Birchcliff Energy Ltd.

SUSTAINABLE LONG-TERM GROWTH

2009

Annual Report

Birchcliff Energy Ltd. is an intermediate oil and gas exploration, development and production company based in Calgary, Alberta. Birchcliff's production in the first quarter of 2010 is expected to average 10,350 boe/day, comprised of 69% natural gas and the balance light oil and natural gas liquids. Birchcliff has two large resource plays and significant exploration opportunities all of which are located in the Peace River Arch area of Alberta. Birchcliff operates approximately 90% of its production and has significant undeveloped land – 398,308 gross (353,150 net) acres in close proximity to its production.

Birchcliff has at least $3 billion of development drilling on its resource plays. The first is a very extensive Montney/Doig natural gas resource play with at least 700 or more potential horizontal natural gas locations, in the Pouce Coupe and Pouce Coupe South areas of North West Alberta. The second resource play is the expansion, exploitation, development and water flooding of the Worsley light oil pool located near Worsley, Alberta.

Birchcliff is now completing construction of Phase I of its Pouce Coupe South Gas Plant which will increase Birchcliff's net production capability by approximately 3,500 boe/day. Birchcliff is proceeding with construction of a Phase II expansion to this plant in 2010 which will further increase Birchcliff's production capability by an additional 3,500 boe/day net to Birchcliff, increasing production to 17,000-19,000 boe/day by December 2010.

As of January 2010, Birchcliff had a proved plus probable reserve life index of approximately 30.8 years based on an assumed production rate of 14,000 boe/day.

Birchcliff's strategy is to expand its natural gas and light oil focused asset base in the Peace River Arch area of Alberta. Its objective is to acquire and hold, large working interests in several highly focused producing areas in the Peace River Arch where it can operate its assets and control the infrastructure necessary to facilitate the exploitation, development and exploration potential of those areas.

*Birchcliff's shares are listed for trading on the Toronto Stock Exchange under the symbol **BIR** and are included in the Standard and Poor's S&P/TSX Composite Index.*

As of March 17, 2010 Birchcliff had an enterprise value of approximately $1.4 billion.

Birchcliff's **Annual Meeting** is scheduled for Wednesday, **May 12, 2010** at 3:00 p.m. in the Devonian Room at the Petroleum Club, 319 – 5th Ave. SW, Calgary, Alberta.

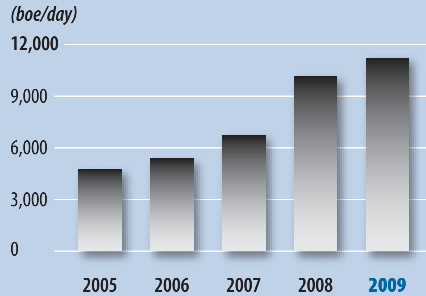
FINANCIAL AND OPERATIONAL HIGHLIGHTS

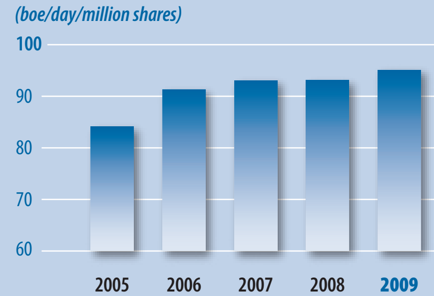
	Three months ended December 31, 2009	Three months ended December 31, 2008	Twelve months ended December 31, 2009	Twelve months ended December 31, 2008
OPERATING				
Average daily production				
Light oil – barrels	**3,045**	3,244	**2,934**	2,989
Natural gas – thousands of cubic feet	**43,170**	47,687	**47,805**	40,746
NGLs – barrels	**274**	332	**314**	368
Total – barrels of oil equivalent *(6:1)*	**10,515**	11,524	**11,216**	10,148
Average sales price *($ Canadian)*				
Light oil – per barrel	**75.01**	59.10	**64.35**	96.68
Natural gas – per thousand cubic feet	**4.81**	7.14	**4.28**	8.63
NGLs – per barrel	**67.94**	59.27	**55.52**	93.97
Total – barrels of oil equivalent *(6:1)*	**43.23**	47.88	**36.65**	66.53
Undeveloped land				
Gross *(acres)*	**398,308**	396,451	**398,308**	396,451
Net *(acres)*	**353,150**	348,249	**353,150**	348,249
NETBACK AND COST *($ per barrel of oil equivalent at 6:1)*				
Petroleum and natural gas revenue	**43.32**	48.13	**36.80**	66.90
Royalties	**(5.35)**	(8.38)	**(3.75)**	(11.16)
Operating expense	**(7.64)**	(10.66)	**(8.89)**	(10.41)
Transportation and marketing expense	**(2.47)**	(2.43)	**(2.39)**	(2.68)
Netback	**27.86**	26.66	**21.77**	42.65
General and administrative expense, net	**(3.54)**	(2.49)	**(2.77)**	(1.75)
Stock-based compensation expense	–	–	–	(0.01)
Realized gain (loss) on risk management contracts	–	1.03	–	(2.65)
Realized gain (loss) on foreign exchange	–	0.12	–	(0.06)
Interest expense	**(2.72)**	(2.17)	**(2.52)**	(2.78)
Cash Flow Netback	**21.60**	23.15	**16.48**	35.40
Depletion and depreciation expense	**(15.80)**	(22.17)	**(20.40)**	(23.75)
Accretion expense	**(0.60)**	(0.38)	**(0.43)**	(0.39)
Stock-based compensation expense	**(1.84)**	(0.93)	**(2.40)**	(1.34)
Amortization of deferred financing fees	**(0.51)**	–	**(0.29)**	–
Unrealized gain on risk management contracts	–	1.92	–	1.82
Unrealized gain (loss) on foreign exchange	–	(0.12)	–	0.01
Future income tax recovery (expense)	**(1.18)**	(1.87)	**1.12**	(3.69)
Net Earnings (Loss)	**1.67**	(0.40)	**(5.92)**	8.06
FINANCIAL				
Petroleum and natural gas revenue *($000)*	**41,908**	51,034	**150,669**	248,441
Cash flow from operations *($000)*	**20,900**	24,627	**67,476**	131,453
Per share – basic *($)*	**0.17**	0.22	**0.57**	1.21
Per share – diluted *($)*	**0.17**	0.22	**0.56**	1.16
Net earnings (loss) *($000)*	**1,616**	(355)	**(24,252)**	29,898
Per share – basic *($)*	**0.01**	–	**(0.21)**	0.27
Per share – diluted *($)*	**0.01**	–	**(0.20)**	0.26
Common shares outstanding				
End of period – basic	**123,815,002**	112,395,970	**123,815,002**	112,395,970
End of period – diluted	**134,464,987**	121,659,923	**134,464,987**	121,659,923
Weighted average shares for period – basic	**123,538,213**	112,399,570	**117,993,314**	108,986,165
Weighted average shares for period – diluted	**126,358,921**	112,801,866	**119,786,708**	113,092,125
Capital expenditures *($000)*	**44,368** (1)	58,916	**101,690** (1)	237,079
Working capital deficit *($000)*	**20,291**	38,276	**20,291**	38,276
Revolving credit facilities *($000)*	**201,230**	211,586	**201,230**	211,586
Total debt *($000)*	**221,521**	249,862	**221,521**	249,862

(1) Included as a reduction of capital is an expected recovery of $2.9 million and $6.3 million in the three and twelve months ended December 31, 2009, respectively, relating to the new Alberta Drilling Royalty Credit Program.

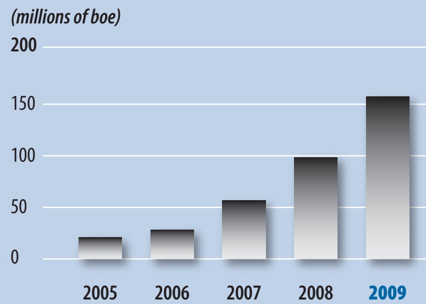
HISTORICAL PERFORMANCE

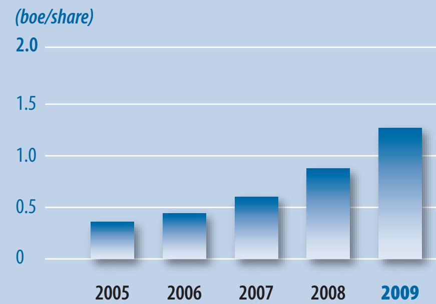
ANNUAL AVERAGE PRODUCTION GROWTH



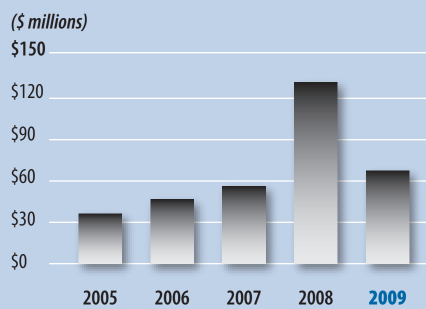


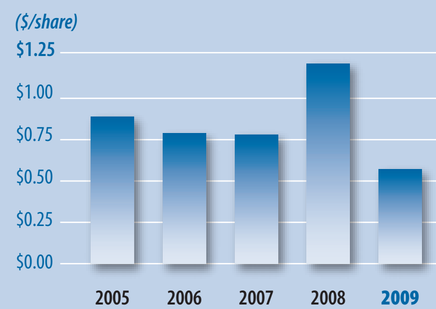
RESERVES GROWTH



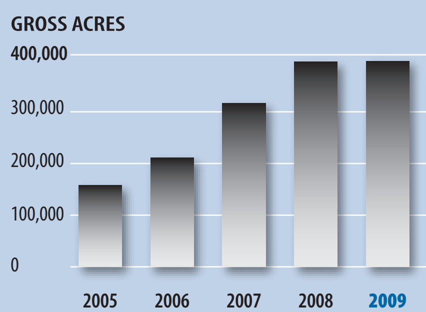


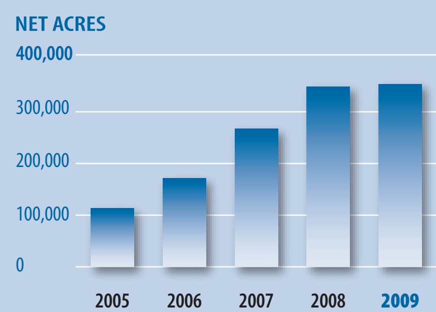
CASH FLOW





UNDEVELOPED LANDS





We see the opportunity to significantly grow our company in the years to come.

A. Jeffery Tonken
President and Chief Executive Officer

> REPORT TO SHAREHOLDERS

On behalf of the directors, management and staff of Birchcliff, I am very pleased to report our 2009 results and to take the opportunity to provide you with our current outlook for 2010 and beyond.

Birchcliff had a very successful year, increasing its average annual production, reserves, recycle ratios, reserve life index and undeveloped land base. Birchcliff also significantly increased its portfolio of potential future drilling locations for both our Montney/Doig natural gas resource play and our Worsley light oil resource play. At the same time, we significantly reduced our finding and development costs to levels which make economic sense to develop our very large Montney/Doig natural gas resource play. We expect to continue to expand Birchcliff's footprint on the Montney/Doig natural gas resource play and to convert reserves to production in 2010.

As a measure of last year's success, I note in a year where our business environment was challenging, Birchcliff increased its proved and probable reserves by 60% and added those reserves for approximately $1.61 per boe without future capital, and $5.37 per boe including future capital. Birchcliff also increased its 2009 average production by 11% over 2008 while increasing its reserve life index to more than 30.8 years (assuming 14,000 boe/day) as a result of the large proved and probable reserve additions.

With our success in 2009, we have accomplished three important objectives:

- we have established a large reserve and production base at low finding and development costs from which we can generate sustainable production growth for many years.
- we have successfully constructed our Pouce Coupe South Gas Plant that is now undergoing startup operations which will process our natural gas at low cost.
- we have increased our technical knowledge base with respect to our two resource plays to the point where the risks associated with the further expansion and development of these resource plays are substantially reduced.

The pace of development of the reserves associated with our Montney/Doig natural gas resource play is now primarily a function of the future expansion of gas processing capacity by Birchcliff and others and the economics resulting from future natural gas prices.

We have identified an inventory of at least 700 net potential Montney/Doig natural gas horizontal drilling locations. This inventory has the potential to significantly expand our reserves and production in the coming years.

Our Worsley light oil resource play continues to expand with delineation drilling increasing the size of the Worsley pool and in-fill drilling and expansion of the water flood slowing production declines and adding reserves each year.

These two strong assets will allow Birchcliff to grow production and reserves with the drill bit, stay focused on its map sheet and pay attention to its core business.

Our substantial Montney/Doig natural gas reserves are now a reality and Birchcliff is poised to start converting those reserves into production growth. To date we have been constrained from a production growth perspective by the lack of accessible processing capacity for our proposed development wells. Our capital investment in infrastructure in the past year has helped to solve this issue.

We now expect to commence processing natural gas through Phase I of our 100% owned, emissions free Pouce Coupe South Gas Plant in April 2010. We have received regulatory approval for Phase II of this plant and the major components have been ordered. We expect Phase II to be ready to commence processing Montney/Doig natural gas in December 2010. These new processing facilities should increase Birchcliff's 2010 exit production rate to between 17,000 and 19,000 boe/day. To set up further future production growth, we are doing the initial planning for a Phase III expansion of the Pouce Coupe South Gas Plant in 2011. In addition, we are considering various other means to secure additional future processing capacity.

To continue growing production, we need to spend significant future capital in developing our resource plays. It is therefore important to note that our year-end bank debt of $221 million (including working capital deficiency) as against $305 million of available credit facilities puts Birchcliff in a very solid financial position.

2010 CAPITAL BUDGET

In light of our success in 2009, we have increased our 2010 capital expenditure budget to $182 million, a 78% increase from 2009.

Birchcliff's robust 2010 capital budget of $182 million is described below, however the substantial majority, $110 million, is focused on the continued development of its Montney/Doig natural gas resource play. Birchcliff expects to drill 51 (42.9 net) wells in 2010. Highlights of the budget include:

- $67 million for the drilling of 16 (12.1 net) Montney/Doig horizontal natural gas wells and 2 (2.0 net) vertical exploration wells associated with the Montney/Doig natural gas resource play;
- $19 million for the completion of Phase I of the PCS Gas Plant and related infrastructure;
- $24 million for the Phase II expansion of the PCS Gas Plant;
- $33 million for the Worsley light oil resource play including the drilling of 8 (8.0 net) horizontal wells and 10 (9.7 net) vertical wells and capital to support expansion of the water flood; and
- $39 million for other projects, sustaining capital and seed capital for new growth opportunities.

This capital expenditure program is expected to be funded out of cash flow and Birchcliff's debt facilities and is expected to result in a 2010 exit production rate between 17,000 and 19,000 boe/day.

2010 OUTLOOK

The outlook for 2010 is very positive. With the start-up of Phase I of the PCS Gas Plant we will begin converting reserves to production on a large scale and we expect a second step up of production near the end of 2010 with the start-up of Phase II of the PCS Gas Plant.

We intend to continue to expand our footprint on both of our resource plays by buying further undeveloped land and building infrastructure which we expect will further increase the reserves attributable to Birchcliff's lands.

We expect 2010 to be a year of continued low cost reserve additions, operating cost reductions and significant production growth. The increased cash flow that results from our increased production will provide the capital for future sustainable growth.

In 2010 we are determined to convert reserves to production.

CONCLUSION

2009 was a very successful year for Birchcliff.

In the coming years we are determined to build out our processing capacity and convert reserves to production. With the quality of our resource plays and the land holdings we have acquired, we expect to continue to add significant long life reserves and corresponding net asset value in the future at very low finding and development costs. Our massive drilling inventory will sustain production growth for years to come.

It is important to recognize both our office staff who developed and planned each of the individual initiatives that have brought us this success and our field staff who have safely and efficiently performed the field operations that turned good ideas into actual physical results. I gratefully acknowledge that without the hard work and tireless dedication of our staff, Birchcliff could not have achieved the success we now enjoy.

Thank you also to our Directors for their continued dedication, input and guidance.

A special thank you to our executive team who worked very long hours for the benefit of our employees and shareholders.

Finally, we all thank Mr. Seymour Schulich for his support and advice which has played an integral role in our success. During 2009 Mr. Schulich increased his share position to 30 million common shares, which is approximately 24% of the outstanding shares of Birchcliff. To Mr. Schulich's credit he saw Birchcliff's potential and was aggressively buying Birchcliff's stock in 2009 as the financial markets collapsed.

(signed) *"A. Jeffery Tonken"*

A. Jeffery Tonken
President and Chief Executive Officer

March 17, 2010

> OPERATIONS REVIEW

Birchcliff continues to mature as a full cycle exploration and production resource company. Corporate focus continues to be on building its two key resource plays that are defined as having repeatable and sustainable long term opportunities and as a result Birchcliff dedicates the majority of its manpower and capital to this objective. During 2009, Birchcliff made significant advancements in both of its resource plays. Most notable was the transition in 2009 of our Montney/Doig natural gas resource play to a focused production growth phase, attributed to the construction of our Pouce Coupe South Gas Plant ("**PCS Gas Plant**"). Our Montney/Doig natural gas resource play results are well ahead of what we had planned at the beginning of 2009 for this exciting industry leading play. Results for our Worsley light oil resource play that was acquired late in 2007, continue to meet or exceed our original expectations.

Birchcliff's operations are focused within the Peace River Arch area of Northern Alberta which is one of the most prolific natural gas and oil producing areas of the Western Canadian Sedimentary Basin. The Peace River Arch is generally characterized by having multiple horizons with a myriad of structural, stratigraphic and hydrodynamic traps. Most significant is the abundance of prolific resource plays, related in part to the proximity of the area to the Deep Basin, where generation and trapping of hydrocarbons preferentially occurs. The Peace River Arch also provides a significant amount of all-season access that allows Birchcliff to drill, equip and tie-in wells on an almost continuous basis, excluding the spring breakup period.

Wells in the Peace River Arch have the potential to initially produce 500-10,000 mcf/day (83-1,666 boe/day) of natural gas or 30-500 boe/day of light oil. Drilling depths on a true vertical depth basis can range from 300 meters on our shallower horizons to 2,700 meters on our deeper, higher impact targets.

The Montney/Doig natural gas resource play wells are approximately 2,300-2,500 meters for a vertical well and 4,000-5,000 meters measured depth for a horizontal well. Initial well productivity for the vertical wells is 500-1,000 mcf/day, (83-166 boe/day) while the horizontals are 3,000-10,000 mcf/d (500-1,666 boe/day). As we develop this play and increase our knowledge relating to horizontal well drilling and multi-stage fracture stimulation techniques, our results continue to improve with higher production rates, improved production profiles and correspondingly increased reserves in our more recent wells. We continue to advance technologies that are applied to support both the Montney/Doig natural gas resource play and the Worsley light oil resource play. In addition, the capital cost for the horizontal wells has continued to decrease as efficiencies are realized with utilization of multi-well pads and existing infrastructure and increased cost competitiveness in the service sector.

Typical wells for the Worsley light oil resource play are drilled to 1,400 meters for a vertical well and 2,500–3,000 meters measured depth for the horizontal wells. Initial well productivity for the Worsley vertical wells is 30-100 boe/day and for the horizontal wells is 60-400 boe/day.

HIGHLIGHTS FOR 2009 INCLUDED:

- Substantially increased proved and probable reserves by 60% to 157.3 million boe at December 31, 2009 from 98.5 million boe at December 31, 2008.
- 2009 Finding, Development and Acquisition costs on a proved and probable basis were $1.61 per boe, **excluding** future development costs and $5.37 per boe, **including** future development costs.

- Estimated net asset value at December 31, 2009 amounted to $15.79 per diluted share, an increase of 34% over the $11.78 per diluted share at December 31, 2008, in each case determined using the present value of net future revenues from all reserves as estimated by AJM Petroleum Consultants (discounted at a 10% discount rate) and deducting total debt, assuming exercise of all options and warrants and excluding any additional value for Birchcliff's substantial high working interest, undeveloped land base.
- Birchcliff's **reserve life index** on a proved and probable basis increased by 45% to 30.8 years (assuming 14,000 boe/day of production) which is a substantial increase from 21.3 years in 2008 and 15.5 years in 2007.
- Excellent drilling results including exploration successes and expanded application of horizontal drilling and multi-stage fracture stimulation technology in Birchcliff's resource play areas.
- 2009 average production was 11,216 boe/day, which was an increase of 11% from 2008.
- As of December 31, 2009, AJM estimated reserves for the Worsley light oil pool to be 6.0 mmboe proved developed producing, 18.3 mmboe proved and 26.3 mmboe proved plus probable, an increase from 24.6 mmboe proved plus probable reserves at December 31, 2008.
- Continued expansion of Birchcliff's footprint on the Montney/Doig natural gas resource play in the Pouce Coupe area of north west Alberta with the acquisition of high working interest, contiguous blocks of land through private and Alberta land sale purchases. Birchcliff currently controls in excess of 700 potential Montney/Doig natural gas horizontal drilling locations.

2009 PRODUCTION

The 2009 average production rate was 11,216 boe/day which represents an increase of approximately 11% over the 2008 average production rate of 10,148 boe/day. This production growth is significant considering Birchcliff invested only $101.7 million of capital in 2009 as compared to $237.1 million total capital in 2008 and almost half ($45.5 million) of the 2009 capital was spent on well equipment and facilities infrastructure.

In the fourth quarter of 2009 production averaged 10,515 boe/day.

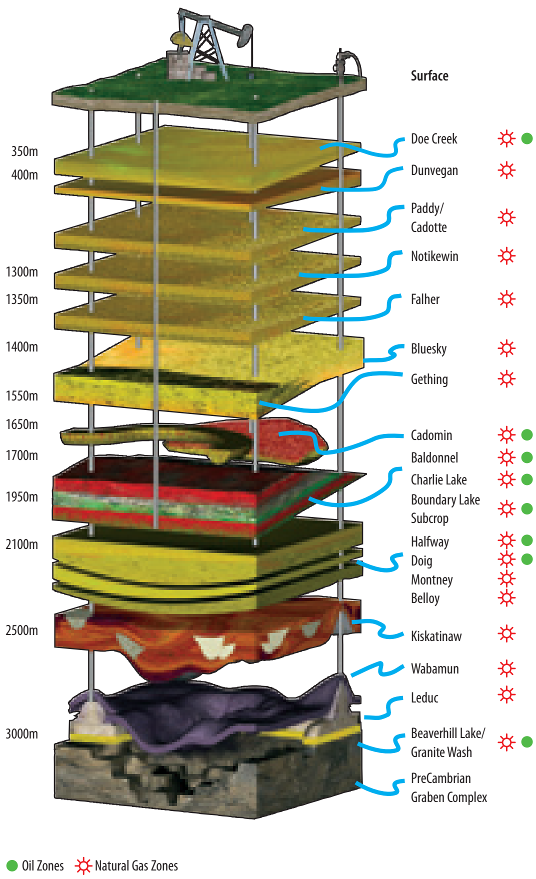
STRATIGRAPHIC COLUMN AND PRODUCTION ZONES

2009 DRILLING

Birchcliff's 2009 drilling program, which offered a mixture of moderate to high impact development and exploration prospects, focused on our two resource plays, the Montney/Doig natural gas resource play and the Worsley light oil resource play. During 2009, Birchcliff drilled 18 (15.3 net) wells, all of which were cased except for 1 (1.0 net) dry hole. These wells included 11 (8.3 net) gas wells, and 6 (6.0 net) oil wells.

Birchcliff drilled 3 (2.1 net) vertical exploration wells that were successful in finding new Montney/Doig gas pools. As well as part of the Montney/Doig natural gas resource program, Birchcliff drilled 8 (6.2 net) Montney/Doig horizontal wells utilizing multi-stage fracture stimulation technology in our Pouce Coupe area.

On our Worsley light oil resource play Birchcliff drilled 3 (3.0 net) vertical oil wells and 1 (1.0 net) horizontal oil well. In other areas Birchcliff also drilled 2 successful Montney/Doig oil wells, comprised of 1 (1.0 net) vertical and 1 (1.0 net) horizontal.



