May 15, 2012

Fellow Shareholders,

Birchcliff is pleased to report its first quarter financial and operating results for the three months ended March 31, 2012. Our drilling results in 2012 continue to be very strong as confirmed by record average production of 21,061 boe per day in the first quarter. We continue to have success in controlling and reducing our operating costs per boe.

Our extremely low per boe operating costs at the Pouce Coupe South Gas Plant ("**PCS Gas Plant**"), which are discussed below, are the foundation of survival and growth in a very weak natural gas price environment. Our earnings, the 10th quarter in a row, prove that owning your infrastructure is one of the essential keys for success.

We recently announced the decision to terminate our corporate sale process as we were unable to obtain an offer representing fair value to our shareholders. We believe that the failure of the corporate sale process was primarily a result of the material decrease in natural gas prices as the sale process progressed.

Accordingly, I would like to focus on our excellent first quarter results and two recent positive material events that have taken place subsequent to the first quarter, being:

1. The issuance of equity for gross proceeds of $110.2 million on April 19, 2012. The net proceeds of the equity issuance were used to reduce the indebtedness outstanding under our revolving credit facilities. As a result, the total unused credit under the $520 million of credit facilities at March 31, 2012 pro forma the equity financing was $176.4 million.

2. The re-licensing by the Energy Resources Conservation Board ("**ERCB**") of the processing capacity of the PCS Gas Plant to 150 MMcf per day (raw inlet capacity) from the current licensed processing capacity of 120 MMcf per day. This re-licensing recognizes the design processing capacity of the PCS Gas Plant once the Phase III expansion is completed. To operate the PCS Gas Plant at 150 MMcf per day will require twinning of the sales gas pipeline, but the capital required is not material.

The Phase III expansion of the PCS Gas Plant is under construction and remains on schedule to commence processing natural gas by November 1, 2012. Birchcliff is currently drilling and completing Montney/Doig horizontal natural gas wells that will produce to the PCS Gas Plant.

As a result, Birchcliff expects the PCS Gas Plant to process approximately 100 MMcf per day of natural gas at the end of 2012. This leaves 50 MMcf per day of expected processing capacity available for future production growth **without incurring material facilities capital** when natural gas prices return to levels that warrant additional drilling activity.

The planned start-up of the Phase III expansion on November 1, 2012 provides sufficient lead time to properly plan and concurrently execute both the construction of the Phase III expansion of the PCS Gas Plant and our planned 2012 Montney/Doig horizontal natural gas drilling program. We intend to keep a keen eye on both scheduling and costs as we did with the construction and drilling associated with Phases I and II of the PCS Gas Plant, each of which were completed on time and under budget.

Once the Phase III expansion is operational, Birchcliff's 2012 exit production is expected to be approximately 26,000 boe per day.

2012 FIRST QUARTER RESULTS

Production

Current production is 21,900 boe per day. Production during the month of April averaged 21,674 boe per day. First quarter 2012 production averaged 21,061 boe per day (75% natural gas and 25% light oil and natural gas liquids). Birchcliff continues to expect its 2012 exit rate to be approximately 26,000 boe per day.

Current production is very strong and reaching record levels, with additional new wells being tied-in during and after break-up.

Cash Flow and Earnings

Cash flow was $26.2 million or $0.21 per share for the first quarter of 2012 as compared to $32.3 million or $0.26 per share in the first quarter of 2011. Excluding one-time costs related to employee retention payments in connection with the corporate sale process, cash flow in the current quarter was $29.0 million or $0.23 per share.

Earnings were $3.7 million or $0.03 per share for the first quarter of 2012 as compared to $9.6 million or $0.08 per share in the first quarter of 2011. The earnings continue to be a very positive measure of our business efficiencies and low costs, notwithstanding the one-time costs referred to above and the very weak natural gas prices in the first quarter of 2012.

Capital Expenditures and Drilling Results

During the first quarter of 2012, net capital spending aggregated to $119.9 million. We are spending significant capital in the first quarter in order to bring Phase III of the PCS Gas Plant on production by November 1, 2012. We are prudently managing our capital expenditures under our 2012 capital budget of $292.0 million.

Drilling activities during the first quarter of 2012 resulted in 14 (13.03 net) wells, of which all were cased. Birchcliff drilled and cased 8 (8.0 net) Montney/Doig horizontal natural gas wells, 5 (5.0 net) Worsley horizontal light oil wells and 1 (0.03 net) Charlie Lake horizontal well. In addition, Birchcliff focused significant time and effort on evaluating and developing new resource plays in the Peace River Arch area of Alberta with a focus on oil plays.

Operating Costs

Operating costs during the first quarter of 2012 were $6.17 per boe. This is 11% lower than $6.97 per boe recorded for the corresponding quarter in 2011 and well below the $9.03 per boe in the first quarter of 2010. Operating costs per boe are expected to trend downwards as we expect that a larger portion of our future production volumes will be processed through our low cost, 100% owned PCS Gas Plant.

PCS GAS PLANT ECONOMICS

		Three months ending March 31, 2012
PRODUCTION PROCESSED THROUGH THE PCS GAS PLANT		
Average daily production, net to Birchcliff:		
Natural gas (Mcf)		50,982
NGLs (bbls)		145
Total boe (6:1)		**8,642**
NETBACK AND COST	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue	2.56[(1)]	15.35
Royalty expense	(0.12)	(0.74)
Operating expense, net of recoveries	(0.20)	(1.18)
Transportation and marketing expense	(0.23)	(1.35)
Estimated operating netback[(2)]	**2.01**	**12.08**

(1) Premium price resulting from the heat value of natural gas being processed at the PCS Gas Plant and the value of the recovered liquids. AECO natural gas spot averaged $2.15 per Mcf during the first quarter of 2012.

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

Land

Birchcliff continues to grow its undeveloped land base in the Peace River Arch. As at March 31, 2012, Birchcliff has increased its undeveloped land position to 533,642 gross (496,094 net) acres from its year end 2011 undeveloped land position of 531,903 gross (493,968 net) acres, resulting in a 93% average working interest. Birchcliff's very high average working interest in its undeveloped land base reflects the longstanding strategy of acquiring high working interest undeveloped land proximate to our operated high working interest production base.

Indebtedness

At March 31, 2012, the amount outstanding under Birchcliff's bank credit facilities was approximately $442.3 million. Birchcliff's working capital deficiency as at March 31, 2012 was $87.6 million, for total debt of $529.9 million at March 31, 2012. The working capital deficiency does not reduce the amount Birchcliff can draw under its credit facilities.

After giving effect to the proceeds of the recent equity offering, the March 31, 2012 pro forma total unused credit under the $520 million of credit facilities was $176.4 million.

2012 OPERATIONS UPDATE

Montney/Doig Natural Gas Resource Play Update

In the first quarter of 2012, Birchcliff's activities on the Montney/Doig Natural Gas Resource Play included the drilling of 8 (8.0 net) horizontal wells utilizing multi-stage fracture stimulation techniques. To date in 2012, Birchcliff has drilled and cased 12 (12.0 net) horizontal wells, of which 8 (8.0 net) have been completed and 6 (6.0 net) are on production.

In the current gas price environment, Birchcliff is very focused on cost control and is moving to a new development phase of its Montney/Doig Natural Gas Resource Play program. We are now about to realize the increased efficiencies of multi-well pad projects. Birchcliff has two rigs currently drilling on two multi-well (7 well and 5 well) pads that are drilling continuously through break-up. Once the drilling operations are finished on each pad, completion equipment will be mobilized and the wells will be completed consecutively. Following completion of all of the wells, the facility construction crews will move in and perform all of the equipping and tie-in operations for the entire pad, resulting in further cost efficiencies.

The multi-stage fracture stimulations that are used by Birchcliff require significant amounts of water. As a result, Birchcliff has undertaken an innovative water conservation project to reduce our fresh water requirements and our environmental impact. This project also lowers the capital costs associated with fracture stimulations; and has improved our operational efficiencies. This project includes a joint venture that utilizes proprietary technology to filter and treat our produced water, (which would otherwise be disposed of) and generate a brine for the purpose of blending with our completion fluids. We also recycle and reuse our completion flowback fluids for future hydraulic fracturing operations. Additionally Birchcliff has drilled (non-potable) water source wells and converted an existing wellbore into a (non-potable) water source well in an effort to significantly reduce our fresh water requirements for our completion operations.

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

As previously announced, Deloitte and Touche LLP ("**AJM Deloitte**"), independent qualified reserves evaluators of Calgary, Alberta, prepared a Reserves Assessment and Economic Evaluation effective December 31, 2011 in respect of Birchcliff's oil and natural gas properties, contained in a report dated February 21, 2012 (the "**AJM Deloitte Reserves Evaluation**"). AJM Deloitte attributed Montney/Doig reserves to 98.5 gross and 83.4 net sections of land. The AJM Deloitte Reserves Evaluation also attributed reserves to 176 net future horizontal well drilling locations for total proved and 296 net future horizontal well drilling locations for proved plus probable. AJM Deloitte estimates that Birchcliff had 227.7 MMboe of proved plus probable reserves attributed to the horizontal wells on the Montney/Doig Natural Gas Resource Play. This is an increase of 43.7% from the 158.4 MMboe proved plus probable reserves attributed to the horizontal wells on the Montney/Doig Natural Gas Resource Play at December 31, 2010.

