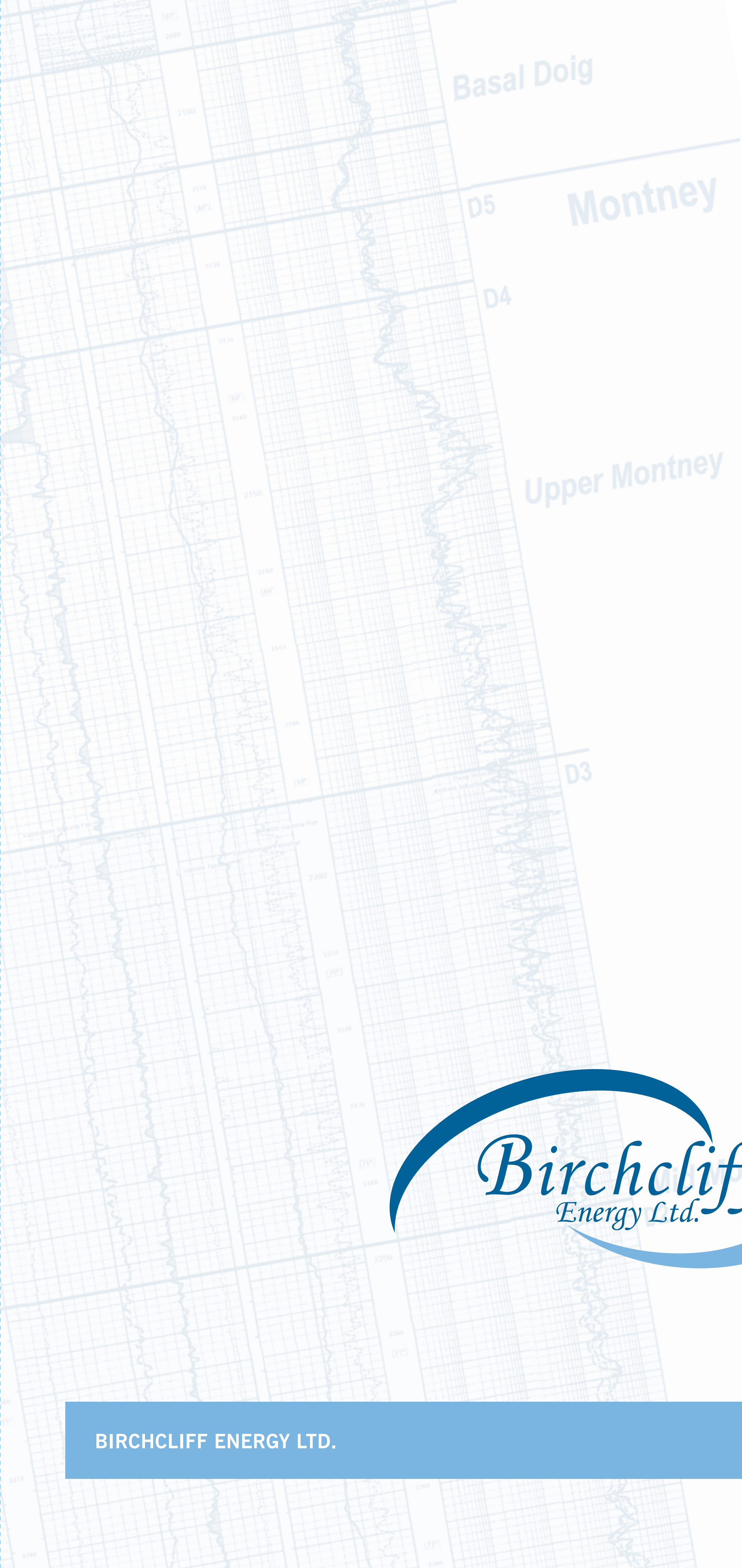


BIR:2011
ANNUAL REPORT

Birchcliff Energy Ltd.

BIRCHCLIFF ENERGY LTD. 2011 ANNUAL REPORT

CONTENTS

Financial and operational highlights:

	Three months ended Dec. 31, 2011	Three months ended Dec. 31, 2010	Twelve months ended Dec. 31, 2011	Twelve months ended Dec. 31, 2010
OPERATING				
Average daily production				
Light oil – *(barrels)*	4,229	3,486	3,905	3,135
Natural gas – *(thousands of cubic feet)*	90,116	73,978	82,116	56,970
NGLs – *(barrels)*	564	559	545	448
Total – barrels of oil equivalent *(6:1)*	19,812	16,375	18,136	13,079
Average sales price *($ Canadian)*				
Light oil *(per barrel)*	95.52	81.89	92.00	78.76
Natural gas *(per thousand cubic feet)*	3.40	3.94	3.85	4.21
NGLs *(per barrel)*	94.67	76.14	89.33	72.82
Total – barrels of oil equivalent *(6:1)*	38.54	37.83	39.94	39.72
Undeveloped land				
Gross *(acres)*	531,903	500,069	531,903	500,069
Net *(acres)*	493,968	456,952	493,968	456,952
NETBACK AND COST				
($ per barrel of oil equivalent at 6:1)				
Petroleum and natural gas revenue	38.55	37.88	39.97	39.80
Royalty expense	(4.16)	(2.91)	(4.44)	(3.55)
Operating expense[1]	(6.90)	(6.84)	(6.75)	(7.59)
Transportation and marketing expense	(2.66)	(2.56)	(2.64)	(2.59)
Netback[1]	24.83	25.57	26.14	26.07
General & administrative expense, net[1]	(5.88)	(4.47)	(3.74)	(3.30)
Interest expense	(2.27)	(2.60)	(2.64)	(2.82)
Cash flow netback[1]	16.68	18.50	19.76	19.95
Stock-based compensation expense, net[1]	(1.48)	(0.85)	(1.42)	(1.62)
Depletion and depreciation expense[1]	(11.97)	(10.73)	(10.84)	(10.79)
Accretion expense[1]	(0.23)	(0.25)	(0.27)	(0.30)
Amortization of deferred financing fees	(0.11)	(0.17)	(0.13)	(0.34)
Gain on sale of assets[1]	–	–	0.32	3.25
Deferred income tax expense[1]	(1.06)	(1.57)	(2.22)	(2.99)
Net income[1]	1.83	4.93	5.20	7.16
FINANCIAL				
Petroleum and natural gas revenue *($000)*	70,261	57,072	264,587	189,978
Cash flow *($000)*[1][2]	30,400	27,865	130,826	95,241
Per share – basic *($)*[1][2]	0.24	0.22	1.04	0.76
Per share – diluted *($)*[1][2]	0.23	0.22	1.00	0.74
Net income *($000)*[1]	3,333	7,431	34,454	34,163
Per share – basic *($)*[1]	0.03	0.06	0.27	0.27
Per share – diluted *($)*[1]	0.03	0.06	0.26	0.27
Common shares outstanding				
End of period – basic	126,745,577	125,129,234	126,745,577	125,129,234
End of period – diluted	140,152,250	137,316,486	140,152,250	137,316,486
Weighted average shares for period – basic	126,731,919	124,994,761	126,282,910	124,629,761
Weighted average shares for period – diluted[1]	132,216,022	128,418,091	131,444,878	128,520,068
Capital expenditures, net *($000)*[1]	81,023	45,730	237,480	214,924
Working capital deficiency *($000)*	48,598	3,956	48,598	3,956
Non-revolving term credit facilities *($000)*	68,925	–	68,925	–
Revolving credit facilities *($000)*	319,500	333,468	319,500	333,468
Total debt *($000)*	437,023	337,424	437,023	337,424

1) Prior period amounts restated to comply with the requirements of International Financial Reporting Standards.

2) Cash flow and cash flow per share amounts represent cash provided by operating activities as per the Statement of Cash Flows before the effects of changes in non-cash working capital and decommissioning expenditures related to operating activities.

2011 snapshot:

Proved plus probable (2P) reserves

275

MMboe

4th quarter production

19,812

boe/day

Cash flow

$131

million

Reserve life index (years)

36

on 2P basis assuming 21,100 boe/day production rate

One core area

Earnings

$34.5

million

Wells drilled

53

PCS Gas Plant operating netback

$3.24

per Mcfe

Land acquired at 100% WI

110,464

undeveloped acres

Birchcliff is in a position of strength with financial flexibility and a very focused, high working interest, operated, low-cost asset base with significant growth potential.

Fellow Shareholders,

On behalf of the directors, executive, management and staff of Birchcliff, I am very pleased to provide you with our 2011 results and our outlook for 2012 and beyond.

The Executive Team is committed, excited and enthusiastic about the future.

˅ **A. Jeffery Tonken**
President and Chief Executive Officer

CORPORATE SALE PROCESS

At the beginning of our public sale process that was announced on October 3, 2011, we publically stated that in the event we did not receive sufficient value for the Corporation, we would say NO. On March 29, 2012, Birchcliff terminated the process because we did not receive an acceptable offer reflecting the value of the Corporation. We chose to make the process public in order to disseminate our decision to sell the company to the widest possible audience. Equally as important, we wanted to be honest and direct with all of our stakeholders, to insure that they were aware of our process and the possible ramifications. Birchcliff is now, and was at that time, in a very strong position. Our asset base has allowed us to perform on all metrics. We did not foresee the price of natural gas collapsing. Our goal at the time we started the process was to attract a buyer who would "pay forward" some of the future value. Although we received two non-binding offers, we were not prepared to accept bids which we believed did not represent sufficient value to our shareholders.

As a result, Birchcliff will continue to focus on its substantial resource base, grow through the drill bit and execute on its 2012 capital program and long-term development plan. Birchcliff remains in a position of strength with financial flexibility and a very focused, high working interest, operated, low-cost asset base with significant growth potential.

POUCE COUPE SOUTH NATURAL GAS PLANT

Our Pouce Coupe South natural gas plant (the "**PCS Gas Plant**") is the culmination of several years of work, with respect to both the development of production and reserves on our Montney/Doig Natural Gas Resource Play and the execution of our business strategy to develop a core producing property with significant undeveloped land surrounding the production where we own and control the infrastructure.

Phase I of the PCS Gas Plant commenced processing in March of 2010 and Phase II in November 2010, providing a total of 60 MMcf per day processing capacity. We have been working on the construction of Phase III of the PCS Gas Plant, which will double the processing capacity to 120 MMcf per day and I am pleased to report that we are now just months away from the commencement of processing gas at Phase III. We are applying to re-license the PCS Gas Plant to increase the licensed processing capacity to 150 MMcf per day. This re-licensing will recognize the expected processing capacity of the PCS Gas Plant once the Phase III expansion is completed. We are planning future expansions to the PCS Gas Plant, when natural gas prices warrant it.

EXCELLENT 2011 RESULTS

I note that in 2011 Birchcliff is one of the few oil and gas companies of its size that has EARNINGS. Our low depletion costs (which follow from low finding and development costs) and low operating costs resulted in $34.5 million of earnings in 2011. This was accomplished when gas averaged $3.63 per mcf at AECO during 2011. The PCS Gas Plant plays a major part in this because our per boe operating costs are very low.

In 2011, we increased our average annual production to 18,136 per day, a 39% increase over 2010. We increased our proved plus probable reserves to 275.4 MMboe, a 37% increase from 2010, added those reserves for approximately $2.92 per boe without future capital, and $12.31 per boe including future capital. We expanded Birchcliff's footprint on our developed resource plays and new resource plays, while maintaining a 93% average working interest. Despite the current low natural gas environment, we have a very large portfolio of Montney/Doig horizontal natural gas drilling opportunities that are economic to pursue. At December 31, 2011, we had in excess of 1,850 Montney/Doig horizontal natural gas well drilling locations. In addition, the Worsley Light Oil Play continues to grow. We are doing the technical work and planning required to develop a tight/shale oil based resource play in our core area, the Peace River Arch and in that regard we purchased 110,464 acres that we think are prospective on these tight/shale oil resource plays.

2012 CAPITAL BUDGET

We set our 2012 capital budget at $292 million. Approximately $210 million is directed toward the Phase III expansion of the PCS Gas Plant, with $149 million to be spent for the drilling, completion and tie-in of Montney/Doig horizontal natural gas wells that will produce to the expanded PCS Gas Plant and $61 million to be spent on the Phase III expansion of the PCS Gas Plant, which includes an acid gas disposal well, minor upgrades and an associated gathering trunk line.

Based on the capital budgeted for 2012, Birchcliff's 2012 exit production rate is expected to be approximately 26,000 boe per day.

In light of currently low natural gas prices, Birchcliff has adopted a budget under which the number of Montney/Doig horizontal natural gas wells to be drilled in 2012 will only fill a portion of the processing capacity of the expanded PCS Gas Plant. This will leave Birchcliff with excess processing capacity that can be filled when natural gas prices improve.

2012 OUTLOOK

Our 2012 goal is to convert long life reserves into production. We see continued significant production and reserves growth from our existing asset base in 2012 and beyond.

Birchcliff has established two significant resource plays. The 2011 reserves additions demonstrate that Birchcliff has the ability to add reserves and production on a low cost and repeatable basis. Birchcliff has a 36 year reserve life index on a proved plus probable basis, calculated using a production rate of 21,100 boe per day.

Construction of Phase III of the PCS Gas Plant will allow us to continue to grow production, cash flow and reserves. This will also allow Birchcliff to move a significant amount of reserves into the proved developed producing category, which is key in maximizing shareholder value. The PCS Gas Plant, in addition to a number of other initiatives, has resulted in a significant reduction in net operating costs on a per boe basis, making Birchcliff a low cost producer, in addition to a low cost finder.

Approximately 55% of our corporate natural gas production is processed at the PCS Gas Plant, which has extremely low operating costs per boe. As a result, the operating netback for our Montney/Doig natural gas wells producing to the PCS Gas Plant was approximately $3.24 per Mcfe during 2011. We can live within our cash flow and credit lines and continue to have phenomenal growth in the next several years without significant upward moves in natural gas prices. We believe that Birchcliff will flourish as a low cost producer and we will continue to grow. We believe that eventually the laws of supply and demand will force the price of natural gas to go up as investment and natural gas production declines.

As a result of the significant increase in production and in turn, our proved developed producing reserves in 2011, we expect our credit facilities will be increased following our annual review by our banking syndicate in May 2012. Further, we believe that after our recently announced equity financing is completed, we will not have to access the equity markets in the foreseeable future.

Thank-you to our staff, our management and executive teams, our directors and our major shareholder

Thank you to our office staff, who develop and plan each of the individual initiatives that bring us success and to our field staff, who safely and efficiently perform the field operations that turn good ideas into good results. Without their hard work and tireless dedication, we could not have achieved such success.

Thank you to our management and executive teams, who work very long hours for the benefit of our employees and shareholders. The work required during the sale process together with the successful day to day running of our business was a true testament to their dedication and passion toward Birchcliff.

Thank you to our directors, who provide continued dedication, input and guidance.

Thank you to our significant shareholder, Mr. Seymour Schulich, who provides tremendous support and advice, which has played an integral role in our success. Mr. Schulich provided phenomenal support especially when the commodity price started to deteriorate. If ever anyone has met an individual who represents the saying “When the going gets tough, the tough get going,” it is Mr. Schulich. When many investors abandoned natural gas, he invested more money to increase his share position and show his support for Birchcliff.

We are excited about moving forward and relish the opportunity to compete in a very tough market. Like Mr. Schulich: “when the going gets tough, the tough get going.”

On behalf of the Executive Team.

Respectfully,

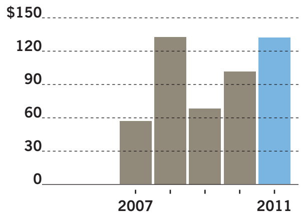
(signed) “A. Jeffery Tonken”

A. Jeffery Tonken
President and Chief Executive Officer

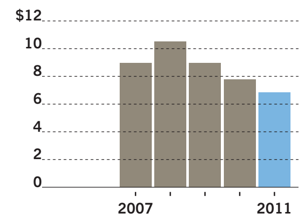
April 4, 2012

Financial performance:

Cash flow
(millions of dollars)



Operating cost per boe
(dollars)



CASH FLOW AND EARNINGS

Our 2011 cash flow was approximately $130.8 million or $1.04 per basic share, a 37% increase from 2010.

Birchcliff recorded net income of $34.5 million ($0.27 per basic share) in 2011 as compared to $34.2 million ($0.27 per basic share) in 2010. Excluding the gain on sale of assets and its tax effect, Birchcliff recorded net income of $32.9 million in 2011 as compared to $22.5 million in 2010. These 2011 earnings are significant as Birchcliff's average sales price of natural gas dropped 9% from December 31, 2010 to December 31, 2011, resulting in reduced margins, yet we remained profitable on a full cycle basis, indicating that our resource plays and business model continue to be economic.

DEBT AND CAPITALIZATION

At December 31, 2011, Birchcliff had drawn $388.4 million from its available bank debt credit facilities aggregating $520 million. As such, we have significant credit capacity and financial flexibility. At December 31, 2011, Birchcliff's working capital deficiency was $48.6 million and total debt was $437.0 million.

We expect that as a result of our significant 2011 reserve additions, our bank credit facilities will be increased during our normal credit review in May 2012.

At December 31, 2011, Birchcliff had 126,745,577 basic common shares outstanding and 140,152,250 diluted common shares.

OPERATING COSTS

Operating costs per boe (excluding transportation and marketing costs) were $6.75 per boe, down 11% from $7.59 per boe in 2010 and down 24% from $8.89 per boe in 2009. The decrease is largely due to the operating benefits achieved from processing natural gas through Phases I and II of our PCS Gas Plant, which commenced operations in March 2010 and November 2010 respectively. Net of recoveries, operating costs in 2011 for production at our PCS Gas Plant was $0.21 per Mcfe.

RECYCLE RATIOS

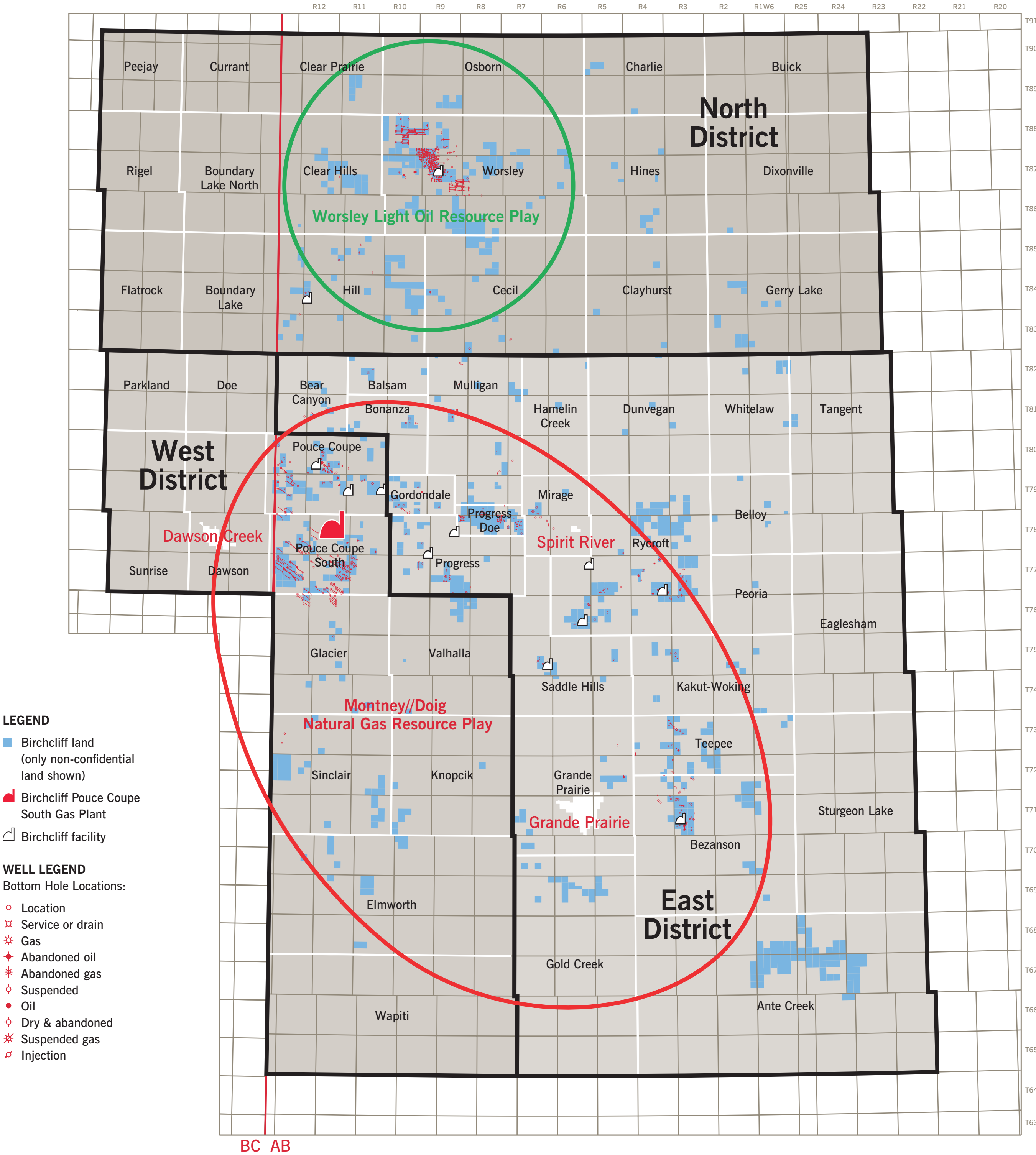
The following table shows Birchcliff's operating and cash flow netback recycle ratios, which are calculated in each case by dividing the average operating netback per boe or cash flow netback per boe, as the case may be, by each of the finding and development costs ("**F&D**") and the finding, development and acquisition costs ("**FD&A**").

During 2011, the average WTI price of crude oil was US $95.10 per barrel and the average price of natural gas at AECO was Cdn $3.63 per MMbtu. Operating netback per boe for 2011 was $26.14. Cash flow netback per boe for 2011 was $19.76.

Operating and cash flow netback recycle ratios at December 31, 2011:

	Operating netback recycle ratio		Cash flow netback recycle ratio	
	2011	2010	2011	2010
Recycle ratio excluding future development capital				
F&D proved plus probable	9.1	4.7	6.9	3.8
FD&A proved plus probable	8.9	5.8	6.8	4.7
Recycle ratio including future development capital				
F&D proved plus probable	2.2	2.6	1.6	2.1
FD&A proved plus probable	2.1	3.1	1.6	2.5

^ Low per boe operating costs at our PCS Gas Plant contribute to our excellent recycle ratios.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T63
North District
West District
East District
Worsley Light Oil Resource Play
Montney//Doig
Natural Gas Resource Play
Peejay
Currant
Clear Prairie
Osborn
Charlie
Buick
Rigel
Boundary Lake North
Clear Hills
Worsley
Hines
Dixonville
Flatrock
Boundary Lake
Hill
Cecil
Clayhurst
Gerry Lake
Parkland
Doe
Bear Canyon
Balsam
Bonanza
Mulligan
Hamelin Creek
Dunvegan
Whitelaw
Tangent
Pouce Coupe
Gordondale
Mirage
Progress Doe
Belloy
Dawson Creek
Pouce Coupe South
Spirit River
Rycroft
Sunrise
Dawson
Progress
Peoria
Eaglesham
Glacier
Valhalla
Saddle Hills
Kakut-Woking
Teepee
Sinclair
Knopcik
Grande Prairie
Sturgeon Lake
Bezanson
Elmworth
Gold Creek
Ante Creek
Wapiti
BC AB
LEGEND
Birchcliff land (only non-confidential land shown)
Birchcliff Pouce Coupe South Gas Plant
Birchcliff facility
WELL LEGEND
Bottom Hole Locations:
Location
Service or drain
Gas
Abandoned oil
Abandoned gas
Suspended
Oil
Dry & abandoned
Suspended gas
Injection

Birchcliff's operations are concentrated within one core area, the Peace River Arch, which is centred northwest of Grande Prairie, adjacent to the Alberta/British Columbia border, and is considered by management to be one of the most desirable natural gas and light oil drilling areas in North America.

The Peace River Arch is one of the most prolific natural gas and oil producing areas of the Western Canadian Sedimentary Basin and is generally characterized by multiple horizons with a myriad of structural, stratigraphic and hydrodynamic traps. There is an abundance of prolific resource plays, related in part to the proximity of the area to the deep basin, where generation and trapping of hydrocarbons preferentially occurs. The Peace River Arch provides all-season access that allows Birchcliff to drill, equip and tie-in wells on an almost continuous basis, excluding the spring break-up period.

Our strategy in the Peace River Arch is focused on developing sound exploration and development opportunities that can support extensive drilling and production growth in a repeatable, low risk manner. Birchcliff works to de-risk plays by drilling both vertical and horizontal exploration wells to develop an in-depth understanding of oil and gas pools, rock properties and petrophysical characteristics. We design, test and evaluate drilling, completion and production technologies and practices to achieve continual improvements in productivity and to drive down capital and operating costs. Birchcliff's pool delineation strategy de-risks future development and reduces future costs as new well pads and infrastructure are designed and built to support multiple horizontal well locations and increased production. We have a focused strategy to acquire additional contiguous land blocks at Crown sales or through selective private acquisitions. Our dominant land and infrastructure position in the Peace River Arch has helped us develop an in-depth knowledge of the land, the geology, the reservoirs, the infrastructure and the stakeholders.

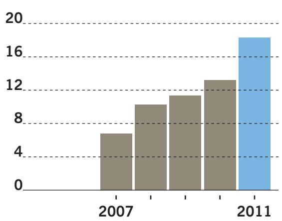
Birchcliff's 2011 average production was 18,136 boe per day, with a fourth quarter production average of 19,812 boe per day. Wells in the Peace River Arch have the potential to initially produce 500 to 10,000 Mcf per day (83 to 1,666 boe per day) of natural gas or 30 to 500 bbl per day of light oil.

^ We focus on developing sound exploration and development opportunities that can support extensive drilling and production growth in a repeatable, low risk manner.

Birchcliff's land base primarily consists of large contiguous blocks of high working interest acreage located near facilities owned and/or operated by Birchcliff or near third party infrastructure.

> All of Birchcliff's operations are concentrated in one core area, the Peace River Arch area of Alberta.

