710 million); and (ii) an extendible revolving working capital credit facility of \$50 million (increased from \$40 million). The maturity dates of the Credit Facilities remain at May 11, 2018 and they do not contain any financial covenants.

In conjunction with the increase to the borrowing base, the lenders also agreed to waive the requirement to redetermine the borrowing base limit in connection with the delivery of our next in-house engineering report which is required to be delivered by November 15, 2016.

INCREASED 2016 CAPITAL PROGRAM

As a result of the closing of the Gordondale Acquisition, our board of directors has approved a revised capital budget for 2016 of \$163.7 million, up from the \$122.5 million that was previously announced on May 11, 2016.

Our revised 2016 capital expenditure program (the “**Revised 2016 Capital Program**”) contemplates the drilling of a total of 23 (23.0 net) wells, an increase from the 13 (13.0 net) wells under our original capital expenditure program, and continues the funding of key infrastructure required for future growth, including our PCS Gas Plant.

We will direct additional funds towards the development of certain properties that we recently acquired in the Gordondale area pursuant to the Gordondale Acquisition, as well as additional funds towards the development of our existing properties in the Pouce Coupe area. The expanded portion of the Revised 2016 Capital Program contemplates the drilling of an additional 10 (10.0 net) wells, consisting of 4 (4.0 net) wells in the Pouce Coupe area and 6 (6.0 net) wells in the Gordondale area. These additional wells are expected to be completed, equipped and brought on production in 2017. As a result, the expanded portion of our Revised 2016 Capital Program is not expected to add any production in 2016, but is designed to achieve significant production growth in 2017.

The following table provides details of the Revised 2016 Capital Program, including a comparison to our original 2016 capital expenditure program:

Revised 2016 Capital Program⁽¹⁾

	Gross Wells		Net Wells		Capital (millions of dollars) ⁽¹⁾		Difference in Capital (millions of dollars) ⁽¹⁾
	New	Old	New	Old	New	Old	
Drilling & Development ⁽²⁾							
Montney D1 Horizontal Wells	15.0	8.0	15.0	8.0	46.8	30.9	15.9
Montney D2 Horizontal Oil Wells	3.0	0.0	3.0	0.0	7.7	0.0	7.7
Montney D4 Horizontal Gas Wells	2.0	2.0	2.0	2.0	7.0	4.7	2.3 ⁽³⁾
Basal Doig/Upper Montney Horizontal Gas Wells	2.0	2.0	2.0	2.0	8.5	8.0	0.5
Charlie Lake Horizontal Light Oil Well	1.0	1.0	1.0	1.0	2.7	2.7	0.0
2015 Carry Forward Capital ⁽⁴⁾	-	-	-	-	4.5	4.9	(0.4)
2017 Pre-Spend Capital ⁽⁵⁾	-	-	-	-	7.5	0.0	7.5
Total Drilling & Development	23.0	13.0	23.0	13.0	84.8	51.3	33.6
Facilities & Infrastructure ⁽⁶⁾					41.4	37.0	4.4
Production Optimization					17.1	15.0	2.2
Land & Seismic					5.1	5.1	0.0
Other					15.4	14.2	1.1
Total Capital					163.7	122.5	41.2
Acquisitions & Dispositions ⁽⁷⁾					(18.7) ⁽⁸⁾	(19.0)	0.3
TOTAL NET CAPITAL					145.0	103.5	41.5

(1) Numbers may not add due to rounding.

(2) All drilling and development costs have been presented on a drill, case, complete, equip and tie-in basis, except for two Montney D4 horizontal natural gas wells that are expected to be equipped and tied-in in 2017 and the additional 10 wells to be drilled under the Revised 2016 Capital Program which are expected to be completed, equipped and tied-in in 2017.

(3) The difference in capital relates to two completions that have been brought forward into 2016.

(4) Primarily completion, equipping and tie-in costs associated with 2 (2.0 net) wells rig released at the end of 2015.

(5) Primarily costs relating to 2017 multi-well pad construction being spent in 2016 and preliminary frac water costs.

(6) Includes approximately \$27.1 million of capital in 2016 for the PCS Gas Plant Phase V expansion.

(7) Does not include the costs associated with the Gordondale Acquisition.

(8) After taking into account proceeds in the amount of \$19.0 million received by Birchcliff from a disposition completed in the Progress area on April 28, 2016 and disbursements in the amount of \$0.3 million from minor acquisitions.

We currently expect that our net capital expenditures for 2016 (net of acquisitions and dispositions, but excluding the Gordondale Acquisition) will approximate our funds flow during 2016, based on the assumptions set forth herein.

Based on recent commodity prices and exchange rates, we have revised our commodity price and exchange rate assumptions underlying the Revised 2016 Capital Program. The Revised 2016 Capital Program now assumes an annual average WTI price of approximately US\$40.50 per barrel of oil (revised from US\$43.00), an AECO price of approximately CDN\$2.00 per GJ of natural gas (revised from CDN\$1.90) and an exchange rate of CDN\$/US\$ of 1.33 (revised from 1.29) during 2016.

We currently have crude oil hedges in place for 1,500 bbls/d which expire December 31, 2016. We are currently reviewing our hedging strategy and intend to adopt an ongoing hedging strategy. For further information regarding our hedges, please see our management's discussion and analysis for the three and six month periods ended June 30, 2016.

The Revised 2016 Capital Program is flexible and we have the ability to defer capital expenditures in the event that actual commodity prices are materially less than what we have forecast. We have been closely monitoring commodity prices and our capital spending. We continue to find opportunities to reduce costs and defer certain capital expenditures, while still pursuing our objectives of production growth and the funding of key infrastructure to pave the way for future growth. We will continue to monitor commodity prices and economic conditions and may further adjust the Revised 2016 Capital Program to respond to changes in commodity prices and other material changes in the assumptions underlying the Revised 2016 Capital Program.

2016 GUIDANCE AND SELECTED *PRO FORMA* ATTRIBUTES

The following table sets forth: (i) Birchcliff's increased guidance for 2016 as a result of the completion of the Gordondale Acquisition and the Financings; and (ii) certain *pro forma* information after giving effect to the Gordondale Acquisition and the Financings:

<u>2016 Guidance and Selected <i>Pro Forma</i> Information</u>	<u>Birchcliff Post-Acquisition and Financings</u>
Current production as at August 9, 2016	65,000 boe/d
Estimated 2016 Q4 average production	62,000 – 63,000 boe/d
% oil and NGL	21%
Estimated 2016 Q3 average production ⁽¹⁾	55,000 – 56,000 boe/d
% oil and NGL	20%
Estimated 2016 annual average production ⁽¹⁾	49,000 – 51,000 boe/d
% oil and NGL	17%
Estimated 2016 net capital expenditures (millions) ⁽²⁾	\$145
Estimated total debt at December 31, 2016 (millions) ⁽³⁾	\$607
Estimated total debt as at July 31, 2016 (millions) ⁽³⁾	\$638
Credit facilities limit as at August 9, 2016 (millions) ⁽⁴⁾	\$950
Common shares (basic) as at August 9, 2016	262,870,906
Market capitalization as at August 9, 2016 (billions)	\$2.4
Enterprise value as at August 9, 2016 (billions) ⁽⁵⁾	\$3.1
Montney/Doig land position as at August 9, 2016	
Gross sections	416.2
Net sections	406.9
Montney/Doig potential net future HZ drilling locations as at August 9, 2016 ⁽⁶⁾	4,558.2
<i>Pro forma</i> gross proved reserves ⁽⁷⁾	456,907 Mboe
<i>Pro forma</i> gross proved plus probable reserves ⁽⁷⁾	764,072 Mboe

(1) The impact of the Gordondale Acquisition on Birchcliff's production guidance for 2016 is based on the closing date of the Gordondale Acquisition from July 28, 2016 onwards. Therefore, Birchcliff's annual average production guidance for 2016 does not include the full year 2016 average production from the Assets and Birchcliff's third quarter average production guidance for 2016 does not include the full third quarter average production from the Assets. The estimated average production for the Assets for the first half of 2016 is approximately 26,000 boe/d.

(2) After taking into account proceeds in the amount of \$19 million received by Birchcliff from a disposition completed in the Progress area on April 28, 2016 and disbursements in the amount of \$0.3 million from minor acquisitions. Forecast capital expenditures assume Birchcliff achieves its 2016 production targets. Birchcliff's Revised 2016 Capital Program assumes an annual average WTI price of approximately US\$40.50 per barrel of oil (revised from US\$43.00), an AECO price of approximately CDN\$2.00 per GJ of natural gas (revised from \$1.90) and an exchange rate of CDN\$/US\$ of 1.33 (revised from 1.29) during 2016. See "*Increased 2016 Capital Program*".

(3) Estimated total debt at December 31, 2016 assumes net capital expenditures for 2016 of \$145 million and an annual average WTI price of approximately US\$40.50 per bbl of oil and an AECO price of approximately CDN\$2.00 per GJ of natural gas during 2016. In addition, estimated total debt at December 31, 2016 and estimated total debt at July 31, 2016 are based on a purchase price for the Gordondale Acquisition of \$625 million, less estimated interim closing adjustments and costs of the Gordondale Acquisition, which are subject to final adjustment.

(4) As at June 30, 2016, the borrowing base under Birchcliff's credit facilities was \$750 million.

(5) Enterprise value is calculated by multiplying the closing price of the common shares on the TSX as at August 9, 2016 by the total number of common shares outstanding as at August 9, 2016 and adding estimated total debt as at July 31, 2016, including the face value of the Series A Preferred Shares and Series C Preferred Shares.

(6) See "*Advisories – Drilling Locations*".

(7) As at December 31, 2015 in the case of Birchcliff and as at March 31, 2016 in the case of the Assets and based on forecast prices and costs. The information presented is on a *pro forma* basis after giving effect to the Gordondale Acquisition. The *pro forma* reserves information is not necessarily indicative of the results of operations that actually would have occurred if the events reflected therein had been in effect on the dates indicated or of the results that may be obtained in the future. Reserves presented for Birchcliff are based on the reserves estimation and economic evaluation prepared by Deloitte LLP ("*Deloitte*") effective December 31, 2015 in respect of Birchcliff's oil and natural gas properties (the "*2015 Reserves Evaluation*"). Reserves presented for the Assets are derived from the independent engineering evaluation of the oil, natural gas and NGL reserves attributable to the Assets prepared by McDaniel & Associates Consultants Ltd.

("McDaniel") effective March 31, 2016 (the "Birchcliff Report"). Readers should be cautioned that the price forecast schedule of Deloitte used in the 2015 Reserves Evaluation and the price forecast schedule of McDaniel used in the Birchcliff Report are different. Since the estimates of Birchcliff's reserves and the estimates of the reserves associated with the Assets were estimated as at different dates, they have been generated based on different assumptions in respect of commodity pricing, among other metrics. As a result, the presentation of Birchcliff's reserves on a consolidated *pro forma* basis for the Gordondale Acquisition would not reflect the actual combined estimate of Birchcliff's reserves and those of the Assets as at December 31, 2015 and should not necessarily be viewed as predictive of Birchcliff's reserves and future production on the completion of the Gordondale Acquisition.

UPDATE ON THE PCS GAS PLANT

A large portion of the capital spent on infrastructure in the first half of 2016 was to progress the Phase V expansion of the PCS Gas Plant, which will increase the processing capacity to 260 MMcf/d from the current processing capacity of 180 MMcf/d. The fabrication work for the Phase V expansion is essentially complete and the finished components are being stored until field construction commences. It is currently estimated that an additional \$30 million will be required to complete the field construction. We currently expect that the Phase V expansion will be completed in 2017. The completion of Phase V of the PCS Gas Plant will be timed to coincide with the drilling of additional Montney/Doig horizontal natural gas wells to fill or partially fill the expanded PCS Gas Plant, so that operational momentum will not be lost and ensuring capital is only spent when required.

NATURAL GAS TRANSPORTATION CAPACITY

Virtually all of our natural gas production is transported on TransCanada's NGTL System in Alberta pursuant to both firm and interruptible service agreements. We currently have in place firm service contracts that in the aggregate provide transportation capacity slightly above the processing capacity of our own processing facilities and sufficient transportation capacity to meet our processing commitments at third party processing facilities.

2016 SECOND QUARTER FINANCIAL AND OPERATIONAL RESULTS

PRODUCTION

Second quarter production averaged 39,513 boe/d, a 3% increase from production of 38,489 boe/d in the second quarter of 2015. Production per basic common share increased 3% from the second quarter of 2015. This production growth from the second quarter of 2015 was largely due to incremental production added from new Montney/Doig horizontal natural gas wells.

Production consisted of approximately 90% natural gas, 6% light oil and 4% NGL in the second quarter. Approximately 79% of our total corporate natural gas production and 73% of our total corporate production was processed at the PCS Gas Plant in the first half of 2016.

We have consistently demonstrated growth in second quarter production per common share. The following table highlights our year-over-year second quarter production per basic common share growth since 2012:

	Q2 2012	Q2 2013	Q2 2014	Q2 2015	Q2 2016	Change Since 2012 (%)	Average Annual Growth (%)
Quarterly average production (boe/d)	22,039	24,141	31,178	38,489	39,513	79	20
Production per day per million common shares (boe) ⁽¹⁾	159.2	169.7	214.8	252.7	259.4	63	16

(1) Based on quarterly average daily production and weighted average basic common shares outstanding in the respective quarter.

FUNDS FLOW AND NET LOSS

Funds flow was \$13.3 million (\$0.09 per basic common share), a 71% decrease from \$45.8 million (\$0.30 per basic common share) in the second quarter of 2015. This decrease was largely due to a 21% and 48% decrease, respectively, in the average realized oil and natural gas wellhead price.

We had a net loss of \$23.3 million, as compared to the net loss of \$4.2 million in the second quarter of 2015. We recorded a net loss to common shareholders of \$24.3 million (\$0.16 per basic common share) in the second quarter of 2016, as compared to the net loss to common shareholders of \$5.2 million (\$0.03 per basic common share) in the second quarter of 2015. These decreases were mainly attributable to lower funds flow as a result of the decrease in commodity prices and a loss on the sale of assets of \$10.9 million (\$8.0 million, net of tax), offset by lower depletion.

OPERATING COSTS AND GENERAL AND ADMINISTRATIVE EXPENSE

We continue to focus on reducing our operating costs and general and administrative expense on a per boe basis. Operating costs in the second quarter of 2016 were \$3.45 per boe, a 24% decrease from \$4.53 per boe in the second quarter of 2015 and a new record low. Operating costs per boe decreased from the second quarter of 2015 largely due to the continued cost benefits achieved from processing incremental volumes of natural gas through the PCS Gas Plant and lower service costs resulting from reduced industry activity, as well as various cost reduction and infrastructure optimization initiatives that we have implemented. General and administrative expense in the second quarter of 2016 was \$1.24 per boe, a 17% decrease from \$1.50 per boe in the second quarter of 2015.

PCS GAS PLANT NETBACKS

Since the PCS Gas Plant first became operational in March 2010, we have seen a significant reduction in our corporate operating costs on a per boe basis. During the first half of 2016, we processed approximately 79% of our total corporate natural gas production through the PCS Gas Plant with an average plant and field operating cost of \$0.25 per Mcfe (\$1.47 per boe). The estimated operating netback at the PCS Gas Plant was \$1.33 per Mcfe (\$7.96 per boe), resulting in an operating margin of 69% in the first half of 2016.

