



Growth by
the drill bit

ANNUAL REPORT

2013



Financial and Operational Highlights

	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
OPERATING				
Average daily production				
Light oil – (barrels)	4,227	3,986	4,030	4,270
Natural gas – (thousands of cubic feet)	138,132	131,120	125,712	106,868
NGLs – (barrels)	1,142	816	847	721
Total – barrels of oil equivalent (6:1)	28,391	26,655	25,829	22,802
Average sales price (\$/CDN)				
Light oil – (per barrel)	81.52	83.38	89.89	84.45
Natural gas – (per thousand cubic feet)	3.81	3.43	3.41	2.63
NGLs – (per barrel)	85.45	80.44	88.45	83.78
Total – barrels of oil equivalent (6:1)	34.10	31.78	33.52	30.80
NETBACK AND COST (\$ per barrel of oil equivalent at 6:1)				
Petroleum and natural gas revenue	34.11	31.81	33.59	30.82
Royalty expense	(2.68)	(2.52)	(2.92)	(2.90)
Operating expense	(5.44)	(5.88)	(5.68)	(6.06)
Transportation and marketing expense	(2.52)	(2.09)	(2.46)	(2.28)
Netback	23.47	21.32	22.53	19.58
General & administrative expense, net	(2.54)	(2.66)	(2.19)	(2.75)
Interest expense	(1.77)	(2.41)	(2.28)	(2.42)
Other income	-	-	0.44	-
Funds flow netback				
Stock-based compensation expense, net	(0.37)	(0.41)	(0.43)	(0.60)
Depletion and depreciation expense	(11.70)	(11.75)	(11.54)	(11.48)
Accretion expense	(0.24)	(0.18)	(0.23)	(0.21)
Amortization of deferred financing fees	(0.10)	(0.08)	(0.09)	(0.09)
Gain on sale of assets	12.93	-	3.58	0.46
Unrealized loss on financial instruments	(0.15)	-	(0.04)	-
Dividends on Series C Preferred Shares	(0.33)	-	(0.20)	-
Income tax expense	(5.01)	(1.26)	(2.61)	(0.91)
Net income	14.19	2.57	6.94	1.58
Dividends on Series A Preferred Shares	(0.38)	(0.41)	(0.43)	(0.19)
Net income to common shareholders	13.81	2.16	6.51	1.39
FINANCIAL				
Petroleum and natural gas revenue (\$000's)	89,092	78,001	316,637	257,206
Funds flow from operations (\$000's) ⁽¹⁾	50,060	39,848	174,361	120,259
Per common share – basic (\$) ⁽¹⁾	0.35	0.28	1.22	0.88
Per common share – diluted (\$) ⁽¹⁾	0.34	0.28	1.20	0.86
Net income (\$000's)	37,062	6,305	65,417	13,196
Net income to common shareholders (\$000's) ⁽²⁾	36,062	5,305	61,417	11,617
Per common share – basic (\$) ⁽²⁾	0.25	0.04	0.43	0.08
Per common share – diluted (\$) ⁽²⁾	0.25	0.04	0.42	0.08
Common shares outstanding				
End of period – basic	143,676,661	141,596,279	143,676,661	141,596,279
End of period – diluted	163,547,913	162,997,383	163,547,913	162,997,383
Weighted average common shares for period – basic	143,062,664	141,585,180	142,421,939	137,083,519
Weighted average common shares for period – diluted	145,319,288	144,238,774	145,006,118	139,904,484
Dividends on Series A Preferred Shares (\$000's)	1,000	1,000	4,000	1,579
Dividends on Series C Preferred Shares (\$000's)	875	-	1,913	-
Capital expenditures, net (\$000's)	18,188	32,137	215,770	298,903
Long-term bank debt (\$000's)	393,967	432,563	393,967	432,563
Working capital deficit (\$000's) ⁽³⁾	60,071	29,567	60,071	29,567
Total debt (\$000's)	454,038	462,130	454,038	462,130

(1) Funds flow from operations and per common share amounts are non-GAAP measures that represent cash flow from operating activities as per the Statements of Cash Flows before the effects of changes in non-cash working capital and decommissioning expenditures. Per common share amounts are calculated by dividing funds flow from operations by the weighted average number of basic or diluted common shares outstanding for the period.

(2) Net income to common shareholders is calculated using net income as determined in accordance with GAAP, adjusted for dividends paid on Series A Preferred Shares. Per common share amounts are calculated by dividing net income to common shareholders by the weighted average number of basic or diluted common shares outstanding for the period.

(3) Excludes the fair value of financial instruments and related deferred premium.

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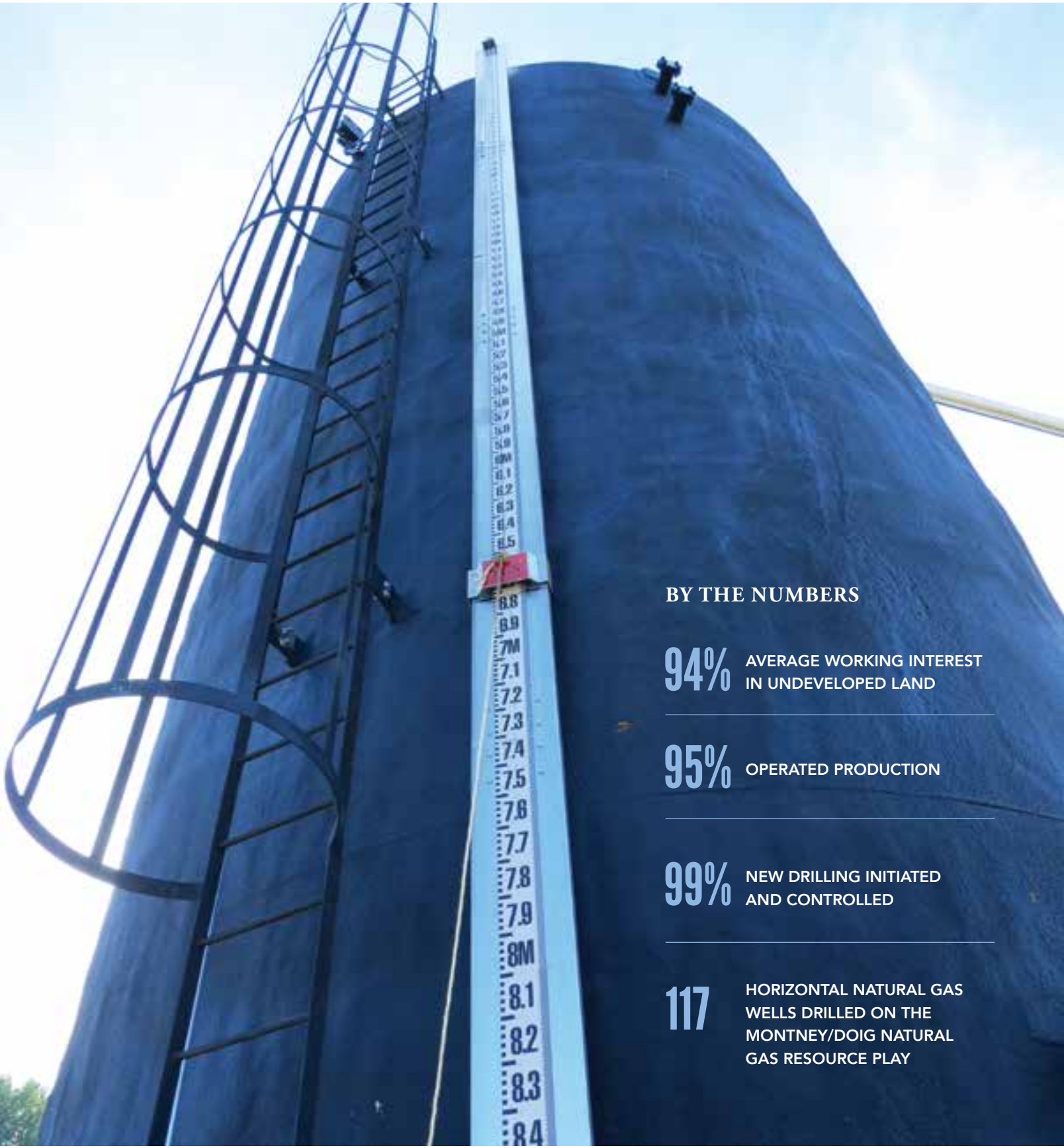


Birchcliff Energy Ltd. is a Calgary, Alberta based intermediate oil and gas company with operations concentrated within one core area, the Peace River Arch of Alberta.

Our strategy is to develop drilling opportunities on our two established resource plays, the Montney/Doig Natural Gas Resource Play and the Worsley Charlie Lake Light Oil Resource Play, to support growth in a repeatable, low risk manner.

Birchcliff's common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol BIR and are included in the S&P/TSX Composite Index. Birchcliff's Series A and Series C Preferred Shares and its Warrants are listed for trading on the TSX under the symbols BIR.PR.A, BIR.PR.C and BIR.WT respectively.

At March 14, 2014, Birchcliff had an enterprise value of approximately \$2 billion.



BY THE NUMBERS

94% AVERAGE WORKING INTEREST
IN UNDEVELOPED LAND

95% OPERATED PRODUCTION

99% NEW DRILLING INITIATED
AND CONTROLLED

117 HORIZONTAL NATURAL GAS
WELLS DRILLED ON THE
MONTNEY/DOIG NATURAL
GAS RESOURCE PLAY

JEFF TONKEN,
PRESIDENT AND CEO
WITH LARRY SHAW,
CHAIRMAN OF THE BOARD



GROWTH BY THE DRILL BIT

Message to the Shareholders

Dear Fellow Shareholder,

Few oil and gas companies can match Birchcliff's track record. We have developed an asset base that has allowed us to consistently grow our production; add reserves and resources; and reduce our costs on a per boe basis. We can do this in a repeatable manner, because we do it with the drill bit. We own and control our infrastructure. We remain focused on the Peace River Arch. We pay attention to the smallest details and plan our capital programs very carefully. Most importantly, we communicate on a constant basis with our employees to give them the opportunity to be the best that they can be. We all enjoy the benefits of the extra effort our employees put in to the execution of our strategy.

Our business strategy has translated into exceptional results. Here are a few highlights since 2009:

PER SHARE GROWTH

	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010	Dec 31, 2009	Change Since 2009	Average Annualized Growth
Reserves per common share <i>(boe/1000 shares):</i>							
Proved developed producing	431	385	305	246	166	159%	40%
Total proved	1,531	1,313	1,232	911	727	111%	28%
Proved plus probable	2,576	2,244	2,173	1,607	1,270	103%	26%
Production per common share⁽¹⁾ <i>(boe/day/million shares):</i>							
Production per common share	181.4	166.3	143.6	104.9	95.1	91%	23%
Funds flow per common share⁽¹⁾ <i>(\$/share):</i>							
Funds flow per common share	1.22	0.88	1.04	0.76	0.57	114%	29%
Average benchmark prices:							
Natural gas – AECO – C Daily (\$/MMbtu)	3.17	2.39	3.63	4.01	3.96	(20)%	(5)%
Light oil – Edmonton Par (\$/bbl)	92.92	86.12	95.03	77.50	69.50	34%	8%

(1) Based on the weighted average basic common shares outstanding in the respective year.

Since 2009, Birchcliff has demonstrated significant growth in reserves, production and funds flow per common share, despite the volatility in AECO natural gas prices. This growth has been achieved through Birchcliff's low risk development drilling on the Montney/Doig Natural Gas Resource Play, continued improvements in our capital efficiencies and the benefits realized from processing increased volumes of natural gas at our 100% owned and operated natural gas plant in the Pouce Coupe South area (the "PCS Gas Plant").

Birchcliff has consistently reduced its operating costs on a per boe basis. We have been able to add significant reserves at low finding and development costs. These costs are some of the best in the industry. The infrastructure and development projects launched over the course of the last five years have laid the foundation for sustainable production and reserves growth for many years to come. We are well positioned to capitalize on growth opportunities and continue to enhance shareholder value over the long-term.

2013 RESULTS

Production in 2013 averaged 25,829 boe per day, a 13.3% increase over 2012. As a result, Birchcliff had cash flow of \$174.4 million and earnings of \$61.4 million. Operating costs were down to \$5.68 per boe, a 6.3% reduction from 2012.

We increased our proved plus probable reserves to 370.1 MMboe, a 16.5% increase over 2012. Our finding, development and acquisition costs on a proved plus probable basis were approximately \$3.46 per boe excluding future development capital, and \$8.60 per boe including future development capital. Birchcliff expanded its footprint within its development area, while maintaining a 94% average working interest in undeveloped land.

2014 OUTLOOK

Birchcliff's 2014 capital budget is \$347.1 million (including \$56.0 million for a strategic acquisition in January 2014).

As a result of significant natural gas production growth and the cost efficiency of our PCS Gas Plant, coupled with strong natural gas prices, Birchcliff is now capable of funding a substantial majority of its 2014 capital expenditure program out of internally generated cash flow. This will result in Birchcliff significantly improving its balance sheet while at the same time continuing to post significant production and reserves growth.

We expect production in the first quarter of 2014 to be approximately 31,800 boe per day and forecast record first quarter funds flow to be approximately \$83 million (\$0.58 per common share), representing a 66% increase from funds flow of \$50.1 million in the fourth quarter of 2013 and a 110% increase from \$39.4 million in the first quarter of 2013. This forecast assumes a realized natural gas price at the wellhead of \$6.12 per Mcf (based on an expected average AECO daily spot price of \$5.40 per GJ) and a realized crude oil price at the wellhead of \$89.11 per bbl for the first quarter

We expect exit production in 2014 to be between 37,500 and 39,500 boe per day. Planned drilling activities in 2014 include 40 (39.5 net) wells.

Birchcliff's natural gas production during the winter of 2014 is unhedged and as a result we are receiving the full benefit of high natural gas prices.

Birchcliff has contracted forward physical sales of 75,000 GJ per day for approximately \$4.35 per Mcf, representing 41% of its estimated natural gas volumes during the summer months, April 1 to October 31, 2014. We have no current intention of contracting forward physical sales of natural gas for the winter months of 2015, however, in late 2014, we will consider hedging natural gas for the 2015 summer months.

Our PCS Gas Plant is currently licensed to process up to 150 MMcf per day of natural gas. The Phase IV expansion planned for the fall of 2014 will bring processing capacity to 180 MMcf per day by adding additional compression and sales pipeline capacity for a modest capital investment of approximately \$11.6 million.

We remain focused on our strategy – growth by the drill bit, in our core area of the Peace River Arch of Alberta. We continue to use the same services, in the same area, directed by experienced Birchcliff personnel, which provides consistency, repeatability and reliability in our operations.

Our record production and low cost structure, together with high natural gas prices have given us tremendous momentum for strong financial results and production growth in 2014.

THANK YOU TO THE BIRCHCLIFF TEAM

Birchcliff's 2013 results were achieved thanks to the dedication and hard work of our talented team.

Seymour Schulich provides phenomenal financial support and, more importantly, has never wavered from his commitment to our Management Team, whether the natural gas price was high or low. He provides continuous feedback and shrewd advice, which is always delivered with a little humor! Seymour is a major part of the Birchcliff Team.

On behalf of our Management Team and Directors, I thank all of our employees for their hard work and dedication to the achievement of our corporate goals. Thank you to all our shareholders for your continued support and your trust in all of us at Birchcliff.

We look forward to another excellent year.

(signed) "A. Jeffery Tonken"

A. Jeffery Tonken,

President and Chief Executive Officer

March 14, 2014

Financial Performance

2013 FINANCIAL HIGHLIGHTS

FUNDS FLOW PER
COMMON SHARE

\$1.22

PER SHARE
↑ 39% FROM 2012

NET INCOME PER
COMMON SHARE

\$0.43

PER SHARE
↑ 438% FROM 2012

AVERAGE DAILY
PRODUCTION PER
COMMON SHARE

↑ 9%

FROM 2012

PROVED DEVELOPED
PRODUCING RESERVES PER
COMMON SHARE

↑ 12%

FROM 2012

PROVED PLUS PROBABLE
FD&A
(INCL. FDC)

\$8.60

PER BOE
↓ 26% FROM 2012

PROVED PLUS PROBABLE
FD&A OPERATING
NETBACK RECYCLE RATIO
(INCL. FDC)

2.6

TIMES
↑ 53% FROM 2012

NET ASSET VALUE
(NPV 10%)

\$17.08

PER SHARE
↑ 23% FROM 2012

CAPITAL EFFICIENCY ⁽¹⁾

\$20,311

PER BOE PER DAY
↓ 8% FROM 2012

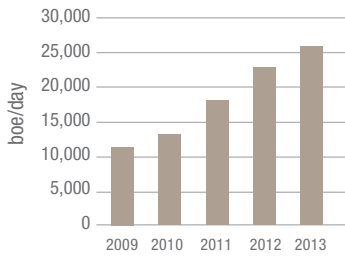
(1) Birchcliff invested \$268.1 million in F&D capital (including land and facilities) and added approximately 13,200 boe per day (based on the first month's production average per well) at an all-in cost of \$20,311 per boe per day in 2013, down 8% from 2012.

“We expect our capital efficiencies to improve in 2014 as Birchcliff continues to add new production through the drill bit.”

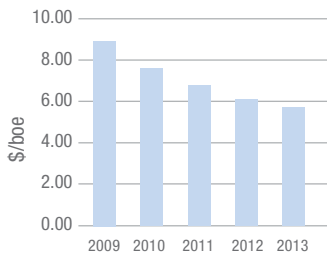
BRUNO GEREMIA, VICE-PRESIDENT & CHIEF FINANCIAL OFFICER



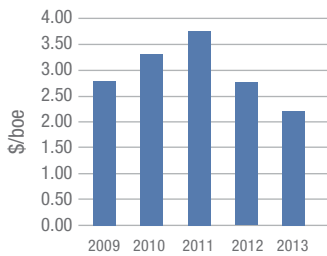
AVERAGE DAILY PRODUCTION
(boe/day)



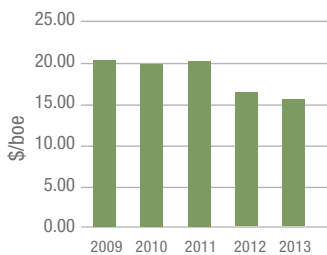
CORPORATE OPERATING COSTS PER BOE, NET OF RECOVERIES
(\$/boe)



G&A COSTS PER BOE
(\$/boe)



TOTAL CASH COST PER BOE
(\$/boe)



AVERAGE DAILY PRODUCTION

25,829

UP 13% FROM 22,802
BOE PER DAY IN 2012

CORPORATE OPERATING COSTS
PER BOE (NET OF RECOVERIES)

\$5.68

DOWN 6% FROM \$6.06
PER BOE IN 2012

G&A COSTS PER BOE

20% ↓

DOWN FROM \$2.75 PER BOE IN 2012
TO \$2.19 PER BOE IN 2013

TOTAL CASH COST PER BOE

\$15.53

DOWN 5% FROM \$16.41
PER BOE IN 2012

Strategy

Our strategy is to develop large-scale exploration and development opportunities in the Peace River Arch area of Alberta that can support extensive drilling and production growth in a repeatable, low-cost, low-risk manner.

Birchcliff has a full-cycle exploration, exploitation and development strategy for the Montney/Doig Natural Gas Resource Play. We are very focused on improvements to our drilling and completion operations that will result in cost reductions. Birchcliff's dominant land and infrastructure position in the Peace River Arch has helped us develop an in-depth knowledge of the land, the geology, the reservoirs, the infrastructure, and the stakeholders.



PCS GAS PLANT

Our 100% owned and operated natural gas plant in the Pouce Coupe South area (the “**PCS Gas Plant**”) is strategically situated in the heart of our Montney/Doig Natural Gas Resource Play, enabling us to process natural gas at a fraction of the costs borne by others who rely on third-party processing.

The PCS Gas Plant is the cornerstone of our strategy to develop our Montney/Doig Natural Gas Resource Play to control and expand our production; and to further reduce our operating costs on a per boe basis.

The PCS Gas Plant is currently licensed to process up to 150 MMcf per day of natural gas. The Phase IV expansion planned for the fall of 2014 will bring processing capacity to 180 MMcf per day by adding additional compression and sales pipeline for a modest capital investment of approximately \$11.6 million.

“In 2013, we have again made great strides in developing our world scale natural gas asset base and surfacing a part of the value of these assets. We are ahead of our five-year plan and we expect 2014 will bring further and substantial progress in the value realization process.”

JIM SURBEY, VICE-PRESIDENT, CORPORATE DEVELOPMENT

AERIAL VIEW OF OUR PCS GAS PLANT.



ONE CORE AREA

Peace River Arch

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



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



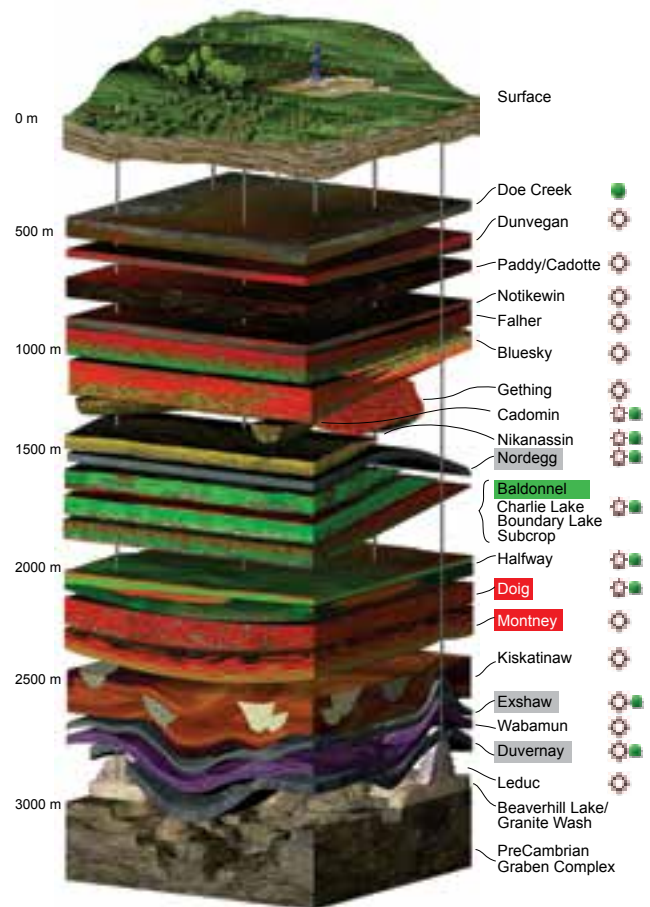
Resource Plays

Birchcliff is focused on two established resource plays within the Peace River Arch, the Montney/Doig Natural Gas Resource Play and the Worsley Charlie Lake Light Oil Resource Play. Our technical teams are also analyzing and evaluating new resource plays on which virtually all of our undeveloped land has potential.

Birchcliff characterizes its resource plays as plays that have regionally pervasive, continuous, low permeability hydrocarbon accumulations or systems that usually require intensive stimulation to produce. The production characteristics of these plays include steep initial declines that rapidly trend to much lower decline rates, yielding long life production and reserves. Resource plays exhibit a statistical distribution of estimated ultimate recoveries and therefore provide a repeatable distribution of drilling opportunities. As more wells are drilled into a resource play, there is a substantial decrease in both the geological and technical risks.



STRATIGRAPHIC COLUMN AND PRODUCTION ZONES

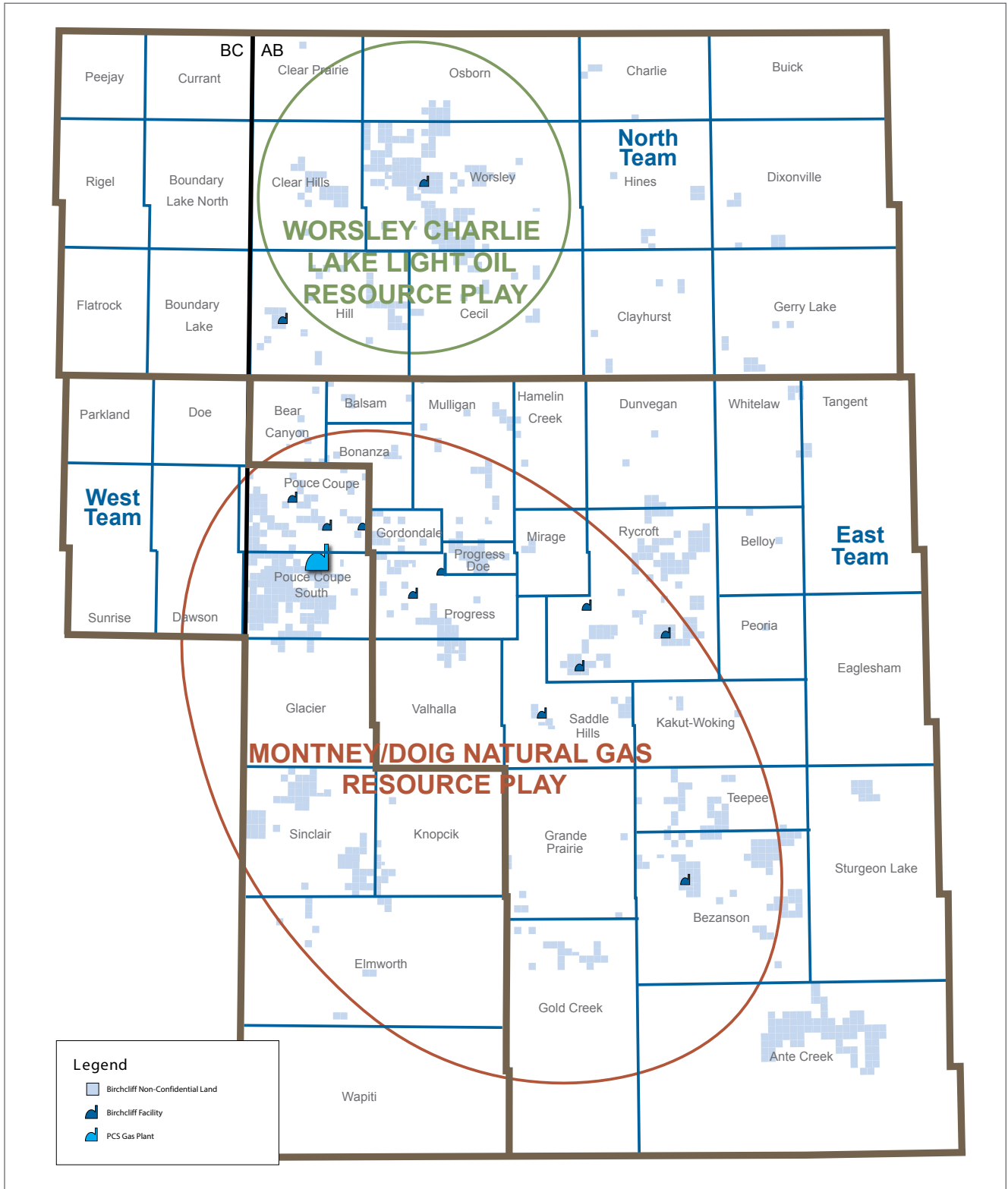


“Birchcliff’s Montney/Doig Natural Gas Resource Play has significant LNG upside. Birchcliff currently has 1.9 Tcf of remaining reserves and 6.5 Tcf of contingent resources, which is enough natural gas to supply an LNG facility with 1 Bcf per day for over 20 years.”

MYLES BOSMAN,
VICE-PRESIDENT, EXPLORATION & CHIEF OPERATING OFFICER

BIRCHCLIFF OPERATIONS IN THE PEACE RIVER ARCH

On Birchcliff's two established resource plays within the Peace River Arch, the Montney/Doig Natural Gas Resource Play and the Worsley Charlie Lake Light Oil Resource Play, the Corporation utilizes the expertise of three technical teams: North Team, West Team and East Team.



