Birchcliff Energy Ltd.

2013Q2

SIX MONTHS ENDED JUNE 30, 2013

August 14, 2013

Fellow Shareholders,

Birchcliff Energy Ltd. ("**Birchcliff**") continues to be on track to exit 2013 with production of approximately 30,000 boe per day; fourth quarter average production in the range of 28,000 to 29,000 boe per day; and 2013 average production of approximately 26,400 boe per day.

We are pleased to announce strong financial and operational results for the second quarter of 2013 with record funds flow, significant earnings, a continued decrease in per unit operating costs, a successful preferred share financing resulting in less bank debt, together with a corresponding increase in our credit facilities. It is noteworthy that this is our 15th consecutive quarter of generating earnings.

Production growth during 2013 is expected to come in large increments at the end of both the third and fourth quarters as multiple wells from the Montney/Doig multi-well pads are brought on production at the same time. Wells from a four-well pad have recently been brought on production, wells from a six-well pad will come on production by September 1, 2013 and seven additional wells from multi-well pads and two single wells will all come on production in November and December.

We are focused on drilling additional Montney/Doig horizontal natural gas wells that will produce to the Pouce Coupe South Natural Gas Plant (the "**PCS Gas Plant**"), which is operated at very low cost. We continue to decrease our per unit operating costs by filling up the spare capacity at the plant, as our costs at do not significantly increase as processing volumes increase. By keeping operating costs low we are able to generate a greater return for our shareholders.

Birchcliff's Board of Directors have approved a Phase IV expansion of the PCS Gas Plant in 2014 and planning is underway for this project. Processing capacity will be expanded to 180 MMcf per day from 150 MMcf per day by adding additional compression and sales pipeline capacity. The estimated cost of the Phase IV expansion is approximately $10 million, with the majority of the costs to be incurred in 2014. We anticipate the start-up date of the Phase IV expansion in the fall of 2014. Subject to natural gas prices in 2014, we intend to fill the Phase IV expansion of the PCS Gas Plant with natural gas from new wells drilled by Birchcliff.

Preferred Share Financing

On June 14, 2013, Birchcliff completed a $50 million preferred share issue. The Corporation issued 2,000,000 preferred shares, Series C, at a price of $25.00 per share. The preferred shares, Series C 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.

Increase to Credit Facilities

Birchcliff's syndicated credit facilities increased to an aggregate of $600 million from the previous credit limit of $540 million. On May 16, 2013, Birchcliff's bank syndicate approved a $60 million non-revolving five-year term credit facility with a maturity date of May 25, 2018. The terms of the other credit facilities, a $70 million non-revolving five-year term credit facility and extendible revolving credit facilities of $470 million, remain unchanged, including the two-year term-out feature of the revolving credit facilities. The increased aggregate credit facilities amount will provide Birchcliff with increased financial flexibility.

2013 SECOND QUARTER FINANCIAL AND OPERATIONAL RESULTS

Production

Second quarter production averaged 24,141 boe per day, which is a 10% increase over production of 22,039 boe per day in the second quarter of 2012. Production per common share increased 7% from the second quarter of 2012.

Production consisted of approximately 81% natural gas and 19% crude oil and natural gas liquids in the second quarter. Approximately 69% of Birchcliff's natural gas production and 58% of corporate production was processed at the PCS Gas Plant in the first half of 2013.

Funds Flow and Earnings

Funds flow increased 61% from the second quarter of 2012, to a record $41.8 million or $0.29 per basic common share. This increase was largely a result of the average AECO natural gas spot price increasing by 87% to $3.54 per Mcf in the second quarter of 2013 compared to $1.89 per Mcf in the second quarter of 2012.

This is the 15th consecutive quarter that Birchcliff has reported earnings. Birchcliff had net income of $10.8 million as compared to $0.4 million in the second quarter of 2012, a significant increase of 2,500%.

Operating Costs

Operating costs in the second quarter were $5.89 per boe, down 5% from the second quarter of 2012. This reduction of operating costs on a per unit basis was largely due to the cost benefits achieved from processing increased volumes of natural gas through the PCS Gas Plant and the implementation of various optimization initiatives.

Debt and Capitalization

At June 30, 2013, Birchcliff's long-term bank debt was $409.1 million from available credit facilities aggregating $600 million. Total debt, including the working capital deficit of $44.0 million, was $453.1 million. Birchcliff has a significant amount of credit capacity and financial flexibility.

At June 30, 2013, Birchcliff had outstanding: 142,390,094 basic common shares; 164,109,781 common shares on a fully diluted basis; 2,000,000 preferred shares, Series A; and 2,000,000 preferred shares, Series C. The Corporation also had 6,000,000 warrants outstanding, each warrant providing the right to purchase one common share at an exercise price of $8.30 until August 8, 2014 and 2,939,732 performance warrants outstanding, each performance warrant providing the right to purchase one common share at an exercise price of $3.00.

PCS Gas Plant Netbacks

Processing natural gas at the PCS Gas Plant has materially improved Birchcliff's funds flow and net earnings.

In the first half of 2013, net operating costs for natural gas processed at the PCS Gas Plant averaged $0.36 per Mcfe ($2.17 per boe) and the estimated operating netback for Birchcliff's natural gas production flowing to the PCS Gas Plant was $2.97 per Mcfe ($17.82 per boe).

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.

Production Processed through the PCS Gas Plant	Six months ended June 30, 2013(1)		Six months ended June 30, 2012	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		84,561		57,211
Oil & NGLs *(bbls)*		375		232
Total boe *(6:1)*		**14,468**		9,767
Percentage of corporate natural gas production		69%		58%
Percentage of corporate production		58%		45%
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue(2)	3.81	22.88	2.47	14.82
Royalty expense	(0.23)	(1.39)	(0.07)	(0.42)
Operating expense, net of recoveries	(0.36)	(2.17)	(0.26)	(1.56)
Transportation and marketing expense	(0.25)	(1.50)	(0.22)	(1.32)
Estimated operating netback	**2.97**	**17.82**	1.92	11.52
Operating margin(3)	**78%**	**78%**	78%	78%

(1) The PCS Gas Plant processed an average of 102 MMcf per day of gross raw gas at the inlet during the first half of 2013, against current licensed capacity of 150 MMcf per day at June 30, 2013.

(2) AECO natural gas price averaged $3.37 per Mcf and $2.02 per Mcf for the six months ended June 30, 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.