Also as previously announced, AJM Deloitte prepared an independent Resource Assessment effective December 31, 2011 in respect of Birchcliff's lands that have potential for the Montney/Doig Natural Gas Resource Play, contained in a report dated March 8, 2012 (the "**AJM Deloitte Resource Assessment**"). The AJM Deloitte Resource Assessment is an important data point that independently confirms Birchcliff's lands hold significant resources to execute a large scale development program. Birchcliff is in the favorable position of having a very high working interest in a large land position on a world class natural gas resource play. The area assessed by AJM Deloitte is comprised of the Doig Phosphate, Basal Doig and Montney formations in the great Pouce Coupe, Elmworth and Bezanson regions of the Peace River Arch area of Alberta, ranging from Townships 69 to 81, Ranges 1 – 14W6 (the "**Study Area**").

The report identified that within the Study Area, Birchcliff held 290 (263 net) sections of land that includes Montney rights and has potential for the Middle/Lower Montney play and 245 (214 net) sections of land that include Doig rights and has potential for the Basal Doig/Upper Montney Play.

Highlights of the AJM Deloitte Resource Assessment include:

- A best estimate of Total Petroleum Initially-In-Place ("**TPIIP**") of 39.05 Tcfe, an increase of 1.92 Tcfe from the 2010 estimate of 37.13 Tcfe.
- A best estimate of recoverable **Contingent Resources of 2.15 Tcfe**, which is in addition to the **1.38 Tcfe of proved plus probable reserves** attributed to the lands in the Study Area in the AJM Deloitte Reserves Evaluation, an increase of 0.06 Tcfe from the 2010 estimate of 3.47 Tcfe of combined Contingent Resources and proved plus probable reserves. These Contingent Resources are of the same technical quality as the proved plus probable reserves attributed to lands in the Study Area, but are not included in such reserves because they are subject to contingencies that primarily relate to the forecasted timing of their development.
- Cumulative production at December 31, 2011 has increased to 63.9 Bcfe from 33.9 Bcfe at December 31, 2010.
- A best estimate of Total Discovered Petroleum Initially-In-Place ("**TDPIIP**") of **7.30 Tcfe** compared to the 2010 estimate of 6.97 Tcfe.
- A best estimate of Total Undiscovered Petroleum Initially-In-Place ("**TUPIIP**") of **31.74 Tcfe**, which includes a best estimate of recoverable **Prospective Resources of 15.51 Tcfe**, compared to the 2010 estimates of 30.15 Tcfe of TUPIIP and 14.53 Tcfe of Prospective Resources.

Birchcliff believes that full development of four wells per section per play would account for approximately 1,850 net future Montney/Doig horizontal natural gas drilling locations on its lands.

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 2012, Birchcliff has drilled 5 (5.0 net) horizontal light oil wells. Four have been completed with multi-stage fracture stimulations and are now on production, with the fifth to be completed after break-up.

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

Health, Safety and Environmental Performance

Birchcliff believes that careful attention to health, safety and environmental performance is fundamental to the success and sustainability of our company. Our executive and management teams have demonstrated their leadership and commitment to a safe and healthy workplace for our employees, contractors and for the communities in which we work by actively participating in scheduled safety meetings, our annual spring safety seminar, as well as "Safety Stand Down", which is held annually in our operating areas.

At Birchcliff, we know that a safe work environment cannot be achieved without an effective Health, Safety and Environmental Management System consisting of properly developed and maintained policies, procedures, standards, training and equipment that meet or exceed government regulations and industry best practices. We also recognize that continuous improvement is a must if we are to maintain and improve our health and safety performance. We are extremely proud of our Team for working so hard on these initiatives, which ultimately led to the achievement of our Certificate of Recognition through the Alberta Association for Safety Partnerships.

Our number one priority is ensuring our people make it home safely to their families after each day of work.

Syndicated Bank Credit Facilities

Birchcliff's total unused credit under the $520 million of credit facilities at March 31, 2012 pro forma the equity financing was $176.4 million.

Birchcliff has arranged for a 40 day extension of the date for the annual renewal of the revolving credit facility from May 18, 2012 to June 27, 2012 as the Corporation seeks to add new banks into the banking syndicate and to increase the amount available under its revolving credit facilities.

The current credit facilities aggregate $520 million, of which $70 million is under a non-revolving five-year term credit facility with a maturity date of May 25, 2016 and $450 million is under revolving credit facilities with a two-year term-out.

SHAREHOLDER SUPPORT

I am pleased to note that Mr. Seymour Schulich recently increased his share position to 40 million shares, representing 28% of the issued and outstanding shares of Birchcliff. Mr. Schulich's unwavering commitment to Birchcliff allows us to continue to focus on our business strategy and our long term goals, which we believe will create significant value for all Birchcliff shareholders. Further, Mr. Schulich's recent aggregate purchase of 7 million shares has shown his financial commitment to Birchcliff at a time when natural gas prices are at an all time low and investors in North America openly doubt investments in natural gas. We very much appreciate this show of public support for our team at Birchcliff.

OUTLOOK

Birchcliff is focused on the day to day running of its business. We are enjoying record production, record volumes of reserves and record low operating costs per boe. We have recently received a very impressive independent AJM Deloitte Resource Assessment for our Montney/Doig Natural Gas Resource Play. Our 2011 Finding and Development Costs were top decile, together with production and reserve growth. To date we have drilled and cased 81 (69.2 net) successful Montney/Doig horizontal natural gas wells, of which 76 (64.2 net) are on production. We continue to develop and expand our Worsley Light Oil Resource Play and have laid the foundation to exploit several New Tight/Shale Oil Resource Plays. **Our day to day business has been and continues to be very successful.**

Current weak natural gas prices have complicated our growth plans. We are fortunate to operate substantially all of our properties giving us the flexibility to expand or slow down our capital spending if we chose to do so.

Birchcliff has just over 5,100 boe per day of light oil and natural gas liquids, which are providing excellent netbacks. Fortunately, we continue to have positive operating cash flow from our natural gas properties, and certainly from those that go through our PCS Gas Plant, where the significant majority of our growth in gas production will come from. Accordingly, in the event that natural gas prices deteriorate we will make the appropriate financial decisions to ensure that Birchcliff continues to have the financial flexibility and the balance sheet required for long term viability.

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

Our strategy has not changed, notwithstanding the weakness in natural gas prices. We believe that we can economically find, develop and produce natural gas from the Montney/Doig Natural Gas Resource Play at low costs. We also believe that technology advances will continue to reduce our finding costs and our operating costs and increase our recovery factors. We note that our 2010 and 2011 finding costs were in the top decile as compared to others in the industry and 2012 results to date continue to be very positive.

Our goal to be producing approximately 26,000 boe per day at year-end 2012 is firmly in our sights. We look forward to reporting our progress to you in the coming months.

We are committed to Birchcliff's success.

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

(signed) "*A. Jeffery Tonken*"

A. Jeffery Tonken

President and Chief Executive Officer

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended March 31, 2012	Three months ended March 31, 2011
OPERATING		
Average daily production		
Light oil – (barrels)	4,575	3,744
Natural gas – (thousands of cubic feet)	95,242	80,566
NGLs – (barrels)	612	570
Total – barrels of oil equivalent (6:1)	**21,061**	**17,742**
Average sales price ($ Canadian)		
Light oil – (per barrel)	90.10	87.03
Natural gas – (per thousand cubic feet)	2.32	4.02
NGLs – (per barrel)	93.08	82.61
Total – barrels of oil equivalent (6:1)	**32.77**	**39.28**
Undeveloped land		
Gross (acres)	533,642	538,791
Net (acres)	**496,094**	**497,236**
NETBACK AND COST		
($ per barrel of oil equivalent at 6:1)		
Petroleum and natural gas revenue	32.78	39.32
Royalty expense	(3.79)	(3.88)
Operating expense	(6.17)	(6.97)
Transportation and marketing expense	(2.36)	(2.52)
Netback	**20.46**	**25.95**
General & administrative expense, net	(4.11)	(2.70)
Interest expense	(2.68)	(3.01)
Cash Flow Netback	**13.67**	**20.24**
Stock-based compensation expense, net	(0.86)	(1.28)
Depletion and depreciation expense	(11.57)	(10.06)
Accretion expense	(0.22)	(0.27)
Amortization of deferred financing fees	(0.10)	(0.16)
Gain on sale of assets	2.02	-
Deferred income tax expense	(0.99)	(2.46)
Net Income	**1.95**	**6.01**
FINANCIAL		
Petroleum and natural gas revenue ($000)	62,833	62,793
Cash flow ($000)(1)	26,196	32,313
Per share – basic ($)(1)	0.21	0.26
Per share – diluted ($)(1)	0.20	0.25
Net income ($000)	3,731	9,593
Per share – basic ($)	0.03	0.08
Per share – diluted ($)	0.03	0.07
Common shares outstanding		
End of period – basic	127,005,577	126,127,244
End of period – diluted	140,152,250	139,963,084
Weighted average shares for period – basic	126,753,764	125,424,658
Weighted average shares for period – diluted	131,008,290	129,715,133
Capital expenditures, net ($000)	119,852	52,179
Working capital deficiency ($000)	87,552	17,584
Non-revolving term credit facility ($000)	68,267	-
Revolving credit facilities ($000)	374,064	335,220
Total debt ($000)	529,883	352,804

(1) 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 and on the Corporation's website at www.birchcliffenergy.com. Birchcliff's common shares are listed for trading on the Toronto Stock Exchange ("**TSX**") under the symbol "**BIR**" and are included in Standard and Poor's S&P/TSX Composite Index.

