Birchcliff Energy Ltd.

Quarterly Report Q1/10

May 11, 2010

Fellow Shareholders

Birchcliff is pleased to report its first quarter financial and operating results for the three months ended March 31, 2010. In summary, Birchcliff had an excellent quarter, out-performing its internal budgets and previous public guidance.

During the first quarter of 2010, Birchcliff was focused on completing the construction of Phase I of its Pouce Coupe South Gas Plant ("**PCS Gas Plant**"). I am proud to report the PCS Gas Plant commenced processing natural gas in late March, ahead of schedule and on budget. As a result, Birchcliff's first quarter average daily production of 10,407 boe/day was ahead of our public guidance and our internal budgets. Currently we are focused on the completion of the Phase II expansion of the PCS Gas Plant that is scheduled to commence processing natural gas this December 2010. This plant expansion is designed to achieve our previously announced year end production target of 17,000 to 19,000 boe/day.

2010 FIRST QUARTER RESULTS

Production

First quarter production averaged 10,407 boe/day, (68% natural gas and 32% light oil and natural gas liquids).

Based on estimates from field reports, production averaged 12,780 boe/day for the month of April and average production for the last week of April is estimated at 13,950 boe/day. We expect production to decline through the rest of spring breakup as a result of plant turnarounds and natural declines from the new Montney/Doig natural gas wells. Following spring break-up Birchcliff expects to add production from 6 gross (4.5 net) new horizontal Montney/Doig natural gas wells that are now drilling or awaiting completion.

Cash Flow and Earnings

Cash flow was $22.9 million or $0.18 per share for the first quarter of 2010, as compared to $14.4 million or $0.16 per share in the first quarter of 2009. As a result of lower than budgeted operating costs and royalties, and notwithstanding weak natural gas prices, cash flow was higher than our internal budgets. Net income during the first quarter was $2.7 million or $0.02 per share. We are pleased that we have earnings, especially in light of recent natural gas prices. This is reflective of the low cost nature of our asset base.

Capital Expenditures and Drilling Results

During the first quarter of 2010, net capital spending aggregated $35.7 million, which again was less than our internal budgets.

Drilling activities during the first quarter of 2010 resulted in 10 gross (9.1 net) wells, of which all but one were cased, for a success rate of 90%. Birchcliff drilled and cased 5 gross (4.1 net) Montney/Doig horizontal natural gas wells, 3 gross (3.0 net) Worsley horizontal light oil wells, and 1 gross (1.0 net) Montney/Doig light oil well at Kakut. The dry hole was a Montney/Doig oil opportunity at Kakut.

Birchcliff is very pleased to have completed Phase I of the PCS Gas Plant and related pipelines within our budget of $50 million, of which $14.6 million was spent in the first quarter of 2010.

The PCS Gas Plant is a state of the art, environmentally friendly, zero emission facility. We are very proud of the capital cost control that was achieved on a project of this magnitude as a result of the experience, the hard work and diligence by Birchcliff's project team. The plant experienced some normal start up issues, but our lead operator now reports that the facility is operating smoothly.

Birchcliff's net capital expenditures were reduced during the first quarter as a result of the sale of a minor non-producing asset in the Kakut area of Alberta for $17.5 million. Birchcliff had budgeted first quarter capital expenditures to this area and we expect that the unexpended portion of those budgeted amounts and the proceeds of sale will be redeployed elsewhere during 2010.

Land

Birchcliff continues to grow its undeveloped land base in the Peace River Arch. As at March 31, 2010, Birchcliff has increased its gross undeveloped land position to 435,588 acres (391,512 net) resulting in a 90% average working interest for our undeveloped land. Birchcliff has a high average working interest in its undeveloped land base reflecting our longstanding strategy of acquiring high working interest undeveloped land proximate to our operated high working interest production base.

Indebtedness

At March 31, 2010, the amount outstanding under Birchcliff's bank credit facilities was approximately $208.3 million. Birchcliff's working capital deficiency as at March 31, 2010 was $24 million, for a total debt of $232.3. The working capital deficiency does not reduce the amount Birchcliff can draw under its credit facilities.

As a result of our significant year end reserve additions, Birchcliff's bank syndicate recently approved the increase of Birchcliff's revolving credit facilities to an aggregate limit of $350 million from $255 million. When the banking documentation is completed, the $50 million non-revolving term credit facility will be cancelled. In addition, we have recently added a new bank to our banking syndicate. This larger syndicate will enable Birchcliff to seek further expansion of its credit facilities as we move into 2011.

The $350 million credit facilities will provide Birchcliff with the financial flexibility it requires to prudently manage its business.

The two year term out feature of Birchcliff's credit facilities remains intact so that if the credit facilities are not renewed at their annual renewal date, they convert to a two year term loan repayable at maturity.

OPERATIONS UPDATE

Montney/Doig Natural Gas Resource Play Update

In the first quarter of 2010 Birchcliff's activities on the Montney/Doig natural gas resource play included the drilling of 5 gross (4.1 net) horizontal wells utilizing multi-stage fracture stimulation techniques. Three of these wells, as well as four horizontal wells drilled in the fourth quarter of 2009 have recently been brought on production through the new PCS Gas Plant.

Birchcliff has 4 gross (3.1 net) Montney/Doig horizontal natural gas wells drilled which are awaiting completion and have not yet been brought on production.

Currently, Birchcliff has two rigs working in the Pouce Coupe area of Alberta, both focused on drilling horizontal Montney/Doig natural gas wells.

The rapid advancements in horizontal drilling and multi-stage fracture stimulation of these horizontal wells have resulted in 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. As our knowledge grows with respect to both operational technology and characteristics of these reservoirs, we expect our results to continue to improve.

In a reserve evaluation dated February 16, 2010, prepared by AJM Petroleum Consultants ("**AJM**") as at December 31, 2009 (the "**AJM Evaluation**"), AJM attributed Montney/Doig reserves to 78.4 sections of land (63.4 net) and 228 horizontal locations (178.5 net) which is an increase from 67.5 sections of land (56.7 net) and 128 horizontal locations (105.7 net) in its reserve evaluation as at December 31, 2008 and up from 35 horizontal locations (26.4 net) in its reserve evaluation as at December 31, 2007.

Of the 63.4 net sections of land to which AJM has attributed reserves, 14.2 net sections have been attributed reserves in 2 separate stratigraphic intervals, being the Basal Doig/Upper Montney interval and the Middle/Lower Montney interval.

On average, the AJM Evaluation attributes to each of these net future horizontal well locations, 3.5 bcf of proved and probable natural gas reserves at an average capital cost of $4 million per future well location 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 location used in the reserves evaluation prepared by AJM as at December 31, 2008.

In the first quarter of 2010, through drilling operations, Crown land sales and private land acquisitions Birchcliff continued its strategy to expand its footprint on this Montney/Doig natural gas resource play. At March 31, 2010, Birchcliff's internal estimate of land that it expects to have reserves attributable to at year end 2010 has grown by 1.7 net sections to 65.1 net sections.

As well, Birchcliff has expanded its trend land during the first quarter by 12.0 net sections to a total of 114.0 net sections. Trend land is land Birchcliff believes has a high likelihood of extending the Montney/Doig natural gas resource play based on technical information including geologic and geophysical data.

Assuming 4 wells per section for each stratigraphic interval that is prospective, Birchcliff has 193.3 net sections of prospective land to develop. This would total 773 net potential Montney/Doig natural gas horizontal drilling locations on this play with only 25.4 net wells drilled to the end March 31, 2010.

Worsley Light Oil Resource Play Update

The Worsley property continues its strong production performance. Our successful expansion of the waterflood, 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.

Drilling activities in the first quarter of 2010 consisted of the drilling of 3 gross (3.0 net) horizontal wells and all three were successful and are on production. One well was an open hole horizontal, one utilized multi-stage fracture stimulation technology and one was an open hole multi-lateral horizontal well.

Pouce Coupe South Gas Plant Update

Birchcliff is focused on the expansion and construction of Phase II of the PCS Gas Plant designed to increase processing capacity from 30 mmcf/day to 60 mmcf/day. Phase II is budgeted at $25 million and scheduled for completion in December, 2010. The Phase II expansion of the PCS Gas Plant, which is a significant project, is only half of the cost of Phase I. The synergies for the PCS Gas Plant that are expected to result from Phase II are significant. Essentially, Birchcliff plans to add approximately 3,500 boe/day of processing capacity net to Birchcliff for half the cost of Phase I, thereby substantially improving the economics of the PCS Gas Plant project.

Based on the project team's performance with Phase I, Birchcliff is confident that Phase II will be on time and on budget. The major pieces of equipment have been ordered and field construction is scheduled to begin in early July.