2009 LAND

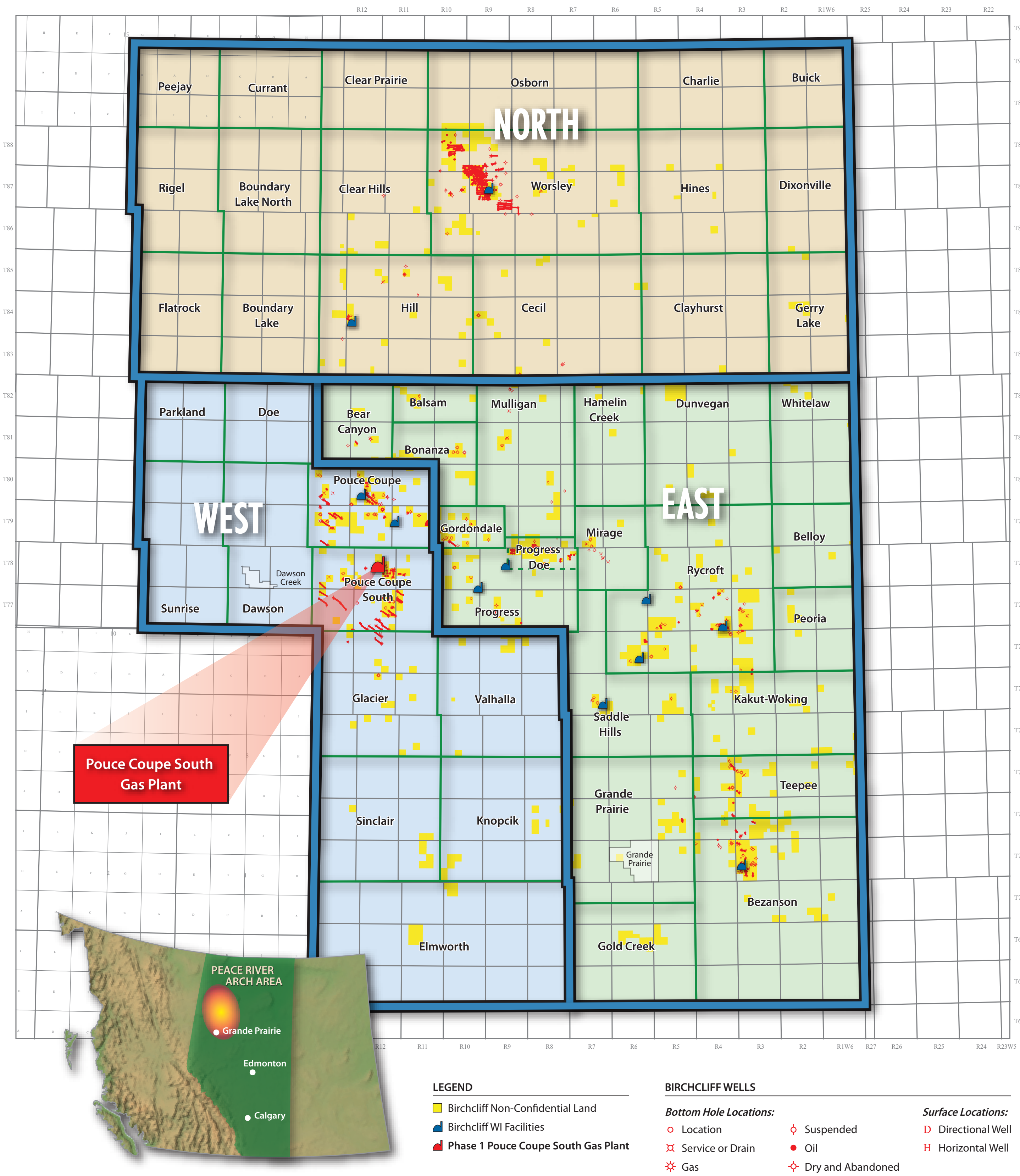
Birchcliff's undeveloped land base at December 31, 2009 consisted of 398,308 gross (353,150 net) undeveloped acres. This is a 1.4% increase over its 2008 year end land base of 348,249 net undeveloped acres. Further, this is essentially a 371% increase over the 75,000 net undeveloped acres it acquired in the significant Peace River Arch area acquisition completed on May 31, 2005.

Birchcliff's land base consists of large contiguous blocks of high working interest acreage located near facilities owned and/or operated by Birchcliff or near third party infrastructure. A significant amount of the land purchased is a direct result of exploration and development success by Birchcliff in the Peace River Arch. Much of the new land has been purchased without partners at 100% working interest.

2009 SEISMIC

The Peace River Arch area of Alberta is very complex geologically, making it an excellent environment for the utilization of geophysics to identify and support drilling opportunities. Birchcliff has been very methodical in assembling a diverse inventory of exploration, exploitation and development prospects. Our geosciences team is very familiar with the exploration plays in all horizons of the Peace River Arch. Birchcliff uses both two-dimensional and three-dimensional seismic across its lands to assist in identifying drilling locations. Many of our primary targets and other secondary potential productive horizons can be mapped geophysically. Seismic has been very successful in defining complex geological settings and assisting to identify new oil and natural gas pools and extensions to existing oil and natural gas pools. Seismic has also been very helpful in our resource play development with many horizontal locations being supported by three-dimensional seismic. The geophysical data is used to identify stratigraphic continuity and structural complications assisting in the drilling of wells operationally as well as enhancing the production performance of the wells.

In 2009 Birchcliff acquired 13 kilometers of two-dimensional trade data and 62 square kilometers of three-dimensional seismic data. A portion of the recently acquired three-dimensional data was for the continued expansion of the Montney/Doig natural gas resource play at Pouce Coupe. Birchcliff's geophysical database to the end of 2009 includes 2,365 kilometers of two-dimensional trade data, 918 square kilometers of three-dimensional trade data, 56 kilometers of two-dimensional proprietary data, and 236 square kilometers of three-dimensional proprietary data.



LEGEND

- Birchcliff Non-Confidential Land
- Birchcliff WI Facilities
- **Phase 1 Pouce Coupe South Gas Plant**

BIRCHCLIFF WELLS

Bottom Hole Locations:

- Location
- Service or Drain
- Gas
- Abandoned Oil
- Abandoned Gas
- Suspended
- Oil
- Dry and Abandoned
- Suspended Gas
- Injection

Surface Locations:

- D Directional Well
- H Horizontal Well

PRINCIPAL OPERATIONS

The following is a description of Birchcliff's principal oil and gas operating districts.

WEST DISTRICT

- Production growth to 5,683 boe/day average in 2009 from 4,242 boe/day average in 2008.
- Significant expansion of the Montney/Doig natural gas resource play – drilling 3 (2.1 net) vertical new pool discoveries and 8 (6.2 net) horizontal wells and increasing the undeveloped land position. 4 (2.8 net) of these horizontal wells are standing awaiting the start-up of Phase I of the PCS Gas Plant.
- The Montney/Doig natural gas resource play is predominantly in the West District and Birchcliff has increased by 100% its proved and probable Montney/Doig reserves to 115.5 mmboe at December 31, 2009 (of which 114.2 mmboe are attributed to horizontal wells) as compared to approximately 57.7 mmboe at December 31, 2008 and approximately 19.3 mmboe at December 31, 2007 as estimated by AJM.
- Montney/Doig horizontal well potential locations significantly increased to at least 700 net locations.
- Continued technological improvements in the application of multi-stage fracture stimulation in Birchcliff's horizontal well program with improved initial production rates and expected reserve capture in our more recent wells.
- Construction of Phase I of the PCS Gas Plant has been completed on schedule and on budget and start-up operations are now underway. This facility is expected to increase Birchcliff's production to approximately 14,000 boe/day by the end of April, 2010.

The West District is centered approximately 95 kilometers northwest of the city of Grande Prairie and adjacent to the Alberta/British Columbia border and is comprised of our Pouce Coupe, Pouce Coupe South and Glacier regions. As of December 31, 2009 Birchcliff has interests in approximately 140,047 (117,542 net) acres of land, of which 93,426 (84,606 net) acres are undeveloped. In addition to the PCS Gas Plant, Birchcliff operates one 100% owned sweet gas plant and has ownership in two other sweet gas plants within the District, one at a 15% and one at 32.9% working interest. Currently sour gas production from the area is processed at a Progress gas plant in which Birchcliff owns a small working interest or delivered to the Spectra gathering system and processed under firm service contracts at either of the Fourth Creek plant or Gordondale East plant which are operated by Spectra. Overall working interest production from the area averaged 5,683 boe/day in 2009.

The West District offers Birchcliff multiple, stacked targets down to depths of 2,700 meters. The primary natural gas horizons in the area are the deeper Kiskatinaw, Montney, Doig, Halfway and Charlie Lake formations, along with the medium depth Dunvegan, Bluesky, Gething and Nikanassin formations. Birchcliff also holds interests in a large Boundary Lake oil pool. In 2009 Birchcliff drilled 11 (8.3 net) wells in the West District spending a total of $72.0 million. Birchcliff is planning to spend

$115.3 million in 2010 in the West District which includes 19 (14.8 net) wells. The program includes 2 (2.0 net) vertical exploration wells intended on expanding the Montney/Doig natural gas resource play. The program also includes 16 (12.1 net) wells that are planned to be horizontal Montney/Doig wells. The last well is a Boundary Lake development oil well that will be Birchcliff's first attempt at utilizing horizontal drilling technology in this zone. Almost one-half of the proposed wells will be drilled on lands that currently do not have any reserves assigned to them.

2009 MONTNEY/DOIG NATURAL GAS RESOURCE PLAY UPDATE

The majority of our Montney/Doig natural gas resource play exists in the West District and to a much lesser extent in the East District. Birchcliff's full cycle exploration strategy for the Montney/Doig natural gas resource play continued to be successful in 2009. The program included 3 (2.1 net) vertical exploration wells that were all successful in finding new pools. To maximize production and reserves, Birchcliff continued to optimize horizontal natural gas drilling and multi-stage fracture stimulation operations, drilling 8 (6.2 net) horizontal natural gas wells in 2009. Our team has been successful in reducing the average costs of these wells. Recently Birchcliff drilled, cased, completed, equipped and tied-in a Montney/Doig horizontal gas well off an existing pad for under $4 million.

Most of our capital and efforts on the Montney/Doig natural gas resource play continue to be focused on the Basal Doig/Upper Montney zones. In an effort to expand the stratigraphic potential of the play, of the 8 horizontal natural gas wells drilled in 2009, 3 (2.4 net) were drilled in the Middle/Lower Montney stratigraphic zones. The success of these horizontal wells and the vertical wells drilled in 2009 have significantly expanded the stratigraphic potential of the Montney/Doig natural gas resource play on Birchcliff's lands. Birchcliff and other industry competitors believe the Middle/Lower Montney reservoir characteristics are similar to the Basal Doig/Upper Montney reservoirs and our drilling results to date have met or exceeded our expectations.

Birchcliff's strategy has been focused on exploration and delineation, acquiring land and drilling vertical wells to obtain geological and reservoir information. Birchcliff then drills horizontal wells that are completed using multi-stage fracture stimulation technology to optimize production and reserves. In general we have been drilling only one well per section and building out the infrastructure.

A critical criteria of this Montney/Doig natural gas resource play is well spacing. Industry competitors typically have been drilling up to 4 wells per section per stratigraphic zone on 400 meter inter-well distances (160 acre spacing). Recently, various industry competitors in the Peace River Arch area are drilling up to 8 wells per section per stratigraphic zone or 200 meter inter-well distances (80 acre spacing units).

AJM's reserve assignments to Birchcliff's lands on this play are currently based on 400 meter inter-well distances (160 acre spacing). Birchcliff has done and will continue to do significant technical work that supports reducing inter-well distances that Birchcliff expects will provide AJM sufficient evidence so that AJM will ultimately assign future horizontal locations and reserves based on reduced inter-well distances.

A significant development on the Montney/Doig natural gas resource play for Birchcliff in 2009 was proving the viability of short length horizontals which will help maximize reserve recovery. Due to the preferred orientation Birchcliff uses to drill horizontal wells and the complications of land holdings, there are corners of sections where a full length horizontal cannot be drilled. Birchcliff completed a 700 meter interval on one of its full length horizontal wells, with 7 stages of fracture stimulation, to demonstrate what a short horizontal well was capable of. With the very favorable results from this well the AJM Evaluation assigned reserves to 53 (43.9 net) future short length horizontal locations.

Birchcliff continues to put extensive capital and technical time and effort into tight gas and shale gas technologies to better understand the reservoir characteristics, optimal completion techniques and ultimate potential of these resource plays in general and the Montney/Doig natural gas resource play specifically.

The rapid advancements in horizontal drilling and multi-stage fracture stimulation of these horizontal wells has seen significant improvements in production and reserve capture for many different plays throughout North America. Birchcliff believes that the Montney/Doig natural gas resource play continues to experience some of the best results of the application of this technology due to its unique reservoir characteristics. Birchcliff classifies the Montney/Doig natural gas resource play as a hybrid resource play which significantly benefits from having approximately 300 meters (1,000 feet) of gas saturated rock, that has both tight silt and sand reservoir rock inter layered with shale gas source rock. The horizontal wells are designed to maximize the contributions from this complex reservoir, and as our knowledge grows with respect to both the operations and this reservoir, our results continue to improve.

NORTH DISTRICT

- Production in the North District averaged 3,216 boe/day for 2009.
- Drilling activities included 4 (4.0 net) wells, 3 vertical and 1 horizontal, all were successful infills or delineation wells which expanded the Worsley light oil pool to the west.
- Expanded the water flood and observed positive response in the existing water flood area.
- Continued success in the application of horizontal drilling and multi-stage fracture stimulation technology.
- Significantly increased the reserves of our Worsley Charlie Lake pool to 18.3 million boe proven and 26.3 million boe proven plus probable at December 31, 2009 as compared to 17.5 million boe proven and 24.6 million boe proven plus probable at December 31, 2008 and 15.0 million boe proven and 21.2 million boe proven plus probable at December 31, 2007.

WORSLEY LIGHT OIL RESOURCE PLAY UPDATE

The principal asset in the North District is the Worsley Charlie Lake light oil pool. Birchcliff drilled 4 (4 net) light oil wells at Worsley during 2009. Of the wells drilled, 3 were vertical and 1 was horizontal, all of which were cased. The total capital spent in the North District in 2009 was $17.7 million. In addition to the infill drilling, our drilling program was very successful in delineating extensions to the pool to the west, which increased Birchcliff's estimate of original oil in place. In 2009, Birchcliff drilled a horizontal light oil well and completed it using multi-stage fracture stimulation technology. This new horizontal light oil well came on production at approximately 400 boe/day. With this success, a sizeable number of follow up locations have been identified. Birchcliff also drilled 3 (3.0 net) vertical infill and delineation oil wells extending the pool to the west.

The Worsley pool continues to be an excellent asset. Strong production performance, successful expansion of the pool, water flood performance, application of horizontal drilling and multi-stage fracture stimulation technology, continued reserve growth as well as high netback production all contribute to this high quality asset. Since its acquisition in late September, 2007, the Worsley property has provided $112 million of cash flow and Birchcliff has re-invested $80 million in the property.

The North District includes strategic plant, facility and pipeline interests and 114,008 (100,130 net) acres of land of which 91,608 (84,577 net) acres are undeveloped. Birchcliff owns and operates an oil battery and oil storage facilities at Worsley with a 90.7% working interest and an associated gas plant with a 98.8% working interest. It also owns a 29.7% working interest in another sweet gas plant in this District.

Since purchasing the Worsley property in 2007 Birchcliff has significantly expanded the water flood by drilling one for-purpose injection well, and converting seven other producers to injectors. As a result of these activities, about a third of the Birchcliff owned portion of the Worsley light oil pool is under water flood. To date the water flood response has exceeded expectations and Birchcliff is committed to further expansion of the water flood.

Plans for 2010 include following up the successful horizontal wells drilled in the north end of the pool with 3 (3.0 net) more horizontal wells utilizing multi-stage fracture stimulation technology to increase productivity. The south east end of the pool will see 5 (5.0 net) multi lateral horizontals, these wells take advantage of the current drilling credit royalty reduction program and horizontal drilling technology. In the water flood area 5 (5.0 net) wells are planned. In addition 5 (4.7 net) wells are planned for the south expansion of the water flood area. The total capital spending program for 2010 is planned to be approximately $33.6 million.

EAST DISTRICT

- Production in the East District averaged 2,318 boe/day for 2009.
- Delineation of our Montney/Doig oil play with a successful vertical and a successful horizontal well.
- Significant technical work and a positive production response to the existing water flood at our Progress Doe Creek pool has set up for further water flood expansion, infill drilling and delineation.
- Substantial technical work on our existing resource plays with a goal of expanding them into the East District as well as the evaluation of new resource plays in the area.
- The geological complexity of the area, operated infrastructure and undeveloped land, represent an excellent opportunity for Birchcliff to control the area and provides long term growth.

To increase efficiencies and improve effective work flow we have recently merged our previously named Central District into the East District. A primary focus of the East team is to extend our existing resource plays into the East District as well as to research, evaluate and test new resource plays in this District. Birchcliff has significant infrastructure, production and land within this District.

The East District is a multi-zone natural gas and oil property centered approximately 50 kilometers northeast of Grande Prairie. As of December 31, 2009, Birchcliff has interests in approximately 307,890 (231,156 net) acres of land of which 213,272 (183,966 net) acres are undeveloped. Birchcliff operates two gas plants in the East District, one sour gas plant with a 55.5% working interest, one sweet plant with a 100% working interest and has ownership interests in five other gas plants and two oil batteries within the District. Overall working interest production for the East District averaged 2,318 boe/day in 2009.

In 2009, Birchcliff spent $7.6 million in the East District drilling 3 (3.0 net) wells. One well was a successful Montney/Doig horizontal light oil well, the second well was a successful Montney/Doig vertical light oil well, and the third well was an exploration well that resulted in a dry hole.

FACILITIES

In addition to the PCS Gas Plant, Birchcliff operates four natural gas plants within the Peace River Arch and has an interest in seven other plants. These provide third party processing revenue and, more importantly, allow control of production and operating flexibility in this highly competitive and desired operating area. The company also has a working interest in 29 compressors and three oil batteries, of which two oil batteries are operated by Birchcliff.

POUCE COUPE SOUTH GAS PLANT

Birchcliff has recently completed construction of its 100% owned PCS Gas Plant and startup operations are underway. This new facility is designed to be emissions free, has an initial design processing capacity of approximately 30 mmcf/day and is connected by a sales pipeline to the NOVA system. Construction of Phase I of the PCS Gas Plant cost approximately $50 million which includes expenditures for the plant, the associated acid gas disposal well, related infrastructure including natural gas gathering and sales pipelines and other associated costs.

Birchcliff expects the PCS Gas Plant will add approximately 3,500 boe/day net to Birchcliff, vaulting its production to approximately 14,000 boe/day by the end of April, 2010.

The PCS Gas Plant is a significant milestone for Birchcliff as it will result in a step change in production volumes and will provide the following additional benefits:

- Increased production growth from the Pouce Coupe area where Birchcliff's current and future production growth is currently constrained by insufficient gathering and processing capacity;
- Reduced operating costs which will increase netbacks;
- Increased third party revenues which will reduce Birchcliff's operating costs and improve netbacks;
- Increased control over production volumes and decreased exposure to production curtailments caused by third party processing plants;
- Increased run times from its natural gas wells in the Pouce Coupe area;
- Increased ability to expand production in the area by expanding the processing capacity of the PCS Gas Plant to correspond with the timing of its drilling plans in the area;
- Increased strategic competitive advantage in Birchcliff's core development area; and
- Reduced construction costs for the PCS Gas Plant because it was constructed at a time when there was competitive pricing for plant components and a competitive environment for services and materials necessary to complete construction.

The PCS Gas Plant is being constructed in the heart of Birchcliff's Montney/Doig natural gas resource play. Control of infrastructure is a key component to the successful development of any natural gas play but it is magnified in these circumstances because of the intense competition for infrastructure, gathering and processing capacity as the development of unconventional natural gas in the Pouce Coupe area of Alberta continues to grow. Birchcliff has proven in the last several years that it can find and develop natural gas in its focus area at low cost. The PCS Gas Plant will allow Birchcliff to produce natural gas at lower operating costs than producers that rely on third party processing. This will position Birchcliff to become a dominant low cost finder and producer of natural gas in the Pouce Coupe area of Alberta.

The PCS Gas Plant is a significant milestone for Birchcliff as it will result in a step change in production volumes.

POUCE COUPE SOUTH GAS PLANT – "PHASE II" EXPANSION

Birchcliff recently received regulatory approval for the Phase II expansion of its 100% owned PCS Gas Plant, which will increase the processing capacity of the plant from approximately 30 to 60 mmcf/day. Birchcliff expects that Phase II of the PCS Gas Plant will commence operations in early December, 2010 and will add approximately 3,500 boe/day of production net to Birchcliff.

Birchcliff estimates that the construction costs of Phase II of the plant will be approximately $24 million which is approximately half of the cost of Phase I. This cost reduction is a result of the peripheral infrastructure that has been put in place during Phase I construction in anticipation of further expansion. For example, the acid gas disposal well and related facilities ($5.0 million), inlet and sales gas lines ($8.2 million) and other gathering pipelines were installed as part of Phase I and sized to accommodate Phase II. As part of its 2010 capital program, Birchcliff expects to drill 7 (4.9 net) Montney/Doig horizontal natural gas wells to initially fill Phase II of the PCS Gas Plant.

2010 CAPITAL BUDGET

Birchcliff has set a capital budget of $182 million for 2010, of which $110 million is focused on the continued development of its Montney/Doig natural gas resource play. Birchcliff expects to drill 51 (42.9 net) wells in 2010. Highlights of the budget include:

- $67 million for the drilling of 16 (12.1 net) Montney/Doig horizontal natural gas wells and 2 (2.0 net) vertical exploration wells;
- $19 million for the completion of Phase I of the PCS Gas Plant and related infrastructure;
- $24 million for the Phase II expansion of the PCS Gas Plant;
- $33 million for the Worsley light oil resource play including the drilling of 8 (8.0 net) horizontal wells and 10 (9.7 net) vertical wells and capital to support expansion of the water flood;
- $5 million for the development of our Montney/Doig light oil play in the Grande Prairie area of Alberta; and
- $39 million for other projects, sustaining capital and seed capital for new growth opportunities.

Birchcliff's 2010 capital expenditure program is expected to be funded out of cash flow and Birchcliff's debt facilities.

2010 PRODUCTION

Birchcliff expects to achieve a 2010 exit production rate between 17,000 and 19,000 boe/day. First quarter 2010 production is expected to average 10,350 boe/day.

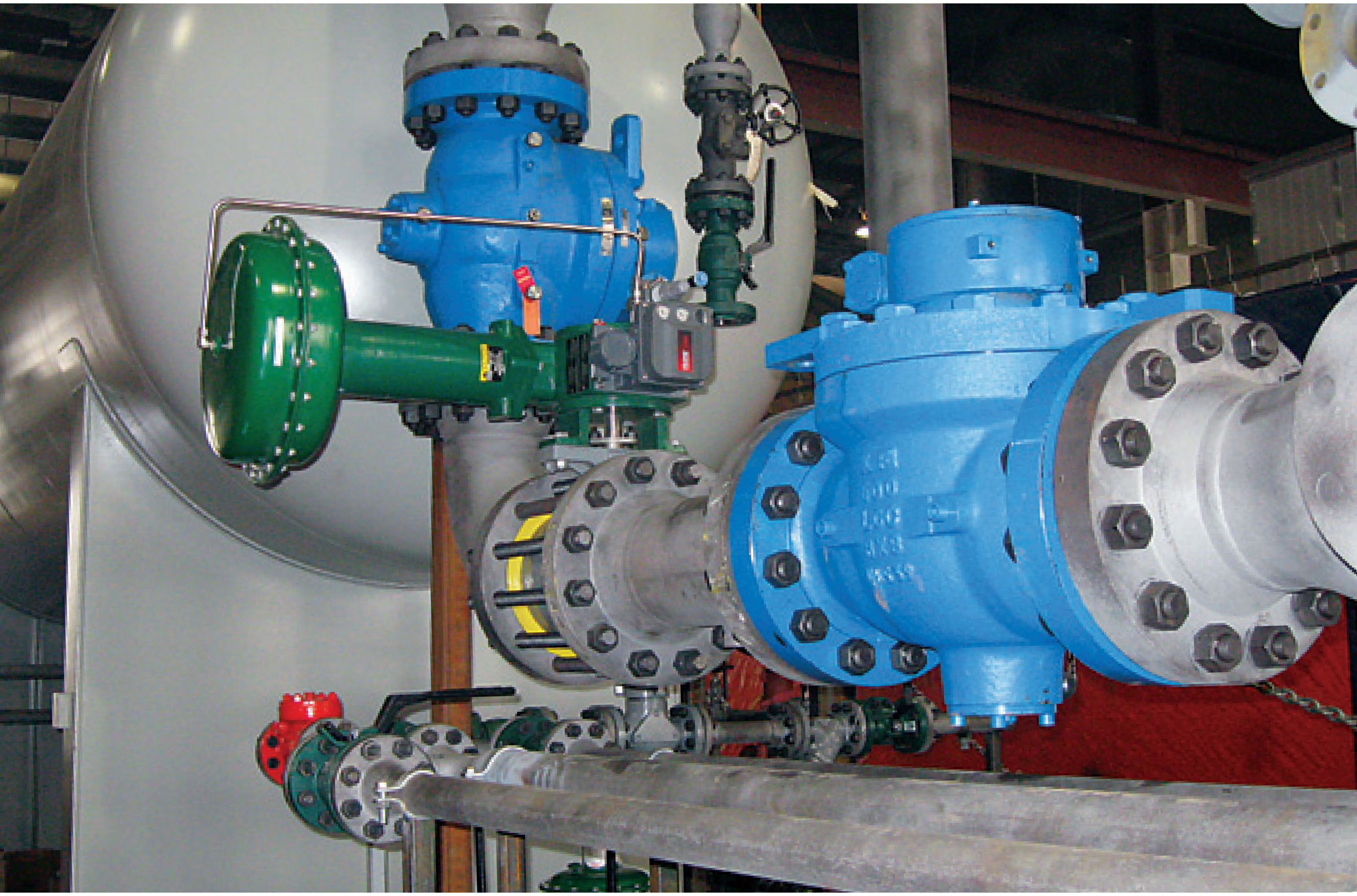
The 2010 production forecast assumes that Phase I of the PCS Gas Plant will reach full operating capacity in May, 2010, that Phase II of the PCS Gas Plant will reach full operating capacity in December, 2010, that no unexpected curtailments occur in the infrastructure that Birchcliff relies on to produce its wells and that existing and future wells continue to meet production expectations.