The following table details our net production and estimated operating netback for wells producing to the PCS Gas Plant on a production month basis:

	Six months ended June 30, 2016		Six months ended June 30, 2015		Six months ended June 30, 2014		Six months ended June 30, 2013		Six months ended June 30, 2012	
Average daily production, net to Birchcliff:										
Natural gas (Mcf)	171,422		157,462		122,277		84,561		57,211	
Oil & NGL (bbls)	967		1,249		983		375		232	
Total boe (6:1)	29,537		27,494		21,361		14,468		9,768	
Sales liquids yield (bbls/MMcf)	5.6		7.9		8.0		4.4		4.1	
% of corporate natural gas production	79%		80%		78%		69%		58%	
% of corporate production	73%		72%		68%		58%		45%	
AECO – C daily (\$/Mcf)	\$1.61		\$2.70		\$5.20		\$3.37		\$2.02	
Netback and cost:										
Petroleum and natural gas revenue ⁽¹⁾	1.93	11.61	3.20	19.21	5.93	35.60	3.81	22.88	2.47	14.82
Royalty expense	(0.05)	(0.30)	(0.12)	(0.74)	(0.40)	(2.38)	(0.23)	(1.39)	(0.07)	(0.42)
Operating expense ⁽²⁾	(0.25)	(1.47)	(0.35)	(2.11)	(0.41)	(2.45)	(0.36)	(2.17)	(0.26)	(1.56)
Transportation and marketing expense	(0.30)	(1.88)	(0.32)	(1.92)	(0.29)	(1.82)	(0.25)	(1.50)	(0.22)	(1.32)
Estimated operating netback	\$1.33	\$7.96	\$2.41	\$14.44	\$4.83	\$28.95	\$2.97	\$17.82	\$1.92	\$11.52
Operating margin	69%	69%	75%	75%	81%	81%	78%	78%	78%	78%

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

(2) Represents plant and field operating costs.

TOTAL CASH COSTS AND FUNDS FLOW NETBACK

During the second quarter of 2016, we had total cash costs (comprised of royalty, operating, transportation and marketing, general and administrative and interest expenses) of \$9.47 per boe, a 10%

decrease from \$10.58 per boe in the second quarter of 2015, and funds flow netback of \$3.69 per boe, a 72% decrease from \$13.06 per boe in the second quarter of 2015.

DEBT

At June 30, 2016, our long-term bank debt was \$709.5 million from available credit facilities aggregating \$750 million, leaving \$40.5 million of unutilized credit capacity. Subsequent to the end of the quarter, the borrowing base under our Credit Facilities was increased to \$950 million.

Total debt at June 30, 2016, including adjusted working capital deficit, was \$715.7 million, which included a \$31.3 million deposit paid to the vendor in connection with the Gordondale Acquisition. For further details, please see our management's discussion and analysis for the three and six month periods ended June 30, 2016.

CAPITAL EXPENDITURES

During the second quarter of 2016, we had total capital expenditures of \$23.4 million (\$4.7 million net of acquisitions and dispositions), including approximately \$11.0 million on drilling and completions and \$10.4 million on infrastructure. For further details regarding the breakdown of our capital expenditures, please see our management's discussion and analysis for the three and six month periods ended June 30, 2016.

DRILLING AND COMPLETIONS

We drilled 4 (4.0 net) wells in the second quarter of 2016, all of which were Montney/Doig horizontal natural gas wells in the Pouce Coupe area. The Montney/Doig horizontal natural gas wells consisted of 2 (2.0 net) horizontal wells drilled in the Basal Doig/Upper Montney interval and 2 (2.0 net) horizontal wells drilled in the Montney D1 interval. For further details, please see "*Operations Update*".

From inception to June 30, 2016, we have successfully drilled and cased 200 (199.9 net) Montney/Doig horizontal natural gas wells and 60 (60.0 net) Charlie Lake horizontal light oil wells utilizing multi-stage fracture stimulation technology.

We continue to see the benefits of our technical focus to evaluate and utilize innovative technologies in our drilling and completions. On our Montney/Doig Resource Play in Pouce Coupe, we have drilled approximately 13% faster on a metres per day drilled basis as compared to 2015, which is approximately 3 days faster per well.

Our completions strategy on our Montney/Doig Resource Play continues to build off our success in 2015. We continue to use multi-stage openhole packers with high rate slickwater completions with varied horizontal lateral lengths, number of stages and tonnages, based on our engineered completions mandate, taking into account the area and the Montney/Doig interval being completed.

LAND ACTIVITIES

Our land activities in the second quarter of 2016 included the acquisition of 22.75 sections of land (at 100% working interest) and the disposition of 6.5 (4.1 net) sections of land pursuant to a disposition in the Progress area in April 2016. Subsequent to the end of the quarter, we acquired 142.5 (84.7 net) sections of land pursuant to the Gordondale Acquisition. For further details, please see "*Strategic Montney/Doig Acquisition in the Gordondale Area*".

As at August 9, 2016, we held 416.2 sections of land that have potential for the Montney/Doig Resource Play. Of these lands, 394.2 (382.7 net) sections have potential for the Basal Doig/Upper Montney interval, 400.5 (391.1 net) sections have potential for the Montney D1 interval, 60.5 (60.5 net) sections have potential for the Montney D2 interval and 382.5 (376.0 net) sections have potential for the Montney D4 interval. As at August 9, 2016, our total land holdings on these four intervals were 1,237.6 (1,210.2 net)

sections. Assuming full development of four horizontal wells per section per interval, we have 4,840.6 net existing horizontal wells and potential net future horizontal drilling locations in respect of the Basal Doig/Upper Montney, Montney D1, Montney D2 and Montney D4 intervals as at June 30, 2016. With 287 (282.4 net) horizontal wells drilled as at August 9, 2016, there remain 4,558.2 potential net future horizontal drilling locations. For further information regarding these potential future horizontal drilling locations, please see *“Advisories – Drilling Locations”*.

As at June 30, 2016, our undeveloped land holdings were 422,322 (395,930 net) acres.

OPERATIONS UPDATE

The Revised 2016 Capital Program is focused on our two proven resource plays, the Montney/Doig Resource Play and the Charlie Lake Light Oil Resource Play. The Revised 2016 Capital Program contemplates the drilling of 23 (23.0 net) wells, consisting of 16 (16.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area, 6 (6.0 net) Montney/Doig horizontal oil and natural gas wells in the Gordondale area and 1 (1.0 net) Charlie Lake horizontal light oil well in the Worsley area.

In the current economic environment, we are focused on maximizing our capital efficiencies and reducing our drilling, casing, completion, equipping and tie-in costs. As a part of this effort, the 22 Montney/Doig horizontal wells are being drilled from multi-well pads ranging from 2-well pads to a 6-well pad. Multi-well pad drilling allows us to drill continuously through spring break-up, improve our drilling and completion capital efficiencies and reduce our per well costs and environmental footprint. The majority of the pads are already tied-in to our infrastructure system, minimizing the equipping and tie-in costs of the wells.

We have drilled 13 (13.0 net) wells year-to-date, consisting of 12 (12.0 net) Montney/Doig horizontal natural gas wells and the Charlie Lake horizontal light oil well in the Worsley area. Of the 13 wells drilled to-date, 3 (3.0 net) wells have been completed and brought on production. We currently have 10 wells drilled and cased in inventory and we anticipate that eight of these 10 wells will be equipped and tied-in by the end of 2016, with the last two wells to be equipped and tied-in in the first quarter of 2017. We have 10 Montney/Doig horizontal natural gas and oil wells left to be drilled in order to conclude our planned drilling program for 2016. For further details, please see *“Increased 2016 Capital Program”*.

MONTNEY/DOIG RESOURCE PLAY

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

To-date, we have drilled wells in each of the Basal Doig/Upper Montney, the Montney D4, the Montney D1 and the Montney C intervals. The Montney D4 and Montney C intervals are relatively new intervals for Birchcliff as we did not drill any wells in those intervals prior to 2014. In addition, the Revised 2016 Capital Program contemplates the drilling of 3 (3.0 net) Montney D2 horizontal oil wells, all of which will be drilled in Gordondale. The Montney D2 is a new interval for Birchcliff but it has been commercialized by industry in the Gordondale area and on the Montney/Doig fairway.

From inception to August 9, 2016, we have successfully drilled and cased 200 (199.9 net) Montney/Doig horizontal natural gas wells. The Assets acquired pursuant to the Gordondale Acquisition have 87 (82.5 net) Montney/Doig horizontal oil and natural gas producing wells. In total, Birchcliff now owns 287 (282.4 net) Montney/Doig horizontal wells that have been drilled and cased.

APPOINTMENT OF NEW DIRECTOR

We are pleased to announce that Rebecca Morley has joined the board of directors of Birchcliff effective today. Ms. Morley brings a wealth of financial expertise that we feel will be of great value to Birchcliff and its shareholders.

Ms. Morley has 15 years of experience in the capital markets, having worked as an Equity Research Associate at TD Securities and GMP Securities and then as a Partner and Research Analyst at Paradigm Capital. Ms. Morley then moved to Cypress Capital where she worked as a Research Analyst and Associate Portfolio Manager and was most recently Vice President of Corporate Development at Rayne Capital. Ms. Morley is currently the Chair of the Board of Directors of the YWCA of Calgary, was the Chair of the Audit Committee in 2014 and 2015 and has been a director since 2012. Ms. Morley has a Bachelor of Business Administration with a Major in Finance (Honours) from St. Francis Xavier University and is a CFA Charterholder.

SHAREHOLDER SUPPORT

We thank Mr. Seymour Schulich, our largest shareholder, for his leadership, unwavering commitment and his ongoing support. It is this kind of leadership that keeps our staff motivated and focused on the execution of our business plan.

Mr. Schulich was the sole subscriber under the concurrent private placement which closed on July 13, 2016 and currently holds 35 million common shares representing 13% of the current issued and outstanding common shares.

OUTLOOK

We believe that Birchcliff is in its best operating and financial position since its inception and as a result, we are extremely excited about Birchcliff's future. We have increased our future drilling opportunities and materially improved our financial strength, but we have not left the map sheet. We believe that future drilling opportunities in the Montney D2 will result in material production and reserves additions, which will be a major contributor to our future success. We currently expect that our 2016 net capital expenditures will approximate our 2016 funds flow and accordingly, we anticipate that we will not incur additional indebtedness under our Credit Facilities during the remainder of 2016.

We remain focused on our strategy – growth by the drill bit in our core area of the Peace River Arch of Alberta. Our strategy is to continue to develop and expand our two very large resource plays, the Montney/Doig Resource Play and the Charlie Lake Light Oil Resource Play, while maintaining low capital costs and operating costs. These resource plays are large enough to provide us with an extensive inventory of repeatable, consistent, low-cost and low-risk drilling opportunities that we expect will provide production and reserves growth for many years. Our strategy is based on the fact that we operate essentially all of our production, our current ownership of large contiguous blocks of high working interest land in our operating areas and our high working interest or 100% ownership in the majority of our major facilities and infrastructure. We continue to reduce our costs and control our capital expenditures primarily because we control the majority of our infrastructure. We continue to focus on improving our execution, reducing our costs and increasing our reserves, all leading to improved capital efficiency and internal rates of return. Due to the combination of industry conditions, the hard work of our people, various cost reduction initiatives and efficient project execution, we have seen a material reduction in our drilling and completion costs. In the second quarter of 2016, our already low operating costs on a per boe basis have been reduced to record low levels.

In the near-term, we expect that our operating costs will increase going forward due to the oil and liquids assets that we acquired and the infrastructure processing arrangements that we assumed pursuant to the

Gordondale Acquisition. However, our revenues are also expected to increase as a result of the liquids content of our production and we believe that our operating costs and netbacks for 2016 will still remain in the top decile of industry. In the longer-term, our goal will be to continue to reduce our operating costs.

Our production remains very strong. Current production is approximately 65,000 boe/d. As a result of the completion of the Gordondale Acquisition, our 2016 fourth quarter average production is estimated to be 62,000 to 63,000 boe/d and we have increased our 2016 annual average production guidance to 49,000 to 51,000 boe/d, representing a range of 26% to 31% growth over our annual average production of 38,950 boe/d in 2015.

In connection with the closing of the Gordondale Acquisition, the borrowing base under the Credit Facilities was increased to \$950 million from \$750 million. The fact that the borrowing base under the Credit Facilities was increased to \$950 million is a good testament to the strength of the reserves that we acquired pursuant to the Gordondale Acquisition.

As a result of these attributes, we believe that Birchcliff is well positioned to withstand the current commodity price environment. The production from the majority of our Montney/Doig horizontal natural gas wells are outperforming our original internal forecasts and we had strong quarterly average production during the second quarter of 2016 (**Strong Production**). We had record low operating costs and G&A expense per boe during the second quarter of 2016 (**Record Low Operating and G&A Costs per boe**). In addition to cost reductions resulting from industry conditions, we have also initiated technical and operational advancements that have resulted in sustainable cost reductions (**Cost Reductions**). We have financial flexibility with our \$950 million Credit Facilities that do not contain any financial covenants (**Financial Flexibility**). We continue to make major investments in our infrastructure, and at the same time, we are attempting to live within our funds flow (**Investment in Infrastructure**). We have long-term shareholders who continue to support Birchcliff notwithstanding the significant changes in our business environment (**Seymour Schulich**).

Thank you to all of our shareholders for your support and to our staff who continue to go that extra mile for the benefit of all of us.

With Respect,

(signed) "A. Jeffery Tonken"

President and Chief Executive Officer
Birchcliff Energy Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

This Management's Discussion and Analysis ("MD&A") for Birchcliff Energy Ltd. ("Birchcliff" or the "Corporation") is dated August 10, 2016. This MD&A and the unaudited interim condensed financial statements with respect to the three and six months ended June 30, 2016 (the "Reporting Periods") as compared to the three and six months ended June 30, 2015 (the "Comparable Prior Periods") have been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the interim condensed financial statements of the Corporation and related notes for the Reporting Periods, as well as the audited financial statements of the Corporation and related notes and MD&A for the year ended December 31, 2015. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

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

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

All barrel of oil equivalent ("boe") amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel of oil (1 bbl) and all thousands of cubic feet of gas equivalent ("Mcf") amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. For further information, see "Advisories" in this MD&A.

ABOUT BIRCHCLIFF

Birchcliff is a Calgary, Alberta based intermediate oil and natural gas company with operations concentrated in its one core area, the Peace River Arch of Alberta, which is centred northwest of Grande Prairie, Alberta. Birchcliff's common shares are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol "BIR" and are included in the S&P/TSX Composite Index. Additional information relating to the Corporation, including its Annual Information Form for the financial year ended December 31, 2015, is available on the SEDAR website at www.sedar.com and on the Corporation's website at www.birchcliffenergy.com.

SECOND QUARTER FINANCIAL AND OPERATIONAL HIGHLIGHTS

- On June 21, 2016, Birchcliff entered into a definitive agreement to purchase certain petroleum and natural gas properties, interests and related assets primarily located in the Gordondale area (the "Assets") for cash consideration of approximately \$625 million, prior to closing adjustments and costs of the acquisition (the "Gordondale Acquisition"). In connection with the announcement of the Gordondale Acquisition, Birchcliff launched a bought deal financing and concurrent private placement of subscription receipts for aggregate gross proceeds of approximately \$690.8 million. The financings closed on July 13, 2016 and the Gordondale Acquisition closed July 28, 2016. See "Subsequent Events" in this MD&A for further information regarding the Gordondale Acquisition and the financings.

- Birchcliff had strong quarterly average production of 39,513 boe/d, a 3% increase from 38,489 boe/d in the second quarter of 2015.
- Birchcliff had funds flow of \$13.3 million (\$0.09 per basic common share), a decrease from \$45.8 million (\$0.30 per basic common share) in the second quarter of 2015.
- Birchcliff recorded a net loss to common shareholders of \$24.3 million (\$0.16 per basic common share), as compared to the net loss to common shareholders of \$5.2 million (\$0.03 per basic common share) in the second quarter of 2015.
- Birchcliff had record low operating costs of \$3.45 per boe, a 24% decrease from \$4.53 per boe in the second quarter of 2015.
- Birchcliff drilled 4 (4.0 net) wells in the second quarter of 2016, all of which were Montney/Doig horizontal natural gas wells in the Pouce Coupe area.

OUTLOOK

As a result of the closing of the Gordondale Acquisition, the Corporation's board of directors has approved a revised capital budget for 2016 of \$163.7 million, up from the \$122.5 million that was previously announced on May 11, 2016.

