November 9, 2011

Fellow Shareholders,

Birchcliff is pleased to report its third quarter financial and operating results for the three months ended September 30, 2011. In summary, Birchcliff had an extremely active quarter, drilling, constructing new facilities, completing new wells and adding new production. In addition, on October 3, 2011, Birchcliff announced the commencement of a corporate sale process, seeking offers to purchase all of the outstanding shares of Birchcliff. In conjunction with the announcement, Birchcliff announced its mid-year independent reserves evaluation and updated independent Montney/Doig resource assessment in its Press Release dated October 3, 2011. (Press control + click on link to access.)

Birchcliff is focused on the construction of the Phase III expansion of its 100% owned Pouce Coupe South Gas Plant (the "**PCS Gas Plant**"), that is scheduled to start-up by November 1, 2012, together with the planning and execution of the Montney/Doig Horizontal natural gas well drilling program that will be required for the start up of Phase III. The PCS Gas Plant Phase III expansion will increase processing capacity from 60 mmcf per day to 120 mmcf per day, which will allow Birchcliff to achieve a 2012 exit production rate of approximately 28,000 boe/day.

It is noteworthy that as a result of its continued drilling success, the addition of 8 (6.7 net) producing Montney/Doig horizontal natural gas wells since June 30, 2011 and other exploration and development drilling success, Birchcliff expects to add material reserves in all categories at year end 2011.

2011 THIRD QUARTER RESULTS

Production

Based on estimates from field reports, current production is approximately 19,400 boe/day.

Third quarter production averaged 17,648 boe/day, (75% natural gas and 25% light oil and natural gas liquids) up 35% from 13,109 boe/day in the third quarter of 2010. This significant increase in production volumes over the past year was primarily a result of Birchcliff's Montney/Doig horizontal natural gas drilling program and the completion of Phases I and II of the PCS Gas Plant in the Pouce Coupe area. We also achieved drilling successes in both the Worsley area and our East area.

As a result of severely abnormal weather conditions, including a significant amount of rain and flooding, and frequent unexpected third party processing outages, Birchcliff expects its forecast yearly average production to be between 18,100 and 18,200 boe/day; slightly below its previous guidance of 18,500 boe/day.

Cash Flow and Earnings

Cash flow was $33.8 million or $0.27 per share for the third quarter of 2011, as compared to $22.8 million or $0.18 per share in the third quarter of 2010. Net income during the third quarter was $11.4 million ($0.09 per share) as compared to $5.5 million ($0.04 per share) during the third quarter of 2010. Earnings were also ahead of the second quarter of 2011.

We are very pleased that we continue to have significant earnings during a quarter of low natural gas prices. This is reflective of both the low finding cost nature of our asset base, as a result of our growth having been through the drill bit, and the low operating costs per boe we achieve from our owned and operated facilities.

Capital Expenditures and Drilling Results

During the third quarter of 2011, net capital spending aggregated $72 million. The specific breakdown of our capital expenditure program is contained in the Capital Expenditure section of our Management's Discussion and Analysis.

During the third quarter of 2011, Birchcliff drilled 19 (15.4 net) wells, all of which were cased, for a success rate of 100%. These wells included 5 (4.9 net) Montney/Doig horizontal natural gas wells and 6 (6.0 net) Worsley horizontal light oil wells, 7 (3.5 net) Doe Creek light oil wells and one successful 100% working interest acid gas disposal well for the Phase III expansion of the PCS Gas Plant.

Operating Costs

During the quarter, a greater proportion of Birchcliff's natural gas production was processed at its 100% owned PCS Gas Plant, which resulted in a reduction in corporate operating costs per boe to $6.39.

In addition, we expect to maintain our low operating costs per boe as we maximize our volume through-put at the PCS Gas Plant, assuming we see improved run times at the third party facilities that process some of our gas production.

For further details regarding our operating costs, please refer to the disclosures under the heading "PCS Gas Plant Operating Netback" in Management's Discussion and Analysis set forth below.

Indebtedness

At September 30, 2011, the amount outstanding under Birchcliff's bank credit facilities was approximately $359.3 million. Birchcliff's working capital deficiency as at September 30, 2011 was $27.0 million, for total debt of $386.3 million. Under our banking arrangements, the working capital deficiency does not reduce the amount Birchcliff can draw under its credit facilities.

In May 2011, Birchcliff's bank syndicate increased Birchcliff's total credit facilities to an aggregate limit of $520 million. The facilities include a $450 million revolving credit facility with a two year term out feature. If the credit facilities are not renewed at their annual renewal date, they convert to a two year term loan repayable at maturity. The second facility is a $70 million non-revolving 5 year term credit facility. This credit facility will be used primarily to fund the construction of the Phase lll expansion of the PCS Gas Plant.

We anticipate significant reserve additions for the 2011 year and therefore we expect that Birchcliff's credit facilities will be further materially increased at the next annual review in May 2012.

Land

Birchcliff continues to have a substantial undeveloped land base in the Peace River Arch, which at September 30, 2011 was comprised of 528,703 (489,938 net) acres.

Birchcliff's average working interest in its undeveloped land base is approximately 93%, which reflects our long standing strategy of acquiring high working interest undeveloped land proximate to our operated high working interest production base.

OPERATIONS UPDATE

Currently, Birchcliff has 4 rigs working of which 2 rigs are in the Pouce Coupe area drilling horizontal Montney/Doig natural gas wells, 1 rig is active on our Worsley Light Oil Resource Play drilling Charlie Lake light oil wells, and 1 rig is drilling an exploration well at Sinclair.

To date in 2011, Birchcliff has drilled 44 (36.7 net) wells.

Montney/Doig Natural Gas Resource Play Update

In the third quarter of 2011, Birchcliff's activities on the Montney/Doig Natural Gas Resource Play included the drilling of 5 (4.9 net) horizontal natural gas wells utilizing multi-stage fracture stimulation techniques. Of these wells 1 (1.0 net) well was an exploration well that was successful in finding a new pool, the other 4 (3.9 net) wells were development wells.

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

Birchcliff's strategy for the Montney/Doig Natural Gas Resource Play has evolved into a full cycle, exploration, exploitation, development and production program. We continue to aggressively add to our undeveloped land inventory, we continue to build out our infrastructure, we are now drilling infill wells on 300 meter inter-well spacing. Further evaluation is being conducted to support down spacing to less than 300 meters, as has been done by other competitors on the play.

At June 30, 2011, Birchcliff had a total of 550 (494.0 net) sections of land that it believes have potential for the Montney/Doig Resource Play of which proved and probable reserves have been attributed to 104.6 net sections, only 21% of the 494 net sections. Birchcliff's lands provide in excess of 1,900 net potential Montney/Doig horizontal natural gas drilling locations of which only 16% have been assigned proved plus probable reserves in the reserves evaluation dated September 23, 2011 which was prepared by AJM Deloitte ("**AJM**") as at June 30, 2011 (the "**AJM Evaluation**").

Of these locations only 66 (55.1 net) wells have been drilled to date. In the AJM Evaluation, AJM attributed Montney/Doig reserves to 43.8 net wells and 255.4 net future drilling locations.

Birchcliff continues to explore to geographically and stratigraphically expand the Montney/Doig Natural Gas Resource Play. Of the wells drilled to date in 2011 on the play, 5 (5.0 net) horizontal wells were exploratory in nature and successfully found new pools and proved new lands. Birchcliff continues to expand its infrastructure to control the play and reduce operating costs per boe. This provides economic efficiencies as well as strategic control and reserve capture in the area.

Mid Year Reserves Evaluation and Montney/Doig Resource Assessment

During the third quarter Birchcliff received the following reports from AJM Deloitte:

> Reserves Evaluation dated September 23, 2011, which evaluated all of Birchcliff's reserves as at June 30, 2011; and
>
> Montney/Doig Resource Assessment dated September 30, 2011, which assessed the resources existing on Birchcliff's Montney/Doig lands as at June 30, 2011.

Details of both of these Reports were disclosed in Birchcliff's Press Release dated October 3, 2011. (Press control + click on link to access.)

Pouce Coupe South Gas Plant Update - *Phase III and Phase IV Expansions*

Birchcliff is well underway in planning for construction of the Phase III expansion of the PCS Gas Plant. The engineering and design work is currently being completed and procurement of all major components is well underway. Contracts have been awarded for all major skid packages and shop fabrication has commenced. Field construction is planned to start in the spring of 2012. Phase III is scheduled to start-up by November 1, 2012.

In order to continue to develop its large resource base, Birchcliff has commenced the internal process to obtain regulatory approval for a Phase IV expansion of the PCS Gas Plant which would increase the processing capacity from 120 mmcf per day to 240 mmcf per day.

Worsley Light Oil Resource Play Update

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.

To date in 2011, Birchcliff has drilled 14 (14.0 net) horizontal and 1 (1.0 net) vertical successful development oil well in the Worsley Light Oil Resource Play. Our 2011 drilling program to date has successfully delineated and extended the pool to the west and south, which increased our estimate of original oil in place. With this success, a sizeable number of follow up locations have been identified. The June 30, 2011 AJM Evaluation identified 112 proven plus probable drilling locations. The water flood response is meeting our expectations and we are committed to further expansion of the water flood area, particularly in the south east area of the pool. On the Worsley Light Oil Resource Play, both the original oil in place and the estimated recoverable reserves for the pool continues to grow from July 1, 2007, the date we originally acquired this property.

New Resource Plays

In Birchcliff's focus area of the Peace River Arch, numerous industry competitors have announced significant developments on a number of different resource plays. Throughout 2010 and continuing through 2011 there have been significant lands posted and acquired by industry in the Peace River Arch area and numerous new wells have been drilled and completed by competitors targeting these new resource plays.

Birchcliff continues to spend significant time analyzing and evaluating various new resource plays in the Peace River Arch.

Birchcliff recently disclosed its land positions that are prospective for the developing resource plays noted below.

Nordegg Resource Play	720 (616.4 net) sections
Banff/Exshaw Resource Play	661 (648.0 net) sections
Duvernay Resource Play	198 (196.4 net) sections

As is consistent with our corporate strategy, the majority of this land is in 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.