SHAREHOLDER SUPPORT

I am pleased to note that Mr. Seymour Schulich recently purchased 2 million additional shares of Birchcliff which brings his holdings to 32 million shares or 25.7% of the outstanding shares. As natural gas prices have fallen, Mr. Schulich's shareholder support for Birchcliff and his belief in long term natural gas prices has grown. His unwavering commitment to our management team allows us to focus on our strategy and on achieving our long term goals that we believe will create significant value for all Birchcliff shareholders.

OUTLOOK

Birchcliff remains very confident that its two highly focused, high working interest, low cost, repeatable, sustainable long term growth resource plays in the Peace River Arch area of Alberta offer tremendous upside value to our shareholders. The Montney/Doig natural gas resource play continues to be one of the most active geological plays in North Western Alberta and Birchcliff is right in the heart of the play.

Our strategy has not changed, notwithstanding the weakness in commodity prices. We believe that we can economically find, develop and produce natural gas from the Montney/Doig geological zone at low costs. We also believe that technology advances will continue to reduce our finding costs and increase our recovery factors. We note that our 2009 finding costs were in the top decile as compared to others in the industry and 2010 results to date continue to be very positive.

In the current environment of low natural gas prices, we continue to proceed cautiously and prudently with the development of our Montney/Doig natural gas resource play.

We remain committed to the execution of our $182 million capital budget for 2010 and confirm our expectation to exit 2010 between 17,000 and 19,000 boe/day.

On behalf of our management team and directors I thank all of our shareholders for their continued support and our staff for their hard work and dedication.

(signed) "A. Jeffery Tonken"

A. Jeffery Tonken
President and Chief Executive Officer

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended March 31, 2010	Three months ended March 31, 2009
OPERATING		
Average daily production		
Light oil – barrels	2,982	3,154
Natural gas – thousands of cubic feet	42,548	54,180
NGLs – barrels	334	329
Total – barrels of oil equivalent (6:1)	**10,407**	**12,513**
Average sales price ($ Canadian)		
Light oil – per barrel	80.03	49.33
Natural gas – per thousand cubic feet	5.34	5.27
NGLs – per barrel	73.15	46.70
Total – barrels of oil equivalent (6:1)	**47.12**	**36.48**
Undeveloped land		
Gross (acres)	435,588	397,900
Net (acres)	391,512	349,382
NETBACK AND COST		
($ per barrel of oil equivalent at 6:1)		
Petroleum and natural gas revenue	47.23	36.76
Royalties	(5.73)	(7.68)
Operating expense	(9.03)	(10.02)
Transportation and marketing expense	(2.58)	(2.44)
Netback	**29.89**	**16.62**
General and administrative expense, net	(2.24)	(1.86)
Interest expense	(3.19)	(2.02)
Cash Flow Netback	**24.46**	**12.74**
Depletion and depreciation expense	(16.12)	(21.78)
Accretion expense	(0.44)	(0.34)
Stock-based compensation expense	(2.66)	(1.55)
Amortization of deferred financing fees	(0.53)	-
Future income tax recovery (expense)	(1.88)	2.31
Net Income (Loss)	**2.83**	**(8.62)**
FINANCIAL		
Petroleum and natural gas revenue ($000)	44,235	41,398
Cash flow from operations ($000)	22,912	14,354
Per share – basic ($)	0.18	0.13
Per share – diluted ($)	0.18	0.13
Net income (loss) ($000)	2,653	(9,701)
Per share – basic ($)	0.02	(0.09)
Per share – diluted ($)	0.02	(0.09)
Common shares outstanding		
End of period – basic	124,358,735	112,542,635
End of period – diluted	137,190,886	124,618,156
Weighted average shares for period – basic	124,095,074	112,457,321
Weighted average shares for period – diluted	127,094,837	112,457,321
Capital expenditures, net ($000)	35,703(1)	18,395
Working capital deficit ($000)	24,012	24,677
Non-revolving term credit facility	49,661	-
Revolving credit facilities ($000)	158,614	228,867
Total debt ($000)	232,287	253,544

(1) Included as a reduction of net capital expenditures in the three months ended March 31, 2010 are proceeds of $17.5 million relating to the sale of a minor asset and an expected recovery of $12.8 million relating to the Alberta Drilling Royalty Credit Program.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is an intermediate oil and gas exploration, development and production company based in Calgary, Alberta. Additional information relating to the Corporation, including its Annual Information Form, is available on the SEDAR website at www.sedar.com. Birchcliff's common shares are listed for trading on the Toronto Stock Exchange ("**TSX**") under the symbol "**BIR**" and included in the Standard and Poor's S&P/TSX Composite Index.

The following Management's Discussion and Analysis ("**MD&A**") is dated May 11, 2010. The unaudited interim financial statements in respect of the three months ended March 31, 2010 (the "**Reporting Period**") as compared to the three months ended March 31, 2009 (the "**Comparable Prior Period**") and this MD&A have been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the unaudited financial statements of the Corporation and related notes for the Reporting Period and the audited financial statements and related notes as at and for the years ended December 31, 2009 and 2008. All financial information has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("**GAAP**") and all amounts are expressed in Canadian dollars unless otherwise stated.

FIRST QUARTER OVERALL PERFORMANCE

Production

First quarter 2010 production of 10,407 boe per day exceeded management's previously announced guidance of 10,350 boe per day. The 100% owned Pouce Coupe South Natural Gas Plant (the "**PCS Gas Plant**") commenced operations in late March 2010 and some of the natural gas sales processed by the PCS Gas Plant during the initial testing phase were reflected in production for the Reporting Period.

Production decreased by 17% from 12,513 boe per day in the first quarter of 2009 to 10,407 boe per day in the first quarter of 2010. The decrease was due to normal production declines and a reduced capital spending program as the Corporation focused its capital activity in the latter part of 2009 and the first quarter of 2010 on the construction of the PCS Gas Plant and related infrastructure. The PCS Gas Plant is now fully operational and will add significant incremental production in the second quarter of 2010.

Production consisted of approximately 68% natural gas and 32% crude oil and natural gas liquids in the Reporting Period.

Commodity Prices

Oil sales prices at the wellhead averaged $80.03 per barrel in the first quarter of 2010, which is a 7% increase from $75.01 per barrel the Corporation averaged in the fourth quarter of 2009 and a 62% increase from $49.33 per barrel the Corporation averaged in the first quarter of 2009. Natural gas sales prices at the wellhead averaged $5.34 per mcf in the first quarter of 2010, which is a 11% increase from $4.81 per mcf in the fourth quarter of 2009 and a 1% increase from $5.27 per mcf the Corporation averaged in the first quarter of 2009. The prices received for Birchcliff's petroleum and natural gas sales are impacted by world events that dictate the level of supply and demand for oil and natural gas. Birchcliff currently does not have any commodity hedges in place and thus is subject to fluctuations in commodity prices.

Canadian Edmonton Par oil prices averaged $80.07 per barrel in the first quarter of 2010 as compared to $76.56 per barrel in the fourth quarter of 2009 and $49.65 per barrel in the first quarter of 2009. The AECO daily natural gas spot prices averaged $4.97 per mcf in the first quarter of 2010 as compared to $4.49 per mcf in the fourth quarter of 2009 and $4.95 per mcf in the first quarter of 2009.

Cash Flow and Earnings

Cash flow increased to $22.9 million ($0.18 per share) in the first quarter of 2010 as compared to $14.4 million ($0.13 per share) in the first quarter of 2009. Birchcliff recorded net income of $2.7 million ($0.02 per share) for the first quarter of 2010 as compared to a net loss of $9.7 million ($0.09 loss per share) in the first quarter of 2009. The 59% increase in cash flow from the first quarter of 2009 was due to a combination of higher oil and natural gas prices realized at the wellhead, reduced operating costs per boe, and a lower effective royalty rate, notwithstanding decreased average production volumes and higher average effective interest rates on Birchcliff's credit facilities in the current quarter as compared to the first quarter of 2009. The increase in net income from the first quarter of 2009 was mainly attributable to higher cash flow and lower depletion expense recorded in the first quarter of 2010 due to adding significant low cost proved reserves in the latter part of 2009.

Capital Expenditures

Total capital expenditures (excluding dispositions) in the first quarter of 2010 were $53.2 million as compared to $18.4 million in the first quarter of 2009. On March 3, 2010, the Corporation sold a minor non-producing asset in the Kakut area of Alberta for $17.5 million. In light of this asset sale, net capital expenditures in the first quarter of 2010 were $35.7 million. Also included as a reduction of capital expenditures in the first quarter of 2010 is an expected recovery of $12.8 million relating to the Alberta Drilling Royalty Credit Program.