The following Management's Discussion and Analysis ("**MD&A**") is dated May 15, 2012. The unaudited interim condensed financial statements with respect to the three months ended March 31, 2012 (the "**Reporting Period**") as compared to the three months ended March 31, 2011 (the "**Comparable Prior Period**") and this MD&A have been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the unaudited interim condensed financial statements and related notes for the Reporting Period and the 2011 Annual Report. All financial information is expressed in thousands of Canadian dollars, unless otherwise stated.

FIRST QUARTER OVERALL PERFORMANCE

Production

Production in the first quarter of 2012 averaged 21,061 boe per day. This is a 19% increase from the 17,742 boe per day the Corporation averaged in the first quarter of 2011. The increase from the Comparable Prior Period was achieved through the success of Birchcliff's capital drilling program with increased production from new Montney/Doig horizontal natural gas wells that were tied into Phases I and II of Birchcliff's 100% owned and operated Pouce Coupe South Natural Gas Plant ("**PCS Gas Plant**") and increased production from our Worsley Light Oil Resource Play.

Production consisted of approximately 75% natural gas and 25% crude oil and natural gas liquids in the first quarter of 2012 (76% natural gas and 24% crude oil and natural gas liquids in the first quarter of 2011).

Commodity Prices

Oil sales prices at the wellhead averaged $90.10 per barrel in the current quarter, a 4% increase from the $87.03 per barrel in the first quarter of 2011. Natural gas sales prices at the wellhead averaged $2.32 per Mcf in the first quarter of 2012, a 42% decrease from the $4.02 per Mcf the Corporation averaged in the first quarter of 2011. The prices received for Birchcliff's petroleum and natural gas sales are impacted by world events that dictate the level of supply and demand for petroleum and natural gas. Birchcliff currently does not have any commodity contracts in place and is therefore subject to fluctuations in commodity prices.

Canadian Edmonton Par oil prices averaged $92.18 per barrel in the first quarter of 2012 as compared to $87.97 per barrel in the first quarter of 2011. The AECO daily natural gas spot price averaged $2.15 per Mcf in the first quarter of 2012 as compared to $3.79 per Mcf in the first quarter of 2011.

PCS Gas Plant Economics

Controlling the infrastructure that is used to process Birchcliff's natural gas has significantly reduced the operating cost on a per boe basis and has ultimately improved the economics of the Montney/Doig horizontal natural gas wells tied into the PCS Gas Plant, allowing us to operate at very low natural gas commodity prices. The estimated operating netback for Birchcliff's Montney/Doig horizontal natural gas wells producing to the PCS Gas Plant during the first quarter of 2012 was approximately $2.01 per Mcfe, while AECO natural gas spot price averaged $2.15 per Mcf during that period. Approximately 54% of Birchcliff's total natural gas sales volumes were processed at the PCS Gas Plant during the current quarter. The following table details Birchcliff's net production and operating netback for wells producing to the PCS Gas Plant for the quarter ended March 31, 2012 and the year ended December 31, 2011:

	Three months ending March 31, 2012		Twelve months ending December 31, 2011	
PRODUCTION PROCESSED THROUGH THE PCS GAS PLANT				
Average daily production, net to Birchcliff:				
Natural gas (Mcf)		50,982		40,334
NGLs (bbls)		145		96
Total boe (6:1)		**8,642**		6,818
NETBACK AND COST	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue	2.56(1)	15.35	3.98(1)	23.88
Royalty expense	(0.12)	(0.74)	(0.26)	(1.55)
Operating expense, net of recoveries	(0.20)	(1.18)	(0.21)	(1.28)
Transportation and marketing expense	(0.23)	(1.35)	(0.27)	(1.59)
Estimated operating netback(2)	**2.01**	**12.08**	3.24	19.46

(1) Premium pricing resulting from the heat value of natural gas being processed at the PCS Gas Plant and the value of recovered liquids. AECO natural gas spot price averaged $2.15 per Mcf in the first quarter of 2012 and $3.63 per Mcf during 2011.

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

Cash Flow and Earnings

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

For the three months ended,	**March 31, 2012**	March 31, 2011
Cash provided by operating activities	28,616	22,041
Adjustments:		
Decommissioning expenditures	52	466
Changes in non-cash working capital	(2,472)	9,806
Cash flow(1)	**26,196**	32,313
Per share – basic ($)	0.21	0.26
Per share – diluted ($)	0.20	0.25

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

Cash flow in the first quarter of 2012 was $26.2 million as compared to $32.3 million in the Comparable Prior Period. The decrease in aggregate cash flow from the first quarter of 2011 was largely due to a 42% decrease in natural gas wellhead prices, increased net general and administrative expenses, slightly higher interest expense and a proportionate increase in aggregate royalties, operating and transportation and marketing costs due to higher average production in the Reporting Period, offset by increased average daily production and higher average oil prices realized at the wellhead. Birchcliff incurred non-recurring general and administrative costs totalling approximately $2.8 million related to the corporate sale process in the first quarter of 2012. Excluding this one-time cost, cash flow for the current quarter was $29.0 million ($0.23 per share) and is a 10% decrease from the Comparable Prior Period.

Notwithstanding very low natural gas commodity prices in the current quarter, Birchcliff has recorded net income of $3.7 million. Excluding the gain on sale of a non-core asset ($2.9 million, net of tax) and the one-time costs related to the corporate sale process ($2.2 million, net of tax), Birchcliff had net income of approximately $3.0 million ($0.02 per share) in the first quarter of 2012 as compared to $9.6 million ($0.08 per share) in the Comparable Prior Period. The decrease in net income from the Comparable Prior Period was mainly attributable to lower cash flow, as discussed above, and the increase in depletion expense resulting from higher average daily production in the current quarter.

Capital Expenditures

Total capital expenditures (excluding minor acquisitions and dispositions) in the first quarter of 2012 were $119.8 million as compared to $52.0 million in the Comparable Prior Period. Of the $119.8 million, approximately $55.5 million (46%) was spent on the drilling, completion, equipping and tie-in of new Montney/Doig horizontal natural gas wells to keep Phases I and II of the PCS Gas Plant operating at full capacity; approximately $25.7 million (21%) related to the Phase III expansion of the PCS Gas Plant; and approximately $9.3 million (8%) on the drilling of Montney/Doig horizontal natural gas wells, which will be tied into Phase III during the fourth quarter of 2012. Construction of Phase III is on schedule and on budget.

The remaining $29.3 million (25%) 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 first quarter of 2012 are set forth in the table entitled "Capital Expenditures" in this MD&A.

OUTLOOK

Corporate Sale Process

On March 29, 2012, Birchcliff terminated its corporate sale process that was announced on October 3, 2011 (see press release dated March 29, 2012 which is available on www.sedar.com).

Production

Birchcliff's exit production rate in 2012 is expected to be approximately 26,000 boe per day once the Phase III expansion of the PCS Gas Plant has been completed and is operational by November 1, 2012.

This estimate assumes that no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that existing wells and future wells continue to meet production expectations.

Capital Expenditures

The 2012 capital spending program totalling $292.0 million is focused on completing the construction of the Phase III expansion of the PCS Gas Plant, the drilling of Montney/Doig horizontal natural gas wells for Phase III, the drilling of Montney/Doig horizontal natural gas wells to keep existing 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. Further details of the 2012 capital spending program are discussed in the press release dated March 29, 2012.

Birchcliff's operating cash flow, net proceeds from the April 19, 2012 equity financing and bank indebtedness will be used to fund the 2012 capital spending program.

Cash Flow and Bank Debt

Despite the very 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 throughout 2012. Birchcliff expects to meet its future obligations as they become due.

On April 19, 2012, Birchcliff completed an equity financing which raised $110.2 million (see press release dated April 19, 2012 which is available on www.sedar.com). The net proceeds of $106.5 million were applied to reduce outstanding indebtedness under the Corporation's revolving credit facilities.

In May 2012, as part of the annual credit facility review process, the Corporation has been in recent discussions with its banking syndicate. Birchcliff has arranged for a 40 day extension of the date for the annual renewal of the revolving credit facility from May 18, 2012 to June 27, 2012 as the Corporation seeks to add new banks into the banking syndicate and to increase the amount available under the revolving credit facilities.

The current credit facilities aggregate $520 million, of which $70 million is under the non-revolving five-year term credit facility with a maturity date of May 25, 2016 (the "**Non-Revolving Five-Year Term Facility**") and $450 million is under the revolving credit facilities (the "**Revolving Credit Facilities**") with a two-year term-out.