Montney/Doig Natural Gas Resource Play

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

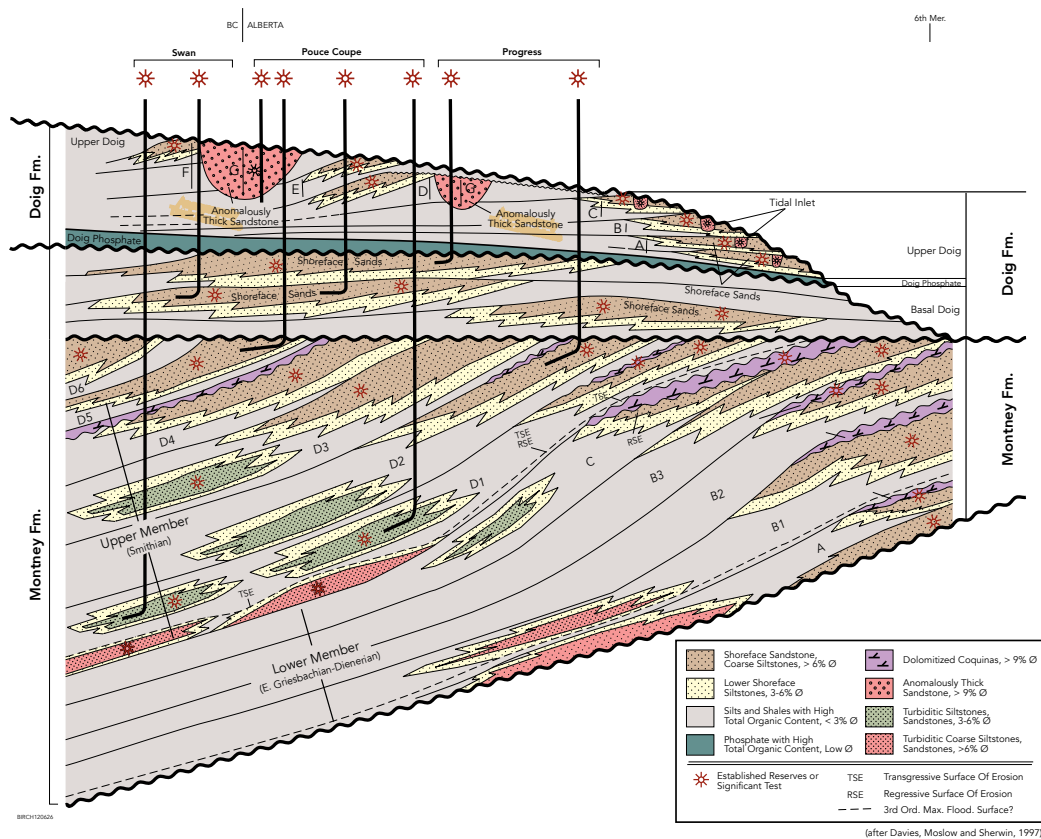
Horizontal wells on the Montney/Doig Natural Gas Resource Play that utilize multi-stage fracture stimulation technology are drilled to a measured depth of 4,000 to 5,000 metres and deliver initial productivity rates of 2,000 to 8,000 Mcf per day (333 to 1,333 boe per day).

Drilling activities during 2013 on the Montney/Doig Natural Gas Resource Play included 26 (26.0 net) wells, consisting of 25 (25.0 net) horizontal natural gas wells and 1 (1.0 net) vertical exploration well, all of which utilized the latest advancements in multi-stage fracture stimulation technology.

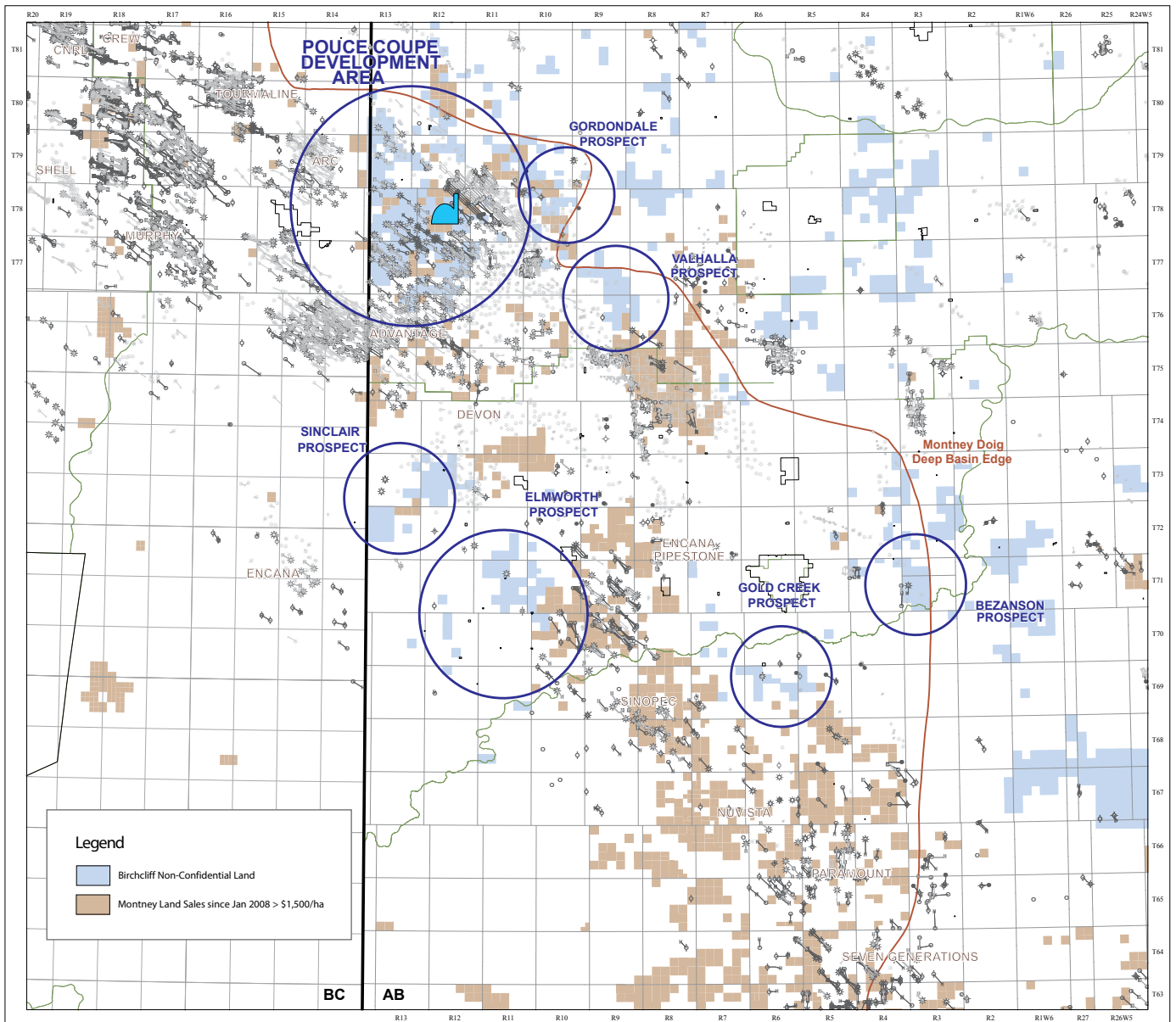
To date, Birchcliff has focused its efforts on drilling wells in two stratigraphic intervals: the Basal Doig/Upper Montney and the Lower/Middle Montney. There are four other stratigraphic layers that industry has been exploring proximal to Birchcliff land, which provides potential to significantly increase Birchcliff's opportunity portfolio.

Well spacing is an important consideration for the Montney/Doig Natural Gas Resource Play. While industry competitors in the Peace River Arch area have drilled up to eight horizontal wells per section, per stratigraphic zone, using 80 acre spacing units, reserve assignments to Birchcliff's lands in the Montney/Doig Natural Gas Resource Play by Deloitte LLP, our independent reserves evaluators, are currently based on four wells per section, per stratigraphic zone. Birchcliff's technological analysis supports reducing inter-well spacing and in the future, the Corporation expects Deloitte to assign additional future horizontal locations and reserves based on reduced inter-well spacing.

MONTNEY/DOIG SCHEMATIC STRATIGRAPHIC CROSS-SECTION

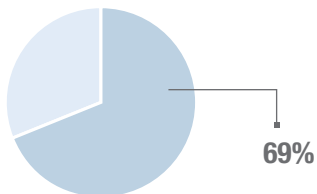


BIRCHCLIFF DEVELOPMENT AREA AND PROSPECTS ON THE MONTNEY/DOIG NATURAL GAS RESOURCE PLAY

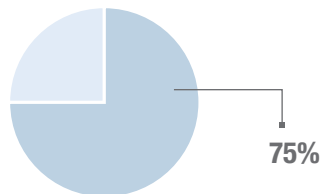


IN 2013, THE MONTNEY/DOIG NATURAL GAS RESOURCE PLAY ACCOUNTED FOR:

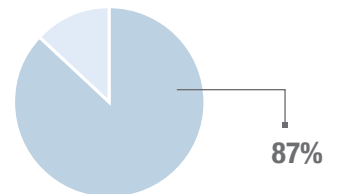
EXPLORATION AND DEVELOPMENT EXPENDITURES
(percent of corporate total)



PRODUCTION VOLUMES
(percent of corporate total)



PROVED PLUS PROBABLE RESERVES
(percent of corporate total)

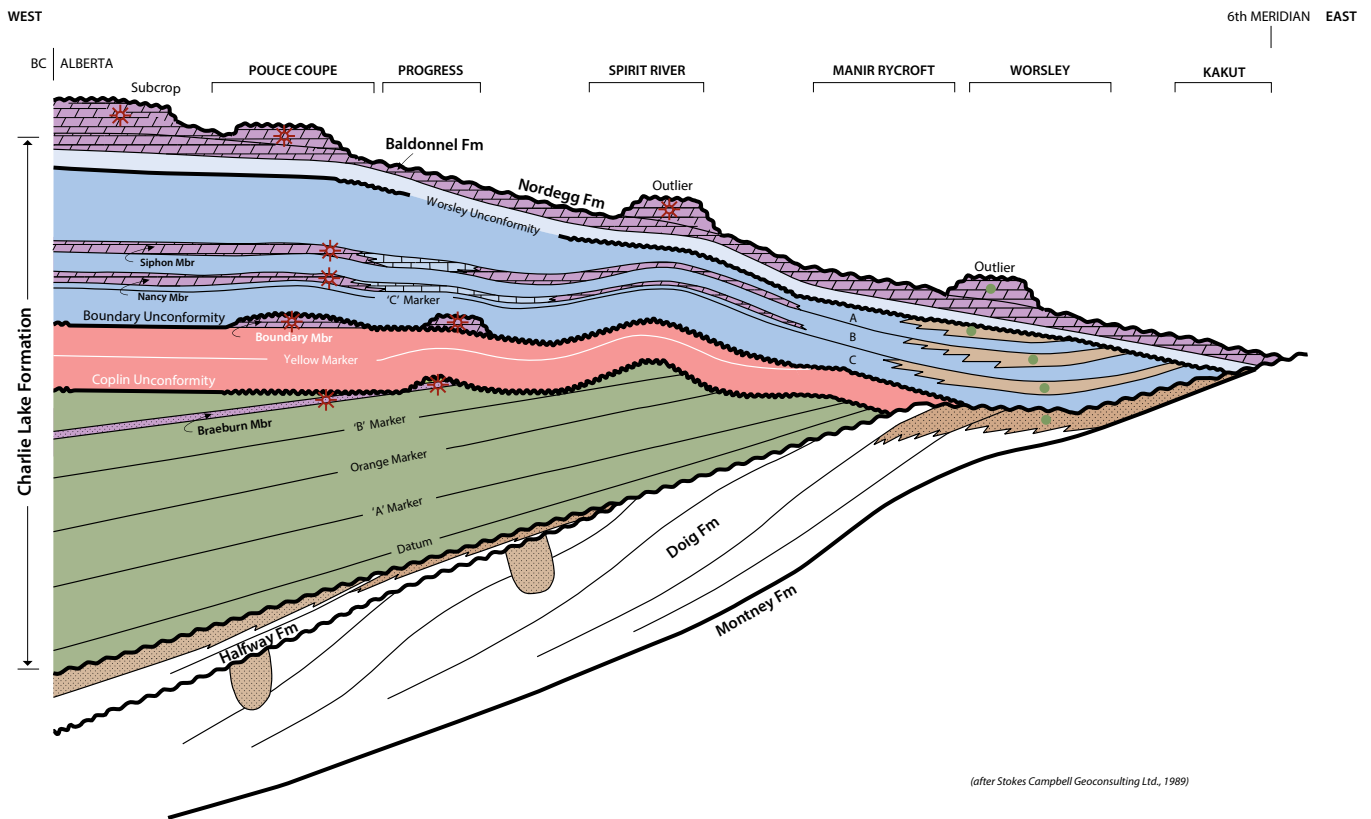


Worsley Charlie Lake Light Oil Resource Play

Successful expansion of the Worsley Charlie Lake oil pool, waterflood performance and the application of horizontal drilling and multi-stage fracture stimulation technology have all contributed to its continued production and reserve growth and high netbacks.

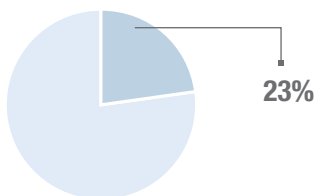
Horizontal wells on the Worsley Charlie Lake Light Oil Resource Play that utilize multi-stage fracture stimulation technology are drilled to a measured depth of 2,500 to 3,500 metres and deliver initial productivity rates of 60 to 400 boe per day.

CHARLIE LAKE SCHEMATIC STRATIGRAPHIC CROSS-SECTION OF THE PEACE RIVER ARCH

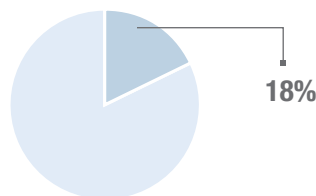


IN 2013, THE WORSLEY CHARLIE LAKE LIGHT RESOURCE PLAY ACCOUNTED FOR:

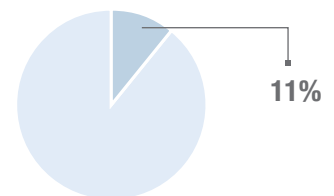
EXPLORATION AND DEVELOPMENT EXPENDITURES
(percent of corporate total)



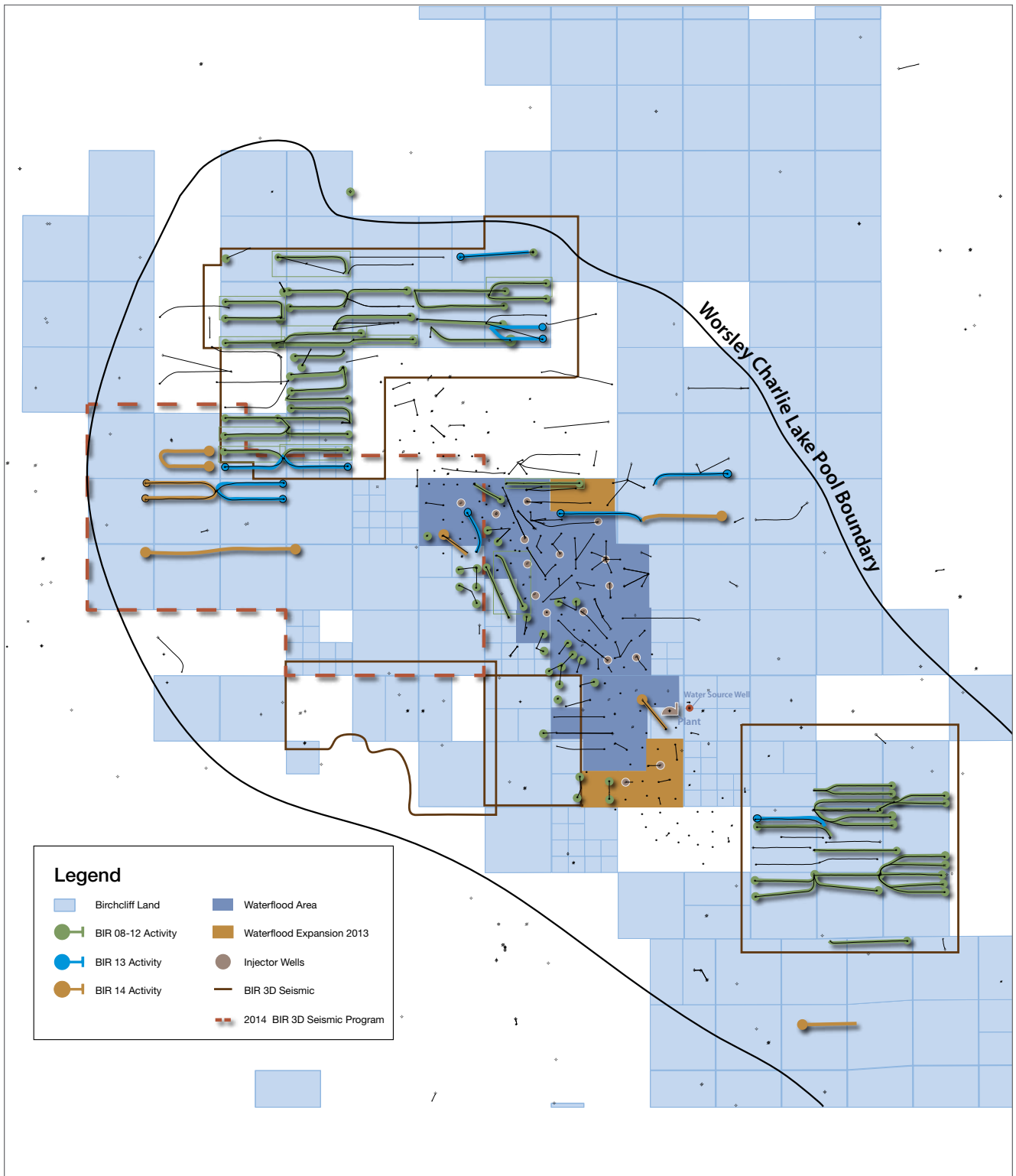
PRODUCTION VOLUMES
(percent of corporate total)



PROVED PLUS PROBABLE RESERVES
(percent of corporate total)



PRODUCING AREA OF THE WORSLEY CHARLIE LAKE LIGHT OIL RESOURCE PLAY



Land Holdings



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

Birchcliff's undeveloped land base at December 31, 2013 was 576,893 (544,917 net) acres.

During 2013, Birchcliff added 90,645.3 (90,325.3 net) acres, or 141.6 (141.1 net) sections of undeveloped land, predominately at 100% working interest, and all in the Peace River Arch. The undeveloped land acquired during 2013 includes 12.5 (12.5 net) sections right in the middle of the Corporation's Pouce Coupe development area, as well as 33 (33.0 net) sections in the Elmworth/Sinclair area where Birchcliff is planning further drilling to delineate the Montney/Doig Natural Gas Resource Play.

Birchcliff continued to strategically add lands on our resource plays during 2013. The following table sets out Birchcliff's land holdings on the following resource plays.

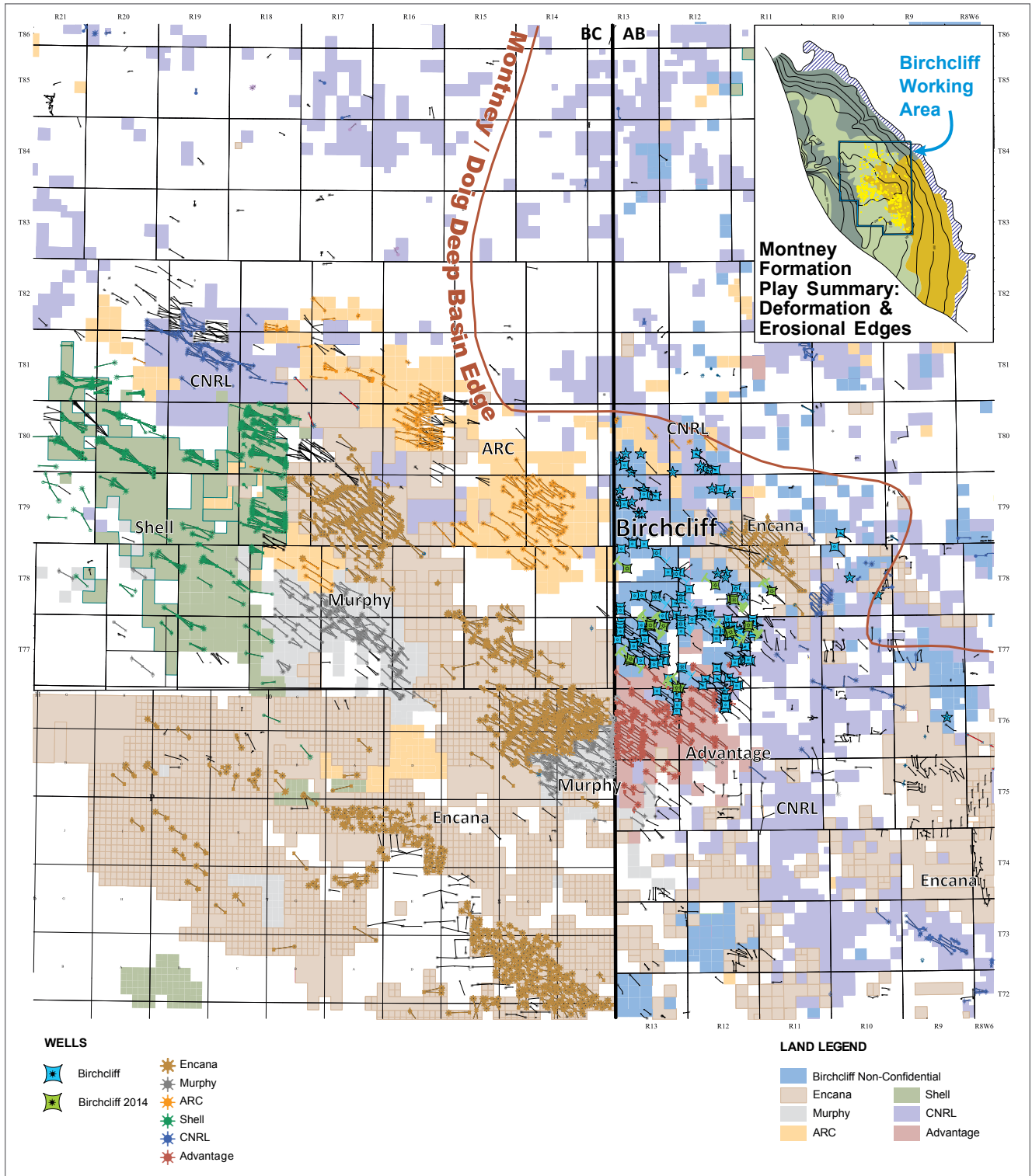
RESOURCE PLAY LAND HOLDINGS

	December 31, 2013		
	Working Interest	Gross (acres)	Net (acres)
Middle/Lower Montney Play	93.3%	209,920	195,821
Basal Doig/Upper Montney Play	92.4%	196,640	181,715
Worsley Charlie Lake Light Oil Play	98.7%	125,280	123,610
Duvernay Play	99.8%	168,320	167,936
Nordegg Play	85.8%	432,960	371,571
Banff/Exshaw Play	99.3%	447,360	443,669

STRATEGICALLY LOCATED

Our land on the Montney/Doig Natural Gas Resource Play positions us alongside industry giants. This location allows Birchcliff to compete directly with key oil and gas players. Birchcliff is constantly evaluating the methods utilized by industry leaders and adopting best practices to increase production growth and ultimate recoverable reserves, while keeping costs low.

MONTNEY/DOIG NATURAL GAS RESOURCE PLAY COMPETITOR ACTIVITY MAP



Drilling Program



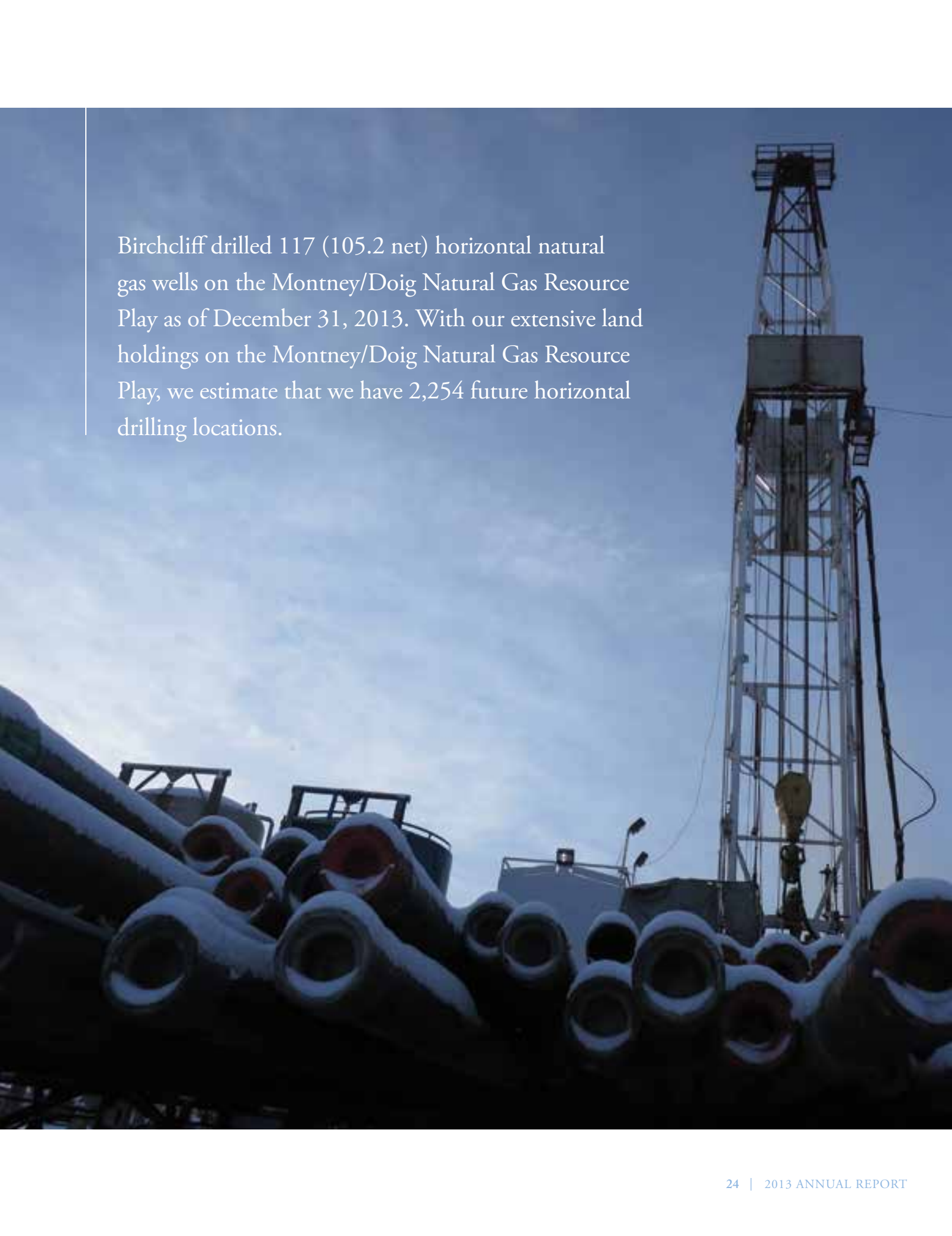
Birchcliff's 2013 drilling program was focused on our two proven resource plays, the Montney/Doig Natural Gas Resource Play and the Worsley Charlie Lake Light Oil Resource Play. Birchcliff actively employs the evolving technology utilized by leaders in the industry with respect to horizontal well drilling and multi-stage fracture stimulation technology.

During 2013, Birchcliff drilled 43 (41.67 net) wells, consisting of 26 (26.0 net) natural gas wells and 17 (15.67 net) oil wells. The natural gas wells included 25 (25.0 net) Montney/Doig horizontal wells and 1 (1.0 net) Montney/Doig vertical exploration well. The oil wells included 13 (13.0 net) Worsley Charlie Lake horizontal light oil wells and 4 (2.67 net) Halfway horizontal light oil wells.