OPERATIONS UPDATE

Drilling

Birchcliff's 2013 drilling program is focused on our two proven resource plays, the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play. During the second quarter of 2013 the Corporation focused its efforts on the Montney/Doig Natural Gas Resource Play in the Pouce Coupe area, drilling through spring break-up by utilizing multi-well pads.

During the second quarter, Birchcliff drilled 9 (9.0 net) wells, including 8 (8.0 net) natural gas wells, and 1 (1.0 net) oil well. In the first half of 2013 Birchcliff drilled 20 (19.5 net) wells, all of which were horizontal wells. These wells consist of 13 (13.0 net) gas wells and 7 (6.5 net) oil wells. Birchcliff currently has three drilling rigs working. Two rigs are drilling Montney/Doig horizontal natural gas wells and the third rig is in the Worsley area, drilling Charlie Lake horizontal light oil wells.

Land

The Corporation has been actively buying more land. We have continued to expand our undeveloped land base and held 548,457 (513,222 net) acres at June 30, 2013, with a 94% average working interest. During the second quarter of 2013, Birchcliff acquired 11,520 (11,200 net) acres of undeveloped land, all in its core area of the Peace River Arch of Alberta.

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. During the second quarter of 2013, essentially all of the new land was purchased at 100% working interest.

Montney/Doig Natural Gas Resource Play

In the second quarter of 2013, Birchcliff drilled 8 (8.0 net) Montney/Doig horizontal natural gas wells. Year-to-date Birchcliff has successfully drilled 13 (13.0 net) Montney/Doig horizontal natural gas wells as well as recently drilling a vertical exploration well for the Montney/Doig Natural Gas Resource Play. Birchcliff continues to expand the Montney/Doig Natural Gas Resource Play both geographically and stratigraphically.

We are utilizing multi-well pad drilling on our Montney/Doig Natural Gas Resource Play to improve drilling and completion efficiencies and reduce the cost per well. The reduction in drilling and completion costs is significant. Another benefit of pad drilling is that we are able to drill continuously through spring break-up. Our increased use of pad drilling includes five multi-well pads in 2013; one six-well pad; two four-well pads, one three-well pad; and one two-well pad. The remaining three of the 22 horizontal wells in the 2013 Montney/Doig program are single well locations.

We have recently finished the drilling and completion of six horizontal natural gas wells from one pad and four horizontal natural gas wells from another pad. Wells from this four-well pad have recently been brought on production, wells from the six-well pad will come on production by September 1, 2013 and seven additional wells from multi-well pads and two single wells will all come on production in November and December.

Our budget for 2013 includes 22 (22.0 net) Montney/Doig horizontal natural gas wells and 1 (1.0 net) Montney/Doig vertical exploration well. Of the 22 (22.0 net) horizontal wells, 20 (20.0 net) wells are targeting the Middle/Lower Montney Play and 2 (2.0 net) are targeting the Basal Doig/Upper Montney Play. Currently, we have seven of the 22 (22.0 net) wells on production and we anticipate 12 of the remaining 13 wells will produce to the PCS Gas Plant by year-end, utilizing most of its spare capacity.

Two drilling rigs are currently drilling on our Montney/Doig Natural Gas Resource Play; one rig is on a four-well pad and the other rig is drilling a horizontal exploration well.

PCS Gas Plant Phase IV Expansion

Planning is underway for the Phase IV expansion of the PCS Gas Plant in 2014, which has been approved by Birchcliff's Board of Directors. Processing capacity will be expanded to 180 MMcf per day from 150 MMcf per day by adding additional compression and sales pipeline capacity. The estimated cost of the Phase IV expansion is approximately $10 million, with the majority of the costs to be incurred in 2014. The anticipated start-up date of the Phase IV expansion will be in the fall of 2014. Subject to natural gas prices in 2014, we intend to fill the Phase IV expansion with natural gas from new wells drilled by Birchcliff.

Worsley Light Oil Resource Play

In the second quarter of 2013, Birchcliff was not actively drilling due to spring break-up. We started drilling again after break-up and have drilled 3 (3.0 net) wells since break-up. To date in 2013 we have successfully drilled 8 (8.0 net) Charlie Lake horizontal wells utilizing multi-stage fracture stimulation technology.

Our budget for 2013 includes 11 (11.0 net) Charlie Lake horizontal oil wells, utilizing multi-stage fracture stimulation technology.

We have recently completed a significant facility optimization and infrastructure debottlenecking project in the northwest end of the Worley field that will allow us to meet our exit production targets for this area and provide opportunity for growth in 2014.

With the continued positive response of the waterflood on our Worsley pool, we are expanding the water flood area and are conducting the field operations necessary to convert two wells to injectors and install the associated water injection infrastructure.

Halfway Light Oil Play

In the second quarter of 2013, Birchcliff drilled 1 (1.0 net) Halfway exploration horizontal light oil well, which is currently being completed. Birchcliff previously drilled 4 (2.66 net) wells on the play, all of which have been successful.

With our continued success on the Halfway Light Oil Play our 2013 budget includes 4 (2.5 net) Halfway horizontal light oil wells in 2013. This will bring Birchcliff's total number of Halfway horizontal light oil wells on the Halfway Light Oil Play to 7 (4.66 net) wells since 2011.

SHAREHOLDER SUPPORT

We thank Mr. Seymour Schulich, our largest shareholder, for his leadership, unwavering commitment and his ongoing financial support. Mr. Schulich holds 40 million common shares representing 28.2% of the current issued and outstanding common shares.

BIRCHCLIFF MOURNS THE PASSING OF BOARD MEMBER SCOTTY CAMERON

On June 18, 2013, Gordon W. (Scotty) Cameron, a founding shareholder and Director of Birchcliff, passed away at the age of 82.

We are deeply saddened by the loss of our friend, Scotty Cameron. Scotty was an experienced oilman, a dedicated and diligent director whose strong leadership has been invaluable to Birchcliff. Prior to his involvement with Birchcliff, Scotty was a founding shareholder and Director of each of Stampeder Exploration Ltd., Big Bear Exploration Ltd. and Case Resources Ltd. Scotty was a team player and extremely knowledgeable about the natural gas industry. Scotty's 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. 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.

MANAGEMENT CHANGES

We have recently accepted the resignation of Ms. Karen Pagano, who was Birchcliff's Vice-President Engineering. Karen has accepted a role with a large industry player as Vice-President Operations. We thank her for her hard work and dedication over the past eight years at Birchcliff and wish her the best in the future.