Of the $53.2 million in total capital spent in the first quarter of 2010, approximately $34.4 million was directed to the construction of Phase I of the PCS Gas Plant and related Montney/Doig wells that will be tied into this plant. Therefore, 65% of the total capital spent in the first quarter of 2010 has no associated production until late March 2010. Construction of Phase I of the PCS Gas Plant has been completed on schedule, on budget and is currently fully operational. The design processing capacity of Phase I is 30 mmcf per day.

The Corporation also spent $6.1 million in the first quarter of 2010 on the Phase II expansion of the PCS Gas Plant. Phase II is designed to double the processing capacity of the gas plant from 30 to 60 mmcf per day. Major components for the Phase II expansion have been ordered and field construction is planned to begin in July 2010.

The PCS Gas Plant project will provide Birchcliff with greater control over its future production growth and provide an opportunity to reduce its operating costs.

OUTLOOK

Production

Start-up operations for Phase I of the PCS Gas Plant commenced in March 2010. Based on estimates from field reports, production averaged 12,780 boe per day for the month of April 2010 and average production for the last week of April was estimated at 13,950 boe per day. Production is expected to decline during the balance of spring break-up as a result of plant turnarounds and natural declines from the new horizontal Montney/Doig natural gas wells. Following spring break-up, Birchcliff expects to add production from 6 gross (4.5 net) new horizontal Montney/Doig natural gas wells that are currently drilling or awaiting completion.

Birchcliff's 2010 exit production rate is expected to range between 17,000 and 19,000 boe per day, assuming that the Phase II PCS Gas Plant is operational in December 2010. This range is a function of the exact timing of the commissioning of the Phase II expansion and the success of Birchcliff's 2010 drilling program.

Capital Expenditures

The Board of Directors approved the Corporation's 2010 capital spending program in the amount of $182 million, which contemplates Birchcliff's recovery of approximately $12.8 million under Alberta's Drilling Royalty Credit Program. 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 was allocated 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, sustaining capital and seed capital for new growth opportunities. It is currently anticipated that the entire $182 million budgeted capital expenditure program will be spent in 2010.

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 March 31, 2010, the Corporation had $90.2 million in total unused credit available to fund future capital expenditures.

On May 10, 2010, the Corporation was advised that each of the members of its bank syndicate has approved an increase of the revolving credit facilities to an aggregate limit of $350 million from $255 million and extended the conversion date of those facilities from May 21, 2010 to May 20, 2011. In conjunction with these changes, the $50 million non-revolving term credit facility will be repaid and cancelled. In addition, another bank is being added to the syndicate of banks, which will enable the Corporation to seek further expansion of its credit facilities in the future. The new $350 million increased credit limit will provide Birchcliff with greater liquidity and financial flexibility to further develop its two major resource plays. 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.

The Corporation intends to finance its oil and natural gas business primarily through cash generated from operations, working capital, and available credit from its credit facilities. Should commodity prices deteriorate in 2010, Birchcliff may adjust its capital spending accordingly to ensure that it does not exceed its credit capacity. Management expects that Birchcliff's working capital deficiency will be slightly higher in 2010 than in 2009 as a result of increased capital spending. 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. Management expects to be able to obtain debt financing and should the need arise, raise additional equity, sufficient to meet both its short-term and long-term growth requirements in the current environment.

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 Birchcliff's strategic control over the Pouce Coupe area. Phase I is currently fully operational and the Corporation anticipates that Phase II will be brought online in December 2010 for a total throughput capacity of 60 mmcf per day.

The Corporation is currently planning a Phase III expansion of the PCS Gas Plant, which will again double the processing capacity by adding an additional 60 mmcf per day for a total processing capacity of 120 mmcf per day. Birchcliff has approved the costs of preliminary work on this Phase III project, which include surface lease acquisitions, licensing, partner approvals, and general costs to get the site prepared so that construction can begin once project execution is approved. Birchcliff is currently waiting for natural gas prices to improve before committing to the Phase III expansion of the PCS Gas Plant.

The extensive portfolio of development opportunities in the Montney/Doig resource play and Worsley light oil resource play will not have any significant expiries in the near term and provide 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.

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

- On January 15, 2010, the bank syndicate extended the maturity date of the $50 million non-revolving term credit facility (the "**Term Facility**") from May 21, 2010 to May 21, 2011 and gave consent to the Corporation to draw the full amount of the Term Facility.
- On May 10, 2010, the Corporation was advised that the members of its bank syndicate have approved an increase of the revolving credit facilities to an aggregate limit of $350 million from an aggregate limit of $255 million and extended the conversion date of those facilities from May 21, 2010 to May 20, 2011. In conjunction with these changes, the $50 million Term Facility will be repaid and cancelled. The amended revolving credit facilities will include an increased credit limit for the extendible revolving term credit facility (the "**Syndicated Credit Facility**") of $320 million from $235 million and an increased credit limit for the extendible revolving working capital facility (the "**Working Capital Facility**") of $30 million from $20 million.

LIQUIDITY

Working Capital

The Corporation's working capital deficit (current assets minus current liabilities) increased to $24.0 million at March 31, 2010 as compared to a working capital deficit of $20.3 million at December 31, 2009. The deficit at the end of the first quarter of 2010 is largely comprised of costs incurred for construction of Phase I of the PCS Gas Plant and related infrastructure.

At March 31, 2010, the major components of Birchcliff's current assets are joint venture billings (52%) to be received from its partners and revenue (34%) to be received from its marketers in respect of March 2010 production which was subsequently received in April 2010. In contrast, current liabilities largely consisted of trade payables (66%) and accrued capital and operating costs (32%).

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 March 31, 2010 (December 31, 2009 – $305 million). The Corporation did not have any liquidity issues with respect to the operation of its petroleum and natural gas business in the first quarter of 2010 and throughout 2009.

Bank Debt

The amount drawn under the Corporation's total credit facilities increased to $212.0 million at March 31, 2010, with an aggregate limit of $305 million as compared to $206.4 million drawn at December 31, 2009, when the aggregate limit was $305 million. The drawn amount excludes any amounts related to unamortized costs and letters of credit that have not been drawn upon. The amount outstanding on Birchcliff's total credit facilities at March 31, 2010 was $208.3 million (December 31, 2009 – $201.2 million), net of $3.8 million (December 31, 2009 – $5.2 million) in unamortized costs.

The increase in drawn credit facilities from December 31, 2009 was primarily a result of $30.3 million in capital expended during the first quarter of 2010 in excess of cash flow during that same period and offset by proceeds of $17.5 million from the sale of the Kakut assets that were used to reduce total debt. A significant portion of the funds drawn under the Corporation's credit facilities in the first quarter of 2010 was directed towards the PCS Gas Plant project.

The following table shows the Corporation's total available credit at March 31, 2010 and December 31, 2009:

($000's)	**March 31, 2010**	December 31, 2009
Maximum borrowing base limit:		
Revolving credit facilities	255,000	255,000
Non-revolving term credit facility	50,000	50,000
	305,000	305,000
Principal amount utilized:		
Revolving credit facilities(1)	(164,764)	(209,125)
Non-revolving term credit facility	(50,000)	-
	(214,764)	(209,125)
Total unused credit	**90,236**	**95,875**

(1) Included in the revolving credit facilities at March 31, 2010 are outstanding letters of credit issued to various service providers in the amount of $2.7 million (December 31, 2009 - $2.7 million). No amounts were drawn on the letters of credit at March 31, 2010 and December 31, 2009.

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 its oil and natural gas reserves. In May 2010, each of the members of Birchcliff's bank syndicate advised Birchcliff of its approval to increase the credit limit of the revolving facilities to $350 million from $255 million and extend the conversion date of those facilities from May 21, 2010 to May 20, 2011. In conjunction with these changes, the $50 million non-revolving term credit facility will be repaid and cancelled. The new $350 million increased credit limit will provide Birchcliff with greater liquidity and financial flexibility to further develop the Montney/Doig natural gas resource play and Worsley light oil resource play.

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 March 31, 2010 and December 31, 2009:

	March 31, 2010		December 31, 2009	
	Required	Actual	Required	Actual
Annualized EBITDA to interest coverage(1)	>3.5	7.9	>3.5	7.6

(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 applicable under its credit facilities as at and during the periods ended March 31, 2010 and December 31, 2009 and continues to be compliant with such covenants at the date hereof.