“Birchcliff has experienced significant natural gas production growth and reduced costs on a per boe basis, as a result of increased volumes of natural gas being processed through our 100% owned and operated PCS Gas Plant and the implementation of various optimization initiatives.”

DAVE HUMPHREYS
VICE-PRESIDENT, OPERATIONS

A photograph of a drilling rig at dusk or dawn. The rig is a tall, lattice-structured tower with various equipment and cables. In the foreground, there is a large stack of pipes, some of which are wrapped in white material. The sky is a mix of blue and white, suggesting a cloudy day. The overall scene is industrial and focused on natural gas drilling.

Birchcliff drilled 117 (105.2 net) horizontal natural gas wells on the Montney/Doig Natural Gas Resource Play as of December 31, 2013. With our extensive land holdings on the Montney/Doig Natural Gas Resource Play, we estimate that we have 2,254 future horizontal drilling locations.

Facilities



Birchcliff has a working interest in 12 gas plants, four of which are wholly owned and five of which we operate. We have a working interest in three major oil batteries, one of which we operate. These facilities provide low processing costs, third-party revenue, and most importantly, enable us to control production and maintain a high degree of operating flexibility in this highly competitive area.

In 2013,

ESTIMATED OPERATING NETBACK
AT THE PCS GAS PLANT

\$2.99

PER MCFE

REALIZED \$3.77 PER MCFE AT THE PCS GAS
PLANT WHEN AECO NATURAL GAS PRICE
AVERAGED \$3.17 PER MCF

PROCESSED AT THE
PCS GAS PLANT

73%

OF CORPORATE
NATURAL GAS
PRODUCTION

OPERATING MARGIN AT THE PCS GAS PLANT

79%

DETERMINED BY CALCULATING THE PERCENTAGE OF
PETROLEUM AND NATURAL GAS REVENUE REMAINING
AFTER THE PAYMENT OF ROYALTIES, OPERATING COSTS
AND TRANSPORTATION AND MARKETING COSTS

Birchcliff's 100% owned and operated natural gas plant located in the heart of the Corporation's Montney/Doig Natural Gas Resource Play in the Pouce Coupe South area, is known as the "PCS Gas Plant". The strategically situated site for the PCS Gas Plant enables the Corporation to control and operate all essential infrastructure from wellhead to sales point.

The ability to process our natural gas at the PCS Gas Plant, which is operated at very low cost, gives the Corporation a strong competitive advantage over others paying for third-party natural gas processing. The PCS Gas Plant is a key component in positioning the Corporation as a low-cost finder and producer of natural gas on the Montney/Doig Natural Gas Resource Play.

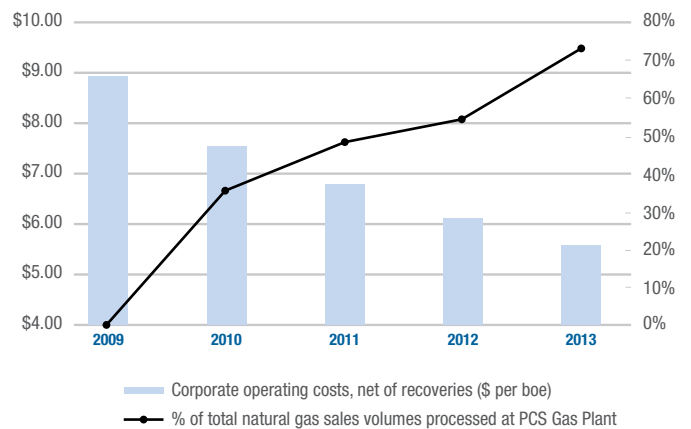
The PCS Gas Plant is currently licensed to process up to 150 MMcf per day of natural gas. A Phase IV expansion is planned for the fall of 2014, which will expand processing capacity to 180 MMcf per day by adding additional compression and sales pipeline capacity for a modest capital investment of \$11.6 million.

Construction of the PCS Gas Plant has been divided into phases: Phase I, licensed to process 30 MMcf per day, commenced operation in March 2010; Phase II, which brought the licensed processing capability to 60 MMcf per day, commenced operation in November 2010; Phase III, which brought the licensed processing capacity to

150 MMcf per day, commenced operation in October 2012; and Phase IV, which will be licensed to process 180 MMcf per day, is planned for start-up in the fall of 2014.

The PCS Gas Plant is a state-of-the-art facility and meets or exceeds all AER and Alberta Environment requirements. The facility employs energy efficient equipment to optimize performance and keep operating costs low. The PCS Gas Plant uses an amine system to remove sulphur content, and refrigeration to meet dew point specification. Acid gas is injected into a high quality reservoir, via two wells located at and near the site of the PCS Gas Plant.

IMPACT OF PCS GAS PLANT ON CORPORATE OPERATING COSTS (\$ PER BOE)



LOOKING OUT FOR OUR TEAM AND THE COMMUNITY

Responsibility



Health, Safety and Environment

Birchcliff is committed to constantly evolving and improving our Health, Safety and Environmental Management Program and conducting our activities in a manner that safeguards our employees, contractors, representatives, the environment and the public at large.

As part of our fundamental values, we recognize the importance of our responsibility for environmental stewardship. We endeavor to maintain excellence in environmental reporting and response, and to take proactive steps to eliminate or reduce our environmental impact.

As an organization which strives for continuous improvement, we continue to look for and develop new technology, systems and processes that will help improve efficiency, reduce our environmental footprint and create a safer work environment.

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

Community Support

Birchcliff recognizes the role that communities play in our success and looks for opportunities to “give back”. We are a staunch supporter of the community and the business and educational initiatives of the First Nations who live in areas in which we operate. Every year, we participate in a number of community support endeavours in the areas surrounding our field operations and in Calgary.



JEFF TONKEN WITH **EUGENE HORSEMAN**, CHIEF OF HORSE LAKE FIRST NATION AND **JOE HORSEMAN**, ELDER OF HORSE LAKE FIRST NATION

We donate to the OneSight program and support the Canadian Cancer Society daffodil campaign. We volunteer with Feed the Hungry, providing healthy meals in an atmosphere of dignity and respect. During the holiday season, our employees “adopt” a number of families in need and donate gifts, food and decorations to help make the holidays special. We also fill backpacks with living essentials and gifts for the Mustard Seed as part of their Christmas campaign.

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

In 2013, we contributed to a number of local community initiatives that elevate and enhance quality of life at the local level – including minor hockey, amateur sports, agricultural societies and fire departments.

STARS Air Ambulance is an important partner in trauma care for the Grande Prairie region of Alberta. Birchcliff has raised more than \$500,000 to support STARS Air Ambulance in the Grande Prairie area. Each year, we raise funds for the United Way and the YMCA. We make an annual contribution to Home Front Calgary, a community-justice response team dedicated to helping families experiencing domestic violence. We support the Children’s Hospital Foundation and Big Brothers, Big Sisters. Through our support of Momentum, Calgarians living in poverty learn how to achieve a sustainable livelihood.



Reserves and Resources

2013 INDEPENDENT RESERVES EVALUATION

Deloitte LLP (“**Deloitte**”), independent qualified reserves evaluators of Calgary, Alberta, prepared a Reserves Estimation and Economic Evaluation effective December 31, 2013 in respect of Birchcliff’s oil and natural gas properties, which is contained in a report dated February 5, 2014 (the “**2013 Reserves Evaluation**”). Deloitte also prepared reserves estimations and economic evaluations effective December 31, 2012 (the “**2012 Reserves Evaluation**”) and December 31, 2011. Reserves estimates stated herein as at December 31, 2013, 2012 and 2011 are extracted from the relevant evaluation. The 2013 Reserves Evaluation and the prior reserves evaluations have been prepared in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook (“**COGE Handbook**”) and National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities (“**NI 51-101**”).

At December 31, 2013, Deloitte estimated that Birchcliff had 370.1 MMboe of proved plus probable reserves and 220.0 MMboe of proved reserves. Birchcliff’s proved plus probable reserves are comprised of 86.5% natural gas and 13.5% light oil and natural gas liquids.

Reserves Summary

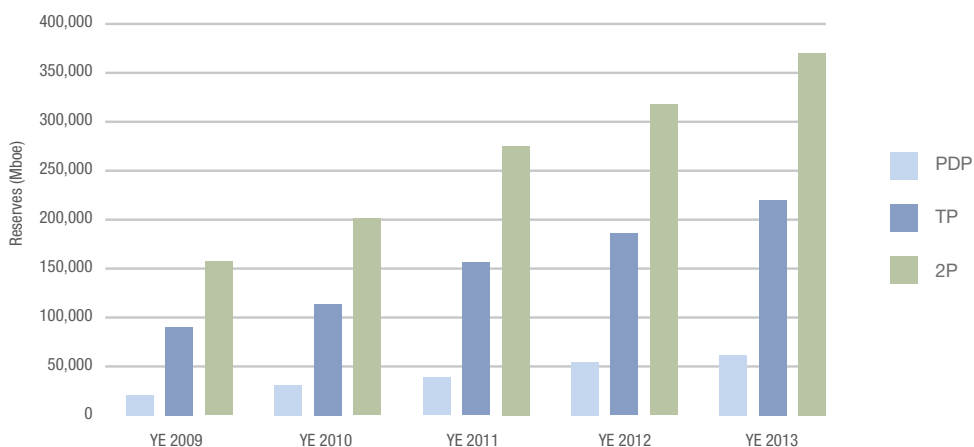
The following table summarizes Deloitte’s estimates of Birchcliff’s working interest oil and natural gas reserves at December 31, 2013 and December 31, 2012, using the Deloitte forecast price assumptions in effect at the applicable reserves evaluation date.

SUMMARY OF OIL AND NATURAL GAS RESERVES⁽¹⁾

	Dec 31, 2013 (MMboe)	Dec 31, 2012 (MMboe)	Change from Dec 31, 2012
Proved Developed Producing	62.0	54.6	+13.6%
Total Proved	220.0	186.0	+18.3%
Probable	150.0	131.8	+13.8%
Total Proved Plus Probable	370.1	317.8	+16.5%

(1) Numbers may not total due to rounding.

SUMMARY OF OIL AND NATURAL GAS RESERVES



Net Present Value of Future Net Revenue

The following table is a summary of the net present value of future net revenue associated with Birchcliff's reserves at December 31, 2013 before deducting future income tax expense, and calculated at various discount rates. The net present value of future net revenue attributable to the Corporation's reserves is based on Deloitte's December 31, 2013 forecast price assumptions of commodity prices, which can be found at <http://www.ajmdeloitte.ca/price-forecasts>.

NET PRESENT VALUE OF FUTURE NET REVENUE BEFORE INCOME TAXES⁽¹⁾⁽²⁾⁽³⁾

(Forecast Prices and Costs) (MM\$) (per year)	Discounted At					
	0%	5%	8%	10%	15%	20%
Proved						
Developed Producing	1,643.7	1,220.0	1,057.3	972.2	813.3	703.9
Developed Non-producing	255.5	188.6	161.8	147.5	120.1	101.0
Undeveloped	3,175.8	1,725.2	1,220.5	971.9	544.0	284.0
Total Proved	5,074.9	3,133.8	2,439.6	2,091.5	1,477.5	1,088.9
Probable	4,920.2	2,191.2	1,437.3	1,106.8	606.7	350.2
Total Proved Plus Probable	9,995.2	5,325.0	3,876.9	3,198.3	2,084.1	1,439.1

(1) Estimates of future net revenue, whether discounted or not, do not represent fair market value.

(2) Future net revenue is after deduction of estimated costs of abandonment and reclamation of existing and future wells that were evaluated by Deloitte in the 2013 Reserves Evaluation and does not include costs of abandonment and reclamation of facilities.

(3) Numbers may not total due to rounding.

The natural gas price forecast used by Deloitte in the 2013 Reserves Evaluation for the years 2014 through 2018 is approximately \$0.26 per MMBtu lower than the forecast used by Deloitte for the same period in its 2012 Reserves Evaluation. Notwithstanding the natural gas price forecast for these years decreased by 6%, the net present value of the proved developed producing reserves (at a 10% discount rate) increased by 17.2% as a result of increased reserves volumes, increased oil prices and reduced operating costs recognized in the 2013 Reserves Evaluation.

Forecast Prices used in Estimates

The following table sets out the forecast price assumptions used by Deloitte for the 2013 Reserves Evaluation. The pricing and cost assumptions used were determined by Deloitte using information available from numerous governmental agencies, industry publications, oil refineries, natural gas marketers and industry trends. These long-term forecasts of prices are subject to the many uncertainties that effect long-term future forecasts.

DELOITTE PRICE FORECAST

Year	Crude Oil		Natural Gas	Natural Gas Liquids			Currency Exchange Rate (\$US/\$CDN)	Inflation Rate (%)
	Crude Oil (\$US/bbl)	Edmonton City Gate (\$CDN/bbl)	Natural Gas at AECO (\$CDN/Mcf)	Edmonton Propane (\$CDN/bbl)	Edmonton Butane (\$CDN/bbl)	Edmonton C5+ (\$CDN/bbl)		
2014	95.00	95.75	3.70	33.50	76.60	105.35	0.94	0.0
2015	91.80	92.30	3.95	32.30	73.85	101.55	0.94	2.0
2016	91.55	95.20	4.10	52.35	76.15	104.70	0.94	2.0
2017	91.25	94.80	4.30	52.15	75.85	104.30	0.94	2.0
2018	92.00	95.60	4.55	52.60	76.50	105.15	0.94	2.0
2019	93.85	97.50	4.85	53.65	78.00	107.25	0.94	2.0
2020	95.70	99.45	5.25	54.70	79.55	109.40	0.94	2.0
2021	97.65	101.45	5.70	55.80	81.15	111.60	0.94	2.0
2022	99.60	103.45	6.10	56.90	82.75	113.80	0.94	2.0
2023	101.60	105.55	6.45	58.05	84.45	116.10	0.94	2.0
Thereafter	Escalate at 2.0% per annum							

RECONCILIATION OF CHANGES IN RESERVES

The following tables set forth a reconciliation of the Corporation's gross reserves at December 31, 2013 set forth in the 2013 Reserves Evaluation, using the Deloitte price forecast at December 31, 2013, to the Corporation's gross reserves at December 31, 2012 set forth in the 2012 Reserves Evaluation, using the Deloitte price forecast at December 31, 2012.

RECONCILIATION OF GROSS RESERVES, FROM DECEMBER 31, 2012 TO DECEMBER 31, 2013

<i>(Forecast Prices and Costs)</i>	Light and Medium Crude Oil <i>(Mbbbl)</i>	Natural Gas <i>(Bcf)</i>	NGLs <i>(Mbbbl)</i>	Total Oil Equivalent <i>(Mboe)</i>
GROSS TOTAL PROVED				
Opening balance December 31, 2012	20,018.6	961.8	5,624.9	185,950.0
Discoveries	0.0	0.0	0.0	0.0
Extensions ⁽¹⁾ & Improved Recovery	1,750.5	252.2	1,767.6	45,556.7
Infill Drilling	0.0	0.0	0.0	0.0
Technical Revisions ⁽²⁾	-174.4	-5.0	1,218.8	202.8
Acquisitions	0.0	0.0	0.0	0.0
Dispositions	-2,292.3	0.0	0.0	-2,292.3
Economic Factors ⁽³⁾	29.4	1.1	3.6	223.9
Production ⁽⁴⁾	-1,710.8	-45.5	-301.7	-9,591.8
Closing balance December 31, 2013	17,621.0	1,164.7	8,313.2	220,049.4
GROSS PROBABLE				
Opening balance December 31, 2012	15,874.7	668.7	4,489.8	131,819.9
Discoveries	0.0	0.0	0.0	0.0
Extensions ⁽¹⁾ & Improved Recovery	2,439.4	86.1	1,124.8	17,911.9
Infill Drilling	0.0	0.0	0.0	0.0
Technical Revisions ⁽²⁾	1,227.2	-0.1	189.2	1,407.0
Acquisitions	469.1	0.6	6.9	569.8
Dispositions	-1,820.1	0.0	0.0	-1,820.1
Economic Factors ⁽³⁾	11.0	0.6	2.9	114.5
Production ⁽⁴⁾	0.0	0.0	0.0	0.0
Closing balance December 31, 2013	18,201.3	755.9	5,813.6	150,002.9
GROSS TOTAL PROVED PLUS PROBABLE				
Opening balance December 31, 2012	35,893.3	1,630.6	10,114.7	317,770.0
Discoveries	0.0	0.0	0.0	0.0
Extensions ⁽¹⁾ & Improved Recovery	4,189.9	338.3	2,892.4	63,468.5
Infill Drilling	0.0	0.0	0.0	0.0
Technical Revisions ⁽²⁾	1,052.8	-5.1	1,408.0	1,609.7
Acquisitions	469.1	0.6	6.9	569.8
Dispositions	-4,112.4	0.0	0.0	-4,112.4
Economic Factors ⁽³⁾	40.4	1.7	6.5	338.4
Production ⁽⁴⁾	-1,710.8	-45.5	-301.7	-9,591.8
Closing balance December 31, 2013	35,822.3	1,920.6	14,126.8	370,052.2

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

(2) The majority of the "Technical Revisions" are a result of a change in the well type curves used by Deloitte for Birchcliff's liquid rich gas wells and Montney oil wells in certain areas, and the better performance of some Charlie Lake oil wells at Worsley.

(3) The change in reserves attributed to "Economic Factors", results from Deloitte's natural gas prices forecast used in the 2013 Reserves Evaluation being lower than Deloitte's natural gas prices forecast used in the 2012 Reserves Evaluation, increasing the time to payout of a non-participating partner's penalty wells and thereby adding working interest gas reserves for Birchcliff's account.

(4) Represents Deloitte's estimate of actual production for the year ended December 31, 2013 before year-end results were available.



Reserves Replacement

From the 2013 Reserves Evaluation to the 2012 Reserves Evaluation, Birchcliff had:

- 90% reserve replacement on a proved developed producing basis. Birchcliff added 1.90 boe of proved developed producing reserves for each boe that was produced and sold during the year (calculated by dividing 2013 proved developed producing reserves additions before production, acquisition and dispositions by total production in 2013).
- 486% reserve replacement on a proved basis. Birchcliff added 4.86 boe of proved reserves for each boe that was produced or sold during the year (calculated by dividing 2013 proved reserves additions before production, acquisition and dispositions by total production in 2013).
- 692% reserve replacement on a proved plus probable basis. Birchcliff added 6.92 boe of proved plus probable reserves for each boe that was produced or sold during the year (calculated by dividing 2013 proved plus probable reserves additions before production, acquisition and dispositions by total production in 2013).

Reserves on the Montney/Doig Natural Gas Resource Play

Deloitte estimated at December 31, 2013, Birchcliff had 319.2 MMboe of proved plus probable reserves attributed to horizontal wells on the Montney/Doig Natural Gas Resource Play. This is an increase of 20% from 266.8 MMboe proved plus probable reserves attributed to horizontal wells on the Montney/Doig Natural Gas Resource Play at December 31, 2012.

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

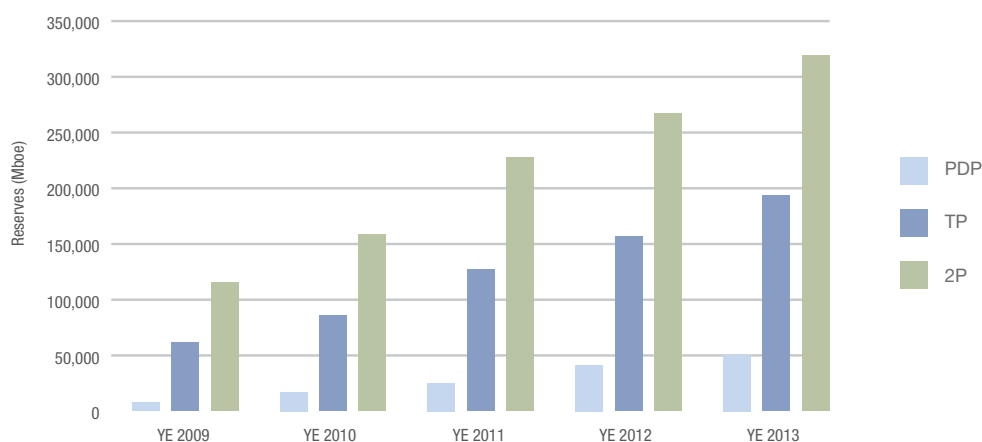
MONTNEY/DOIG NATURAL GAS RESOURCE PLAY RESERVES DATA⁽¹⁾

	Natural Gas (Bcf)		Oil and Natural Gas Liquids (Mbbbl)		Total (Mboe)		Existing Horizontal Wells and Future Horizontal Well Locations				Net Future Capital (MM\$)	
	2013	2012	2013	2012	2013	2012	Gross		Net		2013 ⁽²⁾	2012
							2013	2012	2013	2012		
Proved Developed Producing	291.6	241.0	1,940.6	1,334.9	50,538.1	41,493.6	117	93	105.2	80.8	1.25	0
Total Proved	1,113.0	907.6	8,202.1	5,243.2	193,704.5	156,509.7	384	325	330.9	272.7	1,306.1	1,129.4
Total Proved Plus Probable	1,828.0	1,541.6	14,550.3	9,922.2	319,214.6	266,848.4	549	472	470.8	397.5	2,146.2	1,849.9

(1) Estimates of reserves and future net revenue for reserves relating to individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties due to the effects of aggregation.

(2) Includes approximately \$68.2 million of capital for the expansion of the PCS Gas Plant to 240 MMcf per day of total capacity, together with the related gathering pipelines, sales pipeline expansion and compression, plus \$32.2 million of capital for the expansion of the PCS Gas Plant to 270 MMcf of total capacity.

MONTNEY/DOIG RESERVES



MONTNEY/DOIG LAND AND HORIZONTAL WELL DATA

	Dec 31, 2013		Dec 31, 2012		Dec 31, 2011	
	Gross	Net	Gross	Net	Gross	Net
Number of sections to which Deloitte attributed proved plus probable reserves	131.6	115.2	114.3	98.3	98.5	83.4
For existing and future horizontal wells, number of well locations to which Deloitte attributed proved plus probable reserves	549	470.8	472	397.5	425	352.7
For existing and future horizontal wells, average number of net well locations per net section to which Deloitte attributed proved plus probable reserves	4.1 ⁽¹⁾		4.1		4.2	
For existing horizontal wells, average remaining recoverable proved plus probable reserves attributed by Deloitte, plus cumulative production	4.9 Bcfe		4.8 Bcfe		4.3 Bcfe	
For future horizontal wells, average remaining recoverable proved plus probable reserves attributed by Deloitte	4.2 Bcfe		4.1 Bcfe		4.0 Bcfe	
Average cost per well, forecast by Deloitte	\$5.2 million		\$5.2 million		\$4.8 million	

(1) Currently, for existing and future horizontal wells, the average number of net well locations per net section to which Deloitte attributed proved plus probable reserves is 3.2 for the Basal Doig/Upper Montney Play and 2.9 for the Middle/Lower Montney Play.

Deloitte has attributed Montney/Doig proved plus probable reserves to 131.6 (115.2 net) sections of land. Drilling success during 2013 in the Middle/Lower Montney Play has resulted in significant reserve assignments by Deloitte to 106.6 (92.5 net) sections of land, an increase of 17.5 net sections of land from 2012. Deloitte has attributed reserves in the Basal Doig/Upper Montney Play to 78.2 (65.3 net) sections of land. There are now 53.2 (42.6 net) sections to which Deloitte has attributed reserves to both the Basal Doig/Upper Montney Play and the Middle/Lower Montney Play.

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



“Our strength in capital management and allocation has allowed us to achieve top tier growth in production and reserves, while at the same time building a significant resource base for our future growth.”

CHRIS A. CARLSEN,
VICE-PRESIDENT, ENGINEERING

Reserves on the Worsley Charlie Lake Light Oil Resource Play

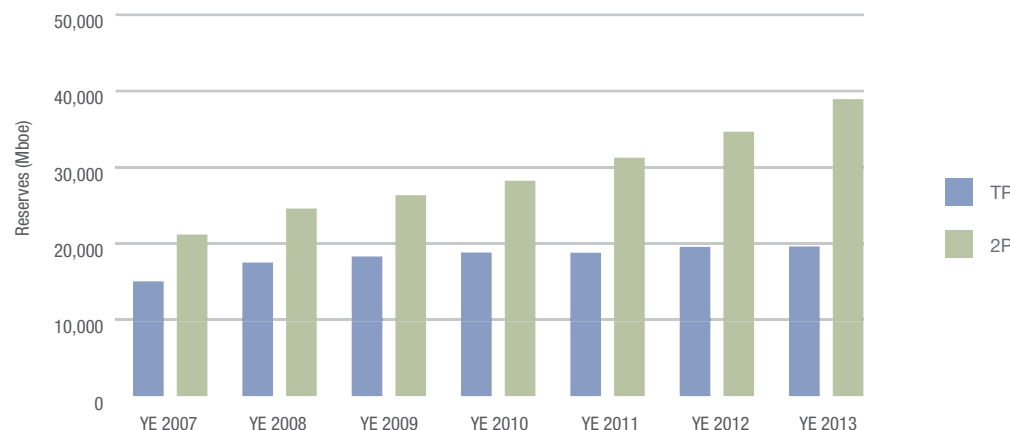
At December 31, 2013, Deloitte estimated that in the Worsley Charlie Lake light oil pool on the Worsley Charlie Lake Light Oil Resource Play, Birchcliff had 38.9 MMboe proved plus probable reserves and 19.6 MMboe of proved reserves. This continues the growth trend for Birchcliff's Worsley Charlie Lake reserves since July 1, 2007 (being the effective date of the acquisition of this property), when recoverable reserves were estimated at 15.1 MMboe on a proved plus probable basis and 11.3 MMboe on a proved basis. Both the original oil in place and the estimated recoverable reserves continue to grow and Birchcliff is pleased to report that the Worsley Charlie Lake light oil pool continues to be a top quality asset.

HISTORY OF RESERVES ESTIMATED FOR THE WORSLEY CHARLIE LAKE POOL (MMboe)⁽¹⁾

	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007	July 1, 2007
Proved	19.6	19.6	18.8	18.8	18.3	17.5	15.0	11.3
Proved Plus Probable	38.9	34.7	31.3	28.2	26.3	24.6	21.2	15.1

(1) Estimates of reserves relating to individual properties may not reflect the same confidence level as estimates of reserves for all properties due to the effects of aggregation.

WORSLEY CHARLIE LAKE RESERVES



FINDING AND DEVELOPMENT COSTS

During 2013, Birchcliff's finding and development (“F&D”) costs were \$268.1 million and its finding, development and acquisition (“FD&A”) costs were \$213.8 million. The following table sets forth Birchcliff's estimates of its F&D costs per boe and FD&A costs per boe, excluding future development capital and including future development capital, on a proved and proved plus probable basis.

FINDING AND DEVELOPMENT COSTS (\$/boe)⁽¹⁾

Excluding Future Development Capital	2013	2012	2011	Three Year Average
F&D – Proved	\$5.85	\$7.77	\$4.77	\$6.00
F&D – Proved Plus Probable	\$4.11	\$6.09	\$2.88	\$4.08
Acquisitions – Proved	-	\$10.96	\$732.34	\$13.74
Acquisitions – Proved Plus Probable	\$0.79	\$3.38	\$36.11	\$3.87
Dispositions – Proved	\$23.90	\$9.71	\$6.31	\$14.13
Dispositions – Proved Plus Probable	\$13.32	\$4.36	\$3.69	\$7.23
Total FD&A – Proved ⁽²⁾	\$4.91	\$7.83	\$4.85	\$5.74
Total FD&A – Proved Plus Probable ⁽²⁾	\$3.46	\$5.89	\$2.92	\$3.87
Including Future Development Capital⁽³⁾				
F&D – Proved	\$9.39	\$11.10	\$13.15	\$11.28
F&D – Proved Plus Probable	\$9.03	\$11.99	\$12.01	\$11.02
Acquisitions – Proved	-	\$17.78	\$732.34	\$20.54
Acquisitions – Proved Plus Probable	\$23.21	\$9.61	\$36.11	\$11.10
Dispositions – Proved	\$30.42	\$19.80	\$6.31	\$20.65
Dispositions – Proved Plus Probable	\$17.56	\$12.71	\$3.69	\$12.57
Total FD&A – Proved ⁽²⁾	\$8.29	\$10.91	\$13.47	\$10.99
Total FD&A – Proved Plus Probable ⁽²⁾	\$8.60	\$11.56	\$12.31	\$10.93

(1) See Advisories for an explanation of the methodology used to calculate F&D costs.

