

# Birchcliff Energy Ltd. Announces Strong Second Quarter 2018 Results and Positive Montney Exploration Results in Pouce Coupe

14.08.2018 | [GlobeNewswire](#)

CALGARY, Aug. 14, 2018 - [Birchcliff Energy Ltd.](#) ("Birchcliff") (TSX: BIR) is pleased to announce its financial and operational results for the second quarter of 2018 and its positive exploration and development results from its recent Montney D2 and C wells in Pouce Coupe. The full text of Birchcliff's Second Quarter 2018 Report, which contains the unaudited interim condensed financial statements for the three and six months ended June 30, 2018 and the related management's discussion and analysis ("MD&A"), will be available on Birchcliff's website at [www.birchcliffenergy.com](http://www.birchcliffenergy.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

"We had a solid second quarter in 2018, with quarterly average production of 76,296 boe/d, which was ahead of our internal budget and which represented an 18% increase from the second quarter of 2017. Light oil and NGLs accounted for 20% of our production in the quarter which allowed us to benefit from the improving prices for oil and other liquids," commented Jeff Tonken, President and Chief Executive Officer of Birchcliff. "Subsequent to the end of the quarter, the Phase VI expansion of our natural gas plant in Pouce Coupe was brought on-stream increasing the total processing capacity of the plant by 80 MMcf/d to 340 MMcf/d. In addition, we have recently had positive exploration and development results from the four horizontal Montney wells drilled on our multi-well science and technology pad in Pouce Coupe. These results have re-affirmed our confidence in the depth of the multi-interval drilling opportunities on our Montney/Doig Resource Play in Pouce Coupe."

## Highlights

- Production averaged 76,296 boe/d in the second quarter of 2018, an 18% increase from 64,636 boe/d in the second quarter of 2017. Production consisted of approximately 80% natural gas, 7% light oil and 13% NGLs in the second quarter of 2018, as compared to 77% natural gas, 11% light oil and 12% NGLs in the second quarter of 2017. Light oil and NGLs production in the second quarter of 2018 increased 16% as compared to the first quarter of 2018.
- Adjusted funds flow of \$72.4 million, or \$0.27 per basic common share, in the second quarter of 2018, an 18% decrease from \$88.6 million and \$0.33 per basic common share in the second quarter of 2017.
- Net income to common shareholders of \$6.4 million, or \$0.02 per basic common share, in the second quarter of 2018, a 62% decrease and a 67% decrease, respectively, from \$17.0 million and \$0.06 per basic common share in the second quarter of 2017.
- Operating expense of \$3.36/boe in the second quarter of 2018, a 28% decrease from \$4.67/boe in the second quarter of 2017 and an 11% decrease from \$3.78/boe in the first quarter of 2018.
- Net capital expenditures of \$66.5 million in the second quarter of 2018 and \$199.6 million in the first half of 2018.
- At June 30, 2018, Birchcliff's long-term bank debt was \$617.3 million and its total debt was \$661.4 million.
- Birchcliff expects that its total debt at year-end 2018 will be materially lower as compared to June 30, 2018, as approximately 78% (\$199.6 million) of its budgeted \$255 million capital expenditure program for 2018 (the "2018 Capital Program") was spent during the first half of the year.
- Birchcliff drilled a total of 7 (7.0 net) wells in the second quarter of 2018, consisting of 5 (5.0 net) Montney horizontal oil wells in Gordondale and 2 (2.0 net) Montney/Doig horizontal natural gas wells in Pouce Coupe.
- During the second quarter of 2018, Birchcliff and its syndicate of lenders agreed to an extension of the maturity dates of Birchcliff's credit facilities from May 11, 2020 to May 11, 2021 and to the borrowing base remaining unchanged at \$950 million.
- During the second quarter of 2018, Birchcliff and AltaGas Ltd. ("AltaGas") entered into a long-term natural gas processing arrangement (the "Processing Arrangement") effective January 1, 2018 for natural gas processed at AltaGas' deep-cut sour gas processing facility located in Gordondale, Alberta (the "Gordondale Facility"). As a result of the Processing Arrangement, Birchcliff's fees at the Gordondale Facility were reduced.

- Subsequent to the end of the quarter, the 80 MMcf/d Phase VI expansion of Birchcliff's 100% owned and operated natural gas processing plant in Pouce Coupe (the "Pouce Coupe Gas Plant") was brought on-stream on budget and ahead of schedule, increasing the total processing capacity of the plant to 340 MMcf/d.
- Birchcliff recently had positive exploration and development results in Pouce Coupe on its four-well science and technology pad with the following production results for the initial thirty days of production ("IP30")<sup>(1)</sup>:

Area, interval, well type and location	Production rate (raw) (boe/d)	Natural gas (raw) (MMcf/d)	Condensate (bbls/d)	CGR (bbls/MMcf)	Tubing or casing pressure (MPa)
<i>Pouce Coupe</i>					
Montney D2 Exploration Gas Well &ndash; 102/02-03-079-13W6	971	4.0	222	49	14.5
Montney C Development Gas Well &ndash; 100/02-03-079-13W6	864	5.0	69	14	15.3
Montney D1 Development Gas Well &ndash; 102/01-03-079-13W6	1,007	5.0	137	26	11.1
Montney D1 Development Gas Well &ndash; 103/13-34-078-13W6	989	5.0	103	19	14.4

(1) See "Operations Overview and Update" and "Advisories &ndash; Initial Production Rates"

*This press release contains forward-looking statements within the meaning of applicable securities laws. For further information, please see "Advisories &ndash; Forward-Looking Statements". In addition, this press release contains references to "adjusted funds flow", "adjusted funds flow per common share", "operating netback", "estimated operating netback", "operating margin", "total cash costs", "adjusted working capital deficit" and "total debt", which do not have standardized meanings prescribed by GAAP. For further information, please see "Non-GAAP Measures".*

## SECOND QUARTER 2018 FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
<b>OPERATING</b>				
Average daily production				
Light oil &ndash; (bbls)	5,599	7,121	4,872	6,212
Natural gas &ndash; (Mcf)	364,360	297,016	370,880	294,407
NGLs &ndash; (bbls)	9,970	8,013	9,624	7,877
Total &ndash; boe	76,296	64,636	76,309	63,157
Average sales price (CDN\$) <sup>(1)</sup>				
Light oil &ndash; (per bbl)	79.55	60.38	76.33	61.32
Natural gas &ndash; (per Mcf)	2.01	3.13	2.37	3.10
NGLs &ndash; (per bbl)	47.81	31.10	47.95	31.58
Total &ndash; per boe	21.68	24.90	22.45	24.42
<b>NETBACK AND COST (\$/boe)</b>				
Petroleum and natural gas revenue <sup>(1)</sup>	21.69	24.92	22.45	24.43
Royalty expense	(1.53)	(0.80)	(1.48)	(1.37)
Operating expense	(3.36)	(4.67)	(3.57)	(4.93)
Transportation and other expense	(3.64)	(2.57)	(3.60)	(2.57)
Operating netback	13.16	16.88	13.80	15.56
G&A expense, net	(0.88)	(1.07)	(0.88)	(1.06)
Interest expense	(0.96)	(1.16)	(0.96)	(1.26)
Realized gain (loss) on financial instruments	(0.93)	0.42	(0.69)	0.43