RESERVES EVALUATION

An independent evaluation of Birchcliff's oil and gas reserves effective December 31, 2009 was prepared by AJM Petroleum Consultants ("**AJM**") and provided to Birchcliff in an Evaluation Report dated February 16, 2010 (the "**AJM Evaluation**"). The oil and gas reserves and income projections provided were estimated by AJM in accordance with the Canadian Oil and Gas Evaluation Handbook (COGEH) and National Instrument 51-101 ("**NI 51-101**").

Additional Reserves data as required by National Instrument 51-101 are contained in Birchcliff's Statement of Reserves and Other Oil & Gas Information, which is filed on SEDAR at www.sedar.com.

The following table summarizes the Corporation's total reserves and net present values of future net revenues based on AJM's December 31, 2009 forecast of commodity prices and costs.



RESERVES SUMMARY – DECEMBER 31, 2009 FORECAST PRICES AND COSTS

RESERVES CATEGORY	LIGHT AND MEDIUM OIL Gross (mbbl)	Net (mbbl)	NATURAL GAS Gross (mmcf)	Net (mmcf)	NATURAL GAS LIQUIDS Gross (mbbl)	Net (mbbl)	BOE Gross (mboe)	Net (mboe)
PROVED								
Developed Producing	6,269	5,320	82,787	66,175	548	336	20,615	16,686
Developed Non-Producing	2,091	1,204	13,692	11,083	96	65	4,469	3,116
Undeveloped	10,546	8,297	314,337	242,448	2,018	1,280	64,953	49,985
TOTAL PROVED	18,907	14,821	410,817	319,707	2,661	1,681	90,037	69,787
PROBABLE	8,854	5,745	337,519	266,836	2,122	1,342	67,229	51,560
PROVED PLUS PROBABLE	**27,761**	**20,566**	**748,336**	**586,543**	**4,783**	**3,023**	**157,266**	**121,346**

Note: Columns may not add due to rounding of individual items.

NET PRESENT VALUE OF FUTURE NET REVENUE – DECEMBER 31, 2009 FORECAST PRICES AND COSTS

	BEFORE INCOME TAXES DISCOUNTED AT (% / YEAR) 0% (MM$)	5% (MM$)	8% (MM$)	10% (MM$)	15% (MM$)	20% (MM$)
PROVED						
Developed Producing	789.5	606.9	534.0	494.9	419.6	365.7
Developed Non-Producing	201.7	130.7	108.1	97.1	77.7	65.0
Undeveloped	2,210.7	1,317.2	1,008.4	854.1	580.1	404.7
TOTAL PROVED	3,201.9	2,054.7	1,650.5	1,446.0	1,077.5	835.4
PROBABLE	2,803.0	1,441.3	1,034.0	845.2	537.8	361.3
PROVED PLUS PROBABLE	**6,004.8**	**3,496.0**	**2,684.5**	**2,291.2**	**1,615.2**	**1,196.7**

Notes:
(1) Columns may not add due to rounding of individual items.
(2) National Instrument 51-101 requires the inclusion of the following statement: estimates of future net revenues whether discounted or not do not represent fair market value.

RELEVANT PORTIONS OF AJM'S FORECAST OF COMMODITY PRICES AND COSTS USED IN THE AJM EVALUATION

AJM DECEMBER 31, 2009 PRICE FORECAST

YEAR	WTI CRUDE OIL ($US/bbl)	EDMONTON CITY GATE ($CDN/bbl)	NATURAL GAS AT AECO ($CDN/mcf)	NATURAL GAS LIQUIDS Edm Propane ($CDN/bbl)	Edm Butane ($CDN/bbl)	Edm C^{5+} ($CDN/bbl)	CURRENCY EXCHANGE RATE ($US/$CDN)	INFLATION RATE (%)
2010	75.00	77.55	5.80	42.65	62.05	81.45	0.950	0.0%
2011	81.60	84.45	6.70	46.45	67.55	88.65	0.950	2.0%
2012	85.85	88.90	7.05	48.90	71.10	93.35	0.950	2.0%
2013	90.20	93.45	7.45	51.40	74.75	98.15	0.950	2.0%
2014	97.40	101.05	7.55	55.60	80.85	106.10	0.950	2.0%
2015	104.90	108.85	7.75	59.85	87.10	114.30	0.950	2.0%
2016	112.60	116.95	7.90	64.30	93.55	122.80	0.950	2.0%
2017	114.85	119.30	8.25	65.60	95.45	125.25	0.950	2.0%
2018	117.15	121.70	8.55	66.95	97.35	127.80	0.950	2.0%
2019	119.50	124.10	8.85	68.25	99.30	130.30	0.950	2.0%
2020	121.90	126.60	9.15	69.65	101.30	132.95	0.950	2.0%
2021	124.35	129.15	9.35	71.05	103.30	135.60	0.950	2.0%
2022	126.80	131.70	9.50	72.45	105.35	138.30	0.950	2.0%
2023	129.35	134.35	9.70	73.90	107.50	141.05	0.950	2.0%
2024	131.95	137.05	9.90	75.40	109.65	143.90	0.950	2.0%
2025	134.60	139.80	10.10	76.90	111.85	146.80	0.950	2.0%
2026	137.30	142.55	10.30	78.40	114.05	149.70	0.950	2.0%
2027	140.00	145.40	10.50	79.95	116.30	152.65	0.950	2.0%
2028	142.80	148.35	10.70	81.60	118.70	155.75	0.950	2.0%
2029	145.70	151.30	10.95	83.20	121.05	158.85	0.950	2.0%
thereafter	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	0.950	2.0%

RESERVES RECONCILIATION

The following table sets forth the reconciliation of the Corporation's reserves from January 1, 2009 to December 31, 2009.

2009 RECONCILATION OF BIRCHCLIFF GROSS RESERVES – FORECAST PRICES AND COSTS

2009 RESERVES RECONCILIATION	LIGHT AND MEDIUM CRUDE OIL (Mbbl)	NATURAL GAS (Mmcf)	NGL'S (mbbl)	OIL EQUIVALENT (MBOE)
Proved Reserves				
Opening Balance January 1, 2009	**18,034**	**213,663**	**2,026**	**55,671**
Discoveries	–	–	–	–
Extensions	1,041	136,934	893	24,756
Improved Recovery	–	–	–	–
Recompletions	–	–	–	–
Technical Revisions	871	79,258	(111)	13,969
Acquisitions	53	999	7	227
Dispositions	–	–	–	–
Economic Factors	(21)	(2,590)	(39)	(492)
Working Interest Adjustment	–	1	–	–
Production	(1,071)	(17,448)	(115)	(4,094)
Closing Balance December 31, 2009	**18,907**	**410,817**	**2,661**	**90,037**
Probable Reserves				
Opening Balance January 1, 2009	**8,170**	**197,194**	**1,814**	**42,850**
Discoveries	–	–	–	–
Extensions	327	143,250	864	25,067
Improved Recovery	–	–	–	–
Recompletions	–	–	–	–
Technical Revisions	386	4,791	(495)	689
Acquisitions	15	281	2	64
Dispositions	–	–	–	–
Economic Factors	(45)	(1,347)	(13)	(282)
Working Interest Adjustment	–	(6,648)	(51)	(1,159)
Production	–	–	–	–
Closing Balance December 31, 2009	**8,854**	**337,519**	**2,122**	**67,229**
Proved Plus Probable Reserves				
Opening Balance January 1, 2009	**26,204**	**410,857**	**3,840**	**98,521**
Discoveries	–	–	–	–
Extensions	1,369	280,184	1,757	49,823
Improved Recovery	–	–	–	–
Recompletions	–	–	–	–
Technical Revisions	1,256	84,048	(606)	14,659
Acquisitions	68	1,280	9	290
Dispositions	–	–	–	–
Economic Factors	(66)	(3,937)	(52)	(774)
Working Interest Adjustment	–	(6,647)	(51)	(1,159)
Production	(1,071)	(17,448)	(115)	(4,094)
Closing Balance December 31, 2009	**27,761**	**748,336**	**4,783**	**157,266**

Note: Columns may not add precisely due to rounding of individual items.

RESERVE LIFE INDEX

Based on the reserves estimated by the AJM Evaluation and a production rate of 14,000 boe/day, Birchcliff has a reserve life index of 17.6 years on a proved basis versus 12.0 years at the end of 2008 and 30.8 years on a proved plus probable basis versus 21.3 years at the end of 2008.

FINDING, DEVELOPMENT AND ACQUISITION COSTS

During 2009, Birchcliff spent approximately $97.7 million on exploration and development activities and $3.3 million on net acquisitions. Birchcliff estimates its finding and development costs as follows:

FD&A COSTS EXCLUDING FUTURE DEVELOPMENT CAPITAL

($/BOE)	2009	2008	2007	3 YR AVG.
F&D – Exploration and Development – Proved	**$ 2.57**	$ 9.09	$ 6.92	**$ 5.41**
F&D – Exploration and Development – Proved plus Probable	**$ 1.57**	$ 4.99	$ 5.07	**$ 3.27**
Acquisitions – Proved	**$ 8.84**	$ 37.11	$ 24.12	**$23.94**
Acquisitions – Proved plus Probable	**$ 6.32**	$ 21.59	$ 17.83	**$17.57**
FD&A – Total – Proved	**$ 2.63**	$ 9.40	$ 15.46	**$ 7.97**
FD&A – Total – Proved plus Probable	**$ 1.61**	$ 5.17	$ 11.38	**$ 4.93**

FD&A COSTS INCLUDING FUTURE DEVELOPMENT CAPITAL(1)

($/BOE)	2009	2008	2007	3 YR AVG.
F&D – Exploration and Development – Proved	**$ 7.12**	$ 20.17	$ 17.04	**$13.00**
F&D – Exploration and Development – Proved plus Probable	**$ 5.36**	$ 13.98	$ 12.03	**$ 9.36**
Acquisitions – Proved	**$ 8.84**	$ 37.11	$ 26.44	**$26.13**
Acquisitions – Proved plus Probable	**$ 6.32**	$ 21.59	$ 20.96	**$20.50**
FD&A – Total – Proved	**$ 7.13**	$ 20.36	$ 21.71	**$14.81**
FD&A – Total – Proved plus Probable	**$ 5.37**	$ 14.06	$ 16.45	**$10.66**

(1) Includes the increase for 2009 of $236.5 million in future development capital from the 2008 amount.

Future development costs used in the AJM Evaluation were $668.5 million on a proved basis and $953.7 million on a proved plus probable basis which includes approximately $100 million for the expansion of the PCS Gas Plant to 120 mmcf/day of total capacity.

During 2009, the average WTI price of crude oil was $US 61.80 per barrel and the average price of natural gas at AECO was Cdn $3.96 per mcf.

RECYCLE RATIOS

During 2009, the average WTI price of crude oil was $US 61.80 per barrel and the average price of natural gas at AECO was Cdn $3.96 per mcf. Based on Birchcliff's estimated average 2009 operating netback of $21.77 per boe, and including all capital spent in 2009 ($101.0 million) for exploration, development and acquisition spending (FD&A), Birchcliff has a proved plus probable recycle ratio of 13.5 excluding future capital and 4.1 including future capital. The recycle ratios are calculated in each case by dividing the average operating netback of $21.77 per boe or cash flow netback of $16.48 per boe, as the case may be, by each of F&D and FD&A costs per boe.

BIRCHCLIFF'S OPERATING AND CASH FLOW NETBACK RECYCLE RATIOS

	OPERATING NETBACK RECYCLE RATIO		CASH FLOW NETBACK RECYCLE RATIO	
	2009	2008	2009	2008
Recycle Ratio Excluding Future Development Capital				
F&D – Exploration and Development – Proved plus Probable	**13.9**	8.5	**10.5**	7.1
FD&A – Exploration, Development & Acquisition – Proved plus Probable	**13.5**	8.3	**10.3**	6.9
Recycle Ratio Including Future Development Capital				
F&D – Exploration and Development – Proved plus Probable	**4.1**	3.1	**3.1**	2.5
FD&A – Exploration, Development & Acquisition – Proved plus Probable	**4.1**	3.0	**3.1**	2.5

MONTNEY/DOIG NATURAL GAS RESOURCE PLAY RESERVE DETAILS

Birchcliff increased by 100% its proved and probable Montney/Doig reserves to 115.5 mmboe at December 31, 2009 (of which 114.2 mmboe are attributed to horizontal wells) as compared to approximately 57.7 mmboe at December 31, 2008 and approximately 19.3 mmboe at December 31, 2007 as estimated by AJM.

The following table sets forth reserves data attributable to Birchcliff's horizontal wells on the Montney/Doig natural gas resource play, the number of horizontal wells to which reserves were attributed and the future capital associated with such reserves:

	Natural Gas *(Bcf)*		Natural Gas Liquids *(mbbl)*		Total *(mboe)*		Existing Wells and Future Locations Gross		Existing Wells and Future Locations Net		Net Future Capital(1) *($millions)*	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Proved Developed Producing	**41**	27	**264**	253	**7,139**	4,780	**21**	17	**18**	15	**18**	0
Total Proved	**352**	158	**2,239**	1,441	**60,952**	27,708	**167**	104	**132**	86	**547(1)**	355
Proved & Probable	**660**	314	**4,145**	2,848	**114,151**	55,225	**253**	145	**200**	121	**811(1)**	525

(1) Includes Future Plant Capital of approximately $100 million for the expansion of the PCS Gas Plant to 120 mmcf/day of total capacity.

Birchcliff believes that the ultimate recovery from its Montney/ Doig horizontal natural gas wells will continue to improve year over year as production declines continue to flatten.

Birchcliff believes that the ultimate recovery from its Montney/Doig horizontal natural gas wells will continue to improve year over year as production declines continue to flatten. In addition, as drilling and completion technologies continue to improve, we expect recovery factors and production rates in this unconventional reservoir will also improve.

As at December 31, 2009, the Montney/Doig reserve bookings in the AJM Reserve Report include 78.4 sections of land (63.4 net) and 228 horizontal locations (178.5 net) up from 67.5 sections of land (56.7 net) and 128 horizontal locations (105.7 net) in 2008 and up from 35 horizontal locations (26.4 net) in 2007. The AJM Evaluation attributes to each of these net future horizontal well locations on average, 3.5 bcf of proved and probable natural gas reserves at an average capital cost of $4 million per well as compared to an average 2.8 bcf of proved and probable natural gas reserves at an average capital cost of $5 million per future well used in the reserves evaluation prepared by AJM as at December 31, 2008.

AJM has assigned reserves to 253 (199.7 net) existing horizontal wells and future horizontal locations on 78.4 (63.4 net) sections of land, for an average of 3.22 (3.15 net) horizontal wells and/or future horizontal locations per section. For clarity, the 253 (199.7 net) existing wells and future horizontal locations include 25 (21.2 net) existing horizontal wells and 228 (178.5 net) future horizontal locations

Drilling success in a second stratigraphic zone, the Middle/Lower Montney, has resulted in significant reserve assignments by AJM to 32 (24.9 net) sections of land. There are now 19 (14.2 net) sections to which AJM has assigned reserves in respect of both the Basal Doig/Upper Montney and the Middle/Lower Montney stratigraphic zones.

Birchcliff believes that at December 31, 2009 it had at least 700 net potential future horizontal locations on its lands. These potential locations are comprised of 178.5 net future horizontal locations to which reserves have been assigned in the AJM Evaluation, 110.7 net potential future horizontal locations on lands to which AJM has assigned reserves and 415.2 net potential future horizontal locations on Birchcliff's trend lands. These potential locations assume 4 horizontal wells per section.

Trend land is land which Birchcliff believes has a high likelihood of extending the Montney/Doig natural gas resource play based on technical information including geological and geophysical data.

WORSLEY LIGHT OIL RESOURCE PLAY RESERVE DETAILS

The Worsley light oil pool continues to prove itself as a top quality asset as both the original oil in place and the estimated recoverable reserves for the pool continue to grow. As of December 31, 2009, AJM estimated reserves for the Worsley light oil pool to be 26.3 mmboe proved plus probable. This continues the growth trend for the Worsley reserves since July 1, 2007 (being the effective date of the acquisition), when recoverable reserves were estimated at 11.3 mmboe proved, and 15.1 mmboe proved plus probable.

HISTORY OF RESERVES ESTIMATED FOR WORSLEY OIL POOL[1]

	JULY 1, 2007	DEC. 31, 2007	DEC. 31, 2008	DEC. 31, 2009
Proved Reserves	11.3	15.0	17.5	**18.3**
Proved + Probable Reserves	15.1	21.2	24.6	**26.3**

(1) All reserves estimates taken from Birchcliff's filings under National Instrument 51-101.

RESERVE REPLACEMENT

During 2009, excluding acquisitions, Birchcliff added 9.3 boe of proved reserves for each boe of production and added 15.2 boe of proved plus probable reserves for each BOE of production.

PER SHARE GROWTH

The following table demonstrates Birchcliff's growth on a per share basis using basic common shares outstanding at December 31, 2007, December 31, 2008 and December 31, 2009 except as otherwise noted. There were 94,554,269 common shares outstanding at December 31, 2007, 112,395,970 common shares outstanding at December 31, 2008 and 123,815,002 common shares outstanding at December 31, 2009.

PER SHARE GROWTH

December 31,	2007	2008	2009
Daily Average Annual Production[1] *(boe/day/million shares)*	93.0	93.1	**95.1**
Proved Reserves *(boe/1,000 shares)*	363	495	**727**
Proved plus Probable Reserves *(boe/1000 shares)*	599	877	**1,270**
Net Undeveloped Land *(acres/million shares)*	2,823	3,098	**2,852**

(1) Based on weighted average shares outstanding for the year indicated.

ADVISORY

Reserves Data: All estimates of reserves volumes and future net revenues disclosed herein for 2009 are derived from the reserves evaluation dated February 16, 2010 which was prepared effective December 31, 2009 in accordance with National Instrument 51-101 by AJM Petroleum Consultants, an independent reserves evaluator. Estimates of reserves for each of 2007 and 2008 are derived from the evaluation of Birchcliff's reserves prepared by AJM Petroleum Consultants effective December 31 of such year.

Finding and Development Costs: With respect to disclosure of finding and development costs disclosed above:

a) The amounts of finding and development and/or acquisition costs herein are calculated by dividing the total of the particular costs noted incurred during such year by the amounts of additions to proved reserves and proved and probable reserves during such year that resulted from the expenditure of such costs.

b) In calculating the amounts of finding and development and/or acquisition costs for a year, the changes during the year in estimated future development costs and in estimated reserves are based upon the evaluation of Birchcliff's reserves prepared by AJM Petroleum Consultants effective December 31 of such year.

c) National Instrument 51-101 requires the inclusion of the following warning statement:

The aggregate of the exploration and development costs incurred in the most recent financial year and any change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.

BOE Conversions: The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. Per boe amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalent ("6:1"). A BOE conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Reserves for Portion of Properties: With respect to the disclosure of reserves contained herein relating to portions of Birchcliff's properties, the estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenues for all properties due to the effects of aggregation.

Forward Looking Statements: This Annual Report contains forward looking statements regarding the assets, business and operations of Birchcliff Energy Ltd. and the economic and regulatory environment in which it operates. The information, cautions, qualifications and disclosures made in Management's Discussion and Analysis under the heading "FORWARD LOOKING STATEMENTS" on page 60 of this Annual Report apply to all such forward looking statements in this Annual Report.

> *Birchcliff Management Team*

(left to right): ***Bruno P. Geremia*** *– Vice President and Chief Financial Officer,* ***Dave Humphreys*** *– Vice President, Operations,* ***Karen Pagano*** *– Vice President, Engineering,* ***A. Jeffery Tonken*** *– President and Chief Executive Officer,* ***Myles Bosman*** *– Chief Operating Officer and Vice President, Exploration and* ***James W. Surbey*** *– Vice President, Corporate Development.*

> MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("**MD&A**") in respect of the three and twelve month periods ended December 31, 2009 (the "**Reporting Periods**") as compared to the three and twelve month periods ended December 31, 2008 (the "**Comparable Prior Periods**") is dated March 17, 2010.

The following discussion and analysis is management's assessment of the historical, financial and operating results of Birchcliff Energy Ltd. (the "**Corporation**" or "**Birchcliff**") and should be read in conjunction with the audited financial statements and the notes thereto as at and for the years ended December 31, 2009 and 2008. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("**GAAP**").

The Corporation is engaged in the exploration for and the development, production and acquisition of, petroleum and natural gas reserves in Western Canada. Additional information relating to the Corporation, including the Annual Information Form and the Statement of Reserve Data and Other Oil and Gas Information is available on SEDAR at www.sedar.com. Birchcliff's common shares are listed for trading on the Toronto Stock Exchange ("**TSX**") under the symbol "**BIR**". Birchcliff's common shares are included in the Standards and Poor's S&P/TSX Composite Index.

All amounts are expressed in Canadian dollars unless otherwise stated.

SELECTED ANNUAL INFORMATION

Year ended December 31, *($000's, except for production and share information)*	2009	**2008**	**2007**
Average daily production *(boe at 6 mcf:1 bbl)*	**11,216**	10,148	6,711
Petroleum and natural gas revenue	**150,669**	248,441	120,696
Total revenue, net royalties	**135,327**	206,992	101,373
Cash flow from operations	**67,476**	131,453	56,245
Per share – basic *($)*	**0.57**	1.21	0.78
Per share – diluted *($)*	**0.56**	1.16	0.77
Net earnings (loss)	**(24,252)**	29,898	(14,244)
Per share – basic *($)*	**(0.21)**	0.27	(0.20)
Per share – diluted *($)*	**(0.20)**	0.26	(0.20)
Capital expenditures	**101,690** (1)	237,079	350,173
Total assets	**837,108**	814,823	662,252
Working capital deficit	**20,291**	38,276	18,232 (2)
Non-revolving credit facility	**–**	–	98,830
Revolving credit facilities	**201,230**	211,586	155,854
Total debt	**221,521**	249,862	272,916
Shareholder's equity	**554,561**	507,371	340,756
Common shares outstanding			
End of period – basic	**123,815,002**	112,395,970	94,554,269
End of period – diluted	**134,464,987**	121,659,923	103,639,748
Weighted average shares for period – basic	**117,993,314**	108,986,165	72,156,544
Weighted average shares for period – diluted	**119,786,708**	113,092,125	73,285,368

(1) Included as a reduction of capital is an expected recovery of $6.3 million relating to the new Alberta Drilling Royalty Credit Program.
(2) This amount excludes both the accrued liability for the unrealized loss of $6.8 million on oil price risk management contracts and the related future income tax asset of $6.3 million.

BOE CONVERSION

Barrel of oil equivalent ("boe") amounts may be misleading, particularly if used in isolation. A boe conversion ratio has been calculated using a conversion rate of six thousand cubic feet (6 mcf) of natural gas to one barrel (1 bbl) and is based on an energy equivalent conversion method primarily applicable at the burner tip. It does not necessarily represent an economic value equivalency at the wellhead. This conversion basis conforms to National Instrument 51-101 Standards for Oil and Gas Activities of the Canadian Securities Administrators.

NON-GAAP MEASURES

This MD&A and the Corporation's Annual Report for 2009 make references to terms commonly used in the petroleum and natural gas industry, such as cash flow or cash flow netback, cash flow per share, operating netback and netback.

Cash flow, as discussed in this MD&A and in the Corporation's Annual Report for 2009, appears as a separate line on the Corporation's Statements of Cash Flows above "changes in non-cash working capital" and is reconciled to net income (loss) and comprehensive income (loss). In the Corporation's disclosure, netback and/or operating netback denotes petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. Cash flow netback denotes net earnings plus non-cash items including future income tax expense (less any recovery), depletion, depreciation and accretion expense, unrealized losses from risk management contracts and foreign exchange (less unrealized gains), non-cash stock-based compensation expense and amortization of deferred financing fees.

EBITDA, as discussed in this MD&A and in the Corporation's Annual Report for 2009,denotes earnings before interest, taxes, stock-based compensation, depletion, depreciation and amortization.

These terms are not defined by GAAP and consequently, they are referred to as non-GAAP measures. The reader should be cautioned that these amounts may not be directly comparable to measures for other companies where similar terminology is used.