Contractual Obligations

The Corporation enters into contractual obligations in the course of conducting its day-to-day business. The following table lists Birchcliff's estimated contractual obligations at March 31, 2010:

($000's)	< 1 Year	1 – 2 Years	3 – 5 Years	Thereafter
Accounts payable and accrued liabilities	60,994	-	-	-
Revolving credit facilities[1]	-	-	162,026	-
Non-revolving term credit facility[2]	-	50,000	-	-
Office leases[3]	2,410	3,214	9,885	9,716
Transportation and processing	1,032	6,802	20,023	4,364
Total estimated contractual obligations[4]	**64,436**	**60,016**	**191,934**	**14,080**

(1) The revolving credit facilities consist of approximately $5 million drawn on the Working Capital Facility and $157 million drawn on the Syndicated Credit Facility at March 31, 2010.
(2) On May 10, 2010, the bank syndicate advised Birchcliff of the repayment and cancellation of the $50 million Term Facility on the conversion date of May 21, 2010.
(3) 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.
(4) Contractual commitments that are routine in nature and form part of the normal course of operations for Birchcliff are not included in the above table.

OUTSTANDING SHARE DATA

The common shares of Birchcliff are the only class of 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 Standard and Poor's S&P/TSX Composite Index. The following table summarizes the common shares issued in the Reporting Period:

	Common Shares
Balance at December 31, 2009	**123,815,002**
Issue of common shares upon exercise of options	543,733
Balance at March 31, 2010	**124,358,735**

At May 7, 2010 there were outstanding 124,441,734 common shares, stock options to purchase 9,819,420 common shares and performance warrants to purchase 2,939,732 common shares.

RESULTS OF OPERATIONS

Petroleum and Natural Gas Revenues

Petroleum and natural gas ("**P&NG**") revenues totaled $44.2 million ($47.23 per boe) for the Reporting Period as compared to $41.4 million ($36.76 per boe) for the Comparable Prior Period. The following table details Birchcliff's petroleum and natural gas revenue, production and sales prices by category for the Reporting Period and the Comparable Prior Period:

	Three months ended March 31, 2010				Three months ended March 31, 2009			
	Total Revenue ($000's)	Average Daily Production	%	Average ($/unit)	Total Revenue ($000's)	Average Daily Production	%	Average ($/unit)
Light oil (bbls)	21,477	2,982	29	80.03	14,003	3,154	25	49.33
Natural gas (mcf)	20,461	42,548	68	5.34	25,691	54,180	72	5.27
Natural gas liquids (bbls)	2,198	334	3	73.15	1,385	329	3	46.70
Total P&NG sales	**44,136**	**10,407**	100	**47.12**	**41,079**	**12,513**	100	**36.48**
Royalty revenue	99			0.11	319			0.28
Total P&NG revenue	**44,235**			**47.23**	**41,398**			**36.76**

The increase in aggregate and per boe P&NG revenues from the Comparable Prior Period was largely due to higher average petroleum prices at the wellhead, notwithstanding lower average production volumes in the Reporting Period.

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 Period and Comparable Prior Period:

	Three months ended March 31, 2010	Three months ended March 31, 2009
Average natural gas sales price ($/mcf)	5.34	5.27
Average AECO daily spot price ($/mmbtu)[(1)]	4.97	4.95
Positive differential	**0.37**	**0.32**

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

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 had no financial derivatives such as commodity price risk management contracts, forward exchange rate contracts and interest rate swaps in place during the Reporting Period and Comparable Prior Period, but it actively monitors the market to determine if any are required. The Corporation has no current intention to enter into any such contracts.

Royalties

Birchcliff recorded a royalty expense of $5.4 million ($5.73 per boe) for the Reporting Period as compared to $8.6 million ($7.68 per boe) for the Comparable Prior Period. Royalties are paid to the Alberta Government and other land and mineral rights owners. The following table illustrates the Corporation's royalty expense for the Reporting Period and Comparable Prior Period:

	Three months ended March 31, 2010	Three months ended March 31, 2009
Oil & natural gas royalties ($000's)	**5,363**	8,644
Oil & natural gas royalties ($/boe)	**5.73**	7.68
Effective royalty rate (%)[(1)]	**12%**	21%

(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 from the Comparable Prior Period was due to a combination of production royalty incentives for a number of horizontal wells receiving a 5% royalty rate in the Reporting Period, as described below, and higher custom processing deductions in the Reporting Period as compared to the Comparable Prior Period due to an increase in natural gas sales brought into third party processing facilities.

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 drilling royalty credit of $200 per meter drilled, up to a maximum of 50% of the aggregate Crown royalties paid by the Corporation during the incentive period. Included as a reduction of total capital at March 31, 2010 is an expected recovery of $12.8 million in drilling royalty credits related to this incentive program. At the date hereof, Birchcliff has received payment of $6.4 million in drilling royalty credits from the Crown with respect to the 2009/2010 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 announced certain changes to the existing royalty framework based on the recommendations from the Investment Competiveness Review. As a result of the competiveness review, 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, anticipating these changes to have a positive effect on Birchcliff.

These incentives should create a lower operating cost structure for Birchcliff. Projects will have better economics under the new royalty framework as compared to the prior framework and therefore, are more likely to be approved for capital spending during this current low natural gas commodity cycle. Birchcliff intends to focus its capital spending program in large part on its Montney/Doig natural gas resource play and Worsley light oil resource play to maximize the return available from these new Alberta incentive programs.

Operating Costs

Operating costs were $8.5 million ($9.03 per boe) for the Reporting Period as compared to $11.3 million ($10.02 per boe) for the Comparable Prior Period. The following table compares operating costs for the Reporting Period and Comparable Prior Period:

	Three months ended March 31, 2010		Three months ended March 31, 2009	
	Total ($000's)	$/boe	Total ($000's)	$/boe
Field operating costs	9,328	9.96	11,880	10.55
Recoveries	(1,072)	(1.14)	(1,019)	(0.91)
Field operating costs, net of recoveries	8,256	8.82	10,861	9.64
Expensed workovers and other	197	0.21	424	0.38
Total operating costs	**8,453**	**9.03**	**11,285**	**10.02**

The $0.99 per boe decrease in total operating costs from the Comparable Prior Period was due to higher third party recoveries ($0.23 per boe), lower cost of expensed workovers ($0.17 per boe), and reduced costs of supplies and services ($0.59 per boe), notwithstanding decreased average production in the Reporting Period.

Field operating costs decreased in the Reporting Period as compared to the Comparable Prior Period mainly as a result of lower cost of power and fuel and generally reduced cost of supplies and services offset by higher natural gas processing fees at third party gas plants.

Transportation and Marketing Expenses

Transportation and marketing expenses were $2.4 million ($2.58 per boe) for the Reporting Period as compared to $2.7 million ($2.44 per boe) for the Comparable Prior Period. These costs consist primarily of transportation costs.

General and Administrative Expenses

Net General and Administrative ("**G&A**") expenses were $2.1 million ($2.24) per boe for the Reporting Period as compared to $2.1 million ($1.86 per boe) for the Comparable Prior Period. The components of G&A for the Reporting Period and Comparable Prior Period are as follows:

	Three months ended March 31, 2010		Three months ended March 31, 2009	
	($000's)	%	($000's)	%
Salaries, benefits and consultants	2,514	52	2,109	59
Other	2,280	48	1,442	41
G & A expense, gross	4,794	100	3,551	100
Overhead recoveries	(2,271)	(47)	(1,050)	(30)
Capitalized overhead	(421)	(9)	(410)	(12)
G & A expense, net	**2,102**	**44**	**2,091**	**58**
G & A expense, net per boe	**$2.24**		**$1.86**	

The increased overhead and capital recoveries were a result of increased capital expended in the Reporting Period as compared to the Comparable Prior Period. Total capital expenditures (excluding dispositions) increased by 189%, from $18.4 million to $53.2 million. 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 Expenses

Interest expense was $3.0 million ($3.19 per boe) for the Reporting Period as compared $2.3 million ($2.02 per boe) for the Comparable Prior Period. The aggregate interest expense increased from the Comparable Prior Period largely due to higher pricing margins (that are used to determine Birchcliff's effective interest rate) that became applicable when the Corporation increased its credit facilities limit on May 21, 2009. Also, during the Reporting Period, the Corporation drew the full $50 million Term Facility, which has higher pricing margins than the revolving credit facilities.

At the end of the Reporting Period, the effective rate applicable to the Working Capital Facility was 5.3% as compared to 3.2% at the end of the Comparable Prior Period. The effective interest rate applicable to the bankers' acceptances issued under the Syndicated Credit Facility was 4.9% in the Reporting Period as compared to 2.9% in the Comparable Prior Period. The effective interest rate applicable to the bankers' acceptances issued under the Term Facility was 5.8% in the Reporting Period. The Term Facility did not exist in the Comparable Prior Period.

The Corporation's average outstanding credit facilities balance was approximately $205 million in the Reporting Period as compared to approximately $220 million in the Comparable Prior Period, calculated as the simple average of the month end amounts.