Other income	0.03	-	0.03	-
Adjusted funds flow netback	10.42	15.07	11.30	13.67
Stock-based compensation expense, net	(0.10)	) (0.17)	) (0.11)	) (0.15)
Depletion and depreciation expense	(7.60)	) (7.41)	) (7.50)	) (7.50)
Accretion expense	(0.11)	) (0.14)	) (0.12)	) (0.15)
Amortization of deferred financing fees	(0.06)	) (0.06)	) (0.06)	) (0.06)
Loss on sale of assets	(1.20)	) (3.58)	) (0.61)	) (1.62)
Unrealized gain (loss) on financial instruments	0.36	0.80	(0.43)	) 1.86
Dividends on Series C preferred shares	(0.13)	) (0.15)	) (0.13)	) (0.15)
Income tax expense	(0.51)	) (1.30)	) (0.71)	) (1.71)
Net income	1.07	3.06	1.63	4.19
Dividends on Series A preferred shares	(0.15)	) (0.17)	) (0.15)	) (0.17)
Net income to common shareholders	0.92	2.89	1.48	4.02
<b>FINANCIAL</b>				
Petroleum and natural gas revenue (\$000s) <sup>(1)</sup>	150,561	146,597	310,092	279,305
Cash flow from operating activities (\$000s)	71,825	57,467	163,678	128,081
Adjusted funds flow (\$000s)	72,369	88,612	156,027	156,242
Per common share &ndash; basic (\$)	0.27	0.33	0.59	0.59
Per common share &ndash; diluted (\$)	0.27	0.33	0.58	0.58
Net income (\$000s)	7,437	18,015	22,562	47,943
Net income to common shareholders (\$000s)	6,390	17,015	20,468	45,943
Per common share &ndash; basic (\$)	0.02	0.06	0.08	0.17
Per common share &ndash; diluted (\$)	0.02	0.06	0.08	0.17
Common shares outstanding (000s)				
End of period &ndash; basic	265,845	265,417	265,845	265,417
End of period &ndash; diluted	285,253	284,461	285,253	284,461
Weighted average common shares for period &ndash; basic	265,820	265,326	265,809	264,716
Weighted average common shares for period &ndash; diluted	267,773	268,203	266,793	268,065
Dividends on common shares (\$000s)	6,646	6,635	13,291	13,239
Dividends on Series A preferred shares (\$000s)	1,047	1,000	2,094	2,000
Dividends on Series C preferred shares (\$000s)	875	875	1,750	1,750
Capital expenditures, net (\$000s)	66,464	120,782	199,608	245,320
Revolving term credit facilities (\$000s)	617,291	628,401	617,291	628,401
Adjusted working capital deficit (\$000s)	44,118	72,083	44,118	72,083
Total debt (\$000s)	661,409	700,484	661,409	700,484

(1) Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts, if any.

## SECOND QUARTER 2018 FINANCIAL AND OPERATIONAL RESULTS

### Production

Birchcliff achieved solid quarterly average production of 76,296 boe/d in the second quarter of 2018, an 18% increase from 64,636 boe/d in the second quarter of 2017. The increase was primarily attributable to the success of Birchcliff's capital programs which resulted in incremental production from new horizontal wells brought on production in Pouce Coupe and Gordondale, partially offset by the sale of the Corporation's oil-weighted assets in the Worsley area in the third quarter of 2017, temporary restrictions in pipeline and compressor station capacity on the Alberta NGTL system during the second quarter of 2018 and natural production declines.

Production consisted of approximately 80% natural gas, 7% light oil and 13% NGLs in the second quarter of 2018, as compared to 77% natural gas, 11% light oil and 12% NGLs in the second quarter of 2017. Of the 13% NGLs in the second quarter of 2018, approximately 53% were high-value C4+ liquids. The change in

commodity mix from the second quarter of 2017 was primarily due to the disposition of Birchcliff's oil-weighted Worsley assets and the start-up of Phase V of the Pouce Coupe Gas Plant, both of which occurred in the third quarter of 2017.

#### Adjusted Funds Flow and Net Income

Birchcliff had adjusted funds flow of \$72.4 million, or \$0.27 per basic common share, in the second quarter of 2018, an 18% decrease from \$88.6 million and \$0.33 per basic common share in the second quarter of 2017. The decrease was primarily due to a lower average realized natural gas sales price, higher aggregate royalty and transportation and other expenses and a realized mark-to-market loss on financial instruments of \$6.5 million, partially offset by higher corporate production and higher average realized oil and NGLs sales prices which resulted in higher revenue and lower operating, G&A and interest expenses.

Birchcliff recorded net income of \$7.4 million in the second quarter of 2018, a 59% decrease as compared to net income of \$18.0 million in the second quarter of 2017. Birchcliff recorded net income to common shareholders of \$6.4 million, or \$0.02 per basic common share, a 62% decrease and a 67% decrease, respectively, as compared to net income to common shareholders of \$17.0 million and \$0.06 per basic common share in the second quarter of 2017. The decreases were primarily due to lower adjusted funds flow and higher depletion expense resulting from higher production in the second quarter of 2018.

#### Operating Expense

Birchcliff's operating expense was \$3.36/boe in the second quarter of 2018, a 28% decrease from \$4.67/boe in the second quarter of 2017. The decrease was primarily due to an incremental increase in natural gas production processed at the Pouce Coupe Gas Plant in connection with the start-up of Phase V in the third quarter of 2017, reduced processing fees at the Gordondale Facility as a result of the Processing Arrangement and the sale of the higher-cost Worsley assets in the third quarter of 2017.

#### Transportation and Other Expense

Birchcliff's transportation and other expense was \$3.64/boe in the second quarter of 2018, a 42% increase from \$2.57/boe in the second quarter of 2017. The increase was primarily due to firm service transportation tolls for natural gas transported to Dawn during the second quarter of 2018, which service commenced on November 1, 2017 (see *"Risk Management and Market Diversification"* for further information on Birchcliff's Dawn arrangements). The natural gas price at Dawn was significantly higher than at AECO during the second quarter of 2018 (see *"Second Quarter 2018 Financial and Operational Results – Commodity Prices"*).

#### G&A Expense

Birchcliff's G&A expense was \$0.88/boe in the second quarter of 2018, an 18% decrease from \$1.07/boe in the second quarter of 2017. The decrease was primarily due to higher production as compared to the second quarter of 2017.

#### Interest Expense

Birchcliff's interest expense was \$0.96/boe in the second quarter of 2018, a 17% decrease from \$1.16/boe in the second quarter of 2017. The decrease was primarily due to higher corporate production and lower average effective interest rates.

#### Adjusted Funds Flow Netback and Total Cash Costs

During the second quarter of 2018, Birchcliff's adjusted funds flow netback was \$10.42/boe, a 31% decrease from \$15.07 in the second quarter of 2017. The decrease was primarily due to a lower average natural gas sales price, partially offset by higher average oil and NGLs sales prices and higher production.

During the second quarter of 2018, Birchcliff's total cash costs were \$10.37/boe, a 1% increase from \$10.27/boe in the second quarter of 2017. The increase was primarily due to higher royalty and transportation and other expenses on a per boe basis, partially offset by lower operating, G&A and interest expenses on a per boe basis.

### Pouce Coupe Gas Plant Netbacks

During the first half of 2018, Birchcliff processed approximately 67% of its total corporate natural gas production and 57% of its total corporate production through the Pouce Coupe Gas Plant as compared to 57% and 46%, respectively, during the first half of 2017. These increases were primarily due to the incremental production from horizontal natural gas wells brought on production in Pouce Coupe in connection with the start-up of Phase V of the Pouce Coupe Gas Plant in the third quarter of 2017. The average plant and field operating expense for production processed through the Pouce Coupe Gas Plant in the first half of 2018 was \$0.39/Mcfe (\$2.36/boe) and the estimated operating netback at the Pouce Coupe Gas Plant was \$1.92/Mcfe (\$11.51/boe), resulting in an operating margin of 66% in the first half of 2018.

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

	Six months ended June 30, 2018		Six months ended June 30, 2017	
<i>Average daily production:</i>				
Natural gas (Mcf)	249,317		169,040	
Oil & condensate (bbls)	2,198		1,081	
Total (boe/d)	43,751		29,254	
Liquids-to-gas ratio (bbls/MMcf) <sup>(1)</sup>	8.8		6.4	
<i>Netback and cost:</i>	<i>\$/Mcfe</i>	<i>\$/boe</i>	<i>\$/Mcfe</i>	<i>\$/boe</i>
Petroleum and natural gas revenue <sup>(2)</sup>	2.91	17.49	3.41	20.44
Royalty expense	(0.05 )	(0.29 )	(0.10 )	(0.67 )
Operating expense <sup>(3)</sup>	(0.39 )	(2.36 )	(0.33 )	(1.90 )
Transportation and other expense <sup>(4)</sup>	(0.55 )	(3.33 )	(0.35 )	(2.07 )
Estimated operating netback	\$ 1.92	\$ 11.51	\$ 2.63	\$ 15.80
Operating margin	66 %	66 %	77 %	77 %

(1) Liquids is primarily comprised of condensate.