Annual average production growth
(thousands of boe per day)

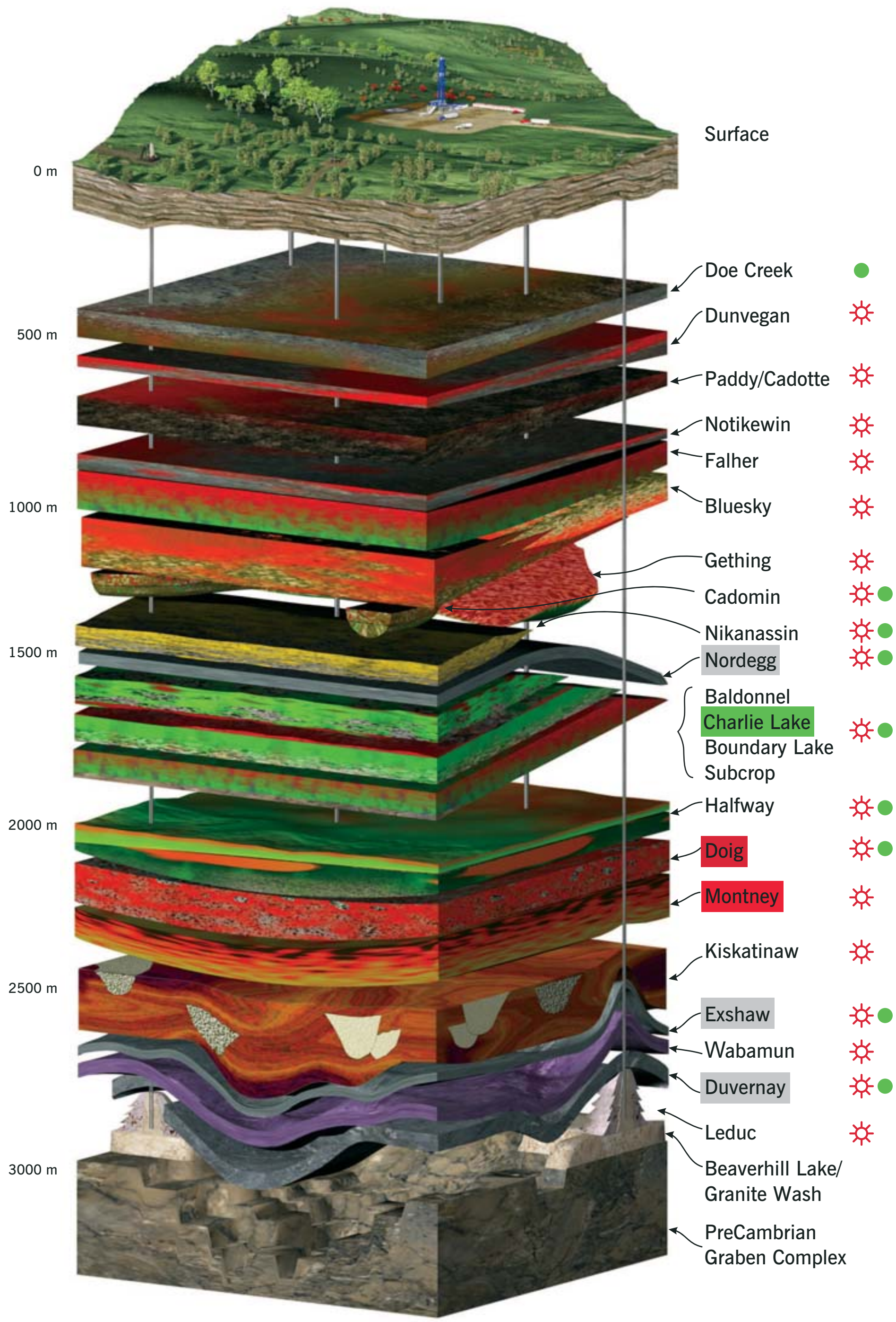


We have excellent control of and access to infrastructure in the Peace River Arch to process our light oil and natural gas production. In 2010, Birchcliff commenced processing natural gas through our 100% owned PCS Gas Plant, which currently has a processing capacity of 60 MMcf per day. We hold working interests in 12 gas plants, four of which are wholly owned and five of which we operate. We hold working interests in five major oil batteries, one of which we operate. We have working interests in 21 wholly owned and operated compressor sites.

During 2011, Birchcliff acquired 110,464 (110,464 net) acres of undeveloped land, all in its core area of the Peace River Arch of Alberta. Birchcliff's undeveloped land base at December 31, 2011 consisted of 531,903 (493,968 net) undeveloped acres, which is a 93% average working interest. This is an 8.1% increase over the 2010 year end net undeveloped land base of 500,069 (456,952 net) undeveloped acres. Further, this is a 658% increase over the 75,000 net undeveloped acres Birchcliff acquired in the significant Peace River Arch area acquisition completed on May 31, 2005.

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

Birchcliff spent $236.5 million on exploration and development projects (including acquisitions and dispositions) in the Peace River Arch in 2011, including the drilling of 53 (44.78 net) wells, all of which were successful. Drilling depths on a true vertical depth basis can range from 300 metres for the shallower horizons to 2,700 metres for the deeper, higher impact targets. The capital cost for the horizontal wells has continued to decrease as we realize efficiencies by multi-well pads, multi-leg wells, increased proximity to existing infrastructure and more cost competitive pricing for services.



Stratigraphic Column and Production Zones

LEGEND

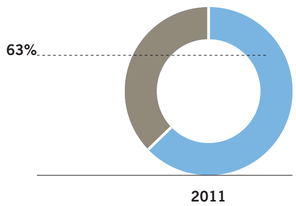
- ● Oil zones
- ☼ Natural gas zones

^ Birchcliff's natural gas production is primarily from the Basal Doig/Upper Montney and Middle/Lower Montney zones. Light oil production is primarily from the Charlie Lake zone.

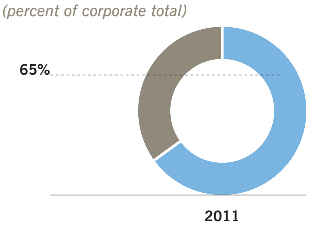
Operations review:

West District:

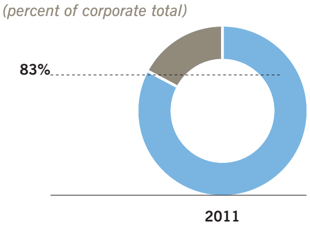
Exploration and development expenditures
(percent of corporate total)



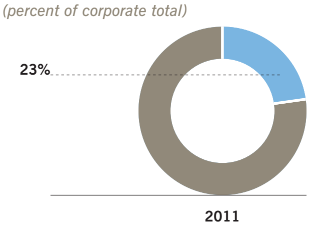
Production volumes
(percent of corporate total)



Proved plus probable reserves
(percent of corporate total)



Net undeveloped land holdings
(percent of corporate total)



BIRCHCLIFF'S DISTRICTS WITHIN THE PEACE RIVER ARCH

Birchcliff operates within three distinct districts in the Peace River Arch, each with its own technical team: West District, North District and East District. Each of the districts is comprised of a number of regions.

West District

The West District is centred approximately 95 kilometres northwest of Grande Prairie and contains four primary regions: Pouce Coupe, Pouce Coupe South, Glacier and Sinclair. The principal asset in the West District is the Montney/Doig Natural Gas Resource Play, which, in the opinion of management, is one of the most sought after natural gas resource plays in North America.

Approximately 83% of our total proved plus probable reserves are located in the West District and provide low-risk development drilling and exploration opportunities.

The West District represented approximately 83% of Birchcliff's natural gas production and 1% of our oil production in 2011. Natural gas production is primarily from the Basal Doig/Upper Montney and Middle/Lower Montney zones. In 2011, West District production averaged 11,762 boe per day and the operating netback for this production was $18.51 per boe. Average operating costs in the West District were $5.01 per boe, a 18% decrease on a per boe basis from 2010.

Production from the West District flows through two operated gas plants and six non-operated gas plants. We own and operate two gas plants in the West District; most notably the 100% owned PCS Gas Plant, which has a designed inlet capacity of 60 MMcf per day and is currently being expanded to 120 MMcf per day. In addition to the PCS Gas Plant, there is a 100% owned Bonanza Gas Plant, processing sweet gas in Pouce Coupe North. We also process gas at the Progress gas plant operated by Canadian Natural Resources Northern Alberta Partnership, in which we have a small working interest. Other gas is delivered to the Spectra gathering system, which is processed under firm service contracts at either the Fourth Creek gas plant, the Gordondale East gas plant or the Pouce Coupe gas plant. Birchcliff also has a firm service contract with AltaGas for gas delivered to and processed at the AltaGas Pouce Coupe gas plant.

In 2011, Birchcliff invested $4.3 million to expand and maintain our land position in the West District. At December 31, 2011, we had interests in approximately 179,800 (154,509 net) acres of land of which 122,483 (113,741 net) acres were undeveloped. The average working interest in undeveloped land in the West District is approximately 93%.

In 2011, we spent $147.9 million on West District land, exploration, development and minor acquisitions, net of dispositions, including the drilling and completion of 25 (21.25 net) wells. The West District offers multiple, stacked targets down to total vertical depths of 2,700 metres.

North District

The North District is centred approximately 250 kilometres north of Grande Prairie. Within the North District, Worsley is the primary region and the most significant asset is the Worsley Light Oil Resource Play.

Approximately 12% of our total proved plus probable reserves are located in the North District. Birchcliff's plans for this district are focused on the Worsley Light Oil Resource Play, including extension of the oil pool to the north and the south, recompletion and infill development opportunities, expansion of the water flood and expansion of the application of horizontal drilling and multi-stage fracture stimulation technology as it relates to Birchcliff's oil properties.

The North District represented approximately 10% of our natural gas production and 77% of our oil production in 2011, with production primarily from the oil rich Charlie Lake zone. In 2011, North District production averaged 4,514 boe per day and operating netback for this production was $48.43 per boe.

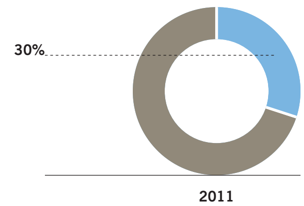
The majority of the production from the North District flows through a Birchcliff 100% owned and operated gas plant and oil battery. Both of these facilities are located in the core of the Worsley region. We also hold a 29.7% working interest in a sour gas plant in the Hill Region of the North District, which is currently decommissioned. Clean oil is trucked from the Worsley facility to truck terminals located in High Prairie, Alberta and Taylor, British Columbia, to be transported on the Pembina Peace pipeline to Edmonton.

In 2011, Birchcliff invested $4.8 million to expand and maintain our North District land position. As of December 31, 2011, we had interests in approximately 187,121 (179,589 net) acres of land of which 164,721 (161,755 net) acres are undeveloped. The average working interest in undeveloped land in the North District is approximately 98%.

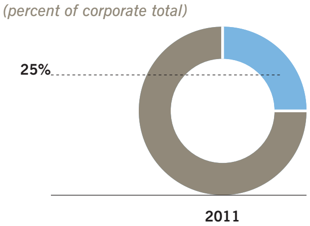
Birchcliff spent $70.9 million on North District land, exploration, development and minor acquisitions in 2011, including the drilling and completion of 18 (18.0 net) wells. We enhanced the water flood area by converting two producing wells to injection wells and generated a surveillance model to evaluate pattern performance and prepare for 2012 activities. Currently, about one third of the Birchcliff owned portion of the Worsley light oil pool is under water flood. The water flood response has exceeded management's expectations and we look forward to further expansion of the water flood area in 2012.

North District:

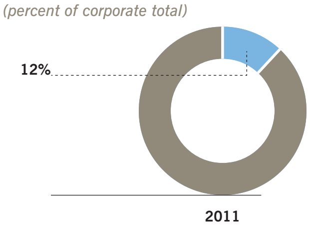
Exploration and development expenditures
(percent of corporate total)



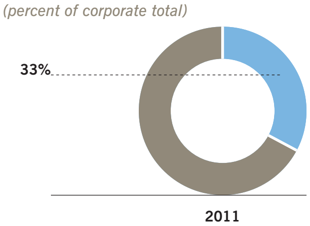
Production volumes
(percent of corporate total)



Proved plus probable reserves
(percent of corporate total)



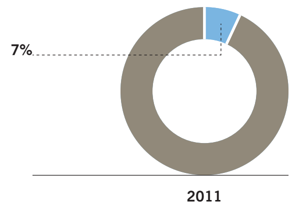
Net undeveloped land holdings
(percent of corporate total)



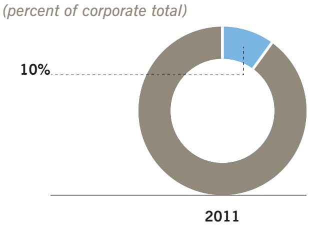
Operations review:

East District:

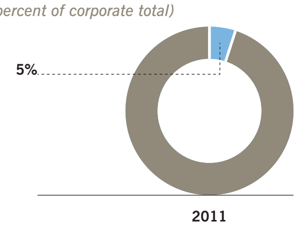
Exploration and development expenditures
(percent of corporate total)



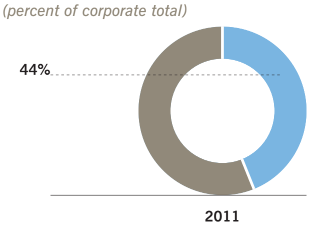
Production volumes
(percent of corporate total)



Proved plus probable reserves
(percent of corporate total)



Net undeveloped land holdings
(percent of corporate total)



East District

The East District is centred approximately 50 kilometres north of Grande Prairie. Progress, Rycroft and Bezanson are the primary regions contained within the East District. The Progress Doe Creek oil pool, Progress Halfway oil pool and the Montney/Doig Natural Gas Resource Play are the East District's primary assets. During 2011, Birchcliff initiated research, evaluation and testing of new resource plays in the East District where we have significant land holdings prospective for a number of resource plays.

Approximately 5% of our total proved plus probable reserves are located in the East District. The East District represented approximately 7% of our natural gas production and 22% of our oil production in 2011. Production is from multiple zones, from the late Devonian to the Cretaceous. In 2011, production from the East District averaged 1,859 boe per day.

We process East District production through two operated gas plants (one of which is currently decommissioned), six non-operated gas plants and five major oil batteries. Clean oil from the Progress region is trucked to a truck terminal located in Gordondale and clean oil from the Progress Doe Creek region is pipeline connected to the Pembina Peace pipeline to Edmonton.

In 2011, Birchcliff invested approximately $4.0 million to expand and maintain the land position in the East District. At December 31, 2011, we had interests in approximately 333,877 (264,157 net) acres of land of which 244,698 (218,471 net) acres were undeveloped. The average working interest in undeveloped land in the East District is approximately 89%.

Birchcliff spent $17.9 million on East District land, exploration, development and minor acquisitions net of dispositions in 2011, including the drilling and completion of 10 (5.53 net) wells. We drilled the first horizontal and multi-stage fractured Halfway oil well (67% working interest) in 2010. In 2011, the first follow-up horizontal Halfway oil well (50% working interest) was brought on production in December 2011 with an initial production rate in excess of 1,200 boe per day, comprised of 1,000 barrels per day of oil and 237 boe per day of gas, (600 boe per day net to Birchcliff). Current production is 973 boe per day, comprised of 744 barrels per day of oil and 229 boe per day of gas, (486 boe per day net to Birchcliff). The second follow-up horizontal Halfway well (100% working interest) was drilled in the fall 2011 and will be brought on production shortly. This well tested 828 boe per day, 4.6 MMcf per day, at a tubing flowing pressure of 8,150 kPa with 14 bbls/MMscf liquids.

We successfully drilled a horizontal and multi-stage fractured Doig well (50% working interest) that had an initial production rate of 320 boe per day, comprised of 250 barrels of oil per day and 70 boe per day of gas, (160 boe per day net to the Corporation). Production is currently restricted due to liquid handling capacity issues at a third party facility with a current production rate of 100 boe per day, being 70 barrels per day of oil and 30 boe per day of gas.

Birchcliff was also active in the Progress area drilling 2 (0.9 net) vertical and 5 (2.7 net) horizontal wells, all of which were successful, on its Doe Creek light oil pool.

BIRCHCLIFF'S RESOURCE PLAYS IN THE PEACE RIVER ARCH

Birchcliff is focused on two established resource plays within the Peace River Arch: the Montney/Doig Natural Gas Resource Play in the West and East Districts, and the Worsley Light Oil Resource Play in the North District. We have also acquired lands that are prospective for one or more new resource plays that will take time to develop. Birchcliff characterizes its resource plays as plays that have regionally pervasive, continuous, low permeability hydrocarbon accumulations or systems that usually require intensive stimulation to produce. The production characteristics of these plays include steep initial declines that rapidly trend to much lower decline rates, yielding long life production and reserves. Resource plays exhibit a statistical distribution of estimated ultimate recoveries and therefore provide a repeatable distribution of drilling opportunities. As more wells are drilled into a resource play, there is a substantial decrease in both the geological and technical risks.

2P Montney/Doig reserves

43.7

percent increase

Montney/Doig Natural Gas Resource Play

The Montney/Doig Natural Gas Resource Play is classified by Birchcliff as a hybrid resource play because it is comprised of approximately 300 metres (1,000 feet) of gas saturated rock with both tight silt and sand reservoir rock interlayered with shale gas source rock.

In 2011, Birchcliff drilled 23 (19.3 net) Montney/Doig horizontal natural gas wells utilizing multi-stage fracture stimulation technology. We continue to expand the Montney/Doig Natural Gas Resource Play both geographically and stratigraphically, as six (6.0 net) of the 23 (19.3 net) Montney/Doig horizontal natural gas wells were exploration successes. Of those, one was in the Basal Doig/Upper Montney Play and the other five were in the Middle/Lower Montney Play. We also drilled one (1.0 net) successful Montney/Doig vertical exploration well. Birchcliff also drilled an acid gas disposal well as a back-up disposal well for the PCS Gas Plant in order to provide operational flexibility with the commissioning of Phase III of the PCS Gas Plant.

Wells on the Montney/Doig Natural Gas Resource Play are drilled to approximately 2,300 to 2,500 metres for a vertical well and 4,000 to 5,000 metres measured depth for a horizontal well. Initial well productivity for the vertical wells is 500 to 1,000 Mcf per day (83 to 166 boe per day) and 3,000 to 10,000 Mcf per day (500 to 1,666 boe per day) for the horizontal wells.

Well spacing is an important consideration for the Montney/Doig Natural Gas Resource Play. Industry competitors typically have drilled up to four wells per section per stratigraphic zone on 160 acre spacing. Recently, industry competitors in the Peace River Arch area have drilled up to eight wells per section per stratigraphic zone using 80 acre spacing.

Reserve assignments by AJM Deloitte to Birchcliff's lands in the Montney/Doig Natural Gas Resource Play are currently based on four wells per section, per stratigraphic zone. Birchcliff's technological analysis supports reducing inter-well spacing and in the future we expect AJM Deloitte to assign additional future horizontal locations and reserves based on reduced inter-well spacing.

In 2011, AJM Deloitte estimated that Birchcliff had 227.7 MMboe of proved plus probable reserves attributed to horizontal wells on the Montney/Doig Natural Gas Resource Play. This is an increase of 43.7% from 158.4 MMboe proved plus probable reserves attributed to horizontal wells on the Montney/Doig Natural Gas Resource Play at December 31, 2010.

Operations review:

^ One of our pad production sites on the Worsley Light Oil Resource Play.

Worsley Light Oil Resource Play

The Worsley Light Oil Resource Play has demonstrated consistent and prolific production performance. Successful expansion of the pool, water flood performance and the application of horizontal drilling and multi-stage fracture stimulation technology have all contributed to its continued reserve growth, production growth and high netbacks. Our assets in the Worsley Property (acquired in September 2007) have provided $245.4 million in operating cash flow from September 2007 to December 2011, $207.0 million of which has been invested back into the property.

Vertical wells on the Worsley Light Oil Resource Play are drilled to approximately 1,350 metres and horizontal wells are drilled to a measured depth of 2,500 to 3,500 metres. Vertical wells deliver initial productivity rates of 30 to 100 boe per day and horizontal wells deliver 60 to 400 boe per day.

Drilling activities during 2011 at Worsley included three (3.0 net) vertical oil wells and 15 (15.0 net) horizontal oil wells. The program included exploration success expanding the Worsley Light Oil Resource Play with one vertical well and 2 horizontal wells.

At December 31, 2011, AJM Deloitte estimated that Birchcliff had reserves of 31.3 MMboe proved plus probable; and 18.8 MMboe total proved in the Worsley Charlie Lake Pool. This continues the growth trend for Birchcliff's Worsley reserves since July 1, 2007 (being the effective date of the acquisition), when recoverable reserves were estimated at 15.1 MMboe proved plus probable and 11.3 MMboe total proved. Both the original oil in place and the estimated recoverable reserves continue to grow.

New Tight/Shale Oil Resource Play Development

In our core area of the Peace River Arch, numerous industry competitors have announced significant developments on a number of new tight/shale oil resource plays. Throughout 2011 and the beginning of 2012 there have been significant lands posted and acquired in the Peace River Arch and numerous new wells drilled and completed targeting these new resource plays, including the Montney, Charlie Lake, Nordegg and the Duvernay. We continue to spend a significant amount of time analyzing and evaluating various new resource plays in the Peace River Arch.

During 2011, Birchcliff has acquired 110,464 (110,464 net) acres of undeveloped lands that management believes are prospective for one or more of these new resource plays. Consistent with the corporate strategy, we have acquired several large contiguous blocks at 100% working interest. Some of these lands are also prospective for the Montney/Doig Natural Gas Resource Play or the Worsley Light Oil Resource Play.

While we are early in the development of these new resource plays, based on the high level of industry activity and internal technical evaluation, management is optimistic about their potential ultimate value.

Operations review:

FACILITIES

Birchcliff holds working interests in 12 gas plants, four of which are wholly owned and five of which we operate. Birchcliff holds working interests in five major oil batteries, one of which we operate. Birchcliff has working interests in 21 wholly owned and operated compressor sites. We have operated approximately 29,500 horsepower of field compression in 2011, which includes all operated gas plants. The addition of the Phase III expansion of the PCS Gas Plant will bring the total operated horsepower to over 42,000. These facilities provide low processing costs, third-party revenue and enable us to control production and maintain a high degree of operating flexibility in this highly competitive area. During 2012, we expect to spend approximately $114 million throughout our core area on our natural gas, oil and water facilities and production optimization projects. These investments will help us to control infrastructure and continue to reduce our per boe operating costs.

PCS Gas Plant

Birchcliff's 100% owned PCS Gas Plant is located in the West District, in the heart of the Corporation's Montney/Doig Natural Gas Resource Play. The PCS Gas Plant is capable of processing up to 60 MMcf per day of natural gas and is currently being expanded to 120 MMcf per day. The strategically situated site for the PCS Gas Plant enables the Corporation to control and operate all essential infrastructure - from wellhead to sales point. The PCS Gas Plant uses an amine system to remove sulphur content, and refrigeration to meet dew point specification.

Construction of the PCS Gas Plant has been divided into three phases: Phase I, capable of processing 30 MMcf per day, commenced operation in March 2010; Phase II, which brought processing capability to 60 MMcf per day, commenced operation in November 2010; and Phase III, currently under construction and scheduled to come on operation in the fourth quarter of 2012, will bring total processing capacity to 120 MMcf per day.

Using leading edge technology, the PCS Gas Plant is a state-of-the-art facility and meets or exceeds all ERCB and Alberta Environment requirements. The facility employs energy efficient equipment to optimize performance and keep operating costs low. The acid gas well located at the site of the PCS Gas Plant is a high quality reservoir for injection.

Phase III of the PCS Gas Plant, including the associated infrastructure, is anticipated to require a capital investment of approximately $75.5 million, with costs incurred in both 2011 and 2012. The associated direct field infrastructure costs incurred for Phase III in 2011 were approximately $14.4 million.

The enhanced processing facilities and infrastructure at the PCS Gas Plant has allowed the Corporation to significantly lower its gas processing costs. In view of current natural gas prices, being able to produce gas at the low end of the industry cost structure gives the Corporation a strong competitive advantage. The PCS Gas Plant is a key component in positioning the Corporation as a low-cost finder and producer of natural gas in the Pouce Coupe region.

PCS Gas Plant Operating Netback

AECO natural gas spot price averaged $3.63 per Mcf during 2011 and Birchcliff received $3.98 per Mcfe, a premium to the AECO natural gas spot price due to the heat value of its natural gas and the value of the recovered liquids. As a result, the estimated operating netback for Birchcliff's Montney/Doig natural gas wells producing to the PCS Gas Plant was approximately $3.24 per Mcfe ($19.46 per boe) during 2011.

> The enhanced processing facilities and infrastructure at the PCS Gas Plant has allowed the Corporation to significantly lower its gas processing costs.

PCS Gas Plant economics:

		2011(1)
PRODUCTION TO PCS GAS PLANT		
Average daily production, net to Birchcliff:		
Natural gas – thousands of cubic feet		40,334
NGLs – barrels		96
Total – barrels of oil equivalent (6:1)		6,818
	$Mcfe	*$/boe*
NETBACK AND COST		
Petroleum and natural gas revenue	3.98(2)	23.88
Royalty expense	(0.26)	(1.55)
Operating expense, net of recoveries	(0.21)	(1.28)
Transportation and marketing expense	(0.27)	(1.59)
Estimated operating netback(3)	3.24	19.46

1) Phases I and II of the PCS Gas Plant commenced operations in March and November 2010, respectively, and therefore the 2010 data is not comparable.

2) Premium price resulting from the heat value of natural gas being processed at the PCS Gas Plant and the value of the recovered liquids. AECO natural gas spot averaged $3.63 per Mcf during 2011.

3) The estimated operating netback is based upon certain cost allocations and accruals directly related to Phases I and II of the PCS Gas Plant and related wells and infrastructure, and are disclosed on a production month basis.

Worsley Oil Battery and Gas Plant

The Worsley oil battery and gas plant are located in the North District, in the heart of the Worsley Light Oil Resource Play. Control of infrastructure in the Worsley region allows Birchcliff to effectively manage the operating costs associated with the oil production from this region. Birchcliff wholly owns and operates the Worsley oil battery and gas plant.

Operations review:

Wells drilled in 2011

53

(44.78 net)

DRILLING PROGRAM

Birchcliff's 2011 drilling program, which offered a mixture of moderate to high impact development and exploration prospects, focused on our two resource plays, the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play. During 2011, Birchcliff drilled 53 (44.8 net) wells. These wells included 24 (20.3 net) natural gas wells, and 28 (23.5 net) oil wells, one (1.0 net) well drilled for the purpose of an acid gas disposal well and no dry holes for a 100% success rate.

In the Pouce Coupe area Birchcliff drilled 23 (19.3 net) Montney/Doig horizontal natural gas wells utilizing multi-stage fracture stimulation technology. Birchcliff continues to expand the Montney/Doig Natural Gas Resource Play both geographically and stratigraphically, as six (6.0 net) of the 23 (19.3 net) Montney/Doig horizontal natural gas wells were exploration successes. Of those, one was in the Basal Doig/Upper Montney Play and the other five were in the Middle/Lower Montney Play. Birchcliff also drilled one (1.0 net) successful Montney/Doig vertical exploration well. Birchcliff also drilled an acid gas disposal well as a back-up disposal well for the PCS Gas Plant in order to provide operational flexibility with the commissioning of Phase III of the PCS Gas Plant.

Drilling activities at Worsley included 3 (3.0 net) vertical oil wells and 15 (15.0 net) horizontal oil wells on our Worsley Light Oil Resource Play. The program included exploration success expanding the Worsley Light Oil Resource Play with one vertical well and two horizontal wells.

In 2011, Birchcliff continued to expand its use of horizontal drilling and multi-stage fracture stimulation technology. Success was encountered on two (1.5 net) wells targeting light oil in the Halfway formation and one (0.5 net) well targeting light oil in the Doig formation.

We drilled our first horizontal and multi-stage fractured Halfway oil well (67% working interest) in 2010. In 2011, the first follow-up horizontal Halfway oil well (50% working interest) was brought on production in December 2011 with an initial production rate in excess of 1,200 (600 net) boe per day, being 1,000 barrels per day of oil and 237 boe per day of gas. Current production is 973 (486 net) boe per day, being 744 barrels per day of oil and 229 boe per day of gas. The second follow-up horizontal Halfway oil well (100% working interest) was drilled in the fall 2011 and will be brought on production shortly. This well tested 828 boe per day, 4.6 MMcf per day, at a tubing flowing pressure of 8,150 kPa with 14 bbls/MMscf liquids.

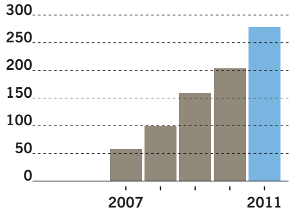
Birchcliff drilled a successful horizontal and multi-stage fractured Doig well (50% working interest) that had an initial production rate of 320 (160 net) boe per day, being 250 barrels of oil per day and 70 boe per day of gas. Production is currently restricted due to liquid handling capacity issues at a third party facility with a current production rate of 100 boe per day (70 barrels per day of oil and 30 boe per day of gas).

Birchcliff was also active on its Doe Creek light oil pool in the Progress area drilling two (0.9 net) vertical and five (2.7 net) horizontal wells, all of which were successful.