The Corporation's revised 2016 capital expenditure program (the "**Revised 2016 Capital Program**") contemplates the drilling of a total of 23 (23.0 net) wells, an increase from the 13 (13.0 net) wells under the Corporation's original capital expenditure program, and continues the funding of key infrastructure required for future growth, including the Corporation's 100% owned and operated natural gas plant located in the Pouce Coupe South area (the "**PCS Gas Plant**").

Birchcliff will direct additional funds towards the development of certain properties that it recently acquired in the Gordondale area pursuant to the Gordondale Acquisition, as well as additional funds towards the development of its existing properties in the Pouce Coupe area. The expanded portion of the Revised 2016 Capital Program contemplates the drilling of an additional 10 (10.0 net) wells, consisting of 4 (4.0 net) wells in the Pouce Coupe area and 6 (6.0 net) wells in the Gordondale area. These additional wells are expected to be completed, equipped and brought on production in 2017. As a result, the expanded portion of the Revised 2016 Capital Program is not expected to add any production in 2016, but is designed to achieve significant production growth in 2017.

The Corporation currently expects that its net capital expenditures for 2016 (net of acquisitions and dispositions, but excluding the Gordondale Acquisition) will approximate its funds flow during 2016, based on the assumptions set forth herein.

Based on recent commodity prices and exchange rates, Birchcliff has revised its commodity price and exchange rate assumptions underlying the Revised 2016 Capital Program. The Revised 2016 Capital Program now assumes an annual average WTI price of approximately US\$40.50 per barrel of oil (revised from US\$43.00), an AECO price of approximately CDN\$2.00 per GJ of natural gas (revised from CDN\$1.90) and an exchange rate of CDN\$/US\$ of 1.33 (revised from 1.29) during 2016.

The Corporation's estimated total debt at December 31, 2016 is expected to be \$607 million, decreased from the Corporation's previously disclosed guidance of \$656 million.

The Revised 2016 Capital Program is flexible and Birchcliff has the ability to defer capital expenditures in the event that actual commodity prices are materially less than what it has forecast. The Corporation has been closely monitoring commodity prices and its capital spending. The Corporation continues to find opportunities to reduce costs and defer certain capital expenditures, while still pursuing its objectives of

production growth and the funding of key infrastructure to pave the way for future growth. The Corporation will continue to monitor commodity prices and economic conditions and may further adjust the Revised 2016 Capital Program to respond to changes in commodity prices and other material changes in the assumptions underlying the Revised 2016 Capital Program. In addition, Birchcliff may make adjustments to its other activities as appropriate. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials.

The Corporation's annual average production for 2016 is expected to be 49,000 to 51,000 boe/d, increased from the Corporation's previously disclosed guidance of 40,000 to 41,000 boe/d.

The Corporation currently has crude oil hedges in place for 1,500 bbls/d which expire December 31, 2016. The Corporation is currently reviewing its hedging strategy and intends to adopt an ongoing hedging strategy. For further information regarding the Corporation's hedges, please see "Discussion of Operations – Risk Management Contracts" in this MD&A.

See "Advisories – Forward-Looking Information".

FUNDS FLOW FROM OPERATIONS

(\$000s)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Funds flow from operations	13,267	45,752	33,962	82,472
Per common share – basic (\$)	0.09	0.30	0.22	0.54
Per common share – diluted (\$)	0.09	0.30	0.22	0.53

Funds flow in the three and six month Reporting Periods decreased by 71% and 59%, respectively, from the Comparable Prior Periods. Lower funds flow in the three and six month Reporting Periods was largely attributed to a 21% and 23% decrease, respectively, in the realized oil wellhead prices and a 48% and 40% decrease, respectively, in the realized natural gas wellhead prices as compared to the Comparable Prior Periods. Lower funds flow was partially offset by higher average daily production and lower per unit total cash costs in the three and six month Reporting Periods.

The following table provides a breakdown of total cash costs on a per boe basis and the percentage change period-over-period for the three and six month Reporting Periods:

(\$/boe)	Three months ended June 30,			Six months ended June 30,		
	2016	2015	% Change	2016	2015	% Change
Royalty expense	0.25	0.61	(59%)	0.46	0.72	(36%)
Operating expense	3.45	4.53	(24%)	3.58	4.82	(26%)
Transportation and marketing expense	2.35	2.46	(4%)	2.30	2.52	(9%)
General & administrative expense, net	1.24	1.50	(17%)	1.28	1.60	(20%)
Interest expense	2.18	1.48	47%	1.94	1.45	34%
Total Cash Costs	9.47	10.58	(10%)	9.56	11.11	(14%)

On a per boe basis, total cash costs for the three and six month Reporting Periods were down 10% and 14%, respectively, from the Comparable Prior Periods primarily driven by lower royalty, operating, transportation and marketing and general and administrative expenses, partially offset by higher interest expense in the Reporting Periods. See "Discussion of Operations" in this MD&A for further information regarding the aforementioned cash costs.

NET LOSS TO COMMON SHAREHOLDERS

(\$000s)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net loss	(23,321)	(4,174)	(35,356)	(7,653)
Net loss to common shareholders⁽¹⁾	(24,321)	(5,174)	(37,356)	(9,653)
Per common share – basic (\$)	(0.16)	(0.03)	(0.25)	(0.06)
Per common share – diluted (\$)	(0.16)	(0.03)	(0.25)	(0.06)

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

For the three and six month Reporting Periods, the respective increases in net loss to common shareholders from the Comparable Prior Periods were largely due to lower funds flow from operations and a loss on sale of assets of \$10.9 million (\$8.0 million, net of tax), offset by lower depletion costs in the Reporting Periods.

PCS GAS PLANT NETBACKS

The following table sets forth Birchcliff's net production and estimated operating netback for wells producing to the PCS Gas Plant on a production month basis:

	Six months ended June 30, 2016		Six months ended June 30, 2015	
Average daily production, net to Birchcliff:				
Natural gas (Mcf)		171,422		157,462
Oil & NGL (bbls)		967		1,249
Total boe (6:1)		29,537		27,494
<i>Sales liquids yield (bbls/MMcf)</i>		5.6		7.9
<i>% of corporate natural gas production</i>		79%		80%
<i>% of corporate production</i>		73%		72%
AECO – C daily (\$/Mcf)		\$1.61		\$2.70
Netback and cost:	\$/Mcfe	\$/boe	\$/Mcfe	\$/boe
Petroleum and natural gas revenue ⁽¹⁾	1.93	11.61	3.20	19.21
Royalty expense	(0.05)	(0.30)	(0.12)	(0.74)
Operating expense ⁽²⁾	(0.25)	(1.47)	(0.35)	(2.11)
Transportation and marketing expense	(0.30)	(1.88)	(0.32)	(1.92)
Estimated operating netback	\$1.33	\$7.96	\$2.41	\$14.44
Operating margin	69%	69%	75%	75%

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

(2) Represents plant and field operating costs.

DISCUSSION OF OPERATIONS

Petroleum and Natural Gas Revenues

The following table sets forth Birchcliff's petroleum and natural gas ("P&NG") revenues, production and percentage of production and sales price by product category:

	Three months ended June 30, 2016				Three months ended June 30, 2015			
	Total Revenue ⁽¹⁾ (\$000s)	Average Daily Production	Average (%)	Average (\$/unit)	Total Revenue (\$000s)	Average Daily Production	Average (%)	Average (\$/unit)
Light oil (bbls)	11,666	2,504	6	51.20	22,072	3,736	10	64.93
Natural gas (Mcf)	28,703	213,130	90	1.48	51,797	198,714	86	2.86
NGL (bbls)	6,873	1,488	4	50.77	8,857	1,634	4	59.57
Total P&NG sales (boe)	47,242	39,513	100	13.13	82,726	38,489	100	23.62
Royalty revenue	19			0.01	65			0.02
P&NG revenues	47,261			13.14	82,791			23.64

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

	Six months ended June 30, 2016				Six months ended June 30, 2015			
	Total Revenue ⁽¹⁾ (\$000s)	Average Daily Production	Average (%)	Average (\$/unit)	Total Revenue (\$000s)	Average Daily Production	Average (%)	Average (\$/unit)
Light oil (bbls)	22,527	2,868	7	43.16	39,304	3,876	10	56.03
Natural gas (Mcf)	69,019	217,804	89	1.74	104,282	197,332	86	2.92
NGL (bbls)	13,175	1,567	4	46.19	16,145	1,688	4	52.84
Total P&NG sales (boe)	104,721	40,736	100	14.12	159,731	38,453	100	22.95
Royalty revenue	43			0.01	86			0.01
P&NG revenues	104,764			14.13	159,817			22.96

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

The decrease in P&NG revenues from the Comparable Prior Periods was largely attributable to a decrease in both the average realized oil and natural gas wellhead prices, partially offset by higher average daily production in the Reporting Periods, as discussed in further detail below.

Production

Production averaged 39,513 boe/d in the three month Reporting Period and 40,736 boe/d in the six month Reporting Period, a 3% and 6% increase, respectively, from the Comparable Prior Periods. The increase in production from the Comparable Prior Periods was largely due to incremental production added from new Montney/Doig horizontal natural gas wells, notwithstanding natural production declines.

Production consisted of approximately 90% natural gas, 6% light oil and 4% natural gas liquids ("NGL") in the second quarter of 2016 as compared to 86% natural gas, 10% light oil and 4% NGL in the second quarter of 2015. The PCS Gas Plant processed approximately 79% of Birchcliff's total corporate natural gas production and 73% of its total corporate production in the first half of 2016.

Commodity prices

Birchcliff sells the majority of its light crude oil on a spot basis and the majority of its natural gas production for prices based on the AECO natural gas spot price. The average realized price the Corporation receives for its light crude oil and natural gas production depends on a number of factors, including the average benchmark prices for crude oil and natural gas, the US to Canadian dollar exchange rate and transportation and product quality differentials.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
<i>Average benchmark prices:</i>				
Light oil – WTI Cushing (\$US/bbl)	45.59	57.94	39.52	53.29
Light oil – Edmonton Par (\$/bbl)	56.45	70.06	49.07	59.90
Natural gas – AECO – C daily (\$/MMbtu) ⁽¹⁾	1.40	2.65	1.61	2.70
Exchange rate – (US\$/CDN\$)	1.29	1.23	1.32	1.25
<i>Birchcliff's average realized sales price⁽²⁾:</i>				
Light oil (\$/bbl)	51.20	64.93	43.16	56.03
Natural gas (\$/Mcf)	1.48	2.86	1.74	2.92
NGL (\$/bbl)	50.77	59.57	46.19	52.84
Barrels of oil equivalent (\$/boe) (6:1)	13.13	23.62	14.12	22.95

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

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

The average realized sales price was \$13.13 per boe for the three month Reporting Period and \$14.12 per boe for the six month Reporting Period, a 44% and 38% decline, respectively, from the Comparable Prior Periods.

The average benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for these commodities. The principal benchmark trading exchanges that Birchcliff compares its oil price to are the WTI oil spot price and the Canadian Edmonton Par spot price. The differential between the WTI oil spot price and Canadian Edmonton Par spot price can widen due to a number of factors, including, but not limited to, downtime in North American refineries, rising domestic production, high inventory levels in North America and lack of pipeline infrastructure connecting key consuming oil markets.

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

During the first half of 2016, the AECO natural gas spot price and the WTI oil spot price continued to decline from 2015 year-end levels, primarily due to the supply/demand imbalance of oil and natural gas that has resulted in high inventory levels in North America. The AECO natural gas spot price averaged \$1.40 per Mcf for the three month Reporting Period and averaged \$1.61 per Mcf for the six month Reporting Period, a 47% and 40% decrease, respectively, from the Comparable Prior Periods. The WTI oil spot price in the three and six month Reporting Periods were 21% and 26% lower, respectively, than the Comparable Prior Periods. The decline in commodity prices negatively impacted reported revenues in the three and six month Reporting Periods.

Birchcliff's realized natural gas sales price at the wellhead averaged \$1.48 per Mcf for the three month Reporting Period which is higher than the posted benchmark prices for the period. Birchcliff receives premium pricing for its natural gas production due to its high heat content. The following table sets forth Birchcliff's average realized sales price and heat content premium from its natural gas production during the three month Reporting Period:

	Three months ended June 30, 2016	Three months ended June 30, 2015
AECO – C daily (\$/MMbtu) ⁽¹⁾	1.40	2.65
Heat content premium	0.08	0.21
Average realized natural gas sales price (\$/Mcf)	1.48	2.86

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

Risk Management Contracts

The Corporation entered into certain commodity price risk management contracts in the three month Reporting Period in order to reduce volatility in its financial results and protect its cash flow and capital expenditure program. Birchcliff's current strategy is to hedge a portion of its oil and natural gas using a combination of financial derivatives and physical sales contracts to manage commodity price risk.

As at June 30, 2016, the Corporation had the following financial derivatives in place:

Product	Type of Contract	Notional quantity	Term ⁽¹⁾	Contract price	Fair value (\$000s)
Crude oil	Financial swap	1,000 bbls/day	June 1, 2016 – December 31, 2016	WTI CAD \$64.63/bbl	22
Crude oil	Financial swap	500 bbls/day	June 1, 2016 – December 31, 2016	WTI CAD \$65.25/bbl	102
Fair value assets					124

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

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

	Three months ended June 30,				Six months ended June 30,			
	2016		2015		2016		2015	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
Realized gain on derivatives	83	0.02	-	-	83	0.01	-	-
Unrealized gain on derivatives	124	0.03	-	-	124	0.02	-	-

There were no financial derivative contracts entered into subsequent to June 30, 2016.

Royalties

The following table details Birchcliff's royalty expense:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Oil & natural gas royalties (\$000s) ⁽¹⁾	885	2,138	3,436	5,024
Oil & natural gas royalties (\$/boe)	0.25	0.61	0.46	0.72
Effective royalty rate (%) ⁽²⁾	2%	3%	3%	3%

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

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

Birchcliff's aggregate royalty expense for the three and six month Reporting Periods decreased from the Comparable Prior Periods primarily due to lower realized oil and natural gas wellhead prices.

Birchcliff's effective royalty rates are largely unchanged from the Comparable Prior Periods and are impacted by both the production incentives earned for a number of Montney/Doig horizontal natural gas wells that are receiving a 5% royalty rate and by lower oil and natural gas wellhead prices received for Birchcliff's production and the effect these prices have on the sliding scale royalty calculation.

The Government of Alberta introduced the new Modernized Royalty Framework (the "MRF") on January 29, 2016 and on April 21, 2016 it announced additional royalty details and technical formulas for the MRF. These details provide the necessary information to understand the economics for oil and gas producers and other stakeholders to continue to invest in Alberta. Production from wells drilled prior to January 1, 2017 will continue under the previous Alberta Royalty Framework for 10 years before transitioning to the MRF. On July 12, 2016, the Government of Alberta announced that operators could apply to opt into the MRF prior to the implementation date of January 1, 2017, and thus gain earlier access to the new program. Birchcliff expects to apply for the early entry program, where applicable, on its remaining 10 well 2016 drilling program.

Operating Costs

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

	Three months ended June 30,				Six months ended June 30,			
	2016		2015		2016		2015	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
Field operating costs	12,672	3.52	16,110	4.60	27,245	3.67	33,760	4.85
Recoveries	(350)	(0.10)	(322)	(0.09)	(868)	(0.12)	(664)	(0.09)
Field operating costs, net	12,322	3.42	15,788	4.51	26,377	3.55	33,096	4.76
Expensed workovers and other	81	0.03	67	0.02	178	0.03	428	0.06
Operating costs	12,403	3.45	15,855	4.53	26,555	3.58	33,524	4.82

Corporate operating costs per boe decreased 24% and 26% from the three and six month Comparable Prior Periods, respectively, largely due to the continued cost benefits achieved from processing incremental volumes of natural gas at the PCS Gas Plant and lower service costs resulting from reduced industry activity, as well as various cost reduction and infrastructure optimization initiatives that the Corporation has implemented.