(2) Based upon FD&A costs, net of disposition proceeds, and reserve additions, net of reserves disposed of.

(3) Includes the increase in future development capital for 2013 over 2012 of \$147.1 million on a proved basis and \$316.7 million on a proved plus probable basis.

FINDING AND DEVELOPMENT COSTS (INCL. FDC)



Deloitte's estimates of future development costs are \$1.45 billion on a proved basis and \$2.50 billion on a proved plus probable basis, which includes approximately \$100.4 million for the expansion of the PCS Gas Plant to 270 MMcf per day of total capacity, together with the related gathering pipelines, sales pipeline expansion and compression. The increase in future development capital for 2013 over 2012 is \$147.1 million on a proved basis and \$316.7 million on a proved plus probable basis.

Both the 2013 Reserves Evaluation and the 2012 Reserves Evaluation included, on average, \$5.2 million for each future Montney/Doig horizontal natural gas well to which reserves were assigned, which includes drill, case, complete and tie-in costs.

RECYCLE RATIOS

The following table shows Birchcliff's recycle ratio for operating and funds flow netback, which are calculated in each case by dividing the average operating netback per boe or funds flow netback per boe, as the case may be, by each of the F&D costs and the FD&A costs.

RECYCLE RATIOS ⁽¹⁾	Operating Netback Recycle Ratio		Funds Flow Netback Recycle Ratio	
	2013	2012	2013	2012
Excluding Future Development Capital				
F&D – Proved Plus Probable	5.5	3.2	4.5	2.4
FD&A – Proved Plus Probable	6.5	3.3	5.3	2.4
Including Future Development Capital				
F&D – Proved Plus Probable	2.5	1.6	2.0	1.2
FD&A – Proved Plus Probable	2.6	1.7	2.2	1.2

(1) See Advisories for the methodology used in the calculation of F&D costs used in these recycle ratios.

During 2013, the average WTI price of crude oil was US \$97.97 per barrel and the average price of natural gas at AECO was Cdn \$3.17 per Mcf. Operating netback per boe for 2013 was \$22.53. Funds flow netback per boe for 2013 was \$18.50.

2014 STRATEGIC ACQUISITION OF PARTNER'S INTEREST

Birchcliff completed a strategic acquisition on January 15, 2014, with an effective date of January 1, 2014, where Birchcliff bought a partner's 30% working interest in land and production in the Pouce Coupe area for \$56.0 million. The acquisition included 38 (11.3 net) sections of land on the Montney/Doig Natural Gas Resource Play and 9.6 MMcf per day (1,600 boe per day) of Birchcliff operated production, the majority of which is processed at the PCS Gas Plant. This transaction has allowed Birchcliff to consolidate lands it formerly held at a 70% working interest with lands it holds at 100% working interest, allowing for a contiguous development plan, eliminating holding buffers and increasing flexibility of capital allocation. By extrapolation from the reserves assigned by Deloitte at December 31, 2013 to the lands held at 70% working interest, the 30% working interest acquired represents additional reserves as follows.

Reserves Acquired January 15, 2014 ⁽¹⁾	(MMboe)
Proved Developed Producing	5.4
Total Proved	26.9
Probable	13.9
Total Proved Plus Probable	40.8

(1) Estimates of reserves relating to individual properties may not reflect the same confidence level as estimates of reserves for all properties due to the effects of aggregation.

Reserve Life Index

Birchcliff's reserve life index is 34.1 years on a proved plus probable basis and 20.5 years on a proved basis, in each case using reserves estimates by Deloitte at December 31, 2013 plus the reserves added in the strategic acquisition of a partner's interest on January 15, 2014 and assuming an average daily production rate of 33,000 boe per day.

RLI **34.1** YEARS ON **2P** BASIS

2013 INDEPENDENT MONTNEY/DOIG NATURAL GAS RESOURCE ASSESSMENT

Deloitte conducted an independent review and audit of resources, effective December 31, 2013, in respect of Birchcliff lands that have potential for the Montney/Doig Natural Gas Resource Play, which is contained in a report dated February 6, 2014 (the “**2013 Resource Assessment**”). Deloitte also prepared a resource assessment effective December 31, 2012 (the “**2012 Resource Assessment**”). The 2013 Resource Assessment and 2012 Resource Assessment have been prepared in accordance with the standards contained in the COGE Handbook and NI 51-101.

Resource estimates stated herein as at December 31, 2013 and 2012 are extracted from the relevant evaluation and reflect only Birchcliff’s working interest share of resources for its lands in the area covered by the resource assessment (the “**Study Area**”). The resource assessment does not include Birchcliff’s Worsley Charlie Lake Light Oil Resource Play or any of Birchcliff’s other properties.

Montney/Doig Natural Gas Resource Assessment Summary

The following table summarizes Deloitte’s estimates of Birchcliff’s natural gas resources on the Montney/Doig Natural Gas Resource Play at December 31, 2013 and December 31, 2012, on a best estimate case.

Summary of Montney/Doig Natural Gas Resources	Best Estimate Case		
	Dec 31, 2013 (Bcfe)	Dec 31, 2012 (Bcfe)	Change from Dec 31, 2012
Total Petroleum Initially In Place (“PIIP”)	52,036.4	39,709.5	+31.0%
Total Undiscovered PIIP ⁽¹⁾	34,443.3	26,331.8	+30.8%
Prospective Resources	15,809.9	13,003.3	+21.6%
Total Discovered PIIP ⁽¹⁾	17,593.2	13,377.7	+31.5%
Contingent Resources	6,547.8	4,869.1	+34.5%

(1) See the Advisories with respect to discovered and undiscovered resources.

Compared to the 2012 Resource Assessment, the best estimate of total PIIP has grown from 39.7 Tcfe to 52.0 Tcfe, a 31% increase. Additionally, Birchcliff was very successful with its strategy to promote resources from undiscovered to discovered in 2013 through its exploration program. Discovered PIIP increased 31.5% from the 2012 Resource Assessment, from 13.4 Tcfe to 17.6 Tcfe. Compared to the 2012 Resource Assessment, the best estimate of contingent resources has grown from 4.9 Tcfe to 6.5 Tcfe, a 35% increase. These increases are a result of land acquisitions and drilling.

Background to the Montney/Doig Natural Gas Resource Assessment

Birchcliff holds significant high working interest acreage in large contiguous blocks on the Montney/Doig Natural Gas Resource Play in the Peace River Arch area of Alberta. Birchcliff’s lands are proximal to the PCS Gas Plant and to third-party gathering and processing infrastructure.

The Study Area assessed by Deloitte is comprised of the Doig Phosphate, Basal Doig, and Montney formations in the greater Pouce Coupe, Elmworth, Sinclair and Bezanson areas of the Peace River Arch region of Alberta, ranging from Townships 69 to 81, Ranges 2 to 13W6. The Study Area is bounded in a northwest – southeast direction by the Montney/Doig deep basin edges and covered a total of 340.5 gross sections of land held by Birchcliff at December 31, 2013, which includes:

- 328.0 (306.0 net) sections, with a 93.3% working interest, which have potential for the Middle/Lower Montney Play; and
- 307.25 (283.9 net) sections, with a 92.4% working interest, which have potential for the Basal Doig/Upper Montney Play.

Birchcliff’s total land holdings on the two plays described above are 635.25 (589.9 net) sections. On full development of four horizontal wells per section per play, Birchcliff has 2,359.6 net horizontal drilling locations. With 117 (105.2 net) horizontal locations drilled at the end of 2013, there remain 2,254.4 net future horizontal drilling locations.

Deloitte utilized probabilistic methods to generate high, best, and low estimate cases of reserves and resources volumes. Results from the 2013 Resource Assessment are presented in the following table for Birchcliff's working interest share of gross volumes. Proved, proved plus probable and proved plus probable plus possible reserves determined by the 2013 Reserves Evaluation are included in this table for completeness, however reserves were not the focus of the 2013 Resource Assessment.

SUMMARY OF BIRCHCLIFF RESERVES AND RESOURCES⁽¹⁾⁽²⁾

Resource Class		Reserves and Resource Volumes (Bcfe)		
		Low Estimate Case	Best Estimate Case	High Estimate Case
Discovered	Cumulative Production ⁽³⁾	130.7	130.7	130.7
	Remaining Reserves ⁽³⁾⁽⁴⁾	1,163.5	1,912.5	2,792.1
	Surface Loss/Shrinkage	66.2	104.6	149.9
	Total Commercial	1,360.4	2,147.8	3,072.7
	Contingent Resources	4,456.0	6,547.8	9,961.1
	Unrecoverable ⁽⁵⁾	7,147.5	8,897.6	11,027.4
	Total Sub-commercial	11,603.5	15,445.3	20,988.5
Total Discovered PIIP		12,964.0	17,593.2	24,061.2
Undiscovered	Prospective Resources	10,168.6	15,809.6	24,619.8
	Unrecoverable ⁽⁵⁾	16,273.4	18,633.7	20,888.1
	Total Undiscovered PIIP	26,442.0	34,443.3	45,507.9
Total Petroleum Initially In Place (PIIP)		39,406.0	52,036.4	69,569.1

(1) All reserves and resources are gross volumes at December 31, 2013, which are equal to Birchcliff's working interest share before deduction of royalties and without including any royalties held by Birchcliff.

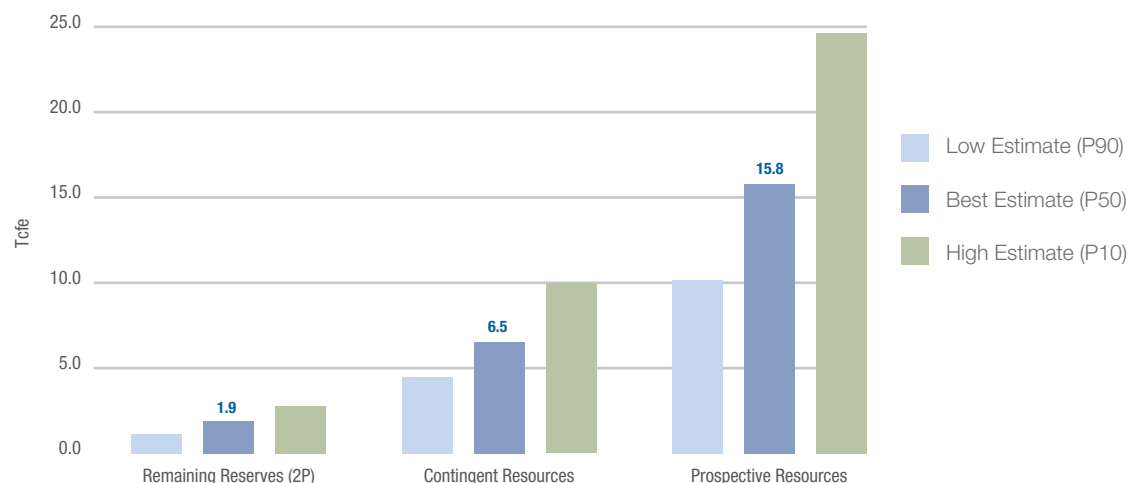
(2) Numbers may not total due to rounding.

(3) Sales gas and related natural gas liquids.

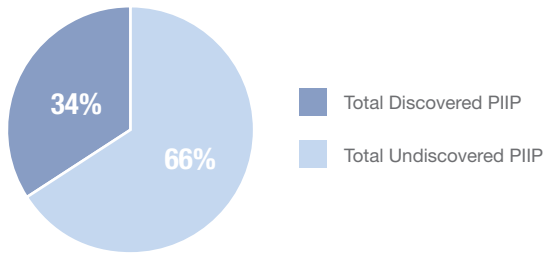
(4) Includes reserves assigned to both vertical and horizontal Montney/Doig wells. The best estimate reflects the estimate of proved plus probable reserves contained in the 2013 Reserves Evaluation. The low estimate reflects the estimate of proved reserves contained in the 2013 Reserves Evaluation. The high estimate reflects the estimate of proved plus probable plus possible reserves contained in the 2013 Reserves Evaluation.

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

RECOVERABLE RESOURCES



TOTAL PIIP – DISCOVERED VS. UNDISCOVERED

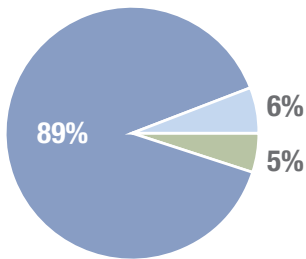


CONTINGENT RESOURCES

6.5

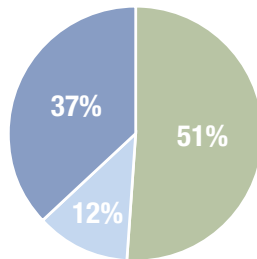
TCFE ON A BEST ESTIMATE CASE

TOTAL COMMERCIAL



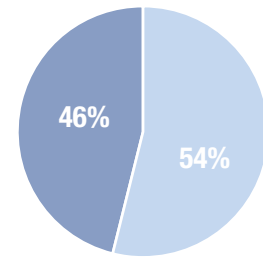
- Cumulative Production
- Remaining Reserves (2P)
- Surface Loss/Shrinkage

TOTAL DISCOVERED PIIP



- Total Commercial
- Contingent Resources
- Unrecoverable

TOTAL UNDISCOVERED PIIP



- Prospective Resources
- Unrecoverable



Financial Review



Management's Discussion and Analysis

GENERAL

Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is a Calgary, Alberta based intermediate oil and natural gas company with operations concentrated in its one core area, the Peace River Arch of 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 the S&P/TSX Composite Index.

The following Management's Discussion and Analysis ("**MD&A**") is dated March 12, 2014. The annual financial information with respect to the three and twelve months ended December 31, 2013 (the "**Reporting Periods**") as compared to the three and twelve months ended December 31, 2012 (the "**Comparable Prior Periods**") and this MD&A have been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the audited financial statements of the Corporation and related notes for the year ended December 31, 2013. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

2014 OUTLOOK

Birchcliff's 2014 capital budget is \$347.1 million (including \$56.0 million for a strategic acquisition in January 2014).

As a result of significant natural gas production growth and the cost efficiency of Birchcliff's 100% owned and operated natural gas plant in the Pouce Coupe South area (the "**PCS Gas Plant**"), coupled with strong natural gas prices, the Corporation is now capable of funding a substantial majority of its 2014 capital expenditure program out of internally generated cash flow. This will result in Birchcliff significantly improving its balance sheet while at the same time continuing to post significant production and reserves growth.

The Corporation expects production in the first quarter of 2014 to be approximately 31,800 boe per day and forecasts record first quarter funds flow to be approximately \$83 million (\$0.58 per common share), assuming a realized natural gas price at the wellhead of \$6.12 per Mcf (based on an expected average AECO daily spot price of \$5.40 per GJ) and a realized crude oil price at the wellhead of \$89.11 per bbl for the first quarter. This forecast represents a 66% increase from funds flow of \$50.1 million in the fourth quarter of 2013 and a 110% increase from \$39.4 million in the first quarter of 2013.

Exit production in 2014 is expected to be between 37,500 and 39,500 boe per day. Planned drilling activities in 2014 include 40 (39.5 net) wells.

Birchcliff has contracted forward physical sales of 75,000 GJ's per day for approximately \$4.35 per Mcf, representing approximately 41% of its estimated natural gas volumes during the summer months of April 1 to October 31, 2014. The Corporation has no current intention of contracting forward physical sale of natural gas for the winter months of 2015, however in late 2014 will consider hedging natural gas for the 2015 summer months.

Birchcliff's PCS Gas Plant is currently licensed to process 150 MMcf per day. The Phase IV expansion planned for the fall of 2014 will bring processing capacity to 180 MMcf per day by adding additional compression and sales pipeline capacity for a modest cost of \$11.6 million.

Birchcliff expects holders of warrants, which were issued in conjunction with the offering of Series A Preferred Shares in August 2012, to exercise their right to purchase an equivalent number of common shares of the Corporation at a price of \$8.30 per share prior to expiry of the warrants on August 8, 2014. As there are 6,000,000 warrants issued and outstanding, this would result in the Corporation receiving approximately \$50 million in the third quarter of 2014.

The Corporation does not foresee any liquidity issues with respect to the operation of its oil and natural gas business in 2014 and expects to meet its future obligations as they become due. The Corporation's two established resource plays provide it with a long-term and operationally reliable production base. Funds flow from this production is primarily dependent on commodity prices, which affect the pace at which the Corporation invests in its resource plays and the rate at which its production will grow.

Record production and a low cost structure, together with high natural gas prices has given Birchcliff tremendous momentum for strong financial results and production growth in 2014.

SELECTED ANNUAL INFORMATION

	2013	2012	2011
Average daily production (boe at 6 Mcf:1 bbl)	25,829	22,802	18,136
Petroleum and natural gas revenue (\$000's)	316,637	257,206	264,587
Funds flow from operations (\$000's) ⁽¹⁾	174,361	120,259	130,826
Per common share – basic (\$) ⁽¹⁾	1.22	0.88	1.04
Per common share – diluted (\$) ⁽¹⁾	1.20	0.86	1.00
Net income (\$000's)	65,417	13,196	34,454
Net income available to common shareholders (\$000's) ⁽²⁾	61,417	11,617	34,454
Per common share – basic (\$) ⁽²⁾	0.43	0.08	0.27
Per common share – diluted (\$) ⁽²⁾	0.42	0.08	0.26
Capital expenditures, net (\$000's)	215,770	298,903	237,480
Total assets (\$000's)	1,586,531	1,430,324	1,225,497
Working capital deficit (\$000's) ⁽³⁾	60,071	29,567	48,598
Non-revolving term credit facilities (\$000's)	127,144	68,250	68,925
Revolving credit facilities (\$000's)	266,823	364,313	319,500
Total debt (\$000's)	454,038	462,130	437,023
Common shares outstanding (000's):			
End of period – basic	143,677	141,596	126,746
End of period – diluted	163,548	162,997	140,152
Weighted average common shares for period – basic	142,422	137,084	126,283
Weighted average common shares for period – diluted	145,006	139,904	131,445
Series A - Preferred Shares outstanding – end of period (000's)	2,000	2,000	-
Series A - Dividend distribution (\$000's)	4,000	1,579	-
Per Series A Preferred Share (\$)	2.00	0.79	-
Series C - Preferred Shares outstanding – end of period (000's)	2,000	-	-
Series C - Dividend distribution (\$000's)	1,913	-	-
Per Series C Preferred Share (\$)	0.96	-	-

(1) Funds flow from operations and per common share amounts are non-GAAP measures that represent cash flow from operating activities as per the Statements of Cash Flows before the effects of changes in non-cash working capital and decommissioning expenditures. Per common share amounts are calculated by dividing funds flow from operations by the weighted average number of basic or diluted common shares outstanding for the period.

(2) Net income to common shareholders is calculated using net income as determined in accordance with GAAP, adjusted for dividends paid on Series A Preferred Shares. Per common share amounts are calculated by dividing net income to common shareholders by the weighted average number of basic or diluted common shares outstanding for the period.

(3) Excludes the fair value of financial instruments and related deferred premium.

In 2013, average production was 25,829 boe per day, up 13% from 2012 and up 42% from 2011. These production increases were largely attributed to the success of Birchcliff's capital drilling program, resulting in increased incremental production from new Montney/Doig horizontal natural gas wells.

The AECO natural gas spot price averaged \$3.17 per Mcf in 2013, up 33% from 2012 and down 13% from 2011. Notwithstanding the volatility in AECO natural gas spot prices, Birchcliff generated higher funds flow and net income for its common shareholders in 2013 as compared to the two prior years. These results were largely due to significant production gains and the reduction of total cash costs per boe over the last three years. Birchcliff reduced its total cash costs in 2013 to \$15.53 per boe, down 5% from 2012 and down 23% from 2011.

Capital expenditures in the last three years were largely directed towards the drilling and completion of new Montney/Doig horizontal natural gas wells that have been tied into the PCS Gas Plant and related facilities and gathering systems.

FUNDS FLOW AND NET INCOME

Funds Flow from Operations

Funds flow from operations and funds flow per common share are non-GAAP measures defined as cash flow from operating activities before the effects of changes in non-cash working capital and decommissioning expenditures. Birchcliff's calculation of funds flow from operations is considered to be a key measure of the ability to generate the cash necessary to fund future growth through capital investments, pay dividends on preferred shares and repay debt.

The following schedule sets out the reconciliation of cash flow from operating activities, as determined in accordance with International Financial Reporting Standards ("IFRS"), to funds flow from operations.

(\$000's)	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
Cash flow from operating activities	52,209	43,959	170,356	108,229
Adjustments:				
Decommissioning expenditures	72	372	557	678
Changes in non-cash working capital	(2,221)	(4,483)	3,448	11,352
Funds flow from operations⁽¹⁾	50,060	39,848	174,361	120,259
Per common share – basic (\$ ⁽¹⁾)	0.35	0.28	1.22	0.88
Per common share – diluted (\$ ⁽¹⁾)	0.34	0.28	1.20	0.86

(1) Funds flow from operations and funds flow per common share amounts as presented do not have any standardized meaning prescribed by IFRS and therefore it may not be comparable with the calculations of similar measures for other issuers. Funds flow from operations is not intended to represent cash flow from operating activities, net income or other measures of financial performance calculated in accordance with IFRS. Per common share amounts are calculated by dividing funds flow from operations by the weighted average number of basic and diluted common shares outstanding for the period.

Aggregate funds flow increased by 26% and 45% as compared to the three and twelve month Comparable Prior Periods. Funds flow, when compared to the fourth quarter of 2012, was positively impacted by higher realized natural gas wellhead prices, increased oil and natural gas production and lower operating and interest costs, negatively offset by slightly higher general and administrative expenses and an increase in royalty and transportation costs resulting from higher average daily production in the fourth quarter of 2013.

When compared on an annual basis to 2012, the increase in aggregate funds flow was largely due to a 6% increase in realized oil wellhead prices, a 30% increase in realized natural gas wellhead prices, an 18% increase in natural gas production and a 10% decrease in general and administrative costs. Funds flow as compared to 2012 was negatively impacted by slightly lower oil production, increased interest costs and higher royalties, operating and transportation expenses resulting from increased production in 2013.

Total Cash Costs

Birchcliff continued to focus on controlling its cash costs during this low natural gas price environment. In 2013, total cash costs, including annual employee bonuses were \$15.53 per boe, and excluding annual employee bonuses were \$15.23 per boe, each being a decrease of 5% from 2012. On a per boe basis, the reduction in total cash costs from the prior year was largely attributed to lower general and administrative expenses and increased production volumes. Excluding the annual employee bonuses, operating costs were \$5.61 per boe, which is a 6% decrease from 2012 mainly as a result of the cost benefits achieved from processing increased natural gas volumes at the PCS Gas Plant. General and administrative expenses per boe excluding the annual employee bonuses were also down 21% from 2012 to \$1.96 per boe.

The following table provides a breakdown of cash costs per boe, including and excluding the annual employee bonus payments, in order to ensure proper comparison to other issuers who may not include annual employee bonuses in their cash costs.

(\$ per boe)	Including Bonus		Excluding Bonus	
	2013	2012	2013	2012
Royalty expense	2.92	2.90	2.92	2.90
Operating expense ⁽¹⁾	5.68	6.06	5.61	5.97
Transportation and marketing expense	2.46	2.28	2.46	2.28
General & administrative expense, net ⁽¹⁾	2.19	2.75	1.96	2.49
Interest expense	2.28	2.42	2.28	2.42
Total cash costs⁽²⁾	15.53	16.41	15.23	16.06
Preferred share dividends ⁽³⁾	0.63	0.19	0.63	0.19

(1) Birchcliff allocates a portion of its annual employee bonuses (net of amounts capitalized) relating to its field staff, directly to operating expenses and relating to its corporate staff, directly to general administrative expenses.

(2) Total cash costs per boe and components thereof are non-GAAP measures that do not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculations of similar measures for other issuers. Total cash costs, including royalties, operating, transportation and marketing, general and administrative and interest, represent expenses that are operational in nature.

(3) Dividends paid on Series A and C Preferred Shares are considered a distribution of profits to preferred shareholders and therefore are excluded from the calculation of total operating cash costs per boe.

The above table discloses the preferred share dividends separately from Birchcliff's cash costs from operations, because preferred shares are an alternative form of equity that receives a fixed dividend deducted out of Birchcliff's profits. This treatment of dividends is similar to other issuers who pay dividends on their common shares, which dividends are not included in the total cash costs of the issuer.

Birchcliff utilizes Series A and Series C Preferred Shares to provide additional long term capital, without common share dilution, while avoiding both the risks and the covenants that are typically associated with long term debt financings. Birchcliff's projects provide higher rates of return than the rate of dividends paid out of its profits and thus it is accretive to common shareholders for Birchcliff to utilize this alternate method of equity financing.

Net Income to Common Shareholders

(\$000's)	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
Net income	37,062	6,305	65,417	13,196
Net income to common shareholders⁽¹⁾	36,062	5,305	61,417	11,617
Per common share – basic (\$) ⁽¹⁾	0.25	0.04	0.43	0.08
Per common share – diluted (\$) ⁽¹⁾	0.25	0.04	0.42	0.08

(1) Net income to common shareholders is calculated using net income as determined in accordance with IFRS, adjusted for dividends paid on Series A Preferred Shares. Dividends paid on Series A Preferred Shares, were \$1.0 million and \$4.0 million during the three and twelve month Reporting Periods (Comparable Prior Periods - \$1.0 million and \$1.6 million). Per common share amounts are calculated by dividing net income to common shareholders by the weighted average number of basic or diluted common shares outstanding for the period.

Birchcliff generated net income to common shareholders of \$36.1 million in the fourth quarter of 2013, up 580% from \$5.3 million recorded in the fourth quarter of 2012. This increase was mainly attributable to higher funds flow from operations and a \$33.8 million (\$25.3 million net of tax) gain on sale of assets, offset by higher income taxes and depletion expense and increased payment of dividends on preferred shares in the fourth quarter of 2013.

Net income to common shareholders increased by 429% to \$61.4 million in 2013 compared to \$11.6 million in 2012. This increase from 2012 was largely due to higher funds flow from operations, a gain on sale of assets totalling \$33.8 million (\$25.3 million net of tax), income from a non-refundable deposit of \$4.2 million (\$3.1 million net of tax) and lower net stock-based compensation expense, offset by an increase in income taxes, higher depletion expense resulting from increased production and increased payment of preferred share dividends in 2013.

PCS GAS PLANT NETBACKS

Processing natural gas at the 100% owned and operated PCS Gas Plant has allowed Birchcliff to achieve material funds flow and net earnings, notwithstanding the low, volatile, natural gas price environment in 2013. Since the initial phase of the PCS Gas Plant, which became operational in the first quarter of 2010, Birchcliff has reported positive quarterly net earnings. These results are largely attributed to the high operating netback margin achieved at the PCS Gas Plant. In 2013, the estimated operating netback for Birchcliff's natural gas production flowing to the PCS Gas Plant was \$2.99 per Mcfe (\$17.92 per boe), resulting in an estimated operating margin of 79%. Net operating costs for natural gas processed at the PCS Gas Plant averaged \$0.37 per Mcfe (\$2.24 per boe) in 2013.