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

BC LNG Export Co-Operative

Birchcliff has recently become one of the Founding Members in the BC LNG Export Co-Operative which is involved with Douglas Channel Energy Partnership in the development of a small scale LNG export project in Kitimat, British Columbia (the "**Project**") with a planned start-up by early 2014. As a Founding Member of the Co-Operative, Birchcliff will be entitled to bid to supply feed gas for the Project on such terms as Birchcliff considers appropriate at the relevant time.

Birchcliff has not undertaken and does not expect to undertake any financial obligations in respect of the Project, other than pursuant to gas supply contracts that may be entered into. The first phase of this Project is expected to need approximately 95 mmcf/day of feed gas and the volumes that may be supplied by Birchcliff will depend on whether Birchcliff's gas supply bids are sufficiently competitive to be accepted.

OUTLOOK

Birchcliff believes that a public sale process is the appropriate course of action to attract a reasonable offer to purchase its shares. It is an open process that provides our staff, shareholders and stakeholders with full transparency.

Birchcliff is enjoying record production, our reserve growth is exceptional and our current drilling programs provide further optimism that we can continue to meet our development goals. We have the unwavering support of Mr. Schulich, our largest shareholder. Birchcliff is well capitalized and has an excellent relationship with our Banking Syndicate. The Birchcliff executive team is a close knit group of professionals whose interests are aligned with our shareholders. Birchcliff's staff, our most important asset, is a motivated, highly trained group of professionals who strive to be the best in the industry.

In short, if Birchcliff receives a reasonable bid, the resulting sale will create value for our shareholders. In the event the sale process is not successful, we are very well positioned to execute our business plan with exceptional enthusiasm and a very large and stable asset base.

(signed) "A. Jeffery Tonken"

A. Jeffery Tonken
President and Chief Executive Officer

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended September 30, 2011	Three months ended September 30, 2010	**Nine months ended September 30, 2011**	Nine months ended September 30, 2010
OPERATING				
Average daily production				
Light oil – barrels	4,050	2,973	3,796	3,017
Natural gas – thousands of cubic feet	78,996	57,924	79,420	51,238
NGLs – barrels	432	483	539	411
Total – barrels of oil equivalent (6:1)	**17,648**	**13,109**	**17,571**	**11,968**
Average sales price ($ Canadian)				
Light oil – per barrel	86.40	76.44	90.68	77.54
Natural gas – per thousand cubic feet	3.92	3.79	4.03	4.34
NGLs – per barrel	84.25	68.30	87.45	71.29
Total – barrels of oil equivalent (6:1)	**39.42**	**36.60**	**40.47**	**40.60**
Undeveloped land				
Gross (acres)	528,703	480,917	528,703	480,917
Net (acres)	489,938	437,169	489,938	437,169
NETBACK AND COST				
($ per barrel of oil equivalent at 6:1)				
Petroleum and natural gas revenue	39.46	36.59	40.51	40.68
Royalty expense	(4.19)	(2.95)	(4.55)	(3.84)
Operating expense(1)	(6.39)	(7.33)	(6.70)	(7.95)
Transportation and marketing expense	(2.71)	(2.60)	(2.63)	(2.60)
Netback(1)	**26.17**	**23.71**	**26.63**	**26.29**
General & administrative expense, net(1)	(2.97)	(2.00)	(2.91)	(2.75)
Interest expense	(2.36)	(2.85)	(2.79)	(2.92)
Cash Flow Netback(1)	**20.84**	**18.86**	**20.94**	**20.62**
Stock-based compensation expense, net(1)	(1.46)	(0.93)	(1.40)	(1.98)
Depletion and depreciation expense(1)	(10.97)	(10.68)	(10.41)	(10.82)
Accretion expense(1)	(0.27)	(0.30)	(0.28)	(0.32)
Amortization of deferred financing fees	(0.12)	(0.21)	(0.14)	(0.43)
Gain on sale of assets(1)	1.88	-	0.45	4.75
Deferred income tax expense(1)	(2.86)	(2.15)	(2.67)	(3.64)
Net Income(1)	**7.03**	**4.59**	**6.49**	**8.18**
FINANCIAL				
Petroleum and natural gas revenue ($000)	64,069	44,125	194,326	132,906
Cash flow ($000)(1)(2)	33,844	22,750	100,426	67,375
Per share – basic ($)(1)(2)	0.27	0.18	0.80	0.54
Per share – diluted ($)(1)(2)	0.26	0.18	0.77	0.52
Net income ($000)(1)	11,411	5,533	31,121	26,732
Per share – basic ($)(1)	0.09	0.04	0.25	0.21
Per share – diluted ($)(1)	0.09	0.04	0.24	0.21
Common shares outstanding				
End of period – basic	126,679,577	124,912,134	126,679,577	124,912,134
End of period – diluted	140,149,250	137,364,386	140,149,250	137,364,386
Weighted average shares for period – basic	126,630,446	124,872,806	126,131,596	124,506,757
Weighted average shares for period – diluted(1)	131,374,723	128,338,449	131,000,989	128,432,887
Capital expenditures, net ($000)(1)	71,978	92,520	156,457	169,194
Working capital deficiency ($000)	26,990	38,749	26,990	38,749
Non-revolving term credit facilities ($000)	68,811	-	68,811	-
Revolving credit facilities ($000)	290,495	281,172	290,495	281,172
Total debt ($000)	386,296	319,921	386,296	319,921

(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 Condensed Statements of Cash Flows before the effects of changes in non-cash working capital and decommissioning expenditures related to operating activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The following Management's Discussion and Analysis ("**MD&A**") is dated November 9, 2011. The unaudited condensed financial statements with respect to the three and nine months ended September 30, 2011 (the "**Reporting Periods**") as compared to the three and nine months ended September 30, 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 unaudited condensed financial statements of the Corporation and related notes for the Reporting Periods. All financial information is expressed in thousands of Canadian dollars, unless otherwise stated.

Adoption of International Financial Reporting Standards ("IFRS")

Birchcliff's financial statements and the financial data included in this MD&A have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("**IASB**") and interpretations of the International Financial Reporting Interpretations Committee that are expected to be 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 interim and annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("**Canadian GAAP**").

The IFRS accounting polices set forth in Note 3 of the unaudited condensed financial statements for the period ended March 31, 2011 have been applied in preparing the financial statements for the Reporting Periods and Comparable Prior Periods. Note 19 to the condensed financial statements for the Reporting Periods 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. 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.

Comparative information in this MD&A has been restated to comply with IFRS requirements, unless otherwise indicated.

THIRD QUARTER OVERALL PERFORMANCE

Production

Production in the third quarter of 2011 averaged 17,648 boe per day. This is a 35% increase from the 13,109 boe per day in the third quarter of 2010. This increase was largely achieved through the success of Birchcliff's Montney/Doig horizontal natural gas drilling program and the ability to process new or incremental natural gas through Phase II of Birchcliff's 100% owned and operated Pouce Coupe South Gas Plant ("**PCS Gas Plant**"), which commenced operation in November of 2010.

Production consisted of approximately 75% natural gas and 25% crude oil and natural gas liquids in the third quarter of 2011 (74% natural gas and 26% crude oil and natural gas liquids in the third quarter of 2010).

Commodity Prices

Oil sales prices at the wellhead averaged $86.40 per barrel in the current quarter, a 13% increase from the $76.44 per barrel in the third quarter of 2010. Natural gas sales prices at the wellhead averaged $3.92 per mcf in the third quarter of 2011, a 3% increase from the $3.79 per mcf the Corporation averaged in the third quarter of 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 hedges in place and is therefore subject to fluctuations in commodity prices.

Canadian Edmonton Par oil prices averaged $91.74 per barrel in the third quarter of 2011 as compared to $74.43 per barrel in the third quarter of 2010. The AECO daily natural gas spot price averaged $3.66 per mcf in the third quarter of 2011 as compared to $3.54 per mcf in the third quarter of 2010.

PCS Gas Plant Operating Netback

The estimated operated netback for Birchcliff's Montney/Doig gas wells producing to Phases I and II of the PCS Gas Plant was approximately $3.33 per mcf ($19.98 per boe) during the nine months ended September 30, 2011 while AECO daily natural gas spot price averaged $3.78 per mcf during that same period. The following table details Birchcliff's net production and operating netback for Phases I and II of the PCS Gas Plant for the nine months ended September 30, 2011.

		Nine months ended September 30, 2011[(2)]
PRODUCTION		
Average daily production:		
Natural gas – thousands of cubic feet		38,414
NGLs – barrels		91
Total – barrels of oil equivalent (6:1)		**6,493**
NETBACK AND COST	**$/mcfe**	**$/boe**[(3)]
Petroleum and natural gas revenue	4.15	24.91
Royalty expense	(0.33)	(1.99)
Operating expense, net of recoveries	(0.20)	(1.22)
Transportation and marketing expense	(0.29)	(1.72)
Estimated Netback[(1)]	**3.33**	**19.98**

(1) The estimated 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.

(2) Phases I and II of the PCS Gas Plant commenced operations in March and November 2010, respectively, and therefore the 2010 comparative period is not applicable.

(3) Based on a boe and mcfe conversion ratio of six thousand cubic feet (6 mcf) of natural gas to one barrel of oil (1 bbl).

Cash Flow and Earnings

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2011	2010	**2011**	2010
Cash provided by operating activities	30,868	26,292	93,814	63,128
Adjustments:				
Decommissioning expenditures	30	136	708	331
Changes in non-cash working capital	2,946	(3,678)	5,904	3,916
Cash flow[(1)]	**33,844**	22,750	**100,426**	67,375
Per share – basic ($)	0.27	0.18	0.80	0.54
Per share – diluted ($)	0.26	0.18	0.77	0.52

(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 Condensed Statements 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 49% increase in aggregate cash flow from each of the three and nine months ended September 30, 2010 was largely due to increased average daily production and higher average oil prices realized at the wellhead, offset by 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 three and nine months ended September 30, 2011 as compared to the same periods in 2010.