2009 OVERALL PERFORMANCE

PRODUCTION

Production in 2009 averaged 11,216 boe/day. This is an 11% increase from the 10,148 boe/day the Corporation averaged in 2008 and is essentially on target with management's previously announced guidance of 11,300 per day. The increase from 2008 is virtually all due to the Corporation's drilling and operational success from the Montney/Doig natural gas resource play and Worsley light oil resource play, notwithstanding normal production declines.

In 2009, the Corporation's production consisted of approximately 71% natural gas and 29% crude oil and natural gas liquids.

COMMODITY PRICES

Oil sales prices at the wellhead averaged $64.35 per boe in 2009, which is a 33% decrease from $96.68 per boe in 2008. Natural gas prices at the wellhead averaged $4.28 per mcf in 2009, which is a 50% decrease from $8.63 per mcf in 2008. These decreases are a direct result of the worldwide economic downturn and the impact this downturn had on the level of supply and demand for oil and natural gas.

Canadian Edmonton Par oil prices averaged $65.90 per barrel in 2009 as compared to $102.16 per barrel in 2008, which is a 35% decrease. The AECO daily natural gas spot price averaged $3.96 per mcf in 2009 as compared to $8.16 per mcf in 2008, which is a 51% decrease. Both of these commodity price decreases translated into reduced cash flow available for reinvestment in 2009.

CASH FLOW AND EARNINGS

Cash flow decreased to $67.5 million ($0.57 per share) in 2009 as compared to $131.5 million ($1.21 per share) for 2008. Birchcliff had a loss of $24.3 million ($0.21 per share) for 2009 as compared to earnings of $29.9 million ($0.27 per share) for 2008. The decrease in cash flow and the net loss resulted from lower average commodity prices realized in 2009 as compared to 2008, notwithstanding increased production volumes.

CAPITAL EXPENDITURES

Total capital expenditures in 2009 were $101.7 million as compared to $237.1 million in 2008. The decrease in capital expenditures is a direct result of the Corporation's response to the drop in commodity prices in the latter part of 2008 and throughout 2009. Birchcliff spent approximately $34.2 million of capital in excess of cash flow in 2009 as compared to $105.6 million in 2008.

Of the total capital spent in 2009, approximately $41.7 million was directed to the construction of Phase I of the Pouce Coupe South Natural Gas Plant (the "**PCS Gas Plant**") and related Montney/Doig horizontal wells that will be tied into this plant. Therefore, 41% of the total capital spent in 2009 has no associated production until the end of April 2010. The PCS Gas Plant will provide Birchcliff with greater control over its future production growth and an opportunity to reduce its operating costs.

TOTAL DEBT

The Corporation's total debt (including working capital deficit) decreased by 11% to $221.5 million at December 31, 2009 from $249.9 million at December 31, 2008. This decrease is largely due to net proceeds from the June 30, 2009 equity financing described below which were used to reduce the Corporation's outstanding credit facilities in 2009. The decrease in total debt was offset by an increase in capital spending in excess of cash flow during 2009.

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

- On March 14, 2008, the Corporation completed a bought deal equity financing whereby it issued 1,522,843 flow-through common shares at a price of $9.85 per flow-through share and 14,375,000 common shares at a price of $8.00 per common share for total gross proceeds of $130 million and net proceeds of approximately $123 million. Proceeds of the offering were used to retire the $100 million syndicated non-revolving credit facility used for the Worsley Acquisition (the "**Acquisition Facility**") and to reduce the amount outstanding under the Corporation's revolving credit facility.
- On May 21, 2009, the Corporation established a new $50 million non-revolving term credit facility (the "**Term Facility**") with a maturity date of May 21, 2010. The Corporation's use of this facility is subject to consent of the bank syndicate at the time of draw-down.
- On May 21, 2009, the Corporation amended its credit agreement with its bank syndicate which increased its existing revolving credit facilities to an aggregate limit of $255 million from $240 million and extended the conversion date of those facilities until May 21, 2010. The revolving credit facilities consist of an extendible revolving term credit facility with an authorized limit of $235 million (the "**Syndicated Credit Facility**") and an extendible revolving working capital facility with an authorized limit of $20 million (the "**Working Capital Facility**").
- On June 30, 2009, the Corporation completed an equity financing (the "**Equity Financing**") comprised of a bought deal equity offering (the "**Bought Deal Offering**") whereby it issued 8,000,000 common shares at a price of $6.20 per share for gross proceeds of $49.6 million and a private placement (the "**Private Placement**") with its major shareholder whereby it issued 2,000,000 common shares at a price of $6.20 per share for gross proceeds of $12.4 million, for total gross proceeds of $62 million. The net proceeds of the Equity Financing were $59.3 million.
- On January 15, 2010, the bank syndicate extended the maturity date of the $50 million Term Facility from May 21, 2010 to May 21, 2011. Consent was also received from the bank syndicate in January 2010 which allows the Corporation to draw the full amount of this facility.

LIQUIDITY AND BANK DEBT

WORKING CAPITAL

The Corporation's working capital deficit (current assets minus current liabilities) decreased to $20.3 million at December 31, 2009 as compared to a $38.3 million working capital deficit at December 31, 2008. The year over year decrease was a result of a reduced capital expenditure program in the fourth quarter of 2009 as compared to 2008. The working capital deficit at the end of 2009 is largely comprised of costs incurred for construction of Phase I of the PCS Gas Plant and related infrastructure.

At December 31, 2009, the major component (48%) of Birchcliff's current assets is cash to be received from its marketers in respect of December 2009 production which was subsequently received in January 2010. In contrast, current liabilities largely consisted of trade payables (50%) and accrued capital and operating costs (38%).

Birchcliff manages its working capital deficit using its cash flow and advances under its credit facilities. The Corporation's working capital deficit does not reduce the amount available under the Corporation's credit facilities which have a combined limit of $305 million at December 31, 2009 (2008 – $240 million). The Corporation did not have any liquidity issues with respect to the operation of its petroleum and natural gas business in 2009 and 2008.

Birchcliff manages its working capital deficit using its cash flow and advances under its credit facilities.

BANK DEBT

The amount drawn under the Corporation's credit facilities decreased to $206.4 million at December 31, 2009, with an aggregate limit of $305 million as compared to $215.2 million drawn at December 31, 2008, when the aggregate limit was $240 million. The drawn amount excludes any amounts related to unamortized prepaid interest, deferred financing fees and letters of credit that have not been drawn upon. The decrease in credit facilities from 2008 was a result of the net proceeds from the Equity Financing used to repay the debt; and was mitigated by an increase in capital expended during 2009 in excess of cash flow during that same period and from a reduction in the working capital deficit at December 31, 2009 as compared to 2008.

The following table shows the Corporation's total available credit under its credit facilities at December 31, 2009 and 2008:

($000's)	2009	2008
Maximum borrowing base limit:		
Working capital facility	20,000	20,000
Syndicated credit facility	235,000	220,000
Term credit facility (2)	50,000	–
	305,000	240,000
Principal amount:		
Working capital facility (1)	(17,125)	(15,970)
Syndicated credit facility	(192,000)	(201,000)
Term credit facility (2)	–	–
	(209,125)	(216,970)
Total unused credit at December 31,	**95,875**	**23,030**

(1) Included in the Working Capital Facility at December 31, 2009 are outstanding letters of credit issued to various service providers in the amount of $2.7 million (2008 – $1.8 million). At December 31, 2009, the letters of credit were undrawn.

(2) Birchcliff did not request a draw-down of the $50 million Term Facility in 2009 and as a result no amounts were outstanding on this facility at December 31, 2009. This facility did not exist at December 31, 2008.

At December 31, 2009, the Corporation's aggregate borrowing base limit on its credit facilities was $305 million (2008 – $240 million) of which $95.9 million (2008 – $23.0 million) in total unused credit was available at the end of the year to fund short term and long term obligations. The Corporation's credit facilities are subject to a semi-annual review of the borrowing base limit which is directly impacted by the value of the oil and natural gas reserves.

The following table lists the contractual maturities of the Corporation's estimated financial liabilities at December 31, 2009:

($000's)	< 1 YEAR	1 – 2 YEARS	3 – 5 YEARS	THEREAFTER
Accounts payable and accrued liabilities	54,731	–	–	–
Revolving credit facilities (1)	–	–	206,387	–
Office leases (2)	3,214	3,214	9,885	9,716
Transportation and processing	1,032	6,802	20,023	4,364
Total financial liabilities	**58,977**	**10,016**	**236,295**	**14,080**

(1) The revolving credit facilities consist of $14.4 million drawn on the Working Capital Facility and $192 million drawn on the Syndicated Credit Facility at December 31, 2009.

(2) The Corporation is committed under an operating lease relating to its office premises, beginning December 1, 2007 and expiring on November 30, 2017. Birchcliff does not presently use all of the leased premises and has sublet approximately 40% of the excess space to an arms' length party on a basis that recovers all of the rental costs for the first five years. The Corporation is also committed to March 29, 2011 under an operating lease for another office premises that it does not use and has sublet to an arm's length party on a basis that recovers all of its rental costs.

The financial covenants applicable to the Corporation's credit facilities include a review of earnings before interest, taxes, stock-based compensation, depletion, depreciation and amortization ("**EBITDA**") to interest coverage ratio which is calculated quarterly. The following table shows the EBITDA to interest coverage ratio at December 31, 2009 and 2008:

	2009		2008	
	REQUIRED	ACTUAL	REQUIRED	ACTUAL
Annualized EBITDA to interest coverage (1)	>3.5	7.6	>3.5	13.8

(1) Annualized EBITDA is defined as earnings before interest, taxes, stock-based compensation, depletion, depreciation and amortization and is calculated on a trailing twelve month basis.

The Corporation was compliant with all financial covenants under its credit facilities throughout 2009 and 2008 and continues to be compliant with such covenants at the date hereof.

CASH FLOW FROM OPERATIONS

Cash flow generated by the Corporation in 2009 was $67.5 million ($0.57 per basic share) as compared to $131.5 million ($1.21 per basic share) in 2008. The 49% decrease in cash flow was mainly due to lower average commodity prices realized in 2009. However, this decrease was mitigated by higher average petroleum and natural gas production volumes as a result of the continued drilling success on its two resource plays in 2009. Future cash flow will be dependent mainly on production levels and commodity prices.

The following table sets forth management's estimates of the sensitivity of cash flow expected in 2010 as a result of changes in petroleum and natural commodity prices, US – Canadian dollar exchange rate, and interest prime rate:

SENSITIVITY (1)	VARIANCE IN SENSITIVITY	VARIANCE IN ANNUAL CASH FLOW *CDN$ Millions*
WTI oil price	US$1.00/bbl	$1.3
AECO daily natural gas spot price	CDN $0.10/mcf	$1.7
CDN$ – US$ exchange rate	CDN $0.01	$1.9
Canadian prime interest rate	1%	$2.5

(1) These sensitivities assume that all other variables remain constant. Price sensitivities ignore the impact of the sliding scale royalty calculation and the effect this has on the effective royalty rate.

OUTSTANDING SHARE DATA

The common shares of Birchcliff are the only class of shares outstanding and at March 12, 2010 there were 124,295,735 common shares outstanding. Birchcliff's common shares began trading on the TSX Exchange on July 21, 2005 under the symbol "BIR" and were at the same time de-listed from the TSX Venture Exchange where they were trading under the same symbol prior to such time. Birchcliff's common shares are included in the Standards and Poor's S&P/TSX Composite Index. The following table summarizes the common shares issued during 2009 and 2008:

	COMMON SHARES
Balance at December 31, 2007	**94,554,269**
Issue of common shares (1)	15,897,843
Issue of common shares upon exercise of options	1,133,925
Issue of common shares upon exercise of warrants	809,933
Balance at December 31, 2008	**112,395,970**
Issue of common shares (2)	10,000,000
Issue of common shares upon exercise of options	1,419,032
Balance at December 31, 2009	**123,815,002**

(1) Issued 1,522,843 flow-through shares and 14,375,000 common shares on March 14, 2008. Proceeds of the equity offering were used to retire the $100 million Acquisition Facility used for the purchase of the Worsley properties.

(2) Issued under the Bought Deal Equity Offering of 8,000,000 common shares and the Private Placement of 2,000,000 common shares on June 30, 2009.

RESULTS OF OPERATIONS

PETROLEUM AND NATURAL GAS REVENUE

Petroleum and natural gas ("**P&NG**") revenues totaled $41.9 million ($43.32 per boe) for the three month Reporting Period and $150.7 million ($36.80 per boe) for the twelve month Reporting Period as compared to $51.0 million ($48.13 per boe) and $248.4 million ($66.90 per boe) for the Comparable Prior Periods. The following table details Birchcliff's petroleum and natural gas revenue production and sales prices by category for the Reporting Periods and the Comparable Prior Periods:

	THREE MONTHS ENDED DECEMBER 31, 2009				THREE MONTHS ENDED DECEMBER 31, 2008			
	TOTAL REVENUE *($000's)*	AVERAGE DAILY PRODUCTION	*%*	AVERAGE *($/unit)*	TOTAL REVENUE *($000's)*	AVERAGE DAILY PRODUCTION	*%*	AVERAGE *($/unit)*
Light oil *(bbls)*	21,015	3,045	29	75.01	17,641	3,244	28	59.10
Natural gas *(mcf)*	19,092	43,170	68	4.81	31,313	47,687	69	7.14
Natural gas liquids *(bbls)*	1,716	274	3	67.94	1,811	332	3	59.27
Total P&NG sales	41,823	10,515	100	43.23	50,765	11,524	100	47.88
Royalty revenue	85			0.09	269			0.25
Total P&NG revenue	**41,908**			**43.32**	**51,034**			**48.13**

	TWELVE MONTHS ENDED DECEMBER 31, 2009				TWELVE MONTHS ENDED DECEMBER 31, 2008			
	TOTAL REVENUE *($000's)*	AVERAGE DAILY PRODUCTION	*%*	AVERAGE *($/unit)*	TOTAL REVENUE *($000's)*	AVERAGE DAILY PRODUCTION	*%*	AVERAGE *($/unit)*
Light oil *(bbls)*	68,916	2,934	26	64.35	105,747	2,989	29	96.68
Natural gas *(mcf)*	74,754	47,805	71	4.28	128,673	40,746	67	8.63
Natural gas liquids *(bbls)*	6,369	314	3	55.52	12,661	368	4	93.97
Total P&NG sales	150,039	11,216	100	36.65	247,081	10,148	100	66.53
Royalty revenue	630			0.15	1,360			0.37
Total P&NG revenue	**150,669**			**36.80**	**248,441**			**66.90**

The decrease in aggregate and per boe P&NG revenues in the three month Reporting Period as compared to the same period in 2008 was largely due to lower average natural gas prices at the wellhead and reduced production volumes in the fourth quarter of 2009, notwithstanding higher average oil prices. The quarter over quarter decrease in production was mainly due to normal production declines and an unexpected third party infrastructure curtailment.

The decrease in aggregate and per boe P&NG revenues in the twelve month Reporting Period as compared to the same period in 2008 was due to significantly lower average commodity prices in 2009, notwithstanding higher average production volumes. The increase in average daily production from 2008 is virtually all due to the Corporation's drilling and operational success from its resource play, notwithstanding normal production declines.

COMMODITY PRICES

Birchcliff sells all of its crude oil on a spot basis and virtually all of its natural gas production for prices based on the AECO daily spot price. Birchcliff receives premium pricing for its natural gas due to its high heat content. The following table details the average sales price and differential received by Birchcliff for natural gas for the Reporting Periods and Comparable Prior Periods:

	THREE MONTHS ENDED		TWELVE MONTHS ENDED	
	DEC. 31, 2009	DEC. 31, 2008	DEC. 31, 2009	DEC. 31, 2008
Average natural gas sales price *($/mcf)*	4.81	7.14	4.28	8.63
Average AECO daily spot prices *($/mmbtu)* (1)	4.49	6.70	3.96	8.16
Positive differential	**0.32**	**0.44**	**0.32**	**0.47**

(1) $1.00/mmbtu = $1.00/mcf based on a standard heat value mcf.

Birchcliff receives premium pricing for its natural gas due to its high heat content.

The price the Corporation receives for its production depends on a number of factors, including AECO Canadian dollar spot market prices for natural gas, Canadian dollar Edmonton Par oil prices, US dollar oil prices, the US – Canadian dollar exchange rate, and transportation and product quality differentials. Birchcliff regularly considers managing the risks associated with fluctuating spot market prices for natural gas and US dollar oil prices and the US – Canadian dollar exchange rate. Birchcliff currently has no fixed commodity price contracts or other hedge type contracts for its natural gas and light oil production in 2009, but entered into the following risk management contracts for its 2008 light oil production for the terms noted below:

TERM	TYPE	QUANTITY	WTI PRICE (USD) (2)
January 1 – March 31, 2008 (1)	Put	1,000	$67.50
January 1 – March 31, 2008 (1)	Call	1,000	$81.40
January 1 – December 31, 2008	Costless collar	1,000	$67.50 – $79.10

(1) Each contract was entered into separately on different dates but the two contracts essentially form a costless collar.
(2) Each contract is settled on the average of the daily NYMEX WTI US$ price.

All of the Corporation's oil price risk management contracts outstanding in 2008 were settled at December 31, 2008. As a result of the changes in the fair value of its oil price risk management contracts during 2008, the Corporation recorded to income a realized oil price risk management loss of $9.9 million and an unrealized oil price risk management gain of $6.8 million. Risk management contracts are recorded at their fair values (mark-to-market) at each period end date, and realized and unrealized gains or losses on risk management contracts are shown as a separate category in net income.

The Corporation actively monitors the market to determine whether any additional commodity price risk management contracts are warranted. At the date hereof, the Corporation has no current intention to enter into further commodity price risk management contracts.

ROYALTIES

Birchcliff recorded a royalty expense of $5.2 million ($5.35 per boe) for the three month Reporting Period and $15.3 million ($3.75 per boe) for the twelve month Reporting Period as compared to $8.9 million ($8.38 per boe) and $41.5 million ($11.16 per boe) for the Comparable Prior Periods. Royalties are paid to various government entities and other land and mineral rights owners. The following table illustrates the Corporation's royalty expense for Reporting Periods and Comparable Prior Periods:

	THREE MONTHS ENDED		TWELVE MONTHS ENDED	
	DEC. 31, 2009	DEC. 31, 2008	DEC. 31, 2009	DEC. 31, 2008
Oil & natural gas royalties *($000's)*	5,172	8,888	15,342	41,451
Oil & natural gas royalties *($/boe)*	5.35	8.38	3.75	11.16
Effective royalty rate *(%)* (1)	12%	17%	10%	17%

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

The decrease in the effective royalty rate in the Reporting Periods was largely due to lower average commodity prices in 2009 as compared to 2008 and the effect these lower prices have on the sliding scale royalty calculation. The effective royalty rate was also impacted by $3.7 million in royalty credits received by the Corporation in 2009 relating to prior period gas cost allowance and custom processing credits.

NEW ROYALTY AND DRILLING INCENTIVES

On July 9, 2009, the Government of Alberta approved an incentive royalty rate of 5% for the first year of production from each new conventional oil or gas well brought on production after April 1, 2009 and before March 31, 2011 up to a maximum of 50,000 barrels of oil or 500 million cubic feet of natural gas per well.

On September 15, 2009, the Government of Alberta approved a drilling royalty credit incentive for new conventional oil and natural gas wells spud on or after April 1, 2009 and rig released before April 1, 2011. Birchcliff is entitled to a royalty credit of $200 per meter drilled, up to a maximum of 50% of the aggregate royalties paid during that period. Included as a reduction of capital at December 31, 2009 is an expected recovery of $6.3 million relating to this drilling incentive program. At the date hereof, Birchcliff has received $4.3 million in drilling royalty credits from the Crown with respect to its 2009 drilling program. The recovery of the drilling royalty credits is dependent on future commodity prices and the effect these prices have on the aggregate royalties paid by Birchcliff during the incentive period.

On March 11, 2010, the Alberta Government completed its Investment Competiveness Review. As a result of the competitiveness review analysis, the existing Alberta Royalty Framework ("ARF") will be adjusted to better reflect current industry conditions. The adjusted ARF will be effective for January 2011 production month. Some of the highlights include:

- The current 5% front-end royalty rate on natural gas and conventional oil will become a permanent feature of the royalty system with the current time and volume limits as described above;
- The $200 per meter drilling royalty credit program will continue to remain in place as legislated until March 31, 2011. Credits not used prior to January 1, 2011 and credits established by drilling on or after that date until March 31, 2011 will be offset from net royalties calculated using adjusted ARF rates;
- The maximum royalty rate for conventional and unconventional natural gas will be reduced at higher price levels from 50% to 36%. For conventional oil, the maximum royalty will be reduced from 50% to 40%;
- Continuation of the transitional royalty framework for oil and gas introduced in November, 2008 until December 31, 2013. Effective January 1, 2011, the government will not allow any new wells to select the transitional royalty rates. But it will allow an operator of wells for which transitional royalty rates have already been elected, an option to switch to the new rates effective January 1, 2011; and
- The royalty curves, an important element of the new regime, will be finalized and announced by May 31, 2010.

Details of this adjustment have not been finalized by the Alberta Government. Birchcliff is currently assessing the impact of the announced changes.

These incentives will provide material royalty relief with respect to Birchcliff's operations. Birchcliff intends to focus its capital spending program in large part on its Montney/Doig natural gas resource play and Worsley light oil resource playsplay to maximize the incentives available from these new Alberta royalty programs.

Recoveries increased on a per boe basis in 2009 as compared to 2008 mainly due to higher third party compression fees.

OPERATING COSTS

Operating costs were $7.4 million ($7.64 per boe) for the three month Reporting Period and $36.4 million ($8.89 per boe) for the twelve month Reporting Period as compared to $11.3 million ($10.66 per boe) and $38.7 million ($10.41 per boe) for the Comparable Prior Periods. The following table compares operating costs for the Reporting Periods and Comparable Prior Periods:

	THREE MONTHS ENDED DECEMBER 31, 2009		THREE MONTHS ENDED DECEMBER 31, 2008	
	Total ($000's)	*$/boe*	*Total ($000's)*	*$/boe*
Field operating costs	7,866	8.13	11,370	10.72
Recoveries	(789)	(0.81)	(647)	(0.61)
Field operating costs, net of recoveries	7,077	7.32	10,723	10.11
Expensed workovers and other	316	0.32	583	0.55
Total operating costs	**7,393**	**7.64**	**11,306**	**10.66**

	TWELVE MONTHS ENDED DECEMBER 31, 2009		TWELVE MONTHS ENDED DECEMBER 31, 2008	
	Total ($000's)	*$/boe*	*Total ($000's)*	*$/boe*
Field operating costs	39,432	9.63	39,100	10.53
Recoveries	(3,830)	(0.93)	(2,213)	(0.60)
Field operating costs, net of recoveries	35,602	8.70	36,887	9.93
Expensed workovers and other	786	0.19	1,780	0.48
Total operating costs	**36,388**	**8.89**	**38,667**	**10.41**

The $3.02 per boe decrease in total operating costs during the three month Reporting Period as compared to the same period in 2008 was due to higher third party recoveries ($0.20 per boe), lower costs of expensed workovers ($0.23 per boe), and reduced costs of supplies and services ($2.59 per boe).

The $1.52 per boe decrease in total operating costs during the twelve month Reporting Period as compared to the same period in 2008 was due to higher third party recoveries ($0.33 per boe), lower costs of expensed workovers ($0.29 per boe), and reduced costs of supplies and services ($0.90 per boe).

Recoveries increased on a per boe basis in 2009 as compared to 2008 mainly due to higher third party compression fees. Supplies and service costs decreased in 2009 as compared to 2008 mainly as a result of lower cost of power and fuel and reduced facility turnaround costs, notwithstanding higher natural gas processing costs due to a proportionate increase in gas production.

TRANSPORTATION AND MARKETING EXPENSES

Transportation and marketing expenses were $2.4 million ($2.47 per boe) for the three month Reporting Period and $9.8 million ($2.39 per boe) for the twelve month Reporting Period as compared to $2.6 million ($2.43 per boe) and $9.9 million ($2.68 per boe) for the Comparable Prior Periods. These costs consist primarily of transportation costs. The aggregate transportation and marketing cost in 2009 was lower than in 2008 due to a proportionate increase in gas production, which has a much lower transportation cost than the trucking costs associated with the Worsley light oil field.

GENERAL AND ADMINISTRATIVE EXPENSE

Net General and Administrative ("**G&A**") expenses for the three and twelve month Reporting Periods were $3.4 million ($3.54 per boe) and $11.4 million ($2.77 per boe) as compared to $2.6 million ($2.49 per boe) and $6.5 million ($1.75 per boe) for the Comparable Prior Periods.