The PCS Gas Plant processed approximately 61% of Birchcliff's corporate production in 2013 compared to 44% in 2012. In 2013, approximately 73% of Birchcliff's natural gas production was processed at the PCS Gas Plant compared to 56% in 2012. The following table details Birchcliff's net production and estimated operating netback for wells producing to the PCS Gas Plant, on a production month basis.

<i>Production Processed at the PCS Gas Plant</i>	Twelve months ended December 31, 2013 ⁽¹⁾		Twelve months ended December 31, 2012	
Average daily production, net to Birchcliff:				
Natural gas (Mcf)		91,666		59,327
Oil & NGLs (bbls)		527		204
Total boe (6:1)		15,805		10,092
Percentage of corporate natural gas production		73%		56%
Percentage of corporate production		61%		44%
Netback and cost:	\$/Mcfe	\$/boe	\$/Mcfe	\$/boe
Petroleum and natural gas revenue ⁽²⁾	3.77	22.64	2.91	17.44
Royalty expense	(0.16)	(0.93)	(0.11)	(0.67)
Operating expense, net of recoveries	(0.37)	(2.24)	(0.35)	(2.08)
Transportation and marketing expense	(0.25)	(1.55)	(0.23)	(1.37)
Estimated operating netback	2.99	17.92	2.22	13.32
Operating margin⁽³⁾	79%	79%	76%	76%

(1) The PCS Gas Plant processed an average of 109 MMcf per day of gross raw gas at the inlet for the year ended December 31, 2013, against current licensed capacity of 150 MMcf per day at December 31, 2013.

(2) AECO natural gas price averaged \$3.17 per Mcf and \$2.39 per Mcf in 2013 and 2012, respectively.

(3) Operating margin at the PCS Gas Plant is determined by dividing the estimated operating netback by petroleum and natural gas revenue in the period.

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

Preferred Share Financing

On June 14, 2013, Birchcliff completed a \$50 million preferred share issue. The Corporation issued 2,000,000 cumulative redeemable Series C Preferred Shares, at a price of \$25.00 per share (the "**June Financing**"). The Series C Preferred Shares bear a 7% dividend and are redeemable by their holders in seven years. The net proceeds of approximately \$47.8 million were used to pay down debt by reducing the Corporation's revolving credit facilities.

Credit Facilities

On May 16, 2013, Birchcliff's bank syndicate approved a \$60 million non-revolving five-year term credit facility with a maturity date on May 25, 2018. Birchcliff also has outstanding a \$70 million non-revolving five-year term credit facility maturing on May 25, 2016. This facility requires principle repayments of \$350,000 per quarter which commenced on July 1, 2013. The conversion date of the \$470 million revolving credit facilities was extended from May 17, 2013 to May 16, 2014. The revolving credit facilities are made up of an extendible revolving credit facility of \$440 million and an extendible revolving working capital facility of \$30 million, both of which have a two-year term-out feature. The aggregate maximum credit limit available under Birchcliff's credit facilities is \$599.3 million.

Asset Disposition

On November 22, 2013, Birchcliff completed the sale of non-core assets in the Progress area for net proceeds of approximately \$54.7 million. The sale encompassed approximately 520 boe per day of Doe Creek light oil production. The transaction had an effective date of May 1, 2013 and the net proceeds of the sale were used to reduce debt. The sale of these assets did not result in any reduction of Birchcliff's credit facilities.

DISCUSSION OF OPERATIONS

Petroleum and Natural Gas Revenues

Petroleum and natural gas ("P&NG") revenues totalled \$89.1 million (\$34.11 per boe) for the three month Reporting Period and \$316.6 million (\$33.59 per boe) for the twelve month Reporting Period as compared to \$78.0 million (\$31.81 per boe) and \$257.2 million (\$30.82 per boe) for the Comparable Prior Periods. The increase in P&NG revenues from the Comparable Prior Periods was largely due to higher average daily production and an increase in natural gas wellhead prices in the Reporting Periods.

The following table details Birchcliff's P&NG revenues, production and percentage of production and sales prices by category.

	Three months ended December 31, 2013				Three months ended December 31, 2012			
	Total Revenue (\$000)	Average Daily Production	(%)	Average (\$/unit)	Total Revenue (\$000)	Average Daily Production	(%)	Average (\$/unit)
Light oil (bbls)	31,702	4,227	15	81.52	30,575	3,986	15	83.38
Natural gas (Mcf)	48,385	138,132	81	3.81	41,325	131,120	82	3.43
Natural gas liquids (bbls)	8,981	1,142	4	85.45	6,041	816	3	80.44
Total P&NG sales (boe)	89,068	28,391	100	34.10	77,941	26,655	100	31.78
Royalty revenue	24			0.01	60			0.03
P&NG revenues	89,092			34.11	78,001			31.81

	Twelve months ended December 31, 2013				Twelve months ended December 31, 2012			
	Total Revenue (\$000)	Average Daily Production	(%)	Average (\$/unit)	Total Revenue (\$000)	Average Daily Production	(%)	Average (\$/unit)
Light oil (bbls)	132,219	4,030	16	89.89	131,964	4,270	19	84.45
Natural gas (Mcf)	156,433	125,712	81	3.41	102,966	106,868	78	2.63
Natural gas liquids (bbls)	27,344	847	3	88.45	22,113	721	3	83.78
Total P&NG sales (boe)	315,996	25,829	100	33.52	257,043	22,802	100	30.80
Royalty revenue ⁽¹⁾	641			0.07	163			0.02
P&NG revenues	316,637			33.59	257,206			30.82

(1) Includes a one-time payment of \$525,000 to Birchcliff from the disposition of a gross overriding royalty interest in the Worsley area during the twelve month Reporting Period.

Production

Production averaged 28,391 boe per day in the three month Reporting Period and 25,829 boe per day in the twelve month Reporting Period, as compared to 26,655 boe per day and 22,802 boe per day in the Comparable Prior Periods. On a per common share basis, production was up 9% from 2012.

The 7% increase in production from the three month Comparable Prior Period was mainly due to incremental production added from new Montney/Doig horizontal natural gas wells, which were tied into the PCS Gas Plant during the fourth quarter of 2013, and an increase in light oil production.

The 13% increase in production from the twelve month Comparable Prior Period was achieved through the success of Birchcliff's capital drilling program, which resulted in increased production from new Montney/Doig horizontal natural gas wells that produced to the PCS Gas Plant, offset by natural production declines from those Montney/Doig wells and slightly lower light oil production in the twelve month Reporting Period. The PCS Gas Plant processed approximately 73% of Birchcliff's total natural gas production and 61% of total corporate production in 2013.

Production consisted of approximately 81% natural gas and 19% crude oil and natural gas liquids in the fourth quarter of 2013 as compared to 82% natural gas and 18% crude oil and natural gas liquids in the fourth quarter of 2012.

Commodity prices

Birchcliff sells all of its light crude oil on a spot basis and virtually all of its natural gas production for prices based on the AECO natural gas spot price. The average realized price the Corporation receives for its light crude oil and natural gas production depends on a number of factors including the average benchmark prices for crude oil and natural gas, the US - Canadian dollar exchange rate, transportation and product quality differentials.

The following table sets out the average benchmark prices and Birchcliff's average realized prices.

	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
Average benchmark prices:				
Light oil – WTI Cushing (\$USD/bbl)	97.46	88.18	97.97	94.21
Light oil – Edmonton Par (\$/bbl)	86.28	83.99	92.92	86.12
Natural gas – AECO – C daily (\$/MMbtu) ⁽¹⁾	3.52	3.21	3.17	2.39
Exchange rate – (USD\$/CAD\$)	1.05	0.99	1.03	1.00
Birchcliff's average realized prices:				
Light oil (\$/bbl)	81.52	83.38	89.89	84.45
Natural gas (\$/Mcf)	3.81	3.43	3.41	2.63
NGLs (\$/bbl)	85.45	80.44	88.45	83.78
Barrels of oil equivalent (\$/boe)	34.10	31.78	33.52	30.80

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

The average benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for these commodities. The principle benchmark trading exchanges that Birchcliff compares its oil price to are the US benchmark West Texas Intermediate at Cushing, Oklahoma (“WTI”) spot price and the Canadian Edmonton Par spot price. The differential between WTI USD and Canadian Edmonton Par oil price can widen due to a number of factors including, but not limited to, downtime in North American refineries, rising domestic production, regional bottlenecks and curtailment of key processing infrastructure, high inventory levels in North America and lack of pipeline infrastructure connecting key consuming oil markets.

Natural gas prices are mainly driven by North American supply and demand fundamentals, which can be impacted by a number of factors including weather-related conditions, changing demographics, economic growth, natural gas storage levels, pipeline capacity, drilling rates and technological improvements in extracting natural gas from North American natural gas basins.

The AECO natural gas spot price averaged \$3.52 per Mcf and \$3.17 per Mcf for the three and twelve month Reporting Periods, a 10% increase from the three month Comparable Prior Period and a 33% increase from the twelve month Comparable Prior Period. Birchcliff's realized natural gas sales price at the wellhead averaged \$3.81 per Mcf and \$3.41 per Mcf in the three and twelve month Reporting Periods which are higher than the posted benchmark prices for those periods. Birchcliff receives premium pricing for its natural gas due to its high heat content. The following table details the average realized sales price and differential received by Birchcliff for its natural gas production.

	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
Average realized natural gas sales price (\$/Mcf)	3.81	3.43	3.41	2.63
Average natural gas – AECO – C daily (\$/MMbtu) ⁽¹⁾	3.52	3.21	3.17	2.39
Positive differential	0.29	0.22	0.24	0.24

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

Risk Management Contracts

The Corporation has entered into certain commodity price risk management contracts for 2014 in order to reduce volatility in its financial results and protect its cash flow and capital expenditure program. Birchcliff's current strategy is to hedge a portion of its oil and natural gas using a combination of financial derivatives and physical delivery sales contracts to manage commodity risk.

Financial derivatives

The Corporation had entered into the following financial derivative contracts at December 31, 2013.

Product	Option traded	Notional quantity	Term	Strike price	Fair value (\$000's)
Crude oil	Put option	500 bbls/day	January 1, 2014 – December 31, 2014	WTI USD \$90/bbl	507
Crude oil	Put option	500 bbls/day	January 1, 2014 – December 31, 2014	WTI USD \$85/bbl	319
Total fair value assets⁽¹⁾					826

(1) The Corporation also recorded approximately \$1.2 million as a deferred premium on financial instruments, which represents the amount payable to the counterparty to these contracts at December 31, 2013.

The fair value of these risk management assets at December 31, 2013 was approximately \$0.8 million (2012 – NIL). As of December 31, 2013, if the future strip prices for WTI crude oil had been \$1.00 USD per bbl higher, with all other variables held constant, after tax net income would have been \$0.04 million (2012 - NIL) lower.

The following table provides a summary of the unrealized losses on financial instruments.

(\$000's)	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
Unrealized loss on financial instruments	379	-	379	-
Unrealized loss on financial instruments	379	-	379	-

There were no financial derivative contracts entered into subsequent to December 31, 2013.

Physical sales contracts

In addition to the financial derivative contracts discussed above, the Corporation has entered into physical contracts to manage commodity risk. These contracts are considered normal executory sales contracts and are not recorded at fair value in the financial statements. The Corporation has entered into the following physical sales contracts as at December 31, 2013.

Product	Type of contract	Volume	Term ⁽¹⁾	Contract price
Natural gas	AECO fixed price	40,000 GJ/day	April 1, 2014 – October 31, 2014	\$3.68 CDN/GJ

(1) Transactions with common terms have been aggregated and presented as the weighted average price.

The Corporation has entered into the following physical sales contracts subsequent to December 31, 2013.

Product	Type of contract	Volume	Term ⁽¹⁾	Contract price
Natural gas	AECO fixed price	35,000 GJ/day	April 1, 2014 – October 31, 2014	\$3.98 CDN/GJ

(1) Transactions with common terms have been aggregated and presented as the weighted average price.

Birchcliff's total natural gas hedge position for 2014 is summarized below.

Product	Term ⁽¹⁾	Average production hedged ⁽²⁾	Estimated average wellhead price ⁽²⁾
Natural gas	April 1, 2014 – October 31, 2014	65,908 Mcf/day	\$4.35 CDN/Mcf

(1) Transactions with common terms have been aggregated and presented as the weighted average price.

(2) The conversion from GJ to Mcf is based on an estimated average natural gas heat content for Birchcliff's Pouce Coupe area of 40.4 MJ/m³.

Royalties

Birchcliff recorded a royalty expense of \$7.0 million (\$2.68 per boe) for the three month Reporting Period and \$27.6 million (\$2.92 per boe) for the twelve month Reporting Period as compared to \$6.2 million (\$2.52 per boe) and \$24.2 million (\$2.90 per boe) for the Comparable Prior Periods. Royalties are paid primarily to the Alberta Government. The following table details the Corporation's royalty expense.

	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
Oil & natural gas royalties (\$000)	6,988	6,182	27,567	24,193
Oil & natural gas royalties (\$/boe)	2.68	2.52	2.92	2.90
Effective royalty rate (%) ⁽¹⁾	8%	8%	9%	9%

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

Other Income

In 2013, Birchcliff recorded \$4.2 million (\$0.44 per boe) as income, representing a non-recurring, non-refundable deposit received from a third party for a non-core property disposition that failed to close.

Operating Costs

Operating costs were \$14.2 million (\$5.44 per boe) for the three month Reporting Period and \$53.5 million (\$5.68 per boe) for the twelve month Reporting Period as compared to \$14.4 million (\$5.88 per boe) and \$50.6 million (\$6.06 per boe) for the Comparable Prior Periods. Birchcliff continues to focus on controlling the infrastructure it uses to produce its oil and natural gas and on reducing operating costs on a per boe basis. The following table provides a breakdown of operating costs.

	Three months ended December 31,				Twelve months ended December 31,			
	2013		2012		2013		2012	
	(\$000's)	(\$/boe)	(\$000's)	(\$/boe)	(\$000's)	(\$/boe)	(\$000's)	(\$/boe)
Field operating costs	15,703	6.01	15,944	6.50	59,850	6.35	57,082	6.84
Recoveries	(1,474)	(0.56)	(1,764)	(0.72)	(6,779)	(0.72)	(6,965)	(0.83)
Field operating costs, net	14,229	5.45	14,180	5.78	53,071	5.63	50,117	6.01
Expensed workovers and other	(26)	(0.01)	244	0.10	450	0.05	461	0.06
Operating costs	14,203	5.44	14,424	5.88	53,521	5.68	50,578	6.06

Corporate operating costs per boe decreased by 8% and 6% from the three and twelve month Comparable Prior Periods largely due to the continued cost benefits achieved from processing increased incremental volumes of natural gas through the PCS Gas Plant and the implementation of various optimization initiatives.

On a production month basis, net operating costs averaged \$2.24 per boe at the PCS Gas Plant during 2013, where Birchcliff processed 61% of its total production.

Transportation and Marketing Expenses

Transportation and marketing expenses were \$6.6 million (\$2.52 per boe) for the three month Reporting Period and \$23.2 million (\$2.46 per boe) for the twelve month Reporting Period as compared to \$5.1 million (\$2.09 per boe) and \$19.0 million (\$2.28 per boe) for the Comparable Prior Periods. The increased aggregate costs are primarily due to higher transportation expenses resulting from increased production in the Reporting Periods as compared to the Comparable Prior Periods.

Operating Netbacks

The following table details Birchcliff's net production and operating netbacks for the Montney/Doig Natural Gas Resource Play, the Worsley Charlie Lake Light Oil Resource Play and on a corporate basis.

	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
Montney/Doig Natural Gas Resource Play⁽¹⁾				
Average daily production, net:				
Natural gas (Mcf)	124,426	116,899	111,813	92,006
Oil & NGLs (bbls)	972	603	676	562
Total boe (6:1)	21,709	20,087	19,311	15,896
% of corporate production ⁽²⁾	76%	75%	75%	70%
Netback and cost (\$ per Mcfe):				
Petroleum and natural gas revenue	4.28	3.73	3.82	3.05
Royalty expense	(0.15)	(0.17)	(0.12)	(0.11)
Operating expense, net of recoveries	(0.61)	(0.66)	(0.63)	(0.70)
Transportation and marketing expense	(0.26)	(0.24)	(0.26)	(0.24)
Operating netback	3.26	2.66	2.81	2.00
Worsley Charlie Lake Light Oil Resource Play⁽¹⁾				
Average daily production, net:				
Natural gas (Mcf)	8,627	7,652	8,097	7,944
Oil & NGLs (bbls)	3,645	3,252	3,324	3,313
Total boe (6:1)	5,083	4,527	4,673	4,637
% of corporate production ⁽²⁾	18%	17%	18%	20%
Netback and cost (\$ per boe):				
Petroleum and natural gas revenue	64.47	66.08	69.96	64.75
Royalty expense	(8.85)	(7.90)	(10.02)	(8.26)
Operating expense, net of recoveries	(9.22)	(9.64)	(9.32)	(8.60)
Transportation and marketing expense	(6.75)	(5.06)	(6.37)	(5.34)
Operating netback	39.65	43.48	44.25	42.55
Total Corporate				
Average daily production, net:				
Natural gas (Mcf)	138,132	131,120	125,712	106,868
Oil & NGLs (bbls)	5,369	4,802	4,877	4,991
Total boe (6:1)	28,391	26,655	25,829	22,802
Netback and cost (\$ per boe)				
Petroleum and natural gas revenue	34.11	31.81	33.59	30.82
Royalty expense	(2.68)	(2.52)	(2.92)	(2.90)
Operating expense, net of recoveries	(5.44)	(5.88)	(5.68)	(6.06)
Transportation and marketing expense	(2.52)	(2.09)	(2.46)	(2.28)
Operating netback	23.47	21.32	22.53	19.58

(1) Most resource plays produce both oil and natural gas, however a resource play is categorized as either a natural gas resource play or an oil resource play based upon the predominate production or play type in that area.

(2) Production from Birchcliff's other conventional oil and natural gas properties were not individually significant during the Reporting Periods and Comparable Prior Periods.

Montney/Doig Natural Gas Resource Play

Birchcliff's production from the Montney/Doig Natural Gas Resource Play was 21,709 boe per day in the three month Reporting Period and 19,311 boe per day for the twelve month Reporting Period, an 8% and a 21% increase from the same periods in 2012. This increase was largely due to production additions from new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant. The PCS Gas Plant is strategically situated on the Montney/Doig Natural Gas Resource Play and processes gas predominately from the Pouce Coupe and Glacier areas. Production from the Montney/Doig Natural Gas Resource Play accounted for 75% of the total corporate production in 2013.

Birchcliff's operating netback from the Montney/Doig Natural Gas Resource Play was \$3.26 per Mcfe (\$19.56 per boe) in the three month Reporting Period and \$2.81 per Mcfe (\$16.86 per boe) for the twelve month Reporting Period, a 23% increase and 41% increase from the same periods in 2012. These increases were largely due to higher realized natural gas prices in the Reporting Periods as compared to the Comparable Prior Periods.

Worsley Charlie Lake Light Oil Resource Play

Birchcliff's production from the Worsley Charlie Lake Light Oil Resource Play was 5,083 boe per day in the three month Reporting Period and 4,673 boe per day in the twelve month Reporting Period, a 12% increase and 1% increase from the Comparable Prior Periods. The larger increase in production from the three month Comparable Prior Period was due to prior year infrastructure limitations in a portion of the Worsley field that were resolved in 2013. Birchcliff's production from the Worsley Charlie Lake Light Oil Resource Play accounted for 18% of the total corporate production in 2013.

Operating netback from the Worsley Charlie Lake Light Oil Resource Play was \$39.65 per boe in the three month Reporting Period and \$44.25 per boe for the twelve month Reporting Period, a 9% decrease and 4% increase from the Comparable Prior Periods. On a per boe basis, the decrease in operating netback from the three month Comparable Prior Period was due to lower realized petroleum prices and an increase in royalty and transportation costs, offset by a decrease in operating expenses in the three month Reporting Period. The year over year increase, on a per boe basis, was due to higher realized petroleum and natural gas prices, offset by an increase in royalty, operating and transportation costs in 2013.

Administrative Expenses

Net administrative expenses were \$7.6 million (\$2.91 per boe) for the three month Reporting Period and \$24.8 million (\$2.62 per boe) for the twelve month Reporting Period as compared to \$7.5 million (\$3.07 per boe) and \$28.0 million (\$3.35 per boe) for the Comparable Prior Periods. The components of net administrative expenses are detailed in the table below.

	Three months ended December 31,				Twelve months ended December 31,			
	2013		2012		2013		2012	
	(\$000's)	(%)	(\$000's)	(%)	(\$000's)	(%)	(\$000's)	(%)
Cash:								
Salaries and benefits ⁽¹⁾⁽²⁾	9,492	76	8,335	75	21,100	63	21,371	66
Other ⁽³⁾	3,068	24	2,808	25	12,308	37	11,041	34
	12,560	100	11,143	100	33,408	100	32,412	100
Operating overhead recoveries	(248)	(2)	(270)	(2)	(968)	(3)	(929)	(3)
Capitalized overhead ⁽⁴⁾	(5,670)	(45)	(4,346)	(39)	(11,763)	(35)	(8,533)	(26)
General & administrative, net	6,642	53	6,527	59	20,677	62	22,950	71
General & administrative, net per boe	\$2.54		\$2.66		\$2.19		\$2.75	
Non-cash:								
Stock-based compensation ⁽⁵⁾	2,012	100	2,295	100	7,582	100	9,043	100
Capitalized stock-based compensation ⁽⁴⁾	(1,050)	(52)	(1,296)	(56)	(3,508)	(46)	(4,008)	(44)
Stock-based compensation, net	962	48	999	44	4,074	54	5,035	56
Stock-based compensation, net per boe	\$0.37		\$0.41		\$0.43		\$0.60	
Administrative expenses, net	7,604		7,526		24,751		27,985	
Administrative expenses, net per boe	\$2.91		\$3.07		\$2.62		\$3.35	

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

(2) In the twelve month Comparable Prior Period, Birchcliff accrued approximately \$2.4 million in retention payments as a result of the termination of the corporate sale process.

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

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

(5) Stock-based compensation expense decreased on an aggregate basis from the Comparable Prior Periods mainly due to a larger number of options that were forfeited during the Reporting Periods.

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

	Twelve months ended December 31, 2013		Twelve months ended December 31, 2012	
	Number	Exercise price ⁽¹⁾	Number	Exercise price ⁽¹⁾
Outstanding, beginning of period	12,463,872	\$8.06	10,466,941	\$8.73
Granted	3,137,700	\$7.50	3,860,900	\$6.16
Exercised	(2,080,382)	(\$5.40)	(675,702)	(\$4.41)
Forfeited	(1,473,070)	(\$8.71)	(1,188,267)	(\$9.85)
Expired	(1,116,600)	(\$8.15)	-	-
Outstanding, end of period	10,931,520	\$8.31	12,463,872	\$8.06

(1) Determined on a weighted average basis.

At December 31, 2013, there were 2,939,732 performance warrants outstanding with an exercise price of \$3.00 (January 31, 2015 expiry) and 6,000,000 warrants outstanding (issued in conjunction with the August 2012 preferred unit equity offering) with an exercise price of \$8.30 (August 8, 2014 expiry). Each stock option, performance warrant and warrant entitles the holder to purchase one common share at the exercise price.

Depletion and Depreciation Expenses

Depletion and depreciation (“**D&D**”) expenses were \$30.6 million (\$11.70 per boe) for the three month Reporting Period and \$108.8 million (\$11.54 per boe) for the twelve month Reporting Period as compared to \$28.8 million (\$11.75 per boe) and \$95.8 million (\$11.48 per boe) for the Comparable Prior Periods. D&D expenses were higher on an aggregate basis mainly due to a 7% and 13% increase in production from the three and twelve month Comparable Prior Periods, respectively.

D&D is a function of the estimated proved plus probable reserve additions, the finding and development costs attributable to those reserves, the associated future development capital required to recover those reserves and production in the period. Included in the depletion calculation for 2013 were 370.1 MMboe of proved plus probable reserves and \$2.5 billion of future development capital required to recover those reserves. The Corporation determines its D&D expenses on an area basis.

Asset Impairment Assessment

The Corporation reviews its petroleum and natural gas assets for impairment in accordance with International Accounting Standards (“**IAS**”) 36 under IFRS. Birchcliff’s assets are grouped into cash generating units (“**CGU**”) for the purpose of determining impairment. A CGU represents the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. In determining the Corporation’s CGU, the Corporation took into consideration all available information including, but not limited to, the geographical proximity, geological similarities (ie. reservoir characteristic, production profiles), degree of shared infrastructure, independent versus interdependent cash flows, operating structure, regulatory environment, management decision-making and overall business strategy.

CGU’s are reviewed at each reporting date for both internal and external indicators of potential impairment. Potential CGU impairment indicators include, but are not limited to, changes to Birchcliff’s business plan; deterioration in commodity prices; negative changes in technological, economic, legal, capital or operating environment; adverse changes to the physical condition of a CGU; current expectation that a material CGU (or a significant component thereof), is more likely than not to be sold or otherwise disposed of before the end of its previously estimated useful life; non-compliance of financial debt covenants; deterioration in the financial and operational performance of a CGU; net assets exceeding market capitalization; and significant downward revisions of estimated recoverable proved plus probable reserves of a CGU. If impairment indicators exist, an impairment test is performed by comparing a CGU’s carrying value to its recoverable amount.

Birchcliff performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined there were no impairment triggers identified at December 31, 2013. As a result, no impairment test was required at December 31, 2013.

Finance Expenses

Finance expenses were \$5.5 million (\$2.11 per boe) for the three month Reporting Period and \$24.6 million (\$2.60 per boe) for the twelve month Reporting Period as compared to \$6.6 million (\$2.67 per boe) and \$22.8 million (\$2.72 per boe) for the Comparable Prior Periods. The components of the Corporation's finance expenses are shown in the table below.

	Three months ended December 31,				Twelve months ended December 31,			
	2013		2012		2013		2012	
	(\$000's)	(\$/boe)	(\$000's)	(\$/boe)	(\$000's)	(\$/boe)	(\$000's)	(\$/boe)
Cash:								
Interest on credit facilities	4,608	1.77	5,915	2.41	21,501	2.28	20,218	2.42
Non-cash:								
Accretion on decommissioning obligations	619	0.24	450	0.18	2,175	0.23	1,770	0.21
Amortization of deferred financing fees	258	0.10	187	0.08	888	0.09	787	0.09
Finance expenses	5,485	2.11	6,552	2.67	24,564	2.60	22,775	2.72

The aggregate interest expense is impacted by pricing margins established under Birchcliff's bank credit agreements, which are used to determine Birchcliff's average effective interest rate, and the average balance outstanding under its bank credit facilities during the period.

The effective interest rate applicable to the revolving working capital facility was 4.8% at the end of 2013 as compared to 6.0% at the end of the 2012. The effective interest rate applicable to the bankers' acceptances issued under the revolving syndicated credit facility was 4.1% in the three month Reporting Period and 4.9% in the twelve month Reporting Period as compared to 5.3% and 5.0% in the three and twelve month Comparable Prior Periods. The effective interest rate applicable to the bankers' acceptances issued under the non-revolving term credit facilities was 4.7% and 5.2% in the three and twelve month Reporting Periods as compared to 5.6% and 5.2% in the Comparable Prior Periods.

Birchcliff's average outstanding total credit facilities balance was approximately \$423 million and \$433 million in the three and twelve month Reporting Periods as compared to \$416 million and \$406 million in the Comparable Prior Periods, calculated as the simple average of the month end amounts.

Gain on Sale of Assets

In November 2013, Birchcliff completed the sale of non-core assets in the Progress area for net proceeds of approximately for \$54.7 million. The sale encompassed approximately 520 boe per day of Doe Creek light oil production. The net proceeds of the sale were used to reduce debt. Birchcliff recorded a gain on sale of assets totalling \$33.8 million (\$25.3 million, net of tax) or \$3.58 per boe in the twelve month Reporting Period.