Depletion, Depreciation and Accretion Expenses

Depletion, Depreciation and Accretion ("**DD&A**") expense was $15.5 million ($16.56 per boe) for the Reporting Period as compared to $24.9 million ($22.12 per boe) for the Comparable Prior Period. The DD&A on an aggregate and per boe basis was lower in the Reporting Period largely due to the reduced cost of adding significant proved reserves during the latter part of 2009. The components of DD&A for the Reporting Period and Comparable Prior Period are as follows:

	Three months ended March 31, 2010		Three months ended March 31, 2009	
	Total ($000's)	$/boe	Total ($000's)	$/boe
Depletion & depreciation	15,103	16.12	24,528	21.78
Accretion on asset retirement obligations	414	0.44	384	0.34
Total DD&A	**15,517**	**16.56**	**24,912**	**22.12**

DD&A 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 March 31, 2010, the Corporation excluded from its full cost pool $47.5 million (March 31, 2009 - $41.4 million) of costs for undeveloped land acquired by Birchcliff.

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 March 31, 2010 on its petroleum and natural gas assets. Birchcliff determined its petroleum and natural gas assets were not impaired at March 31, 2010.

Stock-Based Compensation Expenses

Birchcliff accounts for its stock-based compensation awards, which include stock options and performance warrants, using the fair value method and records the related expense in the income statement over the vesting period. The Corporation recorded a total non-cash stock-based compensation expense of $2.5 million ($2.66 per boe) for the Reporting Period as compared to $1.7 million ($1.55 per boe) for the Comparable Prior Period. The increase in stock option expense from the Comparable Prior Period was mainly due to the issuance of 2,311,300 options to directors, officers, and employees of Birchcliff at an exercise price of $9.72 per common share in January 2010 as a result of Birchcliff's annual compensation review.

A summary of the Corporation's outstanding stock options at March 31, 2010 is presented below:

	Number	Weighted Average Exercise Price ($)
Outstanding, December 31, 2009	**7,710,253**	**5.81**
Granted	2,852,300	9.62
Exercised	(543,733)	(4.25)
Forfeited	(126,401)	(6.31)
Outstanding, March 31, 2010	**9,892,419**	**6.99**

On January 14, 2005, the Corporation issued 4,049,665 performance warrants with an exercise price of $3.00 and an expiration date of January 31, 2010 to members of its executive team. On May 28, 2009, the outstanding performance warrants were amended to extend the expiration date from January 31, 2010 to January 31, 2015. At March 31, 2010, there remained outstanding and exercisable 2,939,732 performance warrants. Each stock option and performance warrant entitles the holder to purchase one common share at the exercise price.

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 credit facilities to May 21, 2010. In January 2010, the Corporation paid an additional $250,000 in financing fees to extend the maturity date of the Term Facility from May 21, 2010 to May 21, 2011. The Corporation amortized to income deferred financing fees of approximately $500,000 ($0.53 per boe) in the Reporting Period.

Income Taxes

Birchcliff recorded a future income tax expense of approximately $1.8 million ($1.88 per boe) for the Reporting Period as compared to a recovery of $2.6 million ($2.31 per boe) for the Comparable Prior Period. A future income tax expense was recorded in the Reporting Period mainly due to recovering petroleum prices and a significant reduction of DD&A expense which resulted in net income. A future income tax recovery was recorded in the Comparable Prior Period mainly due to declining commodity prices throughout 2008 and into the first quarter of 2009, which resulted in net losses in that period.

CAPITAL EXPENDITURES AND CAPITAL RESOURCES

Capital Expenditures

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

Three months ended March 31, ($000's)	**2010**	2009
Land	2,941	324
Seismic	581	152
Workovers and other	1,387	57
Drilling and completions(1)	22,854	10,672
Well equipment and facilities	24,950	6,507
Capitalized general and administrative expenses	421	410
Total finding and development costs (F&D)	**53,134**	**18,122**
Acquisitions, net(2)	(17,511)	30
Total finding, development and acquisition costs (FD&A)	**35,623**	**18,152**
Administrative assets	80	243
Total capital expenditures	**35,703**	**18,395**

(1) Included in drilling and completions for the three months ended March 31, 2010 is an expected recovery of $12.8 million related to the Alberta Drilling Royalty Credit Program.
(2) On March 3, 2010, the Corporation sold a minor non-producing asset in the Kakut area of Alberta for $17.5 million.

Capital Resources

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

Three months ended March 31, ($000's)	**2010**	2009
Cash generated by operations	22,912	14,354
Changes in non-cash working capital from operations	(2,923)	5,750
Asset retirement expenditures	(35)	(251)
Issuance of common shares	2,309	608
Increase in non-revolving term credit facility	50,000	-
Increase (decrease) in revolving credit facilities	(42,953)	17,282
Deferred financing fees paid	(250)	-
Changes in non-cash working capital from investing	6,649	(19,348)
Total capital resources	**35,709**	**18,395**

SUMMARY OF QUARTERLY RESULTS

The following is a summary of quarterly results of the Corporation for the eight most recently completed quarters:

Quarters Ended ($000's, except for production, share and per share amounts)	**March 31, 2010**	December 31, 2009	September 30, 2009	June 30, 2009
Petroleum and natural gas production (boe per day)	10,407	10,515	10,552	11,313
Petroleum and natural gas commodity price at wellhead ($ per boe)	47.12	43.23	33.32	33.79
Natural gas commodity price at wellhead ($ per mcf)	5.34	4.81	3.20	3.75
Petroleum commodity price at wellhead ($ per bbl)	80.03	75.01	70.00	63.84
Total petroleum and natural gas revenue	44,235	41,908	32,446	34,917
Total royalties	(5,363)	(5,172)	(3,644)	2,118
Total revenues, net	38,872	36,736	28,802	37,035
Total capital expenditures, net	35,703	44,368	33,442	5,485
Net income (loss)	2,653	1,616	(9,039)	(7,128)
Per share basic	$0.02	$0.01	($0.07)	($0.06)
Per share diluted	$0.02	$0.01	($0.07)	($0.06)
Cash generated by operations	22,912	20,900	12,196	20,026
Per share basic	$0.18	$0.17	$0.10	$0.18
Per share diluted	$0.18	$0.17	$0.10	$0.18
Book value of total assets	860,180	837,108	796,338	819,142
Non-revolving term credit facility	49,661	-	-	-
Revolving credit facilities	158,614	201,230	182,589	219,361
Total debt	232,287	221,521	199,346	179,649
Shareholders' equity	562,019	554,561	549,239	535,917
Common shares outstanding – end of period				
basic	124,358,735	123,815,002	123,267,436	122,807,637
diluted	137,190,886	134,464,987	134,049,987	134,732,322
Weighted average common shares outstanding				
basic	124,095,074	123,538,213	122,914,069	112,887,812
diluted	127,094,837	126,358,921	124,523,458	113,817,095

Quarters Ended ($000's, except for production, share and per share amounts)	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008
Petroleum and natural gas production (boe per day)	12,513	11,524	10,000	9,583
Petroleum and natural gas commodity price at wellhead ($ per boe)	36.48	47.88	73.44	83.58
Natural gas commodity price at wellhead ($ per mcf)	5.27	7.14	8.47	10.93
Petroleum commodity price at wellhead ($ per bbl)	49.33	59.10	115.95	121.39
Total petroleum and natural gas revenue	41,398	51,034	67,942	73,273
Total royalties	(8,644)	(8,888)	(12,502)	(11,361)
Total revenues, net	32,754	42,146	55,440	61,912
Total capital expenditures, net	18,395	58,916	89,158	37,487
Net income (loss)	(9,701)	(355)	16,649	9,776
Per share basic	($0.09)	-	$0.15	$0.09
Per share diluted	($0.09)	-	$0.14	$0.08
Cash generated by operations	14,354	24,627	37,886	41,676
Per share basic	$0.13	$0.22	$0.34	$0.37
Per share diluted	$0.13	$0.22	$0.33	$0.36
Book value of total assets	800,959	814,823	774,794	719,292
Revolving credit facilities	228,867	211,586	180,995	148,922
Total debt	253,544	249,862	214,642	163,378
Shareholders' equity	496,276	507,371	506,742	488,579
Common shares outstanding – end of period				
basic	112,542,635	112,395,970	112,395,970	112,375,970
diluted	124,618,156	121,659,923	121,451,823	121,270,357
Weighted average common shares outstanding				
basic	112,457,321	112,395,970	112,386,829	112,234,676
Diluted	112,457,321	112,801,866	116,859,500	117,074,630

Discussion of Quarterly Results

Birchcliff's average production in the first quarter of 2010 was 10,407 boe per day, which is a 1% decrease from 10,515 boe per day in the fourth quarter of 2009 and a 17% decrease from 12,513 boe per day in the first quarter of 2009. The decrease from the first quarter of 2009 was due mainly to normal production declines and a reduced capital spending program in 2009. Throughout the latter part of 2009 and into the first quarter of 2010, Birchcliff has focused its capital activity to a large extent on the construction of the PCS Gas Plant and related infrastructure, which will add significant incremental production in the second quarter of 2010.