The Revolving Credit Facilities are made up of an extendible revolving credit facility (the "**Syndicated Credit Facility**") of $420 million and an extendible revolving working capital facility (the "**Working Capital Facility**") of $30 million. The Non-Revolving Five-Year Term Facility requires principle payments of $350,000 per quarter commencing July 1, 2013.

The Corporation's cash flow and undrawn revolving credit facilities will be used to fund the Corporation's ongoing capital program and will provide Birchcliff with greater liquidity and financial flexibility to further develop its two major resource plays.

The Corporation intends to finance its petroleum and natural gas business primarily through cash flow, working capital, sale of non-core assets and available bank credit facilities. Should commodity prices continue to deteriorate materially, Birchcliff may adjust its capital spending accordingly. Birchcliff is now at a size that it anticipates not requiring 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 continue 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

The Phase III expansion of the PCS Gas Plant is proceeding according to plan and is expected to be operational by November 1, 2012. Birchcliff recently received approval from the Energy Resources Conservation Board to increase the licensed processing capacity of the PCS Gas Plant up to 150 MMcf per day from the current licensed processing capacity of 120 MMcf per day. This re-licensing recognizes the design processing capacity of the PCS Gas Plant once the Phase III expansion is completed and will allow Birchcliff to further expand its production without having to incur material facilities capital. The wholly owned and operated PCS Gas Plant will continue to increase the value of the Montney/Doig Natural Gas Resource Play by providing production growth, reducing operating costs per boe and increasing Birchcliff's strategic control over the Pouce Coupe area.

Birchcliff has a very strong asset base with its two main resource plays, the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play. The extensive portfolio of development opportunities on these resource plays will provide Birchcliff with repeatable, low risk, long life future production and reserves additions that are readily available with the investment of additional capital. Birchcliff continues to investigate and work towards development of new resource plays in its core area, the Peace River Arch.

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

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

In May 2012, as part of the annual credit facility review process, the Corporation has been in recent discussions with its banking syndicate. Birchcliff has arranged for a 40 day extension of the date for the annual renewal of the Revolving Credit Facilities from May 18, 2012 to June 27, 2012 as the Corporation seeks to add new banks into the banking syndicate and to increase the amount available under the Revolving Credit Facilities.

On April 19, 2012, the Corporation completed an equity financing (the "**Equity Financing**") which raised \$110.2 million. This financing was comprised of a bought deal equity offering whereby it issued 8,075,000 common shares at a price of \$7.65 per share for gross proceeds of \$61.8 million, 1,100,000 common shares on a "flow-through share" basis at a price of \$9.20 per share for gross proceeds of \$10.1 million and 5,000,000 common shares at a price of \$7.65 per share on a concurrent private placement basis with its major shareholder for gross proceeds of \$38.3 million. The aggregate net proceeds of the Equity Financing were \$106.5 million.

LIQUIDITY & CAPITAL RESOURCES

Working Capital

The Corporation's working capital deficit (current assets minus current liabilities) increased to $87.6 million at March 31, 2012 from $48.6 million at December 31, 2011. The deficit at the end of the Reporting Period is largely comprised of costs incurred on the Phase III expansion of the PCS Gas Plant and on the drilling, completing, equipping and tie-in of new wells to keep Phases I and II of the PCS Gas Plant operating at full capacity during the current quarter.

At March 31, 2012, the major components of Birchcliff's current assets were: joint interest billings (22%) to be received from its partners and revenue (66%) to be received from its marketers in respect of March 2012 production that was subsequently received in April 2012. In contrast, current liabilities largely consisted of trade payables (63%) and accrued capital and operating costs (34%). Birchcliff routinely assesses the financial strength of its marketers and joint venture partners in accordance with the Corporation's credit risk guidelines. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations during this period of low natural gas prices.

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 its bank credit facilities. The Corporation did not have any liquidity issues with respect to the operation of its petroleum and natural gas business during the first quarter of 2012.

Total Debt and Bank Debt

Total debt (including working capital deficit) increased to $529.9 million at March 31, 2012 from $437.0 million at December 31, 2011. The increase in total debt from the end of 2011 was largely a result of $93.7 million in total capital expended in the first quarter of 2012 in excess of cash flow during that period. The amount outstanding under Birchcliff's bank credit facilities at March 31, 2012 was $442.3 million (December 31, 2011 – $388.4 million), which is net of $5.1 million (December 31, 2011 – $4.8 million) in unamortized interest and fees. A significant portion of the funds drawn under the bank credit facilities in the Reporting Period was to pay costs relating to the Phase III expansion of the PCS Gas Plant, including drilling and completion of new Montney/Doig horizontal natural gas wells and for drilling activities on our Worsley Light Oil Resource Play.

Equity

On April 19, 2012, the Corporation completed an Equity Financing for gross proceeds of $110.2 million. The net proceeds of $106.5 million were used to reduce the indebtedness under Birchcliff's Revolving Credit Facilities.

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

As at,	March 31, 2012	December 31, 2011
Maximum borrowing base limit[(1)(2)]:		
Non-Revolving Five-Year Term Facility	70,000	70,000
Revolving Credit Facilities	450,000	450,000
	520,000	520,000
Principal amount utilized:		
Drawn Non-Revolving Five-Year Term Facility[(3)]	(70,000)	(70,000)
Drawn Revolving Credit Facilities[(3)]	(377,455)	(323,221)
Outstanding letters of credit[(4)]	(2,668)	(2,668)
	(450,123)	(395,889)
Total unused credit	**69,877**	124,111
Total unused credit after Equity Financing - Pro Forma March 31, 2012[(5)]	**176,350**	Not applicable

(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. Birchcliff has arranged for an extension on the annual renewal of the Revolving Credit Facilities from May 18, 2012 to June 27, 2012 as the Corporation seeks to add new banks into the banking syndicate and to increase the amount available under the Revolving Credit Facilities.

(2) The Corporation was compliant with all financial covenants applicable under its credit facilities as at and during the periods ended March 31, 2012 and December 31, 2011 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 Reporting Period consists of approximately $23.5 million (2011 - $19.2 million) applicable to the Working Capital Facility (including outstanding cheques) and $354 million (2011 - $304 million) applicable to the Syndicated Credit Facility.

(4) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit as at and during the periods ended March 31, 2012 and December 31, 2011.

(5) The total unused credit at March 31, 2012 of $69.9 million has been increased by the net proceeds of the Equity Financing of $106.5 million, which were applied after the Reporting Period to reduce bank indebtedness.

Contractual Obligations

The Corporation enters into contractual obligations in the ordinary course of conducting its day-to-day business. The following table lists Birchcliff's estimated material contractual obligations at March 31, 2012:

	2012	2013	2014 - 2016	Thereafter
Accounts payable and accrued liabilities	113,139	-	-	-
Drawn Non-Revolving Five-Year Term Facility	-	700	69,300	-
Drawn Revolving Credit Facilities	-	-	377,455	-
Office lease[(1)]	2,393	3,295	9,885	3,018
Transportation and processing	12,370	15,872	17,237	-
Total estimated contractual obligations[(2)]	**127,902**	**19,867**	**473,877**	**3,018**

(1) The Corporation is committed under an operating lease relating to its office premises, beginning December 1, 2007 and expiring on November 30, 2017. Birchcliff does not presently use all of the leased premises and has sublet approximately 24% of the excess space to an arms' length party on a basis that recovers all of the rental costs for the first five years.

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

Capital Resources

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

Three months ended March 31,	2012	2011
Cash flow	26,196	32,313
Changes in non-cash working capital from operations	2,472	(9,806)
Decommissioning expenditures	(52)	(466)
Exercise of stock options	1,046	5,206
Decrease in Non-Revolving Five-Year Term Facility	(692)	-
Increase in Revolving Credit Facilities	54,400	1,498
Changes in non-cash working capital from investing	36,481	18,636
Total capital resources	**119,851**	47,381

Off-Balance Sheet Transactions

Birchcliff was not involved in any off-balance sheet transactions that would result in a material change to its financial position, performance or cash flows as at or during the three months ended March 31, 2012.

OUTSTANDING SHARE DATA

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

	Common shares
Balance at December 31, 2011	126,745,577
Issue of common shares upon exercise of options	260,000
Balance at March 31, 2012	**127,005,577**

At May 15, 2012, there were outstanding 141,395,344 common shares, stock options to purchase 13,258,374 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 $62.9 million ($32.78 per boe) for the Reporting Period as compared to $62.8 million ($39.32 per boe) for the Comparable Prior Period. P&NG revenues in the Reporting Period were impacted by a combination of factors including a 22% increase in average daily oil production, an 18% increase in average daily natural gas production and higher average oil wellhead prices, offset by a 42% decrease in average natural gas wellhead prices. The following table details Birchcliff's P&NG revenues, production and percentage of production and sales prices by category:

	Three months ended March 31, 2012				Three months ended March 31, 2011			
	Total Revenue ($000's)	Average Daily Production	%	Average ($/unit)	Total Revenue ($000's)	Average Daily Production	%	Average ($/unit)
Light oil (bbls)	37,513	4,575	22	90.10	29,327	3,744	21	87.03
Natural gas (Mcf)	20,099	95,242	75	2.32	29,150	80,566	76	4.02
Natural gas liquids (bbls)	5,185	612	3	93.08	4,241	570	3	82.61
Total P&NG sales	**62,797**	**21,061**	100	**32.77**	62,718	17,742	100	39.28
Royalty revenue	36			0.01	75			0.04
Total P&NG revenues	**62,833**			**32.78**	62,793			39.32

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 its natural gas production for the Reporting Period and Comparable Prior Period:

	Three months ended March 31, 2012	Three months ended March 31, 2011
Average natural gas sales price ($/Mcf)	2.32	4.02
Average AECO daily spot price ($/MMbtu)(1)	2.15	3.79
Positive differential	**0.17**	0.23

(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 did not have any financial derivatives such as commodity price risk management contracts, forward exchange rate contracts or interest rate swaps in place during the Reporting Period and Comparable Prior Period, but it actively monitors the market to determine if any are required. The Corporation has no current intention to enter into any such contracts at the date hereof.