During 2012, Birchcliff completed a transaction whereby it disposed of minor assets in the Glacier area of Alberta in exchange for strategic assets acquired in the Pouce Coupe area of Alberta. The fair value of the swap 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 \$0.46 per boe in the twelve month Comparable Prior Period.

The sale of assets in the Progress area and the Glacier area are not significant to the Corporation's financial results and operational performance and, as such, are considered non-core assets to Birchcliff.

Income Taxes

Birchcliff recorded an income tax expense of \$13.1 million (\$5.01 per boe) for the three month Reporting Period and \$24.5 million (\$2.61 per boe) for the twelve month Reporting Period as compared to \$3.1 million (\$1.26 per boe) and \$7.6 million (\$0.91 per boe) for the Comparable Prior Periods.

The components of income tax expense are shown in the table below.

(\$000's)	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
Deferred income tax expense	12,364	2,697	22,126	6,929
Dividend tax expense on preferred shares	750	400	2,364	633
Income tax expense	13,114	3,097	24,490	7,562

The increase in income tax expense from the Comparable Prior Periods was due to higher recorded net income before taxes which resulted in increased deferred income tax expense and increased dividend distributions on taxable preferred shares (Series A and Series C Preferred Shares), which resulted in higher Part VI.1 dividend tax expense in the Reporting Periods.

The Corporation's estimated income tax pools were \$1.23 billion at December 31, 2013. Management expects that future taxable income will be available to utilize the accumulated tax pools. The components of the Corporation's estimated income tax pools are shown in the table below.

(\$000's)	Tax pools as at December 31, 2013
Canadian oil and gas property expense	232,970
Canadian development expense	260,873
Canadian exploration expense	214,957
Undepreciated capital costs	201,904
Non-capital losses	318,355
Financing costs	5,202
Estimated income tax pools	1,234,261

The Corporation's 2006 and 2007 income tax filings were reassessed by the Canada Revenue Agency ("CRA") in 2011. The reassessments are based on CRA's determination that the tax pools available to Veracel Inc. ("Veracel"), prior to the amalgamation, ceased to be available to Birchcliff after the amalgamation.

The Veracel tax pools in dispute totalled \$39.3 million and include approximately \$16.2 million in non-capital losses, \$15.6 million in scientific research and experimental development expenditures and \$7.5 million in investment tax credits. The disputed assessments are outstanding at December 31, 2013. A trial of the matter was held in the Federal Court of Canada in November 2013 and Birchcliff is now awaiting the Court's decision.

The resolution of the disputed assessments may impact future income tax expense but will not impact cash taxes payable by the Corporation. Management believes that it will be successful in defending its tax position respecting the Veracel transaction, and as such, the Corporation has not recognized a related provision for deferred income tax liability at December 31, 2013.

CAPITAL EXPENDITURES

The following table sets forth a summary of the Corporation's capital expenditures.

(\$000's)	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
Land	1,789	412	36,782	6,604
Seismic	233	92	807	686
Workovers	1,759	1,643	7,619	8,767
Drilling and completions	57,261	20,664	177,904	173,771
Well equipment and facilities	11,631	9,398	45,006	108,701
Finding and development costs (F&D)	72,673	32,209	268,118	298,529
Acquisitions	-	-	451 ⁽¹⁾	24,984 ⁽²⁾
Dispositions	(54,774) ⁽³⁾	(98)	(54,778) ⁽³⁾	(25,018) ⁽²⁾
Finding, development and acquisition costs (FD&A)	17,899	32,111	213,791	298,495
Administrative assets	289	26	1,979	408
Capital expenditures	18,188	32,137	215,770	298,903

(1) Purchase price of predominately undeveloped land.

(2) In 2012, Birchcliff completed a transaction whereby it disposed of a minor 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 exchange transaction was estimated at \$25 million.

(3) In 2013, Birchcliff disposed of non-core assets in the Progress area for net proceeds of \$54.7 million.

Finding and development costs of \$268.1 million in 2013 included \$21.3 million (8%) on acquiring 13.5 net sections of Crown land at 100% working interest on the Montney/Doig Natural Gas Resource Play during the first quarter of 2013, \$128.4 million (48%) on drilling and completing new Montney/Doig horizontal natural gas wells to fill the PCS Gas Plant and the remaining \$118.4 million (44%) on other Crown land purchases, expansion of the Montney/Doig Natural Gas Resource Play and the Worsley Charlie Lake Light Oil Resource Play, and on other oil and gas exploration, development and infrastructure projects in the Peace River Arch.

During 2013, Birchcliff drilled a total of 43 (41.67 net) wells consisting of 26 (26.0 net) wells on the Montney/Doig Natural Gas Resource Play, including 25 (25.0 net) horizontal natural gas wells and 1 (1.0 net) vertical well; 13 (13.0 net) wells on the Worsley Charlie Lake Light Oil Resource Play; and 4 (2.67 net) wells on the Halfway Light Oil Play.

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources

The following table sets forth a summary of the Corporation's capital resources.

(\$000's)	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
Funds flow from operations	50,060	39,848	174,361	120,259
Changes in non-cash working capital from operations	2,221	4,483	(3,448)	(11,352)
Decommissioning expenditures	(72)	(372)	(557)	(678)
Issue of common shares	-	-	-	110,144
Issue of preferred shares and warrants	-	-	-	50,000
Exercise of stock options	4,680	358	11,240	2,982
Issue of capital securities	-	-	50,000	-
Share issue costs	-	(57)	(2,169)	(5,915)
Financing fees paid on credit facilities	-	-	(945)	(600)
Dividends paid on preferred shares	(1,875)	(1,000)	(5,913)	(1,579)
Net change in non-revolving term credit facilities	(383)	52	59,843	(114)
Net change in revolving credit facilities	(50,550)	42,482	(97,529)	44,767
Changes in non-cash working capital from investing	14,107	(53,657)	30,937	(9,030)
Capital resources	18,188	32,137	215,820	298,884

Working Capital

The Corporation's working capital deficit (current assets minus current liabilities, excluding the fair value of financial instruments and related deferred premium) increased to \$60.1 million at December 31, 2013 from \$29.6 million at December 31, 2012. The deficit at the end of the Reporting Period is largely comprised of costs incurred from the drilling and completion of new wells.

At December 31, 2013, the major components of Birchcliff's current assets were joint interest billings to be received from its partners (18%) and revenue to be received from its marketers in respect of December 2013 production (77%), which was subsequently received in January 2014. In contrast, current liabilities largely consisted of trade and joint venture payables (68%) and accrued capital and operating costs (28%). 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.

Birchcliff manages its working capital using funds flow from operations and advances under bank credit facilities. The Corporation's working capital deficit does not reduce the amount available under the bank credit facilities. The Corporation did not identify any liquidity issues with respect to the operation of its petroleum and natural gas business during the Reporting Periods.

Long-Term Bank Debt

At December 31, 2013, the amount outstanding under the Corporation's long-term bank credit facilities was \$394.0 million (\$432.6 million in 2012), which is net of \$2.3 million (\$5.4 million in 2012) in unamortized interest and fees. Birchcliff's available credit facilities aggregate to approximately \$600 million at December 31, 2013.

Total debt, including the working capital deficit, was \$454.0 million at December 31, 2013 as compared to \$462.1 million at December 31, 2012. Total debt from December 31, 2012 was reduced by the net proceeds of \$47.8 million from the June Financing and by the net proceeds of \$54.7 million from the Progress asset disposition, and increased by capital spent in excess of funds flow of approximately \$94.4 million during 2013.

A significant portion of the funds drawn under Birchcliff's bank credit facilities in 2013 was to pay costs relating to the drilling and completion of new Montney/Doig horizontal natural gas wells that were tied into PCS Gas Plant and on expansion of the Montney/Doig Resource Natural Gas Play and the Worsley Charlie Lake Light Oil Resource Play.

The following table shows the Corporation's unused bank credit facilities.

As at December 31, (\$000's)	2013	2012
<i>Maximum borrowing base limit⁽¹⁾⁽²⁾:</i>		
Non-revolving term credit facilities ⁽³⁾	129,300	70,000
Revolving credit facilities	470,000	470,000
	599,300	540,000
<i>Principal amount utilized:</i>		
Drawn non-revolving term credit facilities ⁽⁴⁾	(129,300)	(70,000)
Drawn revolving credit facilities ⁽⁴⁾	(268,411)	(368,654)
Outstanding letters of credit ⁽⁵⁾	(184)	(184)
	(397,895)	(438,838)
Unused credit	201,405	101,162

- (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 quarterly financial covenants applicable to the Corporation's credit facilities include (i) an interest coverage ratio, which is calculated on a historical rolling four quarter basis, as earnings before interest and non-cash items including income taxes, stock-based compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments and depletion, depreciation and amortization ("**EBITDA**") divided by interest expense; and (ii) a debt to EBITDA ratio. Interest expense for this purpose means total interest charges on borrowings with respect to all outstanding indebtedness and all preferred share dividends declared and paid in the period. Debt for this purpose means indebtedness for borrowed money, as determined at the end of the reporting period, and includes outstanding debt under the Corporation's credit facilities as shown on the Statements of Financial Position before unamortized deferred financing fees and including outstanding letters of credit, but does not include working capital deficiency and capital securities. The Corporation is required to ensure that on the last day of each quarter, the ratio of EBITDA to interest expense, determined on a historical rolling four quarter basis equals or exceeds 3.5:1.0 and the ratio of debt to EBITDA, determined on a historical rolling four quarter basis does not exceed 4.0:1.0. At December 31, 2013, Birchcliff's EBITDA to interest expense was 7.1:1.0 and Debt to EBITDA was 2.0:1.0. The Corporation was compliant with all financial covenants under its credit facilities as at December 31, 2013 and December 31, 2012.
- (3) The \$70 million non-revolving five-year term credit facility requires quarterly principle repayments of \$350,000 which commenced on July 1, 2013.
- (4) The drawn amounts are not reduced for unamortized costs and fees associated with each credit facility.
- (5) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit in 2013 and 2012.

Contractual Obligations

The Corporation enters into contractual obligations in the ordinary course of conducting its day-to-day business. The following table lists Birchcliff's estimated material contractual obligations at December 31, 2013.

<i>(\$000's)</i>	2014	2015	2016 - 2018
Accounts payable and accrued liabilities	96,927	-	-
Drawn non-revolving term credit facilities	1,400	1,400	126,500
Drawn revolving credit facilities	-	-	268,411
Office lease ⁽¹⁾	3,490	3,490	6,690
Transportation and processing	14,998	8,603	1,027
Deferred premium on risk management contracts	1,205	-	-
Estimated contractual obligations⁽²⁾	118,020	13,493	402,628

- (1) The Corporation is committed under an operating lease relating to its office premises, beginning December 1, 2007 and expiring on November 30, 2017. Effective December 1, 2012, Birchcliff is committed to the entire leased premise and has not sublet any excess space to an arm's length party.
- (2) Contractual commitments that are routine in nature and form part of the normal course of operations for Birchcliff are not included. The Corporation's decommissioning obligations are excluded from the table as these obligations arose from a regulatory requirement rather than from a contractual arrangement. Birchcliff estimates the total undiscounted cash flow to settle its decommissioning obligations on its wells and facilities at December 31, 2013 to be approximately \$146.4 million and will be incurred as follows: 2015 to 2016 - \$6.9 million and \$139.5 million thereafter. The estimate for undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially. Birchcliff's Series C Preferred Shares, which are redeemable by their holders after June 30, 2020, have not been included in this table as they are not contractual obligations of the Corporation at the end of the Reporting Period. Upon receipt of a notice of redemption, the Corporation has an obligation to redeem the Series C Preferred Shares, at its option, in cash or common shares.

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 during the Reporting Periods and Comparable Prior Periods.

OUTSTANDING SHARE INFORMATION

At December 31, 2013, Birchcliff had common shares and two series of preferred 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. Birchcliff's Series A Preferred Shares and Series C Preferred Shares and warrants are individually listed on the TSX under the symbols BIR.PR.A, BIR.PR.C and BIR.WT, respectively.

The following table summarizes the common shares issued.

	Common shares
Balance at December 31, 2011	126,745,577
Issue of common shares	13,075,000
Issue of flow-through common shares	1,100,000
Issue of common shares upon exercise of options	675,702
Balance at December 31, 2012	141,596,279
Issue of common shares upon exercise of options	2,080,382
Balance at December 31, 2013	143,676,661

As of March 10, 2014, there were outstanding 144,125,677 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 12,955,336 stock options to purchase an equivalent number of common shares; 2,939,732 performance warrants to purchase an equivalent number of common shares; and 6,000,000 warrants to purchase an equivalent number of common shares.

On December 4, 2013, the Board of Directors declared a quarterly cash dividend of \$1.0 million or \$0.50 per Series A Preferred Share and \$0.875 million or \$0.4375 per Series C Preferred Share for the calendar quarter ending December 31, 2013. Both dividends are designated as an eligible dividend for purposes of the Income Tax Act (Canada).

In 2013, cash dividends totalled \$4.0 million or \$2.00 per Series A Preferred Share (\$1.6 million or \$0.79 per Series A Preferred Share in 2012) and \$1.9 million or \$0.96 per Series C Preferred Share (\$Nil million or \$Nil per Series C Preferred Share in 2012).

SUBSEQUENT EVENT

On January 15, 2014, Birchcliff acquired a partner's 30% working interest in land and approximately 1,600 boe per day of production, for approximately \$56.0 million. The acquisition was funded through the Corporation's revolving credit facilities.

SUMMARY OF QUARTERLY RESULTS

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

Three months ended,	Dec. 31, 2013	Sep. 30, 2013	Jun. 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012
Average daily production (<i>boe 6:1</i>)	28,391	24,662	24,141	26,108	26,655	21,426	22,039	21,061
Realized natural gas price (\$/Mcf)	3.81	2.60	3.78	3.40	3.43	2.47	2.05	2.32
Realized oil price (\$/bbl)	81.52	102.82	91.19	84.82	83.38	82.45	81.45	90.10
Total revenues (\$000's)	89,092	72,762	79,065	75,718	78,001	58,643	57,729	62,833
Operating costs (\$/boe)	5.44	5.66	5.89	5.77	5.88	6.01	6.22	6.17
Total capital expenditures (\$000's)	18,188	76,186	40,386	81,010	32,137	88,099	58,815	119,852
Funds flow from operations (\$000's)	50,060	43,053	41,804	39,444	39,848	28,230	25,985	26,196
Per common share - basic (\$)	0.35	0.30	0.29	0.28	0.28	0.20	0.19	0.21
Per common share - diluted (\$)	0.34	0.30	0.29	0.27	0.28	0.20	0.19	0.20
Net income (\$000's)	37,062	10,156	10,775	7,424	6,305	2,744	416	3,731
Net income to common shareholders (\$000's) ⁽¹⁾	36,062	9,156	9,775	6,424	5,305	2,165	416	3,731
Per common share - basic (\$)	0.25	0.06	0.07	0.05	0.04	0.02	-	0.03
Per common share - diluted (\$)	0.25	0.06	0.07	0.04	0.04	0.02	-	0.03
Total assets (\$000's)	1,586,531	1,558,456	1,513,772	1,498,753	1,430,324	1,420,582	1,350,759	1,314,633
Long-term bank debt (\$000's)	393,967	444,719	409,091	451,371	432,563	390,541	400,876	442,331
Total debt (\$000's) ⁽²⁾	454,038	487,707	453,123	502,291	462,130	468,184	455,708	529,883
Dividends on preferred shares (Series A) (\$000's)	1,000	1,000	1,000	1,000	1,000	579	-	-
Dividends on preferred shares (Series C) (\$000's)	875	1,038	-	-	-	-	-	-
Preferred shares outstanding (Series A) (000's)	2,000	2,000	2,000	2,000	2,000	2,000	-	-
Preferred shares outstanding (Series C) (000's)	2,000	2,000	2,000	-	-	-	-	-
Common shares outstanding (000's)								
Basic	143,677	142,752	142,390	142,096	141,596	141,535	141,434	127,006
Diluted	163,548	163,396	164,110	164,107	162,997	162,946	157,232	140,152
Weighted average common shares outstanding (000's)								
Basic	143,063	142,549	142,240	141,821	141,585	141,474	138,426	126,754
Diluted	145,319	145,087	145,165	144,366	144,239	143,572	138,837	131,008

(1) Reduced for Series A Preferred Share dividends, paid in the period.

(2) Includes the aggregate amounts outstanding under Birchcliff's long term bank debt and working capital at the end of the period and excludes the fair value of financial instruments and related deferred premium.

Production was higher compared to the third quarter of 2013 and the fourth quarter of 2012 largely due to incremental production gains from new Montney/Doig horizontal natural gas multi-well pads that were drilled, completed and tied into the PCS Gas Plant during the Reporting Periods and increased light oil production.

Funds flow was \$50.1 million in the fourth quarter of 2013, up from \$39.8 million in the fourth quarter of 2012 mainly as a result of an increase in oil and natural gas production, higher realized natural gas wellhead prices and a decrease in operating and interest costs, offset by slightly higher general and administrative expenses and an increase in royalties and transportation costs resulting from higher production in the fourth quarter of 2013.

Funds flow in the fourth quarter of 2013 was up from \$43.1 million in the third quarter of 2013 mainly as a result of a 47% increase in natural gas wellhead prices, 15% increase in natural gas production, an 8% increase on oil production and lower interest costs, offset by a 21% decrease in oil wellhead prices, slightly higher general and administrative expenses and an increase in royalties and transportation costs resulting from higher production in the fourth quarter of 2013.

Birchcliff continued to report positive earnings in the fourth quarter. Excluding a \$33.8 million (\$25.3 million net of tax) gain recorded in the fourth quarter, net income to common shareholders was up 17% to \$10.8 million in the fourth quarter of 2013 compared to \$9.2 million in the third quarter of 2013. The increase from the previous quarter was largely due to increased funds flow, offset by higher income taxes and increased depletion expense attributed to higher production in the fourth quarter of 2013.

The increase in net income to common shareholders from the fourth quarter of 2012 was largely due to higher funds flow and a material gain on sale of assets, offset by higher income taxes and depletion costs and increased dividend payments on preferred shares in the fourth quarter of 2013.

POTENTIAL TRANSACTIONS

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, as well as 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. 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 at December 31, 2013 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 December 31, 2013 and have concluded that the Corporation’s ICFR was effective at December 31, 2013 for the purposes described above. No changes were made to the Corporation’s ICFR during the Reporting Periods 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; reported amounts of assets and liabilities; and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical Judgements in Applying Accounting Policies

The following are critical judgments 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.

Identification of cash-generating units

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

Identification of impairment indicators

IFRS requires Birchcliff to assess, at each reporting date, whether there are any indicators that its assets may be impaired. Birchcliff is required to consider information from both external sources (such as negative downturn in commodity prices, significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in reserves, significant adverse effect on the financial and operational performance of a CGU, evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgement and may impact the carrying value of the Corporation's assets in future periods.

Tax uncertainties

IFRS requires Birchcliff, at each reporting date, to make certain judgements on uncertain tax positions by relevant tax authorities. Judgements include determining whether the Corporation will "more likely than not" be successful in defending its tax positions by considering information from relevant tax interpretations and tax laws in Canada. As such, this recognition threshold is subject to management's judgement and may impact the carrying value of the Corporation's deferred tax assets and liabilities at the end of the reporting period.

Key Sources of Estimation Uncertainty

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

Reserves

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

The Corporation's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible.

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

Share-based payments

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

Decommissioning obligations

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

Impairment of non-financial assets

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

Income taxes

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

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

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

CHANGES IN ACCOUNTING POLICIES

On January 1, 2013, the Corporation adopted new standards with respect to consolidations (IFRS 10); joint arrangements (IFRS 11); disclosure of interests in other entities (IFRS 12); fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7).

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. The adoption of IFRS 10 did not have an impact on the Corporation's 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. The adoption of IFRS 11 did not have an impact on the Corporation's financial statements.

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. The adoption of IFRS 12 did not have an impact on the Corporation's financial statements.

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. The adoption of IFRS 13 did not have an impact on the Corporation's financial statements, aside from certain additional disclosures.

IFRS 7 Financial Instruments: Disclosure develops common disclosure requirements for financial assets and financial liabilities that are offset in the financial statements, or that are subject to enforceable master netting arrangements or similar agreements. The adoption of IFRS 7 did not have an impact on the Corporation's financial statements, aside from certain additional disclosures.

Other Accounting Standards and Interpretations

IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and financial liabilities and for de-recognition. IFRS 9 addresses the 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. The new standard simplifies the measurement of financial assets by classifying all financial assets as those being recorded at amortized cost or being recorded at fair value. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized. The Corporation has not fully completed its evaluation of the effect of adopting the standard on its financial statements.

Other accounting policies

The gross proceeds from the issuance of Series C Preferred Shares are presented as “capital securities” on the Statements of Financial Position in accordance with IAS 32 Financial Instruments: Presentation, and are classified as “other financial liabilities” under IFRS. The incremental costs directly attributable to the issuance of Series C Preferred Shares are initially recognized as a reduction to capital securities and subsequently amortized to profit and loss as a finance expense. Dividend distributions on capital securities are recorded as an expense directly to profit and loss.

Management's Report

To the Shareholders of Birchcliff Energy Ltd.

The annual financial statements of Birchcliff Energy Ltd. for the year ended December 31, 2013 were prepared by management within the acceptable limits of materiality and are in accordance with International Financial Reporting Standards. Management is responsible for ensuring that the financial and operating information presented in this annual report is consistent with that shown in the financial statements.

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

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

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

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

Respectfully,

(signed) "Bruno P. Geremia"

Bruno P. Geremia,

Vice President and Chief Financial Officer

(signed) "A. Jeffery Tonken"

A. Jeffery Tonken,

President and Chief Executive Officer

Calgary, Canada

March 12, 2014

Independent Auditors' Report

To the Shareholders of Birchcliff Energy Ltd.

We have audited the accompanying financial statements of Birchcliff Energy Ltd., which comprise the statements of financial position as at December 31, 2013 and December 31, 2012, the statements of net income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Birchcliff Energy Ltd. as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) "KPMG LLP"

Chartered Accountants

KPMG LLP

Calgary, Canada

March 12, 2014

Statements of Financial Position

(Expressed in thousands of Canadian dollars)

As at December 31,	2013	2012
ASSETS		
Current assets:		
Cash	96	46
Accounts receivable (Note 18)	37,022	27,728
Prepaid expenses and deposits	1,138	2,205
Fair value of financial instruments (Note 18)	826	-
	39,082	29,979
Non-current assets:		
Exploration and evaluation (Note 5)	2,264	2,106
Petroleum and natural gas properties and equipment (Note 6)	1,545,185	1,398,239
	1,547,449	1,400,345
Total assets	1,586,531	1,430,324
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities (Note 18)	96,927	58,846
Non-revolving term credit facilities (Note 7)	1,400	700
Deferred premium on financial instruments (Note 18)	1,205	-
	99,532	59,546
Non-current liabilities:		
Non-revolving term credit facilities (Note 7)	127,144	68,250
Revolving credit facilities (Note 8)	266,823	364,313
Decommissioning obligations (Note 9)	73,433	68,967
Deferred income taxes (Note 10)	57,127	35,001
Capital securities (Note 11)	47,986	-
	572,513	536,531
Total liabilities	672,045	596,077
SHAREHOLDERS' EQUITY		
Share capital (Note 11)		
Common shares	694,183	677,802
Preferred shares (perpetual)	41,434	41,434
Contributed surplus	60,119	57,678
Retained earnings	118,750	57,333
	914,486	834,247
Total shareholders' equity and liabilities	1,586,531	1,430,324

Commitments (Note 19)

Subsequent event (Note 22)

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

Approved by the Board

(signed) "Larry A. Shaw"

Larry A. Shaw

Director

(signed) "A. Jeffery Tonken"

A. Jeffery Tonken

Director

Birchcliff Energy Ltd.

Statements of Net Income and Comprehensive Income

(Expressed in thousands of Canadian dollars, except per share information)

Years Ended December 31,	2013	2012
REVENUE		
Petroleum and natural gas sales	316,637	257,206
Royalties	(27,567)	(24,193)
Net revenue from oil and natural gas sales	289,070	233,013
Unrealized loss on financial instruments (Note 18)	(379)	-
Other income (Note 12)	4,157	-
	292,848	233,013
EXPENSES		
Operating (Note 13)	53,521	50,578
Transportation and marketing	23,167	19,008
Administrative, net (Note 14)	24,751	27,985
Depletion and depreciation (Note 6)	108,801	95,784
Finance (Note 15)	24,564	22,775
Dividends on capital securities (Note 11)	1,913	-
(Gain) on sale of assets (Note 6)	(33,776)	(3,875)
	202,941	212,255
INCOME BEFORE TAXES	89,907	20,758
Income tax expense (Note 10)	24,490	7,562
NET INCOME AND COMPREHENSIVE INCOME	65,417	13,196
Net income per common share (Note 11)		
Basic	\$0.43	\$0.08
Diluted	\$0.42	\$0.08

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

Birchcliff Energy Ltd.

Statements of Changes in Shareholders' Equity

(Expressed in thousands of Canadian dollars)

	Share Capital				Total
	Common Shares	Preferred Shares	Contributed Surplus	Retained Earnings	
As at December 31, 2011	567,816	-	43,070	45,716	656,602
Issue of common shares	100,024	-	-	-	100,024
Issue of perpetual preferred shares	-	42,891	-	-	42,891
Issue of warrants	-	-	7,109	-	7,109
Issue of flow-through common shares	8,415	-	-	-	8,415
Share issue costs, net of tax	(2,979)	(1,457)	-	-	(4,436)
Dividends on perpetual preferred shares	-	-	-	(1,579)	(1,579)
Exercise of stock options	4,526	-	(1,544)	-	2,982
Stock-based compensation	-	-	9,043	-	9,043
Net income and comprehensive income	-	-	-	13,196	13,196
As at December 31, 2012	677,802	41,434	57,678	57,333	834,247
Dividends on perpetual preferred shares (Note 11)	-	-	-	(4,000)	(4,000)
Exercise of stock options (Notes 11 and 16)	16,381	-	(5,141)	-	11,240
Stock-based compensation (Notes 14 and 16)	-	-	7,582	-	7,582
Net income and comprehensive income	-	-	-	65,417	65,417
As at December 31, 2013	694,183	41,434	60,119	118,750	914,486

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

Birchcliff Energy Ltd.

Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

Years ended December 31,	2013	2012
Cash provided by (used in):		
OPERATING		
Net income and comprehensive income	65,417	13,196
Adjustments for items not affecting operating cash:		
Unrealized loss on financial instruments	379	-
Depletion and depreciation	108,801	95,784
Stock-based compensation	4,074	5,035
Finance	24,564	22,775
(Gain) on sale of assets	(33,776)	(3,875)
Income taxes	24,490	7,562
Interest paid (Note 15)	(21,501)	(20,218)
Dividends on capital securities	1,913	-
Decommissioning expenditures (Note 9)	(557)	(678)
Changes in non-cash working capital (Note 20)	(3,448)	(11,352)
	170,356	108,229
FINANCING		
Issue of common shares	-	110,144
Issue of perpetual preferred shares and warrants	-	50,000
Issue of capital securities (Note 11)	50,000	-
Share issue costs (Note 11)	(2,169)	(5,915)
Exercise of stock options	11,240	2,982
Financing fees paid on credit facilities	(945)	(600)
Dividends on perpetual preferred shares	(4,000)	(1,579)
Dividends on capital securities	(1,913)	-
Net change in non-revolving term credit facilities	59,843	(114)
Net change in revolving credit facilities	(97,529)	44,767
	14,527	199,685
INVESTING		
Development of petroleum and natural gas properties and equipment	(269,941)	(298,657)
Additions of exploration and evaluation assets	(156)	(246)
Acquisition of petroleum and natural gas properties and equipment	(451)	-
Sale of petroleum and natural gas properties and equipment	54,778	-
Changes in non-cash working capital (Note 20)	30,937	(9,030)
	(184,833)	(307,933)
NET CHANGE IN CASH	50	(19)
CASH, BEGINNING OF YEAR	46	65
CASH, END OF YEAR	96	46

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

Birchcliff Energy Ltd.