We are extremely pleased to announce the appointment of Mr. Christopher Carlsen as Vice-President Engineering. Christopher has been with Birchcliff for five years, most recently as our North Asset Team Lead and has proven he has the technical expertise, leadership skills, integrity and passion to be an excellent member of our Executive Team. On behalf of the current Executive and the Directors, we welcome Mr. Carlsen to his new role as Birchcliff's Vice President Engineering.

OUTLOOK

Birchcliff is well into the execution of its $246.6 million 2013 capital budget. Fourth quarter average production in 2013 is expected to be in the range of 28,000 to 29,000 boe per day and exit production is expected to be approximately 30,000 boe per day, setting us up for a very healthy and active 2014. Yearly average production for 2013 is expected to be approximately 26,400 boe per day.

Birchcliff continues to be focused on improving capital efficiency. We are utilizing multi-well pad drilling on our Montney/Doig Natural Gas Resource Play to improve drilling and completion efficiencies and reduce the cost per well. The reduction in drilling and completion costs is significant. Another benefit of pad drilling is that we are able to drill continuously through spring break-up.

Production growth during 2013 will come in large increments at the end of both the third and fourth quarters as multiple wells from the Montney/Doig multi-well pads are brought on production at the same time. Wells from a four-well pad have recently been brought on production, wells from a six-well pad will come on production by September 1, 2013 and seven additional wells from multi-well pads and two single wells will all come on production in November and December. Of the 22 (22.0 net) Montney/Doig horizontal gas wells drilled in 2013, 19 (19.0 net) are from five multi-well pads.

We are very pleased and excited with the current and future outlook for Birchcliff. Our production and opportunity portfolio continues to increase while our cost structure continues to decrease. To date in 2013 we have added a significant amount of contiguous land and additional drilling locations in the heart of our Pouce Coupe area on the Montney/Doig Natural Gas Resource Play, adjacent to our PCS Gas Plant and existing infrastructure. We now have up to 2,029 net future potential horizontal drilling locations on the Montney/Doig Natural Gas Resource Play. Birchcliff has now drilled and cased 106 (94.21 net) Montney/Doig horizontal natural gas wells, utilizing the latest multi-stage fracture stimulation technology.

We remain focused on our business – 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 the same experienced Birchcliff personnel, which provides consistency, repeatability and reliability in our operations.

Thank you to all of our shareholders for their support and to our staff who continue to go that extra mile for the benefit of all of us.

With Respect,

(signed) "*A. Jeffery Tonken*"

A. Jeffery Tonken, President and Chief Executive Officer

SECOND QUARTER FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
OPERATING				
Average daily production				
Light oil – *(barrels)*	3,941	4,447	3,994	4,511
Natural gas – *(thousands of cubic feet)*	116,963	100,843	122,501	98,042
NGLs – *(barrels)*	706	785	708	699
Total – barrels of oil equivalent *(6:1)*	**24,141**	22,039	**25,119**	21,550
Average sales price *($ CDN)*				
Light oil – *(per barrel)*	91.19	81.45	87.98	85.84
Natural gas – *(per thousand cubic feet)*	3.78	2.05	3.58	2.18
NGLs – *(per barrel)*	86.60	83.53	86.70	87.71
Total – barrels of oil equivalent *(6:1)*	35.74	28.77	33.91	30.72
NETBACK AND COST *($ per barrel of oil equivalent at 6:1)*				
Petroleum and natural gas revenue	35.99	28.78	34.04	30.74
Royalty expense	(3.34)	(3.00)	(3.03)	(3.39)
Operating expense	(5.89)	(6.22)	(5.82)	(6.20)
Transportation and marketing expense	(2.59)	(2.39)	(2.42)	(2.38)
Netback	**24.17**	17.17	**22.77**	18.77
General & administrative expense, net	(2.44)	(2.26)	(2.25)	(3.17)
Interest expense	(2.70)	(1.95)	(2.65)	(2.30)
Funds flow netback	**19.03**	12.96	**17.87**	13.30
Stock-based compensation expense, net	(0.42)	(0.64)	(0.49)	(0.75)
Depletion and depreciation expense	(11.53)	(11.48)	(11.52)	(11.52)
Accretion expense	(0.23)	(0.22)	(0.21)	(0.22)
Amortization of deferred financing fees	(0.08)	(0.11)	(0.08)	(0.10)
Gain on sale of assets	-	-	-	0.99
Income tax expense	(1.87)	(0.30)	(1.57)	(0.64)
Net income	**4.90**	0.21	**4.00**	1.06
Preferred share dividends	(0.45)	-	(0.44)	-
Net income available to common shareholders	**4.45**	0.21	**3.56**	1.06
FINANCIAL				
Petroleum and natural gas revenue *($000)*	79,065	57,729	154,783	120,562
Funds flow from operations *($000)*(1)	41,804	25,985	81,248	52,181
Per common share – basic *($)*(1)	0.29	0.19	0.57	0.39
Per common share – diluted *($)*(1)	0.29	0.19	0.56	0.39
Net income *($000)*	10,775	416	18,199	4,147
Net income available to common shareholders *($000)*(2)	9,775	416	16,199	4,147
Per common share – basic *($)*(2)	0.07	-	0.11	0.03
Per common share – diluted *($)*(2)	0.07	-	0.11	0.03
Common shares outstanding				
End of period – basic	142,390,094	141,433,644	142,390,094	141,433,644
End of period – diluted	164,109,781	157,232,116	164,109,781	157,232,116
Weighted average common shares for period – basic	142,239,928	138,425,779	142,031,761	132,588,343
Weighted average common shares for period – diluted	145,164,527	138,837,321	144,788,757	133,885,883
Dividends on preferred shares *($000)*	1,000	-	2,000	-
Capital expenditures *($000)*	40,386	58,815	121,396	178,667
Long-term bank debt *($000)*	409,091	400,876	409,091	400,876
Working capital deficit *($000)*	44,032	54,832	44,032	54,832
Total debt *($000)*	453,123	455,708	453,123	455,708

(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.

(2) Net income per common share amounts are calculated using net income available to Birchcliff's shareholders, adjusted for any preferred share dividends paid and divided by the weighted average number of common shares outstanding for the period.