The components of G&A for the Reporting Periods and Comparable Prior Periods are as follows:

	THREE MONTHS ENDED DECEMBER 31, 2009 ($000's)	%	THREE MONTHS ENDED DECEMBER 31, 2008 ($000's)	%
Salaries, benefits and consultants	4,513	77	4,401	78
Other	1,362	23	1,255	22
G&A expense, gross	5,875	100	5,656	100
Overhead recoveries	(1,701)	(29)	(2,239)	(40)
Capitalized overhead	(752)	(13)	(778)	(14)
G&A expense, net	**3,422**	**58**	**2,639**	**46**
G&A expense, net per boe	**$3.54**		**$2.49**	

	TWELVE MONTHS ENDED DECEMBER 31, 2009 ($000's)	%	TWELVE MONTHS ENDED DECEMBER 31, 2008 ($000's)	%
Salaries, benefits and consultants	11,849	67	10,414	64
Other	5,945	33	5,850	36
G&A expense, gross	17,794	100	16,264	100
Overhead recoveries	(4,540)	(26)	(7,892)	(49)
Capitalized overhead	(1,901)	(11)	(1,859)	(11)
G&A expense, net	**11,353**	**63**	**6,513**	**40**
G&A expense, net per boe	**$2.77**		**$1.75**	

The aggregate and per boe net G&A increased in the Reporting Periods largely due to lower overhead recoveries which resulted from a decrease in capital expended in 2009 as compared to 2008. Capital expenditures decreased by 25% and 57% in the three and twelve month Reporting Periods, respectively, from $58.9 million and $237.1 million in the Comparable Prior Periods.

The capitalization of costs in the "overhead recoveries" category reflects an industry standard charge per Authorization For Expenditure to capitalize engineering, land, accounting and operations time spent on capital projects, whereas the "capitalized overhead" category reflects a portion of costs relating to Birchcliff's exploration and geology department.

INTEREST EXPENSE

Interest expense was $2.6 million ($2.72 per boe) and $10.3 million ($2.52 per boe) for the three and twelve month Reporting Periods as compared $2.3 million ($2.17 per boe) and $10.3 million ($2.78 per boe) for the Comparable Prior Periods. The aggregate interest expense in 2009 was increased by higher pricing margins (that are used to determine Birchcliff's effective interest rate) that became applicable upon the establishment of the Corporation's increased revolving credit facilities on May 21, 2009 and was decreased by a reduction in the amounts drawn under the Syndicated Credit Facility. In 2008, the Corporation's interest expense included costs related to the $98.8 million non-revolving Acquisition Facility used to purchase the Worsley properties which was outstanding for most of the first quarter of 2008. The year over year decrease in interest expense per boe was due to higher production volumes in 2009 as compared to 2008.

The year over year decrease in interest expense per boe was due to higher production volumes in 2009 as compared to 2008.

At December 31, 2009, the effective rate applicable to the Working Capital Facility was 4.8% as compared to 4.7% at the end of 2008. The overall effective interest rate applicable to the bankers' acceptances in the Syndicated Credit Facility was 4.2% and 4.0% in the three and twelve Reporting Periods as compared to 3.5% and 3.2% in the Comparable Prior Periods.

The Corporation's average bank debt was approximately $191.9 million and $208.3 million in the three and twelve month Reporting Periods as compared to $197.3 and $186.8 million in the Comparable Prior Periods, calculated as the simple average of the month end amounts. Included in average bank debt in 2008 was the non-revolving Acquisition Facility which was outstanding for most of the first quarter of 2008.

DEFERRED FINANCING FEES

On May 21, 2009, the Corporation paid $625,000 in financing fees to establish the one year non-revolving $50 million Term Facility and $1.35 million to extend the conversion date of the revolving facilities to May 21, 2010. The Corporation amortized to income deferred financing expense of $0.5 million ($0.51 per boe) and $1.2 million ($0.29 per boe) for the three and twelve month Reporting Periods as compared to $NIL and $NIL for the Comparable Prior Periods.

DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

Depletion, Depreciation and Accretion ("**DD&A**") expenses for the three and twelve month Reporting Periods were $15.9 million ($16.40 per boe) and $85.3 million ($20.83 per boe) as compared to $23.9 million ($22.55 per boe) and $89.7 million ($24.14 per boe) for the Comparable Prior Periods. The DD&A on an aggregate and per boe basis was lower in the Reporting Periods largely due to the reduced cost of adding significant proved reserves during 2009.

The components of DD&A for the Reporting Periods and Comparable Prior Periods are as follows:

	THREE MONTHS ENDED DECEMBER 31, 2009		THREE MONTHS ENDED DECEMBER 31, 2008	
	Total ($000's)	*$/boe*	*Total ($000's)*	*$/boe*
Depletion & depreciation	15,289	15.80	23,505	22.17
Accretion on asset retirement obligations	584	0.60	405	0.38
Total DD&A	**15,873**	**16.40**	**23,910**	**22.55**

	TWELVE MONTHS ENDED DECEMBER 31, 2009		TWELVE MONTHS ENDED DECEMBER 31, 2008	
	Total ($000's)	*$/boe*	*Total ($000's)*	*$/boe*
Depletion & depreciation	83,495	20.40	88,201	23.75
Accretion for asset retirement obligations	1,758	0.43	1,466	0.39
Total DD&A	**85,253**	**20.83**	**89,667**	**24.14**

Depletion and depreciation expense is a function of the estimated proved reserve additions, the associated future development capital required to recover those proved reserves, and the cost of petroleum and natural gas properties in the full cost pool attributable to those proved reserves. At December 31, 2009, the Corporation excluded from its full cost pool $44.9 million (2008 – $49.7 million) of costs for undeveloped land acquired by Birchcliff and for unproved properties acquired relating to opportunities in the probable reserve category and potential drilling, recompletion and workover opportunities which have not yet been assigned any reserves.

PETROLEUM AND NATURAL GAS PROPERTIES IMPAIRMENT TEST

The Corporation follows the full cost method of accounting which requires periodic review of capitalized costs to ensure that they do not exceed the recoverable value of the petroleum and natural gas properties and the fair value of the Corporation's assets.

Birchcliff performed an impairment test at December 31, 2009 on its petroleum and natural gas assets. Birchcliff determined its petroleum and natural gas assets were not impaired at December 31, 2009 and 2008. The assumptions used in the impairment test are discussed in this MD&A in the "Critical Accounting Estimates" section.

STOCK-BASED COMPENSATION

Birchcliff accounts for its stock-based compensation awards, which includes stock options and performance warrants, using the fair value method. Under this method, the Corporation records compensation expense related to stock awards in the income statement over the vesting period.

The Corporation recorded a total non-cash stock-based compensation expense relating to all stock awards of $1.8 million ($1.84 per boe) and $9.8 million ($2.40 per boe) for the three and twelve month Reporting Periods as compared to $1.0 million ($0.93 per boe) and $5.0 million ($1.34 per boe) for the Comparable Prior Periods. In the year ended December 31, 2009, $3.1 million of the expense related to the extension of the expiration date of outstanding performance warrants, while in 2008 performance warrants had a $NIL impact on the expense.

For the year ended December 31, 2009, the Corporation recorded $6.7 million (2008 – $5.0 million) of non-cash stock-based compensation expense relating to stock options. A summary of the Corporation's outstanding stock options during the year ended December 31, 2009 and 2008 is presented below:

	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE *($)*
Outstanding, December 31, 2007	**5,335,814**	**4.00**
Granted (1)	2,330,000	8.23
Exercised	(1,133,925)	(3.74)
Forfeited	(202,668)	(4.75)
Cancelled (2)	(5,000)	(3.75)
Outstanding, December 31, 2008	**6,324,221**	**5.58**
Granted (1)	3,959,900	5.53
Exercised	(1,419,032)	(3.74)
Forfeited	(1,154,836)	(6.18)
Outstanding, December 31, 2009	**7,710,253**	**5.81**

(1) Of the options issued in 2009, there remained outstanding options to purchase 3,485,400 common shares (2008 – 1,985,200 options) at the end of the year.

(2) The cancellation of 5,000 vested stock options resulted in a cash-paid stock-based compensation expense of $20,000 in 2008. The Corporation no longer makes cash payments for the cancellation of vested stock options. The cash-paid expense was included in the total stock-based compensation expense in 2008.

On January 22, 2010, the Corporation issued 2,311,300 options to directors, officers, and employees of Birchcliff at an exercise price of $9.72 per common share as a result of its annual compensation review. At March 12, 2010 there were options to purchase 9,939,086 common shares outstanding.

At March 12, 2010, there were 2,939,732 performance warrants outstanding. On May 28, 2009, the expiration date of the Corporation's outstanding performance warrants was extended from January 31, 2010 to January 31, 2015 (the "**Extension**"). The Corporation recorded a non-cash stock-based compensation expense of $3.1 million relating to the Extension of the performance warrants in 2009. This amount represents the fair value of the Extension determined by the difference between the fair value of the outstanding performance warrants with the expiration date of January 31, 2015 and the fair value of the outstanding performance warrants with the expiration date of January 31, 2010. The fair value in each case was estimated as at May 28, 2009 using the Black-Scholes option-pricing model that takes into account: exercise price, expected life, current price, expected volatility, expected dividends, and risk-free interest rates.

TAXES

Birchcliff recorded a future income tax expense of $1.1 million ($1.18 per boe) for the three month Reporting Period and a recovery of $4.6 million ($1.12 per boe) for the twelve month Reporting Period as compared to an expense of $2.0 million ($1.87 per boe) and $13.7 million ($3.69 per boe) for the Comparable Prior Periods. A future income tax expense was recorded in the three month Reporting Period mainly due to recovering petroleum and natural gas prices and a significant reduction of DD&A expense in that period which resulted in net earnings. A future income tax recovery was recorded in the twelve month Reporting Period mainly due to declining commodity prices throughout 2009 which resulted in net losses for the year ended December 31, 2009. Birchcliff did not incur Part XII.6 taxes in 2009 as compared to a Part XII.6 recovery of $6,455 during 2008.

CAPITAL EXPENDITURES AND CAPITAL RESOURCES

Capital expenditures totaled $101.7 million in 2009 as compared to $237.1 million in 2008. The decrease in capital spent was in response to declining average commodity prices in the latter part of 2008 and throughout 2009. In periods of low commodity prices, the Corporation closely monitors its capital spending and cash flow to maximize the value of its asset base with the capital it is able to prudently deploy.

CAPITAL EXPENDITURES

The following table sets forth a summary of the Corporation's capital expenditures incurred during the Reporting Periods and Comparable Prior Periods:

Three months ended December 31, *($000's)*	2009	2008
Land	2,768	8,770
Seismic	796	957
Workovers and other	2,732	2,414
Drilling and completions (1)	16,043	27,924
Well equipment and facilities	20,902	17,569
Capitalized general and administrative expenses	752	777
Total finding and development costs (F&D)	**43,993**	**58,411**
Acquisitions, net	285	56
Total finding, development and acquisition costs (FD&A)	**44,278**	**58,467**
Administrative assets	90	449
Total capital expenditures	**44,368**	**58,916**

(1) Included in drilling and completions for the three months ended December 31, 2009 is an expected recovery of $2.9 million related to the new Alberta Drilling Royalty Credit Program.

Twelve months ended December 31, *($000's)*	2009	2008
Land	4,452	25,616
Seismic	1,551	4,503
Workovers and other	6,333	9,096
Drilling and completions (1)	37,985	125,719
Well equipment and facilities	45,498	58,467
Capitalized general and administrative expenses	1,902	1,858
Total finding and development costs (F&D)	**97,721**	**225,259**
Acquisitions, net	3,334	10,369
Total finding, development and acquisition costs (FD&A)	**101,055**	**235,628**
Administrative assets	635	1,451
Total capital expenditures	**101,690**	**237,079**

(1) Included in drilling and completions for the twelve months ended December 31, 2009 is an expected recovery of $6.3 million related to the new Alberta Drilling Royalty Credit Program.

CAPITAL RESOURCES

The following table sets forth a summary of the Corporation's capital resources for the Reporting Periods and Comparable Prior Periods:

Three months ended December 31, *($000's)*	2009	2008
Cash generated by operations	20,900	24,627
Changes in working capital from operations	(7,780)	4,747
Asset retirement expenditures	(297)	(927)
Equity issues, net of issue costs	1,929	–
Increase (decrease) in revolving credit facilities	18,303	30,590
Changes in working capital from investing	11,313	(119)
Total capital resources	**44,368**	**58,918**

Twelve months ended December 31, *($000's)*	2009	2008
Cash generated by operations	67,476	131,453
Changes in working capital from operations	(10,051)	2,068
Asset retirement expenditures	(606)	(1,082)
Equity issues, net of issue costs	64,605	129,764
Decrease in non-revolving credit facility	–	(98,830)
Increase (decrease) in revolving credit facilities	(9,826)	55,732
Deferred financing fees paid	(1,975)	–
Changes in working capital from investing	(7,858)	17,973
Total capital resources	**101,765**	**237,078**

In periods of low commodity prices, the Corporation closely monitors its capital spending and cash flow to maximize the value of its asset base with the capital it is able to prudently deploy.

SELECTED QUARTERLY INFORMATION

Quarters ended 2009

($000's, except for production, share and per share amounts)	DECEMBER 31,	SEPTEMBER 30,	JUNE 30,	MARCH 31,
Petroleum and natural gas production *(boe/day)*	10,515	10,552	11,313	12,513
Petroleum and natural gas commodity price at wellhead *($ per boe)*	43.23	33.32	33.79	36.48
Natural gas commodity price at wellhead *($ per mcf)*	4.81	3.20	3.75	5.27
Petroleum commodity price at wellhead *($ per bbl)*	75.01	70.00	63.84	49.33
Total petroleum and natural gas revenue	41,908	32,446	34,917	41,398
Total royalties	(5,172)	(3,644)	2,118	(8,644)
Total interest and other revenue	–	–	–	–
Total revenues, net	36,736	28,802	37,035	32,754
Total capital expenditures	44,368	33,442	5,485	18,395
Net income (loss)	1,616	(9,039)	(7,128)	(9,701)
Per share basic	0.01	(0.07)	(0.06)	(0.09)
Per share diluted	0.01	(0.07)	(0.06)	(0.09)
Cash generated by operations	20,900	12,196	20,026	14,354
Per share basic	0.17	0.10	0.18	0.13
Per share diluted	0.17	0.10	0.18	0.13
Book value of total assets	837,108	796,338	819,142	800,959
Revolving credit facilities	201,230	182,589	219,361	228,867
Total debt	221,521	199,346	179,649	253,544
Shareholders' equity	554,561	549,239	535,917	496,276
Common shares outstanding – end of period				
Basic	123,815,002	123,267,436	122,807,637	112,542,635
Diluted	134,464,987	134,049,987	134,732,322	124,618,156
Weighted average common shares outstanding				
Basic	123,538,213	122,914,069	112,887,812	112,457,321
Diluted	126,358,921	124,523,458	113,817,095	112,457,321

Quarters ended 2008

($000's, except for production, share and per share amounts)	DECEMBER 31,	SEPTEMBER 30,	JUNE 30,	MARCH 31,
Petroleum and natural gas production *(boe/day)*	11,524	10,000	9,583	9,470
Petroleum and natural gas commodity price at wellhead *($ per boe)*	47.88	73.44	83.58	64.83
Natural gas commodity price at wellhead *($ per mcf)*	7.14	8.47	10.93	8.35
Petroleum commodity price at wellhead *($ per bbl)*	59.10	115.95	121.39	94.72
Total petroleum and natural gas revenue	51,034	67,942	73,273	56,192
Total royalties	(8,888)	(12,502)	(11,361)	(8,700)
Total interest and other revenue	–	–	–	2
Total revenues, net	42,146	55,440	61,912	47,494
Total capital expenditures	58,916	89,158	37,487	51,518
Net income (loss)	(355)	16,649	9,776	3,828
Per share basic	–	0.15	0.09	0.04
Per share diluted	–	0.14	0.08	0.04
Cash generated by operations	24,627	37,886	41,676	27,264
Per share basic	0.22	0.34	0.37	0.28
Per share diluted	0.22	0.33	0.36	0.27
Book value of total assets	814,823	774,794	719,292	699,567
Revolving credit facilities	211,586	180,995	148,922	133,035
Total debt	249,862	214,642	163,378	169,614
Shareholders' equity	507,371	506,742	488,579	475,453
Common shares outstanding – end of period				
Basic	112,395,970	112,395,970	112,375,970	111,863,089
Diluted	121,659,923	121,451,823	121,270,357	121,175,691
Weighted average common shares outstanding				
Basic	112,395,970	112,386,829	112,234,676	98,852,346
Diluted	112,801,866	116,859,500	117,074,630	102,589,422

DISCUSSION OF QUARTERLY RESULTS

Birchcliff's average quarterly production in the fourth quarter of 2009 was 10,515 boe/day, which is less than 1% decrease from 10,552 boe/day in the third quarter of 2009 and a 9% decrease from 11,524 boe/day in the fourth quarter of 2008. The decrease from the fourth quarter of 2008 was due to normal production declines, facility downtime relating to scheduled plant turnarounds, and an unexpected third party infrastructure curtailment.

Birchcliff spent $44.4 million on capital during the fourth quarter of 2009 as compared to $33.4 million in the third quarter of 2009 and $58.9 million during the fourth quarter of 2008. The increase from the third quarter of 2009 was largely due to capital spent on processing facilities and infrastructure. Of the $44.4 million in capital expended, approximately $23.4 million (53%) was related to the construction of Phase I of the PCS Gas Plant project. The operating and production benefits associated with the capital spent on Phase I of the PCS Gas Plant project will be realized when the gas plant is operating at full capacity by the end of April 2010.

Cash flow generated by the Corporation in the fourth quarter of 2009 was $20.9 million, which is a 71% increase from $12.2 million in the third quarter of 2009 and a 15% decrease from $24.6 million in the fourth quarter of 2008. The 71% increase in cash flow from the previous quarter was largely due to higher average petroleum and natural gas wellhead prices realized by Birchcliff in the fourth quarter of 2009. The 15% decrease in cash flow from the fourth quarter of 2008 was largely attributed to lower average natural gas prices at the wellhead and decreased production volumes in the fourth quarter of 2009, notwithstanding higher average oil prices.

Birchcliff recorded net income of $1.6 million in the fourth quarter of 2009 as compared to a net loss of $9.0 million in the third quarter of 2009 and a net loss of $355,000 in the fourth quarter of 2008. The increase in net earnings from the previous quarter was mainly a result of recovering petroleum and natural gas prices and lower DD&A expense recorded in the fourth quarter of 2009. The DD&A expense decreased mainly due to the reduced cost of adding significant proved reserves during 2009.

The weighted average basic common shares outstanding at the end of 2009 increased as compared to 2008 mainly due to the issuance of 10 million common shares in the June 30, 2009 Equity Financing.

2010 OUTLOOK

CAPITAL EXPENDITURES

The Board of Directors recently approved the Corporation's 2010 capital spending program in the amount of $182 million. Of the $182 million, approximately $67 million is budgeted for the exploration and development of the Montney/Doig natural gas resource play which includes related infrastructure and other projects; approximately $33 million is allocated to the Worsley light oil resource play; approximately $19 million will be used to complete Phase I of the PCS Gas Plant and related infrastructure; approximately $24 million is allocated for the Phase II expansion of the PCS Gas Plant and related infrastructure; and approximately $39 million is planned for other projects and sustaining capital and seed capital for new growth opportunities.

Birchcliff has a very strong asset base with its two main resource plays, the Montney/Doig natural gas resource play and the Worsley light oil resource play.

PRODUCTION

Phase I of the PCS Gas Plant is expected to add 30 mmcf/day of processing capacity by the end of April 2010, increasing production to approximately 14,000 boe/day.

Birchcliff's 2010 exit production rate is expected to range between 17,000 and 19,000 boe/day, assuming that the Phase II expansion of the PCS Gas Plant will reach full operating capacity in December 2010. The Phase II expansion of the PCS Gas Plant is expected to increase processing capacity from 30 to 60 mmcf/day in December 2010, adding 3,500 boe/day net to Birchcliff.

CASH FLOW AND BANK DEBT

The Corporation's operating cash flow and available credit facilities will be used to fund the $182 million capital spending program in 2010. At December 31, 2009, the Corporation had $95.9 million in total unused credit facilities available to fund future capital expenditures. Birchcliff expects that its aggregate credit facilities will increase or remain at $305 million given the large increase in proved and probable reserves additions in 2009. The annual review of the Corporation's borrowing base limit will occur in the second quarter of 2010 and the borrowing base limit will depend largely on the bank syndicate's expectation of future commodity prices.

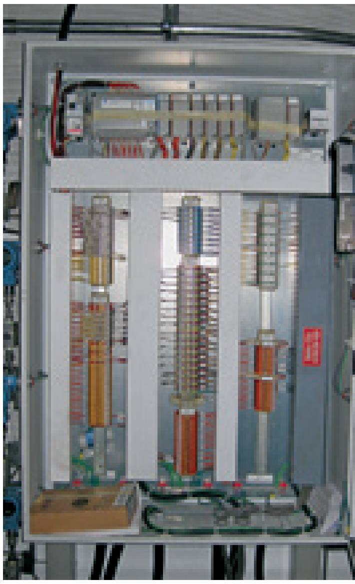
The Corporation intends to finance its oil and natural gas business primarily through cash generated from operations, its working capital, and available credit from its credit facilities. Should commodity prices deteriorate in 2010, Birchcliff will adjust its capital spending to ensure that it does not exceed its credit capacity. Management expects that in 2010 Birchcliff's working capital deficiency will be slightly higher than in 2009 as a result of increased capital spending. However, the Corporation may also issue shares or renegotiate the terms of its credit facilities to fund its capital spending program if management determines the assets it is acquiring or the projects it is drilling are of high quality. Management expects to be able to continue to raise additional equity and debt financing sufficient to meet both its short-term and long-term growth requirements in the current environment. Birchcliff is now at such a size that it anticipates it will not require additional equity except to fund a significant acquisition or to significantly increase its capital spending beyond its cash flow.

The Corporation does not foresee any liquidity issues with respect to the operation of its petroleum and natural gas business in 2010 and expects to meet its future obligations as they become due.

RESOURCE PLAYS

Birchcliff has a very strong asset base with its two main resource plays, the Montney/Doig natural gas resource play and the Worsley light oil resource play. These properties provide the Corporation with a long term and operationally reliable cash flow base, the level of which is primarily dependent on commodity prices. The construction of the 100% owned PCS Gas Plant is expected to enhance the value of the Montney/Doig resource play by increasing production growth, reducing operating costs, and increasing strategic control over Birchcliff's core area. The Corporation anticipates that both Phases I and II will be brought online during 2010 for a total throughput capacity of 60 mmcf/day. Birchcliff is currently considering the potential Phase III expansion of the

PCS Gas Plant which would result in an additional 60 mmcf/day for a total processing capacity of 120 mmcf/day. The extensive portfolio of development opportunities on these properties will not expire in the near term and provides low risk long life future production additions that are readily available with the investment of additional capital. Commodity prices will affect cash flow and thus will dictate the pace at which Birchcliff invests in its resource plays and the rate at which its production will grow. Birchcliff has a long term view to the development of its resource plays and therefore short term commodity prices will not affect the quality or the long term value of the Corporation's asset base.



MERGERS & ACQUISITIONS

The Corporation continues to review potential property acquisitions and dispositions, joint venture opportunities, and corporate mergers and acquisitions with the intention of completing such a transaction if acceptable terms can be negotiated. As a result, Birchcliff may at any time be involved in negotiations with other parties in respect of property acquisitions and dispositions, joint venture opportunities, and corporate mergers and acquisition opportunities.

DISCLOSURE CONTROLS AND PROCEDURES

The Corporation has established and maintains disclosure controls and procedures that have been designed by, or under the supervision of, the Corporation's Chief Executive Officer and the Chief Financial Officer ("**Certifying Officers**") to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Corporation's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure. Such disclosure controls and procedures are referred to as the "**Disclosure Controls and Procedures**".

The Certifying Officers have evaluated, or caused to be evaluated under the supervision, the effectiveness of the Corporation's Disclosure Controls and Procedures as at December 31, 2009 and have concluded that such Disclosure Controls and Procedures were effective as at that date to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized, and reported within the time periods specified in the securities legislation and that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Corporation's management, including the Certifying Officers, as appropriate to allow timely decisions regarding required disclosure.

It should be noted that while the Certifying Officers believe that the Corporation's Disclosure Controls and Procedures are effective to provide a reasonable level of assurance, they do not expect that the Disclosure Controls and Procedures will provide an absolute level of assurance or prevent all errors and fraud. A control system, no matter how well conceived, maintained and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are achieved.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Corporation has established and maintains internal controls over financial reporting that have been designed by, or under the supervision of, the Corporation's Certifying Officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP applicable to the Corporation and reasonable assurance that all assets are safeguarded and transactions are appropriately authorized and recorded to facilitate the preparation of relevant, reliable and timely information. Such internal controls over financial reporting are herein referred to as "**ICFR**". The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's ICFR as required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*. Based on that evaluation, the Certifying Officers concluded that the Corporation's ICFR was effective at December 31, 2009 for the purposes described above. It should be noted that a control system, including the Corporation's, no matter how well conceived, maintained and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the ICFR will prevent all errors and fraud.