Birchcliff drilled 53 (44.78 net) wells in 2011, all of which were successful. Of these, 46 (38.1 net) were horizontal wells.

Reserves and resources:

2P reserves growth
(millions of boe)



DECEMBER 31, 2011 RESERVES EVALUATION:

Deloitte & Touche LLP (“**AJM Deloitte**”), independent qualified reserves evaluators of Calgary, Alberta, prepared a Reserves Assessment and Economic Evaluation effective December 31, 2011 in respect of Birchcliff’s oil and natural gas properties, which is contained in a report dated February 21, 2012 (the “**AJM Deloitte Evaluation**”). A predecessor of AJM Deloitte, AJM Petroleum Consultants prepared a reserves evaluation effective December 31, 2010. Reserves estimates stated herein as at December 31, 2011 and 2010 are extracted from the relevant evaluation. The AJM Deloitte Evaluation and the prior reserves evaluation have been prepared in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook (“**COGEH**”) and National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* (“**NI 51-101**”).

Information provided in this Annual Report is based on AJM Deloitte’s December 31, 2011 forecast of commodity prices and costs (the “**AJM Deloitte Price Forecast**”) which can be found at http://www.ajmpc.com/price-forecasts.html. The natural gas price forecast used by AJM Deloitte for the years 2012 through 2016 is approximately $0.87 per MMbtu lower than the forecast used by AJM Deloitte for the same years in its December 31, 2010 reserves evaluation.

2P reserves	2P reserves	2P reserves
35%	36.9	$3.3
increase per basic share	percent increase	billion NPV 10%

Reserves Data

The following table summarizes AJM Deloitte's estimates of Birchcliff's working interest oil and natural gas reserves at December 31, 2011 and December 31, 2010, using AJM Deloitte forecast price assumptions in effect at the evaluation date.

	Dec 31, 2011	Dec 31, 2010	% Increase from Dec 31, 2010
	MMboe	*MMboe*	
Proved developed producing	38.7	30.8	25.6%
Total proved	156.2	114.0	37.0%
Probable	119.3	87.1	37.0%
Proved plus probable	275.4	201.1	36.9%

Net Present Values of Future Net Revenues

The following table summarizes AJM Deloitte's estimates at December 31, 2011 of Birchcliff's future net revenue attributable to its oil and natural gas reserves before deducting future income tax expenses at various discount rates.

Net present value of future net revenue(1) at December 31, 2010:

Before Income Taxes Discounted at % per year

Forecast prices and costs

	0%	5%	8%	10%	15%	20%
$millions						
Proved						
Developed producing	1,291.1	992.1	871.1	806.1	681.1	592.0
Developed non-producing	178.3	139.2	122.3	113.0	94.5	80.9
Undeveloped	2,764.2	1,697.6	1,284.9	1,070.2	677.4	418.9
Total proved	4,233.6	2,828.9	2,278.3	1,989.3	1,453.0	1,091.8
Probable	4,187.1	2,252.1	1,627.7	1,330.8	838.7	552.9
Proved plus probable	8,420.7	5,081.0	3,906.0	3,320.2	2,291.7	1,644.7

1) National Instrument 51-101 requires the inclusion of the following statement: Estimates of future net revenues whether discounted or not do not represent fair market value.

Birchcliff added 12.2 boe of 2P reserves for each boe that was produced during the year, a 1,223% reserve replacement on a 2P basis.

Forecast Prices Used in Estimates

The following table sets out the forecast price assumptions used by AJM Deloitte for the AJM Deloitte Evaluation. The pricing and cost assumptions used were determined by AJM Deloitte using information available from numerous governmental agencies, industry publications, oil refineries, natural gas marketers and industry trends. These forecast price assumptions are subject to many uncertainties that exist in both the domestic and international petroleum industries.

AJM Deloitte price forecast at December 31, 2011:

	Crude oil		Natural gas		Natural gas liquids			
Year	WTI crude oil	Edmonton City Gate	Natural gas at AECO	Edmonton propane	Edmonton butane	Edmonton C5+	Currency exchange rate	Inflation rate
	$US/bbl	*$CDN/bbl*	*$CDN/Mcf*	*$CDN/bbl*	*$CDN/bbl*	*$CDN/bbl*	*$US/$CDN*	*percent*
2012	100.00	98.00	3.50	53.90	83.30	102.90	1.000	0.0
2013	102.00	100.00	4.10	55.00	85.00	105.00	1.000	2.0
2014	104.05	102.00	4.70	56.10	86.70	107.10	1.000	2.0
2015	106.10	104.00	5.15	57.20	88.40	109.20	1.000	2.0
2016	108.25	106.10	5.55	58.35	90.20	111.40	1.000	2.0
2017	110.40	108.20	6.00	59.50	91.95	113.60	1.000	2.0
2018	112.60	110.35	6.40	60.70	93.80	115.85	1.000	2.0
2019	114.85	112.55	6.90	61.90	95.65	118.20	1.000	2.0
2020	117.15	114.80	7.40	63.15	97.60	120.55	1.000	2.0
2021	119.50	117.10	7.75	64.40	99.55	122.95	1.000	2.0
Thereafter escalate at 2.0% per annum								

Reconciliation of Changes in Reserves

The following tables set forth a reconciliation of the Corporation's gross reserves using the AJM Deloitte Price Forecast for the year ended December 31, 2011 as derived from the AJM Deloitte Evaluation against the AJM evaluation of such reserves for the year ended December 31, 2010, using the AJM price forecast provided in the AJM evaluation for the year ended December 31, 2010.

Forecast prices and costs

	Light and medium crude oil	Natural gas	NGLs	Oil equivalent
	mbbl	*MMcf*	*mbbl*	*mboe*
RECONCILIATION OF GROSS TOTAL PROVED RESERVES				
Opening balance December 31, 2010	18,571.0	548,069.9	4,066.4	113,982.4
Discoveries	0.0	0.0	0.0	0.0
Extensions(1) and improved recovery	2,267.4	211,973.0	1,369.7	38,966.0
Infill drilling	73.7	9,078.2	70.2	1,656.9
Technical revisions(2)	198.2	56,998.9	-452.1	9,245.5
Acquisitions	282.9	303.3	1.2	334.7
Dispositions	-518.8	-5,233.5	-16.1	-1,407.2
Economic factors(3)	2.2	15.0	-1.2	3.5
Production(4)	-1,425.2	-29,972.2	-199.0	-6,619.6
Closing balance December 31, 2011	19,451.4	791,232.6	4,839.1	156,162.6
RECONCILIATION OF GROSS PROBABLE RESERVES				
Opening balance December 31, 2010	9,829.1	443,885.3	3,344.4	87,154.4
Discoveries	0.0	0.0	0.0	0.0
Extensions(1) and improved recovery	3,154.0	192,615.0	1,403.0	36,659.5
Infill drilling	686.1	3,721.8	33.1	1,339.5
Technical revisions(5)	-446.7	-25,106.7	-453.5	-5,084.7
Acquisitions	62.9	863.5	10.0	216.8
Dispositions	-158.4	-4,995.1	-11.5	-1,002.4
Economic factors(3)	-0.8	-28.1	-0.5	-6.0
Production(4)	0.0	0.0	0.0	0.0
Closing balance December 31, 2011	13,126.2	610,955.7	4,325.0	119,277.2
RECONCILIATION OF GROSS PROVED PLUS PROBABLE RESERVES				
Opening balance December 31, 2010	28,400.1	991,955.2	7,410.8	201,136.8
Discoveries	0.0	0.0	0.0	0.0
Extensions(1) and improved recovery	5,421.4	404,588.0	2,772.7	75,625.5
Infill drilling	759.8	12,800.0	103.3	2,996.4
Technical revisions(2)	-248.5	31,892.2	-905.6	4,161.3
Acquisitions	345.8	1,166.8	11.2	551.5
Dispositions	-677.2	-10,228.6	-27.6	-2,409.6
Economic factors(3)	1.4	-13.1	-1.7	-2.5
Production(4)	-1,425.2	-29,972.2	-199.0	-6,619.6
Closing balance December 31, 2011	32,577.6	1,402,188.3	9,164.1	275,439.8

1) The majority of reserve changes comprising “Extensions” were the result of drilling activities in the Montney/Doig Natural Gas Resource Play. Wells were drilled extending the resource play beyond lands to which reserves had previously been attributed. As a result of these successful wells, reserves were attributed to future well locations proximal to these wells.

2) The majority of the Natural Gas and NGLs technical revisions are a result of a lower ultimate exponential decline rate, a higher initial type curve rate and lowered NGL yields in the Montney/Dog Natural Gas Resource Play.

3) “Economic Factors”, although not significant, result from natural gas prices forecast by AJM Deloitte that were significantly lower than the 2010 AJM evaluation for the entire forecast period, and resulted in negative impacts on reserve volumes.

4) Represents production for 2011.

5) The majority of the Natural Gas and NGLs technical revisions are a result of probable reserves being converted to proved reserves due to the lower proved decline rate and lowered NGL yields in the Montney/Dog Natural Gas Resource Play.

Reserves and resources:

2P FD&A

$2.92

per boe, excluding FDC
$12.31 per boe, including FDC

Finding and Development Costs

During 2011, Birchcliff's net capital expenditures were $237.5 million, which was comprised of approximately $239.4 million for exploration and development (including $58.1 million for gas plant construction, pipelines, facilities and well equipment) and $1.0 million for administrative assets, and less $2.9 million for net dispositions.

The following table sets forth Birchcliff's estimates of its F&D costs and FD&A costs per boe excluding future development capital and including future development capital on a total proved and proved plus probable basis.

FD&A costs per boe excluding future development capital:

	2011	2010	2009	Three year average
F&D – total proved	$4.77	$9.09	$2.57	$5.01
F&D – proved plus probable	$2.88	$5.49	$1.57	$3.04
Acquisitions – total proved	$732.34	$0.62	$8.84	$3.06
Acquisitions – proved plus probable	$36.11	$0.31	$6.32	$1.57
FD&A – total proved	$4.85	$7.61	$2.63	$4.80
FD&A – proved plus probable	$2.92	$4.49	$1.61	$2.89

FD&A costs per boe including future development capital(1):

	2011	2010	2009	Three year average
F&D – total proved	$13.15	$13.01	$7.12	$11.10
F&D – proved plus probable	$12.01	$9.89	$5.36	$9.33
Acquisitions – total proved	$732.34	$0.62	$8.84	$3.06
Acquisitions – proved plus probable	$36.11	$0.31	$6.32	$1.57
FD&A – total proved	$13.47	$11.12	$7.13	$10.79
FD&A – proved plus probable	$12.31	$8.34	$5.37	$9.04

1) Includes the increase in future development capital for 2011 over 2010 of $420.7 million on a proved basis and $759.5 million on a proved plus probable basis.

AJM Deloitte's estimates of future development costs are $1.19 billion on a total proved basis and $1.90 billion on a proved plus probable basis, which includes: (a) approximately $54 million of remaining capital to be spent in 2012 for the Phase III expansion of the PCS Gas Plant from 60 MMcf per day to 120 MMcf per day of total capacity; and (b) approximately $130 million for the Phase IV expansion of the PCS Gas Plant from 120 MMcf per day to 240 MMcf per day of total capacity. The increase in future development capital for 2011 over 2010 is $421 million on a total proved basis and $760 million on a proved plus probable basis.

Reserve Life Index

Birchcliff's reserve life index is 36 years on proved plus probable basis and 20 years on a total proved basis, in each case using reserves estimates at December 31, 2011 and assuming an average daily production rate of 21,100 boe per day.

Reserve life index (years)

36

on 2P basis assuming 21,100 boe/day production rate

Montney/Doig Natural Gas Resource Play Reserve Details

AJM Deloitte estimated that Birchcliff had 227.7 MMboe of proved plus probable reserves attributed to horizontal wells on the Montney/Doig Natural Gas Resource Play. This is an increase of 43.7% from 158.4 MMboe proved plus probable reserves attributed to horizontal wells on the Montney/Doig Natural Gas Resource Play at December 31, 2010.

The following tables summarize AJM Deloitte's estimates of reserves attributable to Birchcliff's horizontal wells on the Montney/Doig Natural Gas Resource Play, the number of horizontal wells to which reserves were attributed and the future capital associated with such reserves.

Montney/Doig Natural Gas Resource Play reserves data:

	Natural gas		Natural gas liquids		Total		Existing horizontal wells and future horizontal well locations				Net future capital	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011[1]	2010
	bcf	*bcf*	*mbbl*	*mbbl*	*mboe*	*mboe*	*gross*	*gross*	*net*	*net*	*$millions*	*$millions*
Proved developed producing	147.7	99.3	808.3	658.2	25,424.2	17,213.6	68	48	56.8	40.0	0	0
Total proved	737.1	494.4	4,238.5	3,570.6	127,094.1	85,970.0	284	221	232.8	177.3	1,027.1	596.7
Proved plus Probable	1,316.8	910.5	8,216.2	6,653.2	227,676.9	158,403.2	425	321	352.7	259.0	1,605.1	938.3

1) Includes approximately $54 million and $130 million of capital respectively, for the Phase III and Phase IV expansions of the PCS Gas Plant to total processing capacity of 240 MMcf per day.

Montney/Doig land and horizontal wells data:

	2011		2010	
	gross	*net*	*gross*	*net*
Number of sections to which AJM Deloitte attributed reserves	98.5	83.4	91.2	76.1
Number of existing wells and future horizontal well locations to which AJM Deloitte attributed reserves	425.0	352.7	321.0	259.0
Average proved plus probable reserves attributed by AJM Deloitte per existing horizontal well	4.3 Bcfe		4.2 Bcfe	
Average proved plus probable reserves attributed by AJM Deloitte per future horizontal well location	4.0 Bcfe		3.9 Bcfe	
Average cost per well as forecast by AJM Deloitte	$4.8 million		$4.0 million	
Average number of net existing horizontal wells and future horizontal well locations per net section to which reserves were attributed by AJM Deloitte	4.2[1]		3.4	

1) Currently, the average number of net existing horizontal wells and future horizontal well locations per net section, to which Basal Doig/Upper Montney reserves were attributed by AJM Deloitte, is 3.4 wells per section and to which Middle/Lower Montney reserves were attributed by AJM Deloitte, is 2.4 wells per section.

Reserves and resources:

^ Birchcliff's large contiguous blocks of land on the Montney/Doig Natural Gas Resource Play are proximal to its PCS Gas Plant.

AJM Deloitte has attributed Montney/Doig proved plus probable reserves to 98.5 (83.4 net) sections of land. Drilling success during 2011 in the Middle/Lower Montney Play, has resulted in significant reserve assignments by AJM Deloitte to 74.2 (63.3 net) sections of land, an increase of 23.1 net sections of land since 2010. AJM Deloitte has assigned reserves in the Basal Doig/Upper Montney Play to 71.5 (58.9 net) sections of land. There are now 47.2 (38.8 net) sections to which AJM Deloitte has assigned reserves in respect of both the Basal Doig/Upper Montney Play and the Middle/Lower Montney Play.

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

Worsley Light Oil Resource Play Reserves

At December 31, 2011, AJM Deloitte estimated that Birchcliff had reserves of 31.3 MMboe proved plus probable; and 18.8 MMboe total proved in the Worsley Charlie Lake Pool. This continues the growth trend for Birchcliff's Worsley reserves since July 1, 2007 (being the effective date of the acquisition), when recoverable reserves were estimated at 15.1 MMboe proved plus probable and 11.3 MMboe total proved. Both the original oil in place and the estimated recoverable reserves continue to grow and Birchcliff is pleased to report that the Worsley light oil pool continues to prove itself as a top quality asset.

History of reserves estimated for the Worsley Charlie Lake Pool:

(MMboe)	Dec 31, 2011	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007	July 1, 2007
Total Proved	18.8	18.8	18.3	17.5	15.0	11.3
Proved Plus Provable	31.3	28.2	26.3	24.6	21.2	15.1

Birchcliff has 2.15 Tcfe of Contingent Resources, which are of similar technical quality as the 2P reserves estimated by AJM Deloitte, but are not included in the 2P category because they are subject to contingencies that primarily relate to the forecast timing of their development.

DECEMBER 31, 2011 MONTNEY/DOIG NATURAL GAS RESOURCE ASSESSMENT

AJM Deloitte prepared an independent Resource Assessment effective December 31, 2011 in respect of Birchcliff's lands that have potential for the Montney/Doig Natural Gas Resource Play, which is contained in a report dated March 8, 2012 (the "**AJM Deloitte Resource Assessment**"). A predecessor of AJM Deloitte, AJM Petroleum Consultants prepared a resource assessment effective December 31, 2010. Resource estimates stated herein as at December 31, 2011 and 2010 are extracted from the relevant evaluation. The AJM Deloitte Resource Assessment and the prior resource assessments have been prepared in accordance with the standards contained in COGEH and NI 51-101.

All resource data disclosed herein are extracted from the AJM Deloitte Resource Assessment and reflects only Birchcliff's working interest share of resources for its lands in the area covered by the AJM Deloitte Resource Assessment (the "**Study Area**"). The AJM Deloitte Resource Assessment does not include Birchcliff's Worsley Light Oil Resource Play or any of Birchcliff's other properties.

At December 31, 2011 on the Montney/Doig Natural Gas Resource Play, AJM Deloitte estimated that Birchcliff had 1.38 Tcfe (227.7 million boe) of proved plus probable reserves and on a best estimate case:

- **39.05 Tcfe of Total PIIP;**
- **7.30 Tcfe of Total Discovered PIIP;**
- **31.74 Tcfe of Total Undiscovered PIIP;**
- **15.51 Tcfe of Prospective Resources; and**
- **2.15 Tcfe of Contingent Resources.**

BACKGROUND TO THE MONTNEY/DOIG NATURAL GAS RESOURCE ASSESSMENT

The Study Area is comprised of the Doig Phosphate, Basal Doig, and Montney formations in the greater Pouce Coupe, Elmworth and Bezanson areas of the Peace River Arch region of Alberta, ranging from Townships 69 to 81, Ranges 1 to 14W6. The Study Area is bounded in a northwest – southeast direction by the Montney/Doig Deep Basin Edges and covered a total of 312 (275.7 net) sections of land held by Birchcliff at December 31, 2011, which includes:

- **290 (263.0 net) sections of land that has Montney rights and has potential for the Middle/Lower Montney Play; and**
- **245 (214.0 net) sections of land that has Doig rights and has potential for the Basal Doig/Upper Montney Play.**

AJM Deloitte utilized probabilistic methods to generate high, best, and low estimates of these volumes.

Reserves and resources:

Montney/Doig natural gas resources

39

Tcfe of total PIIP

Reserves and resource data:

The following table summarizes AJM Deloitte's estimates of Birchcliff's working interest share of gross resource volumes. Proved and proved plus probable and proved plus probable plus possible reserves determined by the AJM Deloitte Evaluation are included in this table for completeness, however reserves were not the focus of the AJM Deloitte Resource Assessment.

Summary of Birchcliff reserves and resources on Birchcliff lands(1):

		Working interest	
Resource class	Low estimate case	Best estimate case	High estimate case
Bcfe			
DISCOVERED			
Cumulative production(2)	63.9	63.9	63.9
Remaining reserves(2)(3)	769.6	1,376.0	2,279.1
Surface loss/shrinkage	47.6	83.2	135.2
Total commercial	881.1	1,523.1	2,478.2
Contingent Resources	2,056.5	2,149.6	2,290.8
Unrecoverable(4)	3,670.9	3,631.5	3,576.5
Total sub-commercial	5,727.4	5,781.1	5,867.3
Total discovered PIIP	6,608.5	7,304.2	8,345.6
UNDISCOVERED			
Prospective resources	11,695.2	15,514.9	20,771.7
Unrecoverable(4)	15,740.6	16,229.4	16,121.9
Total undiscovered PIIP	27,435.8	31,744.3	36,893.6
Total Petroleum Initially In Place (PIIP)	34,044.3	39,048.5	45,239.2

1) All volumes at December 31, 2011. All Reserves and Resources are gross volumes, which are equal to Birchcliff's working interest share before deduction of royalties and without including any royalties held by Birchcliff.

2) Sales gas and related natural gas liquids.

3) Includes reserves assigned to both vertical and horizontal Montney/Doig wells. The best estimate reflects the estimate of proved plus probable reserves contained in the AJM Deloitte Evaluation. The low estimate reflects the estimate of proved reserves contained in the AJM Deloitte Evaluation. The high estimate reflects the estimate of proved plus probable plus possible reserves contained in the AJM Deloitte Evaluation.

4) Unrecoverable includes surface loss/shrinkage on volumes of Contingent Resources and Prospective Resources. The unrecoverable portion of Undiscovered PIIP is those quantities determined not to be recoverable by future development projects. A portion of these resources may become recoverable in the future as commercial circumstances change or technological developments occur, but the remaining portion may never be recovered due to physical and/or chemical constraints of the reservoir rock and the fluid within it.

Health, safety & environment:

< Our water treatment system allows us to conserve water by recovering brine and recycling the water used in our drilling and completion operations.

HEALTH, SAFETY AND ENVIRONMENT

In all of our operations, we are committed to the health and safety of our employees, the public at large and the environment. We strive to minimize the environmental impact of our operations and to meet or exceed industry best practices and government standards applicable to our business. We have implemented rigorous safety policies, procedures, standards and training and work hard to continually improve.

Fostering a relationship with the community is as integral to the success of our projects as obtaining the required regulatory approvals. At Birchcliff, we believe cooperative, sincere and responsive consultation efforts with residents in the areas in which we operate creates a solid foundation for our business. Birchcliff has an experienced team working with local residents to learn their values and priorities and to resolve any issues or concerns that arise in the course of our field operations.

Through investments in state-of-the-art equipment and technology, we have taken an innovative approach to reducing our environmental impact. Our PCS Gas Plant has near-zero emissions. Variable speed drives used throughout the PCS Gas Plant optimize performance and minimize energy consumption and solar power is used to drive pumps, valves and communication equipment at producing well sites. Our water treatment system located at the PCS Gas Plant site began operating on October 13, 2011, with the goal of providing an alternative to purchasing brine for our drilling and completion operations. The brine recovery system provides significant cost savings and allows us to conserve water by recycling water used in our drilling and completion operations. We are continuously evaluating new technology and techniques across our operations to help improve efficiency and reduce our environmental footprint.

Community support:

> Diane Knoblauch, Mike Cordingley and Vince Zylinsky at the logo unveiling ceremony with the STARS Foundation.

COMMUNITY SUPPORT

Birchcliff recognizes the role that communities play in our company's success and looks for opportunities to "give back." Every year, we participate in a number of community support endeavours in the areas surrounding our field operations and in Calgary.

In 2011 we contributed to a number of local community initiatives that elevate and enhance quality of life at the local level – including minor hockey, amateur sports, agricultural societies and fire departments.

STARS Air Ambulance is an important partner in trauma care for the Grande Prairie region of Alberta. In 2011, their fleet of helicopters added the Birchcliff logo in recognition of our strong level of support. We support the United Way and make a direct annual contribution to Home Front Calgary, a community-justice response team dedicated to helping families experiencing domestic violence. Every year, our Calgary employees volunteer with Feed the Hungry for the Sunday Dinner Program, which provides full course, nutritious meals to an average of 700 dinner guests in an atmosphere of dignity and respect. During the holiday season, our employees "adopt" a number of families in need and donate gifts, food and decorations to help make the holidays special.

Through these various activities, Birchcliff creates and maintains long-term, positive partnerships and relationships, while promoting employee engagement in the communities where we live and work.

Board of Directors:

Our Board of Directors provides leadership and supervises the management of the business and affairs of Birchcliff. In fulfilling their mandate, the Directors have a responsibility to act honestly and in good faith with a view to the best interests of Birchcliff.

Laurence A. (Larry) Shaw

Mr. Shaw is the Chairman of the Board of Birchcliff and is a member of the Audit Committee, Compensation Committee and Reserves Evaluation Committee. He has more than 25 years of experience in the oil and gas industry and is one of the Corporation's founders. Prior to joining Birchcliff, Mr. Shaw served as Chairman of the Board of Case Resources Inc., Big Bear Exploration Ltd. and Stampeder Exploration Ltd. He was President of Shaw Automotive Group Ltd. and Shaw G.M.C. Pontiac Buick Hummer Ltd. Mr. Shaw received his Honors Degree in Business Administration from the University of Western Ontario.

Gordon W. (Scotty) Cameron

Mr. Cameron is a Director of Birchcliff and is a member of the Audit Committee, Compensation Committee and Reserves Evaluation Committee. He has more than 43 years of experience in the oil and gas industry and is one of the Corporation's founders. Prior to joining Birchcliff, Mr. Cameron served as a director of Case Resources Inc., Big Bear Exploration Ltd., Transwest Energy Inc., Stampeder Exploration Ltd. and as director and Chairman of the Board of Novagas Clearinghouse Ltd. and Maximum Energy Trust. He was President and Chief Executive Officer of Pan-Alberta Gas Ltd. and Chairman of the Energy Council of Canada. Mr. Cameron received his Bachelor of Commerce Degree and his Doctor of Laws Degree from the University of Saskatchewan. Mr. Cameron received the Order of Canada in 1995 in recognition of his contributions to the Canadian business community and his extensive philanthropic work.

Kenneth N. (Ken) Cullen

Mr. Cullen is a Director of Birchcliff and is a member of the Audit Committee, Compensation Committee and Reserves Evaluation Committee. He has more than 30 years experience working with companies in the oil and gas industry as a partner at Deloitte & Touche LLP in the Assurance and Advisory (Audit) group prior to his retirement in 2006. Mr. Cullen currently serves as a director of each of Southern Pacific Resource Corp. and Parkbridge Lifestyle Communities Inc. Mr. Cullen received his Chartered Accountant Designation from the Institute of Chartered Accountants of British Columbia.

Werner A. (Vern) Siemens

Mr. Siemens is a Director of Birchcliff and is a member of the Audit Committee, Compensation Committee and Reserves Evaluation Committee. He has more than 25 years of experience in the oil and gas industry and is one of the Corporation's founders. Prior to joining Birchcliff, Mr. Siemens served as a Director of Case Resources Ltd., Big Bear Exploration Ltd. and Stampeder Exploration Ltd. He was Vice-President of Agra Industries Ltd. and President and Chief Executive Officer of Blue Label Beverages Ltd.

A. Jeffery Tonken

See Mr. Tonken's biography under "Executive team."

Executive team:

A. Jeffery Tonken
President & Chief Executive Officer
jtonken@birchcliffenergy.com

Mr. Tonken is the President and Chief Executive Officer and a Director of Birchcliff. He has more than 31 years of experience in the oil and gas industry and is one of the Corporation's founders. Prior to creating Birchcliff, Mr. Tonken founded and served as President and Chief Executive Officer of Case Resources Inc., Big Bear Exploration Ltd. and Stampeder Exploration Ltd. Mr. Tonken was previously a Partner of the law firm Howard, Mackie (now Borden Ladner Gervais LLP). Mr. Tonken currently serves as a Governor of the Canadian Association of Petroleum Producers (CAPP). Mr. Tonken received his Bachelor of Commerce degree from the University of Alberta and his Bachelor of Laws degree from the University of Wales.

Myles R. Bosman
Vice President, Exploration & Chief Operating Officer
mbosman@birchcliffenergy.com

Mr. Bosman is Vice-President, Exploration and Chief Operating Officer and is a Professional Geologist. He has more than 21 years of experience in the oil and gas industry and is one of the Corporation's founders. Prior to joining Birchcliff, Mr. Bosman served as Vice-President, Exploration and Chief Operating Officer of Case Resources Inc.; Exploration Manager of Summit Resources Ltd.; and as an Exploration Geologist with both Numac Energy Inc. and Canadian Hunter Exploration. Mr. Bosman received his Bachelor of Science degree in Geology from the University of Calgary and his Resource Engineering diploma from the Northern Alberta Institute of Technology.