Despite low natural gas prices, Birchcliff has reported net income in each of its eight recently completed quarters. Birchcliff recorded net income of $11.4 million ($0.09 per share) in the current quarter as compared to $5.5 million ($0.04 per share) in the third quarter of 2010. The increase in net income from the comparative quarter was mainly attributable to higher cash flow, offset by an increase in depletion expense due to higher average daily production in the current quarter.

Capital Expenditures

Total capital expenditures (excluding minor acquisitions and dispositions) in the third quarter of 2011 were $73.7 million as compared to $90.5 million in the third quarter of 2010. Of the $73.7 million in total capital spent during the current quarter, approximately $21.4 million (29%) was allocated 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 $3.0 million (4%) on the initial construction of the Phase III expansion of the PCS Gas Plant. The remaining $49.3 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 the third quarter of 2011 are set forth in the table entitled "Capital Expenditures" in this MD&A.

OUTLOOK

Sale Process

On October 3, 2011, the Corporation announced that as a result of unsolicited expressions of interest in Birchcliff, the Board of Directors has determined to commence a public sale process. Birchcliff is seeking offers to purchase all the outstanding common shares of the Corporation.

Production

Birchcliff's 2011 average production is expected to be between 18,100 and 18,200

boe per day, slightly below its previously announced guidance of 18,500 boe per day. This forecast production rate is dependent on the continued success of Birchcliff's capital program in the fourth quarter of 2011.

Birchcliff's exit production rate in 2012 is expected to be approximately 28,000 boe per day once Phase III expansion of the PCS Gas Plant has been completed and becomes operational by November 1, 2012. This estimate is a function of how much third party gas will be processed in the PCS Gas Plant, the extent of production growth from the Worsley Light Oil Resource Play in 2012, the performance of our base production and the total capital program for 2012, which is yet to be determined.

Capital Expenditures

In May 2011, the Corporation expanded the 2011 capital spending program to $227 million, up from its previously announced capital budget of $159 million. The expanded capital spending program is focused on the initial construction of Phase III of the PCS Gas Plant and the drilling of Montney/Doig horizontal natural gas wells to fill Phase III, increased 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. The Corporation's operating cash flow and increased aggregate credit facilities will be used to fund the expanded capital spending program.

Cash Flow and Bank Debt

In May 2011, the Corporation's bank syndicate increased its aggregate maximum credit limit from $375 million to $520 million. The increased credit limit will provide Birchcliff with greater liquidity and financial flexibility to further increase the natural gas processing capacity of the PCS Gas Plant to 120 mmcf per day and to continue to develop and expand the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play. 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 the fourth quarter of 2011 and into 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, minor asset dispositions and increased borrowing base limit from its credit facilities. 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 start-up by November 1, 2012. The Corporation's operating cash flow and increased aggregate credit facilities will be used to fund the Phase III expansion and related infrastructure and the drilling of Montney/Doig horizontal natural gas wells that will produce to the PCS Gas Plant. The 100% owned and operated PCS Gas Plant will continue to increase the value of the Montney/Doig Natural Gas Resource Play by allowing for increased production growth, reduced 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 affect cash flow, thus dictating the pace at which Birchcliff invests in its resource plays and the rate at which its production will grow. Birchcliff has a long term view of the development of its resource plays 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 applicable to 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 $26.9 million at September 30, 2011 from $4.0 million at December 31, 2010. The deficit at the end of the current period is mainly comprised of costs incurred on the drilling, completing, equipping and tie-in of new wells during the third quarter of 2011.

At September 30, 2011, the major components of Birchcliff's current assets were: joint interest billings (35%) to be received from its partners; and revenue (58%) to be received from its marketers in respect of September 2011 production, which was subsequently received in October 2011. In contrast, current liabilities largely consisted of trade payables (67%) and accrued capital and operating costs (26%).

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 $386.3 million at September 30, 2011 from $337.4 million at December 31, 2010. The increase in total debt from the end of 2010 was largely a result of $56.0 million in total capital expended during the nine month Reporting Period in excess of cash flow during that same period. The amount outstanding on Birchcliff's total available bank credit facilities at September 30, 2011 was $359.3 million (December 31, 2010 – $333.5 million), which is net of $4.9 million (December 31, 2010 – $5.7 million) in unamortized interest and fees. A significant portion of the funds drawn under the bank credit facilities in the Reporting Periods was directed to the drilling and completion of new Montney/Doig horizontal natural gas wells and to our Worsley Light Oil Resource Play.

The following table shows the Corporation's total available credit at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
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]	(294,204)	(339,176)
Outstanding letters of credit[4]	(2,668)	(3,014)
	(366,872)	(342,190)
Total unused credit	**153,128**	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 periods ended September 30, 2011 and December 31, 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 the current period consists of approximately $30.2 million (December 31, 2010 - $5.2 million) drawn on the Working Capital Facility (including outstanding cheques) and $264 million (December 31, 2010 - $334 million) drawn on 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 periods ended September 30, 2011 and December 31, 2010.

Contractual Obligations

The Corporation enters into contractual obligations in the course of conducting its day-to-day business. The following table lists Birchcliff's estimated material contractual obligations at September 30, 2011:

	2011	**2012**	**2013 - 2015**	**Thereafter**
Accounts payable and accrued liabilities	61,658	-	-	-
Drawn Non-Revolving Five-Year Term Facility	-	-	3,500	66,500
Drawn Revolving Credit Facilities	-	-	294,204	-
Office lease[1]	777	3,118	9,675	6,182
Transportation and processing	3,986	16,898	33,411	-
Total estimated contractual obligations[2]	**66,421**	**20,016**	**340,790**	**72,682**

(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) Contractual commitments that are routine in nature and form part of the normal course of operations for Birchcliff are not included in the above table.

OUTSTANDING SHARE DATA

The common shares of Birchcliff are the only class of shares outstanding. Birchcliff's common shares began trading on the TSX on July 21, 2005 under the symbol "**BIR**" and were at the same time de-listed from the TSX Venture Exchange where they were trading under the same symbol prior to such time. Birchcliff's common shares are included in the Standard and Poor's S&P/TSX Composite Index. The following table summarizes the common shares issued in the Reporting Periods:

	Common Shares
Balance at December 31, 2010	125,129,234
Issue of common shares upon exercise of options	998,010
Balance at March 31, 2011	126,127,244
Issue of common shares upon exercise of options	369,433
Balance at June 30, 2011	126,496,677
Issue of common shares upon exercise of options	182,900
Balance at September 30, 2011	**126,679,577**

At November 9, 2011, there were outstanding 126,745,577 common shares, stock options to purchase 10,468,441 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 $64.1 million ($39.46 per boe) for the three month Reporting Period and $194.3 million ($40.51 per boe) for the nine month Reporting Period as compared to $44.1 million ($36.59 per boe) and $132.9 million ($40.68 per boe) for the Comparable Prior Periods. The increase in aggregate P&NG revenues from the 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 nine month Reporting Period. The following table details Birchcliff's P&NG revenues, production, percentage of production and sales prices by category for the Reporting Periods and Comparable Prior Periods:

	Three months ended September 30, 2011				Three months ended September 30, 2010			
	Total Revenue ($000's)	Average Daily Production	%	Average ($/unit)	Total Revenue ($000's)	Average Daily Production	%	Average ($/unit)
Light oil (bbls)	32,192	4,050	23	86.40	20,904	2,973	23	76.44
Natural gas (mcf)	28,469	78,996	75	3.92	20,199	57,924	74	3.79
Natural gas liquids (bbls)	3,351	432	2	84.25	3,033	483	3	68.30
Total P&NG sales	64,012	**17,648**	100	39.42	44,136	13,109	100	36.60
Royalty revenue	57			0.04	(11)			(0.01)
Total P&NG revenues	**64,069**			**39.46**	44,125			36.59

	Nine months ended September 30, 2011				Nine months ended September 30, 2010			
	Total Revenue ($000's)	Average Daily Production	%	Average ($/unit)	Total Revenue ($000's)	Average Daily Production	%	Average ($/unit)
Light oil (bbls)	93,959	3,796	22	90.68	63,862	3,017	25	77.54
Natural gas (mcf)	87,318	79,420	75	4.03	60,770	51,238	72	4.34
Natural gas liquids (bbls)	12,864	539	3	87.45	8,003	411	3	71.29
Total P&NG sales	194,141	**17,571**	100	40.47	132,635	11,968	100	40.60
Royalty revenue	185			0.04	271			0.08
Total P&NG revenues	**194,326**			**40.51**	132,906			40.68

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 September 30, 2011	Three months ended September 30, 2010	**Nine months ended September 30, 2011**	Nine months ended September 30, 2010
Average natural gas sales price ($/mcf)	3.92	3.79	4.03	4.34
Average AECO daily spot price ($/mmbtu) (1)	3.66	3.54	3.78	4.13
Positive differential	**0.26**	0.25	**0.25**	0.21

(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 $6.8 million ($4.19 per boe) for the three month Reporting Period and $21.8 million ($4.55 per boe) for the nine month Reporting Period as compared to $3.6 million ($2.95 per boe) and $12.5 million ($3.84 per boe) for the Comparable Prior Periods. Royalties are paid to the Alberta Government and other land and mineral rights owners. The following table illustrates the Corporation's royalty expense for the Reporting Periods and Comparable Prior Periods:

	Three months ended September 30, 2011	Three months ended September 30, 2010	**Nine months ended September 30, 2011**	Nine months ended September 30, 2010
Oil & natural gas royalties ($000's)	**6,804**	3,561	**21,804**	12,545
Oil & natural gas royalties ($/boe)	**4.19**	2.95	**4.55**	3.84
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 revenues for the period.

The increase in the effective royalty rate from the three month Comparable Prior Period was due to a combination of lower royalty credits against natural gas royalties payable and higher average oil prices in the current quarter 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 at the wellhead. Lower natural gas prices reduced the Crown facility effective royalty rates that are used to determine the Gas Costs Allowance credits in the current reporting period.