On a production month basis, operating costs averaged \$1.47 per boe (\$0.25 per Mcfe) at the PCS Gas Plant during the first half of 2016, down 30% from \$2.11 per boe (\$0.35 per Mcfe) in the Comparable Prior Period. Birchcliff processed 79% of its total corporate natural gas production at the PCS Gas Plant during the six month Reporting Period as compared to 80% in the Comparable Prior Period.

Transportation and Marketing Expenses

Transportation and marketing expenses were \$8.5 million (\$2.35 per boe) for the three month Reporting Period and \$17.0 million (\$2.30 per boe) for the six month Reporting Period as compared to \$8.6 million (\$2.46 per boe) and \$17.5 million (\$2.52 per boe) for the Comparable Prior Periods. The decreased aggregate costs from the Comparable Prior Periods are primarily due to the reduced costs associated with transporting Birchcliff's condensate from the PCS Gas Plant and lower oil trucking service costs in the Reporting Periods, partially offset by increased firm service commitments on TransCanada's NGTL System.

Operating Netbacks

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Montney/Doig Resource Play⁽¹⁾				
Average daily production, net:				
Natural gas (Mcf)	202,823	184,516	205,511	181,991
Oil & NGL (bbls)	1,587	1,838	1,697	1,930
Total boe (6:1)	35,391	32,591	35,948	32,261
% of corporate production ⁽²⁾	90%	85%	88%	84%
Netback and cost (\$/boe):				
Petroleum and natural gas revenue ⁽³⁾	10.81	19.77	12.15	19.77
Royalty expense	(0.12)	(0.38)	(0.33)	(0.38)
Operating expense, net of recoveries	(2.35)	(3.18)	(2.55)	(3.51)
Transportation and marketing expense	(2.06)	(1.94)	(1.97)	(1.98)
Operating netback	6.28	14.27	7.30	13.90
Worsley Charlie Lake Light Oil Resource Play⁽¹⁾				
Average daily production, net:				
Natural gas (Mcf)	5,581	7,976	6,628	8,779
Oil & NGL (bbls)	2,076	2,623	2,307	2,831
Total boe (6:1)	3,006	3,952	3,412	4,294
% of corporate production ⁽²⁾	8%	10%	8%	11%
Netback and cost (\$/boe):				
Petroleum and natural gas revenue ⁽³⁾	37.76	48.00	32.29	41.84
Royalty expense	(1.16)	(1.88)	(1.33)	(2.49)
Operating expense, net of recoveries	(10.28)	(10.57)	(9.93)	(10.50)
Transportation and marketing expense	(6.14)	(5.97)	(5.96)	(6.16)
Operating netback	20.18	29.58	15.07	22.69
Total Corporate				
Average daily production, net:				
Natural gas (Mcf)	213,130	198,714	217,804	197,332
Oil & NGL (bbls)	3,992	5,370	4,435	5,564
Total boe (6:1)	39,513	38,489	40,736	38,453
Netback and cost (\$/boe)				
Petroleum and natural gas revenue ⁽³⁾	13.14	23.64	14.13	22.96
Royalty expense	(0.25)	(0.61)	(0.46)	(0.72)
Operating expense, net of recoveries	(3.45)	(4.53)	(3.58)	(4.82)
Transportation and marketing expense	(2.35)	(2.46)	(2.30)	(2.52)
Operating netback	7.09	16.04	7.79	14.90

(1) Most resource plays produce both oil and natural gas; however, a resource play is categorized as either a natural gas resource play or an oil resource play based upon the predominate production or play type in that area.

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

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

Montney/Doig Resource Play

Birchcliff's production from the Montney/Doig Resource Play was 35,391 boe/d in the three month Reporting Period and 35,948 boe/d in the six month Reporting Period, a 9% and 11% increase from the Comparable Prior Periods. This increase was largely due to higher production of natural gas from new

Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant and nearby third party plants throughout 2016.

Birchcliff's recoveries of liquids from its Montney/Doig natural gas production were 7.8 bbls per MMcf in the three month Reporting Period and 8.3 bbls per MMcf in the six month Reporting Period as compared to 10.0 bbls per MMcf and 10.6 bbls per MMcf, respectively, in the Comparable Prior Periods. Of the 7.8 bbls per MMcf of liquids produced in the three month Reporting Period, approximately 7.6 bbls per MMcf (97%) were high value oil and condensate (C5+). Any NGL not recovered from the raw natural gas stream (ethane, propane and butane) increases the heat content value of Birchcliff's sales gas and the realized sales price.

Birchcliff's operating netback from the Montney/Doig Resource Play was \$6.28 per boe (\$1.05 per Mcfe) in the three month Reporting Period and \$7.30 per boe (\$1.22 per Mcfe) in the six month Reporting Period, a decrease of 56% and 47%, respectively, from the Comparable Prior Periods. This decrease was largely due to lower realized prices received for Birchcliff's natural gas and liquids production in the Reporting Periods as compared to the Comparable Prior Periods.

Worsley Charlie Lake Light Oil Resource Play

Birchcliff's production from the Worsley Charlie Lake Light Oil Resource Play was 3,006 boe/d in the three month Reporting Period and 3,412 boe/d in the six month Reporting Period, a decrease of 24% and 21%, respectively, from the Comparable Prior Periods. The decrease in production was largely due to natural declines and on-going pipeline inspection, repairs and maintenance activities in the Reporting Periods, partially offset by production optimization initiatives in the Worsley field that were ongoing during 2016.

Birchcliff's operating netback from the Worsley Charlie Lake Light Oil Resource Play was \$20.18 per boe in the three month Reporting Period and \$15.07 per boe in the six month Reporting Period, a decrease of 32% and 34%, respectively, from the Comparable Prior Periods. The decrease was largely due to lower realized prices received for Birchcliff's oil, natural gas and liquids production in the Reporting Periods as compared to the Comparable Prior Periods.

Administrative Expenses

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

	Three months ended				Six months ended			
	June 30,				June 30,			
	2016		2015		2016		2015	
	(\$000s)	(%)	(\$000s)	(%)	(\$000s)	(%)	(\$000s)	(%)
<i>Cash:</i>								
Salaries and benefits ⁽¹⁾	5,066	64	4,827	58	10,351	63	10,152	60
Other ⁽²⁾	2,803	36	3,450	42	5,953	37	6,898	40
	7,869	100	8,277	100	16,304	100	17,050	100
Operating overhead recoveries	(48)	(1)	(71)	(1)	(90)	(1)	(133)	(1)
Capitalized overhead ⁽³⁾	(3,353)	(42)	(2,942)	(35)	(6,733)	(41)	(5,780)	(34)
General & administrative, net	4,468	57	5,264	64	9,481	58	11,137	65
General & administrative, net per boe	\$1.24		\$1.50		\$1.28		\$1.60	
<i>Non-cash:</i>								
Stock-based compensation	1,376	100	2,051	100	2,945	100	4,051	100
Capitalized stock-based compensation ⁽³⁾	(852)	(62)	(1,181)	(58)	(1,771)	(60)	(2,424)	(60)
Stock-based compensation, net	524	38	870	42	1,174	40	1,627	40
Stock-based compensation, net per boe	\$0.15		\$0.25		\$0.16		\$0.23	
Administrative expenses, net	4,992		6,134		10,655		12,764	
Administrative expenses, net per boe	\$1.39		\$1.75		\$1.44		\$1.83	

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

- (2) Includes costs such as rent, legal, tax, insurance, minor computer hardware and software and other general business expenses incurred by the Corporation.
- (3) Includes a portion of general and administrative costs and stock-based compensation directly attributable to the exploration and development activities of the Corporation which have been capitalized.

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

	Three months ended June 30, 2016		Six months ended June 30, 2016	
	Number	Exercise price (\$) ⁽¹⁾	Number	Exercise price (\$) ⁽¹⁾
Outstanding at beginning of period	13,991,705	6.45	12,569,238	7.80
Granted	53,000	6.04	3,065,500	3.45
Forfeited	(109,567)	(6.65)	(120,400)	(6.78)
Expired	(93,000)	(12.77)	(1,672,200)	(11.44)
Outstanding, end of period	13,842,138	6.40	13,842,138	6.40

(1) Determined on a weighted average basis.

At June 30, 2016, there were 2,939,732 performance warrants outstanding with an exercise price of \$3.00 which expire on January 31, 2020.

Each stock option and performance warrant entitles the holder to purchase one common share at the exercise price.

Depletion and Depreciation Expenses

Depletion and depreciation (“D&D”) expenses were \$31.5 million (\$8.75 per boe) for the three month Reporting Period and \$65.6 million (\$8.85 per boe) for the six month Reporting Period as compared to \$37.6 million (\$10.75 per boe) and \$76.5 million (\$10.99 per boe), respectively, for the Comparable Prior Periods. D&D expenses were lower on an aggregate basis from the Comparable Prior Periods mainly due to a 21% increase in period-end proved plus probable reserves offset by higher production in the Reporting Periods.

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

Asset impairment assessment

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

The Corporation's CGUs are reviewed at each reporting date for both internal and external indicators of potential impairment. Potential CGU impairment indicators include, but are not limited to: changes to Birchcliff's business plan; deterioration in commodity prices; negative changes in technological, economic, legal, capital or operating environment; adverse changes to the physical condition of a CGU; current expectations that a material CGU (or a significant component thereof) is more likely than not to be sold or otherwise disposed of before the end of its previously estimated useful life; non-compliance with the agreements governing the Corporation's bank credit facilities; deterioration in the financial and

operational performance of a CGU; net assets exceeding market capitalization; and significant downward revisions of estimated recoverable proved plus probable reserves of a CGU. If impairment indicators exist, an impairment test is performed by comparing a CGU's carrying value to its recoverable amount.

Birchcliff performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined that there were no impairment triggers identified during the Reporting Periods. As a result, an impairment test was not required at June 30, 2016.

Finance Expenses

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

	Three months ended June 30,				Six months ended June 30,			
	2016		2015		2016		2015	
	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)	(\$000s)	(\$/boe)
<i>Cash:</i>								
Interest on credit facilities	7,825	2.18	5,165	1.48	14,414	1.94	10,124	1.45
<i>Non-cash:</i>								
Accretion on decommissioning obligations	571	0.16	530	0.15	1,135	0.15	1,088	0.16
Amortization of deferred financing fees	230	0.06	230	0.07	465	0.06	450	0.06
Finance expenses	8,626	2.40	5,925	1.70	16,014	2.15	11,662	1.67

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

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<i>Effective interest rates:</i>				
Revolving working capital facility	4.7%	4.1%	4.7%	4.1%
Revolving syndicated term credit facility	4.7%	3.5%	4.4%	3.7%
Non-revolving term credit facility ⁽¹⁾	-	3.8%	-	4.0%

(1) During the three month Comparable Prior Period, Birchcliff's then existing credit facilities, including the non-revolving credit facility, were consolidated into the Credit Facilities (as defined herein). Accordingly, the Corporation did not have an outstanding non-revolving term credit facility during the Reporting Periods.

Birchcliff's average outstanding total credit facilities balance was approximately \$666 million and \$649 million in the three and six month Reporting Periods, respectively, as compared to \$533 million and \$573 million in the Comparable Prior Periods, calculated as the simple average of the month-end amounts.

Gain or Loss on Sale of Assets

On April 28, 2016, Birchcliff completed the disposition of certain non-core miscellaneous petroleum and natural gas properties and related assets and interests in the Progress area (the "Progress Disposition") that were producing from the Halfway formation for cash consideration of \$19.0 million, after customary closing adjustments. The Progress Disposition had an effective date of January 1, 2016 and represented approximately 600 boe/d of production (60% light oil) and 4,135 net acres of land. The assets disposed of pursuant to the Progress Disposition are not material to the Corporation's financial results and operational

performance as they represented approximately 1% of its production in the first half of 2016 and less than 1% of its proved plus probable reserves at December 31, 2015. No significant capital was allocated to the Progress assets during the Reporting Periods. As a result of the Progress Disposition, Birchcliff recorded a loss on sale of assets of approximately \$10.9 million (\$8.0 million, net of tax) or \$3.03 per boe (\$2.21 per boe, net of tax) in the second quarter of 2016.

During the six month Comparable Prior Period, Birchcliff completed two transactions whereby it disposed of minor non-reserve assets in the Gold Creek and Sturgeon Lake areas of Alberta in exchange for \$0.7 million in cash. As a result of the dispositions, Birchcliff recorded a gain of \$0.7 million or \$0.09 per boe in the six month Comparable Prior Period. The sale of the Gold Creek and Sturgeon Lake assets are considered non-core asset dispositions and are not material to the Corporation's financial results and operational performance.

Income Taxes

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

<i>(\$000s)</i>	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Deferred income tax expense (recovery)	(8,613)	9,023	(13,103)	7,873
Dividend income tax expense on preferred shares	750	750	1,500	1,500
Income tax expense (recovery)	(7,863)	9,773	(11,603)	9,373
Income tax expense (recovery) per boe	(\$2.18)	\$2.78	(\$1.56)	\$1.35

The Corporation recorded an income tax recovery of \$7.9 million for the three month Reporting Period and an income tax recovery of \$11.6 million for the six month Reporting Period as compared to an income tax expense of \$9.8 million and \$9.4 million for the Comparable Prior Periods. The decrease in income tax expense from the Comparable Prior Periods was due to the net loss recorded during the Reporting Periods mainly resulting from lower commodity prices which negatively impacted funds flow. Included in the Comparable Prior Periods was a deferred income tax expense of \$7.8 million resulting from an increase in the Alberta Corporate income tax rate from 10% to 12%.

The Corporation's estimated income tax pools were \$1.5 billion at June 30, 2016. 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:

<i>(\$000s)</i>	Tax pools as at June 30, 2016
Canadian oil and gas property expense	208,591
Canadian development expense	338,171
Canadian exploration expense	260,055
Undepreciated capital costs	260,440
Non-capital losses	426,480
Financing costs	1,121
Estimated income tax pools⁽¹⁾	1,494,858

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

Veracel tax pools

Birchcliff's 2006 income tax filings were reassessed by the Canada Revenue Agency (the "CRA") in 2011 (the "Reassessment"). The Reassessment was based on the CRA's position that the tax pools available to Veracel Inc. ("Veracel"), prior to its amalgamation with Birchcliff, ceased to be available to Birchcliff after Birchcliff and Veracel amalgamated on May 31, 2005 (the "Veracel Transaction"). The Veracel tax pools in dispute totaled \$39.3 million. Birchcliff appealed the Reassessment to the Tax Court of Canada (the "Trial Court") and the trial of that appeal occurred in November 2013. On October 1, 2015, the Trial Court issued

its decision (the “**Trial Decision**”) and dismissed Birchcliff’s appeal on the basis of the general anti-avoidance rule contained in the *Income Tax Act* (Canada). Birchcliff has appealed the Trial Decision to the Federal Court of Appeal and expects that appeal to be heard in 2016.

SUBSEQUENT EVENTS

Property Acquisition and Equity Financings

On June 21, 2016, Birchcliff entered into a definitive agreement to purchase the Assets for cash consideration of approximately \$625 million, prior to closing adjustments and costs of the Gordondale Acquisition. The Corporation paid a deposit of approximately \$31.3 million in connection with the Gordondale Acquisition, the full amount of which was drawn under the Credit Facilities at June 30, 2016. The remaining cash required to close the Gordondale Acquisition was financed by the aggregate net proceeds of the bought deal financing of 107,520,000 subscription receipts of the Corporation (“**Subscription Receipts**”) at a price of \$6.25 per Subscription Receipt for gross proceeds of \$672 million (the “**Offering**”) and a concurrent private placement of 3,000,000 Subscription Receipts at a price of \$6.25 per Subscription Receipt for gross proceeds of \$18.8 million (the “**Concurrent Private Placement**”). The Offering and the Concurrent Private Placement closed concurrently on July 13, 2016 and the aggregate gross proceeds of approximately \$690.8 million were held in escrow pending completion of the Gordondale Acquisition.