(2) Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts, if any.

(3) Represents plant and field operating expense.

(4) The increase in transportation and other expense from the comparative prior period was primarily due to transportation tolls for natural gas sold at the Dawn price during the six months ended June 30, 2018.

Birchcliff began selling natural gas at the Dawn price on November 1, 2017.

### Capital Activities and Expenditures

Birchcliff's 2018 Capital Program contemplates the drilling, completing, equipping and bringing on production of a total of 27 (27.0 net) wells during 2018, as well as the completion of the 80 MMcf/d Phase VI expansion of the Pouce Coupe Gas Plant. The 2018 Capital Program was strategically front-end loaded and highly focused on the first half of the year, allowing Birchcliff to bring new wells on production relatively early in the year in order to optimize producing days for the capital spent in 2018. During the second quarter of 2018, Birchcliff drilled a total of 7 (7.0 net) wells, consisting of 5 (5.0 net) Montney horizontal oil wells in the Gordondale area and 2 (2.0 net) Montney/Doig horizontal natural gas wells in the Pouce Coupe area. Subsequent to the end of the quarter, Birchcliff brought the Phase VI expansion on-stream. For further information regarding the 2018 Capital Program and Birchcliff's activities year-to-date, please see *"Operations Overview and Update"*.

Birchcliff's total capital expenditures during the second quarter of 2018 were \$70.2 million and its net capital expenditures were \$66.5 million. For the six months ended June 30, 2018, Birchcliff's total

capital expenditures were \$203.3 million and its net capital expenditures were \$199.6 million.

Birchcliff expects that its 2018 adjusted funds flow will materially exceed its 2018 capital expenditures based on the assumptions set forth herein. See *“Outlook and Guidance”* and *“Advisories – Forward-Looking Statements”*.

## Debt and Credit Facilities

Birchcliff expects that its total debt at year-end 2018 will be materially lower as compared to June 30, 2018, as approximately 78% (\$199.6 million) of its 2018 Capital Program was spent during the first half of the year. As new wells are brought on production throughout 2018, the cash flow from such wells is expected to be used to repay debt and to fund capital expenditures, as well as for general corporate purposes. See *“Outlook and Guidance”* and *“Advisories – Forward-Looking Statements”*.

At June 30, 2018, Birchcliff’s long-term bank debt was \$617.3 million (June 30, 2017: \$628.4 million) from available credit facilities of \$950 million (June 30, 2017: \$950 million), leaving \$285.9 million of unutilized credit capacity after adjusting for outstanding letters of credit and unamortized interest and fees. Total debt at June 30, 2018 was \$661.4 million (June 30, 2017: \$700.5 million).

Birchcliff has extendible revolving credit facilities in the aggregate principal amount of \$950 million (the *“Credit Facilities”*) which are comprised of an extendible revolving syndicated term credit facility (the *“Syndicated Credit Facility”*) and an extendible revolving working capital facility (the *“Working Capital Facility”*). The Credit Facilities are subject to semi-annual reviews of the borrowing base limit by Birchcliff’s syndicate of lenders, which reviews are typically completed in May and November of each year. Pursuant to the terms of the agreement governing the Credit Facilities, Birchcliff may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made. The Credit Facilities do not contain any financial maintenance covenants.

During the second quarter of 2018, Birchcliff’s syndicate of lenders completed its semi-annual review of the borrowing base limit. In connection with such review, Birchcliff and its syndicate of lenders agreed to: (i) an extension of the maturity dates of each of the Syndicated Credit Facility and the Working Capital Facility from May 11, 2020 to May 11, 2021; (ii) the borrowing base remaining unchanged at \$950 million; and (iii) increasing the Working Capital Facility to \$100 million (from \$50 million) with a corresponding reduction in the Syndicated Credit Facility to \$850 million (from \$900 million).

## Commodity Prices

The following table sets forth the average benchmark index prices and Birchcliff’s average realized sales prices for the periods indicated:

	Three months ended June 30, 2018
<i>Average benchmark index prices:</i>	
Light oil – WTI Cushing (US\$/bbl)	67.88
Light oil – Edmonton Par (CDN\$/bbl)	80.30
Natural gas – NYMEX Henry Hub (US\$/MMBtu) <sup>(1)</sup>	2.83
Natural gas – AECO 5A (CDN\$/MMBtu) <sup>(1)</sup>	1.18
Natural gas – Union-Dawn Day Ahead (CDN\$/MMBtu) <sup>(1)</sup>	3.57
Natural gas – ATP 5A Day Ahead (CDN\$/MMBtu) <sup>(1)</sup>	1.54
Natural gas – Chicago Citygate (US\$/MMBtu) <sup>(1)</sup>	2.67
Exchange rate – (US\$/CDN\$)	1.29
<i>Birchcliff’s average realized sales prices:<sup>(2)</sup></i>	
Light oil (\$/bbl)	79.55

Natural gas (\$/Mcf)	2.01
NGLs (\$/bbl)	47.81
Birchcliff's average realized sales price (\$/boe)	21.68
(1) \$1.00/MMBtu = \$1.00/Mcf based on a standard heat value Mcf. Please see "Advisories – MMBtu Price" and "Risk Management and Market Diversification – Marketing and Transportation".	
(2) Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts.	

The following table sets forth Birchcliff's natural gas sales, average daily production and average realized sales price by natural gas market for the second quarter of 2018:

Three months ended June 30, 2018					
	Natural gas sales <sup>(1)</sup> (\$000s)	Percentage of natural gas sales (%)	Natural gas production (Mcf/d)	Percentage of natural gas production (%)	Average realized natural gas sales price (\$/Mcf)
AECO	25,092	38	219,135	60	1.27
Dawn <sup>(2)</sup>	37,542	56	108,950	30	3.79
Alliance <sup>(2)</sup>	3,985	6	36,275	10	1.21
Total	66,619	100	364,360	100	2.01

(1) Excludes the effects of hedges using financial instruments but includes the effects of fixed price physical delivery contracts, if any.

(2) Please see "Risk Management and Market Diversification – Marketing and Transportation".

#### New Processing Arrangement for the Gordondale Facility

On April 3, 2018, Birchcliff and AltaGas announced that they had entered into a definitive agreement for the Processing Arrangement at the Gordondale Facility. The Processing Arrangement is effective from January 1, 2018 and replaced the parties' previous Gordondale processing arrangement. Under the Processing Arrangement, Birchcliff's fees at the Gordondale Facility were reduced and Birchcliff is being provided with up to 120 MMcf/d of natural gas processing on a firm-service basis and its take-or-pay obligation is 100 MMcf/d. The term of the Processing Arrangement is for at least 15 years, subject to extension in accordance with the terms of the agreement.

### OPERATIONS OVERVIEW AND UPDATE

Birchcliff's operations are concentrated within its one core area, the Peace River Arch of Alberta, which is centred northwest of Grande Prairie, Alberta. Within the Peace River Arch, Birchcliff is focused on its high-quality Montney/Doig Resource Play and the exploration and development of its low-cost natural gas, crude oil and liquids-rich assets on the play. Within the Montney/Doig Resource Play, Birchcliff's operations are primarily concentrated in the Pouce Coupe and Gordondale areas of Alberta where it owns large contiguous blocks of high working interest land.

Part of Birchcliff's long-term strategy is to continue to explore and delineate 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 Birchcliff has divided the geologic column in its areas of operations into six drilling intervals from the youngest (top) to the oldest (bottom): (i) the Basal Doig/Upper Montney; (ii) the Montney D4; (iii) the Montney D3; (iv) the Montney D2; (v) the Montney D1; and (vi) the Montney C. As at August 14, 2018, Birchcliff has successfully drilled and cased an aggregate of 375 (369.8 net) Montney/Doig horizontal wells (which includes 87 (81.8 net) wells that were acquired when Birchcliff initially purchased its assets in Gordondale in 2016).