Royalties

Birchcliff recorded a royalty expense of $7.3 million ($3.79 per boe) for the Reporting Period as compared to $6.2 million ($3.88 per boe) for the Comparable Prior Period. Royalties are paid primarily to the Alberta Government and, to a lesser extent, to other land and mineral rights owners. The following table illustrates the Corporation's royalty expense for the Reporting Period and Comparable Prior Period:

	Three months ended March 31, 2012	Three months ended March 31, 2011
Oil & natural gas royalties ($000's)	**7,268**	6,199
Oil & natural gas royalties ($/boe)	**3.79**	3.88
Effective royalty rate(1)	**12%**	10%

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

The increase in the effective royalty rate from the 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 realized at the wellhead. Lower natural gas prices reduces the Crown facility effective royalty rates that are used to determine the gas cost allowance credits in the Reporting Period.

Operating Costs

Operating costs were $11.8 million ($6.17 per boe) for the Reporting Period as compared to $11.1 million ($6.97 per boe) for the Comparable Prior Period. The following table compares operating costs for the Reporting Period and Comparable Prior Period:

	Three months ended March 31, 2012		Three months ended March 31, 2011	
	(000's)	$/boe	(000's)	$/boe
Field operating costs	13,645	7.12	12,824	8.03
Recoveries	(1,942)	(1.01)	(2,118)	(1.33)
Field operating costs, net	11,703	6.11	10,706	6.70
Expensed workovers and other	127	0.06	428	0.27
Total operating costs	**11,830**	**6.17**	11,134	6.97

Total operating costs per boe decreased by 11% from the Comparable Prior Period largely due to the cost benefits achieved from processing natural gas at Birchcliff's 100% owned and operated PCS Gas Plant. During the Reporting Period, the Corporation incurred total operating costs (net of recoveries) at the PCS Gas Plant of approximately $1.18 per boe on a production month basis. Birchcliff's natural gas producing to the PCS Gas Plant accounted for approximately 54% of total natural gas production during the current quarter. Per unit recoveries decreased from the Comparable Prior Period mainly due to an 18% increase in average daily natural gas production in the Reporting Period.

Birchcliff continues to focus on controlling the infrastructure it uses to produce its oil and natural gas and reducing operating costs on a per boe basis.

Transportation and Marketing Expenses

Transportation and marketing expenses were $4.5 million ($2.36 per boe) for the Reporting Period as compared to $4.0 million ($2.52 per boe) for the Comparable Prior Period. These aggregate costs consist primarily of transportation expenses that were higher in the Reporting Period mainly due to an increase in production volumes of both oil and natural gas and trucking oil further distances during the Reporting Period.

Administrative Expenses

Net administrative expenses were $9.5 million ($4.97 per boe) for the Reporting Period as compared to $6.4 million ($3.98 per boe) for the Comparable Prior Period. The components of administrative expenses for the Reporting Period and Comparable Prior Period are as follows:

	Three months ended March 31, 2012		Three months ended March 31, 2011	
	($000's)	%	($000's)	%
Cash:				
Salaries and benefits[1]	6,510	69	3,247	58
Other[2]	2,925	31	2,342	42
	9,435	100	5,589	100
Operating overhead recoveries	(192)	(2)	(315)	(6)
Capitalized overhead[3]	(1,358)	(14)	(963)	(17)
General & administrative, net	7,885	84	4,311	77
General & administrative, net per boe	$4.11		$2.70	
Non-cash:				
Stock-based compensation	2,493	100	2,970	100
Capitalized stock-based compensation[3]	(852)	(34)	(922)	(31)
Stock-based compensation, net	1,641	66	2,048	69
Stock-based compensation, net per boe	$0.86		$1.28	
Total administrative expenses, net	**9,526**		6,359	
Total administrative expenses, net per boe	**$4.97**		$3.98	

(1) Includes salaries, benefits and bonuses paid to all Directors, Officers, and employees of the Corporation. During the three months ended March 31, 2012, the Corporation accrued approximately $2.4 million in retention payments that were paid in April 2012 as a result of the termination in the corporate sale process.

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

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

Net general and administrative ("**G&A**") expenses increased on an aggregate basis from the Comparable Prior Period largely due to non-recurring costs totalling approximately $2.8 million ($2.2 million, net of tax) related to the corporate sale process. Excluding these one-time costs, Birchcliff incurred net G&A expenses of approximately $5.0 million ($2.63 per boe) in the Reporting Period as compared to $4.3 million ($2.70 per boe) in the Comparable Prior Period. This increase was largely due to the hiring of additional employees and consultants.

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

	Number	Weighted Average Exercise Price ($)
Outstanding, December 31, 2011	10,466,941	8.73
Exercised	(260,000)	(4.03)
Outstanding, March 31, 2012	**10,206,941**	**8.85**

On April 26, 2012, the Corporation issued 3,361,400 stock options to officers and employees of Birchcliff at an exercise price of $5.96 per common share as a result of its annual compensation review.

There remained 2,939,732 performance warrants outstanding and exercisable at March 31, 2012. 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 $22.2 million ($11.57 per boe) for Reporting Period and $16.1 million ($10.06 per boe) for the Comparable Prior Period. D&D expenses increased on an aggregate basis mainly due to a 19% increase in average daily production from the Comparable Prior Period.

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 an area basis.

Impairment Test

In light of the low natural gas commodity price environment, Birchcliff performed an impairment test of its petroleum and natural gas assets on a cash-generating unit basis to assess for recoverability. The Corporation's assets were not impaired at March 31, 2012. In determining the recoverable amount of the Corporation's cash-generating unit, Birchcliff applied a pre-tax discount rate of 10% on cash flows from proved plus probable reserves. The petroleum and natural gas future prices are based on commodity price forecasts of the Corporation's independent reserves evaluator at the end of the Reporting Period.

Finance Expenses

Finance expenses were $5.8 million ($3.00 per boe) for the Reporting Period as compared to $5.5 million ($3.44 per boe) for the Comparable Prior Period. The components of the Corporation's finance expenses for the Reporting Period and Comparable Prior Period are as follows:

	Three months ended March 31, 2012		Three months ended March 31, 2011	
	($000's)	$/boe	($000's)	$/boe
Cash:				
Interest on credit facilities[1]	5,125	2.68	4,809	3.01
Non-cash:				
Accretion on decommissioning obligations	434	0.22	437	0.27
Amortization of deferred financing fees	199	0.10	255	0.16
Total finance expenses	**5,758**	**3.00**	5,501	3.44

(1) Interest costs for the Reporting Period consists of $4.3 million (Comparable Prior Period - $4.8 million) related to the Corporation's Revolving Credit Facilities and $0.8 million (Comparable Prior Period - $NL million) related to the Non-Revolving Five-Year Term Facility.

The aggregate interest expense from the Comparable Prior Period increased mainly due to a higher average balance on the outstanding bank credit facilities, offset by a lower effective interest rate under its credit facilities during the Reporting Period. The Corporation's average outstanding total credit facilities balance was approximately $415 million during the Reporting Period as compared to $334 million in the Comparable Prior Period, calculated as the simple average of the month end amounts. This increase was largely due to significant capital expended on the PCS Gas Plant project.

The effective interest rate applicable to the Working Capital Facility was 5.0% at the end of the Reporting Period as compared to 6.3% at the end the Comparable Prior Period. The effective interest rate applicable to the bankers' acceptances issued under the revolving Syndicated Credit Facility was 4.7% in the Reporting Period as compared to 5.5% in the Comparable Prior Period. The effective interest rate applicable to the bankers' acceptances issued under the Non-Revolving Five-Year Term Facility was 4.9% at the end of the Reporting Period.

Gain on Sale of Assets

During the Reporting Period, Birchcliff completed a transaction whereby it disposed of a non-core asset in the Glacier area of Alberta in exchange for strategic assets acquired in the Pouce Coupe area of Alberta. The fair value of the transaction was estimated at $25 million. As a result of the disposition, Birchcliff recorded a gain on sale of approximately $3.9 million ($2.9 million, net of tax) or $2.02 per boe during the Reporting Period.