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 August 14, 2013. The unaudited interim condensed financial statements with respect to the three and six months ended June 30, 2013 (the "**Reporting Periods**") as compared to the three and six months ended June 30, 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 interim condensed financial statements and related notes for the Reporting Periods and the 2012 Annual Report. All financial information is expressed in thousands of Canadian dollars, unless otherwise stated.

OUTLOOK

Birchcliff is well into the execution of its $246.6 million 2013 capital budget. Fourth quarter average production in 2013 is expected to be in the range of 28,000 to 29,000 boe per day and exit production is expected to be approximately 30,000 boe per day, setting the Corporation up for a very healthy and active 2014. Yearly average production for 2013 is expected to be approximately 26,400 boe per day.

Birchcliff continues to be focused on improving capital efficiency. We are utilizing multi-well pad drilling on our Montney/Doig Natural Gas Resource Play to improve drilling and completion efficiencies and reduce the cost per well. The reduction in drilling and completion costs is significant. Another benefit of pad drilling is that we are able to drill continuously through spring break-up.

Production growth during 2013 is expected to come in large increments at the end of both the third and fourth quarter as multiple wells from the Montney/Doig multi-well pads are brought on production at the same time. Wells from a four-well pad have recently been brought on production, wells from a six-well pad will come on production by September 1, 2013 and seven additional wells from multi-well pads and two single wells will all come on production in November and December. Of the 22 (22.0 net) Montney/Doig horizontal natural gas wells drilled in 2013, 19 (19.0 net) are from five multi-well pads.

We are focused on drilling additional Montney/Doig horizontal natural gas wells that will produce to the Pouce Coupe South Natural Gas Plant (the "**PCS Gas Plant**"), which is operated at very low cost. We continue to decrease our per unit operating costs by filling up the spare capacity at the plant, as our costs do not significantly increase as processing volumes increase. By keeping operating costs low, we are able to generate a greater return for our shareholders.

Birchcliff's Board of Directors have approved a Phase IV expansion of the PCS Gas Plant in 2014 and planning is now underway for this project. Processing capacity will be expanded to 180 MMcf per day from 150 MMcf per day by adding additional compression and sales pipeline capacity. The estimated cost of the Phase IV expansion is approximately $10 million, with the majority of the costs to be incurred in 2014. We anticipate the start-up date of the Phase IV expansion in the fall of 2014. Subject to natural gas prices in 2014, we intend to fill the Phase IV expansion of the PCS Gas Plant with natural gas from new wells drilled by Birchcliff.

We remain focused on our business – 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 the same experienced Birchcliff personnel, which provides consistency, repeatability and reliability in our operations.

The Corporation intends to finance its business primarily through funds flow from operations, working capital and available credit limit under its bank credit facilities. Should commodity prices deteriorate materially, capital spending may be adjusted accordingly. While the Corporation does not currently anticipate requiring additional equity through the issue of common shares, it may contemplate equity financing arrangements to fund a significant acquisition or to significantly increase its capital spending beyond its funds flow from operations. Management expects to be able to continue to obtain debt financing and, should the need arise, raise additional equity or arrange alternate financing arrangements sufficient to meet both its short-term and long-term growth requirements. The Corporation does not foresee any liquidity issues with respect to the operation of its oil and natural gas business in 2013 and expects to meet its future obligations as they become due.

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

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 considers funds flow from operations to be a key measure as it demonstrates 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 from operating activities to funds flow from operations.

	Three months ended		Six months ended	
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Cash flow from operating activities	48,955	11,294	84,265	39,910
Adjustments:				
Decommissioning expenditures	94	42	135	94
Changes in non-cash working capital	(7,245)	14,649	(3,152)	12,177
Funds flow from operations(1)	**41,804**	25,985	**81,248**	52,181
Per common share – basic ***($)***(1)(2)	**0.29**	0.19	**0.57**	0.39
Per common share – diluted ***($)***(1)(2)	**0.29**	0.19	**0.56**	0.39

(1) Funds flow from operations and funds flow per common share amounts as presented do not have any standardized meaning prescribed by International Financial Reporting Standards ("**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.

(2) 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.

Funds flow increased 61% from the second quarter of 2012, to a record $41.8 million or $0.29 per basic common share. This increase was largely a result of the average AECO natural gas spot price increasing by 87% to $3.54 per Mcf in the second quarter of 2013 compared to $1.89 per Mcf in the second quarter of 2012.

Funds flow was also positively impacted by a significant increase in natural gas production (notwithstanding normal production declines), higher realized oil wellhead prices and negatively offset by a decrease in oil production, increase in cash general and administrative costs and higher interest expense. Higher average production in the second quarter of 2013 resulted in aggregate increases to royalties, production and transportation and marketing costs in that period.

Net Income

	Three months ended		Six months ended	
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Net income	10,775	416	18,199	4,147
Net income available to common shareholders	**9,775**[(1)]	416	**16,199**[(1)]	4,147
Per common share – basic *($)*[(2)]	**0.07**	-	**0.11**	0.03
Per common share – diluted *($)*[(2)]	**0.07**	-	**0.11**	0.03

(1) Reduced for dividends paid on preferred shares, Series A totalling $1.0 million and $2.0 million during the three and six month Reporting Periods.

(2) Net income per common share amounts are calculated using net income available to Birchcliff's shareholders, adjusted for any preferred share dividends paid and divided by the weighted average number of common shares outstanding for the period.

In the second quarter of 2013, Birchcliff had net income of $10.8 million as compared to $0.4 million in the second quarter of 2012. This significant 2,500% increase in net income available to common shareholders from the second quarter of 2012 was mainly attributable to higher funds flow from operations and lower net stock-based compensation expense and offset by higher income taxes, payment of dividends on preferred shares, Series A and an increase in depletion expense resulting from higher average production in the current quarter.

PCS GAS PLANT NETBACKS

Processing natural gas at the Corporation's PCS Gas Plant has materially improved Birchcliff's funds flow and net earnings.

In the first half of 2013, net operating costs for natural gas processed at the PCS Gas Plant averaged $0.36 per Mcfe ($2.17 per boe) and the estimated operating netback for Birchcliff's natural gas production flowing to the PCS Gas Plant was $2.97 per Mcfe ($17.82 per boe).

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.