#### Operational Update

Birchcliff has been very active with the execution of its 2018 Capital Program which is focused on the drilling of crude oil wells in Gordondale and a combination of liquids-rich and low-cost natural gas wells in Pouce

Coupe. Birchcliff has completed the drilling of all 27 (27.0 net) wells planned under its 2018 Capital Program (20 of which were drilled in the first quarter and 7 of which were drilled in the second quarter), 100% of which were successful. The following table summarizes the wells that Birchcliff has drilled and brought on production year-to-date, as well as the remaining wells to be brought on production during 2018:

*Wells Drilled and Brought on Production &ndash; 2018(1)*

Area	Wells drilled in 2018	Wells brought on production to-date	Remaining wells to be brought on production in 2018	Total wells to be brought on production in 2018
<b>Pouce Coupe</b>				
Montney D1 HZ Gas Wells	12	9	3	12
Montney D2 HZ Gas Wells	1	1	0	1
Montney C HZ Gas Wells	1	1	0	1
Total &ndash; Pouce Coupe	14	11	3	14
<b>Gordondale</b>				
Montney D2 HZ Oil Wells	8	4	4	8
Montney D1 HZ Oil Wells	5	3	2	5
Total &ndash; Gordondale	13	7	6	13
TOTAL &ndash; COMBINED	27	18	9	27 <sup>(1)</sup>

(1) The 2018 Capital Program also includes the capital associated with 1 Montney/Doig well in Pouce Coupe that was drilled in December 2017 and subsequently completed in 2018. This well is expected to be brought on production during the third quarter of 2018. Accordingly, a total of 28 (28.0 net) wells are expected to be brought on production during 2018.

All of the wells drilled in 2018 were drilled on multi-well pads, which allows Birchcliff to reduce its per well costs and its environmental footprint. In addition, Birchcliff actively employs the evolving technology utilized by the industry regarding horizontal well drilling and the related multi-stage fracture stimulation technology. Birchcliff continues to spend significant time evolving its best practices for drilling and refining its engineered completions.

#### *Gordondale*

Key focus areas for Gordondale in 2018 include the drilling of crude oil wells and the delineation of the Montney D1 and D2 intervals. Since Birchcliff acquired its assets in Gordondale in 2016, it has drilled a total of 36 (36.0 net) wells in Gordondale, consisting of 20 (20.0 net) Montney D2 horizontal oil wells, 12 (12.0 net) Montney D1 horizontal oil wells and 4 (4.0 net) Montney D1 liquids-rich horizontal natural gas wells. When Birchcliff first acquired its assets in Gordondale, the average production for such assets was approximately 22,000 boe/d at the date of the acquisition. The horizontal wells that Birchcliff has subsequently drilled and brought on production have replaced the natural production declines and significantly increased the production on its Gordondale assets (currently approximately 30,000 boe/d).

The 20 Montney D2 horizontal wells that Birchcliff has drilled, completed and brought on production to-date have significantly delineated, de-risked and proven the commerciality of the Montney D2 play. When Birchcliff initially acquired its assets in Gordondale, only one Montney D2 well had been previously drilled on the acquired assets and there was only one offsetting competitor Montney D2 well. In an effort to continuously improve its well performance and optimize its completions strategy, Birchcliff has utilized three different completion systems on its Montney D2 wells drilled to-date, including open hole packers, cemented sleeves fractured with coil tubing and plug and perf technology. Birchcliff continues to evaluate the production results and cost efficiencies of each system in order to optimize field development in Gordondale.

#### *Pouce Coupe*

During 2018, Birchcliff is focused on the drilling of liquids-rich natural gas wells and the pursuit of condensate and other NGLs in several different Montney/Doig intervals, including the Montney D1, D2 and C, to take advantage of the prices for liquids which have been relatively strong. Other key focus areas for Pouce Coupe during 2018 include the completion of the Phase VI expansion of the Pouce Coupe Gas Plant, the addition of shallow-cut capability for Phases V and VI of the Pouce Coupe Gas Plant and Birchcliff's multi-well



science and technology pad.

### *Pouce Coupe Gas Plant – Successful Start-Up of Phase VI*

Subsequent to the end of the second quarter of 2018, the 80 MMcf/d Phase VI expansion of the Pouce Coupe Gas Plant was brought on-stream on budget and ahead of the initially scheduled date of October 2018, increasing the total processing capacity of the Pouce Coupe Gas Plant to 340 MMcf/d from 260 MMcf/d. Phases V and VI are currently running at or near-maximum throughput, with the entire plant operating at approximately 80% of its total processing capacity. Birchcliff currently plans to divert some of its natural gas that is being processed by third-party processors to Phase VI, which will help it to reduce its operating costs on a per boe basis. Birchcliff expects that it will be able to fill this excess capacity over time as commodity prices improve and as it targets the drilling of liquids-rich natural gas wells.

Birchcliff is currently in the process of re-configuring Phases V and VI to provide for shallow-cut capability, which will allow Birchcliff to remove propane plus (C3+) from the natural gas stream. It is expected that this re-configuration will be completed in the fourth quarter of 2018.

### *Science and Technology Multi-Well Pad Program – Exploration and Development Success*

Birchcliff has developed and executed upon its science and technology multi-well pad program in Pouce Coupe. The purpose of the program is to collect high-value data to increase Birchcliff's understanding of the drilling, completion and production of wells drilled on the multi-interval Montney/Doig Resource Play, and specifically in an area that has future potential for multi-interval development.

As described in further detail below, the first phase of the program involved the drilling of a vertical science and technology observation well with a full diameter Montney core which was drilled in the third quarter of 2017. The second phase involved the drilling of four straddling horizontal wells in three different Montney intervals (one exploration Montney D2 well, one Montney C development well and two Montney D1 development wells). Prior to this program, Birchcliff had only drilled one Montney C well and no Montney D2 wells in the area. By executing on this program and increasing its understanding of this multi-interval resource play, Birchcliff expects that it will be able to further optimize field development in Pouce Coupe.

The vertical science and technology observation well was drilled in Pouce Coupe to the top of the Montney where Birchcliff cut a full diameter core through the entire Montney section (approximately 300 metres). The extracted rock core provided analytical data to increase Birchcliff's knowledge of rock properties, which it incorporated into its petrophysical models, and helped it to more accurately represent the geology of the area. In addition to conventional open hole logs, Birchcliff also ran advanced unconventional wireline logs, including horizontal logs. Birchcliff continues to compile all of the data from the vertical well. However, based on the initial results of such data, Birchcliff is confident that there are at least four different intervals on the Montney/Doig Resource Play that are prospective in the offsetting area where the vertical well was drilled (in the northern portion of Pouce Coupe), namely its two proven intervals (the Basal Doig/Upper Montney and the Montney D1) and its two relatively new intervals (the Montney D2 and the Montney C). Birchcliff is excited about the potential identified in the Montney D2 and the C intervals from the vertical well and has utilized the learnings from the vertical well to develop its engineered drilling and completion for the four horizontal wells.

In January 2018, Birchcliff commenced the drilling of the first of the four horizontal wells on the multi-well pad and completed the drilling of all four wells in March. Birchcliff finished the completions on all four of the wells during the second quarter of 2018. During completion of the 4 horizontal wells, Birchcliff used a number of leading edge technologies, including on the vertical observation well which had micro-seismic and tilt meter monitoring. In one of the two Montney D1 horizontal wells, Birchcliff installed a permanent fibre optic cable which was connected at the surface to Birchcliff's fracture data infrastructure. This cable was successful in capturing offsetting well fracture data, as well as fracture data along its own horizontal length. Birchcliff also utilized tracers and production interference testing to better understand completion efficiencies and production distributions.