On July 28, 2016, Birchcliff closed the Gordondale Acquisition and each Subscription Receipt was exchanged for one common share of the Corporation. The aggregate gross proceeds of the Offering and Concurrent Private Placement were released from escrow to pay the balance of the purchase price for the Gordondale Acquisition and the balance of the fees payable to the underwriters of the Offering, with the remaining aggregate net proceeds applied to reduce indebtedness under the Corporation’s Credit Facilities.

Increase to Credit Facilities

In connection with the closing of the Gordondale Acquisition, the Corporation’s Credit Facilities were amended to increase the borrowing base to \$950 million from \$750 million. After giving effect to the increase in the borrowing base, the Credit Facilities are comprised of: (i) an extendible revolving syndicated term credit facility of \$900 million (increased from \$710 million) (the “**Syndicated Credit Facility**”); and (ii) an extendible revolving working capital credit facility of \$50 million (increased from \$40 million) (the “**Working Capital Facility**”). In connection with the closing of the Gordondale Acquisition, the Corporation issued a letter of credit for \$12 million to secure its obligations under various midstream and marketing arrangements. The letter of credit has reduced the amount available under the Working Capital Facility from \$50 million to approximately \$38 million.

In conjunction with the increase to the borrowing base, the lenders also agreed to waive the requirement to redetermine the borrowing base limit in connection with the delivery of the Corporation’s next in-house engineering report which is required to be delivered by November 15, 2016.

CAPITAL EXPENDITURES

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

(\$000s)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Land	663	4,352	1,524	4,923
Seismic	3	144	800	3,043
Workovers	931	1,093	1,595	3,425
Drilling and completions	10,954	34,941	41,242	96,110
Well equipment and facilities	10,371	24,257	41,492	56,341
Finding and development capital	22,922	64,787	86,653	163,842
Acquisitions	7	-	7	-
Dispositions	(18,717)	-	(18,748)	(660)
Finding, development and acquisition capital	4,212	64,787	67,912	163,182
Administrative assets	510	335	670	479
Capital expenditures, net	4,722	65,122	68,582	163,661

Birchcliff drilled 13 (13.0 net) wells in the first half of 2016, consisting of 12 (12.0 net) natural gas wells all of which were drilled in the Pouce Coupe area and 1 (1.0 net) oil well which was drilled in the Worsley area.

CAPITAL RESOURCES AND LIQUIDITY

Liquidity and Capital Resources

The Corporation generally relies on its funds flow from operations and available credit under the Corporation's existing Credit Facilities to funds its capital requirements, including its dividend payments on its preferred shares. In addition, the Corporation may from time-to-time seek additional capital in the form of debt or equity.

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

(\$000s)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Funds flow from operations	13,267	45,752	33,962	82,472
Changes in non-cash working capital from operations	(6,202)	(22,653)	(5,573)	(20,066)
Decommissioning expenditures	(16)	(48)	(593)	(328)
Exercise of stock options	-	59	-	501
Financing fees paid on credit facilities	-	(940)	-	(940)
Share issue costs	(16)	-	(16)	-
Dividends paid on preferred shares	(1,875)	(1,875)	(3,750)	(3,750)
Net change in non-revolving term credit facilities ⁽¹⁾	-	(130,000)	-	(129,970)
Net change in revolving term credit facilities	61,999	194,216	87,127	261,579
Deposit on acquisition	(31,250)	-	(31,250)	-
Changes in non-cash working capital from investing	(31,220)	(19,422)	(11,360)	(25,870)
Capital resources	4,687	65,089	68,547	163,628

(1) During the three month Comparable Prior Period, Birchcliff's then existing credit facilities, including the non-revolving credit facility, were consolidated into the Credit Facilities (as defined herein). Accordingly, the Corporation did not have an outstanding non-revolving term credit facility during the Reporting Periods.

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

On May 11, 2016, Birchcliff announced that it had reduced its capital expenditure budget from \$128 million to \$122.5 million. As a result of the completion of the Gordondale Acquisition, Birchcliff increased its capital expenditure budget from \$122.5 million to \$163.7 million. On July 13, 2016, the Corporation closed the Offering and the Concurrent Private Placement for aggregate gross proceeds of approximately \$690.8 million. The balance of the net proceeds of the Offering and the Concurrent Private Placement (after the payment of the balance of the purchase price for the Gordondale Acquisition and the balance of fees payable to the underwriters of the Offering) were used by the Corporation to initially reduce indebtedness under the Credit Facilities. In addition, the borrowing base under the Corporation's Credit Facilities was increased to \$950 million from \$750 million in connection with the closing of the Gordondale Acquisition. See *"Outlook"*, *"Subsequent Events"* and *"Bank Debt"*.

Birchcliff currently expects that its net capital expenditures for 2016 (net of acquisitions and dispositions, but excluding the Gordondale Acquisition) will approximate its funds flow during 2016. In addition, management believes that its funds flow from operations and available credit under the increased Credit Facilities will be sufficient to fund the Corporation's planned capital expenditures for the remainder of 2016 and to meet its current and future working capital requirements in 2016.

The Revised 2016 Capital Program is flexible and Birchcliff has the ability to defer capital expenditures in the event that actual commodity prices are materially less than what it has forecast. Should commodity prices deteriorate materially, Birchcliff may further adjust the Revised 2016 Capital Program accordingly. In addition, the Corporation may consider seeking additional capital in the form of debt or equity. There is no assurance that any of the additional sources of capital will be available if and when required. See *"Outlook"* and *"Advisories"*.

Working Capital

The Corporation's adjusted working capital deficit decreased to \$6.1 million at June 30, 2016 from \$21.5 million at December 31, 2015. The deficit at the end of the Reporting Periods is largely comprised of costs incurred from the drilling and completion of new wells.

At June 30, 2016, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of June 2016 production (60%), which was subsequently received in July 2016. In contrast, current liabilities largely consisted of trade and joint venture payables (79%) and accrued capital and operating costs (18%). Birchcliff routinely assesses the financial strength of its marketers and joint venture partners in accordance with the Corporation's credit risk guidelines. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations.

Adjusted working capital includes items expected for normal operations, including trade receivables and payables, accruals, deposits and prepaid expenses. The Corporation's adjusted working capital varies primarily due to the timing of such items, as well as due to the Corporation's capital expenditures, commodity price volatility and seasonal fluctuations, among other things. Due to the Corporation's capital development activities, the Corporation's adjusted working capital is generally in a deficit position. Birchcliff manages its adjusted working capital deficit using funds flow from operations and advances under the Credit Facilities. The Corporation's adjusted working capital deficit does not reduce the amount available under the Credit Facilities.

Bank Debt

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

On the closing of the Gordondale Acquisition, the balance of the net proceeds of the Offering and the Concurrent Private Placement (after the payment of the balance of the purchase price for the Gordondale Acquisition and the balance of the fees payable to the underwriters of the Offering) were used by the Corporation to initially reduce indebtedness under the Credit Facilities. As a result of the completion of the Gordondale Acquisition, the Offering and the Concurrent Private Placement, Birchcliff has not only positioned itself for future growth but has also significantly improved its financial position. See “*Subsequent Events*” in this MD&A for further information regarding the Gordondale Acquisition, the Offering and the Concurrent Private Placement.

Further, in connection with the closing of the Gordondale Acquisition, the Corporation’s Credit Facilities were amended to increase the borrowing base to \$950 million (from \$750 million), which is comprised of a \$900 million Syndicated Credit Facility and a \$50 million Working Capital Facility. The Credit Facilities have a maturity date of May 11, 2018 and have no financial covenants. The increase in the borrowing base limit has significantly improved Birchcliff’s liquidity and financial flexibility. See “*Subsequent Events*” in this MD&A.

Total debt, including the working capital deficit, was \$715.7 million at June 30, 2016 as compared to \$643.6 million at December 31, 2015. A significant portion of the funds drawn under the Credit Facilities in the Reporting Periods was to pay costs relating to the drilling and completion of new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant, the Phase V expansion of the PCS Gas Plant and the exploration and development of the Montney/Doig Resource Play and the Worsley Charlie Lake Light Oil Resource Play. Also included in the funds drawn under the Credit Facilities at June 30, 2016 is the \$31.3 million deposit that was paid in connection with the Gordondale Acquisition as discussed under “*Subsequent Events*”.

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

As at, (\$000s)	June 30, 2016	December 31, 2015
<i>Maximum borrowing base limit</i> ⁽¹⁾ :		
Revolving term credit facilities	750,000	800,000
<i>Principal amount utilized:</i>		
Drawn revolving term credit facilities ⁽²⁾	(718,581)	(630,037)
Outstanding letters of credit ⁽³⁾	(242)	(242)
	(718,823)	(630,279)
Unused credit	31,177	169,721
% unused credit	4%	21%

(1) The Credit Facilities are subject to a semi-annual review of the borrowing base limit, which limit is directly impacted by the value of Birchcliff’s petroleum and natural gas reserves. On May 11, 2016, the borrowing base under the Corporation’s Credit Facilities was re-determined at \$750 million, a modest reduction from the previous borrowing base of \$800 million. On July 28, 2016, in connection with the closing of the Gordondale Acquisition, the borrowing base was increased to \$950 million (from \$750 million) thus increasing the unused credit available to Birchcliff.

(2) The drawn amounts are not reduced for unamortized costs and fees.

(3) Letters of credit are issued to various service providers and reduce the amount of Working Capital Facility available for the Corporation’s use. There were no amounts drawn on the letters of credit during the periods ended June 30, 2016 and December 31, 2015.

Contractual Obligations

The Corporation enters into contractual obligations in the ordinary course of conducting its day-to-day business. The following table lists Birchcliff’s estimated material contractual obligations at June 30, 2016:

(\$000s)	2016	2017	2018 - 2020	Thereafter
Accounts payable and accrued liabilities	35,066	-	-	-
Drawn revolving term credit facilities	-	-	718,581	-
Office lease ⁽¹⁾	1,808	3,315	13,099	33,960
Purchase obligations ⁽²⁾	371	1,356	-	-
Transportation and processing	19,678	35,202	75,724	73,694
Estimated contractual obligations⁽³⁾	56,923	39,873	807,404	107,654

(1) The Corporation is committed under an existing operating lease relating to its office premises, beginning December 1, 2007 and expiring on November 30, 2017. Effective December 1, 2012, Birchcliff has not sublet any excess space to an arm's length party under the existing lease.

On December 2, 2015, the Corporation entered into a new operating lease commitment relating to an office premises beginning February 1, 2018 and expiring on January 31, 2028. The commitment amount under the new 10 year office lease is estimated to be \$47.1 million, which includes costs allocated to base rent, parking and building operating expenses.

(2) The Corporation is committed to spend approximately \$0.4 million in 2016 and \$1.4 million in 2017 under a purchasing agreement relating to the construction of Phase V of the PCS Gas Plant.

(3) Contractual commitments that are not material to Birchcliff are excluded. 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, 2016 to be approximately \$161 million and will be incurred as follows: 2017 - \$1.6 million, 2018 - \$1.8 million and \$157.6 million thereafter. The estimate for determining the undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

Birchcliff's Series C Preferred Shares, which are redeemable by their holders after June 30, 2020, have not been included in this table as they are not contractual obligations of the Corporation at the end of the Reporting Periods. Upon receipt of a notice of redemption, the Corporation has an obligation to redeem the Series C Preferred Shares, at its option, in cash or common shares.

OFF-BALANCE SHEET TRANSACTIONS

Birchcliff was not involved in any off-balance sheet transactions that would result in a material change to its financial position, performance or cash flows during the Reporting Periods and Comparable Prior Periods.

OUTSTANDING SHARE INFORMATION

At June 30, 2016, Birchcliff had common shares, Series A Preferred Shares and Series C Preferred Shares that were outstanding. Birchcliff's common shares are listed on the TSX under the symbol "BIR" and are included in the S&P/TSX Composite Index. Birchcliff's Series A Preferred Shares and Series C Preferred Shares are individually listed on the TSX under the symbols "BIR.PR.A" and "BIR.PR.C", respectively.

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

	Common shares
Balance at December 31, 2015	152,307,539
Exercise of options	-
Balance at June 30, 2016	152,307,539
Exercise of options	43,367
Equity issue ⁽¹⁾	110,520,000
Balance at August 10, 2016	262,870,906

(1) On July 28, 2016, the Corporation issued 110,520,000 common shares pursuant to the exchange of 110,520,000 Subscription Receipts in connection with the closing of the Gordondale Acquisition. See "Subsequent Events".

As at August 10, 2016, the Corporation had the following securities outstanding: 262,870,906 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 14,034,271 stock options to purchase an equivalent number of common shares; and 2,939,732 performance warrants to purchase an equivalent number of common shares.

On May 31, 2016, the Board of Directors declared a quarterly cash dividend of \$1.0 million or \$0.50 per Series A Preferred Share and \$0.875 million or \$0.4375 per Series C Preferred Share for the calendar quarter ending June 30, 2016. Both dividends are designated as an eligible dividend for purposes of the *Income Tax Act* (Canada).

SUMMARY OF QUARTERLY RESULTS

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

Quarter ending,	Jun 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sep. 30, 2014
Average daily production (boe 6:1)	39,513	41,958	40,445	38,433	38,489	38,416	37,704	34,235
Realized natural gas price (\$/Mcf) ⁽¹⁾	1.48	1.99	2.67	3.12	2.86	2.98	3.91	4.37
Realized oil price (\$/bbl) ⁽¹⁾	51.20	36.93	49.36	52.91	64.93	47.66	71.87	95.94
Total revenues (\$000s) ⁽¹⁾	47,261	57,503	75,476	82,011	82,791	77,026	105,598	116,424
Operating costs (\$/boe)	3.45	3.71	4.16	4.39	4.53	5.11	5.33	5.06
Capital expenditures, net (\$000s)	4,722	63,860	33,533	50,013	65,122	98,539	109,682	104,363
Funds flow from operations (\$000s)	13,267	20,695	33,697	44,587	45,752	36,720	61,717	75,030
Per common share – basic (\$)	0.09	0.14	0.22	0.29	0.30	0.24	0.41	0.50
Per common share – diluted (\$)	0.09	0.13	0.22	0.29	0.30	0.24	0.40	0.48
Net income (loss) (\$000s)	(23,321)	(12,035)	(9,322)	4,815	(4,174)	(3,479)	17,053	29,665
Net income (loss) to common shareholders (\$000s) ⁽²⁾	(24,321)	(13,035)	(10,322)	3,815	(5,174)	(4,479)	16,053	28,665
Per common share – basic (\$)	(0.16)	(0.09)	(0.07)	0.03	(0.03)	(0.03)	0.11	0.19
Per common share – diluted (\$)	(0.16)	(0.09)	(0.07)	0.02	(0.03)	(0.03)	0.10	0.19
Total assets (\$ million)	2,059	2,053	2,025	2,022	2,009	1,983	1,919	1,846
Long-term bank debt (\$000s)	709,510	647,359	622,074	626,839	599,998	536,570	469,033	435,545
Total debt (\$000s)	715,651	690,138	643,612	640,751	632,306	610,170	545,745	495,307
Dividends on pref. shares – Series A (\$000s)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Dividends on pref. shares – Series C (\$000s)	875	875	875	875	875	875	875	875
Pref. shares outstanding – Series A (000s)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Pref. shares outstanding – Series C (000s)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Common shares outstanding (000s)								
Basic	152,308	152,308	152,308	152,308	152,294	152,284	152,214	152,154
Diluted	169,089	169,239	167,817	168,112	168,181	168,108	166,302	166,190
Wtd. average common shares outstanding (000s)								
Basic	152,308	152,308	152,308	152,303	152,289	152,243	152,183	149,594
Diluted	154,279	153,418	153,627	153,916	154,650	154,215	155,304	154,800

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

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

Average daily production volumes have generally increased over the past eight quarters, which can be primarily attributed to the Corporation's exploration and development activities on the Montney/Doig Resource Play. Production volumes for the three month Reporting Period have decreased by 6% when compared to the first quarter of 2016. The decrease in production from the first quarter of 2016 is due to restrictions on TransCanada's NGTL System, scheduled maintenance activities, the Progress Disposition and natural production declines, offset by production optimization initiatives.