There have been no significant changes to Alberta's royalty framework since December 31, 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 $10.4 million ($6.39 per boe) for the three month Reporting Period and $32.1 million ($6.70 per boe) for the nine month Reporting Period as compared to $8.8 million ($7.33 per boe) and $25.9 million ($7.95 per boe) for the Comparable Prior Periods. The following table compares operating costs for the Reporting Periods and Comparable Prior Periods:

	Three months ended September 30, 2011		Three months ended September 30, 2010	
	($000's)	$/boe	($000's)	$/boe
Field operating costs	12,194	7.51	9,907	8.21
Recoveries	(1,740)	(1.07)	(1,548)	(1.28)
Field operating costs, net	10,454	6.44	8,359	6.93
Expensed workovers and other	(72)	(0.04)	477	0.40
Total operating costs	**10,382**	**6.39**	8,836	7.33

	Nine months ended September 30, 2011		Nine months ended September 30, 2010	
	($000's)	$/boe	($000's)	$/boe
Field operating costs	37,324	7.78	29,128	8.92
Recoveries	(5,553)	(1.16)	(3,982)	(1.22)
Field operating costs, net	31,771	6.62	25,146	7.70
Expensed workovers and other	363	0.08	800	0.25
Total operating costs	**32,134**	**6.70**	25,946	7.95

Operating costs per boe decreased by 13% and 16% from the three and nine month Comparable Prior Periods largely due to the operating 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 Comparable Prior Periods mainly due to a 36% and 55% increase in average daily natural gas production in the three and nine month Reporting Periods.

Birchcliff continues to focus on controlling and reducing operating costs on a per boe basis.

Transportation and Marketing Expenses

Transportation and marketing expenses were $4.4 million ($2.71 per boe) for the three month Reporting Period and $12.6 million ($2.63 per boe) for the nine month Reporting Period as compared to $3.1 million ($2.60 per boe) and $8.5 million ($2.60 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 oil production, which has higher associated trucking charges, and an increase in natural gas production.

Administrative Expenses

Net administrative expenses were $7.2 million ($4.43 per boe) for the three month Reporting Period and $20.7 million ($4.31 per boe) for the nine month Reporting Period as compared to $3.5 million ($2.93 per boe) and $15.5 million ($4.73 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 September 30, 2011		Three months ended September 30, 2010	
	($000's)	%	($000's)	%
Cash:				
Salaries and benefits(1)	3,273	52	2,584	56
Other	2,969	48	1,997	44
	6,242	100	4,581	100
Operating overhead recoveries	(235)	(4)	(311)	(7)
Capitalized overhead(2)	(1,186)	(19)	(1,863)	(41)
General & administrative, net	4,821	77	2,407	52
General & administrative, net per boe	$2.97		$2.00	
Non-cash:				
Stock-based compensation	3,648	100	3,052	100
Capitalized stock-based compensation(2)	(1,270)	(35)	(1,935)	(63)
Stock-based compensation, net	2,378	65	1,117	37
Stock-based compensation, net per boe	$1.46		$0.93	
Total administrative expenses, net	**7,199**		3,524	
Total administrative expenses, net per boe	**$4.43**		$2.93	

	Nine months ended September 30, 2011		Nine months ended September 30, 2010	
	($000's)	%	($000's)	%
Cash:				
Salaries and benefits(1)	9,751	54	7,905	57
Other	8,305	46	5,975	43
	18,056	100	13,880	100
Operating overhead recoveries	(797)	(4)	(944)	(7)
Capitalized overhead(2)	(3,295)	(18)	(3,941)	(28)
General & administrative, net	13,964	78	8,995	65
General & administrative, net per boe	$2.91		$2.75	
Non-cash:				
Stock-based compensation	10,087	100	10,565	100
Capitalized stock-based compensation(2)	(3,379)	(33)	(4,093)	(39)
Stock-based compensation, net	6,708	67	6,472	61
Stock-based compensation, net per boe	$1.40		$1.98	
Total administrative expenses, net	**20,672**		15,467	
Total administrative expenses, net per boe	**$4.31**		$4.73	

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

(2) Includes a portion of salaries and benefits and stock-based compensation that are directly attributable to the exploration and development of the Corporation's assets that 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 quarter over quarter. On a per boe basis, net administrative expenses decreased from the nine month Comparable Prior Period mainly due to additional production volumes added from Phases I and II of the PCS Gas Plant.

A summary of the Corporation's outstanding stock options at September 30, 2011 is presented below:

	Number	Weighted Average Exercise Price ($)
Outstanding, December 31, 2010	9,247,520	7.26
Granted	2,767,900	11.35
Exercised	(998,010)	(5.22)
Forfeited	(121,302)	(7.90)
Outstanding, March 31, 2011	10,896,108	8.48
Granted	301,000	12.67
Exercised	(369,433)	(5.66)
Forfeited	(127,000)	(11.69)
Outstanding, June 30, 2011	10,700,675	8.66
Granted	93,000	12.95
Exercised	(182,900)	(6.88)
Forfeited	(80,834)	(9.73)
Outstanding, September 30, 2011	**10,529,941**	**8.72**

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 outstanding and exercisable performance warrants at September 30, 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 $17.8 million ($10.97 per boe) for the three month Reporting Period and $49.9 million ($10.41 per boe) for the nine month Reporting Period as compared to $12.9 million ($10.68 per boe) and $35.4 million ($10.82 per boe) for the Comparable Prior Periods. D&D expenses increased on an aggregate basis mainly due to a 35% and 47% increase in average daily production from the three and nine month Comparable Prior Periods, respectively. D&D expenses decreased on a per boe basis from the nine month Comparable Prior Period mainly due to the reduced cost of adding significant proved plus probable reserves recorded in the fourth quarter of 2010.

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

Impairment Test

The Corporation performed an impairment review of its petroleum and natural gas assets to assess for recoverability. The Corporation's assets were not impaired at September 30, 2011 and December 31, 2010.

Finance Expenses

Finance expenses were $4.5 million ($2.75 per boe) for the three month Reporting Period and $15.4 million ($3.21 per boe) for the nine month Reporting Period as compared to $4.1 million ($3.36 per boe) and $12.0 million ($3.67 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 September 30, 2011		Three months ended September 30, 2010	
	($000's)	$/boe	($000's)	$/boe
Cash:				
Interest on credit facilities(1)	3,829	2.36	3,434	2.85
Non-cash:				
Accretion on decommissioning obligations	443	0.27	367	0.30
Amortization of deferred financing fees	200	0.12	255	0.21
Total finance expenses	**4,472**	**2.75**	4,056	3.36

	Nine months ended September 30, 2011		Nine months ended September 30, 2010	
	($000's)	$/boe	($000's)	$/boe
Cash:				
Interest on credit facilities(1)	13,362	2.79	9,539	2.92
Non-cash:				
Accretion on decommissioning obligations	1,326	0.28	1,044	0.32
Amortization of deferred financing fees	691	0.14	1,392	0.43
Total finance expenses	**15,379**	**3.21**	11,975	3.67

(1) Interest costs for the three months ended September 30, 2011 consists of $2.9 million (September 30, 2010 - $3.4 million) related to the Corporation's Revolving Credit Facilities and $0.9 million (September 30, 2010 - $NIL million) related to non-revolving term credit facilities. For the nine months ended September 30, 2011, the Corporation's interest costs include $12.1 million (September 30, 2010 - $8.8 million) related to the Revolving Credit Facilities and $1.2 million (September 30, 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 total bank credit facilities and higher effective interest rates on the Corporation's Revolving Credit Facilities. The Corporation's average outstanding total credit facilities balance was approximately $344 million and $339 million in the three and nine month Reporting Periods as compared to $255 million and $229 million in the Comparable Prior Periods, calculated as the simple average of the month end amounts. This increase was largely due to the significant capital expended on the PCS Gas Plant project.

The effective interest rate applicable to the Working Capital Facility was 5.5% at the end of the Reporting Period as compared to 5.5% at the end of the Comparable Prior Period. The effective interest rates applicable to the bankers' acceptances issued under the revolving Syndicated Credit Facility were 5.5% and 6.2% for the three and nine month Reporting Periods as compared to 4.9% and 5.4% for the Comparable Prior Periods. The effective interest rates applicable to the bankers' acceptances issued under the non-revolving term credit facilities was 5.1% for both the three and nine month Reporting Periods as compared to 5.9% for the Comparable Prior Periods.

Gain on Sale of Assets

During the third quarter of 2011, Birchcliff disposed of minor non-core assets for proceeds of $3.3 million and recorded a gain of approximately $3.1 million ($2.3 million, net of tax) or $1.88 per boe in that period. No assets were disposed of during the same period in 2010.

In March 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 $4.75 per boe during the nine months ended September 30, 2010.

Income Taxes

Birchcliff recorded a deferred income tax expense of approximately $4.6 million ($2.86 per boe) and $12.8 million ($2.67 per boe) for the three and nine month Reporting Periods as compared to $2.6 million ($2.15 per boe) and $11.9 million ($3.64 per boe) for the Comparable Prior Periods. The increase in deferred income tax expenses from the Comparable Prior Periods was largely due to higher recorded net income in the Reporting Periods mainly as a result of higher average oil prices and increased production, offset by higher D&D expenses.

The Corporation's 2006 and 2007 income tax filings have been reassessed by the Canadian 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 will be objected to prior to the expiration of the limitation period of 90 days. The findings may impact future income tax expense, however, the effects of the reassessment 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 provision for future income tax liability at the end of the Reporting Period.

CAPITAL EXPENDITURES AND CAPITAL RESOURCES

Capital Expenditures

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

Three months ended September 30,	**2011**	2010
Land	768	6,011
Seismic	148	563
Workovers	2,662	3,301
Drilling and completions(1)	54,397	61,348
Well equipment and facilities	15,550	18,893
Total finding and development costs (F&D)	73,525	90,116
Acquisitions (dispositions)(2)	(1,695)	2,051
Total finding, development and acquisition costs (FD&A)	71,830	92,167
Administrative assets	148	353
Total capital expenditures	**71,978**	92,520

Nine months ended September 30,	**2011**	2010
Land	12,229	17,738
Seismic	3,025	1,121
Workovers	9,985	7,377
Drilling and completions(1)	100,304	100,564
Well equipment and facilities	32,910	57,125
Total finding and development costs (F&D)	158,453	183,925
Acquisitions (dispositions)(2)	(2,880)	(15,460)
Total finding, development and acquisition costs (FD&A)	155,573	168,465
Administrative assets	884	729
Total capital expenditures	**156,457**	169,194

(1) Included in drilling and completions for the nine months ended September 30, 2011 is a recovery of $3.5 million (September 30, 2010 - $9.9 million) related to the Alberta Drilling Royalty Credit Program.