All four wells were brought on production during the second quarter of 2018 and the production results of such wells have been positive. The table below sets forth the IP30 results of each well:

*Average IP30 Results(1)*

Area, interval, well type and location	Production rate (raw) <sup>(2)</sup> (boe/d)	Natural gas (raw) <sup>(2)(3)</sup> (MMcf/d)	Condensate <sup>(2)</sup> (bbls/d)	CGR <sup>(4)</sup> (bbls/MMcf)	Tubing or casing pressure <sup>(5)</sup> (MPa)
<i>Pouce Coupe</i>					
Montney D2 Exploration Gas Well &ndash; 102/02-03-079-13W6	971	4.0	222	49	14.5
Montney C Development Gas Well &ndash; 100/02-03-079-13W6	864	5.0	69	14	15.3
Montney D1 Development Gas Well &ndash; 102/01-03-079-13W6	1,007	5.0	137	26	11.1
Montney D1 Development Gas Well &ndash; 103/13-34-078-13W6	989	5.0	103	19	14.4

(1) The production results set forth herein are not necessarily indicative of the long-term performance or ultimate recovery of the wells. Please see *Advisories &ndash; Initial Production Rates*.

(2) Represents the cumulative volumes measured at the wellhead separator for the initial 30 days of production divided by 30. Excludes hours and days when the well did not produce.

(3) The natural gas volumes set forth in the table above represent raw gas volumes as opposed to sales gas volumes. The raw gas volumes include NGLs which were not measured separately except in the case of condensate. At Pouce Coupe, some additional NGLs are extracted from the raw gas at the Pouce Coupe Gas Plant. Any NGLs not recovered from the raw gas stream increases the heat content of the natural gas. The raw gas volumes are prior to processing and accordingly do not take into account plant shrinkage or losses to the natural gas volumes during processing.

(4) The CGR ratio was calculated by dividing total wellhead separator condensate volumes by total wellhead separator natural gas volumes over the initial 30 days of production.

(5) The casing pressure is the average of approximately the last 10 days of production through permanent facilities where the production tubing was installed in each well, with the exception of the 102/01-03-079-13W6 well which does not have tubing installed and is flowing up casing.

Birchcliff is enthusiastic about the results from this science and technology multi-well pad program. As discussed above, the data collected during the program provides support for the prospectivity of the Montney D2 and C intervals in Birchcliff's Pouce Coupe area. The Montney D2 well is the first Montney D2 well drilled by Birchcliff in Pouce Coupe and proves further liquids-rich inventory in Pouce Coupe. The Montney C well is the second well drilled by Birchcliff in the Montney C interval in Pouce Coupe. These results have re-affirmed Birchcliff's confidence in the depth of the multi-interval drilling opportunities on its Montney/Doig Resource Play in Pouce Coupe.

The significant capital and manpower investment in the science and technology multi-well pad program has resulted in exploration and development success. In addition, it represents a significant commitment to Birchcliff's long-term multi-discipline learning on the Montney/Doig Resource Play and the development of its assets. Along with Birchcliff's investment in data analytics, the reservoir modeling and other technologies it has developed as a result of the program will continue to enhance Birchcliff's understanding of the Montney/Doig Resource Play and optimize its results. Some of the specific learnings from the science and technology pad include the following:

- Reservoir attributes &ndash; porosity, permeability, hydrocarbon saturations and fracability.
- Stimulated rock volume &ndash; frac height, width, length, shape and complexity.
- Well placement &ndash; well lateral and vertical offset distances.
- Completion design &ndash; perf interval distances, sand tonnage, pumping rates and fluid rates.
- Production performance &ndash; enhanced understanding of how multiple wells perform as a volume, sandwich or cube.

## RISK MANAGEMENT AND MARKET DIVERSIFICATION

Birchcliff actively looks for profitable opportunities to diversify its natural gas markets and reduce its exposure to prices at AECO. In addition, Birchcliff maintains an ongoing hedging program and engages in various risk management activities to reduce its exposure to volatility in commodity prices. In connection therewith, Birchcliff utilizes various financial derivative contracts, physical delivery sales contracts and marketing and

transportation arrangements, as discussed in further detail below.

## Risk Management Contracts and Hedging

With respect to 2018, Birchcliff has financial derivative contracts that are outstanding for an aggregate of 4,500 bbls/d of crude oil at an average WTI price of CDN\$71.87/bbl for the period from July 1, 2018 to December 31, 2018, which represents approximately 29% of its 2018 forecast annual average oil and NGLs production and approximately 6% of its total 2018 forecast annual average production. With respect to 2019 and beyond, Birchcliff has entered into various risk management contracts, including NYMEX basis swaps which fix the basis differential between the AECO price and the NYMEX Henry Hub price. As a result of its market diversification activities, Birchcliff currently expects that approximately 63% of its natural gas production during 2019 will be sold at prices that are not based on AECO. The following table sets forth the details regarding Birchcliff's expected 2019 natural gas market exposure as a result of its market diversification initiatives undertaken at the date hereof:

Market diversification	Assumed 2019 production <sup>(1)</sup>			Percentage of total 2019 production <sup>(1)</sup> (%)	
	(GJ/d)	(MMBtu/d) <sup>(2)</sup>	(Mcf/d) <sup>(3)</sup>		
Dawn sales	158,333	150,134	137,123	37	9
NYMEX basis differential <sup>(4)</sup>	105,462	100,000	91,334	25	9
Alliance sales	5,561	5,273	5,000	1	9
Natural gas sales not sold at AECO	269,356	255,407	233,457	63	9
AECO sales	157,202	149,061	136,143	37	9
Total natural gas sales	426,558	404,468	369,600	100	9

(1) Assumes a flat production profile for 2019 with a production rate of 77,000 boe/d (which represents the mid-point of Birchcliff's annual average production guidance for 2018) and a commodity mix of 80% natural gas and 20% oil and NGLs. Birchcliff's production guidance for 2019 is partially dependent on Birchcliff's 2019 capital program details of which have not been determined and which is subject to approval by the Board of Directors. Birchcliff expects details regarding its 2019 capital program and 2019 production guidance will be released no later than February 2019. For further information regarding Birchcliff's guidance, including the assumptions surrounding such guidance, please see "Advisories – Forward-Looking Statements".

(2) The conversion from GJ to standard heat value in MMBtu is based on a heat content value of 37.4 MJ/m<sup>3</sup> or a heat conversion factor of 1 MMBtu = 1.055 GJ.

(3) The conversion from standard heat value in MMBtu to Mcf is based on Birchcliff's 2019 expected corporate natural gas heat content value from its properties of 40.80 MJ/m<sup>3</sup> or a heat conversion factor of 1 Mcf = 1.095 MMBtu. The heat content conversion factor is 1 Mcf = 1.15 GJ at the wellhead.

(4) See the "Commodity Price Risk Management" section in the MD&A for further details on the NYMEX basis swaps.

After taking into account Birchcliff's expected oil and NGLs production, approximately 29% of Birchcliff's total production in 2019 is expected to be exposed to AECO pricing, with the remaining 71% not exposed to AECO pricing (previously 30% and 70%, respectively).

The foregoing guidance regarding Birchcliff's 2019 natural gas market exposure is based on the following assumptions: (i) a flat production profile for 2019 with a production rate of 77,000 boe/d (which represents the mid-point of Birchcliff's annual average production guidance for 2018) and a commodity mix of 80% natural gas and 20% oil and NGLs; (ii) 155,000 GJ/d being sold at the Dawn index price from January 1, 2019 to October 31, 2019 and 175,000 GJ/d from November 1, 2019 to December 31, 2019; (iii) 5 MMcf/d being sold at Alliance's Trading Pool daily index price; and (iv) 100,000 MMBtu/d being hedged at a fixed basis differential between the AECO price and the NYMEX Henry Hub price. Please also see "Advisories – Forward-Looking Statements".

For further details regarding Birchcliff's risk management contracts and hedging activities, please see Birchcliff's interim condensed financial statements for the three and six months ended June 30, 2018 and related MD&A.