Quarterly variances in revenues, funds flow from operations and net income are primarily due to fluctuations in commodity prices and production volumes. In general, the Corporation's realized natural gas price and oil price has declined over the past eight quarters due to continued low commodity prices. Oil and gas revenues and the Corporation's funds flow from operations have generally decreased over the past eight quarters due to the lower average realized sales prices received, which has been partially offset by a general increase in the average daily production. In turn, net income has fluctuated primarily in response to changes in funds flow from operations. In addition, net income in the fourth quarter of 2015 was impacted by a deferred income tax expense in the amount of \$10.2 million that was recorded in the quarter as a result of the Trial Decision being rendered in connection with the Reassessment.

Capital expenditures have fluctuated over the past eight quarters primarily as a result of the timing of the Corporation's development capital expenditures. Capital expenditures are also impacted by the impact of market conditions and the timing of acquisitions and dispositions. There have been no significant asset divestures or acquisitions that have been completed by the Corporation during the past eight quarters.

POTENTIAL TRANSACTIONS

Within its focus area, the Corporation is continually reviewing potential property acquisitions and corporate mergers and acquisitions for the purpose of determining whether any such potential transaction is of interest to the Corporation, as well as the terms on which such a potential transaction would be available. As a result, the Corporation may from time to time be involved in discussions or negotiations with other parties or their agents in respect of potential property acquisitions and corporate merger and acquisition opportunities. The Corporation is not committed to any such potential transaction and cannot be reasonably confident that it can complete any such potential transaction until appropriate legal documentation has been signed by the relevant parties.

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, 2016 and ended on June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies, reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The Corporation's use of estimates, judgments and assumptions in preparing the interim condensed financial statements for the Reporting Periods is discussed in Note 3 of the annual audited financial statements for the year ended December 31, 2015.

FUTURE ACCOUNTING PRONOUNCEMENTS

Future accounting pronouncements with a potential impact on the Corporation are summarized in Note 4 of the Corporation's annual audited financial statements for the year ended December 31, 2015.

RISK FACTORS AND RISK MANAGEMENT

The Corporation's financial and operational performance is potentially affected by a number of factors, including, but not limited to, financial risks, risks relating to economic conditions, business and operational risks, environmental and regulatory risks and other risks. The impact of any risk or a combination of risks may adversely affect the Corporation's business, financial condition, results of operations, prospects, cash flow and reputation, which may reduce or restrict the Corporation's ability to pay preferred share dividends and may materially affect the market price of the Corporation's securities. The Corporation's approach to risk management includes an ongoing review of principal and emerging risks, an analysis of the severity and likelihood of each risk and an evaluation of the effectiveness of current mitigation procedures. A more detailed discussion of the risk factors affecting the Corporation is presented under the headings "*Risk Factors and Risk Management*" in the MD&A for the year ended December 31, 2015 and "*Risk Factors*" in the revised Annual Information Form for the year ended December 31, 2015.

NON-GAAP MEASURES

This MD&A uses "funds flow", "funds flow from operations", "funds flow per common share", "netback", "operating netback", "estimated operating netback", "operating margin", "total cash costs", "adjusted working capital deficit" and "total debt". These measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Management believes that these non-GAAP measures assist management and

investors in assessing Birchcliff's profitability, efficiency, liquidity and overall performance. Each of these measures is discussed in further detail below.

"Funds flow" and "funds flow from operations" denote cash flow from operating activities before the effects of decommissioning expenditures and changes in non-cash working capital. "Funds flow per common share" denotes funds flow divided by the basic or diluted weighted average number of common shares outstanding for the period. Management believes that funds flow, funds flow from operations and funds flow per common share assists management and investors in assessing Birchcliff's profitability, as well as its ability to generate the cash necessary to fund future growth through capital investments, pay dividends on preferred shares and repay debt. The following table provides a reconciliation of cash flow from operating activities, as determined in accordance with IFRS, to funds flow from operations:

(\$000s)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Cash flow from operating activities	7,049	23,051	27,796	62,078
Adjustments:				
Decommissioning expenditures	16	48	593	328
Change in non-cash working capital	6,202	22,653	5,573	20,066
Funds flow from operations	13,267	45,752	33,962	82,472

"Netback" and "operating netback" denote petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. "Estimated operating netback" of the PCS Gas Plant (and the components thereof) is based upon certain cost allocations and accruals directly attributable to the PCS Gas Plant and related wells and infrastructure on a production month basis. All netbacks are calculated on a per unit basis. Management believes that netback, operating netback and estimated operating netback assists management and investors in assessing Birchcliff's profitability and its operating results on a per unit basis to better analyze its performance against prior periods on a comparable basis.

"Operating margin" for the PCS Gas Plant is calculated by dividing the estimated operating netback for the period by the petroleum and natural gas revenue for the period. Management believes that operating margin assists management and investors in assessing the profitability and efficiency of the PCS Gas Plant and Birchcliff's ability to generate operating cash flows (equal to petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses).

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

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

As at, (\$000s)	June 30, 2016	December 31, 2015
Working capital deficit	6,017	21,538
Fair value of financial instruments	124	-
Adjusted working capital deficit	6,141	21,538

"Total debt" is calculated as the revolving term credit facilities plus adjusted working capital deficit. Management believes that total debt assists management and investors in assessing Birchcliff's liquidity.

The following table provides a reconciliation of the revolving term credit facilities, as determined in accordance with IFRS, to total debt:

<i>As at, (\$000s)</i>	June 30, 2016	December 31, 2015
Revolving term credit facilities	709,510	622,074
Adjusted working capital deficit	6,141	21,538
Total debt	715,651	643,612

ADVISORIES

Unaudited numbers

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

Operating Costs

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

Boe Conversions

Boe amounts have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil. Boe amounts may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Mcf Conversions

Mcf amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. Mcf amounts may be misleading, particularly if used in isolation. A conversion ratio of 1 bbl to 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

MMBtu Pricing Conversions

\$1.00 per MMBtu equals \$1.00 per Mcf based on a standard heat value Mcf.

Forward-Looking Information

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

In particular, this MD&A contains forward-looking information relating to the following: Birchcliff's plans and other aspects of its anticipated future operations, focus, objectives, strategies, opportunities, priorities and goals; Birchcliff's guidance for 2016, including its production guidance and estimates of total debt; the Revised 2016 Capital Program, including planned capital expenditures, Birchcliff's plan to drill a total of 23 (23.0 net) wells, the objectives of and anticipated results from the Revised 2016 Capital Program, the flexibility of the Revised 2016 Capital Program and Birchcliff's ability to defer capital expenditures in the event that actual commodity prices are materially less than what it has forecast; Birchcliff's expectation that its net capital expenditures for 2016 (net of acquisitions and dispositions, but excluding the Gordondale Acquisition) will approximate its funds flow during 2016; Birchcliff's proposed exploration and development activities and the timing thereof, including wells to be drilled and brought on production; the performance characteristics of Birchcliff's oil and natural gas properties; Birchcliff's hedging strategy and that it intends to adopt an ongoing hedging strategy; the Corporation's estimated income tax pools and management's expectation that future taxable income will be available to utilize the accumulated tax pools; Birchcliff's expectation that its appeal with respect to the Veracel Transaction will be heard in 2016; the Corporation's liquidity, including statements that should commodity prices deteriorate materially, the Corporation may further adjust the Revised 2016 Capital Program, that the Corporation may consider seeking additional capital in the form of debt or equity, the sources of funding for the Corporation's activities and capital requirements, management's belief that its funds flow from operations and available credit under the Credit Facilities will be sufficient to fund the Corporation's planned capital expenditures during 2016 and to meet its current and future working capital requirements in 2016 and the Corporation's expectation that counterparties will be able to meet their financial obligations; Birchcliff's financial position and financial flexibility; the proposed expansion of the PCS Gas Plant; estimates of contractual and decommissioning obligations; and the impact the MRF has on the Corporation and that Birchcliff expects to apply for the early entry program under the MRF in respect of its remaining 10 well drilling program. In addition, information relating to reserves is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

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

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

- With respect to Birchcliff's production guidance for 2016, the key assumptions are that: the Revised 2016 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.
- With respect to statements regarding the Revised 2016 Capital Program, the key assumption is that Birchcliff realizes the annual average production target of 49,000 to 51,000 boe/d. In addition, the Revised 2016 Capital Program is based on the following commodity price and exchange rate assumptions during 2016: an annual average WTI price of approximately US\$40.50 per barrel of oil; an AECO price of approximately CDN \$2.00 per GJ of natural gas; and an exchange rate of CDN\$/US\$ of 1.33. Birchcliff will continue to monitor economic conditions and commodity prices and may further adjust the Revised 2016 Capital Program to respond to changes in commodity prices and other material changes in the assumptions underlying the Revised 2016 Capital Program. In addition, Birchcliff may make adjustments to its other activities as appropriate. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials.
- With respect to statements that Birchcliff expects that its net capital expenditures for 2016 (net of acquisitions and dispositions, but excluding the Gordondale Acquisition) will approximate its funds flow during 2016, the key assumptions are that: the Revised 2016 Capital Program will be carried out as currently contemplated; and Birchcliff realizes the annual average production target of 49,000 to 51,000 boe/d. In addition, the foregoing statements are based on the following commodity price and exchange rate assumptions during 2016: an annual average WTI price of approximately US\$40.50 per barrel of oil; an AECO price of approximately CDN\$2.00 per GJ of natural gas; and an exchange rate of CDN\$/US\$ of 1.33.
- With respect to estimates of total debt, estimated total debt at December 31, 2016 assumes net capital expenditures for 2016 of \$145 million and an annual average WTI price of approximately US\$40.50 per bbl of oil and an AECO price of approximately CDN\$2.00 per GJ of natural gas during 2016. In addition, estimated total debt at December 31, 2016 is based on a purchase price for the Gordondale Acquisition of \$625 million, less estimated interim closing adjustments and costs of the Gordondale Acquisition, which are subject to final adjustment.
- With respect to statements of future wells to be drilled and brought on production, the key assumptions are: the continuing validity of the geological and other technical interpretations performed by Birchcliff's technical staff, which indicate that commercially economic volumes can be recovered from Birchcliff's lands as a result of drilling future wells; and that commodity prices and general economic conditions will warrant proceeding with the drilling of such wells.
- With respect to statements regarding the proposed expansion of the PCS Gas Plant, the key assumptions are that: future drilling is successful; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund those projects; the key components of the plant will operate as designed; and commodity prices and general economic conditions will warrant proceeding with the construction of such facilities and the drilling of associated wells.
- With respect to statements regarding the Corporation's liquidity, the key assumption is that the Corporation's forecasts of production and commodity prices are valid.

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

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

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

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

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

Previously Disclosed Guidance

The Corporation is required to disclose events and circumstances that occurred during the period to which this MD&A relates that are reasonably likely to cause actual results to differ materially from material-forward looking information for a period that is not yet complete that the Corporation has previously disclosed to the public and the expected differences thereto. Such disclosure can be found in the Corporation's press release dated August 10, 2016 and is available on the Corporation's SEDAR profile at www.sedar.com.

BIRCHCLIFF ENERGY LTD.

CONDENSED STATEMENTS OF FINANCIAL POSITION

Unaudited (Expressed in thousands of Canadian dollars)

As at,	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash	22	57
Accounts receivable	23,751	23,410
Prepaid expenses and deposits	5,152	2,579
Fair value of financial instruments (Note 10)	124	-
	29,049	26,046
Non-current assets:		
Deposit on acquisition (Note 11)	31,250	-
Exploration and evaluation (Note 3)	261	247
Petroleum and natural gas properties and equipment (Note 4)	1,998,547	1,999,080
	2,030,058	1,999,327
Total assets	2,059,107	2,025,373
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	35,066	47,584
Non-current liabilities:		
Revolving term credit facilities (Note 5)	709,510	622,074
Decommissioning obligations (Note 6)	98,696	92,504
Deferred income taxes	103,067	116,171
Capital securities	48,761	48,606
	960,034	879,355
Total liabilities	995,100	926,939
SHAREHOLDERS' EQUITY		
Share capital (Note 7)		
Common shares	783,465	783,481
Preferred shares (perpetual)	41,434	41,434
Contributed surplus	63,570	60,625
Retained earnings	175,538	212,894
	1,064,007	1,098,434
Total shareholders' equity and liabilities	2,059,107	2,025,373

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

Approved by the Board

(signed) "Larry A. Shaw"

Larry A. Shaw

Director

(signed) "A. Jeffery Tonken"

A. Jeffery Tonken

Director

BIRCHCLIFF ENERGY LTD.

CONDENSED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
REVENUE				
Petroleum and natural gas sales	47,261	82,791	104,764	159,817
Royalties	(885)	(2,138)	(3,436)	(5,024)
Net revenue from oil and natural gas sales	46,376	80,653	101,328	154,793
Realized gain on financial instruments (Note 10)	83	-	83	-
Unrealized gain on financial instruments (Note 10)	124	-	124	-
	46,583	80,653	101,535	154,793
EXPENSES				
Operating	12,403	15,855	26,555	33,524
Transportation and marketing	8,496	8,617	16,999	17,536
Administrative, net	4,992	6,134	10,655	12,764
Depletion and depreciation (Note 4)	31,473	37,648	65,619	76,493
Finance	8,626	5,925	16,014	11,662
Dividends on capital securities (Note 7)	875	875	1,750	1,750
(Gain) loss on sale of assets (Note 4)	10,902	-	10,902	(656)
	77,767	75,054	148,494	153,073
NET INCOME (LOSS) BEFORE TAXES	(31,184)	5,599	(46,959)	1,720
Income tax recovery (expense)	7,863	(9,773)	11,603	(9,373)
NET LOSS AND COMPREHENSIVE LOSS	(23,321)	(4,174)	(35,356)	(7,653)
Net loss per common share (Note 7)				
Basic	(\$0.16)	(\$0.03)	(\$0.25)	(\$0.06)
Diluted	(\$0.16)	(\$0.03)	(\$0.25)	(\$0.06)

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	Total
	Common Shares	Preferred Shares	Contributed Surplus		
As at December 31, 2014	782,671	41,434	53,118	229,054	1,106,277
Dividends on perpetual preferred shares	-	-	-	(2,000)	(2,000)
Exercise of stock options	687	-	(186)	-	501
Stock-based compensation	-	-	4,051	-	4,051
Net loss and comprehensive loss	-	-	-	(7,653)	(7,653)
As at June 30, 2015	783,358	41,434	56,983	219,401	1,101,176
As at December 31, 2015	783,481	41,434	60,625	212,894	1,098,434
Dividends on perpetual preferred shares (Note 7)	-	-	-	(2,000)	(2,000)
Share issue costs	(16)	-	-	-	(16)
Stock-based compensation (Note 8)	-	-	2,945	-	2,945
Net loss and comprehensive loss	-	-	-	(35,356)	(35,356)
As at June 30, 2016	783,465	41,434	63,570	175,538	1,064,007

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		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Cash provided by (used in):				
OPERATING				
Net loss and comprehensive loss	(23,321)	(4,174)	(35,356)	(7,653)
Adjustments for items not affecting operating cash:				
Unrealized gain on financial instruments	(124)	-	(124)	-
Depletion and depreciation	31,473	37,648	65,619	76,493
Stock-based compensation	524	870	1,174	1,627
Finance	8,626	5,925	16,014	11,662
(Gain) loss on sale of assets	10,902	-	10,902	(656)
Income taxes expense (recovery)	(7,863)	9,773	(11,603)	9,373
Interest paid	(7,825)	(5,165)	(14,414)	(10,124)
Dividends on capital securities	875	875	1,750	1,750
Decommissioning expenditures	(16)	(48)	(593)	(328)
Changes in non-cash working capital	(6,202)	(22,653)	(5,573)	(20,066)
	7,049	23,051	27,796	62,078
FINANCING				
Exercise of stock options	-	59	-	501
Share issue costs	(16)	-	(16)	-
Financing fees paid on credit facilities	-	(940)	-	(940)
Dividends on perpetual preferred shares	(1,000)	(1,000)	(2,000)	(2,000)
Dividends on capital securities	(875)	(875)	(1,750)	(1,750)
Net change in non-revolving term credit facilities	-	(130,000)	-	(129,970)
Net change in revolving term credit facilities	61,999	194,216	87,127	261,579
	60,108	61,460	83,361	127,420
INVESTING				
Petroleum and natural gas properties and equipment	(23,430)	(65,113)	(87,316)	(164,307)
Exploration and evaluation assets	(9)	(9)	(14)	(14)
Sale of petroleum and natural gas properties and equipment	18,717	-	18,748	600
Deposit on acquisition	(31,250)	-	(31,250)	-
Sale of exploration and evaluation assets	-	-	-	60
Changes in non-cash working capital	(31,220)	(19,422)	(11,360)	(25,870)
	(67,192)	(84,544)	(111,192)	(189,531)
Net change in cash	(35)	(33)	(35)	(33)
Cash, beginning of period	57	54	57	54
CASH, END OF PERIOD	22	21	22	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 AND SIX MONTHS ENDED JUNE 30, 2016

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 500, 630 – 4th Avenue S.W., Calgary, Alberta, Canada T2P 0J9. Birchcliff's common shares, Series A Preferred Shares and Series C Preferred Shares are listed for trading on the Toronto Stock Exchange under the symbols "**BIR**", "**BIR.PR.A**" and "**BIR.PR.C**", respectively.