Birchcliff spent $53.2 million on total capital (excluding dispositions) during the first quarter of 2010 as compared to $44.4 million in the fourth quarter of 2009 and $18.4 million during the first quarter of 2009. On March 3, 2010, the Corporation sold a minor non-producing asset in the Kakut area of Alberta for $17.5 million. As a result of this asset sale, net capital expenditures reported in the first quarter of 2010 were $35.7 million. The increase in total capital expenditures in the first quarter of 2010 was largely due to capital spent on processing facilities and related infrastructure. Of the $53.2 million in capital expended in the Reporting Period, $34.4 million (65%) was related to the construction of Phase I of the PCS Gas Plant and the related Montney/Doig natural gas wells and $6.1 million (11%) on Phase II expansion of this gas plant and the related Montney/Doig natural gas wells. The operating and production benefits associated with the capital spent on Phase I will be realized when the gas plant is operating at a maximum capacity in the third quarter of 2010.

Cash flow generated by the Corporation in the first quarter of 2010 was $22.9 million, which is a 10% increase from $20.9 million in the fourth quarter of 2009 and a 59% increase from $14.4 million in the first quarter of 2009. The increase in cash flow from the fourth quarter of 2009 was mainly due to higher average petroleum and natural gas prices realized at the wellhead in the Reporting Period, notwithstanding slightly lower average production volumes. The increase in cash flow from the first quarter of 2009 was largely attributed to recovering oil prices, lower operating costs and reduced effective royalty rates in the first quarter of 2010, notwithstanding lower average production volumes and increased pricing margins on Birchcliff's credit facilities in the Reporting Period.

Birchcliff recorded net income of $2.7 million in the first quarter of 2010 as compared to a net income of $1.6 million in the fourth quarter of 2010 and a net loss of $9.7 million in the first quarter of 2009. The increase in net earnings from the first quarter of 2009 was mainly a result of higher cash flow and lower DD&A expense recorded in the first quarter of 2010. The DD&A expense decreased mainly due to the reduced cost of adding significant proved reserves in the latter part of 2009.

In January 2010, consent was received from the bank syndicate which allowed the Corporation to draw the full amount of the $50 million Term Facility. At March 31, 2010, the Corporation drew the full $50 million.

The weighted average basic common shares outstanding increased by 10% at the end of the Reporting Period as compared to the Comparable Prior Period mainly due to the issuance of 10 million common shares on June 30, 2009 when the Corporation completed an equity financing to raise $59.3 million.

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.

CONTROLS AND PROCEDURES

Disclosure Controls

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.

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

Transition to International Financial Reporting Standards ("IFRS")

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:

- *Phase 1 - Scoping and diagnostics*

  Phase 1 involves performing a high level diagnostic 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.

- *Phase 2 - Impact analysis and evaluation*

  During Phase 2, items identified in Phase 1 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.

- *Phase 3 - Implementation*

  Phase 3 involves implementation of all changes approved in Phase 2 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 transition plan, completing Phase 1 and moving into Phase 2, and conducting preliminary impact analysis of accounting policy alternatives. 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.

As anticipated in Birchcliff's transition plan, progress on the IFRS transition project was minimal in the first quarter of 2010 as Birchcliff's accounting resources were focused on year end reporting requirements. However, process and system changes were implemented in the first quarter to ensure IFRS comparative data is captured throughout 2010. 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 with Significant Impact

Birchcliff has 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. Analysis performed to date suggests that Birchcliff did not have any E&E assets at the date of transition.

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 by estimating the risk-adjusted future cash outflows which are 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 will be an increase in the value of the decommissioning liability under IFRS as compared to Canadian GAAP.

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. Birchcliff expects to record an adjustment to contributed surplus due to revaluing (under IFRS standards) the options not vested at January 1, 2010. Going forward under IFRS, stock-based compensation is expected be higher because the graded vesting requirements of IFRS result in accelerated expense recognition.

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 the 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.

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 key individuals that are involved in financial reporting under Canadian GAAP have received IFRS training and are actively involved in the IFRS transition project. Birchcliff will continue to involve senior financial reporting personnel 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.

ADVISORIES

BOE Conversions

Barrels of oil equivalent ("boe") amounts may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet (6 mcf) of natural gas to one barrel of oil (1 bbl) is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Non-GAAP Measures

This MD&A and the Corporation's Quarterly and Annual Reports uses the terms "cash flow", "netback", "cash flow netback", "operating netback", "cash flow per share", and "EBITDA", which do not have standardized meanings prescribed by GAAP and therefore may not be comparable to measures by other companies where similar terminology is used. Cash flow 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). 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 denotes earnings before interest, taxes, stock-based compensation, depletion, depreciation and amortization.

Forward Looking Information

This MD&A contains certain forward-looking statements and forward-looking information (hereinafter collectively referred to as "forward-looking information") within the meaning of applicable Canadian securities laws. These statements relate to future events or 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", "potential", "proposed" and other similar words, or statements that certain events or conditions "may" or "will" occur, are intended to identify forward-looking statements.

In particular, this MD&A contains forward-looking information, including among other places, under the headings "Outlook" and "International Financial Reporting Standards". This forward-looking information includes but is not limited to statements regarding: expected processing capacity of the Pouce Coupe South Gas Plant and its future expansion; overall production; planned drilling, exploration and development; planned 2010 capital spending and sources of funding; expected results from the Corporation's portfolio of oil and gas assets; the quantity and development of oil and gas reserves; future net cash flows and discounted cash flows; expected operating, general administrative, services, environmental compliance costs and expenses; royalty rates and incentives; treatment under tax laws; expected ability to transition to new accounting standards and other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations or performance. 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 information.

With respect to such forward-looking information 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; 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 it requires to manage, operate and finance its business and develop its properties; and various assumptions as to future prices for crude oil and natural gas, currency exchange rates, inflation rates, future well production rates, well drainage areas, success rates of future well drilling and future costs and availability of labour and services. With respect to estimates of reserves volumes and associated future net revenues and numbers of future wells to be drilled a key assumption is the validity of the commodity prices, currency exchange rates, future capital and operating costs and well production rates forecast by the Corporation's independent reserves evaluator. With respect to the number of future wells to be drilled a key assumption is the validity of the geological and other technical interpretations that have been performed by Birchcliff's technical staff and that indicate that commercially economic reserves can be recovered from Birchcliff's lands as a result of drilling such future wells.

Undue reliance should not be placed on forward-looking information, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. Forward-looking information involves numerous assumptions, uncertainties and both known and unknown risks. There is a risk that such predictions, forecasts, and projections may 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. Some of those risks include: risks inherent of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and nature gas, market demand and unpredictable facilities outages; risks and uncertainties involving geology of oil and gas deposits; uncertainty of reserves and resources estimates, reserves life and underlying reservoir risk; general economic conditions in Canada, the United States and globally; changes in governmental *regulation of the oil and gas industry, including environmental regulation; fluctuations in foreign exchange rates or interest rates; adverse conditions in the debt and equity markets; and competition from others for scarce resources.*

The foregoing list of risk factors is not exhaustive. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. Additional information on these and other risk factors that could affect operations or financial results are included in the Company's most recent Annual Information Form. In addition, information is available in the Corporation's other reports filed with Canadian securities regulatory authorities. Forward-looking information is based on estimates and opinions of management at the time the information is presented. The Corporation is not under any duty to update the forward-looking information after the date of this MD&A to conform such information to actual results or to changes in the Corporation's plans or expectations, except as otherwise required by applicable securities laws.