CHANGE IN ACCOUNTING POLICIES

On January 1, 2009 the Corporation prospectively adopted the following Canadian Institute of Chartered Accountant ("**CICA**") Handbook Sections:

- Section 3064 *Goodwill and Intangible Assets*, which defines the criteria for the recognition of intangible assets. The adoption of this Section had no impact on the Corporation's Financial Statements.
- EIC-173 *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The application of this EIC did not have a material effect on the Corporation's Financial Statements.
- Section 3855 *Financial Instruments – Recognition and Measurement* and Section 3025 *Impaired Loans* which were amended to converge with international standards (IAS 39 *Financial Instruments – Recognition and Measurement*) for impairment of debt instruments by changing the categories into which debt instruments are required or permitted to be classified. The adoption of these Sections did not have an impact on the Corporation's Financial Statements.
- Section 3862 *Financial Instruments – Disclosures* which was amended in June 2009 to include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after December 31, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS. The Corporation has included the applicable disclosures related to this Section in Note 9 of the Financial Statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS TRANSITION PLAN

In February 2008, the CICA's Accounting Standards Board confirmed that IFRS will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. Birchcliff will be required to report its results in accordance with IFRS beginning in 2011. The Corporation has developed a transition plan to complete the transition to IFRS by January 1, 2011, including the preparation of 2010 required comparative information.

Birchcliff's transition plan includes training and development throughout the organization, and three key phases:

- ***Scoping and diagnostic phase***
  This phase involves performing a high level impact analysis to identify areas that may be affected by the transition to IFRS. The results of this analysis are priority ranked according to complexity and the amount of time required to assess the impact of changes in transitioning to IFRS.
- ***Impact analysis and evaluation phase***
  During this phase, items identified in the diagnostic phase are addressed according to the priority levels assigned to them. This phase involves analysis of policy choices allowed under IFRS and their impact on the financial statements. In addition, certain potential differences are further investigated to assess whether there may be a broader impact to Birchcliff's debt agreements, business processes or management reporting systems. The conclusion of the impact analysis and evaluation phase will require the Audit Committee of the Board of Directors to review and approve all accounting policy choices as proposed by management.
- ***Implementation phase***
  This phase involves implementation of all changes approved in the impact analysis phase and will include changes to information systems, business processes, modification of agreements and training of all staff who are impacted by the conversion.

During 2009, Birchcliff made significant progress on its IFRS transition plan.

During 2009, Birchcliff made significant progress on its transition plan. The Corporation conducted preliminary analysis of accounting policy alternatives and preliminarily drafted several of its IFRS accounting policies. Broader business process and systems impacts have been considered for significant areas of impact, with internal control requirements taken into account. IFRS education sessions have been held with internal stakeholders.

Process and system changes will be implemented in early 2010 to ensure IFRS comparative data is captured. Birchcliff's IFRS accounting policies are expected to be finalized mid-2010. Quantification of IFRS impacts will then be determined utilizing previously captured data. Communication of impacts to external stakeholders is expected to occur in the latter half of 2010.

Birchcliff will continue to update its IFRS transition plan to reflect new and amended accounting standards issued by the International Accounting Standards Board ("**IASB**").

IFRS ACCOUNTING POLICIES

Birchcliff has completed its analysis of accounting policy alternatives and determined the areas that will be most significantly affected by the adoption of IFRS. The areas identified as being significant have the greatest potential impact to the Corporation's financial statements or the greatest risk in terms of complexity to implement. The most significant areas continue to include:

- Property, Plant and Equipment ("PP&E"), including;
  - Transition on date of adoption of IFRS
  - Pre-exploration costs
  - Exploration and Evaluation ("E&E") costs
  - Depletion, depreciation and amortization
- Impairment testing
- Decommissioning liabilities (known as "asset retirement obligations" under GAAP)
- Stock-based compensation
- Income taxes

Each of these significant impact areas is discussed in more detail below.

Property, Plant & Equipment

PP&E will be one of the most significant areas impacted by the adoption of IFRS. Under Canadian GAAP, Birchcliff follows the CICA's guideline on full cost accounting, while IFRS has no equivalent guideline. In order to facilitate the transition to IFRS by full cost accounting companies, the IASB released additional exemptions for first-time adopters of IFRS in July 2009. Included in the amendments is an exemption which permits full cost accounting companies to allocate their existing PP&E net book value (full cost pool) over reserves to the unit of account level upon transition to IFRS. Birchcliff expects to adopt this exemption and is currently evaluating whether to allocate based on reserve volumes or values. Without this exemption, the Corporation would have been required to retrospectively determine the carrying amount of oil and gas assets at the date of transition, or use the fair value or revaluation amount as the new deemed cost under IFRS. By using the exemption, the net book value of Birchcliff's PP&E at the date of transition to IFRS will be the same as it was under Canadian GAAP, subject to any potential IFRS impairments that are recognized at the date of transition.

In moving to IFRS, Birchcliff will be required to adopt different accounting policies for pre-exploration activities, exploration and evaluation costs, DD&A and the accounting for gains and losses on divestitures of properties.

Pre-exploration costs are costs incurred before the Corporation obtains the legal right to explore an area. Under Canadian GAAP, these costs are capitalized, while under IFRS, these costs must be expensed. At this time, Birchcliff does not anticipate that this accounting policy difference will have a significant impact on the financial statements.

During the exploration and evaluation phase, Birchcliff capitalizes costs incurred for these projects under Canadian GAAP. Under IFRS, the Corporation has the alternative to either continue capitalizing these costs until technical feasibility and commercial viability of the project is determined, or to expense these costs as incurred. At this time, Birchcliff's IFRS accounting policy in relation to E&E activities has not been finalized.

Under Canadian GAAP, Birchcliff calculates its depletion, depreciation and amortization rate at the country cost centre level. Under IFRS, this rate will be calculated at a lower unit of account level. At this time, the Corporation has not finalized its policy in this regard, and therefore the impact of this difference in accounting policy is not reasonably determinable.

Full cost accounting under Canadian GAAP requires that gains or losses on divestitures of properties are only recognized when the disposal would affect the DD&A rate by 20 percent or more. Under IFRS, there is no such exemption, and therefore Birchcliff will be required to recognize all gains and losses on property divestitures. At this time, the impact of this difference in accounting policy is not reasonably determinable.

As a result of the additional exemption released by the IASB in July 2009, the Corporation anticipates that all changes to its PP&E accounting policies will be adopted prospectively.

Impairment Testing

For the first step of the impairment test under Canadian GAAP, future cash flows are not discounted. Under IFRS, the future cash flows are discounted. In addition, for PP&E, impairment testing is currently performed at the country cost centre level, while under IFRS, it will be performed at a lower level, referred to as a cash-generating unit. The impairment calculations will be performed using either total proved or proved plus probable reserves. Canadian GAAP prohibits reversal of impairment losses. Under IFRS if the conditions giving rise to impairment have reversed, impairment losses previously recorded would be partially or fully reversed to eliminate write-downs recorded. Birchcliff expects to adopt these changes in accounting policy prospectively. At this time, the impact of accounting policy differences related to impairment testing is not reasonably determinable.

Asset Retirement Obligation

Under Canadian GAAP, the Corporation recognizes a liability for the estimated fair value of the future retirement obligations associated with PP&E. The fair value is capitalized and amortized over the same period as the underlying asset. Birchcliff estimates the liability based on the estimated costs to abandon and reclaim its net ownership interest in wells and facilities, including an estimate for the timing of the costs to be incurred in future periods. These cash outflows are discounted using a credit-adjusted rate. Changes in the net present value of the future retirement obligation are expensed through accretion as part of DD&A. Under IFRS, these liabilities are known as "decommissioning liabilities" and are included in the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Decommissioning liabilities are calculated at each reporting period using estimate of risk-adjusted future cash outflows discounted using a risk-free rate. Changes in the net present value of the future retirement obligation are expensed through accretion as part of DD&A. Due to the change in the discount rate from a credit-adjusted rate to a risk-free rate, Birchcliff expects there may be an increase in the value of the decommissioning liability under IFRS as compared to Canadian GAAP. However the difference, if any, is not known at this time.

Stock-based Compensation

IFRS 2 Share-Based Payments requires the expense related to share-based payments to be recognized as the options vest; that is, for options that vest over a period of time, each tranche must be treated as a separate option grant which accelerates the expense recognition in comparison to Canadian GAAP which allows the expense to be recognized on a straight-line basis over the period the options vest. While the carrying value for each reporting period will be different under IFRS, the cumulative expense recognized over the life of the instrument under both methods will be the same. Birchcliff expects to adopt this change in accounting policy prospectively. At this time, the impact of this difference has not been determined.

Income Tax

In transitioning to IFRS, the carrying amount of Birchcliff's tax balances will be directly impacted by the tax effects resulting from changes required by the above IFRS accounting policy differences. Due to the recent withdrawal of the exposure draft on IAS 12 Income Taxes in November 2009, Birchcliff is still determining the impact of the revised standard on its IFRS transition. Therefore, at this time the income tax impacts of our differences are not reasonably determinable.

CHANGES TO IFRS ACCOUNTING STANDARDS

Birchcliff's analysis of accounting policy differences specifically considers the current IFRS standards that are in effect. The Corporation will continue to monitor any new or amended accounting standards that are issued by the IASB, including assessing any impact of the new joint ventures standard that the IASB expects to publish in the first quarter of 2010.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Birchcliff does not anticipate that the transition to IFRS will have a significant impact on either its internal controls over financial reporting, or its disclosure controls and procedures. As the review of Birchcliff's accounting policies is completed, an assessment will be made to determine changes necessary for internal controls over financial reporting. For example, additional controls and review will be implemented as necessary for the IFRS 1 changes such as the allocation of Birchcliff's PP&E as well as the process for reclassifying E&E expenditures from PP&E on transition. This will be an ongoing process throughout 2010 to ensure that all changes in accounting policies include the appropriate additional controls and procedures for future IFRS reporting requirements.

Throughout the transition, Birchcliff will assess stakeholders' information requirements and will ensure that adequate and timely information is provided so that all stakeholders remain apprised.

EDUCATION AND TRAINING

All of the individuals that are involved in financial reporting under Canadian GAAP have been engaged and involved in the IFRS transition project since 2008, and will continue to be involved in the IFRS transition throughout 2010 and 2011. Other individuals affected by the change from Canadian GAAP to IFRS will be educated and trained during 2010 as Birchcliff identifies and calculates the specific dollar value of differences arising from the changes to our accounting policies.

IMPACTS TO OUR BUSINESS

Birchcliff does not expect that the adoption of IFRS in 2011 will have a significant impact or influence on its business activities, operations or strategies.

Birchcliff does not expect that the adoption of IFRS in 2011 will have a significant impact or influence on its business activities, operations or strategies.

CRITICAL ACCOUNTING ESTIMATES

Management is required to make judgments, assumptions and estimates in the application of GAAP that may have a significant impact on the financial results of the Corporation. The following summarizes the accounting estimates that are critical to determining Birchcliff's financial results.

ESTIMATES OF P&NG RESERVES, DEPLETION AND DEPRECIATION AND IMPAIRMENT TEST

The Corporation, at least annually, engages a qualified independent reserves evaluator to provide an estimate of the Corporation's year-end reserve volumes and associated future net revenues. These estimates are herein referred to as the "**Reserve Estimates**". To facilitate this process, the Corporation provides relevant production, financial and technical data to the reserves evaluator. The Corporation considers the Reserve Estimates to be critical estimates for the reasons discussed below. For further details on the methodology and assumptions relating to the Reserve Estimates, please see the Statement of Reserves Data and Other Oil and Gas Information filed by the Corporation on SEDAR at www.sedar.com in accordance with National Instrument 51-101.

The Reserves Estimates relating to the volume of reserves are utilized in the calculation of depletion and depreciation expense in the financial statements. The reserve volumes together with the production volumes for the relevant period is utilized in calculating a depletion rate for the Corporation. This depletion rate is used in conjunction with other accounting information to determine the depletion and depreciation for that period.

The Reserve Estimates relating to future net revenues of reserves are utilized in a impairment test calculation to determine if the costs capitalized under the full cost method of accounting have been impaired and thus should be written down. This potential impairment is based on a determination of whether the carrying value of petroleum and natural gas properties exceeds the estimated undiscounted future net cash flows from the proved reserves attributable to such properties.

Should the Reserve Estimates relating to the volume of reserves be materially incorrect, it could have a material impact on the Corporation's recorded amount of depletion and depreciation expense. Should the Reserves Estimates relating to the future net revenues of reserves be materially incorrect it may have a material impact on the determination of whether or not the Corporation is required to write down its petroleum and natural gas assets as a result of the impairment test. The Reserve Estimates will from time to time change based on changes in the many factors underlying the Reserve Estimates, which include but are not limited to: production performance, commodity prices, amount and timing of projected capital expenditures, revised technical interpretations based on activity and new information and the impact of additional activities not contemplated in the preparation of the Reserve Estimates.

The Reserve Estimates are also relied upon by the Corporation's lending syndicate in determining the amounts available to the Corporation under its credit facilities. The lending syndicate relies on all components of the Reserve Estimates and the underlying assumptions, except for the price forecast. The lending syndicate in most instances utilizes its own price forecast. The availability of these credit facilities is important to the Corporation because it relies on this source of capital to fund its capital budget in excess of its internally generated funds. Should the Reserves Estimates change materially and negatively, it may have a material adverse affect on the amount of capital available to the Corporation under the credit facilities, which may impair the Corporation's ability to pursue its business plans.

ASSET RETIREMENT OBLIGATIONS

Birchcliff records a liability for the fair value of legal obligations associated with the retirement of long-lived assets in the period in which they are incurred, normally when the asset is purchased or developed. In the oil and gas industry, this retirement obligation is normally associated with abandonment and reclamation costs relating to wells and facilities. On recognition of the asset retirement obligation there is a corresponding increase in the carrying amount of the related asset (an increase to petroleum and natural gas properties and equipment) which is recorded as the asset retirement cost. The total future asset retirement obligation is an estimate at a point in time based on the Corporation's net ownership interest in all wells (producing, shut-in, suspended and others) and facilities, the estimated cost to abandon and reclaim these wells and facilities, and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligation is the Corporation's best estimate at any given point in time that is subject to measurement uncertainty and any change may potentially impact the liability materially.

Birchcliff attempts to mitigate this risk by reviewing all of its wells and facilities included in the calculation and by utilizing the expertise of its reserve evaluation consultants in order to provide the best estimates possible at the time.

CURRENT INCOME TAXES

The Corporation is required to file a corporate income tax return annually and is required to pay any income tax liability in a timely manner. As a result of this requirement, Birchcliff must estimate at the end of each financial reporting period its potential current income tax liability for the particular fiscal year in question. In order to determine its income tax liability for the fiscal year, the Corporation must estimate revenue, royalties other income, operating expenses, general and administrative expenses, interest expense, capital expenditures and other relevant items. The Corporation makes these estimates using its budget approved by the Board of Directors and adjusts it for any actual history up to the time the estimate is made. The critical estimates in this process are production rates, commodity prices, capital expenditures and the tax category of these capital expenditures for the entire fiscal period. The risk of materially misstating the amount of current taxes payable is highest in respect of the first quarter and reduces for each quarter thereafter as more actual data is used and the estimated amounts apply to a shorter period.

To the extent that the estimate of current taxes payable varies materially from the actual amount of taxes payable, the Corporation may be required to pay an unexpected material amount of taxes which may adversely affect the Corporation's financial condition. The most critical part of this estimate is the estimate of the amount and tax category of capital expenditures that will be incurred during the relevant year as those expenditures form the basis of any new tax pools that Birchcliff can use as deductions in respect of that year. To the extent that a material amount of capital allocated to exploration drilling which is 100% deductible in the fiscal year, is ultimately allocated to development drilling which is only 30% deductible in the fiscal year, the Corporation's current taxes payable can change materially. There is a risk that wells that are drilled in an effort to encounter a new oil or natural gas accumulation can encounter an already discovered accumulation, thus changing the tax category from exploration expenditure to development expenditure. This risk is significant because many wells drilled by the Corporation are drilled in proximity to other wells and the tax category of the expenditures is not finally determined until drilling is completed. To mitigate this risk, the Corporation allocates its entire budget to tax categories based on discussions with its operations group and reviews the continuing validity of these categorizations at the end of each reporting period.

The determination of the Corporation's income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ from that estimated and recorded by Management.

RISK FACTORS & RISK MANAGEMENT

COMMODITY PRICE RISK

Birchcliff's liquidity and cash flow are largely impacted by petroleum and natural gas commodity prices. Currently, Birchcliff has not hedged any of its oil and natural gas production at the date hereof and although it does monitor the hedge market, its strategy is to continue and to sell its oil and natural gas production at the spot market rate. Management remains bullish about future commodity prices and believes Birchcliff is well positioned to take advantage of a rising oil and natural gas price environment. If there is a significant deterioration in the price it receives for oil and natural gas, Birchcliff will consider reducing its capital spending or access alternate sources of capital.

FOREIGN CURRENCY EXCHANGE RISK

The Corporation is exposed to foreign currency fluctuations because its Canadian revenues are strongly linked to United States dollar denominated benchmark prices.

PRODUCTION RISK

Birchcliff believes it has a stable production base from a large number of producing wells and that an adverse event affecting production at any single well would not cause a liquidity issue. Nonetheless, Birchcliff remains subject to the risk that production rates of its most significant wells may decrease in an unpredictable and uncontrollable manner, which could result in a material decrease in the Corporation's overall production and associated cash flows.

The majority of Birchcliff's production passes through owned or third party infrastructure prior to it being ready for transfer at designated commodity sales points. There is a risk that should this infrastructure fail and cause a significant portion of Birchcliff's production to be shut-in and unable to be sold, this could have a material adverse effect on Birchcliff's available cash flow. The Corporation mitigates this risk by purchasing business interruption insurance policies for its significant owned infrastructure and contingent business interruption insurance policies for its significant third party infrastructure.

RESERVE REPLACEMENT RISK

Oil and natural gas reserves naturally deplete as they are produced over time. The success of the Corporation's business is highly dependent on its ability to acquire and/or discover new reserves in a cost efficient manner. Substantially all of the Corporation's cash flow is derived from the sale of the petroleum and natural gas reserves it accumulates and develops. In order to remain financially viable, the Corporation must be able to replace reserves over time at a lesser cost on a per unit basis than its cash flow on a per unit basis. The reserves and costs used in this determination are estimated each year based on numerous assumptions and these estimates and costs may vary materially from the actual reserves produced or from the costs required to produce those reserves. In order to mitigate this risk, the Corporation employs a competent and experienced team of petroleum and natural gas professionals and closely monitors the capital expenditures made for the purposes of increasing its petroleum and natural gas reserves.

HEALTH, SAFETY & ENVIRONMENTAL RISK

Health, safety and environment risks influence the workforce, operating costs and the establishment of regulatory standards. Birchcliff provides staff with the training and resources need to complete work safely and effectively; incorporates hazard assessment and risk management as an integral part of everyday operations; monitors performance to ensure its operations comply with legal obligations and internal standards; and identifies and manages environmental liabilities associated with its existing asset base. The Corporation has a site inspections program and a corrosion risk management program designed to ensure compliance with environmental laws and regulations. Birchcliff carries insurance to cover a portion of property losses, liability to others and business interruption resulting from unusual events.

Birchcliff is subject to the risk that the unexpected failure of its equipment used in drilling, completing or producing wells or in transporting production could result in releases of fluids substances that pollute or contaminate lands at or near its facilities which could result in significant liability to the Corporation for costs of clean up, remediation and reclamation of contaminated lands. Birchcliff's policy with regards to the environment is to conduct all operations with due regard for the potential impact on the environment. This policy is implemented by hiring skilled personnel and reminding staff involved with operations of their responsibilities in this regard and by retaining expert environment advice and assistance to deal with environmental releases and remediation and reclamation work where such expertise is needed.

REGULATORY RISK

Government royalties, income tax laws, environmental laws and regulatory requirements can have a significant financial and operational impact on the Corporation. As an oil and natural gas producer, Birchcliff is subject to a broad range of regulatory requirements. Birchcliff does its best to remain knowledgeable regarding changes to the regulatory regime under which it operates.

All of Birchcliff's properties are currently located within the province of Alberta. There is a risk that although the Corporation believes it is making an economic investment at the time all of the upfront capital is invested in facilities or drilling, completing and equipping an oil or natural gas well, the Government may at any point in the economic life of that project, expropriate without compensation a portion of the expected profit under a new royalty/tax regulation or regime with no grandfathering provisions. Without grandfathering provisions this may cause that particular project to become uneconomic once the new royalties or taxes take effect. This type of possible future government action is unpredictable and cannot be forecast by the Corporation.

Continued access to capital is dependent on Birchcliff's ability to continue to perform at a level that meets market expectations.

COUNTERPARTY RISK

Birchcliff assumes customer credit risk associated with oil and gas sales and joint venture participants. To mitigate this risk, the Corporation performs regular reviews of receivables to minimize default or non-payment and takes the majority of its production in kind. The Corporation also puts in place security arrangements with respect to amounts owed to it by others when reviews indicate it is appropriate to do so.

ACCESS TO CREDIT MARKETS

Due to the nature of the Corporation's business it is necessary from time to time for the Corporation to access other sources of capital beyond its internally generated cash flow in order to fund the development and acquisition of its long term asset base. As part of this strategy the Corporation obtains some of this necessary capital by incurring debt and therefore the Corporation is dependent to a certain extent on continued availability of the credit markets.

The continued availability of the credit markets for Birchcliff is primarily dependent on the state of the economies and the health of the banking industry in Canada and United States. There is risk that should these economies and banking industry see unexpected and/or prolonged deterioration, then Birchcliff's access to credit markets may contract or disappear all together. The

Corporation tries to mitigate this risk by dealing with reputable lenders and tries to structure its lending agreements to give it the most flexibility possible should these situations arise. However, the situations that may give rise to credit markets tightening or disappearing are ultimately uncontrollable by Birchcliff.

Birchcliff is also dependent to a certain extent on continued access to equity capital markets. The Corporation is listed on the Toronto Stock Exchange and maintains an active investor relations program. Continued access to capital is dependent on Birchcliff's ability to continue to perform at a level that meets market expectations.

CLIMATE CHANGE RISKS

North American climate change policy is evolving at both regional and national levels and recent political and economic events may significantly affect the scope and timing of new climate change measures that are ultimately put in place. Although it is not the case today, the Corporation expects that some of its significant facilities may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage greenhouse gas ("**GHG**") emissions.

The Specified Gas Emitters Regulation, which came into effect in Alberta in 2007, requires large industrial facility emitters of GHG to reduce GHG emissions intensities by 12 per cent. Each of Birchcliff's facilities is below the 100,000 tonnes per year threshold that this regulation applies to.

The Government of Alberta released its climate change strategy which sets a target to reduce GHG emissions in Alberta by 50% by 2050. Implementing carbon capture and storage technology across industrial sectors is a large component of the strategy, along with energy-efficiency measures, clean energy technologies, and expanding the use of renewable sources of energy. In July 2008, the Alberta government announced that it will commit to $2 billion in capital investments to fund the carbon capture and storage technology.

The Canadian government has expressed interest in pursuing the development of a North American cap and trade system for GHG emissions. In April 2007, the Government of Canada released the Regulatory Framework for Air Emissions ("**Framework**"). The Framework outlines short, medium and long-term objectives for managing both GHG emissions and air pollutants in Canada. It is uncertain how the Framework will fit within a North American cap and trade system and what the specific requirements for industrial emitters such as Birchcliff will be. Proposed regulations have not yet been released and therefore it is uncertain whether the impacts from such future regulations will be material to the Corporation.

In addition there are a number of regional initiatives being pursued by various provinces and US states such as the Western Climate Initiative which involves seven western US states and Alberta and three other Canadian provinces which are focused on the implementation of a cap and trade program. The Corporation anticipates a number of its facilities may be affected by these initiatives, however, the level of impact is uncertain as key details remain unknown.

FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (hereinafter collectively referred to as "forward-looking statements") within the meaning of applicable Canadian securities laws. These statements relate to future events or our future performance and are based upon the Corporation's current internal expectations, estimates, projections, assumptions and beliefs. All statements other than statements of historical fact are forward-looking statements. In some cases, words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "would", "potential", "proposed" and other similar words, or statements that certain events or conditions "may" or "will" occur, are intended to identify forward-looking statements.

Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions and known and unknown risks and uncertainties that the predictions, forecasts, projections and other forward-looking statements will not occur. Although the Corporation 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. The Corporation cannot guarantee future results, levels of activity, performance or achievements. Consequently, there is no representation by the Corporation that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements. Such forward-looking statements in this MD&A speak only as of the date of this MD&A.