Income Taxes

Birchcliff recorded a deferred income tax expense of approximately $1.9 million ($0.99 per boe) for the Reporting Period as compared to $3.9 million ($2.46 per boe) for the Comparable Prior Period. The decrease in deferred income tax expense from the Comparable Prior Period was due to lower net income before tax in the current quarter, mainly as a result of higher net G&A expenses and increased D&D expenses, offset by the gain on divestitures.

The Corporation's estimated income tax pools totaled approximately $1.1 billion at the end of the Reporting Period. Management expects that future taxable income will be available to utilize accumulated tax pools. Birchcliff's estimated tax pools at March 31, 2012 are comprised of the following:

As at March 31, 2012	
Canadian oil and gas property expense (COGPE)	280,498
Canadian development expense (CDE)	264,878
Canadian exploration expense (CEE)	170,584
Undepreciated cost of capital (UCC)	218,560
Non-capital losses (NCL)	161,088
Financing costs	1,703
Total estimated income tax pools	**1,097,311**

The Corporation's income tax pools totaling $39.3 million in respect of the Veracel Inc. ("**Veracel**") transaction continues to be under review by Canada Revenue Agency. Management believes that it will be successful in defending its tax position respecting the Veracel transaction, and as such, the Corporation has not recognized a related provision for deferred income tax liability at the end of the Reporting Period.

CAPITAL EXPENDITURES

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

Three months ended March 31,	2012	2011
Land	2,479	5,063
Seismic	333	2,613
Workovers	4,907	3,990
Drilling and completions	69,718	29,508
Well equipment and facilities	42,256	10,318
Total finding and development costs (F&D)	119,693	51,492
Acquisitions(1)	25,006	218
Dispositions(1)	(24,942)	-
Total finding, development and acquisition costs (FD&A)	119,757	51,710
Administrative assets	94	469
Total capital expenditures	**119,851**	52,179

(1) During the Reporting Period, Birchcliff completed a transaction whereby it disposed of a non-core asset in the Glacier area of Alberta in exchange for strategic assets acquired in the Pouce Coupe area of Alberta. The fair value of the transaction was estimated at $25 million.

SUMMARY OF QUARTERLY RESULTS

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

Quarters Ended ($000's, except for production, share and per share amounts)	**March 31, 2012**	December 31, 2011	September 30, 2011	June 30, 2011
Petroleum and natural gas production (boe per day)	21,061	19,812	17,648	17,324
Petroleum and natural gas commodity price at wellhead ($ per boe)	32.77	38.54	39.42	42.76
Natural gas commodity price at wellhead ($ per Mcf)	2.32	3.40	3.92	4.15
Petroleum commodity price at wellhead ($ per bbl)	90.10	95.52	86.40	99.31
Total petroleum and natural gas revenue	62,833	70,261	64,069	67,464
Total royalties	(7,268)	(7,585)	(6,804)	(8,801)
Total revenues, net	55,565	62,676	57,265	58,663
Total capital expenditures, net	119,852	81,023	71,978	32,300
Net income	3,731	3,333	11,411	10,117
Per share basic	0.03	0.03	$0.09	$0.08
Per share diluted	0.03	0.03	$0.09	$0.08
Cash flow	26,196	30,400	33,844	34,269
Per share basic	0.21	0.24	$0.27	$0.27
Per share diluted	0.20	0.23	$0.26	$0.26
Book value of total assets	1,314,633	1,225,497	1,138,075	1,080,314
Non-Revolving Five-Year Term Facility	68,267	68,925	68,811	68,773
Revolving Credit Facilities	374,064	319,500	290,495	270,278
Total debt	529,883	437,023	386,296	349,190
Shareholders' equity	663,872	656,602	648,905	632,588
Common shares outstanding – end of period				
basic	127,005,577	126,745,577	126,679,577	126,496,677
diluted	140,152,250	140,152,250	140,149,250	140,137,084
Weighted average common shares outstanding				
basic	126,753,764	126,731,919	126,630,446	126,322,814
diluted	131,008,290	132,216,022	131,374,723	131,380,901

Quarters Ended ($000's, except for production, share and per share amounts)	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Petroleum and natural gas production (boe per day)	17,742	16,375	13,109	12,357
Petroleum and natural gas commodity price at wellhead ($ per boe)	39.28	37.83	36.60	39.45
Natural gas commodity price at wellhead ($ per Mcf)	4.02	3.94	3.79	4.16
Petroleum commodity price at wellhead ($ per bbl)	87.03	81.89	76.44	76.24
Total petroleum and natural gas revenue	62,793	57,072	44,125	44,546
Total royalties	(6,199)	(4,388)	(3,561)	(3,621)
Total revenues, net	56,594	52,684	40,564	40,925
Total capital expenditures, net(1)	52,179	45,730	92,520	42,270
Net income(1)	9,593	7,431	5,533	5,087
Per share basic(1)	$0.08	$0.06	$0.04	$0.04
Per share diluted(1)	$0.07	$0.06	$0.04	$0.04
Cash flow(1)	32,313	27,865	22,750	23,013
Per share basic(1)	$0.26	$0.22	$0.18	$0.18
Per share diluted(1)	$0.25	$0.22	$0.18	$0.18
Book value of total assets(1)	1,069,322	1,038,555	996,327	910,823
Revolving Credit Facilities	335,220	333,468	281,172	235,993
Total debt	352,804	337,424	319,921	250,370
Shareholders' equity(1)	616,909	599,140	587,796	578,602
Common shares outstanding – end of period				
basic	126,127,244	125,129,234	124,912,134	124,792,136
diluted	139,963,084	137,316,486	137,364,386	137,255,386
Weighted average common shares outstanding				
basic	125,424,658	124,994,761	124,872,806	124,540,955
diluted(1)	129,715,133	128,418,091	128,338,449	127,966,923

(1) 2010 comparative quarters are restated to comply with International Financial Reporting Standards.

Discussion of Quarterly Results

Birchcliff's average production in the first quarter of 2012 was 21,061 boe per day, a 6% increase from 19,812 boe per day in the fourth quarter of 2011 and a 19% increase from 17,742 boe per day in the first quarter of 2011. The increase in production from the prior comparative periods was largely due to the increase in production from new Montney/Doig horizontal natural gas wells producing to the PCS Gas Plant and an increase in production from the Worsley Light Oil Resource Play. Natural gas production increased by 6% from the fourth quarter of 2011 and increased by 18% from the first quarter of 2011. In response to low natural gas prices, Birchcliff increased its light oil production by 8% from the fourth quarter of 2011 and by 22% from the first quarter of 2011.

Total capital expenditures (excluding minor acquisitions and dispositions) in the first quarter of 2012 were $119.8 million as compared to $81.0 million in the fourth quarter of 2011 and $52.0 million in the first quarter of 2011. Capital spent in the current quarter was directed towards the drilling, completion, equipping and tie-in of new Montney/Doig horizontal natural gas wells to keep Phases I and II of the PCS Gas Plant operating at full capacity; construction of the Phase III expansion of the PCS Gas Plant to bring its total natural gas processing capacity to 120 MMcf per day (subsequently re-licensed to permit processing of up to an expected 150 MMcf per day) from 60 MMcf per day; drilling of Montney/Doig horizontal natural gas wells that will be tied into Phase III during the fourth quarter of 2012; acquiring land; and developing and expanding the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play.

Cash flow generated by the Corporation in the first quarter of 2012 was $26.2 million as compared to $30.4 million in the fourth quarter of 2011 and $32.3 million in the first quarter of 2011. The decrease in cash flow from the previous quarter was mainly attributed to lower petroleum and natural gas prices realized at the wellhead, notwithstanding increased average daily production, lower net G&A expenses and lower aggregate operating costs mainly due to processing natural gas to the PCS Gas Plant. The decrease in cash flow from the first quarter of 2011 was largely due to lower natural gas wellhead prices, increased net G&A expenses (mainly due to one-time costs of approximately $2.8 million recorded in the current quarter related to the corporate sale process), slightly higher interest expense and a proportionate increase in aggregate royalty, operating and transportation and marketing costs due to higher average production in the current quarter, offset by increased average daily production and higher average oil wellhead prices.

Notwithstanding this low natural gas price environment, Birchcliff has reported net income in each of its ten recently completed quarters. Birchcliff recorded net income of $3.7 million in the first quarter of 2012 as compared to $3.3 million in the fourth quarter of 2011 and $9.6 million in the first quarter of 2011. Excluding the gain on sale of a non-core asset ($2.9 million, net of tax) and the non-recurring G&A costs related to the corporate sale process ($2.2 million, net of tax), Birchcliff recorded net income of approximately $3.0 million in the first quarter of 2012. The decrease in net income from the first quarter of 2011 was mainly attributable to lower cash flow, as discussed above, and an increase in depletion expense resulting from higher average daily production in the current quarter.

Total debt (including working capital deficit) was $529.9 million at March 31, 2012 as compared to $437.0 million at December 31, 2011 and $352.8 million at March 31, 2011. The increase in total debt from the comparative quarters was largely due to the increase in capital spent on the Montney/Doig

Resource Play and Worsley Light Oil Resource Play. Total debt was reduced subsequent to March 31, 2012 by $106.5 million, being the net proceeds of the Equity Financing.