(2) During the current quarter, Birchcliff disposed of minor non-core assets for $3.3 million which resulted in a gain on sale of approximately $3.1 million in that period. In March 2010, the Corporation disposed of a minor non-producing asset for $17.5 million which resulted in a gain of approximately $15.5 million on the sale during the nine months ended September 30, 2010.

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 September 30,	2011	2010
Cash flow	33,844	22,750
Changes in non-cash working capital from operations	(2,946)	3,678
Decommissioning expenditures	(30)	(136)
Exercise of stock options	1,259	610
Increase in amounts drawn under non-revolving term credit facilities	3	-
Increase in amounts drawn under Revolving Credit Facilities	20,053	44,924
Changes in non-cash working capital from investing	19,795	20,694
Total capital resources	**71,978**	92,520

Nine months ended September 30,	2011	2010
Cash flow	100,426	67,375
Changes in non-cash working capital from operations	(5,904)	(3,916)
Decommissioning expenditures	(708)	(331)
Exercise of stock options	8,557	4,897
Deferred financing fees paid	(1,356)	(1,268)
Increase in amounts drawn under non-revolving term credit facilities	69,459	-
Increase (decrease) in amounts drawn under Revolving Credit Facilities	(42,955)	80,063
Changes in non-cash working capital from investing	24,140	22,374
Total capital resources	**151,659**	169,194

SUMMARY OF QUARTERLY RESULTS

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

Quarters Ended ($000's, except for production, share and per share amounts)	**September 30, 2011**	June 30, 2011	March 31, 2011	December 31, 2010
Petroleum and natural gas production (boe per day)	17,648	17,324	17,742	16,375
Petroleum and natural gas commodity price at wellhead ($ per boe)	39.42	42.76	39.28	37.83
Natural gas commodity price at wellhead ($ per mcf)	3.92	4.15	4.02	3.94
Petroleum commodity price at wellhead ($ per bbl)	86.40	99.31	87.03	81.89
Total petroleum and natural gas revenue	64,069	67,464	62,793	57,072
Total royalties	(6,804)	(8,801)	(6,199)	(4,388)
Total revenues, net	57,265	58,663	56,594	52,684
Total capital expenditures, net(1)	71,978	32,300	52,179	45,730
Net income(1)	11,411	10,117	9,593	7,431
Per share basic(1)	$0.09	$0.08	$0.08	$0.06
Per share diluted(1)	$0.09	$0.08	$0.07	$0.06
Cash flow(1)	33,844	34,269	32,313	27,866
Per share basic(1)	$0.27	$0.27	$0.26	$0.22
Per share diluted(1)	$0.26	$0.26	$0.25	$0.22
Book value of total assets(1)	1,138,075	1,080,314	1,069,322	1,038,555
Non-Revolving Five-Year Term Facility	68,811	68,773	-	-
Revolving Credit Facilities	290,495	270,278	335,220	333,468
Total debt	386,296	349,190	352,804	337,424
Shareholders' equity(1)	648,905	632,588	616,909	599,140
Common shares outstanding – end of period				
basic	126,679,577	126,496,677	126,127,244	125,129,234
diluted	140,149,250	140,137,084	139,963,084	137,316,486
Weighted average common shares outstanding				
basic	126,630,446	126,322,814	125,424,658	124,994,761
diluted(1)	131,374,723	131,380,901	129,715,133	129,264,791

Quarters Ended ($000's, except for production, share and per share amounts)	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009(2)
Petroleum and natural gas production (boe per day)	13,109	12,357	10,407	10,515
Petroleum and natural gas commodity price at wellhead ($ per boe)	36.60	39.45	47.12	43.23
Natural gas commodity price at wellhead ($ per mcf)	3.79	4.16	5.34	4.81
Petroleum commodity price at wellhead ($ per bbl)	76.44	76.24	80.03	75.01
Total petroleum and natural gas revenue	44,125	44,546	44,235	41,908
Total royalties	(3,561)	(3,621)	(5,363)	(5,172)
Total revenues, net	40,564	40,925	38,872	36,736
Total capital expenditures, net(1)	92,520	42,270	34,404	44,368
Net income(1)	5,533	5,087	16,112	1,616
Per share basic(1)	$0.04	$0.04	$0.13	$0.01
Per share diluted(1)	$0.04	$0.04	$0.13	$0.01
Cash flow(1)	22,750	23,013	21,613	20,900
Per share basic(1)	$0.18	$0.18	$0.17	$0.17
Per share diluted(1)	$0.18	$0.18	$0.17	$0.17
Book value of total assets(1)	996,327	910,823	881,344	837,108
Non-Revolving One-Year Term Facility	-	-	49,661	-
Revolving Credit Facilities	281,172	235,993	158,614	201,230
Total debt	319,921	250,370	232,287	221,521
Shareholders' equity(1)	587,796	578,602	568,821	554,561
Common shares outstanding – end of period				
basic	124,912,134	124,792,136	124,358,735	123,815,002
diluted	137,364,386	137,255,386	137,190,886	134,464,987
Weighted average common shares outstanding				
basic	124,872,806	124,540,955	124,095,074	123,538,213
diluted(1)	128,338,449	127,966,923	128,048,514	126,358,921

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

(2) Birchcliff's IFRS transition date was January 1, 2010 and therefore 2009 comparative information was not restated to comply with IFRS requirements.

Discussion of Quarterly Results

Birchcliff's average production in the third quarter of 2011 was 17,648 boe per day, a 2% increase from 17,324 boe per day in the second quarter of 2011 and a 35% increase from 13,109 boe per day in the third quarter of 2010. The increase in production from the third quarter of 2010 was largely achieved through the success of Birchcliff's Montney/Doig horizontal natural gas drilling program and the ability to process new or incremental natural gas through Phase II of the PCS Gas Plant, which commenced operation in November 2010.

Total capital expenditures (excluding minor acquisitions and dispositions) in the third quarter of 2011 were $73.7 million as compared to $33.7 million in the second quarter of 2011 and $90.5 million in the third quarter of 2010. Capital spent in the third 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 by November 1, 2012; acquiring land; expanding the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play and related infrastructure; and on other projects.

Cash flow generated by the Corporation in the third quarter of 2011 was $33.8 million as compared to $34.3 million in the second quarter of 2011 and $22.8 million in the third quarter of 2010. The slight decrease in cash flow from the previous quarter was mainly attributed to lower average petroleum and natural gas prices realized at the wellhead, notwithstanding increased average daily production in the current quarter. The 49% increase in cash flow as compared to the third quarter of 2010 was largely due to increased average daily production and higher average oil and natural gas prices realized at the wellhead, notwithstanding increased cash G&A expenses, higher interest expenses and a proportionate increase in royalty, operating and transportation and marketing costs due to higher average production in the current quarter as compared to the third quarter of 2010.

Birchcliff recorded net income of $11.4 million in the third quarter of 2011 as compared to $10.1 million in the second quarter of 2011 and $5.5 million in the third quarter of 2010. The increase in net income from the third quarter of 2010 was mainly a result of higher cash flow, notwithstanding higher Depreciation and Depletion expenses reported during the current quarter as a result of significant production growth.

Total debt (including working capital deficit) was $386.3 million at the end of the current quarter as compared to $349.2 million at June 30, 2011 and $319.9 million at September 30, 2010. The increase in total debt from the comparative periods was largely due to increased 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.

CONTROLS AND PROCEDURES

Disclosure Controls

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

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's Disclosure Controls and Procedures as at September 30, 2011 and have concluded that such Disclosure Controls and Procedures were effective as at that date to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized, and reported within the time periods specified in the securities legislation and that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Corporation's management, including the Certifying Officers, as appropriate to allow timely decisions regarding required disclosure.

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

Internal Controls over Financial Reporting

The Corporation has established and maintains internal controls over financial reporting that have been designed by, or under the supervision of, the Corporation's Certifying Officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS applicable to the Corporation and reasonable assurance that all assets are safeguarded and transactions are appropriately authorized and recorded to facilitate the preparation of relevant, reliable and timely information. Such internal controls over financial reporting are herein referred to as "**ICFR"**. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's ICFR as required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*. Based on that evaluation, the Certifying Officers concluded that the Corporation's ICFR was effective at September 30, 2011 for the purposes described above. It should be noted that 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 and it should not be expected that the ICFR will prevent all errors and fraud.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

First-time Adoption of IFRS

Birchcliff's condensed financial statements as at and for the three and nine month periods ended September 30, 2011 and comparative financial statements as at and for the three and nine months ended September 30, 2010, 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**") have been prepared in accordance with IFRS as issued by the IASB. Previously, the Corporation prepared its annual and interim financial statements in accordance with Canadian GAAP applicable to publically accountable enterprises. Since the condensed financial statements for the three and nine months ended September 30, 2011 represent the Corporation's presentation of its results and financial position under IFRS, they have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting* and IFRS 1 *First-time Adoption of IFRS.*

IFRS 1 requires the consistent and retrospective application of IFRS accounting policies for comparative information as at January 1, 2010 and subsequent 2010 comparative periods. To assist with the transition, the provisions of IFRS 1 allow 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 19 to the condensed financial statements.

Significant IFRS Accounting Policies

The IFRS accounting policies are set forth in Note 3 of the condensed financial statements for the period ended March 31, 2011. 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 19 to the condensed financial statements for the Reporting Periods.

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

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 this accounting policy difference, D&D expenses decreased on average by approximately $5.8 million per quarter in 2010.

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 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 flows. As of January 1, 2010 and December 31, 2010, no impairment was determined under IFRS.