## Marketing and Transportation

Birchcliff has agreements for the firm service transportation of an aggregate of 175,000 GJ/d of natural gas on TCPL's Canadian Mainline for a 10-year term, whereby natural gas is transported from the Empress receipt point in Alberta to the Dawn trading hub located in Southern Ontario. The first tranche of this service (120,000 GJ/d) became available to Birchcliff on November 1, 2017, with additional tranches becoming available on November 1, 2018 (35,000 GJ/d) and November 1, 2019 (20,000 GJ/d). In addition, Birchcliff has a sales agreement with a third party marketer to sell and deliver approximately 5 MMcf/d of natural gas under contracts which commenced April 1, 2017 and expire October 31, 2020, which is sold at Alliance's Trading Pool daily index price. Birchcliff previously had sales agreements with a third party marketer to sell and deliver into the Alliance pipeline system approximately 40 MMcf/d of natural gas for the period from November 1, 2017 to March 31, 2018.

## OUTLOOK AND GUIDANCE

Birchcliff's 2018 Capital Program reflects its long-term plan to continue the exploration and development of its low-cost natural gas, crude oil and liquids-rich assets on the Montney/Doig Resource Play. The program directs capital investment to those projects with the most favourable rates of return, including a combination of liquids-rich natural gas, crude oil and natural gas development opportunities and strategic infrastructure for future growth.

Birchcliff is focused on protecting its balance sheet and expects that its 2018 adjusted funds flow will materially exceed its 2018 capital expenditures. In addition, Birchcliff expects that its total debt at year-end 2018 will be materially lower as compared to June 30, 2018, as approximately 78% (\$199.6 million) of its \$255 million 2018 Capital Program was spent during the first half of the year.

Birchcliff is maintaining its 2018 average production guidance of 76,000 to 78,000 boe/d (80% natural gas and 20% oil and NGLs). Birchcliff has revised its guidance regarding its average royalty expense during 2018 to \$1.60/boe to \$1.80/boe (from \$1.20/boe to \$1.40/boe) to reflect higher than expected commodity prices. The following table sets forth Birchcliff's original and revised guidance for 2018, as well as its updated commodity price assumptions:

	Original 2018 guidance and assumptions <sup>(1)</sup>	Revised 2018 guidance and assumptions	
<b>Production</b>			
Annual average production ( <i>boe/d</i> )	76,000 &ndash; 78,000	76,000 &ndash; 78,000	
% Natural gas	80	% 80	%
% Oil and NGLs	20	% 20	%
<b>Average Expenses (\$/boe)</b>			
Royalty	1.20 &ndash; 1.40	1.60 &ndash; 1.80	
Operating	3.75 &ndash; 4.00 <sup>(2)</sup>	3.40 &ndash; 3.60 <sup>(2)</sup>	
Transportation and other	3.80 &ndash; 4.10 <sup>(3)</sup>	3.80 &ndash; 4.10 <sup>(3)</sup>	
<b>Capital Expenditures (MM\$)</b>			
Estimated total capital	255.0	255.0	
Estimated drilling and development capital	149.9	149.9	
Estimated facilities and infrastructure capital	66.9	66.9	
<b>Natural Gas Market Exposure<sup>(4)</sup></b>			
AECO production as a % of total natural gas production	66	% 66	%
Dawn production as a % of total natural gas production	30	% 30	%
<b>Commodity Price Assumptions</b>			
Average WTI oil price ( <i>US\$/bbl</i> )	61.00	66.67	
Average AECO price ( <i>\$/MMBtu</i> ) <sup>(5)</sup>	1.58	1.63	
Average Dawn price ( <i>\$/MMBtu</i> ) <sup>(5)</sup>	3.48	3.70	
Average wellhead natural gas price ( <i>\$/Mcf</i> ) <sup>(6)</sup>	2.32	2.41	

(1) As disclosed on February 14, 2018.

(2) Birchcliff's guidance regarding its average operating expense during 2018 was revised on April 3, 2018 to \$3.40/boe to \$3.60/boe.

(3) Includes transportation tolls for 120,000 GJ/d of natural gas sold at the Dawn price from January 1, 2018 to October 31, 2018 and 155,000 GJ/d from November 1, 2018 to December 31, 2018.

(4) Approximately 4% of total natural gas production is expected to be sold via the Alliance pipeline system in 2018.

(5) \$1.00 per MMBtu equals \$1.00 per Mcf based on a standard heat value of 37.4 MJ/m<sup>3</sup> or a heat uplift of 1.055 when converting from \$/GJ.

(6) Birchcliff receives premium pricing for its natural gas production due to the high heat content from its properties. The conversion from standard heat value in MMBtu to realized wellhead price in Mcf is based on an expected corporate average realized natural gas heat content value of 40.80 MJ/m<sup>3</sup> or a heat uplift of 1.091. The total conversion is \$1.00/GJ = \$1.15/Mcf at the wellhead.

For further information regarding Birchcliff's guidance, including the assumptions surrounding such guidance, please see *"Advisories & Forward-Looking Statements"*.

## CORPORATE RESPONSIBILITY REPORT

Birchcliff has released its inaugural Corporate Responsibility Report which has been posted on its website. The report has been designed to provide investors and stakeholders with additional information regarding Birchcliff's corporate responsibility initiatives.

## ABBREVIATIONS

AECO	benchmark price for natural gas determined at the AECO "C" hub in southeast Alberta
bbl	barrel
bbls	barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day
C4+	butanes plus
CGR	condensate gas ratio
F&D	finding and development
G&A	general and administrative
GAAP	generally accepted accounting principles for Canadian public companies which are currently International Financial Reporting Standards as issued by the International Accounting Standards Board
GJ	gigajoule
GJ/d	gigajoules per day
HZ	horizontal
m <sup>3</sup>	cubic metres
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mcfe	thousand cubic feet of gas equivalent
MJ	megajoule
MM\$	millions of dollars
MMBtu	million British thermal units
MMBtu/d	million British thermal units per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
MPa	megapascal
NGLs	natural gas liquids
NGTL	NOVA Gas Transmission Ltd.
NYMEX	New York Mercantile Exchange
TCPL	TransCanada PipeLines
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma, for crude oil of standard grade

000s      thousands  
 \$000s    thousands of dollars

## NON-GAAP MEASURES

This press release uses "adjusted funds flow", "adjusted funds flow per common share", "operating netback", "estimated operating netback", "adjusted funds flow 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.

"Adjusted funds flow" denotes cash flow from operating activities before the effects of decommissioning expenditures and changes in non-cash working capital and "adjusted funds flow per common share" denotes adjusted funds flow divided by the basic or diluted weighted average number of common shares outstanding for the period. Birchcliff eliminates changes in non-cash working capital and settlements of decommissioning expenditures from cash flow from operating activities as the amounts can be discretionary and may vary from period-to-period depending on its capital programs and the maturity of its operating areas. The settlement of decommissioning expenditures are managed with Birchcliff's capital budgeting process which considers available adjusted funds flow. Management believes that adjusted funds flow and adjusted funds flow per common share assist management and investors in assessing Birchcliff's profitability, as well as its ability to generate the cash necessary to fund future growth through capital investments, decommission its assets, pay dividends and repay debt. Investors are cautioned that adjusted funds flow should not be construed as an alternative to or more meaningful than cash flow from operating activities or net income or loss as determined in accordance with GAAP as an indicator of Birchcliff's performance. Birchcliff previously referred to adjusted funds flow as "funds flow from operations". The following table provides a reconciliation of cash flow from operating activities, as determined in accordance with GAAP, to adjusted funds flow:

	Three months ended June 30,		Six months ended June 30,	
(\$000s)	2018	2017	2018	2017
Cash flow from operating activities	71,825	57,467	163,678	128,081
Add back:				
Change in non-cash working capital	469	31,075	(8,148 )	27,790
Funds flow	72,294	88,542	155,530	155,871
Adjustments:				
Decommissioning expenditures	75	70	497	371
Adjusted funds flow	72,369	88,612	156,027	156,242