Bruno P. Geremia
Vice President & Chief Financial Officer
bgeremia@birchcliffenergy.com

Mr. Geremia is Vice-President and Chief Financial Officer and is a Chartered Accountant. He has more than 20 years of experience in the oil and gas industry and is one of the Corporation's founders. Prior to joining Birchcliff, Mr. Geremia served as Vice-President and Chief Financial Officer of both Case Resources Inc. and Big Bear Exploration Ltd.; as Director, Commercial of Gulf Canada Resources; and as Manager, Special Projects of Stampeder Exploration Ltd. Mr. Geremia was previously a Chartered Accountant with Deloitte & Touche LLP. Mr. Geremia received his Bachelor of Commerce degree from the University of Calgary.

David M. Humphreys
Vice President, Operations
dhumphreys@birchcliffenergy.com

Mr. Humphreys is Vice-President, Operations and has more than 25 years of experience in the oil and gas industry. Prior to joining Birchcliff in 2009, he served as Vice-President, Operations of Highpine Oil & Gas Ltd., White Fire Energy Ltd., and Virtus Energy Ltd.; Production Manager of both Husky Oil Operations Ltd. and Ionic Energy; and as a Senior Production Engineer with Northrock Resources Ltd. Mr. Humphreys received his Hydrocarbon Engineering Technology diploma from the Northern Alberta Institute of Technology.

Karen A. Pagano
Vice President, Engineering
kpagano@birchcliffenergy.com

Ms. Pagano is Vice-President, Engineering and is a Professional Engineer with more than 23 years of experience in the oil and gas industry. She previously served as Vice-President, Operations and as a Senior Exploitation Engineer with Birchcliff. Prior to joining Birchcliff in 2005, she was Manager of Operations of Koch Exploration; a Senior Production Engineer with Upton Resources Inc.; and a Senior Drilling and Completions Engineer with Alberta Energy Company. Ms. Pagano received her Bachelor of Electrical Engineering degree, with distinction, from the University of Saskatchewan.

James W. Surbey
Vice President, Corporate Development
jsurbey@birchcliffenergy.com

Mr. Surbey is Vice-President, Corporate Development and is a member of the Law Society of Alberta. He has more than 34 years of experience in the oil and gas industry and is one of the Corporation's founders. Prior to joining Birchcliff he served as Vice-President, Corporate Development of Case Resources Inc.; Senior Vice-President, Corporate Development of Big Bear Exploration Ltd.; and Vice-President, Corporate Development of Stampeder Exploration Ltd. Mr. Surbey was previously a Senior Partner of the law firm Howard, Mackie (now Borden Ladner Gervais LLP). Mr. Surbey received his Bachelor of Engineering degree and Bachelor of Laws degree from McGill University.

Glossary of terms:

DEFINITIONS

2P: Proved plus probable reserves.

AJM Deloitte: Deloitte & Touche LLP, independent qualified reserves evaluators of Calgary, Alberta.

AJM Evaluation: Independent evaluation dated February 21, 2012 prepared by AJM Deloitte, evaluating the Corporation's oil and gas assets as at December 31, 2011.

COHEH: Canadian Oil and Gas Evaluation Handbook.

Crown: Government of Alberta.

East District: Area designated by Birchcliff as the East District on the map found at page 8.

ERCB: Energy Resources Conservation Board.

F&D: Finding and development.

FD&A: Finding, development and acquisition.

IFRS: International Financial Reporting Standards.

Montney/Doig Natural Gas Resource Play: Birchcliff's Montney and Doig formation natural gas resource play located in Birchcliff's West and East Districts.

NI 51-101: National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities.*

North District: Area designated by Birchcliff as the North District on the map found on page 8.

NPV: Net present value.

PCS Gas Plant: Birchcliff's 100% owned and operated natural gas processing plant located in the West District, Pouce Coupe South region, at 03-22-078-12W6.

Peace River Arch: Peace River Arch area of Alberta, a geological area centred northwest of Grande Prairie, adjacent to the British Columbia border.

Reserves: Estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on the analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to the degree of certainty associated with the estimates:

Proved Reserves: Those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

Probable Reserves: Those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Possible Reserves: Those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

Resources: All petroleum quantities that originally existed on or within the earth's crust in naturally occurring accumulations, including Discovered and Undiscovered (recoverable and unrecoverable) plus quantities already produced. "Total resources" is equivalent to "Total Petroleum Initially-In-Place". Resources are classified in the following categories:

Total Petroleum Initially-In-Place ("PIIP"): That quantity of petroleum that is estimated to exist originally in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations, prior to production, plus those estimated quantities in accumulations yet to be discovered;

Discovered PIIP: That quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of discovered petroleum initially in place includes production, reserves, and contingent resources; the remainder is unrecoverable;

Contingent Resources: Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development but which are not currently considered to be commercially recoverable due to one or more contingencies;

Undiscovered PIIP: That quantity of petroleum that is estimated, on a given date, to be contained in accumulations yet to be discovered. The recoverable portion of undiscovered petroleum initially in place is referred to as "prospective resources" and the remainder as "unrecoverable";

Prospective Resources: Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects;

Unrecoverable: That portion of Discovered and Undiscovered PIIP quantities which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur; the remaining portion may never be recovered due to the physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks; and

Production: The cumulative quantity of petroleum that has been recovered at a given date.

SEDAR: System for Electronic Document Analysis and Retrieval.

TSX: Toronto Stock Exchange.

Uncertainty Ranges are described by COGEH as low, best, and high estimates for reserves and resources as follows:

Low Estimate: Considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the low estimate;

Best Estimate: Considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the best estimate; and

High Estimate: Considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the high estimate.

West District: Area designated by Birchcliff as the West District on the map found on page 8.

Western Canadian Sedimentary Basin: The vast sedimentary basin underlying Western Canada that is the source of most of Western Canada's current oil and gas production.

Working interest: Percentage of ownership in an oil and gas property, obligating the owner to share in the costs of exploration, development and operations and granting the owner the right to share in production revenues after royalties are paid.

Worsley Light Oil Resource Play: Birchcliff's Charlie Lake light oil resource play located near the Town of Worsley in the North District.

ABBREVIATIONS

Oil and natural gas liquids	
bbl	barrel
bbls	barrels
bbls/d	barrels per day
Mbbls	thousand barrels
MMbbls	million barrels
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day
Mboe	thousand barrels of oil equivalent
MMboe	million barrels of oil equivalent
NGLs	natural gas liquids
LNG	liquefied natural gas

Natural gas	
Mcf	thousand cubic feet
MMcf	million cubic feet
Bcf	billion cubic feet
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
m3	cubic metres
GJ	gigajoule

Other	
AECO	benchmark natural gas price determined at the AECO 'C' hub in southeast Alberta
WTI	West Texas Intermediate crude oil, a benchmark oil price determined at Cushing, Oklahoma
°API	the measure of the density or gravity of liquid petroleum products
psi	pounds per square inch
kPa	kilopascals
$000s	thousands of dollars

CONVERSIONS

The following table sets forth certain conversions between Standard Imperial Units and the International System of Units (metric units):

From	To	Multiply By
Mcf	cubic metres	28.174
Mcf	GJ	1.055
cubic metres	cubic feet	35.494
bbls	cubic metres	0.159
feet	metres	0.305
miles	kilometres	1.609
acres	hectares	0.405
sections	acres	640
sections	hectares	256
kPa	psi	0.145

CONVENTIONS

Unless otherwise indicated, references herein to "$" or "dollars" are to Canadian dollars. All financial information herein has been presented in Canadian dollars in accordance with IFRS.

Advisories:

Non-GAAP measures: This Annual Report uses "cash flow" and "netback", which do not have standardized meanings prescribed by GAAP and therefore may not be comparable to measure by other companies where similar terminology is used.

Boe conversions: Boe amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel of oil (1 bbl). Boe amounts may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Mcfe, Tcfe or Bcfe conversions: Millions of cubic feet of gas equivalent ("**Mcfe**"), trillions of cubic feet of gas equivalent ("**Tcfe**") and billions of cubic feet of gas equivalent ("**Bcfe**") amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel of oil (1 bbl). Mcfe, Tcfe, Bcfe may be misleading, particularly if used in isolation. A Mcfe, Tcfe or Bcfe conversion ratio of 6 Mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Finding and development costs: With respect to disclosure of finding and development costs disclosed in this Annual Report:

a) The amounts of finding and development and/or acquisition costs contained in the table and disclosure for each of the years 2009, 2010 and 2011 are calculated by dividing the total of the net amount of the particular costs noted in each line incurred during such year by the amounts of additions to proved reserves and proved plus probable reserves during such year that resulted from the expenditure of such costs.

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

c) National Instrument 51-101 requires the inclusion of the following warning statement: The aggregate of the exploration and development costs incurred in the most recent financial year and any change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.

Reserves for a portion of properties: Reserves disclosure contained in this Annual Report relates to a portion of the Corporation's properties. Accordingly, the estimates of reserves for individual properties may not reflect the same confidence level as estimates of reserves for all properties due to the effects of aggregation.

Discovered resources: With respect to the discovered resources (including contingent resources) described in this Annual Report, there is no certainty that it will be commercially viable to produce any portion of the resources.

Undiscovered resources: With respect to the undiscovered resources described in this Annual Report (including prospective resources), there is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources

Forward looking information: This Annual Report contains forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking information relates to future events or future performance and is based upon the Corporation's current internal expectations, estimates, projections, assumptions and beliefs.

All information other than historical fact is forward-looking information. Information relating to "reserves" or "resources" contained, among other places, in the "Statement of Reserves Data and Other Oil and Gas Information", which is incorporated by reference into this Annual Report, is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves or resources exist in the quantities estimated and that they will be commercially viable to produce in the future. Words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "potential", "proposed" and other similar words that convey certain events or conditions "may" or "will" occur are intended to identify forward-looking information. In particular, this Annual Report contains forward-looking information, including among other places, under the headings "Description of the Business", "Reserves Data and Other Information" and "Risk Factors". This forward-looking information includes but is not limited to statements regarding: the Corporations' intention to expand processing facilities and drill and complete future wells; estimates of recoverable reserves and resource volumes; planned production increases; planned 2012 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 and resources; future net cash flows and discounted cash flows; expected operating, general administrative, services, environmental compliance costs and expenses; royalty rates and incentives; and treatment under tax laws.

The forward-looking information is based upon assumptions as to future commodity prices, currency exchange rates, inflation rates, well production rates, well drainage areas, success rates for future drilling and availability of labour and services. With respect to estimates of reserves and resource volumes, a key assumption is the validity of the data used by AJM Deloitte in their independent reserves and resource evaluations. With respect to estimates of numbers of future wells to be drilled a key assumption is that geological and other technical interpretations performed by the Corporation's technical staff, which indicate that commercially economic reserves can be recovered from the Corporation's lands as a result of drilling such future wells, are valid.

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. 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. As a consequence, actual results may differ materially from those anticipated.

Forward-looking information necessarily involves both known and unknown risks associated with oil and gas exploration, production, transportation and marketing such as uncertainty of geological and technical data, imprecision of reserves estimates, operational risks, environmental risks, loss of market demand, general economic conditions affecting ability to access sufficient capital, changes in governmental regulation of the oil and gas industry and competition from others for scarce resources.

The foregoing list of risk factors is not exhaustive. Additional information on these and other risk factors that could affect operations or financial results are included in the Annual Information Form and in 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 Annual Report 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.

^ Inside our state of the art, near-zero emissions PCS Gas Plant.

\\ Financial information

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 are included in the S&P/TSX Composite Index.

The following Management's Discussion and Analysis ("**MD&A**") is dated March 14, 2012. The annual financial information with respect to the three and twelve months ended December 31, 2011 (the "**Reporting Periods**") as compared to the three and twelve months ended December 31, 2010 (the "**Comparable Prior Periods**") 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 audited financial statements of the Corporation and related notes for the years ended December 31, 2011 and 2010. All financial information is expressed in thousands of Canadian dollars, unless otherwise stated.

SELECTED ANNUAL INFORMATION

Year ended Dec. 31,	2011	2010	2009(1)
$000's, except for production and share information			
Average daily production *(boe at 6 Mcf:1 bbl)*	**18,136**	13,079	11,216
Petroleum and natural gas revenue	**264,587**	189,978	150,669
Total revenue, net royalties	**235,198**	173,045	135,327
Cash flow(2)(3)	**130,826**	95,241	67,476
Per share – basic *($)*(2)(3)	**1.04**	0.76	0.57
Per share – diluted *($)*(2)(3)	**1.00**	0.74	0.56
Net income (loss)(2)	**34,454**	34,163	(24,252)
Per share – basic *($)*(2)	**0.27**	0.27	(0.21)
Per share – diluted *($)*(2)	**0.26**	0.27	(0.21)
Capital expenditures, net(2)	**237,480**	214,924	101,690
Total assets(2)	**1,225,497**	1,038,555	837,108
Working capital deficit	**48,598**	3,956	20,291
Non-revolving term credit facilities	**68,925**	–	–
Revolving credit facilities	**319,500**	333,468	201,230
Total debt	**437,023**	337,424	221,521
Shareholders' equity(2)	**656,602**	599,140	554,561
Common shares outstanding			
End of period – basic	**126,745,577**	125,129,234	123,815,002
End of period – diluted	**140,152,250**	137,316,486	134,464,987
Weighted average shares for period – basic	**126,282,910**	124,629,761	117,993,314
Weighted average shares for period – diluted(2)	**131,444,878**	128,520,068	117,993,314

1) Birchcliff's transition to International Financial Reporting Standards was effective January 1, 2010 and therefore 2009 comparative information was not restated to comply with those Standards.

2) 2010 amounts restated to comply with the requirements of International Financial Reporting Standards.

3) Cash flow and cash flow per share amounts represent cash provided by operating activities as per the Statement of Cash Flows before the effects of changes in non-cash working capital and decommissioning expenditures related to operating activities.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Birchcliff's annual audited financial statements and the financial data included in this MD&A have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and interpretations of the International Financial Reporting Interpretations Committee that are effective as at December 31, 2011, the date of the Corporation's first annual reporting under IFRS. The adoption of IFRS does not impact the underlying economics of Birchcliff's operations. Previously, the Corporation prepared its annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("**Canadian GAAP**").

The IFRS accounting policies set forth in Note 3 of the audited financial statements have been applied in preparing the financial statements as at and for the years ended December 31, 2011 and 2010 and an opening Statement of Financial Position as at January 1, 2010. Note 22 to the audited financial statements contains a detailed description of the Corporation's adoption of IFRS, including a reconciliation of the 2010 comparative financial statements previously prepared under Canadian GAAP to those under IFRS. The most significant impacts of the adoption of IFRS, together with details of IFRS 1 *First-time Adoption of IFRS* exemptions taken, are described in the "Transition to International Financial Reporting Standards" section of this MD&A.

Comparable Prior Periods in this MD&A has been restated to comply with IFRS requirements.

2011 OVERALL PERFORMANCE

Production:

Production in the fourth quarter of 2011 averaged 19,812 boe per day. This is a 21% increase from the 16,375 boe per day the Corporation averaged in the fourth quarter of 2010. Production in 2011 averaged 18,136 boe per day, a 39% increase from the 13,079 boe per day the Corporation averaged in 2010. These increases were achieved through the success of Birchcliff's capital drilling program and the commencement of operation of Phases I and II of Birchcliff's 100% owned and operated Pouce Coupe South Natural Gas Plant ("**PCS Gas Plant**"), in March and November of 2010, respectively.

Production consisted of approximately 76% natural gas and 24% crude oil and natural gas liquids in the fourth quarter of 2011 (75% natural gas and 25% crude oil and natural gas liquids in the fourth quarter of 2010).

Commodity prices:

Oil sales prices at the wellhead averaged $92.00 per barrel in 2011, a 17% increase from the $78.76 per barrel in 2010. Natural gas sales prices at the wellhead averaged $3.85 per Mcf in 2011, a 9% decrease from the $4.21 per Mcf the Corporation averaged in 2010. 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 petroleum and natural gas. Birchcliff currently does not have any commodity contracts in place and is therefore subject to fluctuations in commodity prices.

Canadian Edmonton Par oil prices averaged $95.03 per barrel in 2011 as compared to $77.50 per barrel in 2010. The AECO daily natural gas spot price averaged $3.63 per Mcf in 2011 as compared to $4.01 per Mcf in 2010.

PCS Gas Plant operating netback:

AECO natural gas spot price averaged $3.63 per Mcf during 2011 and Birchcliff received $3.98 per Mcfe, a premium to the AECO natural gas spot price due to the heat value of its natural gas and the value of the recovered liquids. As a result, the estimated operating netback for Birchcliff's Montney/Doig natural gas wells producing to the PCS Gas Plant was approximately $3.24 per Mcfe ($19.46 per boe) during 2011.

		2011[1]
PRODUCTION TO PCS GAS PLANT		
Average daily production, net to Birchcliff:		
Natural gas – thousands of cubic feet		40,334
NGLs – barrels		96
Total – barrels of oil equivalent *(6:1)*		**6,818**
NETBACK AND COST	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue	3.98[2]	23.88
Royalty expense	(0.26)	(1.55)
Operating expense, net of recoveries	(0.21)	(1.28)
Transportation and marketing expense	(0.27)	(1.59)
Estimated operating netback[3]	**3.24**	**19.46**

1) Phases I and II of the PCS Gas Plant commenced operations in March and November 2010, respectively, and therefore the 2010 data is not comparable.

2) Premium price resulting from the heat value of natural gas being processed at the PCS Gas Plant and the value of the recovered liquids. AECO natural gas spot averaged $3.63 per Mcf during 2011.

3) The estimated operating netback is based upon certain cost allocations and accruals directly related to Phases I and II of the PCS Gas Plant and related wells and infrastructure, and are disclosed on a production month basis.

Cash flow and earnings:

The following schedule sets out the reconciliation of cash provided by operating activities to cash flow:

	Three months ended Dec. 31, 2011	Three months ended Dec. 31, 2010	Twelve months ended Dec. 31, 2011	Twelve months ended Dec. 31, 2010
$000's				
Cash provided by operating activities	49,083	32,640	142,897	95,768
Adjustments:				
Decommissioning expenditures	349	571	1,057	902
Changes in non-cash working capital	(19,032)	(5,346)	(13,128)	(1,429)
Cash flow[1]	**30,400**	27,865	**130,826**	95,241
Per share – basic *($)*	0.24	0.22	1.04	0.76
Per share – diluted *($)*	0.23	0.22	1.00	0.74

1) Management uses cash flow to analyze operating performance. Cash flow as presented does not have any standardized meaning prescribed by IFRS and therefore it may not be comparable with the calculations of similar measures for other issuers. Cash flow as presented is not intended to represent cash flow from operating activities, net income or other measures of financial performance calculated in accordance with IFRS. All references to cash flow throughout this report are based on cash flow from operating activities as per the Statement of Cash Flows and removing the adjustments for non-cash working capital and decommissioning expenditures. Cash flow per share is calculated based on the weighted average number of shares outstanding consistent with the calculation of net income per share.

The 9% and 37% increase in aggregate cash flow from the Comparable Prior Periods was largely due to increased average daily production and higher average oil prices realized at the wellhead, offset partially by reduced natural gas wellhead prices, increased cash general and administrative expenses, higher interest expenses and a proportionate increase in aggregate royalty, operating and transportation and marketing costs due to higher average production in the Reporting Periods as compared to the Comparable Prior Periods.

Despite low natural gas prices, Birchcliff has reported net income in each of its nine recently completed quarters. Excluding the gain on sale of assets and its tax effect, Birchcliff recorded net income of $32.9 million in 2011 as compared to $22.5 million in 2010. The increase in net income from 2010 was mainly attributable to higher cash flow as discussed above, offset by an increase in depletion expense resulting from higher average daily production in the current year.

Capital expenditures:

Total capital expenditures (excluding minor acquisitions and dispositions) in 2011 were $240.4 million as compared to $230.4 million in 2010. Of the $240.4 million, approximately $91.9 million (38%) was related to the drilling and completion of Montney/Doig horizontal natural gas wells to keep Phases I and II of the PCS Gas Plant operating at full capacity and approximately $14.4 million (6%) related to the initial construction of the Phase III expansion of the PCS Gas Plant. The remaining $134.1 million in capital was spent acquiring land; expanding the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play and related infrastructure; and on other oil and gas exploration and development projects in the Peace River Arch. Further details of the Corporation's capital expenditures in 2011 are set forth in the table entitled "Capital Expenditures" in this MD&A.

Construction of Phase III of the PCS Gas Plant is on schedule to commence operation during the fourth quarter of 2012, which will increase processing capacity from 60 MMcf per day to 120 MMcf per day.

OUTLOOK

Capital expenditures:

The 2012 capital spending program is focused on completing the construction of Phase III of the PCS Gas Plant, the drilling of Montney/Doig horizontal natural gas wells to fill Phase III, the drilling of Montney/Doig horizontal natural gas wells to keep Phases I and II of the PCS Gas Plant operating at full capacity, continued development of the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play and related infrastructure, land acquisitions, sustaining capital and seed capital for new growth opportunities, and other projects.

Cash flow and bank debt:

Despite the low natural gas price environment, the Corporation does not foresee any liquidity issues with respect to the operation of its petroleum and natural gas business during 2012. Birchcliff expects to meet all future obligations as they become due.

The Corporation intends to finance its petroleum and natural gas business primarily through cash flow, working capital, asset dispositions and increased bank credit. Should commodity prices deteriorate materially, Birchcliff may adjust its capital spending accordingly. Birchcliff is now at 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.

Resource plays and infrastructure:

In May 2011, the Directors of Birchcliff authorized the Phase III expansion of the PCS Gas Plant, which will increase natural gas processing capacity from 60 MMcf per day to 120 MMcf per day. The Phase III expansion is expected to commence operation during the fourth quarter of 2012. The wholly owned and operated PCS Gas Plant will continue to increase the value of the Montney/Doig Natural Gas Resource Play by increasing production growth, reducing operating costs per boe and increasing Birchcliff's strategic control over the Pouce Coupe area.

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. The extensive portfolio of development opportunities on these resource plays will provide low risk, long life future production and reserves additions that are readily available with the investment of additional capital. Birchcliff continues to investigate and work towards development of new resource plays in its core area, the Peace River Arch.

Birchcliff's resource plays provide the Corporation with a long term and operationally reliable cash flow base, the level of which is primarily dependent on commodity prices. Commodity prices therefore affect the pace at which Birchcliff invests in its resource plays and the rate at which its production will grow. Birchcliff has a very long life asset base and therefore short term commodity prices do not affect the quality or long term value of the Corporation's asset base.

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

On May 18, 2011, the Corporation's bank syndicate approved an increase of the revolving credit facilities to an aggregate limit of $450 million from $375 million and extended the conversion date of those facilities from May 20, 2011 to May 18, 2012 (the "**Revolving Credit Facilities**"). The amended Revolving Credit Facilities include an increased credit limit for the extendible revolving term credit facility (the "**Syndicated Credit Facility**") of $420 million from $345 million and an extendible revolving working capital facility (the "**Working Capital Facility**") of $30 million.

On May 18, 2011, the Corporation's bank syndicate approved a new $70 million non-revolving five-year term credit facility (the "**Non-Revolving Five-Year Term Facility**") with a maturity date on May 25, 2016. This facility requires principle payments of $350,000 per quarter commencing July 1, 2013. In May 2011, Birchcliff had drawn the full $70 million in the form of bankers' acceptances under the Non-Revolving Five-Year Term Facility, the proceeds of which were used to reduce the amounts outstanding on the Corporation's Revolving Credit Facilities.

On November 30, 2010, the Corporation's bank syndicate approved an increase of the Revolving Credit Facilities to an aggregate limit of $375 million from $350 million.

On May 21, 2010, the Corporation's bank syndicate 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 one-year non-revolving term credit facility (the "**Non-Revolving One-Year Term Facility**") was repaid and cancelled. The amended Revolving Credit Facilities included an increased credit limit for the Syndicated Credit Facility of $320 million from $235 million and an increased credit limit for 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 $48.6 million at December 31, 2011 from $4.0 million at December 31, 2010. The deficit at the end of 2011 is mainly comprised of costs incurred on Phase III expansion of the PCS Gas Plant and on the drilling, completing, equipping and tie-in of new wells to keep Phases I and II of the PCS Gas Plant operating at full capacity during the fourth quarter of 2011.

At December 31, 2011, the major components of Birchcliff's current assets were: joint interest billings (39%) to be received from its partners and revenue (56%) to be received from its marketers in respect of December 2011 production that was subsequently received in January 2012. In contrast, current liabilities largely consisted of trade payables (71%) and accrued capital and operating costs (24%).

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. The Corporation did not have any liquidity issues with respect to the operation of its petroleum and natural gas business during the Reporting Periods.

Total debt and bank debt:

Total debt (including working capital deficit) increased to $437.0 million at December 31, 2011 from $337.4 million at December 31, 2010. The increase in total debt from the end of 2010 was largely a result of $106.7 million in total capital expended in 2011 in excess of cash flow during that period. The amount outstanding under Birchcliff's bank credit facilities at December 31, 2011 was $388.4 million (2010 – $333.5 million), which is net of $4.8 million (2010 – $5.7 million) in unamortized interest and fees. A significant portion of the funds drawn under the bank credit facilities in each of the Reporting Periods was to pay costs relating to the Phase III expansion of the PCS Gas Plant, drilling and completion of new Montney/Doig horizontal natural gas wells and to drilling activities on our Worsley Light Oil Resource Play.

The following table shows the Corporation's total available credit:

As at Dec. 31,	2011	2010
$000's		
Maximum borrowing base limit[1][2]:		
Non-Revolving Five-Year Term Facility	70,000	–
Revolving Credit Facilities	450,000	375,000
	520,000	375,000
Principal amount utilized:		
Drawn Non-Revolving Five-Year Term Facility[3]	(70,000)	–
Drawn Revolving Credit Facilities[3]	(323,221)	(339,176)
Outstanding letters of credit[4]	(2,668)	(3,014)
	(395,889)	(342,190)
Total unused credit	**124,111**	32,810

1) 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 Birchcliff's petroleum and natural gas reserves.
2) The Corporation was compliant with all financial covenants applicable under its credit facilities as at and during the years ended December 31, 2011 and 2010 and continues to be compliant with such covenants at the date hereof.
3) The drawn amounts are not reduced for unamortized costs and fees. The drawn Revolving Credit Facilities at the end of 2011 consists of approximately $19.2 million (2010 - $5.2 million) applicable to the Working Capital Facility (including outstanding cheques) and $304 million (2010 - $334 million) applicable to the Syndicated Credit Facility.
4) Letters of credit are issued to various service providers. No amounts were drawn on the letters of credit as at and during the years ended December 31, 2011 and 2010.

Contractual obligations:

The Corporation enters into contractual obligations in the ordinary course of conducting its day-to-day business. The following table lists Birchcliff's estimated material contractual obligations at December 31, 2011:

	2012	2013	2014 - 2016	Thereafter
$000's				
Accounts payable and accrued liabilities	88,602	–	–	–
Drawn Non-Revolving Five-Year Term Facility	–	700	69,300	–
Drawn Revolving Credit Facilities	–	–	323,221	–
Office lease[1]	3,187	3,295	9,885	3,018
Purchase obligations[2]	23,416	–	–	–
Transportation and processing	16,168	15,739	16,998	–
Total estimated contractual obligations[3]	**131,373**	**19,734**	**419,404**	**3,018**

1) 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 24% of the excess space to an arms' length party on a basis that recovers all of the rental costs for the first five years.
2) The Corporation is committed to spend approximately $23.4 million in 2012 under various purchasing agreements relating to the construction of Phase III of the PCS Gas Plant which would increase total natural gas processing capacity from 60 MMcf per day to 120 MMcf per day and will be commissioned in the fourth quarter of 2012.
3) Contractual commitments that are routine in nature and form part of the normal course of operations for Birchcliff are not included in the table above.