In particular, this MD&A contains forward-looking statements pertaining to the following: drilling inventory, drilling plans and timing of drilling, completion, re-completion and tie-in of wells; plans for facilities construction and completion of construction and the timing and method of funding thereof; productive capacity of wells, anticipated or expected production rates and anticipated dates of commencement of production; drilling, completion and facilities costs; results of projects of the Corporation; ability to lower costs borne by the Corporation; production growth expectations; timing of development of undeveloped reserves; the tax horizon of the Corporation; the future performance and characteristics of the Corporation's oil and natural gas properties; oil and natural gas production levels; the quantity of oil and natural gas reserves; planned capital expenditure programs; supply and demand for oil and natural gas; commodity prices; the future impact of Canadian federal and provincial governmental regulation on the Corporation; weighting of production between different commodities; expected levels of royalty rates and incentives, operating costs, general administrative costs, costs of services and other costs and expenses; expectations regarding the Corporation's ability to raise capital and to add to reserves through acquisitions, exploration and development; and treatment under tax laws. With respect to such forward-looking statements, the key assumptions on which the Corporation relies are: that future prices for crude oil and natural gas, future currency exchange rates and interest rates and future availability of debt and equity financing will be at levels and costs that allow the Corporation to manage, operate and finance its business and develop its properties and meet its future obligations; that the regulatory framework in respect of royalties, taxes and environmental matters applicable to the Corporation will not become so onerous as to preclude the Corporation from viably managing, operating and financing its business and the development of its properties; and that *the Corporation will continue to be able to identify, attract and employ qualified staff and obtain the outside expertise and specialized and other equipment and services it requires to manage, operate and finance its business and develop its properties.*

All such forward-looking statements necessarily involve risks associated with oil and gas exploration, production and marketing which may cause actual results to differ materially from those anticipated in the forward-looking statements. Some of those risks include: general economic conditions in Canada, the United States and globally; industry conditions, including fluctuations in the price of oil and natural gas; changes in governmental regulation of the oil and gas industry, including environmental regulation; fluctuations in foreign exchange rates or interest rates; geological, technical, drilling and processing problems and other difficulties in producing reserves; unanticipated operating events which can damage facilities or reduce production or cause production to be shut in or delayed; failure to obtain regulatory approvals in a timely manner; adverse conditions in the debt and equity markets; competition from others for scarce resources; and other factors disclosed under "Risk Factors" in this MD&A.

Readers are cautioned that the foregoing list of factors is not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Corporation is not under any duty to update any of the forward-looking statements after the date of this MD&A to conform such statements to actual results or to changes in the Corporation's plans or expectations, except as otherwise required by applicable securities laws.

MANAGEMENT'S REPORT

To the Shareholders of Birchcliff Energy Ltd.

The financial statements of Birchcliff Energy Ltd. were prepared by management within the acceptable limits of materiality and are in accordance with accounting principles generally accepted in Canada. Management is responsible for ensuring that the financial and operating information presented in this annual report is consistent with that shown in the financial statements.

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

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

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

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

(signed) *"A. Jeffery Tonken"*

A. Jeffery Tonken
President and Chief Executive Officer

(signed) *"Bruno P. Geremia"*

Bruno P. Geremia
Vice President and Chief Financial Officer

March 12, 2010

AUDITORS' REPORT

To the Shareholders of Birchcliff Energy Ltd.

We have audited the balance sheets of Birchcliff Energy Ltd. as at December 31, 2009 and 2008 and the statements of net income (loss), comprehensive income (loss) and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly in all material respects, the financial position of the Corporation as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta

March 12, 2010

BALANCE SHEETS

As at December 31, *(000's)*	**2009**	2008
ASSETS		
CURRENT		
Cash	**140**	65
Accounts receivable *(Note 9)*	**29,665**	29,836
Prepaid and other	**4,635**	3,031
	34,440	32,932
Deferred financing fees *(Note 6)*	**245**	–
Petroleum and natural gas properties and equipment *(Note 4)*	**802,423**	781,891
	837,108	814,823
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**54,731**	71,208
	54,731	71,208
Revolving credit facilities *(Note 7)*	**201,230**	211,586
Asset retirement obligations *(Note 11)*	**24,713**	21,223
Future income taxes *(Note 10)*	**1,873**	3,435
Commitments *(Note 15)*		
SHAREHOLDERS' EQUITY		
Share capital *(Note 12)*	**541,593**	477,482
Contributed surplus *(Note 13)*	**20,315**	12,984
Retained earnings (deficit)	**(7,347)**	16,905
	554,561	507,371
	837,108	814,823

See accompanying notes to the financial statements.

APPROVED BY THE BOARD

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

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

STATEMENTS OF NET INCOME (LOSS), COMPREHENSIVE INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)

For the years ended December 31, *(000's)*	2009	2008
REVENUE		
Petroleum and natural gas	**150,669**	248,441
Royalties	**(15,342)**	(41,451)
Interest and other	–	2
	135,327	206,992
Gain (loss) on risk management contracts *(Note 9)*		
Realized	–	(9,859)
Unrealized	–	6,769
	135,327	203,902
EXPENSES		
Production	**36,388**	38,667
Transportation and marketing	**9,799**	9,941
General and administrative, net *(Note 4)*	**11,353**	6,513
Stock-based compensation *(Note 13)*	**9,844**	5,004
Depletion, depreciation and accretion *(Notes 4 and 11)*	**85,253**	89,667
Realized foreign exchange loss *(Note 9)*	–	226
Unrealized foreign exchange gain *(Note 9)*	–	(24)
Amortization of deferred financing fees *(Notes 6 and 7)*	**1,200**	–
Interest *(Note 7)*	**10,311**	10,320
	164,148	160,314
INCOME (LOSS) BEFORE TAXES	**(28,821)**	43,588
TAXES		
Other taxes (recovery)	–	(7)
Future income tax expense (recovery) *(Note 10)*	**(4,569)**	13,697
	(4,569)	13,690
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**(24,252)**	29,898
RETAINED EARNINGS (DEFICIT), BEGINNING OF PERIOD	**16,905**	(12,993)
RETAINED EARNINGS (DEFICIT), END OF PERIOD	**(7,347)**	16,905
Net income (loss) per common share *(Note 14)*		
Basic	**$(0.21)**	$0.27
Diluted	**$(0.21)**	$0.26
Weighted average common shares *(Note 14)*		
Basic	**117,993,314**	108,986,165
Diluted	**117,993,314**	113,092,125

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

For the years ended December 31, *(000's)*	**2009**	2008
OPERATING		
Net income (loss)	**(24,252)**	29,898
Adjustments for items not affecting cash:		
Depletion, depreciation and accretion	**85,253**	89,667
Stock-based compensation	**9,844**	4,984
Unrealized risk management contracts gain	**–**	(6,769)
Unrealized foreign exchange gain	**–**	(24)
Amortization of deferred financing fees	**1,200**	–
Future income taxes expense (recovery)	**(4,569)**	13,697
	67,476	131,453
Changes in non-cash working capital *(Note 16)*	**(10,051)**	2,068
Asset retirement expenditures *(Note 11)*	**(606)**	(1,082)
	56,819	132,439
FINANCING		
Decrease in non-revolving credit facility *(Note 5)*	**–**	(98,830)
Deferred financing fees paid	**(1,975)**	–
Increase (decrease) in revolving credit facilities	**(9,826)**	55,732
Issuance of common shares *(Notes 12)*	**67,300**	136,676
Share issue costs *(Note 12)*	**(2,695)**	(6,912)
	52,804	86,666
INVESTING		
Purchase of petroleum and natural gas properties and equipment	**(3,334)**	(10,369)
Development of petroleum and natural gas properties and equipment	**(98,356)**	(226,710)
Changes in non-cash investing working capital *(Note 16)*	**(7,858)**	17,973
	(109,548)	(219,106)
NET INCREASE (DECREASE) IN CASH	**75**	(1)
CASH, BEGINNING OF PERIOD	**65**	66
CASH, END OF PERIOD	**140**	65
Cash interest paid	**10,311**	10,320
Cash taxes paid	**–**	254

See accompanying notes to the financial statements.

1. NATURE OF OPERATIONS

Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") was a private company, incorporated under the Business Corporations Act (Alberta) on July 6, 2004 as 1116463 Alberta Ltd. The name was changed from 1116463 Alberta Ltd. to Birchcliff Energy Ltd. on September 10, 2004. The address of the Corporation's registered office is 500, 630 – 4th Avenue, S.W., Calgary, Alberta, Canada T2P 0J9.

The Corporation is engaged in the exploration for and the development, production and acquisition of, petroleum and natural gas reserves in Western Canada. Birchcliff trades on the Toronto Stock Exchange under the symbol "BIR". Birchcliff's financial year end is December 31.

2. SIGNIFICANT ACCOUNTING POLICIES

The annual audited Financial Statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles ("**GAAP**"), within an acceptable level of materiality, utilizing the framework of the accounting policies below. The Financial Statements are expressed in Canadian ("CDN") dollars.

a) Basis of accounting

The Corporation's Financial Statements include the accounts of Birchcliff. There are no subsidiary companies.

b) Revenue recognition

Revenue associated with sales of petroleum and natural gas are recorded when the commodities are delivered and title passes to the purchaser. Revenue associated with sales of petroleum and natural gas are recorded gross of transportation and marketing charges.

c) Joint venture activities

Substantially all of the Corporation's exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Corporation's proportionate interest in such activities.

d) Measurement uncertainty

The preparation of timely Financial Statements necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. These estimates will affect assets, liabilities and the disclosure of contingent assets and liabilities at the date of the Financial Statements, as well as revenues and expenses during the reporting periods. Such estimates are based on informed judgments made by management. Actual results could differ materially from those estimated.

Amounts recorded for depletion, depreciation and, asset retirement and amounts used for impairment test calculations are based on estimates of petroleum and natural gas reserves which include estimates of future commodity prices, future costs and other relevant assumptions. The Corporation's reserves are estimated and evaluated, at a minimum, annually by an independent engineering firm. The provision for income taxes is based on judgments in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax bases of assets and liabilities. By their nature, these estimates are subject to measurement uncertainty and the impact of changes in such estimates on the Financial Statements of future periods could be material.

e) *Cash and cash equivalents*

Cash and cash equivalents includes cash and highly liquid short-term investments having a maturity date of not more than ninety days at the time of purchase.

f) *Property, plant and equipment*

Capitalized costs

The Corporation follows the full cost method of accounting whereby all costs relating to the exploration, acquisition and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, production equipment, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells and corporate charges directly related to acquisition, exploration and development activities. Proceeds from the sale of properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would alter the rate of depletion and depreciation by 20% or more.

Depletion and depreciation

Depletion and depreciation of petroleum and natural gas properties and equipment, together with the estimated future costs to be incurred in developing proved reserves, are depleted or depreciated using the unit-of-production method based on the proved reserves before royalties as estimated by independent engineers. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content of six thousand cubic feet of natural gas to one barrel of oil. The costs of undeveloped properties are excluded from the costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties.

Impairment

Petroleum and natural gas properties are evaluated each reporting period through an impairment test to determine the recoverability of capitalized costs. The carrying amount is assessed as recoverable when the sum of the undiscounted cash flows expected from proved reserves plus the cost of unproved interests, net of impairments, exceeds the carrying amount. When the carrying amount is assessed not to be recoverable, an impairment loss is recognized to the extent that the carrying amount exceeds the sum of the discounted cash flows from proved and probable reserves plus the cost of unproved interests, net of impairments. Reserves are determined pursuant to National Instrument 51-101, *Standards of Disclosures for Oil and Gas Activities*. Unproved properties are assessed at least annually to determine whether impairment has occurred.

Administrative assets
The Corporation records depreciation on its office furniture and equipment, which includes computer equipment, on a straight-line basis using an expected useful life of four years.

g) *Asset retirement obligations*
The Corporation recognizes the estimated liability associated with future site reclamation costs in the Financial Statements when a well or related asset is drilled, constructed or acquired including facilities. Costs are estimated by management in consultation with the Corporation's engineers based on current costs and technology in accordance with current legislation and industry practices. The obligation is initially measured at fair value, and subsequently adjusted for the accretion of discount and any changes to the underlying cash flows. The asset retirement cost is capitalized to petroleum and natural gas properties and equipment and amortized into earnings in depletion expense on a basis consistent with depletion and depreciation. Actual site restoration and abandonment expenditures are applied directly against the asset retirement obligation. The Corporation reviews the obligation regularly such that revisions to the estimated timing of cash flows, discount rates and estimated costs will result in an increase or decrease to the asset retirement obligation.

h) *Future income taxes*
The Corporation accounts for its income taxes using the liability method. Under this method, future income tax assets and liabilities are determined based on the differences between the accounting and tax bases of assets and liabilities using substantively enacted tax rates anticipated to apply in relevant future periods. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in the period of substantive enactment.

i) *Stock-based compensation*
The Corporation accounts for its stock-based compensation plans using the fair value method to value stock options and performance warrants granted to officers, directors, employees and consultants. Under this method, compensation cost attributed to stock options and performance warrants ("stock awards") granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of stock awards, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Corporation does not incorporate an estimated forfeiture rate for stock awards that will not vest, but instead accounts for forfeitures as a change in estimate in the period in which they occur. In the event that vested stock awards expire without being exercised, previously recognized compensation costs associated with such awards are not reversed.

j) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. The Corporation records the carrying value of the expenditures in property, plant and equipment as incurred and records the future income taxes associated with the renunciation of expenditures with a corresponding reduction to share capital.

k) Financial instruments

All financial instruments are initially recognized at fair value on the balance sheet. The Corporation has classified each financial instrument into the following categories: "held for trading" financial assets and financial liabilities; "loans or receivables"; and "other financial liabilities". Subsequent measurement of the financial instruments is based on their classification. The Corporation has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value. Gains and losses from revaluation are recognized in net income.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value.
- Revolving credit facilities, accounts payable and accrued liabilities are classified as other liabilities and are initially measured at fair value.

l) Derivative financial instruments

Derivative financial instruments are used by the Corporation to manage economic exposure to market risks relating to commodity prices. Birchcliff's policy is not to utilize derivative financial instruments for speculative purposes.

Derivative financial instruments that do not qualify as hedges, or are not designated as hedges, are classified as held-for-trading and are recorded using the mark-to-market method of accounting whereby instruments are recorded in the Balance Sheet as either an asset or liability with changes in fair value recognized in net income.

m) Per share information

Per share information is computed using the weighted average number of common shares outstanding during the period. Diluted per share information is calculated using the treasury stock method, which assumes that any proceeds from the exercise of "in-the-money" stock options or performance warrants plus the unamortized stock based compensation expense amounts would be used to purchase common shares at the average market price during the period. No adjustment to diluted income per share is made if the result of these calculations is anti-dilutive.

n) Foreign currency translations

Monetary assets and liabilities of the Corporation that are denominated in foreign currencies are translated into its reporting currency at the rates of exchange in effect at the period end date. Any gains or losses are recorded in net income.

3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2009 the Corporation adopted the following Canadian Institute of Chartered Accountant ("CICA") Handbook Sections:

- Section 3064 *Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this Section did not have an impact on the Corporation's Financial Statements.

- EIC-173 *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. In January 2009, the CICA issued EIC-173 which provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The application of this EIC did not have a material effect on the Corporation's Financial Statements.

- Section 3855 *Financial Instruments – Recognition and Measurement* and Section 3025, *Impaired Loans*. In August 2009, the Accounting Standards Board ("**AcSB**") amended these Sections to converge with international standards (IAS 39, *Financial Instruments – Recognition and Measurement*) for impairment of debt instruments by changing the categories into which debt instruments are required or permitted to be classified. These amendments are effective for annual financial statements relating to fiscal years beginning on or after November 1, 2008. The adoption of these Sections did not have an impact on the Corporation's Financial Statements.

- Section 3862 *Financial Instruments – Disclosures*. In June 2009, the CICA amended this Section to include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments are effective for annual financial statements relating to fiscal years ending after September 30, 2009. The amendments are consistent with recent changes to financial instrument disclosure under International Financial Reporting Standards. The Corporation has included the applicable disclosures related to this Section in Note 9 of the Financial Statements.

Future Accounting Policy Changes

- Section 1582 *Business Combinations*. In January 2009, the CICA issued Handbook Section 1582, *Business Combinations* that replaces the Section 1581 of the same name. Under the new standard, the purchase price used in a business combination is based on the fair value of shares exchanged at the market price at acquisition date. Under the current standard, the purchase price used is based on the market price of shares for a reasonable period before and after the date the acquisition is agreed upon and announced. In addition, the new standard generally requires all acquisition costs to be expensed while current standards allow for the capitalization of these costs as part of the purchase price. This new standard also addresses contingent liabilities, which will be required to be recognized at fair value on acquisition, and subsequently remeasured at each reporting period until settled. Current standards require only contingent liabilities that are due to be recognized. The new standard requires any negative goodwill to be recognized as a charge to earnings rather than the current standard which reduces the fair value of non-current assets in the purchase price allocation. The new standard applies prospectively to business combinations on or after January 1, 2011 with earlier application permitted. The Corporation does not intend to early adopt the new standard.

Convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS")

In 2006, the AcSB ratified a strategic plan to converge Canadian GAAP with IFRS by 2011 for public reporting entities. On February 13, 2008 the AcSB confirmed that IFRS will replace Canadian GAAP for public companies beginning January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Birchcliff for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010.

4. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

($000's)			**2009**
	COST	**ACCUMULATED DEPLETION AND DEPRECIATION**	**NET BOOK VALUE**
Petroleum and natural gas assets	1,099,420	(298,560)	800,860
Office furniture and equipment	3,415	(1,852)	1,563
	1,102,835	**(300,412)**	**802,423**

$000's)			**2008**
	COST	**ACCUMULATED DEPLETION AND DEPRECIATION**	**NET BOOK VALUE**
Petroleum and natural gas assets	996,028	(215,719)	780,309
Office furniture and equipment	2,780	(1,198)	1,582
	998,808	**(216,917)**	**781,891**

At December 31, 2009, the cost of petroleum and natural gas properties includes $44.9 million (2008 – $49.7 million) relating to unproved properties which have been excluded from costs subject to depletion and depreciation.

Birchcliff capitalized general and administrative costs directly related to exploration and development activities of approximately $1.9 million in the year ended December 31, 2009 (2008 – $1.9 million).

On September 15, 2009, the Government of Alberta approved a drilling royalty incentive for conventional oil and natural gas wells drilled on or after April 1, 2009, but before April 1, 2011. Included as a reduction of petroleum and natural gas properties and equipment at December 31, 2009 is an expected recovery of $6.3 million related to the new Alberta drilling royalty credit program.

The Corporation performed an impairment test at December 31, 2009 to ensure the carrying value of its petroleum and natural gas properties and equipment is recoverable and does not exceed fair value. The petroleum and natural gas future prices are based on December 31, 2009 commodity price forecasts of the Corporation's independent reserve evaluators. The following table summarizes the actual prices used in the impairment test calculation:

YEAR	WTI OIL (1) ($US/bbl)	FOREIGN EXCHANGE RATE	EDMONTON LIGHT CRUDE OIL (1) ($CDN/bbl)	AECO GAS (1) ($CDN/mcf)
2010	75.00	0.950	77.55	5.80
2011	81.60	0.950	84.45	6.70
2012	85.85	0.950	88.90	7.05
2013	90.20	0.950	93.45	7.45
2014	97.40	0.950	101.05	7.55
2015	104.90	0.950	108.85	7.75
2016	112.60	0.950	116.95	7.90
2017	114.85	0.950	119.30	8.25
2018	117.15	0.950	121.70	8.55
2019	119.50	0.950	124.10	8.85
2020	121.90	0.950	126.60	9.15
2021	124.35	0.950	129.15	9.35
2022	126.80	0.950	131.70	9.50
2023	129.35	0.950	134.35	9.70
2024	131.95	0.950	137.05	9.90
2025	134.60	0.950	139.80	10.10
2026	137.30	0.950	142.55	10.30
2027	140.00	0.950	145.40	10.50
2028	142.80	0.950	148.35	10.70
2029	145.70	0.950	151.30	10.95
2029+	2%	2%	2%	2%

(1) Actual prices used in the impairment test were adjusted for crude oil and natural gas differentials, and transportation and marketing costs specific to the Corporation's operations

Based on the impairment test, Birchcliff concluded that its petroleum and natural gas properties and equipment were not impaired at December 31, 2009 and 2008.

5. NON-REVOLVING ACQUISITION FACILITY

Birchcliff entered into an Acquisition Credit Agreement (the "**Acquisition Facility**") with a syndicate of banks on September 4, 2007. The agreement allowed for Birchcliff to make a one-time draw of up to $100 million on a non-revolving credit facility for the purpose of closing the Worsley Acquisition. On September 27, 2007, the Corporation gave notice to draw the entire amount of the credit facility in bankers' acceptances. The drawn amount at December 31, 2007 was $98.8 million with the $1.2 million difference being the discounted value from the $100 million credit facility limit based on the market interest rate at that time for bankers' acceptances. On March 14, 2008 the facility was repaid in full and cancelled, following the completion of the equity financing described in Note 12(d).

6. **NON-REVOLVING TERM FACILITY**

On May 21, 2009, the Corporation entered into a $50 million supplemental non-revolving one year term credit facility (the "**Term Facility**"). The Term Facility is provided by a syndicate of four banks (the "**Syndicate**"). No amounts were drawn on the Term Facility at December 31, 2009. The Corporation paid $625,000 in financing fees to the Syndicate to establish the Term Facility. These fees have been deferred as a non current asset and are being amortized to income equally over the one year term beginning May 21, 2009. During the year ended December 31, 2009, the Corporation amortized to income approximately $380,000 in deferred financing fees applicable to the Term Facility. At December 31, 2009, the unamortized portion of the deferred financing fees related to this facility was approximately $245,000.

In January 2010, the Corporation paid $250,000 in financing fees to extend the maturity date of the Term facility from May 21, 2010 to May 21, 2011. Consent was also received from the Syndicate in January 2010 to allow the Corporation to draw the full amount of this facility.

The Term Facility allows for prime rate loans, US base rate loans, bankers' acceptances, letters of credit and LIBOR loans. The interest rates applicable to this facility are based on a pricing grid and will increase as a result of the increased ratio of outstanding indebtedness to earnings before interest, taxes, depreciation and amortization. The Term Facility is secured by a fixed and floating charge debenture, an instrument of pledge, and a general security agreement encompassing all of the Corporation's assets for a consideration equal to the draw-down amount.

7. **REVOLVING CREDIT FACILITIES**

($000's)	**2009**	**2008**
Syndicated credit facility	192,000	201,000
Working capital facility	14,387	14,176
Outstanding revolving credit facilities	206,387	215,176
Unamortized prepaid interest on bankers' acceptances	(4,627)	(3,590)
Unamortized deferred financing fees	(530)	–
Revolving credit facilities, net	**201,230**	**211,586**

On May 21, 2009, Birchcliff amended its agreement with its bank syndicate which increased the Corporation's existing revolving credit facilities from $240 million to an aggregate limit of $255 million. The revolving credit facilities consist of an extendible revolving term credit facility with an authorized limit of $235 million (the "**Syndicated Credit Facility**") and an extendible revolving working capital facility with an authorized limit of $20 million (the "**Working Capital Facility**"). Included as a reduction in the available Working Capital Facility are letters of credit issued to various service providers in the amount of $2.7 million at December 31, 2009 (2008 – $1.8 million). At December 31, 2009, the effective rate applicable to the Working Capital Facility was 4.8% (2008 – 4.7%). The overall effective interest rate applicable to the bankers' acceptances in the Syndicated Credit Facility was 4.0% for the year December 31, 2009 (2008 – 3.2%).

The Corporation paid $1.35 million in financing fees to the Syndicate to extend the conversion date of the revolving credit facilities to May 21, 2010. These fees have been deferred and netted against the revolving facilities and are being amortized to income over the one year extension period. During the year ended December 31, 2009, the Corporation amortized to income approximately $820,000 in deferred financing fees applicable to the revolving facilities. At December 31, 2009, the unamortized portion of the deferred financing fees related to this facility was approximately $530,000 (2008 – $NIL).

The revolving credit facilities allow for prime rate loans, US base rate loans, bankers' acceptances, letters of credit and LIBOR loans. The interest rates applicable to the drawn loans are based on a pricing grid and will increase as a result of the increased ratio of outstanding indebtedness to earnings before interest, taxes, depreciation and amortization.

The revolving credit facilities are subject to the Syndicate's redetermination of the borrowing base twice each year as of November 15 and the conversion date. 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. The revolving credit facilities are secured by a fixed and floating charge debenture, an instrument of pledge, and a general security agreement encompassing all of the Corporation's assets.

Syndicated Credit Facility

The Syndicated Credit Facility has a conversion date of May 21, 2010 and a maturity date which is two years after the conversion date. Birchcliff may request an extension of the conversion date with such an extension not exceeding 364 days, in order to maintain the revolving Syndicated Credit Facility. If the Syndicate does not grant an extension of the conversion date, then upon the expiry of the conversion date, the revolving Syndicated Credit Facility will convert to a term loan whereby all principal and interest will be required to be repaid at the maturity date.