MERGERS AND 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 and Procedures

The Corporation has established and maintained disclosure control and procedures ("**DC&P**") that have been designed by, or under the supervision of, the Corporation's Chief Executive Officer and the Chief Financial Officer ("**Certifying Officers**") to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosure. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's DC&P as at March 31, 2012 and have concluded that the Corporation's DC&P are appropriately designed and operating effectively to provide reasonable assurance that information required by securities legislation to be disclosed is made known to them by others, to allow timely decisions regarding the required disclosure.

While the Certifying Officers believe that the Corporation's DC&P provide a reasonable level of assurance and are effective, they do not expect that the DC&P will prevent all errors and fraud. A control system, no matter how well conceived, maintained and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met.

Internal Controls over Financial Reporting

The Corporation has established and maintains internal controls over financial reporting ("**ICFR**") that have been designed using the Committee of Sponsoring Organizations "Internal Control Over Financial Reporting- Guidance for Smaller Public Companies". The control framework was designed by, or under the supervision of, the Corporation's Certifying Officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the generally accepted accounting principles applicable to the Corporation and to provide reasonable assurance that all assets are safeguarded and transactions are appropriately authorized and recorded to facilitate the preparation of relevant, reliable and timely information. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's ICFR at March 31, 2012 and have concluded that the Corporation's ICFR was effective at March 31, 2012 for the purposes described above. No changes were made to the

Corporation's ICFR during the three months ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect the Corporation's ICFR.

While the Certifying Officers believe that the Corporation's ICFR provide a reasonable level of assurance and are effective, they do not expect that the ICFR will prevent all errors and fraud. A control system, no matter how well conceived, maintained and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met.

CRITICAL ACCOUNTING ESTIMATES

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

Reserves

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

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

Decommissioning obligations

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

Stock-based compensation

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

Impairment of assets

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

Income taxes

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

CHANGES IN ACCOUNTING POLICIES

Recent accounting standards and interpretations issued but not yet effective:

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

IFRS 10 *Consolidated Financial Statements* builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 replaces those parts of IAS 27

Consolidated and Separate Financial Statements (revised 2011) that address when and how an entity should prepare consolidated financial statements and replaces SIC 12 *Consolidation – Special Purpose Entities* in its entirety. IAS 27 retains the current guidance for separate financial statements.

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

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

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

Other accounting standards and interpretations:

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

ADVISORIES

Unaudited Numbers: *All 2012 financial amounts referred to in this MD&A and the Corporation's quarterly report are management's best estimates, which have not yet been audited.*

Non-GAAP Measures: *This MD&A and the Corporation's quarterly report uses terms such as "cash flow", "netback", "cash flow netback", "operating netback" and "cash flow per share", 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 denotes cash flow from operating activities as it appears on the Corporation's Statement of Cash Flows before decommissioning expenditures and* *changes in non-cash working capital. Netback denotes petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. Cash flow netback denotes net earnings plus non-cash items including deferred incomes tax expense (less any recovery), depletion and depreciation expense, accretion expense, stock-based compensation expense, amortization of deferred financing fees and gains or losses on divestitures.*

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

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

Forward-Looking Information: *This MD&A and the Corporation's quarterly report contains forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking information relates to future events or future performance and is based upon the Corporation's current internal expectations, estimates, projections, assumptions and beliefs. All information other than historical fact is forward-looking information. Information relating to "reserves" or "resources" is forward-looking as it is a forecast of quantities of hydrocarbons that can be recovered and sold 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 expected annual exit rate production, expected renewal of revolving credit facilities, planned 2012 capital spending and sources of funding; estimates of reserves and resource volumes; intention to drill and complete future wells; expected processing capacity and commissioning date of the PCS Gas Plant; treatment under tax laws; expectation of future taxable income available to utilize income tax pools and the ability to successfully defend tax reassessments.

The forward-looking information is based upon assumptions as to future commodity prices, currency exchange rates, inflation rates, well production rates, well drainage areas, success rates for future drilling and availability of labour and services. 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 future wells, a key assumption is that geological and other technical interpretations performed by the Corporation's technical staff, which indicate the commercially economic reserves can be recovered from the Corporation's land 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 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 and the Corporation's quarterly report to conform such information to actual results or to changes in the Corporation's plans or expectations, except as otherwise required by applicable securities laws.

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

As at,	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash	**64**	65
Accounts receivable	**23,593**	37,699
Prepaid expenses and deposits	**1,930**	2,240
	25,587	40,004
Non-current assets:		
Exploration and evaluation (Note 3)	**1,920**	1,858
Petroleum and natural gas properties and equipment (Note 4)	**1,287,126**	1,183,635
	1,289,046	1,185,493
Total assets	**1,314,633**	1,225,497
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	**113,139**	88,602
Non-current liabilities:		
Non-revolving term credit facilities	**68,267**	68,925
Revolving credit facilities	**374,064**	319,500
Decommissioning obligations (Note 5)	**65,558**	64,023
Deferred income taxes	**29,733**	27,845
	537,622	480,293
Total liabilities	**650,761**	568,895
SHAREHOLDERS' EQUITY		
Share capital	**569,391**	567,816
Contributed surplus	**45,034**	43,070
Retained earnings	**49,447**	45,716
	663,872	656,602
Total shareholders' equity and liabilities	**1,314,633**	1,225,497

The accompanying notes are an integral part of these interim 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 March 31, 2012	Three months ended March 31, 2011
REVENUE		
Petroleum and natural gas	**62,833**	62,793
Royalties	**(7,268)**	(6,199)
	55,565	56,594
EXPENSES		
Operating	**11,830**	11,134
Transportation and marketing	**4,529**	4,027
Administrative, net	**9,526**	6,359
Depletion and depreciation (Note 4)	**22,177**	16,064
Finance	**5,758**	5,501
(Gain) on sale of assets (Note 4)	**(3,875)**	-
	49,945	43,085
INCOME BEFORE TAXES	**5,620**	13,509
Deferred income tax expense	**1,889**	3,916
NET INCOME AND COMPREHENSIVE INCOME	**3,731**	9,593
Income per common share (Note 7)		
basic	**$0.03**	$0.08
diluted	**$0.03**	$0.07
Weighted average common shares (Note 7)		
basic	**126,753,764**	125,424,658
diluted	**131,008,290**	129,715,133

The accompanying notes are an integral part of these interim 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	Total
As at December 31, 2010	125,129,234	554,419	33,459	11,262	599,140
Exercise of stock options	998,010	7,830	(2,624)	-	5,206
Stock-based compensation	-	-	2,970	-	2,970
Net income and comprehensive income	-	-	-	9,593	9,593
As at March 31, 2011	126,127,244	562,249	33,805	20,855	616,909
As at December 31, 2011	126,745,577	567,816	43,070	45,716	656,602
Exercise of stock options (Note 6)	260,000	1,575	(529)	-	1,046
Stock-based compensation (Note 6)	-	-	2,493	-	2,493
Net income and comprehensive income	-	-	-	3,731	3,731
As at March 31, 2012	**127,005,577**	**569,391**	**45,034**	**49,447**	**663,872**

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

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

Cash provided by (used in):	**Three month ended March 31, 2012**	Three months ended March 31, 2011
OPERATING		
Net income	**3,731**	9,593
Adjustments for items not affecting operating cash:		
Depletion and depreciation	**22,177**	16,064
Stock-based compensation	**1,641**	2,048
Finance	**5,758**	5,501
(Gain) on sale of assets	**(3,875)**	-
Deferred income taxes	**1,889**	3,916
Interest paid	**(5,125)**	(4,809)
Decommissioning expenditures (Note 5)	**(52)**	(466)
Changes in non-cash working capital	**2,472**	(9,806)
	28,616	22,041
FINANCING		
Exercise of stock options	**1,046**	5,206
Decrease in non-revolving term credit facilities	**(692)**	-
Increase in revolving credit facilities	**54,400**	1,498
	54,754	6,704
INVESTING		
Acquisition of petroleum and natural gas properties and equipment	**-**	(218)
Additions of exploration and evaluation assets	**(62)**	(260)
Development of petroleum and natural gas properties and equipment	**(119,790)**	(51,701)
Changes in non-cash working capital	**36,481**	18,636
	(83,371)	(33,543)
NET CHANGE IN CASH	**(1)**	(4,798)
CASH, BEGINNING OF PERIOD	**65**	4,863
CASH, END OF PERIOD	**64**	65

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

BIRCHCLIFF ENERGY LTD.
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2012
UNAUDITED (EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE STATED)

1. NATURE OF OPERATIONS

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

These financial statements were approved and authorized for issuance by the Board of Directors on May 15, 2012.

2. BASIS OF PREPARATION

These unaudited interim condensed financial statements (the "**Financial Statements**") present Birchcliff's financial results of operations and financial position under International Financial Reporting Standards ("**IFRS**") as at and for the three months ended March 31, 2012, including the 2011 comparative periods. The Financial Statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**").

These Financial Statements have been prepared following the same IFRS accounting policies and methods of computation as the annual audited financial statements for the year ended December 31, 2011. Certain information and disclosures normally required to be included in the notes to the annual audited financial statements have been condensed, omitted or have been disclosed on an annual basis only. Accordingly, these Financial Statements should be read in conjunction with the annual audited financial statements and the notes thereto for the year ended December 31, 2011.