Off-balance sheet transactions:

Birchcliff was not involved in any off-balance sheet transactions that would result in a material change to its financial position, performance or cash flows as at or during the periods ended December 31, 2011 and 2010.

OUTSTANDING SHARE DATA

The common shares of Birchcliff are the only class of shares outstanding. Birchcliff's common shares began trading on the TSX 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 S&P/TSX Composite Index. The following table summarizes the common shares issued in 2011 and 2010.

	Common Shares
Balance at December 31, 2009	123,815,002
Issue of common shares upon exercise of options	1,314,232
Balance at December 31, 2010	125,129,234
Issue of common shares upon exercise of options	1,616,343
Balance at December 31, 2011	**126,745,577**

At March 14, 2012, there were outstanding 126,745,577 common shares, stock options to purchase 10,466,941 common shares and 2,939,732 performance warrants to purchase an equivalent number of common shares.

RESULTS OF OPERATIONS

Petroleum and natural gas revenues:

Petroleum and Natural Gas ("**P&NG**") revenues totalled $70.3 million ($38.55 per boe) for the three month Reporting Period and $264.6 million ($39.97 per boe) for the twelve month Reporting Period as compared to $57.1 million ($37.88 per boe) and $190.0 million ($39.80 per boe) for the Comparable Prior Periods. The increase in aggregate and per boe P&NG revenues from the Comparable Prior Periods was largely a result of increased average daily production and higher average oil prices realized at the wellhead, notwithstanding lower average natural gas prices realized at the wellhead during the Reporting Periods. The following table details Birchcliff's P&NG revenues, production and percentage of production and sales prices by category for the Reporting Periods and Comparable Prior Periods:

	Three months ended Dec. 31, 2011				Three months ended Dec. 31, 2010			
	Total revenue	Average daily production	Percent	Average	Total revenue	Average daily production	Percent	Average
	$000's		%	*$/unit*	*$000's*		%	*$/unit*
Light oil *(bbls)*	37,160	4,229	21	95.52	26,263	3,486	21	81.89
Natural gas *(Mcf)*	28,169	90,116	76	3.40	26,806	73,978	75	3.94
Natural gas liquids *(bbls)*	4,911	564	3	94.67	3,916	559	4	76.14
Total P&NG sales	70,240	**19,812**	100	38.54	56,985	16,375	100	37.83
Royalty revenue	21			0.01	87			0.05
Total P&NG revenues	**70,261**			**38.55**	57,072			37.88

	Twelve months ended Dec. 31, 2011				Twelve months ended Dec. 31, 2010			
	Total revenue	Average daily production	Percent	Average	Total revenue	Average daily production	Percent	Average
	$000's		*%*	*$/unit*	*$000's*		*%*	*$/unit*
Light oil *(bbls)*	131,118	3,905	22	92.00	90,125	3,135	24	78.76
Natural gas *(Mcf)*	115,487	82,116	75	3.85	87,576	56,970	73	4.21
Natural gas liquids *(bbls)*	17,775	545	3	89.33	11,919	448	3	72.82
Total P&NG sales	264,380	**18,136**	100	39.94	189,620	13,079	100	39.72
Royalty revenue	207			0.03	358			0.08
Total P&NG revenues	**264,587**			**39.97**	189,978			39.80

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 during the Reporting Periods and Comparable Prior Periods:

	Three months ended Dec. 31, 2011	Three months ended Dec. 31, 2010	Twelve months ended Dec. 31, 2011	Twelve months ended Dec. 31, 2010
Average natural gas sales price *($/Mcf)*	3.40	3.94	3.85	4.21
Average AECO daily spot price *($/MMbtu)*(1)	3.20	3.64	3.63	4.01
Positive differential	**0.20**	0.30	**0.22**	0.20

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

The price the Corporation receives for its petroleum and natural gas 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 Periods and Comparable Prior Periods, but it actively monitors the market to determine if any are required. The Corporation has no current intention to enter into any such contracts at the date hereof.

Royalties:

Birchcliff recorded a royalty expense of $7.6 million ($4.16 per boe) for the three month Reporting Period and $29.4 million ($4.44 per boe) for the twelve month Reporting Period as compared to $4.4 million ($2.91 per boe) and $16.9 million ($3.55 per boe) for the Comparable Prior Periods. Royalties are paid primarily to the Alberta Government and, to a lesser extent, to other land and mineral rights owners. The following table illustrates the Corporation's royalty expense for the Reporting Periods and Comparable Prior Periods:

	Three months ended Dec. 31, 2011	Three months ended Dec. 31, 2010	Twelve months ended Dec. 31, 2011	Twelve months ended Dec. 31, 2010
Oil & natural gas royalties *($000's)*	**7,585**	4,388	**29,389**	16,933
Oil & natural gas royalties *($/boe)*	**4.16**	2.91	**4.44**	3.55
Effective royalty rate *(%)*(1)	**11%**	8%	**11%**	9%

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

The increase in the effective royalty rates from the Comparable Prior Periods was due to a combination of lower royalty credits against natural gas royalties payable and higher average oil prices in the current year and the effect these higher prices have on the sliding scale royalty calculation. The reduction in the royalty credits was due to lower natural gas prices realized at the wellhead. Lower natural gas prices reduced the Crown facility effective royalty rates that are used to determine the Gas Cost Allowance credits in the Reporting Periods.

There have been no significant changes to Alberta's royalty framework since 2010. Refer to the 2010 annual MD&A for discussion on royalty and drilling incentives proposed by the Alberta Government in 2009 and 2010.

Operating costs:

Operating costs were $12.6 million ($6.90 per boe) for the three month Reporting Period and $44.7 million ($6.75 per boe) for the twelve month Reporting Period as compared to $10.3 million ($6.84 per boe) and $36.3 million ($7.59 per boe) for the Comparable Prior Periods. The following table compares operating costs for the Reporting Periods and Comparable Prior Periods:

	Three months ended Dec. 31, 2011		Three months ended Dec. 31, 2010	
	$000's	*$/boe*	*$000's*	*$/boe*
Field operating costs	14,365	7.88	12,084	8.02
Recoveries	(1,956)	(1.07)	(2,123)	(1.41)
Field operating costs, net	12,409	6.81	9,961	6.61
Expensed workovers and other	163	0.09	348	0.23
Total operating costs	**12,572**	**6.90**	10,309	6.84

	Twelve months ended Dec. 31, 2011		Twelve months ended Dec. 31, 2010	
	$000's	*$/boe*	*$000's*	*$/boe*
Field operating costs	51,689	7.81	41,212	8.63
Recoveries	(7,509)	(1.13)	(6,105)	(1.28)
Field operating costs, net	44,180	6.68	35,107	7.35
Expensed workovers and other	526	0.07	1,148	0.24
Total operating costs	**44,706**	**6.75**	36,255	7.59

Total operating costs per boe decreased by 11% from the twelve month Comparable Prior Period largely due to the cost benefits achieved from processing natural gas to Phases I and II of the PCS Gas Plant, which commenced operations in March 2010 and November 2010, respectively. Per unit recoveries decreased from the twelve month Comparable Prior Period mainly due to a 44% increase in average daily natural gas production in the twelve month Reporting Period. Birchcliff continues to focus on controlling and reducing operating costs on a per boe basis.

Transportation and marketing expenses:

Transportation and marketing expenses were $4.8 million ($2.66 per boe) for the three month Reporting Period and $17.5 million ($2.64 per boe) for the twelve month Reporting Period as compared to $3.9 million ($2.56 per boe) and $12.4 million ($2.59 per boe) for the Comparable Prior Periods. These aggregate costs consist primarily of transportation expenses that were higher in the Reporting Periods mainly due to an increase in production volumes of both oil and natural gas and trucking oil further distances during the Reporting Periods.

Administrative expenses:

Net administrative expenses were $13.4 million ($7.36 per boe) for the three month Reporting Period and $34.1 million ($5.16 per boe) for the twelve month Reporting Period as compared to $8.0 million ($5.32 per boe) and $23.5 million ($4.92 per boe) for the Comparable Prior Periods. The components of administrative expenses for the Reporting Periods and Comparable Prior Periods are as follows:

	Three months ended Dec. 31, 2011		Three months ended Dec. 31, 2010	
	$000's	%	*$000's*	%
Cash:				
Salaries and benefits(1)	11,398	83	6,414	76
Other(2)	2,346	17	2,027	24
	13,744	100	8,441	100
Operating overhead recoveries	(232)	(2)	(310)	(4)
Capitalized overhead(3)	(2,793)	(20)	(1,389)	(16)
General & administrative, net	10,719	78	6,742	80
General & administrative, net per boe	$5.88		$4.47	
Non-cash:				
Stock-based compensation	3,921	100	2,727	100
Capitalized stock-based compensation(3)	(1,218)	(31)	(1,442)	(53)
Stock-based compensation, net	2,703	69	1,285	47
Stock-based compensation, net per boe	$1.48		$0.85	
Total administrative expenses, net	**13,422**		8,027	
Total administrative expenses, net per boe	**$7.36**		$5.32	

	Twelve months ended Dec. 31, 2011		Twelve months ended Dec. 31, 2010	
	$000's	%	*$000's*	%
Cash:				
Salaries and benefits(1)	21,150	67	14,319	64
Other(2)	10,650	33	8,002	36
	31,800	100	22,321	100
Operating overhead recoveries	(1,029)	(3)	(1,254)	(6)
Capitalized overhead(3)	(6,087)	(19)	(5,330)	(24)
General & administrative, net	24,684	78	15,737	70
General & administrative, net per boe	$3.74		$3.30	
Non-cash:				
Stock-based compensation	14,007	100	13,291	100
Capitalized stock-based compensation(3)	(4,597)	(33)	(5,534)	(42)
Stock-based compensation, net	9,410	67	7,757	58
Stock-based compensation, net per boe	$1.42		$1.62	
Total administrative expenses, net	**34,094**		23,494	
Total administrative expenses, net per boe	**$5.16**		$4.92	

1) Includes salaries, benefits and bonuses paid to all Directors, Officers, and employees of the Corporation.

2) Includes costs such as rent, legal, tax, insurance, minor computer hardware and software and other business expenses incurred by the Corporation.

3) Includes a portion of salaries and benefits and stock-based compensation directly attributed to the exploration and development activities which have been capitalized.

Net administrative expenses increased on an aggregate basis from the Comparable Prior Periods largely as a result of the increased company growth year over year and the accrual of a portion ($2.4 million) of retention payments that will be made in 2012 in respect of the corporate sale process being undertaken by the Corporation.

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

	Number	Weighted average exercise price
		$
Outstanding, December 31, 2009	7,710,253	5.81
Granted	3,350,300	9.61
Exercised	(1,314,232)	(4.63)
Forfeited	(498,801)	(7.41)
Outstanding, December 31, 2010	9,247,520	7.26
Granted	3,164,900	11.53
Exercised	(1,616,343)	(5.57)
Forfeited	(329,136)	(9.81)
Outstanding, December 31, 2011	**10,466,941**	**8.73**

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 following receipt of shareholder approval to extend the expiration date from January 31, 2010 to January 31, 2015. There remained 2,939,732 performance warrants outstanding and exercisable at December 31, 2011.

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

Depletion and depreciation expenses:

Depletion and Depreciation ("**D&D**") expenses were $21.9 million ($11.97 per boe) for the three month Reporting Period and $71.7 million ($10.84 per boe) for the twelve month Reporting Period as compared to $16.2 million ($10.73 per boe) and $51.5 million ($10.79 per boe) for the Comparable Prior Periods. D&D expenses increased on an aggregate basis mainly due to a 21% and 39% increase in average daily production from the three and twelve month Comparable Prior Periods, respectively.

D&D is a function of the estimated proved plus probable reserve additions, the finding and development costs attributable to those reserves, the associated future development capital required to recover those reserves and production in the period. Included in the D&D calculation for 2011 was 275.4 MMboe of proved plus probable reserves and $1.9 billion in future development capital required to recover those reserves. The Corporation determines its D&D expenses on an area basis.

Impairment test:

The Corporation performed an impairment test of its petroleum and natural gas assets on a cash-generating unit basis to assess for recoverability. The Corporation's assets were not impaired at December 31, 2011 and December 31, 2010.

Finance expenses:

Finance expenses were $4.8 million ($2.61 per boe) for the three month Reporting Period and $20.1 million ($3.04 per boe) for the twelve month Reporting Period as compared to $4.5 million ($3.02 per boe) and $16.5 million ($3.46 per boe) for the Comparable Prior Periods. The components of the Corporation's finance expenses for the Reporting Periods and Comparable Prior Periods are as follows:

	Three months ended Dec. 31, 2011		Three months ended Dec. 31, 2010	
	$000's	*$/boe*	*$000's*	*$/boe*
Cash:				
Interest on credit facilities(1)	4,143	2.27	3,914	2.60
Non-cash:				
Accretion on decommissioning obligations	421	0.23	370	0.25
Amortization of deferred financing fees	198	0.11	254	0.17
Total finance expenses	**4,762**	**2.61**	4,538	3.02

	Twelve months ended Dec. 31, 2011		Twelve months ended Dec. 31, 2010	
	$000's	*$/boe*	*$000's*	*$/boe*
Cash:				
Interest on credit facilities(1)	17,505	2.64	13,453	2.82
Non-cash:				
Accretion on decommissioning obligations	1,747	0.27	1,414	0.30
Amortization of deferred financing fees	889	0.13	1,646	0.34
Total finance expenses	**20,141**	**3.04**	16,513	3.46

1) Interest costs for the three months ended December 31, 2011 consists of $3.2 million (2010 - $3.9 million) related to the Corporation's Revolving Credit Facilities and $0.9 million (2010 - $NIL million) related to non-revolving term credit facilities. For the twelve months ended December 31, 2011, the Corporation's interest costs include $15.4 million (2010 - $12.8 million) related to the Revolving Credit Facilities and $2.1 million (2010 - $0.7 million) related to non-revolving term credit facilities.

The aggregate interest expense from the Comparable Prior Periods increased mainly due to a higher average balance on the outstanding bank credit facilities. The Corporation's average outstanding total credit facilities balance was approximately $370 million and $347 million in the three and twelve month Reporting Periods as compared to $307 million and $249 million in the Comparable Prior Periods, calculated as the simple average of the month end amounts. These increases were largely due to the significant capital expended on the PCS Gas Plant project.

The effective interest rate applicable to the Working Capital Facility was 5.0% at the end of 2011 as compared to 5.8% at the end of 2010. The effective interest rates applicable to the bankers' acceptances issued under the revolving Syndicated Credit Facility were 4.8% and 5.3% for the three and twelve month Reporting Periods as compared to 5.2% and 4.8% for the Comparable Prior Periods. The effective interest rates applicable to the bankers' acceptances issued under the non-revolving term credit facilities was 4.9% and 5.0% for the three and twelve month Reporting Periods as compared to 5.6% for the Comparable Prior Periods.

Gain on sale of assets:

During 2011, Birchcliff disposed of minor non-core assets for proceeds of $8.9 million and recorded a net gain of approximately $2.1 million ($1.6 million, net of tax) or $0.32 per boe in that period. In 2010, Birchcliff disposed of its interest in a minor non-producing asset in the Kakut area of Alberta for $17.5 million and recognized a gain of approximately $15.5 million ($11.6 million, net of tax) or $3.25 per boe during that period.

Income taxes:

Birchcliff recorded a deferred income tax expense of approximately $1.9 million ($1.06 per boe) and $14.7 million ($2.22 per boe) for the three and twelve month Reporting Periods as compared to $2.4 million ($1.57 per boe) and $14.3 million ($2.99 per boe) for the Comparable Prior Periods. The increase in deferred income tax expenses from the twelve month Comparable Prior Period was due to slightly higher recorded net income mainly as a result of higher average oil prices and increased production, offset by higher D&D expenses and decreased gains on divestitures in the current year.

The Corporation's 2006 and 2007 income tax filings have been reassessed by the Canada Revenue Agency ("**CRA**"). The reassessments are based on the CRA's determination that the tax pools available to Veracel Inc. ("**Veracel**"), prior to the amalgamation, ceased to be available to Birchcliff after the amalgamation. The tax pools under review total $39.3 million. The reassessments have been objected to. The resolution of the disputed assessments may impact deferred income tax expense but will not impact cash taxes payable by the Corporation. Management believes that it will be successful in defending its tax position respecting the Veracel transaction, and as such, the Corporation has not recognized a related provision for deferred income tax liability at the end of 2011.

CAPITAL EXPENDITURES AND CAPITAL RESOURCES

Capital expenditures:

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

Three months ended Dec. 31,	2011	2010
$000's		
Land	816	1,312
Seismic	342	1,374
Workovers	3,798	2,245
Drilling and completions	50,753	24,325
Well equipment and facilities	25,225	15,666
Total finding and development costs (F&D)	80,934	44,922
Acquisitions (dispositions)	–	–
Total, development and acquisition costs (FD&A)	80,934	44,922
Administrative assets	89	808
Total capital expenditures	**81,023**	45,730

Twelve months ended Dec. 31,	2011	2010
$000's		
Land	13,045	19,050
Seismic	3,367	2,495
Workovers	13,782	9,622
Drilling and completions(1)	151,058	124,889
Well equipment and facilities	58,135	72,791
Total finding and development costs (F&D)	239,387	228,847
Acquisitions (dispositions)(2)	(2,880)	(15,460)
Total finding, development and acquisition costs (FD&A)	236,507	213,387
Administrative assets	973	1,537
Total capital expenditures	**237,480**	214,924

1) Included in drilling and completions during 2011 was a recovery of $3.5 million (2010 - $9.9 million) related to the Alberta Drilling Royalty Credit Program.

2) During 2011, Birchcliff disposed of minor non-core assets for $8.9 million which resulted in a net gain on sale of approximately $2.1 million. In 2010, the Corporation disposed of a minor non-producing asset for $17.5 million which resulted in a gain of approximately $15.5 million.

Capital resources:

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

Three months ended Dec. 31,	2011	2010
$000's		
Cash flow	30,400	27,865
Changes in non-cash working capital from operations	19,032	5,346
Decommissioning expenditures	(349)	(571)
Exercise of stock options	444	1,186
Increase in amounts drawn under non-revolving term credit facilities	78	-
Increase in amounts drawn under Revolving Credit Facilities	28,841	52,042
Changes in non-cash working capital from investing	2,577	(35,415)
Total capital resources	**81,023**	50,453

Twelve months ended Dec. 31,	2011	2010
$000's		
Cash flow	130,826	95,241
Changes in non-cash working capital from operations	13,128	1,429
Decommissioning expenditures	(1,057)	(902)
Exercise of stock options	9,001	6,083
Deferred financing fees paid	(1,356)	(1,268)
Increase in amounts drawn under non-revolving term credit facilities	69,537	-
Increase (decrease) in amounts drawn under Revolving Credit Facilities	(14,114)	132,105
Changes in non-cash working capital from investing	26,717	(13,041)
Total capital resources	**232,682**	219,647

SUMMARY OF QUARTERLY RESULTS

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

Quarters ended	Dec. 31, 2011	Sep. 30, 2011	Jun. 30, 2011	Mar. 31, 2011
$000's, except for production and share information				
Petroleum and natural gas production *(boe per day)*	19,812	17,648	17,324	17,742
Petroleum and natural gas commodity				
price at wellhead *($ per boe)*	38.54	39.42	42.76	39.28
Natural gas commodity price at wellhead *($ per Mcf)*	3.40	3.92	4.15	4.02
Petroleum commodity price at wellhead *($ per bbl)*	95.52	86.40	99.31	87.03
Total petroleum and natural gas revenue	70,261	64,069	67,464	62,793
Total royalties	(7,585)	(6,804)	(8,801)	(6,199)
Total revenues, net	62,676	57,265	58,663	56,594
Total capital expenditures, net	81,023	71,978	32,300	52,179
Net income	3,333	11,411	10,117	9,593
Per share basic	0.03	$0.09	$0.08	$0.08
Per share diluted	0.03	$0.09	$0.08	$0.07
Cash flow	30,400	33,844	34,269	32,313
Per share basic	0.24	$0.27	$0.27	$0.26
Per share diluted	0.23	$0.26	$0.26	$0.25
Book value of total assets	1,225,497	1,138,075	1,080,314	1,069,322
Non-Revolving Five-Year Term Facility	68,925	68,811	68,773	-
Revolving Credit Facilities	319,500	290,495	270,278	335,220
Total debt	437,023	386,296	349,190	352,804
Shareholders' equity	656,602	648,905	632,588	616,909
Common shares outstanding – end of period				
basic	126,745,577	126,679,577	126,496,677	126,127,244
diluted	140,152,250	140,149,250	140,137,084	139,963,084
Weighted average common shares outstanding				
basic	126,731,919	126,630,446	126,322,814	125,424,658
diluted	132,216,022	131,374,723	131,380,901	129,715,133

Management's discussion and analysis:

Quarters ended	Dec. 31, 2010	Sep. 30, 2010	Jun. 30, 2010	Mar. 31, 2010
$000's, except for production and share information				
Petroleum and natural gas production *(boe per day)*	16,375	13,109	12,357	10,407
Petroleum and natural gas commodity price at wellhead *($ per boe)*	37.83	36.60	39.45	47.12
Natural gas commodity price at wellhead *($ per Mcf)*	3.94	3.79	4.16	5.34
Petroleum commodity price at wellhead *($ per bbl)*	81.89	76.44	76.24	80.03
Total petroleum and natural gas revenue	57,072	44,125	44,546	44,235
Total royalties	(4,388)	(3,561)	(3,621)	(5,363)
Total revenues, net	52,684	40,564	40,925	38,872
Total capital expenditures, net(1)	45,730	92,520	42,270	34,404
Net income(1)	7,431	5,533	5,087	16,112
Per share basic(1)	$0.06	$0.04	$0.04	$0.13
Per share diluted(1)	$0.06	$0.04	$0.04	$0.13
Cash flow(1)	27,865	22,750	23,013	21,613
Per share basic(1)	$0.22	$0.18	$0.18	$0.17
Per share diluted(1)	$0.22	$0.18	$0.18	$0.17
Book value of total assets(1)	1,038,555	996,327	910,823	881,344
Non-Revolving One-Year Term Facility	–	-	-	49,661
Revolving Credit Facilities	333,468	281,172	235,993	158,614
Total debt	337,424	319,921	250,370	232,287
Shareholders' equity(1)	599,140	587,796	578,602	568,821
Common shares outstanding – end of period				
basic	125,129,234	124,912,134	124,792,136	124,358,735
diluted	137,316,486	137,364,386	137,255,386	137,190,886
Weighted average common shares outstanding				
basic	124,994,761	124,872,806	124,540,955	124,095,074
diluted(1)	128,418,091	128,338,449	127,966,923	128,048,514

1) 2010 comparatives are restated to comply with IFRS requirements.

Discussion of quarterly results:

Birchcliff's average production in the fourth quarter of 2011 was 19,812 boe per day, a 12% increase from 17,648 boe per day in the third quarter of 2011 and a 21% increase from 16,375 boe per day in the fourth quarter of 2010. The increase in production from the prior periods was largely achieved through the success of Birchcliff's Montney/Doig horizontal natural gas drilling program and the increase in processing capacity at the PCS Gas Plant as a result of the Phase II expansion, which commenced operation in November 2010.

Total capital expenditures (excluding minor acquisitions and dispositions) in the fourth quarter of 2011 were $81.0 million as compared to $73.7 million in the third quarter of 2011 and $45.7 million in the fourth quarter of 2010. Capital spent in the fourth quarter of 2011 was directed towards the drilling and completion of Montney/Doig horizontal natural gas wells to keep Phases I and II of the PCS Gas Plant operating at full capacity; initial construction of Phase III expansion of the PCS Gas Plant to bring total natural gas processing capacity to 120 MMcf per day from 60 MMcf per day in the fourth quarter of 2012; acquiring land; and expanding the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play.

Cash flow generated by the Corporation in the fourth quarter of 2011 was $30.4 million as compared to $33.8 million in the third quarter of 2011 and $27.9 million in the fourth quarter of 2010. The decrease in cash flow from the previous quarter was mainly attributed to lower natural gas prices realized at the wellhead and higher cash G&A expenses, notwithstanding increased average daily production and higher oil prices at the wellhead in the three month Reporting Period. The 9% increase in cash flow as compared to the fourth quarter of 2010 was largely due to increased average daily production and higher average oil prices realized at the wellhead, notwithstanding reduced natural gas wellhead prices, increased cash G&A expenses, higher interest expenses and a proportionate increase in aggregate royalty, operating and transportation and marketing costs due to higher average production in the three month Reporting Period as compared to the Comparable Prior Period.

Excluding the gain on sale of assets and its tax effect, Birchcliff recorded net income of $3.3 million in the three month Reporting Period as compared to $9.1 million in the third quarter of 2011 and $7.4 million in the fourth quarter of 2010. The decrease in net income from the third quarter of 2011 was mainly a result of lower cash flow and higher aggregate depletion expense reported during the current quarter as a result of significant production growth. The decrease in net income from the fourth quarter of 2010 was attributed to lower cash flow netback and increased aggregate depletion expense in the three month Reporting Period due to significant production growth.

Total debt (including working capital deficit) was $437.0 million at the end of the current quarter as compared to $386.3 million at September 30, 2011 and $337.4 million at December 31, 2010. This increase in total debt from these prior periods was largely due to the increase in capital spent on the Montney/Doig Resource Play and Worsley Light Oil Resource Play.

MERGERS & ACQUISITIONS

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

The corporate sale process that was announced on October 3, 2011 is continuing. Birchcliff has not entered into an acquisition agreement with any party and is currently in negotiations. At this time, there can be no assurance that the ongoing negotiations will result in a successful transaction.

CONTROLS AND PROCEDURES

Disclosure controls and procedures:

The Corporation has established and maintained disclosure control and procedures ("**DC&P**") 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 under securities legislation is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosure. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's DC&P as at December 31, 2011 and have concluded that the Corporation's DC&P are appropriately designed and operating effectively to provide reasonable assurance that information required by securities legislation to be disclosed is made known to them by others, to allow timely decisions regarding the required disclosure.

While the Certifying Officers believe that the Corporation's DC&P provide a reasonable level of assurance and are effective, they do not expect that the DC&P will prevent all errors and fraud. A control system, 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.

Internal controls over financial reporting:

The Corporation has established and maintains internal controls over financial reporting ("**ICFR**") that have been designed using the Committee of Sponsoring Organizations (COSO) "Internal Control Over Financial Reporting- Guidance for Smaller Public Companies". The control framework was 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 the generally accepted accounting principles applicable to the Corporation and to provide reasonable assurance that all assets are safeguarded and transactions are appropriately authorized and recorded to facilitate the preparation of relevant, reliable and timely information. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's ICFR at December 31, 2011 and have concluded that the Corporation's ICFR was effective at December 31, 2011 for the purposes described above. No changes were made to the Corporation's ICFR during the year ended December 31, 2011 that have materially affected, or are reasonable likely to materially affect the Corporation's ICFR.

While the Certifying Officers believe that the Corporation's ICFR provide a reasonable level of assurance and are effective, they do not expect that the ICFR will prevent all errors and fraud. A control system, 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.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

First-time adoption of IFRS:

Birchcliff's audited financial statements as at and for the years ended December 31, 2011 and 2010 have been prepared in accordance with IFRS as issued by the IASB. Previously, the Corporation prepared its 2010 annual financial statements in accordance with Canadian GAAP applicable to publically accountable enterprises.