Production Processed through the PCS Gas Plant	Six months ended June 30, 2013[1]		Six months ended June 30, 2012	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		84,561		57,211
Oil & NGLs *(bbls)*		375		232
Total boe *(6:1)*		**14,468**		9,767
Percentage of corporate natural gas production		69%		58%
Percentage of corporate production		58%		45%
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[2]	3.81	22.88	2.47	14.82
Royalty expense	(0.23)	(1.39)	(0.07)	(0.42)
Operating expense, net of recoveries	(0.36)	(2.17)	(0.26)	(1.56)
Transportation and marketing expense	(0.25)	(1.50)	(0.22)	(1.32)
Estimated operating netback	**2.97**	**17.82**	1.92	11.52
Operating margin[3]	**78%**	**78%**	78%	78%

(1) The PCS Gas Plant processed an average of 102 MMcf per day of gross raw gas at the inlet during the first half of 2013, against current licensed capacity of 150 MMcf per day at June 30, 2013.

(2) AECO natural gas price averaged $3.37 per Mcf and $2.02 per Mcf for the six months ended June 30, 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 preferred shares, Series C, at a price of $25.00 per share (the "**June Financing**"). The preferred shares, Series C 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. *See "Capital Resources and Liquidity – Preferred Share Financing."*

Credit Facilities

Birchcliff's syndicated credit facilities increased to an aggregate of $600 million from the previous credit limit of $540 million. 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. The terms of the other credit facilities, a $70 million non-revolving five-year term credit facility and extendible revolving credit facilities of $470 million, remain unchanged, including the two-year term-out feature of the revolving credit facilities. The increased aggregate credit facility amount will provide Birchcliff with increased financial flexibility. *See "Capital Resources and Liquidity –Credit Facilities."*

DISCUSSION OF OPERATIONS

Petroleum and Natural Gas Revenues

Petroleum and natural gas ("**P&NG**") revenues totalled $79.1 million ($35.99 per boe) for the three month Reporting Period and $154.8 million ($34.04 per boe) for the six month Reporting Period as compared to $57.7 million ($28.78 per boe) and $120.6 million ($30.74 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 both realized oil and natural gas wellhead prices in the current quarter.

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

				Three months ended June 30, 2013				Three months ended June 30, 2012
	Total Revenue *($000)*	Average Daily Production	*(%)*	Average *($/unit)*	Total Revenue *($000)*	Average Daily Production	*(%)*	Average *($/unit)*
Light oil *(bbls)*	32,703	3,941	16	91.19	32,959	4,447	20	81.45
Natural gas *(Mcf)*	40,247	116,963	81	3.78	18,777	100,843	76	2.05
Natural gas liquids *(bbls)*	5,564	706	3	86.60	5,966	785	4	83.53
Total P&NG sales *(boe)*	78,514	**24,141**	100	35.74	57,702	22,039	100	28.77
Royalty revenue(1)	551			0.25	27			0.01
P&NG revenues	**79,065**			**35.99**	57,729			28.78

				Six months ended June 30, 2013				Six months ended June 30, 2012
	Total Revenue *($000)*	Average Daily Production	*(%)*	Average *($/unit)*	Total Revenue *($000)*	Average Daily Production	*(%)*	Average *($/unit)*
Light oil *(bbls)*	63,599	3,994	16	87.98	70,472	4,511	21	85.84
Natural gas *(Mcf)*	79,476	122,501	81	3.58	38,876	98,042	76	2.18
Natural gas liquids *(bbls)*	11,114	708	3	86.70	11,151	699	3	87.71
Total P&NG sales *(boe)*	154,189	**25,119**	100	33.91	120,499	21,550	100	30.72
Royalty revenue(1)	594			0.13	63			0.02
P&NG revenues	**154,783**			**34.04**	120,562			30.74

(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 three month Reporting Period.

Production

Production averaged 24,141 boe per day in the three month Reporting Period and 25,119 boe per day in the six month Reporting Period, a 10% and 17% increase from the Comparable Prior Periods. These increases were predominately due to incremental production added from new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant during the fourth quarter of 2012 and in the Reporting Periods, offset by natural production declines from these wells. Light oil production was down in the current quarter largely due to an unscheduled turnaround at a third party facility that was not operational again until the end of July. During the Reporting Periods, the Corporation expanded its infrastructure in the northwest end of the Worsley field, which was previously causing limitations in the Corporation's light oil production.

Production consisted of 81% natural gas and 19% crude oil and natural gas liquids in the second quarter of 2013 as compared to 76% natural gas and 24% crude oil and natural gas liquids during the same period in 2012.

The PCS Gas Plant processed approximately 58% of Birchcliff's corporate production for year-to-date 2013 as compared to 45% for the same period in 2012. Approximately 69% of Birchcliff's natural gas production was processed at the PCS Gas Plant in the first half of 2013.

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		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Average benchmark prices:				
Light oil – WTI Cushing *($USD/bbl)*	94.22	93.49	94.30	98.21
Light oil – Edmonton Par *($/bbl)*	92.55	83.95	90.36	88.09
Natural gas – AECO – C daily *($/MMbtu)*(1)	3.54	1.89	3.37	2.02
Exchange rate – *(USD$/CAD$)*	0.98	1.02	0.98	1.01
Birchcliff's average realized prices:				
Light oil *($/bbl)*	91.19	81.45	87.98	85.84
Natural gas *($/Mcf)*	3.78	2.05	3.58	2.18
NGLs *($/bbl)*	86.60	83.53	86.70	87.71
Barrels of oil equivalent *($/boe)*	35.74	28.77	33.91	30.72

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

The average benchmark prices for crude oil and natural gas 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 which can negatively impact demand, 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 have significantly improved, which has resulted in higher funds flow in the Reporting Periods as compared to the Comparable Prior Periods. The AECO natural gas spot price averaged $3.54 per Mcf in the second quarter of 2013, an 87% increase from the same period in 2012. Birchcliff's realized natural gas sales price at the wellhead averaged $3.78 per Mcf in the current quarter, which is a $0.24 per Mcf positive differential from the average AECO benchmark price for that period. The following table details Birchcliff's average realized sales price and premium pricing received for its natural gas production due to its high heat content.

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Average realized natural gas sales price *($/Mcf)*	3.78	2.05	3.58	2.18
Average natural gas – AECO – C daily *($/MMbtu)*(1)	3.54	1.89	3.37	2.02
Positive differential	**0.24**	0.16	**0.21**	0.16

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

Birchcliff did not have any financial derivatives such as commodity price risk management contracts, forward exchange rate contracts or interest rate swaps in place during the Reporting Periods and Comparable Prior Periods, but it actively monitors the market to determine if any are required.