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

3. EXPLORATION AND EVALUATION ASSETS

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

	E&E(1)(2)
As at December 31, 2010	1,540
Additions	318
As at December 31, 2011	1,858
Additions	62
As at March 31, 2012	**1,920**

(1) E&E assets consist of the Corporation's exploration activities which are pending the determination of economic quantities of commercially producible proven reserves. Additions represent the Corporation's net share of costs incurred on E&E activities during the period. There were no costs reclassified from E&E to petroleum and natural gas properties and equipment during the reporting periods ended March 31, 2012 and December 31, 2011.

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

4. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

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

	P&NG	Corporate	Total
Cost:			
As at December 31, 2010	1,037,653	5,375	1,043,028
Additions	264,979	888	265,867
Acquisitions	6,005	-	6,005
Dispositions	(7,159)	-	(7,159)
As at December 31, 2011	1,301,478	6,263	1,307,741
Additions	121,533	270	121,803
Acquisitions	25,006	-	25,006
Dispositions(1)	(22,503)	-	(22,503)
As at March 31, 2012(2)	1,425,514	6,533	1,432,047
Accumulated depletion and depreciation:			
As at December 31, 2010	(50,260)	(2,518)	(52,778)
Depletion and depreciation expense	(70,757)	(979)	(71,736)
Dispositions	408	-	408
As at December 31, 2011	(120,609)	(3,497)	(124,106)
Depletion and depreciation expense	(21,953)	(224)	(22,177)
Dispositions(1)	1,362	-	1,362
As at March 31, 2012	(141,200)	(3,721)	(144,921)
Net book value(3):			
As at December 31, 2011	1,180,869	2,766	1,183,635
As at March 31, 2012	**1,284,314**	**2,812**	**1,287,126**

(1) During the three months ended March 31, 2012, Birchcliff completed a transaction whereby it disposed of a non-core asset in the Glacier area of Alberta in exchange for strategic assets acquired in the Pouce Coupe area of Alberta. The fair value of the transaction was estimated at $25 million. As a result of the disposition, Birchcliff recorded a gain on sale of approximately $3.9 million.

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

(3) In light of the low natural gas prices, the Corporation performed an asset impairment test to ensure that the carrying value of its P&NG properties and equipment is recoverable and does not exceed its fair value at the end of the reporting period. Birchcliff's P&NG properties and equipment were not impaired at March 31, 2012 and December 31, 2011. In determining the recoverable amount, Birchcliff applied a pre-tax discount rate of 10% on cash flows from proved plus probable reserves. The petroleum and natural gas future prices are based on period-end commodity price forecasts of the Corporation's independent reserves evaluator.

5. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is provided below:

As at,	**March 31, 2012**	December 31, 2011
Balance, beginning	64,023	42,106
Obligations incurred	1,179	2,999
Obligations acquired, net dispositions	(26)	237
Changes in estimate	-	5,988
Changes in discount rate	-	12,003
Accretion expense	434	1,747
Actual expenditures	(52)	(1,057)
Balance, ending(1)	**65,558**	64,023

(1) A pre-tax risk-free discount rate of 2.6% and an inflation rate of 2.0% were used to calculate the discounted fair value of the obligation at March 31, 2012 and December 31, 2011.

6. SHARE-BASED PAYMENTS

During the three months ending March 31, 2012, the Corporation recorded $1.6 million (March 31, 2011 – $2.0 million) of stock-based compensation expense, net of $0.9 million (March 31, 2011 – net of $1.0 million) in capitalized amounts directly attributable to the exploration and development of the Corporation's assets.

As of March 31, 2012, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of a maximum of 12,700,558 (March 31, 2011 – 12,612,724) common shares. At March 31, 2012, there remained available for issuance options in respect of 2,493,617 (March 31, 2011 – 1,716,616) common shares. For stock options exercised during the three months ended March 31, 2012, the weighted average share trading price was $10.92 (March 31, 2011 – $11.22) per share.

A summary of the outstanding stock options is presented below:

	Number	**Weighted Average Exercise Price ($)**
Outstanding, December 31, 2011	10,466,941	8.73
Exercised	(260,000)	(4.03)
Outstanding, March 31, 2012	**10,206,941**	**8.85**

A summary of the stock options outstanding and exercisable under the plan at March 31, 2012 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	2,350,639	1.60	4.97	2,350,639	1.60	4.97
6.01	9.00	1,781,067	1.43	7.70	1,531,398	1.23	7.63
9.01	12.00	5,512,435	3.25	10.48	2,631,299	3.06	10.27
12.01	14.25	562,800	3.18	12.86	187,800	1.28	13.07
		10,206,941	**2.55**	**8.85**	**6,701,136**	**2.08**	**7.88**

There were no performance warrants issued or exercised during the three months ended March 31, 2012 and the year ended December 31, 2011. At March 31, 2012, there remained outstanding and exercisable 2,939,732 performance warrants.

7. PER SHARE INFORMATION

Basic income per share was calculated as follows:

For the three months ended,	**March 31, 2012**	March 31, 2011
Net income	3,731	9,593
Weighted average common shares:		
Issued common shares at January 1	126,745,577	125,129,234
Exercise of stock options	8,187	295,424
Weighted average common shares (basic)	**126,753,764**	125,424,658
Income per share (basic)	**$0.03**	$0.08

Diluted income per share was calculated as follows:

For the three months ended,	**March 31, 2012**	March 31, 2011
Net income	3,731	9,593
Weighted average common shares:		
Weighted average common shares (basic)	126,753,764	125,424,658
Effects of outstanding options	4,254,526	4,290,475
Weighted average common shares (diluted)	**131,008,290**	129,715,133
Income per share (diluted)	**$0.03**	$0.07

The weighted average diluted common shares outstanding at March 31, 2012 excludes 562,800 (March 31, 2011 – 2,955,475) of stock options that are anti-dilutive. The average market value of the Corporation's shares for the purpose of calculating the dilutive effect of stock options and performance warrants was based on average quoted market prices for the time that the options and warrants were outstanding during the period.

8. CAPITAL MANAGEMENT

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations, including potential obligations arising from additional acquisitions; to maintain a capital structure that allows Birchcliff to 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 as at and during the three months ended March 31, 2012.

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

As at,	**March 31, 2012**	December 31, 2011
Maximum borrowing base limit(1)(2):		
Non-revolving five-year term credit facility	70,000	70,000
Revolving credit facilities	450,000	450,000
	520,000	520,000
Principal amount utilized:		
Drawn non-revolving five-year term credit facility	(70,000)	(70,000)
Drawn revolving credit facilities	(377,455)	(323,221)
Outstanding letters of credit(3)	(2,668)	(2,668)
	(450,123)	(395,889)
Total unused credit	**69,877**	124,111

(1) The Corporation's credit facilities are subject to a semi-annual review of the borrowing base limit, which is directly impacted by the value of Birchcliff's petroleum and natural gas reserves.

(2) The financial covenants applicable to the Corporation's credit facilities includes a (i) quarterly interest coverage ratio test, which is calculated as earnings before interest, taxes, stock-based compensation, depletion, depreciation and amortization over interest expense ("**EBITDA**") and (ii) debt to EBITDA. Debt includes the amounts outstanding under the Corporation's credit facilities as disclosed on the Statements of Financial Position and letters of credit at the end of the reporting period, excluding unamortized deferred financing fees. The Corporation was compliant with all financial covenants applicable under its credit facilities as at and during the periods ended March 31, 2012 and December 31, 2011.

(3) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit as at and during the periods ended March 31, 2012 and December 31, 2011.

The capital structure of the Corporation is as follows:

As at,	**March 31, 2012**	December 31, 2011	Change
Total shareholders' equity(1)	663,872	656,602	1%
Total shareholders' equity as a % of total capital	55%	60%	
Working capital deficit(2)	87,552	48,598	
Drawn non-revolving five-year term credit facility	70,000	70,000	
Drawn revolving credit facilities	377,455	323,221	
Total drawn debt	535,007	441,819	21%
Total drawn debt as a % of total capital	45%	40%	
Total capital	**1,198,879**	1,098,421	9%

(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.

9. SUBSEQUENT EVENTS

On April 19, 2012, the Corporation raised $110.2 million through an equity financing comprised of a bought deal equity offering whereby it issued 8,075,000 common shares at a price of $7.65 per share for gross proceeds of $61.8 million, 1,100,000 common shares issued on a "flow-through share" basis at a price of $9.20 per share for gross proceeds of $10.1 million and 5,000,000 common shares at a price of $7.65 per share on a concurrent private placement basis with its major shareholder for gross proceeds of $38.3 million. Proceeds from the issuance of the flow-through shares will be used to incur eligible Canadian Exploration Expenditures for purposes of the *Income Tax Act* (Canada). The Corporation covenants and agrees to incur $10.1 million of eligible flow-through share expenditures on or before December 31, 2013, and renounce to each subscriber of flow-through shares effective on or before December 31, 2012. The net proceeds of the equity financing totalling approximately $106.5 million were used to reduce outstanding indebtedness under the Revolving Credit Facilities after the end of the reporting period.

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