IFRS 1 requires the consistent and retrospective application of IFRS accounting policies as at and for the year end December 31, 2010 and an opening Statement of Financial Position as at January 1, 2010 (the "**transition date**"). To assist with the transition, the provisions of IFRS 1 allows for certain mandatory and optional exemptions for first-time adopters to alleviate the full retrospective application of IFRS. Birchcliff has elected to apply the following relevant exemptions:

- **IFRS 1 *First-time Adoption of IFRS,*** whereby Property, Plant and Equipment ("**PP&E**") balance as determined under the Corporation's previous accounting framework (Canadian GAAP) is allocated to the IFRS categories of exploration and evaluation assets and development and production properties. Under the exemption, for assets in the development and production phases, the amount is allocated to the underlying IFRS transitional assets on a pro-rata basis using proved plus probable reserve volumes as of the IFRS transition date;
- **IFRS 2 *Share-based Payments,*** whereby stock options that vested prior to January 1, 2010 are not required to be retrospectively restated. Therefore, IFRS 2 requirements apply only to those options that were unvested at the transition date; and
- **IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,*** whereby the Corporation has elected to measure decommissioning obligations as at the transition date in accordance with IAS 37 and recognize directly in deficit the difference between that amount and the carrying amount of those liabilities at the date of transition determined under Canadian GAAP.

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Corporation under Canadian GAAP are consistent with their application under IFRS. A summary of the IFRS 1 mandatory and optional exemptions are also described in Note 22 to the annual financial statements.

Significant IFRS accounting policies:

The IFRS accounting policies are set forth in Note 3 to the annual audited financial statements. A detailed explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's financial position, financial performance and cash flow, including the reconciliations required by IFRS 1, is presented in Note 22 to the financial statements.

The adoption of IFRS does not impact the underlying economics of Birchcliff's operations. The most significant impacts of adoption are from the application of new accounting policies that reset the Corporation's opening financial position at January 1, 2010, and changes in the accounting for PP&E, decommissioning obligations, stock-based compensation and income taxes. Birchcliff also adopted certain presentation policies that differ from Canadian GAAP. The following discusses the significant accounting policy and presentation differences under IFRS.

*Depletion and depreciation expense ("**D&D**")*

Under Canadian GAAP, the Corporation used total proved reserves in determining D&D expenses. Under IFRS, the carrying amount of PP&E is depleted or amortized over the useful life of the assets. Birchcliff has determined that depleting on a total proved plus probable reserve basis better approximates the useful life of the Corporation's assets. D&D was calculated at the country cost centre level using the unit of production method on the full cost pool of assets under Canadian GAAP. Under IFRS, the net carrying value of developed and producing assets is depleted using the unit of production method at the area level. As a result of these accounting policy differences, D&D expenses decreased by $23.1 million in 2010 from the amounts previously recorded under Canadian GAAP.

Gain on sale of assets

Under Canadian GAAP, proceeds from the sale of assets were deducted from the full cost pool without the recognition of a gain or loss unless the sale resulted in a change in the full cost depletion rate of 20 percent or more. Under IFRS, gains or losses on disposition of assets are measured as the difference between the proceeds and carrying value of the assets and liabilities divested. As a result of this accounting policy difference, Birchcliff recorded a gain on the sale of assets of $15.5 million ($11.6 million, net of tax) in 2010.

Impairment testing

Under Canadian GAAP, the recoverable amount of Birchcliff's petroleum and natural gas assets under the first step of the impairment test is determined using undiscounted future cash flow from proved reserves. Under IFRS, the recoverable amount is calculated using discounted pre-tax future cash flow from proved plus probable reserves. In addition, impairment testing under Canadian GAAP is performed at the country cost centre level, while under IFRS the Corporation's assets are grouped into cash-generating units based on their ability to generate largely independent cash inflows. No impairment was determined under IFRS as at January 1, 2010 and December 31, 2010.

Decommissioning obligations

Under Canadian GAAP, Birchcliff used a credit-adjusted discount rate of 8% in estimating the decommissioning obligations (formerly known as asset retirement obligations under Canadian GAAP). Under IFRS, the Corporation's policy is to estimate the decommissioning obligations using a pre-tax risk-free discount rate on transition to IFRS. The effect of using a risk-free discount rate of 4.0% resulted in an increase of $12.0 million to the decommissioning obligation with a corresponding increase to the Corporation's deficit at January 1, 2010. Accretion of decommissioning obligations decreased by $0.4 million in 2010 from the amounts previously recorded under Canadian GAAP.

Stock-based compensation expense

Under Canadian GAAP, the fair value of stock options was calculated using a Black-Scholes option-pricing model for each option grant and the resulting expense was recognized on a straight line basis over the three year vesting period at a rate of one-third on each anniversary date of the stock option grant. Forfeitures of stock options were recognized as they occurred.

Under IFRS, each vesting tranche of an option grant with different vesting dates was considered a separate grant for the calculation of fair value using the Black-Scholes option-pricing model. This resulted in accelerated expense recognition that attributed higher stock-based compensation expense in early years of an option grant and less expense in later years. Birchcliff also applied an estimated forfeiture rate at the initial grant date. When determining the fair value of each vesting tranche under IFRS, Birchcliff applied an estimated weighted average option life which reflects historical experiences. Under Canadian GAAP, the option life was equal to the expiry period of five years.

The above accounting policy differences resulted in an increase of $2.5 million to contributed surplus with a corresponding increase to the Corporation's deficit at January 1, 2010. Stock-based compensation expense increased during 2010 by approximately $2.8 million from the amounts previously recorded under Canadian GAAP.

Administrative expense

Under Canadian GAAP, "capitalized overhead" related to estimated time spent on capital projects by engineering, land, accounting and operations and was based on an industry standard overhead charge per Authorization for Expenditure. Stock-based compensation was not capitalized under Canadian GAAP. Under IFRS, capitalized overhead includes a portion of salaries and benefits that are "directly" attributable to the exploration and development of the Corporation's assets. This varies in some respects from the amounts recorded under Canadian GAAP. In addition, under IFRS, Birchcliff has capitalized a portion of stock-based compensation directly attributable to exploration and development projects.

These accounting policy differences resulted in an increase to net general and administrative expenses (cash) by $5.6 million in 2010 from amounts previously reported under Canadian GAAP. In addition, the Corporation capitalized non-cash stock-based compensation totalling $5.5 million in 2010.

Share capital

Under Canadian GAAP, the proceeds from the issuance of flow-through shares are recognized as shareholders' equity. The tax basis of assets related to expenditures incurred to satisfy flow-through share obligations is reduced when the renunciation of the related tax pools occurs which then increases the deferred income tax liability and reduces share capital.

Under IFRS, the amount recorded to share capital from the issuance of flow-through shares reflects the fair market value of "regular" common shares. The difference between the total value of a flow-through share issuance and the fair market value of regular common share issuance (premium) is initially accrued as a deferred obligation when the flow-through shares are issued. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, as the expenditures are incurred, a deferred tax liability is recorded equal to the estimated amount of deferred income taxes payable by the Corporation and the obligation on issuance of flow-through shares is reduced, and the difference is recognized in profit or loss. There is no impact to share capital on renunciation of flow-through shares.

The above accounting policy differences resulted in an increase to share capital of $4.3 million with a corresponding increase to deficit at January 1, 2010. There was no impact due to this accounting policy difference as at and during the year ended December 31, 2010.

Deferred income tax expense

The adjustments discussed above resulted in a change in deferred income tax assets and liabilities based on Birchcliff's effective tax rate. The Corporation recorded a decrease in deferred tax liabilities of $3.0 million at January 1, 2010 and an increase in deferred tax liabilities of $5.5 million at December 31, 2010 from amounts previously reported under Canadian GAAP. Additional deferred income tax expenses of $8.5 million were recorded under IFRS in 2010.

Reclassifications

Under Canadian GAAP, interest expense, amortization of deferred financial fees and accretion were disclosed as separate line items in profit or loss. Under IFRS, these amounts were grouped and reported as finance expenses in profit or loss. Interest paid is disclosed separately as an operating item in the Statement of Cash Flows.

Under Canadian GAAP, G&A expenses (cash) and non-cash stock-based compensation expenses were disclosed as separate line items in profit or loss. Under IFRS, these items were grouped and reported as administrative expenses in profit or loss.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The following are critical judgments and estimations that management has made in the process of applying the Corporation's IFRS accounting policies and that have the most significant effect on the amounts recognized in these financial statements:

Reserves:

Estimation of reported recoverable quantities of proved and probable reserves include judgmental assumptions regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Corporation's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets and liabilities due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from Birchcliff's petroleum and natural gas interests are independently evaluated by reserve engineers at least annually.

The Corporation's petroleum and natural gas reserves represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and (iii) evidence that the necessary production, processing transmission and transportation facilities are available or can be made available. Reserves may only be considered proven and probable if producibility is supported by either production or conclusive formation tests. Birchcliff's oil and gas reserves are determined pursuant to National Instrument 51-101 *Standard of Disclosures for Oil and Gas Activities* and the *Canadian Oil and Gas Evaluation Handbook.*

Decommissioning obligations:

The Corporation estimates future remediation costs of production wells, facilities, and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires judgment regarding abandonment date, future environmental and regulatory legislation, the extent of abandonment and reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates that are used to determine the present value of these cash flows.

Stock-based compensation:

All share-based awards issued by the Corporation are fair valued using the Black-Scholes option-pricing model. In determining the share-based compensation expense for the period, estimates have to be made regarding the expected volatility in share price, option life, dividend yield and risk-free rate used to calculating fair value and estimating forfeitures at the initial grant date. Due to the time period and the number of estimates involved, it is likely that the actual fair value of the options will differ from what has been recorded in the financial statements.

Impairment of assets:

The impairment testing of PP&E is based on estimates of proved plus probable reserves, production rates, forecasted petroleum and natural gas prices, future costs and other relevant assumptions. Birchcliff's assets are aggregated into cash-generating units, for the purpose of calculating impairment, based on their ability to generate largely independent cash inflows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Corporation's assets in future periods.

Income taxes:

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. All tax filings are subject to audit and potential reassessment. Accordingly, the actual income tax liability may differ significantly from amounts estimated and recorded in the financial statements.

RISK FACTORS & RISK MANAGEMENT

Commodity price risk:

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

Foreign currency exchange risk:

The Corporation is exposed to foreign currency fluctuations because its Canadian revenues are strongly linked to United States dollar denominated benchmark commodity prices. Birchcliff has not hedged any of its foreign exchange risk at the date hereof.

Production risk:

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

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

Hydraulic fracturing:

Hydraulic fracturing involves the injection of water, sand and small amounts of additives under pressure into rock formations to stimulate hydrocarbon (natural gas and oil) production. The use of hydraulic fracturing is necessary to produce commercial quantities of natural gas and oil from many reservoirs. The Corporation anticipates that federal, provincial and state regulatory frameworks to address concerns related to hydraulic fracturing will continue to emerge. The implementation of new regulations with respect to water usage of hydraulic fracturing generally could increase Birchcliff's costs of compliance, its operating costs, and may negatively impact the Company's prospects, any of which may have a material adverse effect on Birchcliff's business, financial condition and results of operations. Birchcliff conducts its fracturing operations with reputable service providers, with due regard for potential impact on the environment and closely monitors and complies with the regulatory regime.

Reserve replacement risk:

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

Health, safety & environmental risk:

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

Birchcliff is subject to the risk that the unexpected failure of its equipment used in drilling, completing or producing wells or in transporting production could result in the release of pollutants or contaminates at or near its facilities which could result in significant liability to the Corporation for costs of clean up, remediation and reclamation of contaminated lands. Birchcliff conducts its operations with due regard for the potential impact on the environment. This includes hiring skilled personnel, providing adequate training to all staff involved with operations, and by retaining expert advice and assistance to deal with environmental remediation and reclamation work where such expertise is needed.

Regulatory risk:

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

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

Counterparty risk:

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

Access to credit markets:

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

The continued availability of the credit markets for Birchcliff is primarily dependent on the state of the economy and the health of the banking industry in North America and abroad. There is risk that if the global economy and banking industry experience unexpected and/or prolonged deterioration, then Birchcliff's access to credit markets may contract or disappear altogether. The Corporation tries to mitigate this risk by dealing with reputable lenders and tries to structure its lending agreements to give it the most flexibility possible should these situations arise. However, the situations that may give rise to credit markets tightening or disappearing are beyond Birchcliff's control.

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

Climate change risks:

Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. As a signatory to the United Nations Framework Convention on Climate Change and as a participant in the Copenhagen Accord, the Government of Canada announced on January 29, 2010 that it will seek a 17% reduction in greenhouse gas ("**GHG**") emissions from 2005 levels by 2020. These GHG emission reduction targets are not binding. The Corporation continues to monitor GHG legislative developments. Although it is not the case today, the Corporation expects that some of its significant facilities may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage GHG emissions. If the Corporation becomes subject to GHG legislation, there can be no assurances that the compliance costs will be immaterial.

The Government of Alberta enacted the Climate Change and Emissions Management Act in response to concerns regarding GHG. The Specified Gas Emitters Regulation that accompanies the Act came into force in 2007 and requires large industrial facility emitters of GHG to reduce GHG emissions intensities by 12% below a baseline derived from the average of 2003-2005 emissions. The Corporation is not considered a large industrial emitter under this legislation and, as such, the Corporation is not subject to the costs of complying with the Specified Gas Emitters Regulation.

ADVISORIES

Non-GAAP measures:

This MD&A uses terms such as "cash flow", "netback", "cash flow netback", "operating netback", "cash flow per share", and "cash flow from operations", which do not have standardized meanings prescribed by IFRS and therefore may not be comparable to measure by other companies where similar terminology is used. Cash flow denotes cash flow from operating activities as it appears on the Corporation's Statement of Cash Flows before decommissioning expenditures and changes in non-cash working capital. 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 deferred incomes tax expense (less any recovery), depletion and depreciation expense, accretion expense, stock-based compensation expense, amortization of deferred financing fees and gain or loss on divestitures.

BOE conversions:

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

Mcfe conversions:

Millions of cubic feet of gas equivalent ("**Mcfe**") amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel of oil (1 bbl). Mcfe amounts may be misleading, particularly if used in isolation. A Mcfe conversion ratio of 6 Mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. $1.00/MMbtu = $1.00/Mcf based on a standard heat value Mcf.

Forward looking information:

This MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking information relates to future events or future performance and is based upon the Corporation's current internal expectations, estimates, projections, assumptions and beliefs. All information other than historical fact is forward-looking information. Information relating to "reserves" is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves exist in the quantities estimated and that they will be commercially viable to produce in the future. Words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "potential", "proposed" and other similar words that convey certain events or conditions "may" or "will" occur are intended to identify forward-looking information.

In particular, this MD&A contains forward-looking information relating to overall production; planned production increases; planned 2012 capital spending and sources of funding; expected results from the Corporation's portfolio of oil and gas assets; processing capacity and commissioning date of the PCS Gas Plant and its future expansion; royalty rates and incentives; treatment under tax laws; and the ability to successfully defend tax reassessments.

The forward-looking information is based upon assumptions as to future commodity prices, currency exchange rates, inflation rates, well production rates, well drainage areas, success rates for future drilling and availability of labour and services. 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. 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. As a consequence, actual results may differ materially from those anticipated.

Forward-looking information necessarily involves both known and unknown risks associated with oil and gas exploration, production, transportation and marketing such as operational risks, environmental risks, loss of market demand, general economic conditions affecting ability to access sufficient capital, changes in governmental regulation of the oil and gas industry and competition from others for scarce resources.

The foregoing list of risk factors is not exhaustive. Additional information on these and other risk factors that could affect operations or financial results are included in the Corporation's most recent Annual Information Form and in 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.

Management's report:

To the Shareholders of Birchcliff Energy Ltd.

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

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

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

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

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

Respectfully,

(signed) "A. Jeffery Tonken"

A. Jeffery Tonken
President and Chief Executive Officer

(signed) "Bruno P. Geremia"

Bruno P. Geremia
Vice President and Chief Financial Officer

March 14, 2012

Independent auditor's report:

To the Shareholders of Birchcliff Energy Ltd.

We have audited the accompanying financial statements of Birchcliff Energy Ltd. which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the statements of net income and comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Birchcliff Energy Ltd. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

(signed) "KPMG LLP"

KPMG LLP
Chartered Accountants
Calgary, Alberta

March 14, 2012

Statements of financial position:

Expressed in thousands of Canadian dollars

As at	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
ASSETS			
Current assets:			
Cash	**65**	4,863	140
Accounts receivable *(Note 17)*	**37,699**	39,241	29,665
Prepaid expenses and deposits	**2,240**	2,661	4,635
	40,004	46,765	34,440
Non-current assets:			
Deferred financing fees *(Note 7)*	**–**	–	245
Deferred income taxes *(Note 22)*	**–**	–	1,152
Exploration and evaluation *(Notes 5 and 22)*	**1,858**	1,540	640
Petroleum and natural gas properties and equipment *(Notes 6 and 22)*	**1,183,635**	990,250	801,783
	1,185,493	991,790	803,820
Total assets	**1,225,497**	1,038,555	838,260
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	**88,602**	50,721	54,731
Non-current liabilities:			
Non-revolving term credit facilities *(Note 7)*	**68,925**	–	–
Revolving credit facilities *(Note 8)*	**319,500**	333,468	201,230
Decommissioning obligations *(Notes 9 and 22)*	**64,023**	42,106	36,697
Deferred income taxes *(Note 10)*	**27,845**	13,120	–
	480,293	388,694	237,927
Total liabilities	**568,895**	439,415	292,658
SHAREHOLDERS' EQUITY			
Share capital *(Notes 11 and 22)*	**567,816**	554,419	545,675
Contributed surplus *(Note 22)*	**43,070**	33,459	22,828
Retained earnings (deficit)	**45,716**	11,262	(22,901)
	656,602	599,140	545,602
Total shareholders' equity and liabilities	**1,225,497**	1,038,555	838,260

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

Approved by the Board

(signed) "Werner A. Siemens"

Werner A. Siemens
Director

(signed) "A. Jeffery Tonken"

A. Jeffery Tonken
Director

Statements of net income and comprehensive income:

Expressed in thousands of Canadian dollars, except share information

Year ended Dec. 31,	2011	2010
REVENUE		
Petroleum and natural gas	**264,587**	189,978
Royalties	**(29,389)**	(16,933)
	235,198	173,045
EXPENSES		
Operating *(Note 12)*	**44,706**	36,255
Transportation and marketing	**17,477**	12,359
Administrative, net *(Notes 13 and 15)*	**34,094**	23,494
Depletion and depreciation *(Note 6)*	**71,736**	51,516
Finance *(Note 14)*	**20,141**	16,513
(Gain) on sale of assets *(Note 6)*	**(2,135)**	(15,528)
	186,019	124,609
INCOME BEFORE TAXES	**49,179**	48,436
Deferred income tax expense *(Note 10)*	**14,725**	14,273
NET INCOME AND COMPREHENSIVE INCOME	**34,454**	34,163
Income per common share *(Note 18)*		
basic	**$0.27**	$0.27
diluted	**$0.26**	$0.27
Weighted average common shares *(Note 18)*		
basic	**126,282,910**	124,629,761
diluted	**131,444,878**	128,520,068

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

Statements of changes in shareholders' equity:

Expressed in thousands of Canadian dollars, except share information

	Number of common shares	Share capital	Contributed surplus	Retained earnings (deficit)	Total
As at January 1, 2010	123,815,002	545,675	22,828	(22,901)	545,602
Exercise of stock options *(Note 15)*	1,314,232	8,744	(2,660)	-	6,084
Stock-based compensation *(Note 13)*	-	-	13,291	-	13,291
Net income and comprehensive income	-	-	-	34,163	34,163
As at December 31, 2010	125,129,234	554,419	33,459	11,262	599,140
Exercise of stock options *(Note 15)*	1,616,343	13,397	(4,396)	-	9,001
Stock-based compensation *(Note 13)*	-	-	14,007	-	14,007
Net income and comprehensive income	-	-	-	34,454	34,454
As at December 31, 2011	**126,745,577**	**567,816**	**43,070**	**45,716**	**656,602**

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

Statements of cash flows:

Expressed in thousands of Canadian dollars

Year ended Dec. 31,	2011	2010
Cash provided by (used in):		
OPERATING		
Net income	**34,454**	34,163
Adjustments for items not affecting operating cash:		
Depletion and depreciation	**71,736**	51,516
Stock-based compensation *(Note 13)*	**9,410**	7,757
Finance	**20,141**	16,513
(Gain) on sale of assets	**(2,135)**	(15,528)
Deferred income taxes	**14,725**	14,273
Interest paid *(Note 14)*	**(17,505)**	(13,453)
Decommissioning expenditures *(Note 9)*	**(1,057)**	(902)
Changes in non-cash working capital *(Note 20)*	**13,128**	1,429
	142,897	95,768
FINANCING		
Exercise of stock options	**9,001**	6,084
Deferred financing fees paid *(Notes 7 and 8)*	**(1,356)**	(1,268)
Increase in non-revolving term credit facilities	**69,537**	–
Increase (decrease) in revolving credit facilities	**(14,114)**	132,104
	63,068	136,920
INVESTING		
Acquisition of petroleum and natural gas properties and equipment	**(6,005)**	(2,051)
Sale of petroleum and natural gas properties and equipment	**8,885**	17,511
Additions of exploration and evaluation assets	**(313)**	(878)
Development of petroleum and natural gas properties and equipment	**(240,047)**	(229,506)
Changes in non-cash working capital *(Note 20)*	**26,717**	(13,041)
	(210,763)	(227,965)
NET CHANGE IN CASH	**(4,798)**	4,723
CASH, BEGINNING OF YEAR	**4,863**	140
CASH, END OF YEAR	**65**	4,863

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

Notes to the financial statements:

1. NATURE OF OPERATIONS

Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is domiciled and incorporated in Canada. Birchcliff is engaged in the exploration for and the development, production and acquisition of petroleum and natural gas reserves in Western Canada. The Corporation's financial year end is December 31. The address of the Corporation's registered office is 500, 630 – 4th Avenue SW, Calgary, Alberta, Canada T2P 0J9. Birchcliff trades on the Toronto Stock Exchange under the symbol "BIR".

These financial statements were approved and authorized for issuance by the Board of Directors on March 14, 2012.

2. BASIS OF PREPARATION

These financial statements present Birchcliff's first annual audited financial statements to be issued under International Financial Reporting Standards ("**IFRS**") as at and for the years ended December 31, 2011 and 2010. These financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Note 3 below. Previously, the Corporation prepared its annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("**Canadian GAAP**").

The preparation of these financial statements resulted in selected changes to the Corporation's accounting policies as compared to those disclosed in the Corporation's annual audited financial statements for the year ended December 31, 2010 issued under Canadian GAAP. Accordingly, the IFRS accounting policies have been retrospectively and consistently applied in preparing the financial statements for the 2010 comparative periods, except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 *First-time Adoption of IFRS.* Note 22 to these financial statements contains a detailed description of the Corporation's adoption of IFRS, including a reconciliation of the financial statements previously prepared under Canadian GAAP to those under IFRS, for the comparative periods as at January 1, 2010 and as at and for the year ended December 31, 2010.

Operating, transportation and marketing expenses in profit or loss are presented as a combination of function and nature in conformity with industry practices. Depletion and depreciation and finance expenses are presented in a separate line by their nature, while net administrative expenses are presented on a functional basis. Significant expenses such as salaries and benefits and stock-based compensation are presented by their nature in the notes to the financial statement.

These financial statements have been prepared on a historical cost basis, except for certain financial and non-financial assets and liabilities, which have been measured at fair value. The Corporation's financial statements include the accounts of Birchcliff only and are expressed in thousands of Canadian dollars, unless otherwise stated. There are no subsidiary companies.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition:

Revenue from the sale of petroleum and natural gas is recognized when volumes are delivered and title passes to an external party at contractual delivery points and are recorded gross of transportation charges incurred by the Corporation. The costs associated with the delivery, including transportation and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

b) Cash and cash equivalents:

Cash may consist of cash on hand, deposits and term investments held with a financial institution, with a maturity of three months or less. Restricted cash is not considered part of cash and cash equivalents.

c) Joint controlled operations and assets:

Certain activities of the Corporation are conducted jointly with others where the participants have a direct ownership interest in, and jointly control, the related assets. Accordingly, the accounts of Birchcliff reflect only its working interest share of revenues, expenses and capital expenditures related to these jointly controlled assets.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Exploration and evaluation:

Costs incurred prior to obtaining the right to explore a mineral resource are recognized as an expense in the period incurred.

Intangible exploration and evaluation expenditures are initially capitalized and may include mineral license acquisitions, geological and geophysical evaluations, technical studies, exploration drilling and testing and other directly attributable administrative costs. Tangible assets acquired which are consumed in developing an intangible exploration asset are recorded as part of the cost of the exploration asset. These costs are accumulated in cost centres by exploration area pending the determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a mineral resource in an exploration area is considered to be determinable when economic quantities of proven reserves are determined to exist. A review of each exploration project by area is carried out at each reporting date to ascertain whether such reserves have been discovered. Upon determination of commercial proven reserves, associated exploration costs are transferred from exploration and evaluation to developing and producing petroleum and natural gas properties and equipment as reported on the Statement of Financial Position. Exploration and evaluation assets are reviewed for impairment prior to any such transfer. Assets classified as exploration and evaluations are not subject to depletion and depreciation until they are reclassified to petroleum and natural gas properties and equipment.

e) Petroleum and natural gas properties and equipment:

i) Recognition and measurement

Petroleum and natural gas properties and equipment are measured at cost less accumulated depletion and depreciation and accumulated impairment losses, if any.

Petroleum and natural gas properties and equipment consists of the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Petroleum and natural gas assets include developing and producing interests such as mineral lease acquisitions, geological and geophysical costs, facility and production equipment and associated turnarounds, other directly attributable administrative costs and the initial estimate of the costs of dismantling and removing an asset and restoring the site on which it was located.

ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability are recognized as developing and producing petroleum and natural gas interests when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on an area basis. The cost of day-to-day servicing of an item of petroleum and natural gas properties and equipment is expensed in profit or loss as incurred.

Petroleum and natural gas properties and equipment are de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal of an asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

iii) Asset exchanges

For exchanges or parts of exchanges that involve only exploration and evaluation assets, the exchange is accounted for at carrying value. Exchanges of development and production assets are measured at fair value, unless the exchange transaction lacks commercial substance or the fair value of the assets given up or the assets received cannot be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more reliable. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gain or loss on the de-recognition of the asset given up is recognized in profit and loss.

3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

iv) Depletion and depreciation

The net carrying value of developing and producing petroleum and natural gas assets, net of estimated residual value, is depleted on an area basis using the unit of production method. This depletion calculation includes actual production in the period and total estimated proved plus probable reserves attributable to the assets being depreciated, taking into account total capitalized costs plus estimated future development costs necessary to bring those reserves into production. Relative volumes of reserves and production (before royalties) are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. These estimates are reviewed by the Corporation's independent reserves evaluator at least annually.

Capitalized plant turnaround costs are depreciated on a straight-line basis over the estimated time until the next turnaround is completed. Corporate assets, which include office furniture and equipment, software, computer equipment and leasehold improvements, are depreciated on a straight-line basis over the estimated useful lives of the assets, which are estimated to be four years.

When significant parts of property and equipment, including petroleum and natural gas interests, have different useful lives, they are accounted for as separate items (major components). Depreciation methods, useful lives and residual values for petroleum and natural gas properties and equipment are reviewed at each reporting date.

f) Provisions:

Provisions are recognized when the Corporation has a present obligation (legal or constructive), as a result of a past event, if it is probable that the Corporation will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are not recognized for future operating losses.

g) Decommissioning obligations:

The Corporation's activities give rise to dismantling, restoration and site disturbance remediation activities. Costs related to abandonment activities are estimated by management in consultation with the Corporation's independent reserves evaluators based on risk-adjusted current costs which take into consideration current technology in accordance with existing legislation and industry practices.