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 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 liability with a corresponding increase to the Corporation's deficit at January 1, 2010. Accretion of decommissioning obligations has decreased by approximately $0.1 million per quarter in 2010.

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. 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 the year ended December 31, 2010 by approximately $2.7 million (September 30, 2010 - $2.5 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 during the year ended December 31, 2010 (September 30, 2010 – $3.8 million) from amounts previously reported under Canadian GAAP. In addition, the Corporation capitalized non-cash stock-based compensation totalling $5.5 million during the year ended December 31, 2010 (September 30, 2010 – $4.1 million).

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 periods ended December 31, 2010.

Deferred income tax expense

Each of the adjustments discussed above result 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 $8.0 million for the nine months ended September 30, 2010 and $8.5 million for the year ended December 31, 2010 were recorded under IFRS.

Reclassifications

Under Canadian GAAP, interest expense, financing charges and accretion were disclosed as separate line items in profit or loss. Under IFRS, these amounts were reported as finance expenses. Interest paid is disclosed separately as an operating item in the Condensed Statements 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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the condensed 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 the 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 due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from Birchcliff's petroleum and natural 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, 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*.

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.

Stock-based compensation

All share-based awards issued by the Corporation are fair valued using the Black-Scholes option-pricing model. In assessing the fair value of share-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.

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 flows. 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.

ADVISORIES

BOE Conversions

Barrels of oil equivalent ("boe") amounts have been calculated by converting gas to oil in the ratio of six thousand cubic feet (6 mcf) to one barrel of oil equivalent (1 boe).

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 equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Non-IFRS Measures

This MD&A and the Corporation's Quarterly Report may use terms such as "cash flow", "netback", "cash flow netback", "operating netback", "cash flow per share", "cash flow from operations" and "EBITDA", which do not have standardized meanings prescribed by IFRS and therefore may not be comparable to measures by other companies where similar terminology is used. Cash flow from operations denotes cash flow from operating activities as it appears on the Corporation's Condensed Statements 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 income tax expense (less any recovery), depletion and depreciation expense, accretion expense, stock-based compensation expense, amortization of deferred financing fees and gain (loss) on divestitures.

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" or "resources" is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves and 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 MD&A and the Corporation's Quarterly Report contains forward-looking information relating to the Corporations' intention to expand processing facilities and drill and complete future wells; estimates of recoverable reserves and resource volumes; planned production increases; an estimate of potential Montney/Doig horizontal well locations; and an estimate of potential Worsley light oil drilling locations. Other forward-looking information includes but is not limited to planned 2011 and 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; future net cash flows and discounted cash flows; expected operating, general administration, services and environmental compliance costs and expenses; royalty rates and incentives; treatment under tax laws; expected ability to adopt new accounting pronouncements and other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, levels of activity, performance or achievements.

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 evaluation and resource assessment. 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 and resources 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 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.

BIRCHCLIFF ENERGY LTD.
Condensed Statements of Financial Position
Unaudited *(Expressed in thousands of Canadian Dollars)*

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash	**65**	4,863
Accounts receivable (Note 15)	**31,918**	39,241
Prepaid expenses and deposits	**2,595**	2,661
	34,578	46,765
Non-current assets:		
Exploration and evaluation (Note 4)	**1,853**	1,540
Petroleum and natural gas properties and equipment (Note 5)	**1,101,644**	990,250
	1,103,497	991,790
	1,138,075	1,038,555
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	**61,568**	50,721
Non-current liabilities:		
Non-revolving term credit facilities (Note 6)	**68,811**	-
Revolving credit facilities (Note 7)	**290,495**	333,468
Decommissioning obligations (Note 8)	**42,379**	42,106
Deferred income taxes	**25,917**	13,120
	427,602	388,694
	489,170	439,415
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	**567,170**	554,419
Contributed surplus	**39,352**	33,459
Retained earnings	**42,383**	11,262
	648,905	599,140
	1,138,075	1,038,555

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

APPROVED BY THE BOARD

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

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

BIRCHCLIFF ENERGY LTD.
Condensed Statements of Net Income and Comprehensive Income
Unaudited *(Expressed in thousands of Canadian Dollars, except share information)*

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	**2011**	2010
REVENUE				
Petroleum and natural gas	**64,069**	44,125	**194,326**	132,906
Royalties	**(6,804)**	(3,561)	**(21,804)**	(12,545)
	57,265	40,564	**172,522**	120,361
EXPENSES				
Operating (Note 10)	**10,382**	8,836	**32,134**	25,946
Transportation and marketing	**4,389**	3,137	**12,636**	8,506
Administrative, net (Notes 11,13)	**7,199**	3,524	**20,672**	15,467
Depletion and depreciation (Note 5)	**17,817**	12,886	**49,920**	35,357
Finance (Note 12)	**4,472**	4,056	**15,379**	11,975
(Gain) on sale of assets (Note 5)	**(3,050)**	-	**(2,135)**	(15,528)
	41,209	32,439	**128,606**	81,723
INCOME BEFORE TAXES	**16,056**	8,125	**43,916**	38,638
Deferred income tax expense	**4,645**	2,592	**12,795**	11,906
NET INCOME AND COMPREHENSIVE INCOME	**11,411**	5,533	**31,121**	26,732
Net income per common share				
basic	**$0.09**	$0.04	**$0.25**	$0.21
diluted	**$0.09**	$0.04	**$0.24**	$0.21
Weighted average common shares				
basic	**126,630,446**	124,872,806	**126,131,596**	124,506,757
diluted	**131,374,723**	128,338,449	**131,000,989**	128,432,887

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

BIRCHCLIFF ENERGY LTD.

Condensed Statements of Changes in Shareholders' Equity

Unaudited *(Expressed in thousands of Canadian Dollars, except share information)*

	Number of Common Shares	**Share Capital**	**Contributed Surplus**	**Retained Earnings (Deficit)**	**Total**
Balance, January 1, 2010	123,815,002	545,675	22,828	(22,901)	545,602
Exercise of stock options (Note 13)	1,097,132	7,006	(2,109)	-	4,897
Stock-based compensation (Note 11)	-	-	10,565	-	10,565
Net income and comprehensive income	-	-	-	26,732	26,732
Balance, September 30, 2010	124,912,134	552,681	31,284	3,831	587,796
Balance, December 31, 2010	125,129,234	554,419	33,459	11,262	599,140
Exercise of stock options (Note 13)	1,550,343	12,751	(4,194)	-	8,557
Stock-based compensation (Note 11)	-	-	10,087	-	10,087
Net income and comprehensive income	-	-	-	31,121	31,121
Balance, September 30, 2011	**126,679,577**	**567,170**	**39,352**	**42,383**	**648,905**

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

BIRCHCLIFF ENERGY LTD.
Condensed Statements of Cash Flows
Unaudited *(Expressed in thousands of Canadian Dollars)*

Cash provided by (used in):	**Three months ended September 30, 2011**	Three months ended September 30, 2010	**Nine months ended September 30, 2011**	Nine months ended September 30, 2010
OPERATING				
Income after taxes	**11,411**	5,533	**31,121**	26,732
Adjustments for items not affecting operating cash:				
Depletion and depreciation	**17,817**	12,886	**49,920**	35,357
Stock-based compensation (Note 11)	**2,378**	1,117	**6,708**	6,472
Finance	**4,472**	4,056	**15,379**	11,975
(Gain) on sale of assets	**(3,050)**	-	**(2,135)**	(15,528)
Deferred income taxes	**4,645**	2,592	**12,795**	11,906
Interest paid (Note 12)	**(3,829)**	(3,434)	**(13,362)**	(9,539)
Decommissioning expenditures (Note 8)	**(30)**	(136)	**(708)**	(331)
Changes in non-cash working capital (Note 17)	**(2,946)**	3,678	**(5,904)**	(3,916)
	30,868	26,292	**93,814**	63,128
FINANCING				
Exercise of stock options	**1,259**	610	**8,557**	4,897
Deferred financing fees paid	**-**	-	**(1,356)**	(1,268)
Increase in non-revolving term credit facilities	**3**	-	**69,459**	-
Increase (decrease) in revolving credit facilities	**20,053**	44,924	**(42,955)**	80,063
	21,315	45,534	**33,705**	83,692
INVESTING				
Acquisition of petroleum and natural gas properties and equipment	**(1,649)**	(2,051)	**(6,005)**	(2,051)
Sale of petroleum and natural gas properties and equipment	**3,344**	-	**8,885**	17,511
Additions of exploration and evaluation assets	**(28)**	(7)	**(308)**	(846)
Development of petroleum and natural gas properties and equipment	**(73,645)**	(90,462)	**(159,029)**	(183,808)
Changes in non-cash working capital (Note 17)	**19,795**	20,694	**24,140**	22,374
	(52,183)	(71,826)	**(132,317)**	(146,820)
NET CHANGE IN CASH	**-**	-	**(4,798)**	-
CASH, BEGINNING OF PERIOD	**65**	140	**4,863**	140
CASH, END OF PERIOD	**65**	140	**65**	140

The accompanying notes are an integral part of these condensed 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 condensed financial statements were approved and authorized for issuance by the Board of Directors on November 9, 2011.

2. BASIS OF PREPARATION

In conjunction with the Corporation's first annual audited financial statements to be issued under International Financial Reporting Standards ("**IFRS**") for the year ended December 31, 2011, these condensed financial statements present Birchcliff's financial results of operations and financial position under IFRS as at and for the three and nine months ended September 30, 2011, including 2010 comparative periods. As a result, they have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**").

These condensed financial statements have been prepared following the same IFRS accounting policies and methods of computation as set forth in Note 3 of the condensed financial statements for the period ended March 31, 2011. These condensed financial statements do not include all the necessary annual disclosures in accordance with IFRS. Previously, the Corporation prepared its interim and annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("**Canadian GAAP**").

The preparation of these condensed 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 19 to these condensed 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 and for the three and nine months ended September 30, 2010 and as at and for the year ended December 31, 2010.

These condensed 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 condensed financial statements include the accounts of Birchcliff only. There are no subsidiary companies.