Royalties

Birchcliff recorded a royalty expense of $7.3 million ($3.34 per boe) for the three month Reporting Period and $13.8 million ($3.03 per boe) for the six month Reporting Period as compared to $6.0 million ($3.00 per boe) and $13.3 million ($3.39 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		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Oil & natural gas royalties *($000)*	7,332	6,026	13,759	13,294
Oil & natural gas royalties *($/boe)*	3.34	3.00	3.03	3.39
Effective royalty rate *(%)*[1]	9%	10%	9%	11%

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

The decrease in the effective royalty rate from the Comparable Prior Periods was mainly due to production royalty incentives for a number of new wells brought on production that are receiving a 5% royalty rate offset by higher average realized oil prices at the wellhead in the current quarter and the effect these higher prices have on the sliding scale royalty calculation.

Operating Costs

Operating costs were $12.9 million ($5.89 per boe) for the three month Reporting Period and $26.5 million ($5.82 per boe) for the six month Reporting Period as compared to $12.5 million ($6.22 per boe) and $24.3 million ($6.20 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				Six months ended			
	June 30, 2013		June 30, 2012		June 30, 2013		June 30, 2012	
	($000's)	$/boe	($000's)	$/boe	($000's)	$/boe	($000's)	$/boe
Field operating costs	14,562	6.63	14,075	7.02	29,417	6.47	27,721	7.07
Recoveries	(1,680)	(0.77)	(1,687)	(0.84)	(3,360)	(0.74)	(3,630)	(0.93)
Field operating costs, net	12,882	5.86	12,388	6.18	26,057	5.73	24,091	6.14
Expensed workovers and other	48	0.03	93	0.04	425	0.09	220	0.06
Operating costs	**12,930**	**5.89**	12,481	6.22	**26,482**	**5.82**	24,311	6.20

Corporate operating costs per boe decreased by 5% from the second quarter of 2012 largely due to the cost benefits achieved from processing increased 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 $2.17 per boe at the PCS Gas Plant during the first half of 2013, where 69% of Birchcliff's total natural gas production was processed during that same period.

Transportation and Marketing Expenses

Transportation and marketing expenses were $5.7 million ($2.59 per boe) for the three month Reporting Period and $11.0 million ($2.42 per boe) for the six month Reporting Period as compared to $4.8 million ($2.39 per boe) and $9.3 million ($2.38 per boe) for the Comparable Prior Periods. The increased costs in the Reporting Periods are primarily due to higher transportation expenses.

Operating Netbacks

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

	Three months ended		Six months ended	
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Montney/Doig Natural Gas Resource Play[1]:				
Average daily production, net:				
Natural gas *(Mcf)*	103,083	84,719	108,134	82,741
Oil & NGLs *(bbls)*	537	597	525	539
Total boe *(6:1)*	**17,718**	14,717	**18,547**	14,329
% of corporate production[2]	***73%***	*67%*	***74%***	*66%*
Netback and cost *($ per Mcfe):*				
Petroleum and natural gas revenue	4.11	2.53	3.90	2.65
Royalty expense	(0.17)	(0.04)	(0.15)	(0.08)
Operating expense, net of recoveries	(0.65)	(0.75)	(0.66)	(0.73)
Transportation and marketing expense	(0.26)	(0.24)	(0.25)	(0.24)
Operating netback	**3.03**	1.50	**2.84**	1.60
Worsley Light Oil Resource Play[1]:				
Average daily production, net:				
Natural gas *(Mcf)*	7,809	8,296	7,986	8,493
Oil & NGLs *(bbls)*	3,185	3,403	3,221	3,423
Total boe *(6:1)*	**4,486**	4,785	**4,551**	4,839
% of corporate production[2]	***19%***	*22%*	***18%***	*22%*
Netback and cost *($ per boe):*				
Petroleum and natural gas revenue	73.11	61.24	69.37	64.42
Royalty expense	(10.51)	(8.15)	(9.63)	(8.88)
Operating expense, net of recoveries	(9.64)	(7.67)	(9.35)	(8.07)
Transportation and marketing expense	(6.89)	(5.53)	(6.46)	(5.44)
Operating netback	**46.07**	39.89	**43.93**	42.03
Total Corporate:				
Average daily production, net:				
Natural gas *(Mcf)*	116,963	100,843	122,501	98,042
Oil & NGLs *(bbls)*	4,647	5,232	4,702	5,210
Total boe *(6:1)*	**24,141**	22,039	**25,119**	21,550
Netback and cost *($ per boe)*				
Petroleum and natural gas revenue	35.99	28.78	34.04	30.74
Royalty expense	(3.34)	(3.00)	(3.03)	(3.39)
Operating expense, net of recoveries	(5.89)	(6.22)	(5.82)	(6.20)
Transportation and marketing expense	(2.59)	(2.39)	(2.42)	(2.38)
Operating netback	**24.17**	17.17	**22.77**	18.77

(1) Most resource plays produce both oil and natural gas, therefore 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 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 17,718 boe per day in the three month Reporting Period, a 20% increase from the three month Comparable Prior Period. 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 73% of the total corporate production in the three month Reporting Period.

Birchcliff's operating netback from the Montney/Doig Natural Gas Resource Play was $3.03 per Mcfe ($18.18 per boe) in the three month Reporting Period, a 102% increase from the three month Comparable Prior Period. This increase was largely due to a significant increase in realized natural gas wellhead prices in the second quarter of 2013.

Worsley Light Oil Resource Play

Birchcliff's production from the Worsley Light Oil Resource Play was 4,486 boe per day in the three month Reporting Period, a 6% decrease from the three month Comparable Prior Period. This decrease was largely due to an unscheduled turnaround at a third party facility that was not operational again until the end of July. During the Reporting Periods, the Corporation expanded its infrastructure in the northwest end of the Worsley field, which was previously causing limitations in the Corporation's light oil production.

Birchcliff's production from the Worsley Light Oil Resource Play accounted for 19% of the total corporate production in the three month Reporting Period.

Operating netback from the Worsley Light Oil Resource Play was $46.07 per boe in the three month Reporting Period, a 15% increase from the three month Comparable Prior Period. On a per boe basis, the increase in operating netback was due to higher realized petroleum and natural gas prices offset by higher royalty, operating and transportation costs in the current quarter.