Notes to the Financial Statements for the Years Ended December 31, 2013 and 2012

(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’s common shares, Series A Preferred Shares, Series C Preferred Shares, and warrants are listed for trading on the Toronto Stock Exchange under the symbols “**BIR**”, “**BIR.PR.A**”, “**BIR.PR.C**” and “**BIR.WT**”, respectively.

These financial statements were approved and authorized for issuance by the Board of Directors on March 12, 2014.

2. BASIS OF PREPARATION

These financial statements present Birchcliff’s financial results of operations and financial position under International Financial Reporting Standards (“**IFRS**”) as at and for the years ended December 31, 2013 and December 31, 2012. The financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Note 3.

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

Birchcliff’s financial statements are 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 Canadian dollars, unless otherwise stated. There are no subsidiary companies.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue Recognition

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

(b) Cash and Cash Equivalents

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

(c) Joint Controlled Operations and Assets

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

(d) Exploration and Evaluation Assets

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

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

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

(e) Petroleum and Natural Gas Properties and Equipment

(i) Recognition and measurement

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

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

(ii) Subsequent costs

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

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

(iii) Asset exchanges

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

(iv) Depletion and depreciation

The net carrying value of developing and producing petroleum and natural gas assets, net of estimated residual value, is depleted on an area basis using the unit of production method. This depletion calculation includes

actual production in the period and total estimated proved plus probable reserves attributable to the assets being depreciated, taking into account total capitalized costs plus estimated future development costs necessary to bring those reserves into production. Relative volumes of reserves and production (before royalties) are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. These estimates are reviewed by the Corporation's independent reserves evaluator at least annually.

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

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

(f) Provisions

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

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

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

Provisions are not recognized for future operating losses.

(g) Decommissioning Obligations

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

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

(h) Share-Based Payments

Equity-settled share-based awards granted by the Corporation include stock options and performance warrants granted to officers, directors and employees. The fair value determined at the grant date of an award is expensed on a graded basis over the vesting period of each respective tranche of an award with a corresponding increase to contributed surplus. In calculating the expense of share-based awards, the Corporation revises its estimate of the number of equity instruments expected to vest by applying an estimated forfeiture rate for each vesting tranche and subsequently revising

this estimate throughout the vesting period, as necessary, with a final adjustment to reflect the actual number of awards that vest. Upon the exercise of share-based awards, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. In the event that vested share-based awards expire without being exercised, previously recognized compensation costs associated with such awards are not reversed. The expense related to share-based awards is included within administrative expenses in profit or loss.

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

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

(i) Finance Income and Expenses

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

(j) Borrowing Costs

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

(k) Financial Instruments

(i) Non-derivative financial instruments

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

- Cash and accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest method. Typically, the fair value of these balances approximates their carrying value due to their short term to maturity.
- Accounts payable and accrued liabilities and outstanding credit facilities are classified as other liabilities and are measured at amortized cost using the effective interest method. Due to the short term nature of accounts payable and accrued liabilities, their carrying values approximate their fair values. The Corporation's outstanding credit facilities bear interest at a floating rate and accordingly the fair market value approximates the carrying value before the carrying value is reduced for any remaining unamortized costs. The interest costs and financing fees associated with the Corporation's credit facilities have been deferred and netted against the amounts drawn, and are being amortized to profit or loss using the effective interest method over the applicable term.
- The proceeds from the issuance of Series C Preferred Shares, which are presented as "capital securities" on the Statement of Financial Position, are classified as "other financial liabilities" under IFRS. The incremental costs directly attributable to the issuance of Series C Preferred Shares are initially recognized as a reduction to capital securities and subsequently amortized to profit and loss, using the effective interest rate method, as a finance expense. Dividend distributions on capital securities are recorded as an expense directly to profit and loss and presented as a financing activity on the Statements of Cash Flows.

(ii) Derivative financial instruments

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

The fair value of commodity price risk management contracts is determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates.

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

(iii) Share capital

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

(l) Impairment

(i) Impairment of financial assets

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

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

(ii) Impairment of non-financial assets

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

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

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

reserves evaluator and are adjusted for petroleum and natural gas differentials and transportation and marketing costs specific to the Corporation.

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

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

(m) Income Taxes

Birchcliff is a corporation as defined under the *Income Tax Act* (Canada) and is subject to Canadian Federal and provincial taxes. Birchcliff is subject to provincial taxes in Alberta as the Corporation operates in this jurisdiction. The Corporation's income tax expenses include current and/or deferred tax. Income tax expense is recognized through profit or loss except to the extent that it relates to items recognized directly in equity, in which case the related income taxes are also recognized in equity.

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

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

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

(n) Flow-Through Shares

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

(o) Per Common Share

The Corporation calculates per common share amounts using net income available to Birchcliff's shareholders, reduced for perpetual preferred share dividends and divided by the weighted average number of common shares outstanding. Basic per share information is computed using the weighted average number of basic common shares outstanding during the period. Diluted per share information is calculated using the treasury stock method, which assumes that any proceeds from the exercise of "in-the-money" stock options, performance warrants or warrants (the "**Securities**"), plus

the unamortized stock-based compensation expense amounts, would be used to purchase common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of these calculations is anti-dilutive. The average market value of the Corporation's shares for the purpose of calculating the dilutive effect is based on average quoted market prices for the time that the Securities were outstanding during the period.

(p) Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

Critical judgments in applying accounting policies:

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

(i) Identification of cash-generating units

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

(ii) Identification of impairment indicators

IFRS requires Birchcliff to assess, at each reporting date, whether there are any indicators that its petroleum and natural gas assets may be impaired. Birchcliff is required to consider information from both external sources (such as negative downturn in commodity prices, significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in reserves, significant adverse effect on the financial and operational performance of a CGU, evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgment.

(iii) Tax uncertainties

IFRS requires Birchcliff, at each reporting date, to make certain judgments on uncertain tax positions by relevant tax authorities. Judgments include determining whether the Corporation will "more likely than not" be successful in defending its tax positions by considering information from relevant tax interpretations and tax laws in Canada. As such, this recognition threshold is subject to management's judgement and may impact the carrying value of the Corporation's deferred tax assets and liabilities at the end of the reporting period.

Key sources of estimation uncertainty:

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

(i) Reserves

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

flows. The recoverable quantities of reserves and estimated cash flows from Birchcliff's petroleum and natural gas interests are independently evaluated by reserve engineers at least annually.

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

(ii) Share-based payments

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

(iii) Decommissioning obligations

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

(iv) Impairment of non-financial assets

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

(v) Income taxes

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

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

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

4. CHANGES IN ACCOUNTING POLICIES

On January 1, 2013, the Corporation adopted new standards with respect to consolidations (IFRS 10); joint arrangements (IFRS 11); disclosure of interests in other entities (IFRS 12); fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7).

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. The adoption of IFRS 10 did not have an impact on the Corporation's 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. The adoption of IFRS 11 did not have an impact on the Corporation's financial statements.

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. The adoption of IFRS 12 did not have an impact on the Corporation's financial statements.

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. The adoption of IFRS 13 did not have an impact on the Corporation's financial statements, aside from certain addition disclosures.

IFRS 7 *Financial Instruments: Disclosures* develops common disclosure requirements for financial assets and financial liabilities that are offset in the financial statements, or that are subject to enforceable master netting arrangements or similar agreements. The adoption of IFRS 7 did not have an impact on the Corporation's financial statements, aside from certain addition disclosures.

Other Accounting Standards and Interpretations

IFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and financial liabilities and for de-recognition. IFRS 9 addresses the 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. The new standard simplifies the measurement of financial assets by classifying all financial assets as those being recorded at amortized cost or being recorded at fair value. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized. The Corporation has not fully completed its evaluation of the effect of adopting the standard on its financial statements.

5. EXPLORATION AND EVALUATION ASSETS

The continuity for Exploration and Evaluation (“E&E”) assets are as follows:

(\$000's)	E&E ⁽¹⁾
As at December 31, 2011	1,858
Additions	248
As at December 31, 2012	2,106
Additions	158
As at December 31, 2013⁽²⁾	2,264

(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. A review of each exploration project by area is carried out at each reporting date to ascertain whether economical quantities of proven reserves have been discovered and whether such costs should be transferred to depletable petroleum and natural gas components. There were no exploration costs reclassified from the E&E category to petroleum and natural gas properties and equipment category during 2013 and 2012.

(2) The Corporation performed an impairment assessment of its E&E assets and determined there were no impairment triggers identified at the end of the reporting period. As a result, no impairment test was required at December 31, 2013.

6. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

The continuity for Petroleum and Natural Gas (“P&NG”) Properties and Equipment are as follows:

(\$000's)	P&NG Assets	Corporate Assets	Total
<i>Cost:</i>			
As at December 31, 2011	1,301,478	6,263	1,307,741
Additions	306,036	585	306,621
Acquisitions ⁽¹⁾	24,984	-	24,984
Dispositions ⁽¹⁾	(22,738)	-	(22,738)
As at December 31, 2012	1,609,760	6,848	1,616,608
Additions	280,899	1,954	282,853
Dispositions ⁽²⁾	(34,667)	-	(34,667)
As at December 31, 2013 ⁽³⁾	1,855,992	8,802	1,864,794
<i>Accumulated depletion and depreciation:</i>			
As at December 31, 2011	(120,609)	(3,497)	(124,106)
Depletion and depreciation expense ⁽⁴⁾	(94,942)	(842)	(95,784)
Dispositions ⁽¹⁾	1,521	-	1,521
As at December 31, 2012	(214,030)	(4,339)	(218,369)
Depletion and depreciation expense ⁽⁴⁾	(107,856)	(945)	(108,801)
Dispositions ⁽²⁾	7,561	-	7,561
As at December 31, 2013	(314,325)	(5,284)	(319,609)
<i>Net book value⁽⁵⁾:</i>			
As at December 31, 2012	1,395,730	2,509	1,398,239
As at December 31, 2013	1,541,667	3,518	1,545,185

(1) In 2012, Birchcliff completed a transaction whereby it disposed of minor assets in the Glacier area of Alberta in exchange for strategic assets acquired in the Pouce Coupe area of Alberta. The fair value of the exchange transaction was estimated at \$25 million. As a result of the disposition, Birchcliff recorded a gain on the sale of approximately \$3.9 million in 2012.

(2) Mainly consists of a non-core asset disposition in the Progress area with a net book value of \$27.0 million for net proceeds of \$54.7 million.

(3) 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.

(4) Future capital costs required to develop and produce proved plus probable reserves totalled \$2.5 billion at the end of 2013 (2012 – \$2.2 billion) and are included in the depletion expense calculation.

(5) Birchcliff performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined there were no impairment triggers identified at the end of the Reporting Period. As a result, no impairment test was required at December 31, 2013.

7. NON-REVOLVING TERM CREDIT FACILITIES

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

As at December 31, (\$000's)	2013	2012
Current portion of non-revolving credit facilities	1,400	700
Non-current portion of non-revolving credit facilities	127,900	69,300
Drawn non-revolving credit facilities	129,300	70,000
Unamortized prepaid interest on bankers' acceptances	(33)	(576)
Unamortized deferred financing fees	(723)	(474)
Non-revolving credit facilities⁽¹⁾	128,544	68,950

(1) The debt covenants applicable to the Corporation's credit facilities are disclosed in Note 17 to these financial statements.

In May 2013, the Corporation entered into a \$60 million non-revolving five-year term credit facility with a maturity date of May 25, 2018. This facility is provided by a syndicate of banks and is fully drawn at December 31, 2013.

The Corporation also has a \$70 million non-revolving five-year term credit facility with a maturity date of May 25, 2016. This facility requires principle repayments of \$350,000 per quarter which commenced July 1, 2013. The current portion due under this facility is \$1.4 million at December 31, 2013.

The overall effective interest rate applicable to the bankers' acceptances issued under this facility was 5.2% for the year ended December 31, 2013 (2012 – 5.2%).

The non-revolving term credit facilities allows for prime rate loans and bankers' acceptances. The interest rates applicable to the drawn loans are based on a pricing grid and will change as a result of the ratio of outstanding indebtedness to earnings before interest, taxes, depreciation and amortization. The non-revolving term credit facilities are secured by a fixed and floating charge debenture, an instrument of pledge and a general security agreement encompassing all of the Corporation's assets.

8. REVOLVING CREDIT FACILITIES

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

As at December 31, (\$000's)	2013	2012
Syndicated credit facility	251,000	351,000
Working capital facility	17,411	17,654
Drawn revolving credit facilities	268,411	368,654
Unamortized prepaid interest on bankers' acceptances	(1,424)	(4,137)
Unamortized deferred financing fees	(164)	(204)
Revolving credit facilities⁽¹⁾	266,823	364,313

(1) The debt covenants applicable to the Corporation's credit facilities are disclosed in Note 17 to these financial statements.

On May 16 2013, the conversion date of the \$470 million revolving credit facilities was extended from May 17, 2013 to May 16, 2014. At December 31, 2013, the revolving credit facilities consisted of a revolving syndicated credit facility with an authorized limit of \$440 million (the "**Syndicated Credit Facility**") and a revolving working capital facility with an authorized limit of \$30 million (the "**Working Capital Facility**").

At December 31, 2013, the effective interest rate applicable to the Working Capital Facility was 4.8% (2012 – 6.0%). The overall effective interest rate applicable to the bankers' acceptances issued under the Syndicated Credit Facility was 4.9% for the year ended December 31, 2013 (2012 – 5.0%).

The revolving credit facilities allow for prime rate loans, US base rate loans, bankers' acceptances, letters of credit and LIBOR loans. The interest rates applicable to the drawn loans are based on a pricing grid and will change as a result of the ratio of outstanding indebtedness to earnings before interest, taxes, depreciation and amortization. The revolving credit facilities are subject to the Syndicate's redetermination of the borrowing base twice each year as of November 15 and the conversion date. Upon any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall, Birchcliff must eliminate the borrowing base shortfall amount. The revolving credit facilities are secured by a fixed and floating charge debenture, an instrument of pledge and a general security agreement encompassing all of the Corporation's assets.

Syndicated Credit Facility

The Syndicated Credit Facility has a conversion date of May 16, 2014 and a maturity date which is two years after the conversion date. Birchcliff may request an extension of the conversion date with such an extension not exceeding 364 days, in order to maintain the revolving Syndicated Credit Facility. If the conversion date of the Syndicated Credit Facility is not extended, then on the conversion date, the revolving Syndicated Credit Facility will convert to a term loan whereby all principal and interest will be required to be repaid at the maturity date.

Working Capital Facility

The Working Capital Facility has a conversion date of May 16, 2014 and a maturity date which is two years after the conversion date. Birchcliff may request an extension of the conversion date with such an extension not exceeding 364 days, in order to maintain the revolving Working Capital Facility. If the conversion date of the Working Capital Facility is not extended, then upon four months after the expiry of the conversion date, the revolving Working Capital Facility will convert to a term whereby all principal and interest will be required to be repaid at the maturity date.

9. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning obligations result from net ownership interests in its petroleum and natural gas properties and equipment including well sites, processing facilities and gathering systems. The total estimated undiscounted cash flows required to settle the Corporation's decommissioning obligations at December 31, 2013 was \$146.4 million (2012 – \$124.0 million) and is expected to be incurred between 2015 and 2058. A risk-free rate of 3.2% and an inflation rate of 2.0% were used to calculate the discounted fair value of decommissioning liabilities at December 31, 2013 (December 31, 2012 – 2.6% and 2.0%, respectively).

A reconciliation of the decommissioning obligations is provided below:

As at December 31, (\$'000's)	2013	2012
Balance, beginning	68,967	64,023
Obligations incurred	3,260	2,166
Obligations acquired	90	48
Obligations divested ⁽¹⁾	(6,104)	(74)
Changes in estimated future cash flows ⁽²⁾	5,602	1,712
Accretion expense	2,175	1,770
Actual expenditures	(557)	(678)
Balance, ending	73,433	68,967

(1) Represents obligations divested largely due to the sale of the Progress assets.

(2) Changes in estimated future cash flows largely due to the revision in both the risk-free discount rate and abandonment and reclamation cost estimates for Birchcliff's oil and natural gas wells and facilities.

10. INCOME TAXES

Included in income tax expense for the year ended December 31, 2013 is a provision for deferred income tax expense totalling \$22.1 million (2012 – \$7.0 million) and a Part VI.I dividend tax totaling \$2.4 million (2012 – \$0.6 million) resulting from preferred share dividends paid during the period. The provision for deferred income taxes differs from the result that would be obtained by applying the combined Canadian federal and provincial income tax rate of 25% in 2013 (2012 – 25%).

The components of income tax expense include:

Years ended December 31, (\$000's)	2013	2012
Net income before taxes	89,907	20,758
Computed expected income tax expense	22,477	5,189
Increase (decrease) in taxes resulting from:		
Non-deductible stock-based compensation	1,139	1,363
Non-deductible expenses	130	105
Non-deductible dividends on capital securities	478	-
Flow-through share expenditures	-	825
Other	266	80
Income tax expense	24,490	7,562

The components of deferred income tax liabilities include:

As at December 31, (\$000's)	2013	2012
Deferred income tax liabilities:		
P&NG properties and equipment and E&E assets	155,022	119,573
Deferred financing fees	222	169
Risk management contracts - asset	207	-
Capital securities	503	-
Deferred income tax assets:		
Decommissioning obligations	(18,358)	(17,242)
Risk management contracts - liability	(301)	-
Share issue costs	(1,300)	(1,054)
Non-capital losses	(78,868)	(66,445)
Deferred income tax liabilities	57,127	35,001

A continuity of the net deferred income tax liabilities is provided below:

(\$000's)	Balance Jan. 1, 2013	Recognized in Profit or Loss	Balance Dec. 31, 2013
P&NG and E&E assets	119,573	35,449	155,022
Deferred financing fees	169	53	222
Risk management contracts - asset	-	207	207
Capital securities	-	503	503
Decommissioning obligations	(17,242)	(1,116)	(18,358)
Risk management contracts - liability	-	(301)	(301)
Share issue costs	(1,054)	(246)	(1,300)
Non-capital losses	(66,445)	(12,423)	(78,868)
	35,001	22,126	57,127

(\$000's)	Balance Jan. 1, 2012	Recognized in Profit or Loss	Recognized in Equity	Flow-Through Shares	Balance Dec. 31, 2012
P&NG and E&E assets	83,730	34,138	-	1,705	119,573
Deferred financing fees	216	(47)	-	-	169
Decommissioning obligations	(16,006)	(1,236)	-	-	(17,242)
Share issue costs	(544)	969	(1,479)	-	(1,054)
Non-capital losses	(39,551)	(26,894)	-	-	(66,445)
	27,845	6,930	(1,479)	1,705	35,001

As at December 31, 2013, the Corporation had approximately \$1.23 billion in tax pools available for deduction against future taxable income. Included in this tax basis are estimated non-capital loss carry forwards of approximately \$318.1 million that expire between 2026 and 2033. Discretionary tax deductions, including Canadian Development Expenses, Canadian Oil and Gas Property Expense and Capital Cost Allowance, were maximized in the respective tax years in order to reduce Birchcliff's accounting profits into a loss position for tax purposes.

11. CAPITAL STOCK

Share Capital

(a) Authorized:

Unlimited number of voting common shares, with no par value

Unlimited number of preferred shares, with no par value

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

(b) Number of common shares and perpetual preferred shares issued:

Common shares and perpetual preferred shares are classified as equity and recorded to share capital. Incremental costs directly attributable to the issuance of common and perpetual preferred shares are recognized as a reduction to share capital, net of any tax effects. Dividend distributions on perpetual preferred shares are recorded directly to equity.

As at December 31,	2013	2012
Common shares⁽¹⁾:		
Outstanding at beginning of period - Jan 1	141,596,279	126,745,577
Issue of common shares	-	13,075,000
Issue of flow-through common shares	-	1,100,000
Exercise of stock options	2,080,382	675,702
Outstanding at end of period	143,676,661	141,596,279
Preferred shares (perpetual)⁽²⁾:		
Outstanding at beginning of period - Jan 1	2,000,000	-
Issue of Series A	-	2,000,000
Outstanding at end of period	2,000,000	2,000,000

(1) In April 2012, the Corporation raised \$110.1 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 common 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 common share on a concurrent private placement basis with its major shareholder for gross proceeds of \$38.3 million. The implied premium on the flow-through shares was determined to be \$1.7 million or \$1.55 per share. During 2012, Birchcliff spent the \$10.1 million on flow-through eligible Canadian exploration expenditures and, as such, reduced the deferred obligation on the flow-through shares to \$nil. Birchcliff has renounced to each subscriber of flow-through shares effective December 31, 2012. Birchcliff recognized a deferred income tax benefit of \$1.0 million in respect of share issue costs related to the financing totalling approximately \$4.0 million. The aggregate net proceeds of the financing totalled approximately \$106.2 million.

(2) In August 2012, Birchcliff completed a bought deal equity financing for gross proceeds of \$50 million. The Corporation issued 2,000,000 preferred units at a price of \$25.00 per preferred unit for gross proceeds of \$50 million. Each preferred unit was comprised of one cumulative redeemable five year rate reset Series A Preferred Share of Birchcliff, to yield initially 8% per annum; and three common share purchase warrants of Birchcliff. Each warrant provides the right to purchase one common share until August 8, 2014, at an exercise price of \$8.30 per common share. A total aggregate of two million Series A Preferred Shares and six million warrants were issued. Of the \$50 million raised, Birchcliff allocated \$7.1 million to the warrants (\$1.18 per warrant) using the Black-Scholes fair value model and recorded this amount to contributed surplus. The remaining difference of \$42.9 million was allocated to preferred share capital. The Black-Scholes assumptions used in calculating the fair value of each warrant includes; share price of \$6.77 per common share, exercise price of \$8.30 per common share, risk-free rate of 1.2%, volatility of 43.1% and expected life of 2 years. Birchcliff recognized a deferred income tax benefit of \$0.5 million in respect of share issue costs related to the financing totalling approximately \$1.9 million. The aggregate net proceeds of the financing totalled approximately \$48.1 million.

The Series A Preferred Shares pay cumulative dividends of \$2.00 per Series A Preferred Share per annum, payable quarterly if, as and when declared by Birchcliff's Board of Directors, with the first quarterly dividend paid on September 30, 2012, for the initial five year period ending September 30, 2017. Thereafter, the dividend rate will be reset every five years at a rate equal to the then current five year Government of Canada bond yield plus 6.83%. The Series A Preferred Shares are redeemable at \$25.00 per preferred share at the option of the Corporation on or after September 30, 2017, and on September 30 in every fifth year thereafter. Holders of the Series A Preferred Shares have the right, at their option, to convert their Series A Preferred Shares into cumulative redeemable floating rate Series B Preferred Shares, subject to certain conditions, on September 30, 2017 and on September 30 in every fifth year thereafter. The holders of the Series B Preferred Shares will be entitled to receive quarterly floating rate cumulative preferential cash dividends, if declared by Birchcliff's Board of Directors, at a rate equal to the sum of the then current 90 day Government of Canada Treasury Bill rate plus 6.83%. In the event of liquidation, dissolution or winding-up of Birchcliff, the holders of the Series A Preferred Shares and Series B Preferred Shares will be entitled to receive \$25.00 per share as well as all accrued unpaid dividends before any amounts will be paid or any assets will be distributed to the holders of any other shares ranking junior to the Series A Preferred Shares and the Series B Preferred Shares. The holders of the Series A Preferred Shares and the Series B Preferred Shares will not be entitled to share in any further distribution of the assets of the Corporation.

Capital Securities

On June 14, 2013, Birchcliff completed a \$50 million preferred share issue. The Corporation issued 2,000,000 cumulative redeemable Series C Preferred Shares, at a price of \$25.00 per share. The Series C Preferred Shares bear a 7% dividend and their holders are entitled to receive, as and when declared by the Board of Directors of Birchcliff, fixed cumulative preferential cash dividends at an annual rate of \$1.75 per share, payable quarterly. The net proceeds of approximately \$47.8 million were used to pay down debt by reducing the Corporation's revolving credit facilities.

The Series C Preferred Shares are not redeemable by the Corporation prior to June 30, 2018. On and after June 30, 2018, the Corporation may, at its option, redeem for cash, all or any number of the outstanding Series C Preferred Shares at \$25.75 per share if redeemed before June 30, 2019, at \$25.50 per share if redeemed on or after June 30, 2019 but before June 30, 2020 and at \$25.00 per share if redeemed on or after June 30, 2020 in each case together with all accrued and unpaid dividends to but excluding the date fixed for redemption.

The Series C Preferred Shares are not redeemable by the holders of the preferred shares prior to June 30, 2020. On and after June 30, 2020, a holder of Series C Preferred Shares may, at its option, redeem for cash, all or any number of Series C Preferred Shares held by such holder on the last day of March, June, September and December of each year at \$25.00 per share, together with all accrued and unpaid dividends to but excluding the date fixed for redemption. Upon receipt of the Notice of Redemption, the Corporation may, at its option elect to convert such Series C Preferred Shares into common shares of the Corporation.

On and after June 30, 2018, the Corporation may, at its option, convert all or any number of the outstanding Series C Preferred Shares into common shares.

Dividends

On December 4, 2013, the Board of Directors declared a quarterly cash dividend of \$1.0 million or \$0.50 per Series A Preferred Share and \$0.875 million or \$0.4375 per Series C Preferred Share for the calendar quarter ending December 31, 2013. Both dividends are designated as an eligible dividend for purposes of the *Income Tax Act* (Canada).

In 2013, cash dividends totalled \$4.0 million or \$2.00 per Series A Preferred Share (2012 - \$1.6 million or \$0.79 per Series A) and \$1.9 million or \$0.96 per Series C Preferred Share (2012 - \$Nil million or \$Nil per Series C).

Warrants

In August 2012, Birchcliff issued 6,000,000 warrants as part of a preferred unit equity offering. Each warrant is exercisable until August 8, 2014 at a price of \$8.30 to purchase one common share of Birchcliff. There were 6,000,000 warrants outstanding at December 31, 2013 and December 31, 2012.

Per Common Share

The Corporation calculates basic and diluted per common share amounts by dividing net income, which have been reduced for any dividends paid on perpetual preferred shares, by the weighted average number of basic or diluted common shares outstanding. The following table presents the computation of net income per common share.

Years ended December 31,	2013	2012
Net income and comprehensive income (\$000's)	65,417	13,196
Dividends on perpetual Series A Preferred Shares (\$000's)	(4,000)	(1,579)
Net income to common shareholders (\$000's)	61,417	11,617
Weighted average common shares (000's):		
Weighted average common shares outstanding (basic)	142,422	137,084
Effect of dilutive stock options, warrants & performance warrants	2,584	2,821
Weighted average common shares outstanding (diluted) ⁽¹⁾	145,006	139,905
Net income per common share (\$/share)		
Basic	\$0.43	\$0.08
Diluted	\$0.42	\$0.08

(1) The weighted average diluted common shares outstanding at December 31, 2013 excludes 7,937,235 (December 31, 2012 - 9,256,735) stock options, 6,000,000 (December 31, 2012 - 6,000,000) warrants that are anti-dilutive and 2,000,000 capital securities (December 31, 2012 - Nil) that are anti-dilutive.

12. OTHER INCOME

In 2013, Birchcliff recorded \$4.2 million as income, representing the receipt of a non-recurring, non-refundable deposit from a third party for a non-core property disposition that failed to close.