3. CHANGES IN ACCOUNTING POLICIES

Recent accounting standards and interpretations issued but not yet effective:

On May 12, 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 derecognition. 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.

4. EXPLORATION AND EVALUATION ASSETS

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

	E&E(1)(2)
As at January 1, 2010	640
Additions	900
As at December 31, 2010	1,540
Additions	313
As at September 30, 2011	**1,853**

(1) E&E activities are pending the determination of economic quantities of commercially producible reserves. There were no costs reclassified from exploration and evaluation to petroleum and natural gas properties and equipment during the periods ended September 30, 2011 and December 31, 2010.

(2) At the end of each reporting period, the Corporation performs an 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 September 30, 2011 and December 31, 2010.

5. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

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

	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	160,940	919	161,859
Acquisitions	6,005	-	6,005
Dispositions(1)	(6,959)	-	(6,959)
As at September 30, 2011	1,197,639	6,294	1,203,933
Accumulated depletion and depreciation:			
As at January 1, 2010	-	(1,852)	(1,852)
Accumulated depletion and depreciation expense(1)	(50,260)	(666)	(50,926)
As at December 31, 2010	(50,260)	(2,518)	(52,778)
Accumulated depletion and depreciation expense(1)	(48,789)	(722)	(49,511)
As at September 30, 2011	(99,049)	(3,240)	(102,289)
Net book value(2):			
As at December 31, 2010	987,393	2,857	990,250
As at September 30, 2011	**1,098,590**	**3,054**	**1,101,644**

(1) During the three and nine months ended September 30, 2011, Birchcliff disposed of minor non-core assets for $3.3 million and $8.9 million which resulted in a net gain on sale of approximately $3.1 million and $2.1 million, respectively. In March 2010, the Corporation disposed of a minor non-producing asset for $17.5 million which resulted in a gain of approximately $15.5 million on the sale during that period.

(2) At the end of each reporting period, the Corporation performed an impairment review of its P&NG properties and equipment to assess for recoverability. The Corporation's P&NG properties and equipment were not impaired at September 30, 2011 and December 31, 2010.

6. 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 on 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 (Note 7).

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 the three and nine months ended September 30, 2011, the Corporation amortized to income approximately $35,000 and $52,000 in deferred fees applicable to the Non-Revolving Five-Year Term Facility. The overall effective interest rates applicable to the bankers' acceptances issued under this facility was 5.1% during both the three and nine months ended September 30, 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**"). 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 the three and nine months ended September 30, 2010, the Corporation amortized to income approximately $NIL and $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 5.9% during the nine months ended September 30, 2010.

7. REVOLVING CREDIT FACILITIES

As at,	**September 30, 2011**	December 31, 2010
Syndicated credit facility	264,000	334,000
Working capital facility	30,204	5,176
Drawn revolving credit facilities	294,204	339,176
Unamortized prepaid interest on bankers' acceptances	(3,294)	(5,311)
Unamortized deferred financing fees	(415)	(397)
Total revolving credit facilities	**290,495**	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 September 30, 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. During the three and nine months ended September 30, 2011, the Corporation amortized to income approximately $0.2 million and $0.6 million (September 30, 2010 – $0.3 million and $0.9 million) in deferred fees applicable to this facility.

At September 30, 2011, the effective interest rate applicable to the Working Capital Facility was 5.5% (September 30, 2010 – 5.5 %). The overall effective interest rates applicable to the bankers' acceptances issued under the Syndicated Credit Facility was 5.5% and 6.2% for the three and nine months ended September 30, 2011 (September 30, 2010 – 4.9% and 5.4%).

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 loan whereby all principal and interest will be required to be repaid at the maturity date.

8. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning obligations result from net ownership interests in petroleum and natural gas properties and equipment including well sites, gathering systems and processing facilities. The total estimated undiscounted cash flows required to settle the Corporation's decommissioning obligations at September 30, 2011 is $98.9 million (December 31, 2010 – $91.5 million) and is expected to be incurred between 2011 and 2072. A risk-free discount rate of 4% and an inflation rate of 2% were used to calculate the discounted fair value of the obligation.

A reconciliation of the decommissioning obligations is provided below:

As at,	**September 30, 2011**	December 31, 2010
Balance, beginning	42,106	36,697
Obligations incurred	1,338	2,385
Obligations acquired, net	2	85
Changes in estimate	(1,685)	2,427
Accretion expense	1,326	1,414
Actual expenditures	(708)	(902)
Balance, ending	**42,379**	42,106

9. 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 Condensed Statements of Changes in Shareholders' Equity for movement in share capital.

10. 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:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	**2011**	2010
Field operating costs	12,194	9,907	37,324	29,128
Recoveries	(1,740)	(1,548)	(5,553)	(3,982)
Field operating costs, net	10,454	8,359	31,771	25,146
Expensed workovers and other	(72)	477	363	800
Total operating expenses	**10,382**	8,836	**32,134**	25,946

11. ADMINISTRATIVE EXPENSES

The components of administrative expenses are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	**2011**	2010
Cash:				
Salaries and benefits(1)	3,273	2,584	9,751	7,905
Other	2,969	1,997	8,305	5,975
	6,242	4,581	18,056	13,880
Operating overhead recoveries	(235)	(311)	(797)	(944)
Capitalized overhead(2)	(1,186)	(1,863)	(3,295)	(3,941)
General and administrative, net	4,821	2,407	13,964	8,995
Non-cash:				
Stock-based compensation (Note 13)	3,648	3,052	10,087	10,565
Capitalized stock-based compensation(2)	(1,270)	(1,935)	(3,379)	(4,093)
Stock-based compensation, net	2,378	1,117	6,708	6,472
Total administrative expenses, net	**7,199**	3,524	**20,672**	15,467

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

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

12. FINANCE EXPENSES

The components of the Corporation's finance expenses are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	**2011**	2010
Cash:				
Interest on Non-Revolving One-Year Term Facility (Note 6)	-	-	-	700
Interest on Non-Revolving Five-Year Term Facility (Note 6)	891	-	1,241	-
Interest on revolving credit facilities (Note 7)	2,938	3,434	12,121	8,839
	3,829	3,434	13,362	9,539
Non-cash:				
Accretion on decommissioning obligations (Note 8)	443	367	1,326	1,044
Amortization of deferred financing fees (Notes 6,7)	200	255	691	1,392
Total finance expenses	**4,472**	4,056	**15,379**	11,975

13. 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. 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 for a maximum of 10% of the issued and outstanding common shares pursuant to the Amended and Restated Stock Option Plan.

During the three and nine months ended September 30, 2011, the Corporation recorded $2.4 million and $6.7 million (September 30, 2010 - $1.1 million and $6.5 million) of stock-based compensation expense, net of $1.3 million and $3.3 million (September 30, 2010 – $1.9 million and $4.1 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 during the three months ended September 30, 2011, the Corporation applied a weighted average estimated forfeiture rate of 14.8% (September 30, 2010 – 16.3%).

At September 30, 2011, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of a maximum 12,667,958 (September 30, 2010 – 12,491,213) common shares. At September 30, 2011, there remained available for issuance options in respect of 2,138,017 (September 30, 2010 – 2,978,693) common shares. For stock options exercised during the three months ended September 30, 2011, the weighted average share trading price was $12.64 (September 30, 2010 - $9.40) per share. 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	2,767,900	11.35
Exercised	(998,010)	(5.22)
Forfeited	(121,302)	(7.90)
Outstanding, March 31, 2011	10,896,108	8.48
Granted	301,000	12.67
Exercised	(369,433)	(5.66)
Forfeited	(127,000)	(11.69)
Outstanding, June 30, 2011	10,700,675	8.66
Granted	93,000	12.95
Exercised	(182,900)	(6.88)
Forfeited	(80,834)	(9.73)
Outstanding, September 30, 2011	**10,529,941**	**8.72**

The weighted average fair value per option issued during the three months ended September 30, 2011 was $5.43 (September 30, 2010 - $4.44). The weighted average assumptions used in calculating the fair values are set forth below:

Three months ended,	**September 30, 2011**	September 30, 2010
Risk-free interest rate	1.3%	1.8%
Option life (years)	3.7	3.7
Expected volatility	55.4%	63.3%
Dividend yield	-	-

A summary of the stock options outstanding and exercisable under the plan at September 30, 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	2,642,139	1.95	$4.87	1,764,520	1.78	$4.76
$6.01	$9.00	1,793,067	1.93	$7.69	1,340,232	1.53	$7.50
$9.01	$12.00	5,531,935	3.81	$10.48	918,220	3.20	$9.84
$12.01	$14.25	562,800	3.69	$12.86	187,800	1.78	$13.07
		10,529,941	**3.02**	**$8.72**	**4,210,772**	**2.01**	**$7.11**

Performance Warrants

On January 14, 2005, as part of the Corporation's initial restructuring to become a public entity, the Corporation issued 4,049,665 performance warrants with an exercise price of $3.00 and an expiration date of January 31, 2010 to members of its executive team. Each performance warrant entitles the holder to purchase one common share at the exercise price. Because the performance conditions were fulfilled in 2005, resulting in the performance warrants vesting, the full amount of the related compensation expense was recorded in net income in that year. The fair value of each performance warrant was determined on the date of the grant using the Black-Scholes option-pricing model. On May 28, 2009, the Corporation's outstanding performance warrants were amended to extend the expiration date from January 31, 2010 to January 31, 2015.

No performance warrants were issued or exercised during the nine months ended September 30, 2011 and the year ended December 31, 2010. At September 30, 2011, there remained outstanding and exercisable 2,939,732 performance warrants.

14. CAPITAL MANAGEMENT

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

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

As at,	**September 30, 2011**	December 31, 2010
Maximum borrowing base limit[(1)(2)]*:*		
Drawn Non-Revolving Five-Year Term Facility (Note 6)	70,000	-
Revolving credit facilities (Note 7)	450,000	375,000
	520,000	375,000
Principal amount utilized:		
Drawn Non-Revolving Five-Year Term Facility	(70,000)	-
Drawn revolving credit facilities	(294,204)	(339,176)
Outstanding letters of credit[(3)]	(2,668)	(3,014)
	(366,872)	(342,190)
Total unused credit	**153,128**	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 periods ended September 30, 2011 and December 31, 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 periods ended September 30, 2011 and December 31, 2010.