Administrative Expenses

Net administrative expenses were $6.3 million ($2.86 per boe) for the three month Reporting Period and $12.5 million ($2.74 per boe) for the six month Reporting Period as compared to $5.8 million ($2.90 per boe) and $15.3 million ($3.92 per boe) for the Comparable Prior Periods. The components of net administrative expenses are detailed in the table below.

	Three months ended				Six months ended			
	June 30, 2013		June 30, 2012		June 30, 2013		June 30, 2012	
	($000's)	%	($000's)	%	($000's)	%	($000's)	%
Cash:								
Salaries and benefits[(1)(2)]	3,801	50	3,118	53	7,790	53	9,628	63
Other[(3)]	3,844	50	2,793	47	6,924	47	5,717	37
	7,645	100	5,911	100	14,714	100	15,345	100
Operating overhead recoveries	(292)	(4)	(265)	(4)	(512)	(3)	(457)	(3)
Capitalized overhead[(4)]	(1,997)	(26)	(1,112)	(19)	(3,966)	(27)	(2,468)	(16)
General & administrative, net	5,356	70	4,534	77	10,236	70	12,420	81
General & administrative, net per boe	$2.44		$2.26		$2.25		$3.17	
Non-cash:								
Stock-based compensation	1,954	100	1,832	100	4,322	100	4,325	100
Capitalized stock-based compensation[(4)]	(1,028)	(53)	(550)	(30)	(2,093)	(48)	(1,403)	(32)
Stock-based compensation, net	926	47	1,282	70	2,229	52	2,922	68
Stock-based compensation, net per boe	$0.42		$0.64		$0.49		$0.75	
Administrative expenses, net	**6,282**		5,816		**12,465**		15,342	
Administrative expenses, net per boe	**$2.86**		$2.90		**$2.74**		$3.92	

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

(2) During the six months ended June 30, 2012, Birchcliff accrued approximately $2.4 million in retention payments as a result of the termination in 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 and benefits and stock-based compensation directly attributed to the exploration and development activities which have been capitalized.

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

	Number	Weighted Average Exercise Price *($)*
Outstanding, December 31, 2012	12,463,872	8.06
Granted	2,147,700	7.33
Exercised	(499,851)	(6.07)
Forfeited	(93,834)	(7.27)
Expired	(946,800)	(7.41)
Outstanding, March 31, 2013	13,071,087	8.07
Granted	263,000	8.21
Exercised	(293,964)	(5.42)
Forfeited	(236,168)	(8.85)
Expired	(24,000)	(12.27)
Outstanding, June 30, 2013	**12,779,955**	**8.11**

There are outstanding and exercisable 2,939,732 performance warrants with an exercise price of $3.00 and 6,000,000 warrants (issued in conjunction with the August 2012 preferred unit equity offering) with an exercise price of $8.30 at June 30, 2013. 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 $25.3 million ($11.53 per boe) for the three month Reporting Period and $52.4 million ($11.52 per boe) for the six month Reporting Period as compared to $23.0 million ($11.48 per boe) and $45.2 million ($11.52 per boe) for the Comparable Prior Periods. D&D expenses were higher on an aggregate basis mainly due to a 10% and 17% increase in average daily production from the three and six 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. The Corporation determines its D&D expenses on an area basis.

Asset Impairment Test

The Corporation's cash-generating units ("**CGU**") 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 the carrying value of each CGU 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 the end of the Reporting Period. As a result, no impairment test was required at June 30, 2013.

Finance Expenses

Finance expenses were $6.6 million ($3.01 per boe) for the three month Reporting Period and $13.4 million ($2.94 per boe) for the six month Reporting Period as compared to $4.6 million ($2.28 per boe) and $10.3 million ($2.62 per boe) for the Comparable Prior Periods. The components of the Corporation's finance expenses are shown in the table below.

	Three months ended				Six months ended			
	June 30, 2013		June 30, 2012		June 30, 2013		June 30, 2012	
	($000's)	$/boe	($000's)	$/boe	($000's)	$/boe	($000's)	$/boe
Cash:								
Interest on credit facilities	5,939	2.70	3,913	1.95	12,043	2.65	9,038	2.30
Non-cash:								
Accretion on decommissioning obligations	516	0.23	440	0.22	977	0.21	874	0.22
Amortization of deferred financing fees	182	0.08	212	0.11	371	0.08	411	0.10
Finance expenses	**6,637**	**3.01**	4,565	2.28	**13,391**	**2.94**	10,323	2.62

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 6.0% at the end of the Reporting Period as compared to 5.0% at the end of the Comparable Prior Period. The effective interest rate applicable to the bankers' acceptances issued under the revolving syndicated credit facility was 5.7% in the three month Reporting Period and 5.6% in the six month Reporting Period as compared to 4.7% in each of the three and six month Comparable Prior Periods. The effective interest rate applicable to the bankers' acceptances issued under the non-revolving term credit facilities was 5.6% in each of the three and six month Reporting Periods as compared to 5.4% and 5.2% in the Comparable Prior Periods.

Birchcliff's average outstanding total credit facilities balance was approximately $446 million and $441 million in the three and six month Reporting Periods, respectively, as compared to $402 million and $404 million in the Comparable Prior Periods, calculated as the simple average of the month end amounts.

Sale of Assets

There were no assets disposed of during the Reporting Periods.

During the six month Comparable Prior Period, 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 $0.99 per boe in the six month Comparable Prior Period. The Glacier assets were not material to the Corporation's financial and operational performance.

Income Taxes

Birchcliff recorded an income tax expense of $4.1 million ($1.87 per boe) for the three month Reporting Period and $7.1 million ($1.57 per boe) for the six month Reporting Period as compared to $0.6 million ($0.30 per boe) and $2.5 million ($0.64 per boe) for the Comparable Prior Periods. The increase from the Comparable Prior Periods was due to higher recorded net income before taxes, which resulted in increased deferred income tax expense and a Part VI.1 dividend tax recorded in the Reporting Periods. The components of income tax expense are shown in the table below.

	Three months ended		Six months ended	
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Deferred income tax expense	3,669	618	6,302	2,507
Part VI.1 dividend tax on preferred shares, Series A	400	-	800	-
Income tax expense	**4,069**	618	**7,102**	2,507

The Corporation's estimated income tax pools were $1.23 billion at June 30, 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.