These financial statements were approved and authorized for issuance by the Board of Directors on August 10, 2016.

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, 2016, including the 2015 comparative periods. The financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**").

These financial statements have been prepared following the same IFRS accounting policies and methods of computation as disclosed in the annual audited financial statements for the year ended December 31, 2015. 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, 2015.

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

3. EXPLORATION AND EVALUATION ASSETS

The continuity for exploration and evaluation (“E&E”) assets are as follows:

<i>(\$000s)</i>	E&E⁽¹⁾
As at December 31, 2014	2,235
Additions	117
Disposals	(1)
Lease expiries	(2,104)
As at December 31, 2015	247
Additions	14
As at June 30, 2016	261

- (1) E&E assets consist of the Corporation’s exploration activities which are pending the determination of economic quantities of commercially producible proved reserves. Additions represent the Corporation’s net share of costs incurred on E&E activities during the period. A review of each exploration project by area is carried out at each reporting date to ascertain whether economical quantities of proved reserves have been discovered and whether such costs should be transferred to depletable petroleum and natural gas components. There were no exploration costs reclassified from the E&E category to petroleum and natural gas properties and equipment category during the three and six months ended June 30, 2016.

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>	P&NG Assets	Corporate Assets	Total
<i>Cost:</i>			
As at December 31, 2014	2,325,501	10,220	2,335,721
Additions	267,711	749	268,460
Dispositions	(4,862)	-	(4,862)
As at December 31, 2015	2,588,350	10,969	2,599,319
Additions	95,772	661	96,433
Dispositions ⁽¹⁾	(36,551)	-	(36,551)
As at June 30, 2016 ⁽²⁾	2,647,571	11,630	2,659,201
<i>Accumulated depletion and depreciation:</i>			
As at December 31, 2014	(449,409)	(6,464)	(455,873)
Depletion and depreciation expense	(143,181)	(1,185)	(144,366)
As at December 31, 2015	(592,590)	(7,649)	(600,239)
Depletion and depreciation expense	(64,959)	(660)	(65,619)
Dispositions ⁽¹⁾	5,204	-	5,204
As at June 30, 2016	(652,345)	(8,309)	(660,654)
<i>Net book value:</i>			
As at December 31, 2015	1,995,760	3,320	1,999,080
As at June 30, 2016⁽³⁾	1,995,226	3,321	1,998,547

- (1) Consists of a non-core asset disposition in the Progress area with a net book value of \$31.3 million for net proceeds of \$19.0 million.
- (2) The Corporation’s P&NG properties and equipment were pledged as security for its credit facilities. Although the Corporation believes that it has title to its P&NG properties, it cannot control or completely protect itself against the risk of title disputes and challenges. There were no borrowing costs capitalized to P&NG properties and equipment.
- (3) Birchcliff performed an impairment assessment of its P&NG assets on a cash generating unit (CGU) basis and determined there were no impairment triggers identified at the end of the reporting periods. As a result, no impairment test was required as at June 30, 2016.

5. REVOLVING TERM CREDIT FACILITIES

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

As at, (\$000s)	June 30, 2016	December 31, 2015
Syndicated credit facility	697,000	607,000
Working capital facility	21,581	23,037
Drawn revolving term credit facilities	718,581	630,037
Unamortized prepaid interest on bankers' acceptances	(7,765)	(6,347)
Unamortized deferred financing fees	(1,306)	(1,616)
Revolving term credit facilities	709,510	622,074

As at June 30, 2016, Birchcliff's credit facilities consisted of extendible revolving credit facilities (the "**Credit Facilities**") in the aggregate principal amount of \$750 million with maturity dates of May 11, 2018. As at June 30, 2016, the Credit Facilities were comprised of: (i) an extendible revolving syndicated term credit facility of \$710 million (the "**Syndicated Credit Facility**"); and (ii) an extendible revolving working capital facility of \$40 million (the "**Working Capital Facility**"). The Credit Facilities allow for prime rate loans, London Inter Bank Offered Rate (LIBOR) loans, U.S. base rate loans, bankers' acceptances and, in the case of the Working Capital Facility only, letters of credit. The interest rates applicable to the drawn loans are based on a pricing margin grid and will change as a result of the ratio of outstanding indebtedness to EBITDA as calculated in accordance with the agreement governing the Credit Facilities. EBITDA is defined as earnings before interest and non-cash items, including (if any) income taxes, stock-based compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments and depletion, depreciation and amortization.

The Credit Facilities are subject to a semi-annual review of the borrowing base limit by Birchcliff's syndicate of lenders, which limit is directly impacted by the value of Birchcliff's oil and natural gas reserves. In addition, pursuant to the terms of the credit agreement governing the Credit Facilities, the borrowing base of the Credit Facilities may be adjusted in certain other circumstances. Upon any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall, Birchcliff must eliminate the borrowing base shortfall amount. On May 11, 2016, the borrowing base was re-determined at \$750 million, a reduction from the previous borrowing base of \$800 million.

The maturity dates of the Credit Facilities are May 11, 2018. 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 semi-annual review of the borrowing base which was completed in the three month reporting period, Birchcliff initially requested an extension of the maturity dates from May 11, 2018 to May 11, 2019. In order to preserve the current interest rate pricing margins applicable to the Corporation's drawn loans, Birchcliff did not proceed with the requested extension.

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

6. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is set forth below:

As at, (\$000s)	June 30, 2016	December 31, 2015
Balance, beginning	92,504	85,824
Obligations incurred	1,411	2,086
Obligations divested ⁽¹⁾	(1,445)	(1,170)
Changes in estimated future cash flows ⁽²⁾	5,684	4,422
Accretion expense	1,135	2,235
Actual expenditures	(593)	(893)
Balance, ending	98,696	92,504

(1) Represents obligations divested from the sale of the Progress assets.

(2) Change due to the revision in the risk-free discount rate. Birchcliff applied a risk-free rate of 1.79% and an inflation rate of 2.0% to calculate the discounted fair value of its decommissioning liabilities as at June 30, 2016 (December 31, 2015 – 2.26% and 2.0%, respectively).

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, 2016	December 31, 2015
Common Shares:		
Outstanding at beginning of period - Jan 1	152,308	152,214
Exercise of stock options	-	94
Outstanding at end of period	152,308	152,308
Series A Preferred Shares (perpetual):		
Outstanding at beginning of period - Jan 1	2,000	2,000
Outstanding at end of period	2,000	2,000

Capital Securities

The Corporation has 2,000,000 Series C Preferred Shares outstanding at June 30, 2016 (December 31, 2015 – 2,000,000).

Dividends

On May 31, 2016, the Board of Directors declared a quarterly cash dividend of \$1.0 million or \$0.50 per Series A Preferred Share and \$0.875 million or \$0.4375 per Series C Preferred Share for the calendar quarter ending June 30, 2016. Both dividends are designated as an eligible dividend for purposes of the *Income Tax Act* (Canada).

Per Common Share

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net loss (\$000s)	(23,321)	(4,174)	(35,356)	(7,653)
Dividends on Series A Preferred Shares (\$000s)	(1,000)	(1,000)	(2,000)	(2,000)
Net loss to common shareholders (\$000s)	(24,321)	(5,174)	(37,356)	(9,653)
Weighted average common shares (000s):				
Weighted average basic common shares outstanding	152,308	152,289	152,308	152,266
Effects of dilutive securities	-	-	-	-
Weighted average diluted common shares outstanding ⁽¹⁾	152,308	152,289	152,308	152,266
Net loss per common share				
Basic	(\$0.16)	(\$0.03)	(\$0.25)	(\$0.06)
Diluted	(\$0.16)	(\$0.03)	(\$0.25)	(\$0.06)

(1) As the Corporation reported a loss for the three and six months ended June 30, 2016, the basic and diluted weighted average shares outstanding are the same for the period. The weighted average diluted common shares outstanding as of June 30, 2016 excludes 10,924,638 stock options that are anti-dilutive in the three month reporting period (June 30, 2015 – 9,159,869).

8. SHARE-BASED PAYMENTS

Stock Options

At June 30, 2016, the Corporation's Amended and Restated Stock Option Plan (the "Option Plan") permitted the grant of options in respect of a maximum of 15,230,754 (June 30, 2015 – 15,229,354) common shares. At June 30, 2016, there remained available for issuance options in respect of 1,388,616 (June 30, 2015 – 2,281,716) common shares. During the three months ended June 30, 2016, the weighted average common share trading price on the Toronto Stock Exchange was \$5.85 (June 30, 2015 – \$7.93) per common share.

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

	Three months ended June 30, 2016		Six months ended June 30, 2016	
	Number	Weighted Average Exercise Price (\$)	Number	Weighted Average Exercise Price (\$)
Outstanding at beginning of period	13,991,705	6.45	12,569,238	7.80
Granted	53,000	6.04	3,065,500	3.45
Forfeited	(109,567)	(6.65)	(120,400)	(6.78)
Expired	(93,000)	(12.77)	(1,672,200)	(11.44)
Outstanding, June 30, 2016⁽¹⁾	13,842,138	6.40	13,842,138	6.40

(1) Each stock option 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, 2016 was \$2.27 (June 30, 2015 – \$2.45). In determining the stock-based compensation expense for options issued during the three months ended June 30, 2016, the Corporation applied a weighted average estimated forfeiture rate of 12% (June 30, 2015 – 13%).

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

Three months ended,	June 30, 2016	June 30, 2015
Risk-free interest rate	0.6%	0.7%
Expected life (years)	4.0	4.0
Expected volatility	48.0%	41.3%

A summary of the stock options outstanding and exercisable under the Option Plan at June 30, 2016 is set forth below:

Exercise Price		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$3.35	\$6.00	5,158,068	3.01	\$4.47	2,135,568	0.82	\$5.96
\$6.01	\$9.00	8,463,570	2.70	\$7.48	5,188,409	2.33	\$7.65
\$9.01	\$12.00	198,500	3.01	\$9.99	92,498	2.84	\$10.03
\$12.01	\$13.26	22,000	0.53	\$12.87	21,000	0.42	\$12.90
		13,842,138	2.82	\$6.40	7,437,475	1.90	\$7.21

Performance Warrants

On January 14, 2005, Birchcliff issued 4,049,665 performance warrants as part of the Corporation's initial restructuring to become a public entity. There are 2,939,732 performance warrants outstanding and exercisable at June 30, 2016 (June 30, 2015 – 2,939,732). Each performance warrant is exercisable at a price of \$3.00 to purchase one common share of Birchcliff and expires on January 31, 2020.

Each performance warrant entitles the holder to purchase one common share at the exercise price.

9. CAPITAL MANAGEMENT

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations (including potential obligations arising from additional acquisitions), to maintain a capital structure that allows Birchcliff to finance its growth strategy using primarily internally-generated cash flow and its available debt capacity and to optimize the use of its capital to provide an appropriate investment return to its shareholders. There were no changes in the Corporation's approach to capital management during the six months ended June 30, 2016.

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

As at, (\$000s)	June 30, 2016	December 31, 2015
<i>Maximum borrowing base limit⁽¹⁾:</i>		
Revolving term credit facilities	750,000	800,000
<i>Principal amount utilized:</i>		
Drawn revolving term credit facilities	(718,581)	(630,037)
Outstanding letters of credit ⁽²⁾	(242)	(242)
	(718,823)	(630,279)
Unused credit	31,177	169,721

(1) The Credit Facilities are subject to a semi-annual review of the borrowing base limit, which limit is directly impacted by the value of Birchcliff's petroleum and natural gas reserves. On May 11, 2016, the borrowing base was re-determined at \$750 million.

(2) Letters of credit are issued to various service providers and reduce the amount of Working Capital Facility available for the Corporation's use. There were no amounts drawn on the letters of credit during the three months ended June 30, 2016.

The capital structure of the Corporation is as follows:

As at, (\$000s)	June 30, 2016	December 31, 2015	% Change
Shareholders' equity ⁽¹⁾	1,064,007	1,098,434	
Capital securities	48,761	48,606	
Shareholders' equity & capital securities	1,112,768	1,147,040	(3%)
Shareholders' equity & capital securities as a % of total capital ⁽²⁾	61%	64%	
Working capital deficit ⁽³⁾	6,141	21,538	
Drawn revolving term credit facilities	718,581	630,037	
Drawn debt	724,722	651,575	11%
Drawn debt as a % of total capital	39%	36%	
Capital	1,837,490	1,798,615	2%

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

(2) Of the 61%, approximately 53% relates to common capital stock and 8% relates to preferred capital stock.

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

10. FINANCIAL RISK MANAGEMENT

Birchcliff is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and periodically reviews the results of all risk management activities and all outstanding positions. Management has implemented and monitors compliance with risk management guidelines as outlined by the Board of Directors. The Corporation's risk management guidelines are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls and to monitor risks and adherence to market conditions and the Corporation's activities. Birchcliff's exposure to credit risk, liquidity risk and market risk are consistent with those disclosed in the annual audited financial statements for the year ended December 31, 2015.

During the second quarter of 2016, Birchcliff had certain financial derivative contracts outstanding in order to manage commodity price risk. These instruments are not used for trading or speculative purposes. Birchcliff has not designated its financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity contracts to be effective economic hedges. As a result, all such financial derivative contracts are recorded on the statement of financial position at fair value, with the changes in fair value being recognized as an unrealized gain or loss in profit or loss.

As at June 30, 2016, the Corporation had the following financial derivatives in place:

Product	Type of Contract	Notional quantity	Term ⁽¹⁾	Contract price	Fair value (\$000s)
Crude oil	Financial swap	1,000 bbls/day	June 1, 2016 – December 31, 2016	WTI CAD \$64.63/bbl	22
Crude oil	Financial swap	500 bbls/day	June 1, 2016 – December 31, 2016	WTI CAD \$65.25/bbl	102
Fair value assets					124

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

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

<i>(\$000s)</i>	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Realized gain on derivatives	83	-	83	-
Unrealized gain on derivatives	124	-	124	-

There were no financial derivative contracts entered into subsequent to June 30, 2016.