"Operating netback" denotes petroleum and natural gas revenue less royalties, less operating expense and less transportation and other expense. "Estimated operating netback" of the Pouce Coupe Gas Plant (and the components thereof) is based upon certain cost allocations and accruals directly attributable to the Pouce Coupe Gas Plant and related wells and infrastructure. "Adjusted funds flow netback" denotes petroleum and natural gas revenue less royalties, less operating expense, less transportation and other expense, less net G&A expense, less interest expense and less any realized losses (plus realized gains) on financial instruments and plus any other cash income sources. Birchcliff previously referred to adjusted funds flow netback as "funds flow netback". All netbacks are calculated on a per unit basis, unless otherwise indicated. Management believes that operating netback, estimated operating netback and adjusted funds flow netback assist management and investors in assessing Birchcliff's profitability and its operating results on a per unit basis to better analyze its performance against prior periods on a comparable basis. The following table provides a breakdown of Birchcliff's corporate operating netback and corporate adjusted funds flow netback:

Three months ended June 30,		Six months ended June 30,	
2018	2017	2018	2017

	(\$000s)	(\$/boe) <sup>(1)</sup>	(\$000s)	(\$/boe) <sup>(1)</sup>	(\$000s)	(\$/boe) <sup>(1)</sup>	(\$000s)	(\$/boe) <sup>(1)</sup>
Petroleum and natural gas revenue	150,561	21.69	146,597	24.92	310,092	22.45	279,305	24.92
Royalty expense	(10,632)	(1.53)	(4,711)	(0.80)	(20,443)	(1.48)	(15,677)	(1.48)
Operating expense	(23,319)	(3.36)	(27,453)	(4.67)	(49,252)	(3.57)	(56,403)	(4.67)
Transportation and other expense	(25,239)	(3.64)	(15,175)	(2.57)	(49,779)	(3.60)	(29,381)	(2.57)
Operating netback	91,371	13.16	99,258	16.88	190,618	13.80	177,844	15.16
General & administrative expense, net	(6,079)	(0.88)	(6,286)	(1.07)	(12,119)	(0.88)	(12,139)	(1.07)
Interest expense	(6,658)	(0.96)	(6,844)	(1.16)	(13,290)	(0.96)	(14,358)	(1.16)
Realized gain (loss) on financial instruments	(6,462)	(0.93)	2,484	0.42	(9,581)	(0.69)	4,895	0.42
Other income	197	0.03	-	-	399	0.03	-	-
Adjusted funds flow netback	72,369	10.42	88,612	15.07	156,027	11.30	156,242	13.80

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

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

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

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

As at, (\$000s)	June 30, 2018	December 31, 2017	June 30, 2017
Working capital deficit	58,502	15,113	60,254
Financial instrument – asset	5,037	-	11,829
Financial instrument – liability	(19,421)	(4,046)	-
Adjusted working capital deficit	44,118	11,067	72,083

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

As at, (\$000s)	June 30, 2018	December 31, 2017	June 30, 2017
Revolving term credit facilities	617,291	587,126	628,401
Adjusted working capital deficit	44,118	11,067	72,083
Total debt	661,409	598,193	700,484

## ADVISORIES

### Unaudited Information

All financial and operating information contained in this press release for the three and six months ended June 30, 2018 and 2017 is unaudited.

### Currency

All amounts in this press release are stated in Canadian dollars unless otherwise specified.

#### Boe and Mcfe Conversions

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

#### MMBtu Pricing Conversions

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

#### Oil and Gas Metrics

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

#### Initial Production Rates

Any references in this press release to initial production rates (including IP30) and other short-term production rates are useful in confirming the presence of hydrocarbons; however, such rates are not determinative of the rates at which such wells will continue to produce and decline thereafter and are not necessarily indicative of the long-term performance or the ultimate recovery of such wells. While encouraging, readers are cautioned not to place undue reliance on such rates in calculating the aggregate production for Birchcliff. Such rates are based on field estimates and may be based on limited data available at this time.

#### Capital Expenditures

Unless otherwise stated, references in this press release to: (i) *&ldquo;net capital expenditures&rdquo;* and *&ldquo;capital expenditures, net&rdquo;* denote F&D costs (which includes land, seismic, workovers, drilling and completions and well equipment and facilities) plus administrative assets, plus acquisition costs, less any dispositions; and (ii) *&ldquo;total capital expenditures&rdquo;* denotes F&D costs plus administrative assets. Birchcliff's guidance regarding its 2018 Capital Program and 2018 capital expenditures has been presented on a total basis. Birchcliff makes acquisitions and dispositions in the ordinary course of business. Any acquisitions and dispositions completed during 2018 could have an impact on Birchcliff's capital expenditures, production, adjusted funds flow and costs for 2018, which impact could be material. Please also see *&ldquo;Advisories &dash; Forward-Looking Statements&rdquo;*.

#### Forward-Looking Statements

Certain statements contained in this press release constitute forward-looking statements and forward-looking information (collectively referred to as *&ldquo;forward-looking statements&rdquo;*) within the meaning of applicable Canadian securities laws. The forward-looking statements contained in this



press release relate to future events or Birchcliff's future plans, operations or performance and are based on Birchcliff's current expectations, estimates, projections, beliefs and assumptions. Such forward-looking statements have been made by Birchcliff in light of the information available to it at the time the statements were made and reflect its experience and perception of historical trends. All statements and information other than historical fact may be forward-looking statements. Such forward-looking statements are often, but not always, identified by the use of words such as "seek", "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "forecast", "potential", "proposed", "predict", "budget", "continue", "targeting", "may", "will", "could", "might", "should" and other similar words and expressions.

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

In particular, this press release contains forward-looking statements relating to the following: Birchcliff's plans and other aspects of its anticipated future financial performance, operations, focus, objectives, strategies, opportunities, priorities and goals (including that Birchcliff is focused on its high-quality Montney/Doig Resource Play and the exploration and development of its low-cost natural gas, crude oil and liquids-rich assets on the play, that part of Birchcliff's long-term strategy is to continue to explore and delineate the Montney/Doig Resource Play and that Birchcliff is focused on protecting its balance sheet); Birchcliff's expectation that its total debt at year-end 2018 will be materially lower as compared to June 30, 2018 and statements that as new wells are brought on production throughout 2018, the cash flow from such wells is expected to be used to repay debt and to fund capital expenditures, as well as for general corporate purposes; Birchcliff's guidance regarding its 2018 Capital Program and its proposed exploration and development activities and the timing thereof (including its estimates of capital expenditures in 2018, planned capital expenditures and capital allocation, the focus of, the objectives of and the anticipated results from the 2018 Capital Program, the number and types of wells to be drilled and brought on production, Birchcliff's science and technology multi-well pad program and statements that its 2018 adjusted funds flow is expected to materially exceed its 2018 capital expenditures); statements regarding plans for facilities and the timing thereof (including statements regarding the re-configuring of Phases V and VI of the Pouce Coupe Gas Plant to provide for shallow-cut capability, statements that Birchcliff currently plans to divert some of its natural gas that is being processed by third-party processors to Phase VI which will help it to reduce its operating costs and Birchcliff's expectation that it will be able to fill excess capacity at the Pouce Coupe Gas Plant over time); statements regarding improving commodity prices; the performance and other characteristics of Birchcliff's oil and natural gas properties and expected results from its assets (including statements regarding the characteristics of Birchcliff's Montney/Doig Resource Play, statements regarding well performance, statements regarding the future potential or prospectivity of Birchcliff's properties and statements with respect to Birchcliff's confidence in the depth of the multi-interval drilling opportunities on the Montney/Doig Resource Play); statements regarding Birchcliff's Credit Facilities (including the timing of semi-annual reviews); Birchcliff's market diversification and hedging activities, strategies and use of risk management techniques (including statements that Birchcliff actively looks for profitable opportunities to diversify its natural gas markets and reduce its exposure to prices at AECO, statements that it maintains an ongoing hedging program and engages in various risk management activities to reduce its exposure to volatility in commodity prices, the percentages of its forecast 2018 production that is hedged, Birchcliff's expected 2019 natural gas market exposure and its expectation that during 2019 approximately 63% of its natural gas production will be sold at prices that are not based on AECO and that after taking into account Birchcliff's oil and NGLs production, approximately 29% of its total production in 2019 is expected to be exposed to AECO pricing, with the remaining 71% not exposed to AECO pricing); Birchcliff's expectation that details regarding its 2019 capital program and 2019 production guidance will be released no later than February 2019; Birchcliff's marketing and transportation arrangements (including that additional tranches of service on TCPL's Canadian Mainline will become available later in 2018 and 2019); and Birchcliff's production and other guidance (including its estimates of its annual average production and commodity mix in 2018, its estimates of royalty, operating and transportation and other expenses in 2018 and its estimates of its natural gas production that is expected to be sold at or via AECO, Dawn and Alliance during 2018).