Decommissioning obligations are measured at the present value of the best estimate of expenditures required to settle the present obligations at the reporting date. When the fair value of the liability is initially measured, the estimated cost, discounted using a pre-tax risk-free discount rate, is capitalized by increasing the carrying amount of the related petroleum and natural gas properties and equipment. The increase in the provision due to the passage of time, which is referred to as accretion, is recognized as a finance expense. Actual costs incurred upon settlement of the liability are charged against the obligation to the extent that the obligation was previously established. The carrying amount capitalized in petroleum and natural gas properties and equipment is depleted in accordance with the Corporation's depletion and depreciation policy. The Corporation reviews the obligation at each reporting date and revisions to the estimated timing of cash flows, discount rates and estimated costs will result in an increase or decrease to the obligations and the related petroleum and natural gas properties and equipment. Any difference between the actual costs incurred upon settlement of the obligation and recorded liability is recognized as a gain or loss in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Share-based payments:

Equity-settled share-based awards granted by the Corporation include stock options and performance warrants granted to officers, directors and employees. The fair value determined at the grant date of an award is expensed on a graded basis over the vesting period of each respective tranche of an award with a corresponding increase to contributed surplus. In calculating the expense of share-based awards, the Corporation revises its estimate of the number of equity instruments expected to vest by applying an estimated forfeiture rate for each vesting tranche and subsequently revising this estimate throughout the vesting period, as necessary, with a final adjustment to reflect the actual number of awards that vest. Upon the exercise of share-based awards, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. In the event that vested share-based awards expire without being exercised, previously recognized compensation costs associated with such awards are not reversed. The expense related to share-based awards is included within administrative expenses in profit or loss.

The fair value of equity-settled share-based awards is measured using the Black-Scholes option-pricing model taking into account the terms and conditions upon which the awards were granted. Measurement inputs as at the grant date include: share price, exercise price, expected volatility (based on weighted average historical traded daily volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds) applicable to the term of the award.

A portion of share-based compensation expense directly attributable to the exploration and development of the Corporation's assets are capitalized.

i) Finance income and expenses:

Finance expenses include interest expense on borrowings, accretion of the discount on decommissioning obligations, amortization of deferred charges and impairment losses (if any) recognized on financial assets. Interest income is recognized as it is earned.

j) Borrowing costs:

Borrowing costs incurred for the acquisition, construction or production of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Assets are considered to be qualifying assets when this period of time is substantial. The capitalization rate, used to determine the amount of borrowing costs to be capitalized, is the weighted average interest rate applicable to the Corporation's outstanding borrowings during the period. All other borrowing costs are charged to profit or loss using the effective interest method.

k) Financial instruments:

i) Non-derivative financial instruments

Non-derivative financial instruments comprise cash, accounts receivable, deposits, accounts payable and accrued liabilities and outstanding credit facilities. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured based on their classification. The Corporation has made the following classifications:

- Cash is classified as financial assets at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement.
- Accounts receivable and deposits are classified as loans and receivables and are measured at amortized cost using the effective interest method. Typically, the fair value of these balances approximates their carrying value due to their short term to maturity.

3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

- Accounts payable and accrued liabilities and outstanding credit facilities are classified as other liabilities and are measured at amortized cost using the effective interest method. Due to the short term nature of accounts payable and accrued liabilities, their carrying values approximate their fair values. The Corporation's outstanding 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 any remaining unamortized costs.

ii) Derivative financial instruments

Derivatives may be used by the Corporation to manage economic exposure to market risk relating to commodity prices. Birchcliff's policy is not to utilize derivative financial instruments for speculative purposes. The Corporation does not designate its financial derivative contracts as hedges, and as such does not apply hedge accounting. As a result, all financial derivative contracts are classified at fair value through profit or loss and are recorded on the Statement of Financial Position at fair value.

The Corporation accounts for any forward physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items, in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the Statement of Financial Position.

iii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a reduction in share capital, net of any tax effects.

l) Impairment:

i) Impairment of financial assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. Impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

ii) Impairment of non-financial assets

The Corporation's petroleum and natural gas properties and equipment are grouped into Cash Generating Units ("**CGU**") for the purpose of assessing impairment. A CGU represents the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

CGU's are reviewed at each reporting date for indicators of potential impairment. Such indicators may include, but are not limited to, changes in the Corporation's business plan, deterioration in commodity prices, significant downward revisions of estimated recoverable reserves or increases in estimated future development expenditures. If indicators of asset impairment exist, an impairment test is performed by comparing a CGU's carrying value to its recoverable amount. A CGU's recoverable amount is the greater of its fair value less cost to sell and its current value in use. The calculation of the recoverable amount is sensitive to the assumptions regarding production volumes, discount rates and commodity prices. Any excess of carrying value over recoverable amount is recognized as impairment loss in profit or loss.

3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

In assessing the value in use, the estimated future cash flows from proved and probable reserves are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. The petroleum and natural gas future prices used in the impairment test are based on period-end commodity price forecasts estimated by the Corporation's independent reserves evaluator and are adjusted for petroleum and natural gas differentials, transportation and marketing costs specific to the Corporation.

Where circumstances change such that an impairment no longer exists or is less than the amount previously recognized, the carrying amount of the CGU is increased to the revised estimate of its recoverable amount as long as the revised estimate does not exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the CGU in prior periods. A reversal of an impairment loss is recognized immediately through profit or loss.

Exploration and evaluation assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability of an exploration area, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to CGU's.

m) Income taxes:

The Corporation's income tax expenses include current and/or deferred tax. Income tax expense is recognized through profit or loss except to the extent that it relates to items recognized directly in equity, in which case the related income taxes are also recognized in equity.

Current tax is the expected tax payable on taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is expected to be settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Birchcliff expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

n) Flow-through shares:

The Corporation may issue flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. The difference between the value ascribed to flow-through shares issued and the value that would have been received for common shares at the date of announcements of the flow-through shares is initially recognized as a liability on the Statement of Financial Position. When the expenditures are incurred, the liability is drawn down, a deferred tax liability is recorded equal to the estimated amount of deferred income tax payable by the Corporation as a result of the renunciation and the difference is recognized as a deferred tax expense.

3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

o) **Critical accounting judgments and key sources of estimation uncertainty:**

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical judgements in applying accounting policies:

The following are the critical judgments that management has made in the process of applying the Corporation's accounting policies and that have the most significant effect on the amounts recognized in these financial statements:

i) *Identification of cash-generating units*

Birchcliff's assets are aggregated into CGU's for the purpose of calculating impairment based on their ability to generate largely independent cash inflows. CGU's have been determined based on similar geological structure, shared infrastructure, geographical proximity, operating structure, commodity type and similar exposures to market risks. By their nature, these assumptions are subject to management's judgement and may impact the carrying value of the Corporation's assets in future periods.

Key sources of estimation uncertainty:

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities within the next financial year:

i) *Reserve estimation*

Estimation of reported recoverable quantities of proved and probable reserves include judgmental assumptions regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Corporation's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from Birchcliff's petroleum and natural gas interests are independently evaluated by reserve engineers at least annually.

The Corporation's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proven and probable if producibility is supported by either production or conclusive formation tests. Birchcliff's oil and gas reserves are determined in accordance with the standards contained in National Instrument 51-101 *Standard of Disclosures for Oil and Gas Activities* and the *Canadian Oil and Gas Evaluation Handbook.*

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Share-based payments

All equity-settled, share-based awards issued by the Corporation are fair valued using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

iii) Decommissioning obligations

The Corporation estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires judgment regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

iv) Impairment of non-financial assets

For the purposes of determining whether impairment of petroleum and natural gas assets has occurred, and the extent of any impairment or its reversal, the key assumptions the Corporation uses in estimating future cash flows are future petroleum and natural gas prices, expected production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Changes in the aforementioned assumptions could affect the carrying amount of the Corporation's assets, and impairment charges and reversal will affect profit or loss.

v) Income taxes

Birchcliff files corporate income tax, goods and service tax and other tax returns with various provincial and federal taxation authorities in Canada. There can be differing interpretations of applicable tax laws and regulations. The resolution of these tax positions through negotiations or litigation with tax authorities can take several years to complete. The Corporation does not anticipate that there will be any material impact upon the results of its operations, financial position or liquidity.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. Estimates of future taxable income are based on forecasted cash flows from operations. To the extent that any interpretation of tax law is challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability of Birchcliff to realize the deferred tax assets recorded at the balance sheet date could be impacted.

p) Earnings per share:

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

4. CHANGES IN ACCOUNTING POLICIES

Recent accounting standards and interpretations issued but not yet effective:

In 2011, the IASB issued the following new and revised IFRSs effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted providing that IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 are adopted together, except that IFRS 12 may be adopted earlier. Birchcliff is currently assessing the impact of adopting these pronouncements, however, it anticipates that these standards will not have a material impact on the Corporation's financial statements.

IFRS 10 *Consolidated Financial Statements* builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 replaces those parts of IAS 27 *Consolidated and Separate Financial Statements* (revised 2011) that address when and how an entity should prepare consolidated financial statements and replaces SIC 12 *Consolidation – Special Purpose Entities* in its entirety. IAS 27 retains the current guidance for separate financial statements.

IFRS 11 *Joint Arrangements* provides for a more substance based reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures.* IAS 28 *Investments in Associates and Joint Ventures* (revised 2011) has been amended to conform to changes based on the issuance of IFRS 10 and IFRS 11.

IFRS 12 *Disclosure of Interests in Other Entities* requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. The effective date of IFRS 12 is January 1, 2013 but entities are permitted to incorporate any of the new disclosures in their financial statements before that date.

IFRS 13 *Fair Value Measurement* establishes a single framework for measuring fair values. This standard applies to all transactions and balances (whether financial or non-financial) for which IFRS requires or permits fair value measurements, with the exception of share-based payment transactions accounted for under IFRS 2 *Share-based Payment* and leasing transactions within the scope of IAS 17 *Leases*. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements.

Other accounting standards and interpretations:

IFRS 7 *Financial Instruments* includes amendments issued by the IASB on *Disclosures – Transfers of Financial Assets* that increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosure where transfers of financial assets are not evenly distributed throughout the period. These amendments are effective for annual periods beginning on or after July 1, 2011. The application of the standard did not have an impact on the Corporation's financial statements.

IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for de-recognition. IFRS 9 is expected to be published in three parts. The first part, Phase 1 – classification and measurement of financial instruments sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Phase 1 simplifies the measurement of financial assets by classifying all financial assets as those being recorded at amortized cost or being recorded at fair value. Phase 1 is effective for periods beginning on or after January 1, 2013, although earlier adoption is allowed. Except for certain additional disclosures, the adoption of this standard is not expected to have an impact on the Corporation's financial statements.

5. EXPLORATION AND EVALUATION ASSETS

The components of Exploration and Evaluation ("**E&E**") assets are as follows:

	E&E[1][2]
000's	
As at January 1, 2010	640
Additions	900
As at December 31, 2010	1,540
Additions	318
As at December 31, 2011	**1,858**

1) E&E assets consist of the Corporation's exploration activities which are pending the determination of economic quantities of commercially producible proven reserves. Additions represent the Corporation's net share of costs incurred on E&E activities during the period. There were no costs reclassified from E&E to petroleum and natural gas properties and equipment in 2011 and 2010.

2) At the end of each reporting period, the Corporation performed an asset impairment review of its E&E assets to ensure that the carrying values of those assets are recoverable. The Corporation's E&E assets were not impaired at December 31, 2011 and 2010.

6. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

The components of Petroleum and Natural Gas ("**P&NG**") Properties and Equipment are as follows:

000's	P&NG	Corporate	Total
Cost:			
As at January 1, 2010	800,220	3,415	803,635
Additions	237,954	1,960	239,914
Acquisitions	2,051	-	2,051
Dispositions(1)	(2,572)	-	(2,572)
As at December 31, 2010	1,037,653	5,375	1,043,028
Additions	264,979	888	265,867
Acquisitions	6,005	-	6,005
Dispositions(1)	(7,159)	-	(7,159)
As at December 31, 2011(2)	1,301,478	6,263	1,307,741
Accumulated depletion and depreciation:			
As at January 1, 2010	-	(1,852)	(1,852)
Depletion and depreciation expense(3)	(50,850)	(666)	(51,516)
Dispositions(1)	590	-	590
As at December 31, 2010	(50,260)	(2,518)	(52,778)
Depletion and depreciation expense(3)	(70,757)	(979)	(71,736)
Dispositions(1)	408	-	408
As at December 31, 2011	(120,609)	(3,497)	(124,106)
Net book value(4):			
As at January 1, 2010	800,220	1,563	801,783
As at December 31, 2010	987,393	2,857	990,250
As at December 31, 2011	**1,180,869**	**2,766**	**1,183,635**

1) During 2011, Birchcliff disposed of non-core assets for $8.9 million which resulted in a net gain on sale of approximately $2.1 million. In 2010, the Corporation disposed of a non-core asset for $17.5 million which resulted in a gain of approximately $15.5 million on the sale during that period.

2) At December 31, 2011 and 2010, the Corporation's P&NG properties and equipment were pledged as security for its credit facilities. Although the Corporation believes that it has title to its petroleum and natural gas properties, it cannot control or completely protect itself against the risk of title disputes and challenges. There were no borrowing costs capitalized to P&NG properties and equipment during 2011 and 2010.

3) Future capital costs required to develop and produce proved plus probable reserves in the amount to $1.90 billion (2010 – $1.14 billion) are included in the depletion calculation.

4) At the end of each reporting period, the Corporation performed an asset impairment review to ensure that the carrying value of its P&NG properties and equipment is recoverable and does not exceed its fair value. Birchcliff's P&NG properties and equipment were not impaired at December 31, 2011 and 2010. In determining the recoverable amount, Birchcliff applied a pre-tax discount rate of 10% on cash flows from proved plus probable reserves. The petroleum and natural gas future prices are based on period-end commodity price forecasts of the Corporation's independent reserves evaluator.

7. NON-REVOLVING TERM CREDIT FACILITIES

Non-revolving five-year term credit facility:

On May 18, 2011, the Corporation entered into a $70 million non-revolving five-year term credit facility (the "**Non-Revolving Five-Year Term Facility**") with a maturity date on May 25, 2016. This facility is provided by a syndicate of banks (the "**Syndicate**"). The Non-Revolving Five-Year Term Facility requires principle payments of $350,000 per quarter commencing July 1, 2013. In May 2011, the Corporation had drawn the full $70 million available under this Facility, the proceeds of which were used to reduce the amounts outstanding on the Corporation's revolving credit facilities (Note 8).

7. NON-REVOLVING TERM CREDIT FACILITIES (continued)

The Corporation paid a fee to the Syndicate to establish the Non-Revolving Five-Year Term Facility. This fee has been deferred and netted against the amounts drawn under this facility and is being amortized to income over the five year period. During 2011, the Corporation amortized to income approximately $0.1 million in deferred fees applicable to the Non-Revolving Five-Year Term Facility. The overall effective interest rate applicable to the bankers' acceptances issued under this facility was 5.0% in 2011.

The Non-Revolving Five-Year Term Facility allows for prime rate loans and bankers' acceptances. The interest rates applicable to the drawn loans are based on a pricing grid and will change as a result of the ratio of outstanding indebtedness to earnings before interest, taxes, depreciation and amortization. The Non-Revolving Five-Year 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.

Non-revolving one-year term credit facility:

On May 21, 2009, the Corporation entered into a $50 million non-revolving one-year term credit facility (the "**Non-Revolving One-Year Term Facility**"). The Corporation paid financing fees to its Syndicate to establish this facility. As no amounts were drawn or outstanding on the Non-Revolving One-Year Term Facility at the end of 2009, approximately $0.2 million in unamortized fees was shown as a non-current asset on the Statement of Financial Position. In May 2010, the Corporation repaid and cancelled the Non-Revolving One-Year Term Facility using the increased funds available from the revolving credit facilities.

During 2010, the Corporation amortized to income approximately $0.5 million in deferred fees applicable to the Non-Revolving One-Year Term Facility. The overall effective interest rate applicable to the bankers' acceptances issued under this facility was 5.6% in 2010.

8. REVOLVING CREDIT FACILITIES

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

As at Dec. 31,	2011	2010
000's		
Syndicated credit facility	304,000	334,000
Working capital facility	19,221	5,176
Drawn revolving credit facilities	323,221	339,176
Unamortized prepaid interest on bankers' acceptances	(3,471)	(5,311)
Unamortized deferred financing fees	(250)	(397)
Total revolving credit facilities	**319,500**	333,468

Effective May 18, 2011, Birchcliff amended its agreement with its Syndicate, which increased the Corporation's revolving credit facilities limit from $375 million to an aggregate limit of $450 million. At December 31, 2011, the revolving credit facilities consisted of an extendible revolving term credit facility with an authorized limit of $420 million (the "**Syndicated Credit Facility**") and an extendible revolving working capital facility with an authorized limit of $30 million (the "**Working Capital Facility**"). The Corporation paid a fee to the Syndicate to extend the conversion date of the revolving credit facilities from May 20, 2011 to May 18, 2012. These fees have been deferred and netted against the amounts drawn under this facility and are being amortized to income over the one year extension period. In 2011, the Corporation amortized to income approximately $0.8 million (2010 – $1.2 million) in deferred fees applicable to this facility.

At December 31, 2011, the effective interest rate applicable to the Working Capital Facility was 5.0% (2010 – 5.8%). The overall effective interest rate applicable to the bankers' acceptances issued under the Syndicated Credit Facility was 5.3% during 2011 (2010 – 4.8%).

8. REVOLVING CREDIT FACILITIES (continued)

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 change as a result of the 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 18, 2012 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 18, 2012 and a maturity date which is two years after the conversion date. Birchcliff may request an extension of the conversion date with such an extension not exceeding 364 days, in order to maintain the revolving Working Capital Facility. If the Syndicate does not grant an extension of the conversion date, then upon four months after the expiry of the conversion date, the revolving Working Capital Facility will convert to a term whereby all principal and interest will be required to be repaid at the maturity date.

9. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning obligations result from net ownership interests in petroleum and natural gas properties and equipment including well sites, processing facilities and gathering systems. The total estimated undiscounted cash flows required to settle the Corporation's decommissioning obligations at December 31, 2011 was $104.9 million (2010 – $91.5 million) and is expected to be incurred between 2012 and 2062. A pre-tax risk-free discount rate of 2.6% and an inflation rate of 2.0% were used to calculate the discounted fair value of the obligation in 2011 (2010 – 4.0% discount rate and 2.0% inflation rate).

A reconciliation of the decommissioning obligations is provided below:

As at Dec. 31,	2011	2010
000's		
Balance, beginning	42,106	36,697
Obligations incurred	2,999	2,385
Obligations acquired	237	85
Changes in estimate(1)	5,988	2,427
Changes in discount rate	12,003	–
Accretion expense	1,747	1,414
Actual expenditures	(1,057)	(902)
Balance, ending	**64,023**	42,106

1) Changes largely due to the revision in both the abandonment and remediation cost estimates and future abandonment dates of Birchcliff's wells and processing facilities.

10. DEFERRED INCOME TAXES

The provision for income taxes differs from the result that would be obtained by applying the combined Canadian federal and provincial income tax rate of 26.5% in 2011 (2010 – 28%). The components of deferred income tax expense include:

As at Dec. 31,	2011	2010
000's		
Net income before taxes	49,179	48,436
Computed expected income tax expense	13,032	13,562
Increase (decrease) in taxes resulting from:		
Non-deductible stock-based compensation	2,567	2,185
Non-deductible expenses	76	69
Changes in tax rate and other	(950)	(1,543)
Deferred income tax expense	**14,725**	14,273

The components of deferred income tax liabilities include:

As at Dec. 31,	2011	2010
000's		
Deferred tax liabilities:		
Petroleum and natural assets	(83,730)	(69,173)
Deferred financing fees	(216)	(105)
Deferred tax assets:		
Decommissioning obligations	16,006	10,564
Share issue costs	544	1,465
NCL's, SR&ED's & ITC's(1)	39,551	44,129
Deferred income tax liabilities	**(27,845)**	(13,120)

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

At December 31, 2011, the Corporation's estimated non-capital losses for income tax purposes was approximately $161.1 million (2010 - $157.2 million). Management expects that future taxable income will be available to utilize non-capital losses. The following table shows a breakdown of the Corporation's non-capital losses at the end of 2011 by year of expiry:

Year of expiry	Amount
000's	
2028	18,098
2029	28,463
2030	58,376
2031	56,151
Total non-capital losses	**161,088**

11. SHARE CAPITAL

a) Authorized:

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

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

b) Issued:

Refer to the Statement of Changes in Shareholders' Equity for movement in share capital.

12. OPERATING EXPENSES

The Corporation's operating expenses include all costs with respect to day-to-day well and facility operations. Processing recoveries related to joint interest and third party natural gas reduces operating expenses. The components of operating expenses are as follows:

Year ended Dec. 31,	2011	2010
000's		
Field operating costs	51,689	41,212
Recoveries	(7,509)	(6,105)
Field operating costs, net	44,180	35,107
Expensed workovers and other	526	1,148
Total operating expenses	**44,706**	36,255

13. ADMINISTRATIVE EXPENSES

The components of administrative expenses are as follows:

Year ended Dec. 31,	2011	2010
000's		
Cash:		
Salaries and benefits(1)	21,150	14,319
Other(2)	10,650	8,002
	31,800	22,321
Operating overhead recoveries	(1,029)	(1,254)
Capitalized overhead(3)	(6,087)	(5,330)
General and administrative, net	24,684	15,737
Non-cash:		
Stock-based compensation *(Note 15)*	14,007	13,291
Capitalized stock-based compensation(3)	(4,597)	(5,534)
Stock-based compensation, net	9,410	7,757
Total administrative expenses, net	**34,094**	23,494

1) Includes salaries, benefits and bonuses paid to all Directors, Officers and employees of the Corporation.
2) Includes costs such as rent, legal, tax, insurance, minor computer hardware and software and other business expenses incurred by the Corporation.
3) Includes a portion of salaries and benefits and stock-based compensation directly attributed to the exploration and development activities which have been capitalized.

13. ADMINISTRATIVE EXPENSES (continued)

Compensation for Executive Officers and Directors are comprised of the following:

Year ended Dec. 31,	2011	2010
000's		
Salaries and benefits(1)	4,283	3,394
Stock-based compensation(2)	3,812	3,541
Executive Officers and Directors compensation	**8,095**	6,935

1) Includes salaries, benefits and bonuses earned by Executive Officers and Directors comprising of: Chairman of the Board, President & Chief Executive Officer, Vice President of Exploration & Chief Operating Officer, Vice President & Chief Financial Officer, Vice President of Operations, Vice President of Engineering, Vice President of Corporate Development and other independent Directors.

2) Represents the amortization of stock-based compensation expense in the year associated with options granted to Executive Officers and Directors participating in the Corporation's Amended and Restated Stock Option Plan.

14. FINANCE EXPENSES

The components of finance expenses are as follows:

Year ended Dec. 31,	2011	2010
000's		
Cash:		
Interest on Non-Revolving One-Year Term Facility	–	700
Interest on Non-Revolving Five-Year Term Facility	2,113	–
Interest on revolving credit facilities	15,392	12,753
	17,505	13,453
Non-cash:		
Accretion on decommissioning obligations	1,747	1,414
Amortization of deferred financing fees	889	1,646
Total finance expenses	**20,141**	16,513

15. SHARE-BASED PAYMENTS

Stock options:

The Corporation has established a stock-based compensation plan whereby directors, officers and employees 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. 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. Each stock option entitles the holder to purchase one common share at the exercise price. The Corporation is authorized to issue stock options up to a maximum of 10% of the total issued and outstanding common shares pursuant to the Amended and Restated Stock Option Plan.

During 2011, the Corporation recorded $9.4 million (2010 – $7.8 million) of stock-based compensation expense, net of $4.6 million (2010 – $5.5 million) in capitalized amounts directly attributable to the exploration and development of the Corporation's assets. In determining the stock-based compensation expense for options issued in 2011, the Corporation applied a weighted average estimated forfeiture rate of 15.6% (2010 – 17.4%).

At December 31, 2011, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of a maximum of 12,674,558 (2010 – 12,512,923) common shares. At December 31, 2011, there remained available for issuance options in respect of 2,207,617 (2010 – 3,265,403) common shares. For stock options exercised in 2011, the weighted average share trading price was $12.53 (2010 – $9.34) per share.

15. **SHARE-BASED PAYMENTS (continued)**

A summary of the outstanding stock options is presented below:

	Number	Weighted average exercise price
		$
Outstanding, December 31, 2009	7,710,253	5.81
Granted	3,350,300	9.61
Exercised	(1,314,232)	(4.63)
Forfeited	(498,801)	(7.41)
Outstanding, December 31, 2010	9,247,520	7.26
Granted	3,164,900	11.53
Exercised	(1,616,343)	(5.57)
Forfeited	(329,136)	(9.81)
Outstanding, December 31, 2011	**10,466,941**	**8.73**

The weighted average fair value per option issued during 2011 was $5.36 (2010 - $4.62). The weighted average assumptions used in calculating the fair values are set forth below:

Year ended Dec. 31,	2011	2010
Risk-free interest rate	2.2%	1.9%
Option life *(years)*	3.7	3.7
Expected volatility	61.4%	64.8%
Dividend yield	–	–

A summary of the stock options outstanding and exercisable under the plan at December 31, 2011 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
$3.87	$6.00	2,610,639	1.71	$4.87	1,793,556	1.56	$4.80
$6.01	$9.00	1,781,067	1.68	$7.70	1,504,731	1.45	$7.61
$9.01	$12.00	5,512,435	3.56	$10.48	939,886	2.98	$9.82
$12.01	$14.25	562,800	3.43	$12.86	187,800	1.53	$13.07
		10,466,941	**2.77**	**$8.73**	**4,425,973**	**1.82**	**$7.17**

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. 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.

There were no performance warrants issued or exercised during 2011 and 2010. At December 31, 2011, there remained outstanding and exercisable 2,939,732 performance warrants (2010 – 2,939,732).

16. CAPITAL MANAGEMENT

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations, including potential obligations arising from additional acquisitions; to maintain a capital structure that allows Birchcliff to finance its growth strategy using primarily internally-generated cash flow and its available debt capacity; and to optimize the use of its capital to provide an appropriate investment return to its shareholders.

There were no changes in the Corporation's approach to capital management during 2011 and 2010. The following table shows the Corporation's total available credit:

As at Dec. 31,	2011	2010
000's		
Maximum borrowing base limit(1)(2):		
Drawn Non-Revolving Five-Year Term Facility	70,000	–
Revolving credit facilities	450,000	375,000
	520,000	375,000
Principal amount utilized:		
Drawn Non-Revolving Five-Year Term Facility	(70,000)	–
Drawn revolving credit facilities	(323,221)	(339,176)
Outstanding letters of credit(3)	(2,668)	(3,014)
	(395,889)	(342,190)
Total unused credit	**124,111**	32,810

1) 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 Birchcliff's petroleum and natural gas reserves.
2) The financial covenants applicable to the Corporation's credit facilities includes a quarterly interest coverage ratio test, which is calculated as earnings before interest, taxes, stock-based compensation, depletion, depreciation and amortization over interest expense. The Corporation was compliant with all financial covenants applicable under its credit facilities as at and during the years ended December 31, 2011 and 2010.
3) Letters of credit are issued to various service providers. No amounts were drawn on the letters of credit as at and during the years ended December 31, 2011 and 2010.

The capital structure of the Corporation is as follows:

As at Dec. 31,	2011	2010	Change
000's			
Total shareholders' equity(1)	656,602	599,140	10%
Total shareholders' equity as a % of total capital	60%	64%	
Working capital deficit(2)	48,598	3,956	
Drawn Non-Revolving Five-Year Term Facility	70,000	–	
Drawn revolving credit facilities	323,221	339,176	
Total drawn debt	441,819	343,132	29%
Total drawn debt as a % of total capital	40%	36%	
Total capital	**1,098,421**	942,272	17%

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 2011, total shareholders' equity increased due to the exercise of options (Note 15) and an increase in net income for the period. Total debt increased from December 31, 2010 largely due to net capital spent in excess of cash flow in 2011.