The capital structure of the Corporation is as follows:

As at,	**September 30, 2011**	December 31, 2010	Change
Total shareholders' equity(1)	648,905	599,140	8%
Total shareholders' equity as a % of total capital	62%	64%	
Working capital deficit(2)	26,990	3,956	
Drawn Non-Revolving Five-Year Term Facility	70,000	-	
Drawn revolving credit facilities	294,204	339,176	
Total drawn debt	391,194	343,132	14%
Total drawn debt as a % of total capital	38%	36%	
Total capital	**1,040,099**	942,272	10%

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

(2) Working capital deficit is defined as current assets less current liabilities.

During the nine months ended September 30, 2011, total shareholders' equity increased due to the exercise of options (Note 13) 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 during the nine months ended September 30, 2011.

15. 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

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.

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

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

As at,	**September 30, 2011**	December 31, 2010
Marketers(1)	20,211	20,800
Joint interest partners and other	11,707	18,441
Total accounts receivable	**31,918**	39,241

(1) At September 30, 2011, approximately 61% of the Corporation's significant individual accounts receivable was due from four marketers (December 31, 2010 – 41%, one marketer). For the nine months ended September 30, 2011, the Corporation received 15%, 47%, 15% and 15% of its revenue, respectively, from four core marketers. The Corporation received the majority of its revenue for the nine months ended September 30, 2010 from five marketers, who individually accounted for 13%, 43%, 13%, 14% and 11%, 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 September 30, 2011, approximately $0.4 million or 1.3% 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 increase 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 September 30, 2011 and December 31, 2010.

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 weekly 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 September 30, 2011 was $366.9 million (December 31, 2010 – $342.2 million) and $153.1 million (December 31, 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 September 30, 2011:

	2011	2012	2013 - 2015	Thereafter
Accounts payable and accrued liabilities	61,568	-	-	-
Drawn revolving credit facilities	-	-	294,204	-
Drawn Non-Revolving Five-Year Term Facility	-	-	3,500	66,500
Total financial liabilities	**61,568**	**-**	**297,704**	**66,500**

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 periods ended September 30, 2011 and December 31, 2010. The Corporation actively monitors the market to determine whether any additional commodity price risk management contracts are warranted.

Foreign Currency Risk

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The exchange rate effect cannot be quantified but generally an increase in the value of the CDN dollar as compared to the US dollar will reduce the prices received by Birchcliff for its petroleum and natural gas sales. The Corporation had no forward exchange rate contracts in place as at or during the periods ended September 30, 2011 and December 31, 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 the three and nine months ended September 30, 2011 would have increased (decreased) net income and comprehensive income by approximately $0.9 million and $2.5 million (September 30, 2010 – $0.6 million and $1.7 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 periods ended September 30, 2011 and December 31, 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 September 30, 2011 is disclosed below by financial instrument category, as well as any related loss or interest expense for the period:

	Carrying Value	Fair Value	Loss	Interest Expense
Assets Held for Trading:				
Cash(1)	65	65	-	-
Loans and Receivables:				
Accounts receivable(2)	31,918	31,918	-	-
Deposits(2)	1,541	1,541	-	-
Other Liabilities:				
Accounts payable and accrued liabilities(2)	61,568	61,568	-	-
Drawn Non-Revolving Five-Year Term Facility(3)	70,000	70,000	-	1,241
Drawn revolving credit facilities(3)	294,204	294,204	-	12,121

(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 as described in Notes 6 and 7.

16. 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
2011	777
2012	3,118
2013	3,225
2014	3,225
2015	3,225
Thereafter	6,182

17. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	**2011**	2010
Provided by (used in):				
Accounts receivable	(1,017)	(3,041)	7,323	(5,865)
Prepaid expenses and deposits	788	267	67	1,968
Accounts payable and accrued liabilities	17,078	27,146	10,846	22,355
	16,849	24,372	**18,236**	18,458
Provided by (used in):				
Operating	(2,946)	3,678	(5,904)	(3,916)
Investing	19,795	20,694	24,140	22,374
	16,849	24,372	**18,236**	18,458

18. CONTINGENT LIABILITY

The Corporation's 2006 and 2007 income tax filings have been reassessed by the Canadian 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 will be objected to prior to the expiration of the limitation period of 90 days. The findings may impact future income tax expense, however, the effects of the reassessment 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 provision for future income tax liability at September 30, 2011.

19. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The IFRS accounting policies as disclosed in Note 3 of the condensed financial statements for the period ended March 31, 2011 have been applied in preparing the financial statements as at and for the three and nine months ended September 30, 2011, and comparative financial statements as at and for the three and nine months ended September 30, 2010, 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 reported previously in 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 September 30, 2010			
	GAAP	Effect of Transition to IFRS	Notes	IFRS
ASSETS				
Current assets:				
Cash	140	-		140
Accounts receivable	35,530	-		35,530
Prepaid expenses and deposits	2,667	-		2,667
	38,337	-		38,337
Non-current assets:				
Exploration and evaluation	-	1,507	(a)	1,507
Petroleum and natural gas properties and equipment	923,255	33,228	(a),(b),(d)-(f)	956,483
	923,255	34,735		957,990
	961,592	34,735		996,327
LIABILITIES				
Current liabilities:				
Accounts payables and accrued liabilities	77,086	-		77,086
Non-current liabilities:				
Revolving credit facilities	281,172	-		281,172
Decommissioning obligations	26,745	12,774	(b)	39,519
Deferred income taxes	5,776	4,978	(h)	10,754
	313,693	17,752		331,445
	390,779	17,752		408,531
SHAREHOLDERS' EQUITY				
Share capital	548,704	3,977	(g)	552,681
Contributed surplus	26,166	5,118	(c)	31,284
Retained earnings (deficit)	(4,057)	7,888		3,831
	570,813	16,983		587,796
	961,592	34,735		996,327

RECONCILIATION OF THE STATEMENT OF FINANCIAL POSITION FROM CANADIAN GAAP TO IFRS (CONTINUED):

	As at December 31, 2010			
	GAAP	Effect of Transition to IFRS	Notes	IFRS
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
	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
	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
	995,391	43,164		1,038,555

RECONCILIATION OF THE STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME FROM CANADIAN GAAP TO IFRS:

	For the three months ended September 30, 2010			
	GAAP	Effect of Transition to IFRS	Notes	IFRS
REVENUE				
Petroleum and natural gas	44,125	-		44,125
Royalties	(3,561)	-		(3,561)
	40,564	-		40,564
EXPENSES				
Operating	9,082	(246)	(e)	8,836
Transportation and marketing	3,137	-		3,137
Administrative, net	3,728	(204)	(c),(f)	3,524
Depletion and depreciation	18,913	(6,027)	(e)	12,886
Finance	4,161	(105)	(b)	4,056
	39,021	(6,582)		32,439
INCOME BEFORE TAXES	1,543	6,582		8,125
Deferred income tax expense	1,121	1,471	(h)	2,592
NET INCOME AND COMPREHENSIVE INCOME	422	5,111		5,533

	For the nine months ended September 30, 2010			
	GAAP	Effect of Transition to IFRS	Notes	IFRS
REVENUE				
Petroleum and natural gas	132,906	-		132,906
Royalties	(12,545)	-		(12,545)
	120,361	-		120,361
EXPENSES				
Operating	26,317	(371)	(e)	25,946
Transportation and marketing	8,506	-		8,506
Administrative, net	13,305	2,162	(c),(f)	15,467
Depletion and depreciation	52,771	(17,414)	(e)	35,357
Finance	12,269	(294)	(b)	11,975
(Gain) on sale of assets	-	(15,528)	(d)	(15,528)
	113,168	(31,445)		81,723
INCOME BEFORE TAXES	7,193	31,445		38,638
Deferred income tax expense	3,903	8,003	(h)	11,906
NET INCOME AND COMPREHENSIVE INCOME	3,290	23,442		26,732

RECONCILIATION OF THE STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME FROM CANADIAN GAAP TO IFRS (CONTINUED):

	For the year ended December 31, 2010			
	GAAP	Effect of Transition to IFRS	Notes	IFRS
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

Notes to reconciliations:

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 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 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 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 the fair value less cost to sell approach using discounted pre-tax cash flows from proved plus probable reserves, taking into consideration escalated prices and future development costs, as obtained from the Corporation's independent reserve report. Based on the above assessment, Birchcliff's exploration and evaluation assets and petroleum and natural gas properties and equipment were not impaired on transition to IFRS, as at September 30, 2010 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 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.

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 risk-free rate of 4% in 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 deferred income tax liability with a corresponding decrease to the Corporation's deficit at the date of transition. Accretion expense decreased during the year ended December 31, 2010 by $0.4 million (nine months ended September 30, 2010 – $0.3 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 have 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 during the year ended December 31, 2010 by $2.7 million (nine months ended September 30, 2010 – $2.5 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 during the year ended December 31, 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.

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 for the year ended December 31, 2010 (nine months ended September 30, 2010 – $17.4 million) 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 during the year ended December 31, 2010 from amounts previously reported under Canadian GAAP (nine months ended September, 2010 – $3.8 million). In addition, the Corporation capitalized non-cash stock-based compensation totalling $5.5 million during the year ended December 31, 2010 (nine months ended September 30, 2010 – $4.1 million).

(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

Each of the adjustments discussed above result 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 $8.0 million during the nine months ended September 30, 2010 and $8.5 million for the year ended December 31, 2010 were recorded under IFRS.

OFFICERS

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Vice President & Chief Financial Officer

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SOLICITORS

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AUDITORS

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Chartered Accountants
Calgary, Alberta

RESERVES EVALUATOR

AJM Deloitte
Calgary, Alberta

BANKERS

Scotia Bank
HSBC Bank Canada
Alberta Treasury Branch
Union Bank
The Toronto Dominion Bank

TRANSFER AGENT

Olympia Trust Company
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Exchange
Symbol: BIR

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