11. SUBSEQUENT EVENTS

Property Acquisition and Equity Financings

On June 21, 2016, Birchcliff entered into a definitive agreement to purchase certain petroleum and natural gas properties, interests and related assets primarily located in the Gordondale area for cash consideration of approximately \$625 million, prior to closing adjustments and costs of the acquisition (the “**Gordondale Acquisition**”). The Corporation paid a deposit of approximately \$31.3 million in connection with the Gordondale Acquisition, the full amount of which was drawn under the Credit Facilities at June 30, 2016. The remaining cash required to close the Gordondale Acquisition was financed by aggregate net proceeds of the bought deal financing of 107,520,000 subscription receipts of the Corporation (“**Subscription Receipts**”) at a price of \$6.25 per Subscription Receipt for gross proceeds of \$672 million (the “**Offering**”) and a concurrent private placement of 3,000,000 Subscription Receipts at a price of \$6.25 per Subscription Receipt for gross proceeds of \$18.8 million (the “**Concurrent Private Placement**”). The Offering and the Concurrent Private Placement closed concurrently on July 13, 2016 and the aggregate gross proceeds of approximately \$690.8 million were held in escrow pending completion of the Gordondale Acquisition.

On July 28, 2016, Birchcliff closed the Gordondale Acquisition and each Subscription Receipt was exchanged for one common share of the Corporation. The aggregate gross proceeds of the Offering and Concurrent Private Placement were released from escrow to pay the balance of the purchase price for the Gordondale Acquisition and the balance of the fees payable to the underwriters of the Offering, with the remaining aggregate net proceeds applied to reduce indebtedness under the Corporation’s Credit Facilities.

Increase to Credit Facilities

In connection with the closing of the Gordondale Acquisition, the Corporation’s Credit Facilities were amended to increase the borrowing base to \$950 million from \$750 million. After giving effect to the increase in the borrowing base, the Credit Facilities are comprised of: (i) a Syndicated Credit Facility of \$900 million (increased from \$710 million); and (ii) a Working Capital Facility of \$50 million (increased from \$40 million). In connection with the closing of the Gordondale Acquisition the Corporation issued a letter of credit for \$12 million to secure its obligations under various midstream and marketing arrangements. The letter of credit has reduced the amount available under the Working Capital Facility from \$50 million to approximately \$38 million.

In conjunction with the increase to the borrowing base, the lenders also agreed to waive the requirement to redetermine the borrowing base limit in connection with the delivery of the Corporation’s next in-house engineering report which is required to be delivered by November 15, 2016.

ABBREVIATIONS

AECO	physical storage and trading hub for natural gas on the TransCanada Alberta transmission system which is the delivery point for various benchmark Alberta index prices
bbl	barrel
bbls	barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
boe/d	barrels of oil equivalent per day
GAAP	generally accepted accounting principles
GJ	gigajoule
IFRS	International Financial Reporting Standards
Mboe	thousand barrels of oil equivalent
Mcf	thousand cubic feet
Mcfe	thousand cubic feet of gas equivalent
MMcf	million cubic feet
NGL	natural gas liquids
WTI	West Texas Intermediate oil at Cushing, Oklahoma, the benchmark for North American crude oil pricing
000s	thousands
\$000s	thousands of dollars

NON-GAAP MEASURES

This Second Quarter Report uses “funds flow”, “funds flow from operations”, “funds flow per common share”, “netback”, “operating netback”, “estimated operating netback”, “operating margin”, “total cash costs”, “adjusted working capital deficit” and “total debt”. These measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. For further details on these non-GAAP measures, please see “*Non-GAAP Measures*” in the management’s discussion and analysis for the three and six months ended June 30, 2016.

In addition, this Second Quarter Report uses “funds flow netback” which denotes petroleum and natural gas revenue less royalties, less operating expenses, less transportation and marketing expenses, less net general and administrative expenses, less interest expenses and less any realized losses (plus realized gains) on financial instruments and plus any other cash income sources. Funds flow netback is calculated on a per unit basis. Such measure does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Management believes that funds flow netback assists management and investors in assessing Birchcliff’s profitability and its operating results on a per unit basis to better analyze its performance against prior periods on a comparable basis.

ADVISORIES

UNAUDITED NUMBERS

All financial amounts referred to in this Second Quarter Report for the three and six months ended June 30, 2016 and three and six months ended June 30, 2015 are management's best estimates and are unaudited.

CURRENCY

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

OPERATING COSTS

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

CAUTION RESPECTING RESERVES INFORMATION

The reserves information contained herein in respect of the Assets is based upon the Birchcliff Report with an effective date of March 31, 2016. The reserves information contained herein in respect of Birchcliff's reserves is based upon the 2015 Reserves Evaluation with an effective date of December 31, 2015.

There are numerous uncertainties inherent in estimating the quantities of reserves and the future net revenues attributed to those reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserves estimates of reserves provided in this Second Quarter Report are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided herein and variances could be material.

OIL AND GAS DEFINITIONS

Certain terms used herein are defined in National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**"), CSA Staff Notice 51-324 – *Revised Glossary to NI 51-101 Standards of Disclosure for Oil and Gas Activities* ("**CSA Staff Notice 51-324**") and/or the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") and, unless the context otherwise requires, shall have the same meanings in this Second Quarter Report as in NI 51-101, CSA Staff Notice 51-324 or the COGE Handbook, as the case may be.

BOE CONVERSIONS

Boe amounts have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil. Boe amounts may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

MCFE CONVERSIONS

Mcfe amounts have been calculated by using the conversion ratio of one bbl of oil to 6 Mcf of natural gas. Mcfe amounts may be misleading, particularly if used in isolation. A conversion ratio of 1 bbl to 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current

price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

RESERVES FOR PORTION OF PROPERTIES

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties due to the effects of aggregation.

GROSS VOLUMES OF RESERVES

Unless otherwise indicated, all reserves volumes presented herein are on a “gross” basis, meaning the total working interest share before the deduction of royalties and without including any royalty interests.

DRILLING LOCATIONS

This Second Quarter Report discloses potential net future drilling locations in three categories: (i) proved locations; (ii) probable locations; and (iii) unbooked locations. Proved locations and probable locations are proposed drilling locations identified in the 2015 Reserves Evaluation or the McDaniel Report that have proved and/or probable reserves, as applicable, attributed to them in the 2015 Reserves Evaluation or the McDaniel Report. Unbooked locations are internal estimates based on Birchcliff’s prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal technical analysis review. Unbooked locations have been identified by management based on evaluation of applicable geologic, seismic, engineering, production and reserves information. Unbooked locations do not have proved or probable reserves attributed to them in the 2015 Reserves Evaluation or the McDaniel Report. Of the 4,840.6 net existing horizontal wells and potential net future horizontal drilling locations identified herein, 653.7 are proved locations, 251.6 are probable locations, 905.3 are proved plus probable locations and 3,935.3 are unbooked locations.

Birchcliff’s ability to drill and develop these locations and the drilling locations on which Birchcliff actually drills wells depends on a number of uncertainties and factors, including, but not limited to, the availability of capital, equipment and personnel, oil and natural gas prices, capital and operating costs, inclement weather, seasonal restrictions, drilling results, additional geological, geophysical and reservoir information that is obtained, production rate recovery, gathering system and transportation constraints, net price received for commodities produced, regulatory approvals and regulatory changes. As a result of these uncertainties, there can be no assurance that the potential future drilling locations Birchcliff has identified will ever be drilled or if Birchcliff will be able to produce oil, NGL or natural gas from these or any other potential drilling locations. As such, Birchcliff’s actual drilling activities may materially differ from those presently identified, which could adversely affect Birchcliff’s business. While certain of the unbooked drilling locations have been derisked by drilling existing wells in relative close proximity to such unbooked drilling locations, some of the other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional proved or probable reserves, resources or production.

OIL AND GAS METRICS

This Second Quarter Report contains certain oil and gas metrics which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics

have been included herein to provide readers with additional measures to evaluate Birchcliff's performance; however, such measures are not reliable indicators of the future performance of Birchcliff and future performance may not compare to its performance in previous periods and therefore such metrics should not be unduly relied upon.

FORWARD-LOOKING INFORMATION

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

In particular, this Second Quarter Report contains forward-looking information relating to the following: Birchcliff's plans and other aspects of its anticipated future operations, focus, objectives, strategies, opportunities, priorities and goals; the benefits to be obtained as a result of the completion of the Gordondale Acquisition and the Financings, including that Birchcliff's future opportunities have increased, that its financial strength has improved and the de-levering of its balance sheet; the impact of the Gordondale Acquisition and the Financings on Birchcliff, including on its operations, production, reserves, inventory, opportunities and financial condition; Birchcliff's guidance for 2016, including its production guidance, estimates of net capital expenditures and estimates of total debt; the Revised 2016 Capital Program, including planned capital expenditures, Birchcliff's plan to drill a total of 23 (23.0 net) wells, the objectives of and anticipated results from the Revised 2016 Capital Program, the flexibility of the Revised 2016 Capital Program and Birchcliff's ability to defer capital expenditures in the event that actual commodity prices are materially less than what it has forecast; the sources of funding for Birchcliff's activities; Birchcliff's expectation that its net capital expenditures for 2016 (net of acquisitions and dispositions, but excluding the Gordondale Acquisition) will approximate its funds flow during 2016; that Birchcliff expects to adopt an ongoing hedging strategy; Birchcliff's proposed exploration and development activities and the timing thereof, including wells to be drilled and brought on production; the performance characteristics of Birchcliff's oil and natural gas properties, including the Assets; oil and natural gas reserves of Birchcliff and those associated with the Assets; decline rates; anticipated improvements in capital and operational efficiencies; the proposed expansion of the PCS Gas Plant, including the anticipated processing capacity of the PCS Gas Plant after such expansion, the anticipated timing of such expansion and the estimated cost to achieve such expansion; potential future drilling locations and drilling opportunities and that Birchcliff's inventory of drilling opportunities is expected to provide it with production and reserves growth for many years; Birchcliff's expectation that it will not incur additional indebtedness under its Credit Facilities during the remainder of 2016; Birchcliff's belief that future drilling opportunities in the Montney D2 will result in material production and reserves additions; Birchcliff's belief that its operating costs will increase in the near-term, that its revenues are expected to increase and that its operating costs and netbacks for 2016 will still remain in the top-decile of the industry; and Birchcliff's belief that it is well positioned to withstand the current

commodity price environment. Information relating to reserves is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future. In addition, this Second Quarter Report includes the forward-looking information identified in the management's discussion and analysis for the three and six months ended June 30, 2016 under the heading "Advisories – Forward-Looking Information".

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

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

- With respect to Birchcliff's production guidance for 2016, the key assumptions are that: the Revised 2016 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.
- With respect to statements regarding the Revised 2016 Capital Program, the key assumption is that Birchcliff realizes the annual average production target of 49,000 to 51,000 boe/d. In addition, the Revised 2016 Capital Program is based on the following commodity price and exchange rate assumptions during 2016: an annual average WTI price of approximately US\$40.50 per barrel of oil; an AECO price of approximately CDN \$2.00 per GJ of natural gas; and an exchange rate of CDN\$/US\$ of 1.33. Birchcliff will continue to monitor economic conditions and commodity prices and may further adjust the Revised 2016 Capital Program to respond to changes in commodity prices and other material changes in the assumptions underlying the Revised 2016 Capital Program. In addition, Birchcliff may make adjustments to its other activities as appropriate. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials.

- With respect to statements that Birchcliff expects that its net capital expenditures for 2016 (net of acquisitions and dispositions, but excluding the Gordondale Acquisition) will approximate its funds flow during 2016, the key assumptions are that: the Revised 2016 Capital Program will be carried out as currently contemplated; and Birchcliff realizes the annual average production target of 49,000 to 51,000 boe/d. In addition, the foregoing statements are based on the following commodity price and exchange rate assumptions during 2016: an annual average WTI price of approximately US\$40.50 per barrel of oil; an AECO price of approximately CDN\$2.00 per GJ of natural gas; and an exchange rate of CDN\$/US\$ of 1.33.
- With respect to estimates of total debt, estimated total debt at December 31, 2016 assumes net capital expenditures for 2016 of \$145 million and an annual average WTI price of approximately US\$40.50 per bbl of oil and an AECO price of approximately CDN\$2.00 per GJ of natural gas during 2016. In addition, estimated total debt at December 31, 2016 and estimated total debt at July 31, 2016 are based on a purchase price for the Gordondale Acquisition of \$625 million, less estimated interim closing adjustments and costs of the Gordondale Acquisition, which are subject to final adjustment.
- With respect to statements of future wells to be drilled and brought on production and estimates of potential future drilling locations, the key assumptions are: the continuing validity of the geological and other technical interpretations performed by Birchcliff's technical staff, which indicate that commercially economic volumes can be recovered from Birchcliff's lands as a result of drilling future wells; and that commodity prices and general economic conditions will warrant proceeding with the drilling of such wells.
- With respect to statements regarding the proposed expansion of the PCS Gas Plant, including the anticipated processing capacity of the PCS Gas Plant after such expansion and the anticipated timing of such expansion, the key assumptions are that: future drilling is successful; there is sufficient labour, services and equipment available; Birchcliff will have access to sufficient capital to fund those projects; the key components of the plant will operate as designed; and commodity prices and general economic conditions will warrant proceeding with the construction of such facilities and the drilling of associated wells.

Birchcliff's actual results, performance or achievements could differ materially from those anticipated in the forward-looking information as a result of both known and unknown risks and uncertainties including, but not limited to: the possible failure to realize the anticipated benefits of the Gordondale Acquisition; unforeseen difficulties in integrating the Assets into Birchcliff's operations; the materiality of the closing adjustments and costs relating to the Gordondale Acquisition; variances in Birchcliff's actual capital costs, operating costs and economic returns from those anticipated; general economic, market and business conditions which will, among other things, impact the demand for and market prices of Birchcliff's products and Birchcliff's access to capital; volatility of crude oil and natural gas prices; fluctuations in currency and interest rates; operational risks and liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves and resources; the accuracy of oil and natural gas reserves estimates and estimated production levels as they are affected by exploration and development drilling and estimated decline rates; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; uncertainties related to Birchcliff's future potential drilling locations; fluctuations in the costs of borrowing; changes in tax laws, crown royalty rates, environmental laws and incentive programs relating to the oil and natural gas industry and other actions by government authorities, including changes to the royalty and carbon tax regimes and the imposition or reassessment of taxes; the cost of compliance with

current and future environmental laws; political uncertainty and uncertainty associated with government policy changes; uncertainties and risks associated with pipeline restrictions and outages to third-party infrastructure that could cause disruptions to production; the ability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements; the inability to secure adequate production transportation for Birchcliff's products; the occurrence of unexpected events such as fires, equipment failures and other similar events affecting Birchcliff or other parties whose operations or assets directly or indirectly affect Birchcliff; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; stock market volatility; loss of market demand; environmental risks, claims and liabilities; incorrect assessments of the value of acquisitions and exploration and development programs; shortages in equipment and skilled personnel; the absence or loss of key employees; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; expectations that development activities in connection with the Assets will be economical; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; management of Birchcliff's growth; uncertainties associated with credit facilities; and counterparty credit risk.

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

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

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

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

CORPORATE INFORMATION

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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

James W. Surbey
Vice-President, Corporate Development

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Calgary, Alberta

Kenneth N. Cullen
Calgary, Alberta

Dennis A. Dawson
Calgary, Alberta

Rebecca Morley
Calgary, Alberta

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

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Perry Billard
Asset Team Lead – North

Robyn Bourgeois
General Counsel

Wayne Brown
Production Manager

Jesse Doenz
Controller & Investor Relations
Manager

George Fukushima
Manager of Engineering

MANAGEMENT CONT'D

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Surface Land Manager

Robert (Bob) Grisack
Land Manager

Paul Messer
Manager of IT

Bruce Palmer
Manager of Geology

Bill Partridge
Asset Team Lead – East

Michelle Rodgerson
Office Manager

Jeff Rogers
Facilities Manager

Randy Rousson
Drilling & Completions Manager

Ryan Sloan
Health, Safety and Environment
Manager

Hue Tran
Joint Venture and Marketing
Manager

Theo van der Werken
Asset Team Lead – West

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Accountants
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RESERVES EVALUATOR

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McDaniel & Associates Consultants
Ltd.
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Canadian Imperial Bank of
Commerce
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