With respect to the forward-looking statements contained in this press release, assumptions have

been made regarding, among other things: prevailing and future commodity prices and differentials, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; the state of the economy, financial markets and the exploration, development and production business; the political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes and environmental laws; future cash flow, debt and dividend levels; future operating, transportation, marketing, G&A and other expenses; Birchcliff's ability to access capital and obtain financing on acceptable terms; the timing and amount of capital expenditures and the sources of funding for capital expenditures and other activities; the sufficiency of budgeted capital expenditures to carry out planned operations; the successful and timely implementation of capital projects; results of future operations; Birchcliff's ability to continue to develop its assets and obtain the anticipated benefits therefrom; the performance of existing and future wells, well production rates and well decline rates; success rates for future drilling; reserves and resource volumes and Birchcliff's ability to replace and expand reserves through acquisition, development or exploration; the impact of competition on Birchcliff; the availability of, demand for and cost of labour, services and materials; the ability to obtain any necessary regulatory or other approvals in a timely manner; the satisfaction by third parties of their obligations to Birchcliff; the ability of Birchcliff to secure adequate transportation for its products; Birchcliff's ability to market oil and gas; the availability of hedges on terms acceptable to Birchcliff; and natural gas market exposure. In addition to the foregoing assumptions, Birchcliff has made the following assumptions with respect to certain forward-looking statements contained in this press release:

- Birchcliff's 2018 guidance (as updated August 14, 2018) assumes the following commodity prices during 2018: an average WTI oil price of US\$66.67/bbl; an average AECO price of \$1.63/MMBtu; an average Dawn price of \$3.70/MMBtu; and an average wellhead natural gas price of \$2.41/Mcf.
- With respect to statements regarding the 2018 Capital Program (including estimates of 2018 capital expenditures and statements that Birchcliff's 2018 adjusted funds flow is expected to materially exceed its 2018 capital expenditures), such statements are based on the following assumptions:
  - Estimates of 2018 capital expenditures and the allocation of capital expenditures assume that the 2018 Capital Program will be carried out as currently contemplated. Please also see *Advisories – Capital Expenditures*.
  - Statements that Birchcliff's 2018 adjusted funds flow is expected to materially exceed its 2018 capital expenditures assume that: the 2018 Capital Program will be carried out as currently contemplated; and the production targets, commodity mix, natural gas market exposure and commodity price assumptions set forth herein are met.

The amount and allocation of capital expenditures for exploration and development activities by area and the number and types of wells to be drilled is dependent upon results achieved and is subject to review and modification by management on an ongoing basis throughout the year. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials. Birchcliff will monitor economic conditions and commodity prices and, where deemed prudent, will adjust the 2018 Capital Program to respond to changes in commodity prices and other material changes in the assumptions underlying the 2018 Capital Program. In addition, any acquisitions and dispositions completed during 2018 could have an impact on Birchcliff's capital expenditures, production, adjusted funds flow and costs for 2018, which impact could be material.

- With respect to statements that Birchcliff expects that its total debt at year-end 2018 will be materially lower as compared to 2018, such statements assume that: the 2018 Capital Program will be carried out as currently contemplated; and the production targets, commodity mix, natural gas market exposure and commodity price assumptions set forth herein are met.
- With respect to Birchcliff's production guidance, such guidance assumes that: Birchcliff's capital expenditure 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. In addition, Birchcliff's production guidance may be affected by acquisition and disposition activity and acquisitions and dispositions could occur that may impact expected production.

- With respect to statements regarding the future potential and prospectivity of Birchcliff's properties, such statements assume: the continuing validity of the geological and other technical interpretations determined by Birchcliff's technical staff with respect to such properties; and that, over the long-term, commodity prices and general economic conditions will warrant proceeding with the exploration and development of such properties.

Birchcliff's actual results, performance or achievements could differ materially from those anticipated in the forward-looking statements as a result of both known and unknown risks and uncertainties including, but not limited to: 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; stock market volatility; loss of market demand; an inability to access sufficient capital from internal and external sources; fluctuations in the costs of borrowing; operational risks and liabilities inherent in oil and natural gas operations; the occurrence of unexpected events such as fires, equipment failures and other similar events affecting Birchcliff or other parties whose operations or assets directly or indirectly affect Birchcliff; uncertainty that development activities in connection with its assets will be economical; uncertainties associated with estimating oil and natural gas reserves and resources; the accuracy of oil and natural gas reserves estimates and estimated production levels; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; horizontal drilling and completions techniques and the failure of drilling results to meet expectations for reserves or production; uncertainties related to Birchcliff's future potential drilling locations; potential delays or changes in plans with respect to exploration or development projects or capital expenditures, including delays in the completion of Birchcliff's gas plants and other facilities; the accuracy of cost estimates and variances in Birchcliff's actual costs and economic returns from those anticipated; incorrect assessments of the value of acquisitions and exploration and development programs; changes in tax laws, Crown royalty rates, environmental laws, carbon tax regimes, incentive programs and other regulations that affect the oil and natural gas industry and other actions by government authorities; the cost of compliance with current and future environmental laws; political uncertainty and uncertainty associated with government policy changes; uncertainties and risks associated with pipeline restrictions and outages to third-party infrastructure that could cause disruptions to production; the inability to secure adequate production transportation for Birchcliff's products; the inability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements or other agreements; shortages in equipment and skilled personnel; the absence or loss of key employees; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; management of Birchcliff's growth; environmental risks, claims and liabilities; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainties associated with credit facilities and counterparty credit risk; non-performance or default by counterparties; risks associated with Birchcliff's hedging program and the risk that hedges on terms acceptable to Birchcliff may not be available; risks associated with the declaration and payment of dividends, including the discretion of Birchcliff's board of directors to declare dividends; the failure to obtain any required approvals in a timely manner or at all; the failure to realize the anticipated benefits of acquisitions and dispositions and unforeseen difficulties in integrating acquired assets into Birchcliff's operations; negative public perception of the oil and natural gas industry, including transportation, hydraulic fracturing and fossil fuels; and the availability of insurance and the risk that certain losses may not be insured.

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 press release, 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 press release was made as of the date of this press release and Birchcliff disclaims any intention or obligation to update or revise any FOFI contained in this press release, whether as a result of new information, future events or otherwise, unless required by applicable law. Readers are cautioned that any FOFI contained herein should not be used for purposes other than those for which it has been disclosed herein.

Management has included the above summary of assumptions and risks related to forward-looking statements provided in this press release 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 statements contained in this press release are expressly qualified by the foregoing cautionary statements. The forward-looking statements contained in this press release are made as of the date of this press release. Unless required by applicable laws, Birchcliff does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

About Birchcliff:

Birchcliff is a Calgary, Alberta based intermediate oil and natural gas company with operations concentrated within its one core area, the Peace River Arch of Alberta. Birchcliff's common shares and cumulative redeemable preferred shares, Series A and Series C are listed for trading on the Toronto Stock Exchange under the symbols "BIR", "BIR.PR.A" and "BIR.PR.C", respectively.

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Die URL für diesen Artikel lautet:

<https://www.rohstoff-welt.de/news/306368--Birchcliff-Energy-Ltd.-Announces-Strong-Second-Quarter-2018-Results-and-Positive-Montney-Exploration-Results>

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