BIRCHCLIFF ENERGY LTD.
BALANCE SHEETS
(Unaudited) ***($000's)***

	March 31, 2010	December 31, 2009
ASSETS		
CURRENT		
Cash	**146**	140
Accounts receivable (Note 7)	**32,156**	29,665
Prepaid and other	**4,680**	4,635
	36,982	34,440
Deferred financing fees (Note 4)	**-**	245
Petroleum and natural gas properties and equipment (Note 3)	**823,198**	802,423
	860,180	837,108
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**60,994**	54,731
	60,994	54,731
Non-revolving term credit facility (Note 4)	**49,661**	-
Revolving credit facilities (Note 5)	**158,614**	201,230
Asset retirement obligations (Note 8)	**25,265**	24,713
Future income taxes	**3,627**	1,873
Commitments (Note 11)		
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	**544,930**	541,593
Contributed surplus (Note 10)	**21,783**	20,315
Deficit	**(4,694)**	(7,347)
	562,019	554,561
	860,180	837,108

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

BIRCHCLIFF ENERGY LTD.
STATEMENTS OF NET INCOME (LOSS), COMPREHENSIVE INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)
(Unaudited) ***($000's)***

	Three months ended March 31, 2010	Three months ended March 31, 2009
REVENUE		
Petroleum and natural gas	**44,235**	41,398
Royalties	**(5,363)**	(8,644)
	38,872	32,754
EXPENSES		
Production	**8,453**	11,285
Transportation and marketing	**2,426**	2,748
General and administrative, net (Note 3)	**2,102**	2,091
Stock-based compensation (Note 10)	**2,495**	1,747
Depletion, depreciation and accretion (Notes 3 and 8)	**15,517**	24,912
Amortization of deferred financing fees (Notes 4 and 5)	**494**	-
Interest (Notes 4 and 5)	**2,979**	2,276
	34,466	45,059
INCOME (LOSS) BEFORE TAXES	**4,406**	(12,305)
TAXES		
Future income tax expense (recovery)	**1,753**	(2,604)
	1,753	(2,604)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**2,653**	(9,701)
RETAINED EARNINGS (DEFICIT), BEGINNING OF PERIOD	**(7,347)**	16,905
RETAINED EARNINGS (DEFICIT), END OF PERIOD	**(4,694)**	7,204
Net income (loss) per common share		
basic	**$0.02**	($0.09)
diluted	**$0.02**	($0.09)
Weighted average common shares		
basic	**124,095,074**	112,457,321
diluted	**127,094,837**	112,457,321

See accompanying notes to the financial statements

BIRCHCLIFF ENERGY LTD.
STATEMENTS OF CASH FLOWS
(Unaudited) ***(000's)***

	Three months ended March 31, 2010	Three months ended March 31, 2009
OPERATING		
Net income (loss)	**2,653**	(9,701)
Adjustments for items not affecting cash:		
Depletion, depreciation and accretion	**15,517**	24,912
Stock-based compensation	**2,495**	1,747
Amortization of deferred financing fees	**494**	-
Future income taxes expense (recovery)	**1,753**	(2,604)
	22,912	14,354
Changes in non-cash working capital (Note 12)	**(2,923)**	5,750
Asset retirement expenditures (Note 8)	**(35)**	(251)
	19,954	19,853
FINANCING		
Deferred financing fees paid	**(250)**	-
Increase in non-revolving term credit facility	**50,000**	-
Decrease in revolving credit facilities	**(42,953)**	17,282
Issuance of common shares (Note 9)	**2,309**	608
	9,106	17,890
INVESTING		
Purchase of petroleum and natural gas properties and equipment	**-**	(30)
Sale of petroleum and natural gas properties and equipment (Note 3)	**17,511**	-
Development of petroleum and natural gas properties and equipment	**(53,214)**	(18,365)
Changes in non-cash investing working capital (Note 12)	**6,649**	(19,348)
	(29,054)	(37,743)
NET INCREASE IN CASH	**6**	-
CASH, BEGINNING OF PERIOD	**140**	65
CASH, END OF PERIOD	**146**	65
Cash interest paid	**2,979**	2,276
Cash taxes paid	**-**	-

See accompanying notes to the financial statements

1. BASIS OF PRESENTATION

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.

The interim financial statements of Birchcliff Energy Ltd. have been prepared by management in accordance with accounting principles generally accepted in Canada and are unaudited. The interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the period ended December 31, 2009. The disclosures which follow do not include all disclosures required for the annual financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2009.

2. CHANGES IN ACCOUNTING POLICIES

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. The current standard requires 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 Accounting Standards Board ("**AcSB**") ratified a strategic plan to converge Canadian Generally Accepted Accounting Principles ("**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.

3. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

($000's)			**March 31, 2010**
	Cost	**Accumulated Depletion and Depreciation**	**Net Book Value**
Petroleum and natural gas assets	1,135,217	(313,506)	821,711
Office furniture and equipment	3,495	(2,008)	1,487
	1,138,712	**(315,514)**	**823,198**

($000's)			December 31, 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**

At March 31, 2010, the cost of petroleum and natural gas assets includes $47.5 million (December 31, 2009 – $44.9 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 $421,000 in the three months ended March 31, 2010 (March 31, 2009 – $410,000).

On March 3, 2010, the Corporation completed and closed the sale of a minor non-producing asset in the Kakut area of Alberta for $17.5 million. The proceeds from the sale were used to reduce the cost of petroleum and natural gas assets as reported at March 31, 2010. No gain or loss was recorded on the sale at March 31, 2010.

On September 15, 2009, the Government of Alberta approved a drilling royalty incentive for new 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 assets at March 31, 2010 is an expected recovery of $12.8 million (December 31, 2009 – $6.3 million) related to the Alberta Drilling Royalty Credit Program.

4. NON-REVOLVING TERM CREDIT FACILITY

On May 21, 2009, the Corporation entered into a $50 million non-revolving one year term credit facility (the "**Term Facility**"). The Term Facility is provided by a syndicate of banks (the "**Syndicate**"). The Corporation paid $625,000 in financing fees to the Syndicate to establish the Term Facility. In January 2010, the Corporation paid an additional $250,000 in financing fees to extend the maturity date of this facility from May 21, 2010 to May 21, 2011. At March 31, 2010, these fees were deferred and netted against the amount drawn and amortized to income over the term of this facility. As no amounts were drawn on the Term Facility at December 31, 2009, the unamortized fees were shown as a non current asset on the balance sheet.

In January 2010, consent was received from the Syndicate to allow the Corporation to draw the full amount of the Term Facility. At March 31, 2010, Birchcliff had drawn the full $50 million on this facility. The amount outstanding at March 31, 2010 was $49.7 million, net of approximately $339,000 in unamortized deferred fees. During the three months ended March 31, 2010, the Corporation amortized to income approximately $156,000 in deferred financing fees related to this facility. The overall effective interest rate applicable to the bankers' acceptances issued under the Term Facility was 5.8% in the three months ended March 31, 2010.

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.

5. REVOLVING CREDIT FACILITIES

($000's)	**March 31, 2010**	December 31, 2009
Syndicated credit facility	157,000	192,000
Working capital facility	5,026	14,387
Drawn revolving credit facilities	**162,026**	**206,387**
Unamortized prepaid interest on bankers' acceptances	(3,220)	(4,627)
Unamortized deferred financing fees	(192)	(530)
Revolving credit facilities, net	**158,614**	**201,230**

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**"). In May 2009, 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 amount drawn and are being amortized to income over the one year extension period.

At March 31, 2010, the Corporation had drawn $162.0 million (December 31, 2009 – $206.4 million) on the revolving credit facilities. The amount outstanding at March 31, 2010 was $158.6 million (December 31, 2009 – $201.2 million), net of $3.4 million (December 31, 2009 – $5.2 million) in unamortized costs. At March 31, 2010, the effective rate applicable to the Working Capital Facility was 5.3% (March 31, 2009 – 3.2%). The overall effective interest rate applicable to the bankers' acceptances issued under the Syndicated Credit Facility was 4.9% in the three months ended March 31, 2010 (March 31, 2009 – 2.9%).

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 conversion date of the Syndicated Credit Facility is not extended, then on 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 conversion date of the Working Capital Facility is not extended, then on 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.

6. 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 throughout 2009 and during the three months ended March 31, 2010. The following table shows the Corporation's total available credit under its credit facilities at March 31, 2010 and December 31, 2009:

($000's)	**March 31, 2010**	December 31, 2009
Maximum borrowing base limit:		
Revolving credit facilities	255,000	255,000
Non-revolving term credit facility	50,000	50,000
	305,000	305,000
Principal amount:		
Revolving credit facilities(1)	(164,764)	(209,125)
Non-revolving term credit facility	(50,000)	-
	(214,764)	(209,125)
Total unused credit	**90,236**	**95,875**

(1) Included in the revolving credit facilities at March 31, 2010 are outstanding letters of credit issued to various service providers in the amount of $2.7 million (December 31, 2009 - $2.7 million). No amounts were drawn on the letters of credit at March 31, 2010 and December 31, 2009.

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 March 31, 2010 and December 31, 2009:

	March 31, 2010		December 31, 2009	
	Required	Actual	Required	Actual
Annualized EBITDA to interest coverage(1)	>3.5	7.9	>3.5	7.6

(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 as at and during the periods ended March 31, 2010 and December 31, 2009.