13. OPERATING EXPENSES

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

Years ended December 31, (\$000's)	2013	2012
Field operating costs	59,850	57,082
Recoveries	(6,779)	(6,965)
Field operating costs, net	53,071	50,117
Expensed workovers and other	450	461
Operating expenses	53,521	50,578

14. ADMINISTRATIVE EXPENSES

The components of administrative expenses are as follows:

Years ended December 31, (\$000's)	2013	2012
Cash:		
Salaries and benefits ⁽¹⁾	21,100	21,371
Other ⁽²⁾	12,308	11,041
	33,408	32,412
Operating overhead recoveries	(968)	(929)
Capitalized overhead ⁽³⁾	(11,763)	(8,533)
General and administrative, net	20,677	22,950
Non-cash:		
Stock-based compensation	7,582	9,043
Capitalized stock-based compensation ⁽³⁾	(3,508)	(4,008)
Stock-based compensation, net	4,074	5,035
Administrative expenses, net	24,751	27,985

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

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

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

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

Years ended December 31, (\$000's)	2013	2012
Salaries and benefits ⁽¹⁾	4,986	4,605
Stock-based compensation ⁽²⁾	2,301	2,883
Executive Officers and Directors compensation	7,287	7,488

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

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

15. FINANCE EXPENSES

The components of finance expenses are as follows:

Years ended December 31, (\$000's)	2013	2012
<i>Cash:</i>		
Interest on non-revolving term credit facilities	5,409	3,715
Interest on revolving credit facilities	16,092	16,503
	21,501	20,218
<i>Non-cash:</i>		
Accretion on decommissioning obligations	2,175	1,770
Amortization of deferred financing fees	888	787
Finance expenses	24,564	22,775

16. SHARE-BASED PAYMENTS

Stock Options

During 2013, the Corporation recorded \$4.1 million (2012 – \$5.0 million) of non-cash stock-based compensation expense, net of \$3.5 million (2012 – \$4.0 million) in capitalized amounts directly attributable to the exploration and development of the Corporation's assets. In determining the stock-based compensation expense for options issued in 2013, the Corporation applied a weighted average estimated forfeiture rate of 14% (2012 – 14%).

At December 31, 2013, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of a maximum of 14,367,666 (2012 – 14,159,628) common shares. At December 31, 2013, there remained available for issuance options in respect of 3,436,146 (2012 – 1,695,756) common shares. For stock options exercised during 2013, the weighted average share trading price was \$7.70 (2012 – \$8.30) per common 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
Granted	3,860,900	6.16
Exercised	(675,702)	(4.41)
Forfeited	(1,188,267)	(9.85)
Outstanding, December 31, 2012	12,463,872	8.06
Granted	3,137,700	7.50
Exercised	(2,080,382)	(5.40)
Forfeited	(1,473,070)	(8.71)
Expired	(1,116,600)	(8.15)
Outstanding, December 31, 2013	10,931,520	8.31

The weighted average fair value per option granted during 2013 was \$2.75 (2012 – \$2.50). The weighted average assumptions used in calculating the Black-Scholes fair values are set forth below.

Years ended December 31,	2013	2012
Risk-free interest rate	1.3%	1.5%
Option life (years)	3.9	3.8
Expected volatility	45.9%	52.3%

A summary of the stock options outstanding and exercisable under the plan at December 31, 2013 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
\$4.53	\$6.00	2,875,785	2.98	\$5.87	1,136,440	2.48	\$5.72
\$6.01	\$9.00	3,764,967	3.78	\$7.64	618,828	1.59	\$8.28
\$9.01	\$12.00	4,163,768	1.58	\$10.47	3,501,920	1.49	\$10.31
\$12.01	\$13.26	127,000	2.40	\$12.77	84,665	2.40	\$12.77
		10,931,520	2.72	\$8.31	5,341,853	1.73	\$9.14

Performance Warrants

Performance warrants were issued on January 14, 2005 as part of the Corporation's initial restructuring to become a public entity. Birchcliff issued 4,049,665 performance warrants with an exercise price of \$3.00 with an amended expiration date of January 31, 2015. There are 2,939,732 performance warrants outstanding and exercisable at December 31, 2013 (2012 – 2,939,732).

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

17. 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 in 2013.

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

As at December 31, (\$000's)	2013	2012
<i>Maximum borrowing base limit⁽¹⁾⁽²⁾:</i>		
Non-revolving term credit facilities ⁽³⁾	129,300	70,000
Revolving credit facilities	470,000	470,000
	599,300	540,000
<i>Principal amount utilized:</i>		
Drawn non-revolving term credit facilities	(129,300)	(70,000)
Drawn revolving credit facilities	(268,411)	(368,654)
Outstanding letters of credit ⁽⁴⁾	(184)	(184)
	(397,895)	(438,838)
Unused credit⁽²⁾	201,405	101,162

(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 quarterly financial covenants applicable to the Corporation's credit facilities include (i) an interest coverage ratio, which is calculated on a historical rolling four quarter basis, as earnings before interest and non-cash items including income taxes, stock-based compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments and depletion, depreciation and amortization ("EBITDA") divided by interest expense; and (ii) a debt to EBITDA ratio. Interest expense for this purpose means total interest charges on borrowings with respect to all outstanding indebtedness and all preferred share dividends declared and paid in the period. Debt for this purpose means indebtedness for borrowed money, as determined at the end of the reporting period, and includes outstanding debt under the Corporation's credit facilities as shown on the Statements of Financial Position before unamortized deferred financing fees and including outstanding letters of credit, but does not include working capital deficiency and capital securities. The Corporation is required to ensure that on the last day of each quarter, the ratio of EBITDA to interest expense, determined on a historical rolling four quarter basis equals or exceeds 3.5:1.0 and the ratio of debt to EBITDA, determined on a historical rolling four quarter basis does not exceed 4.0:1.0. At December 31, 2013, Birchcliff's EBITDA to interest expense was 7.1:1.0 and Debt to EBITDA was 2.0:1.0. The Corporation was compliant with all financial covenants under its credit facilities as at December 31, 2013 and December 31, 2012.

(3) The \$70 million non-revolving five-year term credit facility requires quarterly principle repayments of \$350,000 which commenced on July 1, 2013.

(4) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit during 2013 and 2012.

The capital structure of the Corporation is as follows.

As at December 31, (\$000's)	2013	2012	Change
Shareholders' equity ⁽¹⁾	914,486	834,247	
Capital securities	47,986	-	
Shareholders' equity & capital securities	962,472	834,247	15%
Shareholders' equity & capital securities as a % of total capital ⁽²⁾	68%	64%	
Working capital deficit ⁽³⁾	60,071	29,567	
Non-current portion drawn non-revolving term credit facilities	127,900	69,300	
Non-current portion drawn revolving credit facilities	268,411	368,654	
Drawn debt	456,382	467,521	(2)%
Drawn debt as a % of total capital	32%	36%	
Capital	1,418,854	1,301,768	9%

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

(2) Of the 68%, approximately 61% relates to common capital stock and 7% relates to preferred capital stock.

(3) Working capital deficit is defined as current assets less current liabilities (excluding fair value of financial instruments and deferred premium).

18. FINANCIAL RISK MANAGEMENT

Birchcliff is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and periodically reviews the results of all risk management activities and all outstanding positions. Management has implemented and monitors compliance with risk management guidelines as outlined by the Board of Directors. The Corporation's risk management guidelines are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls and to monitor risks and adherence to market conditions and the Corporation's activities.

Credit Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from Birchcliff's receivables from joint venture partners and oil and natural gas marketers. Cash is comprised of bank balances. Historically, the Corporation has not carried short term investments. Should this change in the future, counterparties will be selected based on credit ratings, management will monitor all investments to ensure a stable return and complex investment vehicles with higher risk will be avoided. The Corporation's exposure to cash credit risk at the balance sheet date is very low.

The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers. The following table illustrates the Corporation's maximum exposure for accounts receivable:

As at December 31, (\$000's)	2013	2012
Marketers ⁽¹⁾	30,246	23,508
Joint interest partners and other	6,776	4,220
Accounts receivable	37,022	27,728

(1) At December 31, 2013, approximately 37% was due from one marketer (2012 – 35%, one marketer). During 2013, the Corporation received 41%, 16%, 15%, 14% and 13% of its revenue, respectively, from five core marketers. The Corporation received the majority of its revenue in 2012 from four marketers, who individually accounted for 49%, 10%, 13% and 10%, respectively.

Typically, Birchcliff's maximum credit exposure from its marketers is revenue from two months of commodity sales. Receivables from marketers are normally collected on the 25th day of the month following production. Birchcliff mitigates the credit risk associated with these receivables by establishing marketing relationships with credit worthy purchasers, obtaining guarantees from their ultimate parent companies and obtaining letters of credit as appropriate. The Corporation historically has not experienced any material collection issues with its marketers.

Birchcliff's accounts receivables are aged as follows:

As at December 31, (\$000's)	2013	2012
Current (less than 30 days)	32,215	21,285
30 to 60 days	1,597	4,682
61 to 90 days	1,872	335
91 to 120 days	871	525
Over 120 days	467	901
Accounts receivable	37,022	27,728

At December 31, 2013, approximately \$0.5 million or 1% (2012 – \$0.9 million or 3%) of Birchcliff's total accounts receivable are aged over 120 days and considered past due. The majority of these accounts are due from various joint interest partners. Birchcliff attempts to mitigate the credit risk from joint interest receivables by obtaining pre-approval of significant capital expenditures. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint interest partners as disagreements occasionally arise that increases the potential for non-collection. The Corporation does not typically obtain collateral from petroleum and natural gas marketers or joint interest partners; however, the Corporation does have the ability to withhold production from joint interest partners in the event of non-payment.

Commodity price risk management contracts are used by the Corporation to manage economic exposure to market risk relating to commodity prices. The company manages credit risk exposure related to derivative assets by selecting investment grade counterparties and by not entering into contracts for trading or speculative purposes.

The carrying amount of accounts receivable, cash and cash equivalents and commodity price risk management contracts represents the maximum credit exposure. Should Birchcliff determine that the ultimate collection of a financial instrument is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to profit or loss. If the Corporation subsequently determines an account is uncollectible, the account is written off with a corresponding charge to the allowance for doubtful accounts. Birchcliff did not have an allowance for doubtful accounts balance at December 31, 2013 and December 31, 2012.

Liquidity Risk

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

All of the Corporation's contractual financial liabilities can be settled in cash. Typically, the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations. To achieve this objective, the Corporation prepares annual capital expenditure budgets, which are approved by the Board of Directors and are regularly reviewed and updated as considered necessary. Petroleum and natural gas production is monitored daily and is used to provide monthly cash flow estimates. Further, the Corporation utilizes authorizations for expenditures on both operated and non-operated projects to manage capital expenditure. The Corporation also attempts to match its payment cycle with collection of petroleum and natural gas revenue on the 25th of each month. Should commodity prices deteriorate materially, Birchcliff may adjust its capital spending accordingly to ensure that it is able to service its short-term financial obligations.

To facilitate the capital expenditure program, the Corporation has an aggregate \$600 million reserve-based bank credit facilities at the end of 2013 (2012 - \$540 million) which are reviewed semi-annually by its lenders. The principal amount utilized under the Corporation's total credit facilities at December 31, 2013 was \$397.9 million (2012 – \$438.8 million) and \$201.4 million in unused credit was available at the end of 2013 (2012 – \$101.2 million) to fund future obligations.

The following table lists the contractual obligations of the Corporation's financial liabilities at December 31, 2013:

(\$000's)	2014	2015	2016 - 2018
Non-derivative financial liabilities:			
Accounts payable and accrued liabilities	96,927	-	-
Drawn revolving credit facilities	-	-	268,411
Drawn non-revolving term credit facilities	1,400	1,400	126,500
Deferred premium on financial instruments	1,205	-	-
Financial liabilities	99,532	1,400	394,911

Market Risk

Market risk is the risk that changes in market conditions, such as commodity prices, exchange rates and interest rates, will affect the Corporation's net income or the value of its financial instruments, if any. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. These risks are consistent with prior years. All risk management transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can materially impact cash flows and the Corporation's borrowing base limit. Lower commodity prices can also reduce the Corporation's ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by Canadian ("CDN") and United States ("US") demand, but also by world events that dictate the levels of supply and demand. As at December 31, 2013, Birchcliff has entered into certain financial derivative and physical delivery sales contracts in order to manage commodity price risk. These instruments are not used for trading or speculative purposes. Birchcliff has not designated its financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity contracts to be effective economic hedges. As a result, all such financial derivative contracts are recorded on the statement of financial position at fair value, with the changes in fair value being recognized as an unrealized gain or loss in profit or loss.

Financial derivatives

The Corporation has entered into the following financial derivative contracts as at December 31, 2013:

Product	Option traded	Notional quantity	Term	Strike price	Fair value (\$000's)
Crude oil	Put option	500 bbls/day	January 1, 2014 – December 31, 2014	WTI USD \$90/bbl	507
Crude oil	Put option	500 bbls/day	January 1, 2014 – December 31, 2014	WTI USD \$85/bbl	319
Total fair value assets⁽¹⁾					826

(1) The Corporation recorded approximately \$1.2 million as a deferred premium on financial instruments, which represents the amount payable to the counterparty to these contracts at December 31, 2013.

The fair value of these commodity risk management assets at December 31, 2013 was \$0.8 million (2012 – NIL). As of December 31, 2013, if the future strip prices for WTI crude oil had been \$1.00 USD per bbl higher, with all other variables held constant, after tax net income would have been \$0.04 million (2012 – NIL) lower.

The following table provides a summary of the unrealized losses on financial instruments:

Years ended December 31, (\$000's)	2013	2012
Unrealized loss on financial instruments	379	-
Unrealized loss on financial instruments	379	-

There were no financial derivative contracts entered into subsequent to December 31, 2013.

Physical sales contracts

In addition to the financial derivative contracts discussed above, the Corporation has entered into physical contracts to manage commodity risk. These contracts are considered normal executory sales contracts and are not recorded at fair value in the financial statements. The Corporation has entered into the following physical sales contracts as at December 31, 2013:

Product	Type of contract	Volume	Term ⁽¹⁾	Contract price
Natural gas	AECO fixed price	40,000 GJ/day	April 1, 2014 – October 31, 2014	\$3.68 CDN/GJ

(1) Transactions with common terms have been aggregated and presented as the weighted average price.

The Corporation has entered into the following physical sales contracts subsequent to December 31, 2013:

Product	Type of contract	Volume	Term ⁽¹⁾	Contract price
Natural gas	AECO fixed price	35,000 GJ/day	April 1, 2014 – October 31, 2014	\$3.98 CDN/GJ

(1) Transactions with common terms have been aggregated and presented as the weighted average price.

Foreign Currency Risk

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The exchange rate effect cannot be quantified but generally an increase in the value of the CDN dollar as compared to the US dollar will reduce the prices received by Birchcliff for its petroleum and natural gas sales. The Corporation had no forward exchange rate contracts in place as at or during the years ended December 31, 2013 and 2012.

Interest Rate Risk

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

A 1% change in the CDN prime interest rate in 2013 would have changed after-tax net income by approximately \$3.3 million, assuming that all other variables remain constant. A sensitivity of 1% is considered reasonable given the current level of the bank prime rate and market expectations for future movements. The Corporation considers this risk to be limited and thus does not enter into contracts to mitigate its interest rate risk. The Corporation had no interest rate swap contracts in place as at or during the years ended December 31, 2013 and 2012.

Fair Value of Financial Instruments

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

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

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. The carrying value and fair value of the Corporation's financial assets and liabilities at December 31, 2013 are disclosed below.

(\$000's)	Carrying Value	Fair Value
<i>Assets held for trading:</i>		
Cash	96	96
Financial risk management contracts ⁽¹⁾	826	826
<i>Loans and receivables:</i>		
Accounts receivable	37,022	37,022
<i>Other liabilities:</i>		
Accounts payable and accrued liabilities	96,927	96,927
Deferred premium on financial instruments	1,205	1,205
Capital Securities	47,986	47,986
Drawn non-revolving term credit facility	129,300	129,300
Drawn revolving credit facilities	268,411	268,411

(1) The financial commodity price risk management contracts are fair valued based on level 2.

19. COMMITMENTS

The Corporation enters into contracts and commitments in the ordinary course of conducting its day to day business. The following table lists Birchcliff's commitments at December 31, 2013:

(\$000's)	2014	2015	2016 - 2018
Office lease ⁽¹⁾	3,490	3,490	6,690
Transportation and processing	14,998	8,603	1,027
Commitments	18,488	12,093	7,717

(1) The Corporation is committed under an operating lease relating to its office premises beginning December 1, 2007 which expires on November 30, 2017.

20. SUPPLEMENTARY CASH FLOW INFORMATION

Years ended December 31, (\$000's)	2013	2012
<i>Provided by (used in):</i>		
Accounts receivable	(9,295)	9,972
Prepaid expenses and deposits	1,067	35
Accounts payable and accrued liabilities	37,264	(29,757)
Dividend tax	(1,547)	(632)
	27,489	(20,382)
<i>Provided by (used in):</i>		
Operating	(3,448)	(11,352)
Investing	30,937	(9,030)
	27,489	(20,382)

21. CONTINGENT LIABILITY

The Corporation's 2006 and 2007 income tax filings were reassessed by the Canada Revenue Agency ("CRA") in 2011. The reassessments are based on the CRA's determination that the tax pools available to Veracel Inc. ("Veracel"), prior to the amalgamation, ceased to be available to Birchcliff after the amalgamation. The Veracel tax pools in dispute totalled \$39.3 million and include approximately \$16.2 million in non-capital losses, \$15.6 million in scientific research and experimental development expenditures and \$7.5 million in investment tax credits. The disputed assessments are outstanding at December 31, 2013. The resolution of the disputed assessments may impact future income tax expense but will not impact cash taxes payable by the Corporation. Management believes that it will be successful in defending its tax position respecting the Veracel transaction, and as such, the Corporation has not recognized a related provision for deferred income tax liability at December 31, 2013.

22. SUBSEQUENT EVENT

On January 15, 2014, Birchcliff acquired a partner's 30% working interest in land and production for proceeds of approximately \$56.0 million. The acquisition was funded through the Corporation's revolving credit facilities.

Advisories

Non-GAAP Measures: This Annual Report and MD&A uses “funds flow”, “funds flow from operations”, “funds flow netback”, “funds flow per common share”, “netback”, “operating netback”, “estimated operating netback”, “operating margin” and “total cash costs”, which do not have standardized meanings prescribed by International Financial Reporting Standards (“IFRS”) and therefore may not be comparable measures to other companies where similar terminology is used. Netback denotes petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. Estimated operating netback is based upon certain cost allocations and accruals directly related to the PCS Gas Plant and related wells and infrastructure on a production month basis. Funds flow, funds flow netback or funds flow from operations denotes cash flow from operating activities as it appears on the Corporation’s Condensed Statements of Cash Flows before decommissioning expenditures and changes in non-working capital. Funds flow, funds flow netback or funds flow from operations is also derived from net income plus income tax expense (less any recovery), depletion, depreciation and accretion expense, stock-based compensation expense, amortization of deferred financing fees, unrealized losses on financial instruments (less unrealized gains), losses on divestitures (less gains on divestitures) and dividends paid on Series C Preferred Shares. Funds flow per common share denotes funds flow divided by the weighted average number of basic or diluted common shares. Operating margin is calculated by dividing the estimated operating netback for the period by the petroleum and natural gas revenue for the period. Total cash costs include royalties, operating expenses, transportation and marketing expenses, general and administrative expenses and interest expenses.

Boe Conversions: Barrel 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, MMcf, Bcfe and Tcfe Conversions: Thousands of cubic feet of gas equivalent (“Mcfe”), millions of cubic feet of gas equivalent (“MMcf”), 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, MMcf, Bcfe and Tcfe amounts may be misleading, particularly if used in isolation. A 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.

MMbtu Pricing Conversion: \$1.00 per MMBtu equals \$1.00 per Mcf based on a standard heat value Mcf.

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

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

- The amounts of finding and development and/or acquisition costs contained in the table and disclosure set forth above for each of the years 2011, 2012 and 2013 are calculated by dividing the total of the net amount of the particular costs noted in each line incurred during such year by the amounts of additions to total proved reserves and total proved plus probable reserves during such year that resulted from the expenditure of such costs.
- In calculating the amounts of finding and development and/or acquisition costs for a year, the changes during the year in estimated future development costs and in estimated reserves are based upon the evaluations of Birchcliff’s reserves prepared by Deloitte, or their predecessor, effective December 31 of such year.
- The aggregate of the exploration and development costs incurred in the most recent financial year and any change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.

Net Asset Value: This value is determined using the net present value of proved plus probable reserves at a 10% discount rate, deducting total debt and face value of preferred shares, assuming exercise of all options, performance warrants and warrants and without including any additional value from the Corporation’s undeveloped land and seismic.

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

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

Forward-Looking Information: This Annual Report and MD&A contain 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 and resources is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves and resources exist in the quantities estimated and that they will be commercially viable to produce in the future. Words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "potential", "proposed" and other similar words that convey certain events or conditions "may" or "will" occur are intended to identify forward-looking information. In particular, this Annual Report and MD&A contain forward-looking information related to estimates of recoverable reserves and resource volumes; planned production increases; planned 2014 capital spending and sources of funding; and the intention to drill and complete future wells.

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 Deloitte in their independent reserves evaluation and resource assessments. With respect to numbers of future wells to be drilled, a key assumption is that geological and other technical interpretations performed by the Corporation's technical staff, which indicates that commercially economic volumes can be recovered from the Corporation's lands as a result of drilling such future wells, are valid. Estimates as to 2014 first quarter and exit production rates assume that no unexpected outages occur in the infrastructure that the Corporation relies on to produce its wells, that existing wells continue to meet production expectations and any future wells, scheduled to come on production in 2014, meet timing and production expectations. Undue reliance should not be placed on forward-looking information, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. Although the Corporation believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. As a consequence, actual results may differ materially from those anticipated.

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

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

Reserves And Resources Information

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

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

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

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

Resources encompasses all petroleum quantities that originally existed on or within the earth's crust in naturally occurring accumulations, including discovered and undiscovered (recoverable and unrecoverable) plus quantities already produced. "Total resources" is equivalent to "total petroleum initially-in-place". Resources are classified in the following categories:

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

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

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

Undiscovered Petroleum Initially-In-Place is that quantity of petroleum that is estimated, on a given date, to be contained in accumulations yet to be discovered. The recoverable portion of undiscovered petroleum initially in place is referred to as "prospective resources" and the remainder as "unrecoverable."

Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects.

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

Production is the cumulative quantity of petroleum that has been recovered at a given date.

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

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

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

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

Definitions

2P:	Proved plus probable reserves.
2013 Reserves Evaluation:	Independent evaluation dated February 5, 2014 prepared by Deloitte, evaluating the Corporation's oil and natural gas reserves at December 31, 2013.
2013 Resource Assessment:	Independent evaluation dated February 6, 2014 prepared by Deloitte, evaluating the Corporation's natural gas resources on the Montney/Doig Natural Gas Resource Play at December 31, 2013.
COGE Handbook:	Canadian Oil and Gas Evaluation Handbook.
Crown:	Government of Alberta.
Deloitte:	Deloitte LLP, independent qualified reserves evaluators of Calgary, Alberta.
FDC:	Future development capital.
F&D:	Finding and development.
FD&A:	Finding, development and acquisition.
IFRS:	International Financial Reporting Standards.
Montney/Doig Natural Gas Resource Play:	Birchcliff's Montney and Doig formations natural gas resource play located northwest of Grande Prairie, Alberta.
NI 51-101:	National Instrument 51-101 – <i>Standards of Disclosure for Oil and Gas Activities</i> .
NPV:	Net present value.
PCS Gas Plant:	Birchcliff's 100% owned and operated natural gas plant located in the Pouce Coupe South area.
Peace River Arch:	Peace River Arch area of Alberta, a geological area centred northwest of Grande Prairie, Alberta, adjacent to the British Columbia border.
RLI:	Reserve life index.
SEDAR:	System for Electronic Document Analysis and Retrieval.
TSX:	Toronto Stock Exchange.
Western Canadian Sedimentary Basin:	The vast sedimentary basin underlying Western Canada that is the source of most of Western Canada's current oil and gas production.
Working interest:	Percentage of ownership in an oil and gas property.
Worsley Charlie Lake Light Oil Resource Play:	Birchcliff's Charlie Lake formation light oil resource play located near Worsley, Alberta.

Abbreviations

OIL AND NATURAL GAS LIQUIDS	
bbls	barrels
bbls/d	barrels per day
Mbbls	thousand barrels
MMbbls	million barrels
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day
Mboe	thousand barrels of oil equivalent
MMboe	million barrels of oil equivalent
NGLs	natural gas liquids
LNG	liquefied natural gas
NATURAL GAS	
Mcf	thousand cubic feet
MMcf	million cubic feet
Bcf	billion cubic feet
Tcf	trillion cubic feet
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
m³	cubic metres
GJ	gigajoule
OTHER	
AECO	benchmark natural gas price determined at the AECO 'C' hub in southeast Alberta
WTI	West Texas Intermediate crude oil, a benchmark oil price determined at Cushing, Oklahoma
\$000	thousands of dollars
\$MM	millions of dollars

Conversions

The following table sets forth certain Standard Imperial Units and International System of Units conversions:

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

Conventions

Unless otherwise indicated, references herein to "\$" or "dollars" are to Canadian dollars.

In Memoriam

Gordon W. (Scotty) Cameron (1931 – 2013)

Founding Shareholder and Director of Birchcliff Energy



Scotty Cameron was an experienced oilman and a dedicated and diligent director whose strong leadership has been invaluable to Birchcliff. Scotty was a team player and extremely knowledgeable about the natural gas industry. His insight, character and warmth will be dearly missed by his many friends at Birchcliff, as well as his friends and colleagues throughout the industry and our community.

Scotty was born in the small prairie town of Mankota, Saskatchewan, and was known as “The Man from Mankota”. Scotty attended the University of Saskatchewan where he met his loving wife of 58 years, Joan (née Schnell) and obtained his Bachelor of Commerce in 1955.

Scotty had a distinguished career marked by accomplishments in business and community service. A partial list of his accomplishments includes his role as Deputy Minister of Industry and Commerce in the Saskatchewan Government; President and Chief Executive Officer of Pan Alberta Gas; Director of the Calgary Stampeder Football Club; President of the Calgary Petroleum Club; President of the Canada Energy Council; President of the World Energy Council; Chair of the 1983 Calgary United Way Campaign; Chairman of the Calgary Oilman’s Golf Tournament; Honorary Colonel

of the Calgary Highlanders Regiment; Governor of the University of Calgary; and director of numerous public and private oil and gas companies. Among the numerous awards Scotty received, he was appointed a Member of the Order of Canada in 1995.

“ We grieve the loss of a valued business associate and a wonderful friend who, through his life’s work, left this world a better place. ”

JEFF TONKEN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Corporate Information

OFFICERS

A. Jeffery Tonken
President & Chief Executive Officer

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

Chris A. Carlsen
Vice President, Engineering

Bruno P. Geremia
Vice President & Chief Financial Officer

David M. Humphreys
Vice President, Operations

James W. Surbey
Vice President, Corporate Development

DIRECTORS

Larry A. Shaw (Chairman)
Calgary, Alberta

Kenneth N. Cullen
Calgary, Alberta

Werner A. Siemens
Calgary, Alberta

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

SOLICITORS

Borden Ladner Gervais LLP
Calgary, Alberta

AUDITORS

KPMG LLP, Chartered Accountants
Calgary, Alberta

RESERVES EVALUATOR

Deloitte LLP
Calgary, Alberta

BANK SYNDICATE

The Bank of Nova Scotia
HSBC Bank Canada
Union Bank
Alberta Treasury Branch
The Toronto Dominion Bank
National Bank of Canada
Business Development Bank of Canada
United Overseas Bank
ICICI Bank Canada
Canadian Imperial Bank of Commerce

TRANSFER AGENT

Olympia Trust Company
Calgary, Alberta and
Toronto, Ontario
TSX: BIR, BIR.PR.A,
BIR.PR.C, BIR.WT

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ANNUAL GENERAL AND SPECIAL MEETING

The Annual General and Special Meeting of Shareholders will be held at 3:00 pm on Thursday, May 15, 2014, in the McMurray Room of the Calgary Petroleum Club, 319 - 5th Avenue SW, Calgary, Alberta

ANNUAL REPORT

2013

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