Working Capital Facility

The Working Capital Facility has a conversion date of May 21, 2010 and a maturity date which is two years after the conversion date. Birchcliff may request an extension of the conversion date with such an extension not exceeding 364 days, in order to maintain the revolving Working Capital Facility. If the Syndicate does not grant an extension of the conversion date, then upon four months after the expiry of the conversion date, the revolving Working Capital Facility will convert to a term loan whereby all principal and interest will be required to be repaid at the maturity date.

8. 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 favour the financing of 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 2009. The following table shows the Corporation's total available credit under its credit facilities at December 31, 2009 and 2008:

($000's)	2009	2008
Maximum borrowing base limit:		
Working capital facility	20,000	20,000
Syndicated credit facility	235,000	220,000
Term credit facility (2)	50,000	–
	305,000	240,000
Principal amount:		
Working capital facility (1)	(17,125)	(15,970)
Syndicated credit facility	(192,000)	(201,000)
Term credit facility (2)	–	–
	(209,125)	(216,970)
Total unused credit at December 31	**95,875**	**23,030**

(1) Included in the Working Capital Facility at December 31, 2009 are outstanding letters of credit issued to various service providers in the amount of $2.7 million (2008 – $1.8 million).

(2) Birchcliff did not request a draw-down of the $50 million Term Facility in 2009 and as a result no amounts were outstanding on this facility at December 31, 2009. This facility did not exist at December 31, 2008.

At December 31, 2009, the Corporation's aggregate borrowing base limit on its credit facilities was $305 million (2008 – $240 million) of which $95.9 million (2008 – $23.0 million) in total unused credit was available at the end of the year to fund short term and long term obligations. The Corporation's credit facilities are subject to a semi-annual review of the borrowing base limit which is directly impacted by the value of the oil and natural gas reserves.

The financial covenants applicable to the Corporation's credit facilities include a review of earnings before interest, taxes, stock-based compensation, depletion, depreciation and amortization ("EBITDA") to interest coverage ratio which is calculated quarterly. The following table shows the EBITDA to interest coverage ratio at December 31, 2009 and 2008:

	2009		2008	
	REQUIRED	ACTUAL	REQUIRED	ACTUAL
Annualized EBITDA to interest coverage (1)	>3.5	7.6	>3.5	13.8

(1) Annualized EBITDA is defined as earnings before interest, taxes, stock-based compensation, depletion, depreciation and amortization and is calculated on a trailing twelve month basis.

The Corporation was compliant with all financial covenants under its credit facilities throughout 2009 and 2008.

Birchcliff strives to properly exploit its current asset base and to acquire top quality assets. To that end, the Corporation is not averse to maintaining a high ratio of debt to total capital if management determines the assets it is acquiring or the projects it is drilling are of high quality. In order to maintain or adjust the capital structure, the Corporation may issue new shares or debt, increase the aggregate credit facility limits, obtain or adjust its capital spending to manage current and projected debt levels. Management expects to be able to continue to raise additional equity and debt financing sufficient to meet both its short-term and long-term growth requirements in the current environment. Birchcliff is now at such a size that it anticipates it will not require additional equity except to fund a significant acquisition or to significantly increase its capital spending beyond its cash flow.

The capital structure of the Corporation is as follows:

($000's)	**2009**	**2008**	**CHANGE %**
Total shareholders' equity [(1)]	554,561	507,371	9%
Total shareholders' equity as a % of total capital	71%	67%	
Working capital deficit [(2)]	20,291	38,276	
Revolving credit facilities [(3)]	206,387	215,176	
Total debt	226,678	253,452	(11%)
Total debt as a % of total capital	29%	33%	
Total capital	**781,239**	**760,823**	**3%**

(1) Shareholders' equity is defined as share capital plus contributed surplus plus retained earnings, less any deficit.
(2) Working capital deficit is defined as current assets less current liabilities.
(3) The revolving credit facilities include $14.4 million drawn on the Working Capital Facility and $192 million drawn on the Syndicated Credit Facility as described in Note 7.

During the year ended December 31, 2009, total shareholders' equity increased mainly due to the issuance of common shares (Note 12 (f)); exercise of options (Note 12); and offset by an increase in reported net loss during the year.

Total debt decreased during the year ended December 31, 2009 largely due to equity proceeds of $59.3 million on June 30, 2009 (Note 12 (f)) which were used to pay down the Corporation's revolving credit facilities. Also during the year, total debt increased by $34.2 million as a result of capital spent in excess of cash flow.

9. FINANCIAL INSTRUMENTS & RISK MANAGEMENT CONTRACTS

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 policies. The Corporation's risk management policies 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.

Credit Risk

Cash is comprised of bank balances. Historically, the Corporation has not carried short term investments. Should this change in the future, counterparties will be selected based on credit ratings and management will monitor all investments to ensure a stable return, and complex investment vehicles with higher risk will be avoided. The Corporation's exposure to cash credit risk at the balance sheet date is very low.

A substantial portion of the Corporation's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers.

The following table illustrates the Corporation's maximum exposure for receivables:

($000's)	2009	2008
Marketers	16,607	15,265
Joint venture partners	12,984	14,500
Other	74	71
Total receivables	**29,665**	**29,836**

Of the Corporation's significant individual accounts receivable due from marketers at December 31, 2009, approximately 18% was due from one marketer (2008 – 21%, one marketer). For the year ended December 31, 2009, the Corporation generated 39%, 10%, 11% and 23% of its revenue, respectively, from four core customers. The Corporation generated the majority of its revenue for the year ended December 31, 2008 from four customers, who individually accounted for 23%, 16%, 11% and 18%, respectively. Typically, Birchcliff's maximum credit exposure to customers is revenue from two months of commodity sales. Receivables from marketers are normally collected on the 25th day of the month following production. Birchcliff's policy to mitigate credit risk associated with these balances is to establish marketing relationships with credit worthy purchasers, to obtain guarantees from their ultimate parent companies and to obtain letters of credit as appropriate. The Corporation historically has not experienced any material collection issues with its marketers.

At December 31, 2009 approximately $358,000 or 1% of Birchcliff's total accounts receivable are aged over 120 days and considered past due. The majority of these accounts are due from various joint venture partners. Birchcliff attempts to mitigate the risk from joint venture receivables by obtaining pre-approval of significant capital expenditures. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venturers' as disagreements occasionally arise that increase the potential for non-collection. The Corporation does not typically obtain collateral from oil and natural gas marketers or joint venturers', however, the Corporation does have the ability to withhold production from joint venturers' in the event of non-payment.

Should Birchcliff determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If the Corporation subsequently determines an account is uncollectible the account is written off with a corresponding charge to the allowance account. At December 31, 2009, Birchcliff's allowance for doubtful accounts balance was $NIL (2008 – $99,000).

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations associated with financial liabilities that are settled by cash as they become due. Birchcliff's approach to managing liquidity is to ensure, as much as possible, that it will have sufficient liquidity to meet its short term and long term financial obligations when due, under both normal and unusual conditions without incurring unacceptable losses or risking harm to the Corporation's reputation.

All of Corporation's contractual financial liabilities are to be settled in cash at December 31, 2009 and 2008. Typically, the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations. To achieve this objective, the Corporation prepares annual capital expenditure budgets, which are approved by the Board of Directors and are regularly reviewed and updated as considered necessary. Petroleum and natural gas production is monitored weekly and is used to provide monthly current cash flow estimates. Further, the Corporation utilizes authorizations for expenditures on both operated and non operated projects to further manage capital expenditure. The Corporation also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month.

To facilitate the capital expenditure program, the Corporation has reserve-based credit facilities, as outlined in Note 7, which are reviewed semi-annually by the lender. The principal amount utilized under the Corporation's credit facilities at December 31, 2009 was $209.1 million (2008 – $217.0 million) and $95.9 million (2008 – $23.0 million) in unused credit was available at the end of the year to fund future obligations.

The following table lists the contractual maturities of the Corporation's financial liabilities at December 31, 2009:

($000's)	< 1 YEAR	1 – 2 YEARS	3 – 5 YEARS	THEREAFTER
Accounts payable and accrued liabilities	54,731	–	–	–
Revolving credit facilities (1)	–	–	206,387	–
Total financial liabilities	**54,731**	**–**	**206,387**	**–**

(1) The revolving credit facilities bear interest at a floating rate and include $14.4 million drawn on the Working Capital Facility and $192 million drawn on the Syndicated Credit Facility as described in Note 7.

Market Risk

Market risk is the risk that changes in market conditions; such as commodity prices, exchange rates and interest rates; will affect the Corporation's net earnings or the value of its financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. These risks are consistent with prior years.

All risk management transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can materially impact the Corporation's borrowing base under its credit facility. Lower commodity prices can also reduce the Corporation's ability to raise capital. Commodity prices for crude oil and natural gas are not only impacted by the CDN and United States ("US") dollar, but also by world economic events that dictate the levels of supply and demand.

The Corporation may attempt to mitigate commodity price risk through the use of financial derivatives such as commodity price risk management contracts. Birchcliff had no risk management contracts in place as at or during the year ended December 31, 2009. For the year ended December 31, 2008, the total loss related to oil price risk management contracts was $3.1 million. Included in the total loss was a net cash outlay of approximately $9.9 million relating to the actual monthly settlements incurred during the period. An unrealized gain of approximately $6.8 million for the year ended December 31, 2008 was also included within the total loss identified as "unrealized risk management contracts gain" on the Statements of Cash Flows.

The Corporation had no risk management contracts in place as at or during the years ended December 31, 2009. The Corporation actively monitors the market to determine whether any additional commodity price risk management contracts are warranted.

Foreign Currency Risk

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. Prices for oil are determined in global markets and generally denominated in US dollars. Natural gas prices obtained by the Corporation are influenced by both US and CDN demand and the corresponding North American supply. The exchange rate effect cannot be quantified but generally an increase in the value of the $CDN as compared to the $US will reduce the prices received by Birchcliff for its petroleum and natural gas sales.

The average exchange rate during 2009 was one US dollar equals $1.14 CDN (2008 – one $US equals $1.07 CDN) and the exchange rate at December 31, 2009 was one $US equals $1.05 CDN dollar (2008 – one $US equals $1.22 CDN).

The Corporation had no forward exchange rate contracts in place as at or during the years ended December 31, 2009 and 2008.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate cash flow risk on floating interest rate bank debt due to fluctuations in market interest rates. The remainder of Birchcliff's financial assets and liabilities are not exposed to interest rate risk.

A 1% change in the CDN prime interest rate in 2009 would have increased (decreased) net income (loss) and comprehensive income (loss) by $2.1 million (2008 – $1.8 million), assuming that all other variables remain constant. A sensitivity of 1% is considered reasonable given the current level of the bank prime rate and market expectations for future movements. The Corporation considers this risk to be limited and thus does not hedge its interest rate risk.

The Corporation had no interest rate swap contracts in place as at or during the years ended December 31, 2009 and 2008.

Fair Value of Financial Instruments

Birchcliff's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities and revolving credit facilities. All of Birchcliff's financial instruments are transacted in active markets. Birchcliff classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. Birchcliff's financial instruments have been assessed on the fair value hierarchy described above.

The carrying value and fair value of financial instruments at December 31, 2009 is disclosed below by financial instrument category, as well as any related loss or interest expense for the period:

($000's)	CARRYING VALUE	FAIR VALUE	LOSS	INTEREST EXPENSE
Assets Held for Trading				
Cash (1)	140	140	–	–
Loans and Receivables				
Trade and other receivables (2)	29,665	29,665	–	–
Other Liabilities				
Accounts payable and accrued liabilities (2)	54,731	54,731	–	–
Revolving credit facilities (3)	206,387	206,387	–	10,311

(1) Cash is reported at fair value, based on a Level 1 designation.

(2) Trade and other receivables and trade and other payables are reported at amortized cost. Due to the short term nature trade and other receivables and accounts payable and accrued liabilities, their carrying values approximate their fair values at December 31, 2009.

(3) The revolving credit facilities bear interest at a floating rate and accordingly the fair market value approximates the carrying value before the carrying value is reduced for the remaining unamortized costs as described in Note 7.

10. FUTURE INCOME TAX

The provision for income taxes differs from the result that would be obtained by applying the combined current year Canadian federal and provincial income tax rates in 2009 of 29% (2008 – 29.5%). The difference results from the following items:

($000's)	2009	2008
Net income (loss) before taxes	(28,821)	43,588
Computed expected income tax expense (recovery)	(8,358)	12,858
Increase (decrease) in taxes resulting from:		
Non-deductible stock-based compensation	2,855	1,639
Non-deductible expenses	50	72
Changes in tax rate and other	884	(872)
Future income tax expense (recovery)	**(4,569)**	**13,697**

The components of the future income tax assets and liabilities at December 31 are as follows:

($000's)	2009	2008
Future tax liabilities:		
Property, plant and equipment	(42,198)	(21,338)
Deferred financing fees	(217)	–
Future tax assets:		
Asset retirement obligations	6,237	5,393
Share issue costs	2,357	3,189
NCL's, SR&ED's & ITC's (1)	31,948	9,321
Net future tax liability	**(1,873)**	**(3,435)**

(1) "NCL" = Non Capital Losses; "SR&ED" = Scientific Research & Experimental Development; "ITC" = Investment Tax Credits

At December 31, 2009, the Corporation's estimated non-capital losses for income tax purposes is approximately $109.1 million (2008 – $18.6 million) available to shelter future taxable income. Management expects that future taxable income will be available to utilize non-capital losses.

The following table shows a breakdown of the Corporation's non-capital losses by year of expiry:

YEAR OF EXPIRY	$000's
2015	71
2026	388
2028	18,098
2029	28,463
2030	62,047
Total non-capital losses	**109,067**

11. ASSET RETIREMENT OBLIGATIONS

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas properties and equipment including well sites, gathering systems and processing facilities. Birchcliff estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at December 31, 2009 to be approximately $70.1 million (2008 – $68.1 million) which will be incurred between 2010 and 2061. A credit-adjusted risk-free interest rate of 8% and an inflation rate of 2% were used to calculate the fair value of the asset retirement obligation.

A reconciliation of the asset retirement obligations is provided below:

($000's)	2009	2008
Balance, January 1	21,223	18,806
Obligations incurred	475	1,778
Obligations acquired	17	89
Changes in estimate	1,846	166
Accretion expense	1,758	1,466
Actual expenditures incurred	(606)	(1,082)
Balance, December 31	**24,713**	**21,223**

12. SHARE CAPITAL

a) *Authorized:*

Unlimited number of voting common shares

Unlimited number of non-voting preferred shares

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) *Issued:*

	NUMBER OF COMMON SHARES	AMOUNT $
Balance, December 31, 2007	**94,554,269**	**342,818,621**
Issued upon exercise of stock options	1,133,925	6,009,537
Issued upon exercise of warrants *(Note (c))*	809,933	3,596,103
Issued, net of costs *(Note (d))*	15,897,843	123,088,169
Tax effect of share issue costs *(Note (e))*	–	1,970,000
Balance, December 31, 2008	**112,395,970**	**477,482,430**
Issued upon exercise of stock options	1,419,032	7,813,442
Tax effect of flow through shares *(Note (d))*	–	(3,750,000)
Issued, net of costs *(Note (f))*	10,000,000	59,304,600
Tax effect of share issue costs *(Note (g))*	–	743,000
Balance, December 31, 2009	**123,815,002**	**541,593,472**

c) In January 2008, 809,933 common shares were issued to a former officer in exchange for 809,933 performance warrants with an exercise price of $3.00 for gross proceeds to the Corporation of $2,429,799. In addition, $1,166,304 of non-cash costs attributable to these warrants, which was previously recorded to contributed surplus, was reclassified from contributed surplus to share capital.

d) On March 14, 2008, Birchcliff issued 1,522,843 flow-through shares at a price of $9.85 per share and 14,375,000 common shares at a price of $8.00 per share for total net proceeds of $123,088,169. As at December 31, 2008, the commitment to spend and renounce $15 million of qualified 100% deductible tax pools with respect to the flow-through shares was fulfilled.

e) Birchcliff recognized a future income tax benefit of $1,970,000 in respect of share issue costs of $6,911,832 incurred with respect to the issuance of 15,897,843 shares on March 14, 2008.

f) On June 30, 2009, Birchcliff issued 10,000,000 common shares at a price of $6.20 per share for total net proceeds of $59,304,600.

g) Birchcliff recognized a future income tax benefit of $743,000 in respect of share issue costs of $2,695,400 incurred with respect to the issuance of 10,000,000 common shares on June 30, 2009.

13. STOCK-BASED COMPENSATION

The Corporation has established a stock-based compensation plan whereby officers, employees, directors and consultants may be granted options to purchase common shares at a fixed price not less than the fair market value of the stock at the time of grant, subject to certain conditions being met. Stock options granted under this plan vest over a three year period at the rate of one-third on each anniversary date of the stock option grant. All stock options granted are for a five year term. The Corporation is authorized to issue stock options for a maximum of 10% of the issued and outstanding common shares pursuant to the Amended and Restated Stock Option Plan.

In order to calculate the compensation expense, the fair value of the stock options or performance warrants is estimated using the Black-Scholes option-pricing model that takes into account, as of the grant date: exercise price, expected life, current price, expected volatility, expected dividends, and risk-free interest rates.

For the year ended December 31, 2009, the Corporation recorded a total non-cash stock-based compensation expense of $9.8 million (2008 – $5.0 million) related to the issuance of stock options and extension of performance warrants.

Stock Options

For the year ended December 31, 2009, the Corporation recorded $6.7 million (2008 – $5.0 million) of non-cash stock-based compensation expense and a corresponding increase to contributed surplus related to the issuance of stock options. During the year ended December 31, 2009, the Corporation also recorded a cash stock-based compensation expense of $NIL (2008 – $20,000) related to cash paid to cancel vested stock options during the period.

At December 31, 2009, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of 12,381,500 common shares (2008 – 11,239,597). At December 31, 2009, there remained available for issuance options in respect of 4,671,247 common shares (2008 – 4,915,376).

A summary of the Corporation's outstanding stock options during the year ended December 31, 2009 and 2008 is presented below:

	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE ($)
Outstanding, December 31, 2007	**5,335,814**	**4.00**
Granted	2,330,000	8.23
Exercised	(1,133,925)	(3.74)
Forfeited	(202,668)	(4.75)
Cancelled	(5,000)	(3.75)
Outstanding, December 31, 2008	**6,324,221**	**5.58**
Granted	3,959,900	5.53
Exercised	(1,419,032)	(3.74)
Forfeited	(1,154,836)	(6.18)
Outstanding, December 31, 2009	**7,710,253**	**5.81**

The fair value of each option was determined on the date of the grant using the Black-Scholes option-pricing model. The weighted average assumptions used in calculating the fair values are set forth below:

	2009	2008
Risk-free interest rate	3.9%	3.1%
Expected maturity (years)	5.0	5.0
Expected volatility	63.5%	52.0%
Dividend yield	–	–
Fair value per option	$3.02	$3.98

A summary of the stock options outstanding and exercisable under the plan at December 31, 2009 is presented below:

EXERCISE PRICE		AWARDS OUTSTANDING			AWARDS EXERCISABLE (2009)		
LOW	HIGH	QUANTITY	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	QUANTITY	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE
$3.00	$6.00	5,109,986	3.08	$4.63	1,635,992	1.66	$4.05
$6.01	$9.00	2,254,367	3.53	$7.52	556,233	2.82	$7.38
$9.01	$12.00	158,100	3.59	$10.68	52,699	3.59	$10.68
$12.01	$14.25	187,800	3.53	$13.07	62,600	3.53	$13.07
		7,710,253	**3.23**	**$5.81**	**2,307,524**	**2.04**	**$5.25**

Performance Warrants

On January 14, 2005, as part of the Corporation's initial restructuring to become a public entity, the Corporation issued performance warrants with an exercise price of $3.00 and an expiration date of January 31, 2010 to members of its executive team. Each performance warrant entitles the holder to purchase one common share at the exercise price. Because the performance conditions were fulfilled in 2005, resulting in the performance warrants vesting, the full amount related compensation expense was recorded in net income in that year.

No performance warrants were issued in the periods ended December 31, 2009 and 2008.

A summary of the performance warrants outstanding and exercisable during the year ended December 31, 2009 and 2008 is presented below:

	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE ($)
Outstanding, December 31, 2007	**3,749,665**	**3.00**
Exercised	(806,933)	(3.00)
Outstanding, December 31, 2008	**2,939,732**	**3.00**
Exercised	–	–
Outstanding, December 31, 2009	**2,939,732**	**3.00**

On May 28, 2009, the Corporation's outstanding performance warrants were amended to extend the expiration date from January 31, 2010 to January 31, 2015 (the "**Extension**"). The Corporation recorded a non-cash stock-based compensation expense of $3.1 million relating to the Extension of the performance warrants for the year ended December 31, 2009. This amount represents the fair value of the Extension determined by the difference between the fair value of the outstanding performance warrants with the expiration date of January 31, 2015 (the "extended term") and the fair value of the outstanding performance warrants with the expiration date of January 31, 2010 (the "original term"). The fair value in each case was estimated as at May 28, 2009 using the Black-Scholes option-pricing model. The fair value of each extended term and original term performance warrant was $4.27 and $3.23, respectively.

The assumptions used in calculating the fair value of the extended and original term performance warrants at May 28, 2009 are set forth below:

	EXTENDED TERM PERFORMANCE WARRANTS	ORIGINAL TERM PERFORMANCE WARRANTS
Risk-free interest rate	2.1%	2.1%
Expected maturity (years)	5.0	0.72
Expected volatility	63.0%	63.0%
Dividend yield	–	–

Contributed Surplus Continuity

	$000's
Balance, December 31, 2007	**10,930**
Stock-based compensation expense – stock options (1)	5,004
Exercise of stock options	(2,930)
Cancellation of stock options (2)	(20)
Balance, December 31, 2008	**12,984**
Stock-based compensation expense – stock options (1)	6,784
Stock-based compensation expense – performance warrants	3,060
Exercise of stock options	(2,513)
Balance, December 31, 2009	**20,315**

(1) Included in the stock-based compensation expense is the non-cash impact of forfeitures during the period.
(2) Included in the cancellation of stock options is cash paid to cancel 5,000 vested stock options during 2008.

14. PER SHARE INFORMATION

		2009	2008
Basic	Net income (loss) per share	$(0.21)	$0.27
	Weighted average shares outstanding	117,993,314	108,986,165
Diluted	Net income (loss) per share	$(0.21)	$0.26
	Weighted average shares outstanding	117,993,314	113,092,125

Because the Corporation reported a loss for the year ended December 31, 2009, the basic and diluted weighted average shares outstanding are the same for that period.

The weighted average diluted shares outstanding for 2008 includes 108,986,165 weighted average number of shares outstanding, plus the following: 2,031,061 shares related to the dilutive effect of the performance and retention warrants and 2,074,899 shares related to the dilutive effect of stock options. The average market value of the Corporation's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

15. COMMITMENTS

The Corporation is committed under an operating lease relating to its office premises beginning December 1, 2007 which expires on November 30, 2017. Birchcliff does not use all of the leased space and has sublet approximately 40% of the excess space to an arms' length party on a basis that recovers all of the rental costs for the first five years. The Corporation is committed to the following aggregate minimum lease payments (not reduced by rents receivable by the Corporation):

YEAR	$000's
2010	3,214
2011	3,214
2012	3,223
2013	3,331
2014	3,331
Thereafter	9,716

The Corporation is also committed to March 29, 2011 under an operating lease for another office premises that it does not use and has sublet to an arm's length party on a basis that recovers all of its rental costs.

16. SUPPLEMENTARY CASH FLOW INFORMATION

The following table details the components of non-cash working capital:

($000's)	**2009**	**2008**
Provided by (used in)		
Accounts receivable	172	(9,800)
Prepaid and other	(1,604)	(152)
Accounts payable and accrued liabilities	(16,477)	29,993
	(17,909)	**20,041**
Provided by (used in)		
Operating	(10,051)	2,068
Investing	(7,858)	17,973
	(17,909)	**20,041**

CORPORATE INFORMATION

OFFICERS

A. Jeffery Tonken, B. Com, LLB
President & Chief Executive Officer

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

Karen A. Pagano, P. Eng.
Vice President, Engineering

Bruno P. Geremia, C.A.
Vice President & Chief Financial Officer

David M. Humphreys, R.E.T
Vice President, Operations

James W. Surbey, B. Eng., LLB
Vice President, Corporate Development

DIRECTORS

Larry A. Shaw
Chairman of the Board
Calgary, Alberta

Gordon W. Cameron
Independent Businessman
Calgary, Alberta

Werner A. Siemens
Independent Businessman
Calgary, Alberta

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

SOLICITORS

Borden Ladner Gervais LLP
Calgary, Alberta

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta

RESERVE EVALUATORS

AJM Petroleum Consultants
Calgary, Alberta

BANKERS

Scotia Bank
HSBC Bank Canada
Alberta Treasury Branch
Union Bank of California
(Canada Branch)

TRANSFER AGENT

Olympia Trust Company
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Exchange
Symbol: **BIR**

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