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, or adjust its capital spending to manage current and projected debt levels. Management expects to be able to continue to raise additional equity and obtain 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)	**March 31, 2010**	December 31, 2009	Change %
Total shareholders' equity[1]	562,019	554,561	1%
Total shareholders' equity as a % of total capital	70%	71%	
Working capital deficit [2]	24,012	20,291	
Revolving credit facilities	162,026	206,387	
Non-revolving term credit facility	50,000	-	
Total debt	236,038	226,678	4%
Total debt as a % of total capital	30%	29%	
Total capital	**798,057**	**781,239**	**2%**

(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.

During the three months ended March 31, 2010, total shareholders' equity increased mainly due to the exercise of options (Note 10) and an increase in reported net income for the period.

Total debt increased during the three months ended March 31, 2010 largely due to $30.3 million of capital spent in excess of cash flow during that period offset by proceeds of $17.5 million from the sale of assets as described in Note 3 which were used to reduce total debt.

7. 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 guidelines as outlined by the Board of Directors. The Corporation's risk management guidelines are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Corporation's activities.

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)	March 31, 2010	December 31, 2009
Marketers	12,652	16,607
Joint venture partners	19,134	12,984
Other	370	74
Total receivables	**32,156**	**29,665**

At March 31, 2010, approximately 95% of the Corporation's significant individual accounts receivable were due from five marketers (December 31, 2009 – 78%, five marketers). For the three months ended March 31, 2010, the Corporation received 12%, 38%, 14%, 14% and 15% of its revenue, respectively, from five core customers. The Corporation received the majority of its revenue for the three months ended March 31, 2009 from four customers, who individually accounted for 27%, 11%, 12% and 33%, 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 mitigates the credit risk associated with these by establishing marketing relationships with credit worthy purchasers, obtaining guarantees from their ultimate parent companies and obtaining letters of credit as appropriate. The Corporation historically has not experienced any material collection issues with its marketers.

At March 31, 2010 approximately $424,000 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 for doubtful accounts. Birchcliff did not have an allowance for doubtful accounts balance at March 31, 2010 and December 31, 2009.

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. 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 which are reviewed semi-annually by the lender. The principal amount utilized under the Corporation's credit facilities at March 31, 2010 was $214.8 million (December 31, 2009 – $209.1 million) and $90.2 million (December 31, 2009 – $95.9 million) in unused credit was available at the end of the year to fund future obligations.

The following table lists the contractual obligations of the Corporation's financial liabilities at March 31, 2010:

($000's)	< 1 Year	1 – 2 Years	3 – 5 Years	Thereafter
Accounts payable and accrued liabilities	60,994	-	-	-
Non-revolving term credit facility	-	50,000	-	-
Revolving credit facilities	-	-	162,026	-
Total financial liabilities	**60,994**	**50,000**	**162,026**	**-**

Market Risk

Market risk is the risk that changes in market conditions; such as commodity prices, exchange rates and interest rates; will affect the Corporation's net income or the value of its financial instruments. 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 limit 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 Canadian ("CDN") and United States ("US") dollar exchange ratio, but also by world 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 periods ended March 31, 2010 and 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 dollar as compared to the US dollar will reduce the prices received by Birchcliff for its petroleum and natural gas sales.

The Corporation had no forward exchange rate contracts in place as at or during the periods ended March 31, 2010 and December 31, 2009.

Interest Rate Risk

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

A 1% change in the CDN prime interest rate during the three months ended March 31, 2010 would have increased (decreased) net income (loss) and comprehensive income (loss) by approximately $507,000 (March 31, 2009 – $548,000), 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 three months ended March 31, 2010 and 2009.

Fair Value of Financial Instruments

Birchcliff's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, and credit facilities. All of Birchcliff's financial instruments are transacted in active markets. Financial instruments carried at fair value are assessed using the following hierarchy based on the amount of observable inputs used to value the instrument.

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

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. With the exception of cash which is carried at fair value, all of Birchcliff's financial instruments reported on the balance sheet are carried at amortized cost.

The carrying value and fair value of financial instruments at March 31, 2010 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)	146	146	-	-
Loans and Receivables				
Trade and other receivables(2)	32,156	32,156	-	-
Other Liabilities				
Accounts payable and accrued liabilities(2)	60,994	60,994	-	-
Non-revolving term credit facility(3)	50,000	50,000		
Revolving credit facilities(3)	162,026	162,026	-	2,979

(1) Cash is reported at fair value, based on a Level 1 designation.
(2) Trade and other receivables and accounts payable and accrued liabilities are reported at amortized cost. Due to the short term nature of trade and other receivables and accounts payable and accrued liabilities, their carrying values approximate their fair values at March 31, 2010.
(3) The Corporation's 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 Notes 4 and 5.

8. 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 March 31, 2010 to be approximately $72.6 million (December 31, 2009 – $70.1 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)	**March 31, 2010**	December 31, 2009
Balance, January 1	24,713	21,223
Obligations incurred	246	475
Obligations acquired, net	(72)	17
Changes in estimate	-	1,846
Accretion expense	414	1,758
Actual expenditures incurred	(35)	(606)
Ending balance	**25,266**	**24,713**

9. 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, 2009	**123,815,002**	**541,593,472**
Issued upon exercise of stock options	543,733	3,336,178
Balance, March 31, 2010	**124,358,735**	**544,929,650**

10. STOCK-BASED COMPENSATION

Stock Options

The Corporation has established a stock-based compensation plan whereby officers, directors, employees, 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 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 three months ended March 31, 2010, the Corporation recorded $2.5 million (March 31, 2009 - $1.7 million) of non-cash stock-based compensation expense and a corresponding increase to contributed surplus related to the issuance of stock options.

At March 31, 2010, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of a maximum 12,435,874 (March 31, 2009 – 11,254,264) common shares. At March 31, 2010, there remained available for issuance options in respect of 2,543,455 (March 31, 2009 – 2,118,475) common shares. A summary of the Corporation's outstanding stock options during the three months ended March 31, 2010 is presented below:

	Number	Weighted Average Exercise Price ($)
Outstanding, December 31, 2009	**7,710,253**	**5.81**
Granted	2,852,300	9.62
Exercised	(543,733)	(4.25)
Forfeited	(126,401)	(6.31)
Outstanding, March 31, 2010	**9,892,419**	**6.99**

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

	March 31, 2010	December 31, 2009
Risk-free interest rate	2.5%	2.0%
Expected maturity (years)	5.0	5.0
Expected volatility	60.8%	63.5%
Dividend yield	-	-
Fair value per option	$5.14	$3.02

A summary of the stock options outstanding and exercisable under the plan at March 31, 2010 is presented below:

Exercise Price		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$3.00	$6.00	4,543,052	3.05	$4.71	2,491,352	2.50	$4.43
$6.01	$9.00	2,256,167	3.37	$7.56	980,833	2.68	$7.37
$9.01	$12.00	2,905,400	4.74	$9.71	61,732	3.29	$10.52
$12.01	$14.25	187,800	3.28	$13.07	62,600	3.28	$13.07
		9,892,419	**3.62**	**$6.99**	**3,596,517**	**2.57**	**$5.48**

Performance Warrants

On January 14, 2005, as part of the Corporation's initial restructuring to become a public entity, the Corporation issued 4,049,665 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 of the related compensation expense was recorded in net income in that year. The fair value of each performance warrant was determined on the date of the grant using the Black-Scholes option-pricing model. 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. Additional stock-based compensation expense was recorded at the date of extension based on the fair value of the warrants at that time.

No performance warrants were issued or exercised during the periods ended March 31, 2010 and December 31, 2009. At March 31, 2010, there remained outstanding and exercisable 2,939,732 performance warrants.

Contributed Surplus Continuity

	$000's
Balance, December 31, 2009	**20,315**
Stock-based compensation expense – stock options [1]	2,495
Exercise of stock options	(1,027)
Balance, March 31, 2010	**21,783**

(1) Included in the stock-based compensation expense is the non-cash impact of forfeitures during the period.

11. 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	2,410
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.

12. SUPPLEMENTARY CASH FLOW INFORMATION

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

($000's)	**Three months ended March 31, 2010**	Three months ended March 31, 2009
Provided by (used in)		
Accounts receivable	(2,491)	8,515
Prepaid and other	(44)	(720)
Accounts payable and accrued liabilities	6,261	(21,393)
	3,726	**(13,598)**
Provided by (used in)		
Operating	(2,923)	5,750
Investing	6,649	(19,348)
	3,726	**(13,598)**

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Vice President, Exploration & Chief Operating Officer

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

David M. Humphreys, R.E.T
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Independent Businessman
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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
The Toronto Dominion Bank

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