17. FINANCIAL INSTRUMENTS AND 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:

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty fails to meet its contractual obligation, and arises principally from Birchcliff's receivables from joint venture partners and oil and natural gas marketers. 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, 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.

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 accounts receivable:

As at Dec. 31,	2011	2010
000's		
Marketers(1)	22,563	20,800
Joint interest partners and other	15,136	18,441
Total accounts receivable	**37,699**	39,241

1) At December 31, 2011, approximately 33% of the Corporation's total accounts receivable was due from one marketer (2010 – 22%, one marketer). During 2011, the Corporation received 13%, 49%, 14% and 14% of its revenue, respectively, from four core marketers. The Corporation received the majority of its revenue in 2010 from four marketers, who individually accounted for 14%, 43%, 14% and 14%, respectively.

Typically, Birchcliff's maximum credit exposure from its marketers 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 receivables 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 December 31, 2011, approximately $0.5 million or 1% (2010 – $0.4 million 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 interest partners. Birchcliff attempts to mitigate the credit risk from joint interest 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 interest partners as disagreements occasionally arise that increases the potential for non-collection. The Corporation does not typically obtain collateral from petroleum and natural gas marketers or joint interest partners; however, the Corporation does have the ability to withhold production from joint interest partners 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 income. 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 as at December 31, 2011 and 2010.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTRACTS (continued)

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 the 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 daily and is used to provide monthly cash flow estimates. Further, the Corporation utilizes authorizations for expenditures on both operated and non-operated projects to manage capital expenditure. The Corporation also attempts to match its payment cycle with collection of petroleum and natural gas revenue on the 25th of each month.

To facilitate the capital expenditure program, the Corporation has reserve-based bank credit facilities which are reviewed semi-annually by the lender. The principal amount utilized under the Corporation's total credit facilities at December 31, 2011 was $395.9 million (2010 – $342.2 million) and $124.1 million (2010 – $32.8 million) in unused credit was available at the end of the period to fund future obligations.

The following table lists the contractual obligations of the Corporation's financial liabilities at December 31, 2011:

000's	2012	2013	2014 - 2016
Accounts payable and accrued liabilities	88,602	–	–
Drawn revolving credit facilities	–	–	323,221
Drawn Non-Revolving Five-Year Term Facility	–	700	69,300
Total financial liabilities	**88,602**	**700**	**392,521**

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, if any. 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. Lower commodity prices can also reduce the Corporation's ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by Canadian ("**CDN**") and United States ("**US**") demand, but also by world events that dictate the levels of supply and demand.

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 years ended December 31, 2011 and 2010. The Corporation actively monitors the market to determine whether any commodity price risk management contracts are warranted.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTRACTS (continued)

Foreign currency risk:

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The exchange rate effect cannot be quantified but generally an increase in the value of the CDN dollar as compared to the US dollar will reduce the 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 years ended December 31, 2011 and 2010.

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 2011 would have increased (decreased) net income and comprehensive income by approximately $2.5 million (2010 - $1.8 million), assuming that all other variables remain constant. A sensitivity of 1% is considered reasonable given the current level of the bank prime rate and market expectations for future movements. The Corporation considers this risk to be limited and thus does not hedge its interest rate risk. The Corporation had no interest rate swap contracts in place as at or during the years ended December 31, 2011 and 2010.

Fair value of financial instruments:

Birchcliff's financial instruments include cash, accounts receivable, deposits, accounts payable and accrued liabilities and outstanding 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. The carrying value and fair value of financial instruments at December 31, 2011 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)	65	65	–	–
Loans and receivables:				
Accounts receivable(2)	37,699	37,699	–	–
Deposits(2)	1,611	1,611	–	–
Other liabilities:				
Accounts payable and accrued liabilities(2)	88,602	88,602	–	–
Drawn Non-Revolving Five-Year Term Facility(3)	70,000	70,000	–	2,113
Drawn revolving credit facilities(3)	323,221	323,221	–	15,392

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

2) Accounts receivable, deposits and accounts payable and accrued liabilities are reported at amortized cost. Due to the short term nature of accounts receivable, deposits and accounts payable and accrued liabilities, their carrying values approximate their fair values.

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 any remaining unamortized costs.

18. PER SHARE INFORMATION

Basic income per share was calculated as follows:

As at Dec. 31,	2011	2010
Net income *($000's)*	34,454	34,163
Weighted average common shares:		
Issued common shares at January 1	125,129,234	123,815,002
Exercise of stock options	1,153,676	814,759
Weighted average common shares (basic)	**126,282,910**	124,629,761
Income per share (basic)	**$0.27**	$0.27

Diluted income per share was calculated as follows:

As at Dec. 31,	2011	2010
Net income *($000's)*	34,454	34,163
Weighted average common shares:		
Weighted average common shares (basic)	126,282,910	124,629,761
Effects of outstanding options	5,161,968	3,890,307
Weighted average common shares (diluted)	**131,444,878**	128,520,068
Income per share (diluted)	**$0.26**	$0.27

The weighted average diluted common shares outstanding for 2011 excludes 429,000 (2010 – 2,886,200) of stock options that are anti-dilutive. The average market value of the Corporation's shares for the purpose of calculating the dilutive effect of stock options and performance warrants was based on average quoted market prices for the period that the options and warrants were outstanding.

19. 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 24% of the excess space to an arm's 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	Amount
$000's	
2012	3,187
2013	3,295
2014	3,295
2015	3,295
2016	3,295
2017	3,018

The Corporation is also committed to spend approximately $23.4 million in 2012 under various purchasing agreements relating to the construction of Phase III of its wholly owned Pouce Coupe South natural gas plant which would increase total processing capacity from 60 MMcf per day to 120 MMcf per day in the fourth quarter of 2012.

20. SUPPLEMENTARY CASH FLOW INFORMATION

Year ended Dec. 31,	2011	2010
000's		
Provided by (used in):		
Accounts receivable	1,542	(9,577)
Prepaid expenses and deposits	421	1,974
Accounts payable and accrued liabilities	37,882	(4,009)
	39,845	(11,612)
Provided by (used in):		
Operating	13,128	1,429
Investing	26,717	(13,041)
	39,845	(11,612)

21. CONTINGENT LIABILITY

The Corporation's 2006 and 2007 income tax filings have been reassessed by the Canada Revenue Agency ("**CRA**"). The reassessments are based on the CRA's determination that the tax pools available to Veracel Inc. ("**Veracel**"), prior to the amalgamation, ceased to be available to Birchcliff after the amalgamation. The tax pools under review total $39.3 million. Birchcliff has objected to the reassessments. The resolution of the disputed assessments may impact deferred income tax expense but will not impact cash taxes payable by the Corporation. Management believes that it will be successful in defending its tax position respecting the Veracel transaction, and as such, the Corporation has not recognized a related provision for deferred income tax liability at December 31, 2011.

22. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The IFRS accounting policies as disclosed in Note 3 of these financial statements have been applied in preparing the comparative financial statements as at and for the year ended December 31, 2010 and an opening Statement of Financial Position as at January 1, 2010 (the "**transition date**"). In preparing the 2010 comparative financial statements, the Corporation adjusted amounts previously reported in the annual financial statements prepared in accordance with Canadian GAAP.

IFRS 1 *First-time Adoption of IFRS* requires the presentation of comparative information as at the transition date and subsequent 2010 comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of certain IFRS policies as discussed below.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's financial position and financial performance is illustrated in the following reconciliations. Certain amounts in these financial statement reconciliations have been reclassified, where applicable, to conform to IAS 1 *Presentation of Financial Statements.*

Reconciliation of the statement of financial position from Canadian GAAP to IFRS:

As at Jan. 1, 2010	GAAP	Effect of transition to IFRS	Notes	IFRS
000's				
ASSETS				
Current assets:				
Cash	140	–		140
Accounts receivable	29,665	–		29,665
Prepaid expenses and deposits	4,635	–		4,635
	34,440	–		34,440
Non-current assets:				
Deferred financing fees	245	–		245
Deferred income taxes	–	1,152	(h)	1,152
Exploration and evaluation	–	640	(a)	640
Petroleum and natural gas properties and equipment	802,423	(640)	(a)	801,783
	802,668	1,152		803,820
Total assets	837,108	1,152		838,260
LIABILITIES				
Current liabilities:				
Accounts payables and accrued liabilities	54,731	–		54,731
Non-current liabilities:				
Revolving credit facilities	201,230	–		201,230
Decommissioning obligations	24,713	11,984	(b)	36,697
Deferred income taxes	1,873	(1,873)	(h)	–
	227,816	10,111		237,927
Total liabilities	282,547	10,111		292,658
SHAREHOLDERS' EQUITY				
Share capital	541,593	4,082	(g)	545,675
Contributed surplus	20,315	2,513	(c)	22,828
Deficit	(7,347)	(15,554)		(22,901)
	554,561	(8,959)		545,602
Total shareholders' equity and liabilities	837,108	1,152		838,260

Reconciliation of the statement of financial position from Canadian GAAP to IFRS:

As at Dec. 31, 2010	GAAP	Effect of transition to IFRS	Notes	IFRS
000's				
ASSETS				
Current assets:				
Cash	4,863	–		4,863
Accounts receivable	39,241	–		39,241
Prepaid expenses and deposits	2,661	–		2,661
	46,765	–		46,765
Non-current assets:				
Exploration and evaluation	–	1,540	(a)	1,540
Petroleum and natural gas properties and equipment	948,626	41,624	(a),(b),(d)-(f)	990,250
	948,626	43,164		991,790
Total assets	995,391	43,164		1,038,555
LIABILITIES				
Current liabilities:				
Accounts payables and accrued liabilities	50,721	–		50,721
Non-current liabilities:				
Revolving credit facilities	333,468	–		333,468
Decommissioning obligations	26,448	15,658	(b)	42,106
Deferred income taxes	7,631	5,489	(h)	13,120
	367,547	21,147		388,694
Total liabilities	418,268	21,147		439,415
SHAREHOLDERS' EQUITY				
Share capital	550,472	3,947	(g)	554,419
Contributed surplus	28,096	5,363	(c)	33,459
Retained earnings (deficit)	(1,445)	12,707		11,262
	577,123	22,017		599,140
Total shareholders' equity and liabilities	995,391	43,164		1,038,555

Reconciliation of the statement of net income and comprehensive income from Canadian GAAP to IFRS:

Year ended Dec. 31, 2010	GAAP	Effect of transition to IFRS	Notes	IFRS
000's				
REVENUE				
Petroleum and natural gas	189,978	–		189,978
Royalties	(16,933)	–		(16,933)
	173,045	–		173,045
EXPENSES				
Operating	36,745	(490)	(e)	36,255
Transportation and marketing	12,359	–		12,359
Administrative, net	20,714	2,780	(c),(f)	23,494
Depletion and depreciation	74,636	(23,120)	(e)	51,516
Finance	16,932	(419)	(b)	16,513
(Gain) on sale of assets	–	(15,528)	(d)	(15,528)
	161,386	(36,777)		124,609
INCOME BEFORE TAXES	11,659	36,777		48,436
Deferred income tax expense	5,757	8,516	(h)	14,273
NET INCOME AND COMPREHENSIVE INCOME	5,902	28,261		34,163

Reconciliation of the statement of cash flows from Canadian GAAP to IFRS:

Year ended Dec. 31, 2010	GAAP	Effect of transition to IFRS	Notes	IFRS
000's				
Cash provided by (used in):				
OPERATING				
Net income	5,902	28,261		34,163
Adjustments for items not affecting operating cash:				
Depletion and depreciation	74,636	(23,120)	(e)	51,516
Stock-based compensation	10,577	(2,820)	(c),(f)	7,757
Finance	16,932	(419)	(b)	16,513
(Gain) on sale of assets	–	(15,528)	(d)	(15,528)
Deferred income taxes	5,757	8,516	(h)	14,273
Interest paid	(13,453)	–		(13,453)
Decommissioning expenditures	(902)	–		(902)
Changes in non-cash working capital	1,429	–		1,429
	100,878	(5,110)		95,768
FINANCING				
Exercise of stock options	6,084	–		6,084
Deferred financing fees paid	(1,268)	–		(1,268)
Revolving credit facilities	32,104	–		132,104
	136,920	–		136,920
INVESTING				
Acquisition of petroleum and natural gas properties and equipment	(2,051)	–		(2,051)
Sale of petroleum and natural gas properties and equipment	17,511	–		17,511
Additions of exploration and evaluation assets	–	(878)	(a)	(878)
Development of petroleum and natural gas properties and equipment	(235,494)	5,988	(a),(b),(d)-(f)	(229,506)
Changes in non-cash working capital	(13,041)	–		(13,041)
	(233,075)	5,110		(227,965)
NET CHANGE IN CASH	4,723	–		4,723
CASH, BEGINNING OF YEAR	140	–		140
CASH, END OF YEAR	4,863	–		4,863

The following discussion explains the significant differences between Birchcliff's Canadian GAAP accounting policies and those applied by the Corporation under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters. The note captions below correspond to the adjustments presented in the preceding reconciliations.

In preparing the 2010 comparative financial statements in accordance with IFRS 1, the Corporation has applied the following optional exemptions from full retrospective application of IFRS:

- IFRS 1 – *Deemed Cost Election for Full Cost Oil and Gas Reporting Entities;*
- IFRS 2 – *Share-based Payments;* and
- IAS 37 – *Decommissioning Obligations*

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Corporation under Canadian GAAP are consistent with their application under IFRS. The remaining IFRS 1 exemptions were not applicable or material to the preparation of the Corporation's Statement of Financial Position at the date of transition to IFRS on January 1, 2010.

a) IFRS 1 *Deemed Cost Election for Full Cost Oil and Gas Reporting Entities:*

The Corporation has elected to use the IFRS 1 exemption, whereby the petroleum and natural gas properties and equipment balance, as determined under Canadian GAAP, is allocated to the IFRS categories of exploration and evaluation costs and development and production costs. Under the exemption, for assets in the development and production phases, the amounts were allocated (on an area basis) to the underlying IFRS transitional assets on a pro-rata basis using proved plus probable reserve volumes as of the transition date. Exploration and evaluation assets were recorded at amounts previously recorded under Canadian GAAP.

Under IFRS, exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. Development and production costs include those expenditures for areas where technical feasibility and commercial viability has been determined and are included in the general balance of petroleum and natural gas properties and equipment.

Exploration and evaluation assets at January 1, 2010 were deemed to be $0.6 million representing the unproved properties related to exploratory assets balance under Canadian GAAP. This resulted in a reclassification of $0.6 million from petroleum and natural gas properties and equipment to exploration and evaluation assets as at the transition date. As at December 31, 2010, the Corporation's exploration and evaluation assets totalled $1.5 million. These exploration activities were pending the determination of economic quantities of commercially producible proven reserves. As such, no costs have been reclassified from exploration and evaluation to petroleum and natural gas properties and equipment as at and during the year ended December 31, 2010.

The Corporation performed an impairment test on its exploration and evaluation assets and petroleum and natural gas properties and equipment to assess for recoverability. The recoverable amount of Birchcliff's assets were estimated based on discounted pre-tax cash flows from proved plus probable reserves, taking into consideration future commodity prices and future development costs, as obtained from the Corporation's independent reserve report. Based on the above assessment, Birchcliff's assets were not impaired on transition to IFRS and as at December 31, 2010.

b) Decommissioning obligations:

The Corporation has elected to measure decommissioning obligations (formerly known as asset retirement obligations under Canadian GAAP) on transition to IFRS in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and recognize directly in the deficit the difference between that amount and the carrying amount of those obligations determined under Canadian GAAP at the transition date. Because of the IFRS 1 deemed cost exemption described above, no adjustment to petroleum and natural gas properties and equipment was recorded on transition to IFRS. Under Canadian GAAP, accretion on decommissioning obligations was included in depletion and depreciation expense. Under IFRS, accretion expense is included in finance expenses.

b) Decommissioning obligations (continued):

Under Canadian GAAP, decommissioning obligations were discounted at a credit-adjusted risk-free rate of 8%. Under IFRS, the estimated cash flow to abandon and remediate both wells and facilities has been risk-adjusted and therefore the provision was discounted at a pre-tax risk-free rate of 4% at transition and during 2010 based on Government of Canada long-term bonds.

The application of IAS 37 resulted in a $12.0 million increase to decommissioning obligations with a corresponding increase to the Corporation's deficit at the date of transition. This resulted in a $3.0 million decrease to the deferred income tax liability with a corresponding decrease to the Corporation's deficit at the date of transition. Accretion expense decreased in 2010 by $0.4 million from the amounts previously recorded under Canadian GAAP.

c) Share-based payments:

The Corporation has elected to apply IFRS 2 *Share-based Payments* to equity instruments granted after November 7, 2002 that has not vested by the transition date. Under Canadian GAAP, stock-based compensation expense was disclosed as a separate line item in profit or loss. Under IFRS, stock-based compensation expense is included in administrative expenses.

Under Canadian GAAP, the fair value of stock options was calculated using a Black-Scholes option-pricing model for each option grant and the resulting expense was recognized on a straight-line basis over the three year vesting period at a rate of one-third on each anniversary date of the stock option grant. Forfeitures of stock options were recognized as they occurred.

Under IFRS, each vesting tranche of an option grant with different vesting dates was considered a separate grant for the calculation of fair value. This resulted in accelerated expense recognition which attributed higher stock-based compensation expense in early years of an option grant and less expense in later years. Birchcliff also applied an estimated forfeiture rate at the initial grant date. The forfeiture rate is taken into account by adjusting the number of stock options expected to vest under each vesting tranche and subsequently revising this estimate throughout the vesting period, as necessary. When determining the fair value of each vesting tranche under IFRS, Birchcliff applied an estimated weighted average option life for each respective tranche which reflects historical experiences. Under Canadian GAAP, the option life was equal to the expiry period of five years.

The application of IFRS 2 resulted in a $2.5 million increase to contributed surplus with a corresponding increase to the Corporation's deficit at the date of transition. Stock-based compensation expense increased in 2010 by $2.8 million from the amounts previously recorded under Canadian GAAP.

d) Gain on sale of assets:

Under Canadian GAAP, proceeds from the sale of assets were applied in full against petroleum and natural gas properties and equipment, with no gain or loss recognized, unless such a sale would change the rate of depletion and depreciation by 20 percent or more. Under IFRS, a gain or loss is recorded when petroleum and natural gas properties and equipment are sold. There was no impact of this policy on the transition date due to the IFRS 1 deemed cost exemption discussed above.

The above accounting policy difference resulted in a gain of $15.5 million, as a result of a sale of a minor non-producing asset in March 2010, with a corresponding increase to petroleum and natural gas properties and equipment in 2010. No gain or loss was recorded on the sale of these assets under Canadian GAAP.

e) Depletion and depreciation:

Under Canadian GAAP, the Corporation depleted the full cost pool based on the unit of production method using proved reserves for each country cost centre. Under IAS 16 *Property, Plant & Equipment,* the Corporation has elected to deplete its development and production costs (excluding plant turnaround costs) on an area basis using the unit of production method over proved plus probable reserves. Exploration and evaluation costs are not amortized under IFRS.

e) Depletion and depreciation (continued):

Under GAAP, plant turnaround costs were recognized as an expense in the period incurred and included in operating expenses in profit or loss. Under IFRS, plant turnaround costs are capitalized and depreciated on a straight-line basis over the estimated time until the next turnaround is completed.

The above accounting policy differences resulted in a decrease to depletion and depreciation of $23.1 million in 2010 from amounts previously reported under Canadian GAAP.

f) Administrative expenses:

Administrative expenses includes the total cash remuneration from salaries and benefits paid to directors, officers, employees and consultants of the Corporation, other general business expenses and non-cash stock-based compensation, net of any capitalized portions thereof. Under Canadian GAAP, "capitalized overhead" related to estimated time spent on capital projects by engineering, land, accounting and operations and was based on an industry standard overhead charge per Authorization for Expenditure. Stock-based compensation was not capitalized under Canadian GAAP. Under IFRS, capitalized overhead includes a portion of salaries and benefits that are "directly" attributable to the exploration and development of the Corporation's assets. This varies in some respects from the amounts recorded under Canadian GAAP. In addition, under IFRS, Birchcliff has capitalized a portion of stock-based compensation directly attributable to the exploration and development of its assets.

These accounting policy differences resulted in an increase to net general and administrative expenses (cash) by $5.6 million in 2010 from amounts previously reported under Canadian GAAP. In addition, the Corporation capitalized non-cash stock-based compensation totalling $5.5 million for 2010.

g) Share capital:

Under Canadian GAAP, the proceeds from the issuance of flow-through shares are recognized as shareholders' equity. The tax basis of assets related to expenditures incurred to satisfy flow-through share obligations is reduced when the renunciation of the related tax pools occurs which then increases the deferred income tax liability and reduces share capital.

Under IFRS, the amount recorded to share capital from the issuance of flow-through shares reflects the fair market value of "regular" common shares. The difference between the total value of a flow-through share issuance and the fair market value of regular common share issuance (premium) is initially accrued as a deferred obligation when the flow-through shares are issued. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, as the expenditures are incurred, a deferred tax liability is recorded equal to the estimated amount of deferred income taxes payable by the Corporation and the obligation on issuance of flow-through shares is reduced, and the difference is recognized in profit or loss. There is no impact to share capital on renunciation of flow-through shares.

The above accounting policy difference resulted in an increase to share capital of $4.3 million with a corresponding increase to deficit at the transition date. The Corporation had no deferred obligation with respect to the issuance of flow-through shares at the transition date.

h) Income taxes:

The adjustments discussed above resulted in a change in deferred income tax assets and liabilities based on Birchcliff's effective tax rate. The Corporation recorded a decrease in deferred tax liabilities of $3.0 million at January 1, 2010 and an increase in deferred tax liabilities of $5.5 million at December 31, 2010 from amounts previously reported under Canadian GAAP. Additional deferred income tax expense of $8.5 million was recorded under IFRS in 2010.

Corporate information:

OFFICERS

A. Jeffery Tonken
President & Chief Executive Officer

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

Bruno P. Geremia
Vice President & Chief Financial Officer

David M. Humphreys
Vice President, Operations

Karen A. Pagano
Vice President, Engineering

James W. Surbey
Vice President, Corporate Development

DIRECTORS

Larry A. Shaw(1)(2)(3)
Chairman of the Board
Calgary, Alberta

Gordon W. Cameron(1)(2)(3)
Calgary, Alberta

Kenneth N. Cullen(1)(2)(3)
Calgary, Alberta

Werner A. Siemens(1)(2)(3)
Calgary, Alberta

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

1) Member of the Audit Committee
2) Member of the Compensation Committee
3) Member of the Reserves Evaluation Committee

SHAREHOLDERS' MEETING

The Annual Meeting of Shareholders will be held at 3:00 pm on Wednesday, May 16th, 2012 in the Devonian Room of the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta.

Solicitors:
Borden Ladner Gervais LLP
Calgary, Alberta

Auditors:
KPMG LLP
Chartered Accountants
Calgary, Alberta

Reserves evaluator:
Deloitte & Touche LLP (AJM Deloitte)
Calgary, Alberta

Bankers:
The Bank of Nova Scotia
HSBC Bank Canada
Alberta Treasury Branch
Union Bank
The Toronto Dominion Bank

Transfer agent:
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Calgary, Alberta

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Thank you:
Birchcliff would like to thank Jerilyn McLeod for the beautiful photography in this 2011 annual report.
Executive portraits: Trudie Lee Photography

BIR TEAM

BRETTON ABERNETHY, DANIELLE ARMSTRONG, CAMILLE ASHTON, RAINER AUGSTEN, GATES AURIGEMMA, AL BASNETT, BILL BAXTER, CHARMAINE BELLEY, TIM BERG, AMBER BOISVERT, MYLES BOSMAN, BRADLEY BOUCK, DAVID BOYLE, JUDY BRAZER, PETER BRIMACOMBE, SHAUNA BRISBOIS, WAYNE BROWN, SCOTTY CAMERON, CHRIS CARLSEN, ROBERT CHARCHUK, DAVID CHRISTENSEN, BOB CLARK, WENDY CLAY, RORY COLLINS, LAURA CONROY, MIKE CORDINGLEY, KEN CULLEN, BRAD CULVER, KRYSTAL DAFOE, JODY DENIS, LEANNE DESBARATS, CINDY DESMARAIS, JESSE DOENZ, KELLEN DOENZ, RANDY DORSCHEID, KATHY FAIRBURN, LAURA FERGUSON, TRISHA FLANAGAN, TONYA FLEMING, GORDON FORBES, HEATHER FRAESE, GRANT FRIESEN, JARED FRIESEN, ALAN FRITZ, SHERRY FROST, GEORGE FUKUSHIMA, RANDY FUNDYTUS, BRUNO GEREMIA, MELINA GEREMIA, MELODIE GILKER, CHAD GODDARD, JOLANDA GOERTZEN, BOB GRISACK, LINDSAY GROPP, NEIL GUENTER, GRANT GUIDI, SARAH GUTHRIE, RATHA HALFORD, SAM HAMPTON, PAUL HAYWARD, KOLTEN HELGESEN, LORNA HILDEBRAND , JACK HINGLEY, JASEN HOLMSTROM, DARYL HUDAK, DAVE HUMPHREYS, MICHELLE JACKSON, DEREK JAMIESON, DAVE JOHNSON, STACY JOHNSON, DUSTIN KELM, CLAIRE KNIGHT, DIANE KNOBLAUCH, JOE KOCSIS, HEATHER KWIATKOWSKI, DANI LAIRD, BENO LANINGA, MELONY LAUZON, JOE LYSTE, BOB MACLEAN, DALLAS MACLEAN, TYSON MAGNOWSKI, DAN MASUCH, JEFF MCANDREWS, HOLLY MCFARLANE, DEB MCFEE, ANGIE MCGONIGAL, DARIN MCLARTY, JERILYN MCLEOD, DANIELLE MCPHEE, MELISSA MEYERS-FRASZ, AL MICHETTI, DEREK MICHETTI, CRISTIAN MOANGHER, ROY MODRALL, TYLER MONTPELLIER, RON MORGAN, SHAUN MOSKALYK, STEVE MUELLER, MCKENZIE MURDOCH, ED MURPHY, SARAH NANCE, JOANNE NEMETH, MICHAEL NG, MARCEL NJONGWE, TODD OIKLE, ANGELA OLIVIER, KAREN PAGANO, BRUCE PALMER, BILL PARTRIDGE, PAUL PASCO, DEAN PATERSON, BRENDA PEARSON, COLIN PENNER, BARRY PETERS, ALLAN PICKEL, LINDSAY POSTMA, DEREK RAE, USHA RAMANUJAM, TYLER REID, LYNN REID-BICKNELL, AIDAN RICHARDSON, DALE RICHARDSON, JIMMY ROCHE, MEGAN ROCHE, MICHELLE RODGERSON, JORDAN ROSSWORM, RICHARD ROUBLE, TODD SAJTOVICH, LEE SALLENBACH, VICTOR SANDHAWALIA, DON SCHAREIN, ANDREAS SCHEEL, MIRANDA SHARPE, LARRY SHAW, VERN SIEMENS, NICKOLAS SIZER, CRESTA SNOW, CHRIS SORENSON, MEREDITH ST. JOHN, BEN STEVENSON, BOB STINN, DARBY STOLK, TRACEY SUCHLANDT, JIM SURBEY, COREY THORSON, JEFF TONKEN, GILLIAN TOPPING, HUE TRAN, TAMMY TRAN, TREVOR TRUDEAU, KARA TURNER, THEO VAN DER WERKEN, CHAD VAN IDERSTINE, DAVID WALKER, MATTHEW WEISS, GREG WILLSON, DARYL WINNICKY, CHRIS WURZ, JOHN YEO, RHONDA YURCHYSHYN, STEVE ZYLINSKI, VINCE ZYLINSKI

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