	Tax pools as at June 30, 2013
Canadian oil and gas property expense	271,262
Canadian development expense	265,330
Canadian exploration expense	196,165
Undepreciated cost of capital	220,525
Non-capital losses	268,668
Financing costs	5,315
Estimated income tax pools	**1,227,265**

The disputed 2006 and 2007 income tax fillings by Canada Revenue Agency, in respect of $39.3 million of denied tax pools relating to the Veracel transaction, still remain outstanding at June 30, 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 June 30, 2013.

Capital Expenditures

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

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Land	852	2,138	25,116	4,617
Seismic	232	118	353	450
Workovers	1,789	760	3,733	5,667
Drilling and completions	30,064	30,499	72,209	100,218
Well equipment and facilities	6,558	25,220	18,596	67,477
Finding and development costs (F&D)	39,495	58,735	120,007	178,429
Acquisitions(1)	-	-		25,006
Dispositions(1)	-	-	(4)	(24,942)
Finding, development and acquisition costs (FD&A)	39,495	58,735	120,003	178,493
Administrative assets	891	80	1,393	174
Capital expenditures	**40,386**	58,815	**121,396**	178,667

(1) During the six month Comparable Prior Period, 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.

Capital expenditures totalling $40.4 million in the three month Reporting Period included $16.6 million (41%) on the drilling and completion of new Montney/Doig horizontal natural gas wells that will be tied into the PCS Gas Plant during the second half of 2013. The remaining $23.8 million (59%) in capital was spent on other infrastructure, expansion of the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play and on other oil and gas exploration and development projects in the Peace River Arch.

Birchcliff drilled a total of 9 (9.0 net) wells in the current quarter with 100% drilling success rate. Of the 9 wells, Birchcliff drilled 8 (8.0 net) Montney/Doig horizontal natural gas wells and 1 (1.0 net) Halfway horizontal oil well.

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources

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

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Funds flow from operations	41,804	25,985	81,248	52,181
Changes in non-cash working capital from operations	7,245	(14,649)	3,152	(12,177)
Decommissioning expenditures	(94)	(42)	(135)	(94)
Issue of common shares	-	110,145	-	110,145
Exercise of stock options	1,594	1,090	4,629	2,137
Issue of capital securities	50,000	-	50,000	-
Capital securities and share issue costs	(2,169)	(3,972)	(2,169)	(3,972)
Financing fees paid on credit facilities	(945)	(600)	(945)	(600)
Dividends paid on preferred shares	(1,000)	-	(2,000)	-
Net change in non-revolving term credit facilities	60,454	930	60,498	237
Net change in Revolving Credit Facilities	(101,623)	(41,997)	(82,697)	12,403
Changes in non-cash working capital from investing	(14,910)	(18,093)	9,785	18,388
Capital resources	**40,356**	58,797	**121,366**	178,648

Working Capital

The Corporation's working capital deficit (current assets minus current liabilities) increased to $44.0 million at June 30, 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 June 30, 2013, the major components of Birchcliff's current assets were joint interest billings to be received from its partners (21%) and revenue to be received from its marketers in respect of June 2013 production (65%), which was subsequently received in July 2013. In contrast, current liabilities largely consisted of trade and joint venture payables (58%) and accrued capital and operating costs (36%). 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.

Preferred Share Financing

On June 14, 2013, the Corporation completed the June Financing, where it issued 2,000,000 preferred shares, Series C, with a 7% dividend, at a price of $25.00 per share, for gross proceeds of $50 million. Holders of the preferred shares, Series C are entitled to receive, as and when declared by the Board of Directors of Birchcliff, cumulative annual dividends of $1.75 per share, payable quarterly. The net proceeds of the June Financing, totaling approximately $47.8 million, were used to initially reduce indebtedness under the Corporation's revolving credit facilities and for general working capital purposes.

The preferred shares, Series C 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 preferred shares, Series C 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 preferred shares, Series C are not redeemable by the holders of the preferred shares prior to June 30, 2020. On and after June 30, 2020, a holder of preferred shares, Series C may, at its option, redeem for cash, all or any number of preferred shares, Series C 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 preferred shares, Series C 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 preferred shares, Series C into common shares.

Credit Facilities

Birchcliff's syndicated credit facilities increased to an aggregate of $600 million from the previous credit limit of $540 million. On May 16, 2013, the Corporation entered into a $60 million non-revolving five-year term credit facility with a maturity date of May 25, 2018.

The $70 million non-revolving five-year term credit facility matures on May 25, 2016 and requires principle repayments of $350,000 per quarter commencing 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**"). 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 increased aggregate credit facility amount will provide Birchcliff with increased financial flexibility.

Long-Term Bank Debt

At June 30, 2013, the amount outstanding under the Corporation's long-term bank credit facilities was $409.1 million (December 31, 2012 - $432.6 million), which is net of $3.1 million (December 31, 2012 - $5.4 million), in unamortized interest and fees. Birchcliff's available credit facilities aggregate to $600 million at June 30, 2013.

Total debt, including the working capital deficit of $44.0 million, was $453.1 million at June 30, 2013, down from $462.1 million at December 31, 2012 and $455.7 million at June 30, 2012. Total debt from December 31, 2012 was reduced by net proceeds of $47.8 million from the June Financing and increased by approximately $38.8 million, largely due to capital spent in excess of funds flow during the Reporting Periods.

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

As at,	June 30, 2013	December 31, 2012
Maximum borrowing base limit(1)(2)*:*		
Non-revolving term credit facilities	130,000	70,000
Revolving Credit Facilities	470,000	470,000
	600,000	540,000
Principal amount utilized:		
Drawn non-revolving term credit facilities(3)	(130,000)	(70,000)
Drawn Revolving Credit Facilities(3)	(283,546)	(368,654)
Outstanding letters of credit(4)	(184)	(184)
	(413,730)	(438,838)
Unused credit(2)	**186,270**	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. In May 2013, Birchcliff's bank syndicate approved an increase to the maximum borrowing base limit under the aggregate credit facilities to $600 million from $540 million.

(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 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.

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 June 30, 2013, Birchcliff's EBITDA to interest expense was 6.4:1.0 and Debt to EBITDA was 2.3:1.0. The Corporation was compliant with all financial covenants under its credit facilities as at June 30, 2013.

(3) The drawn amounts are not reduced for unamortized costs and fees associated with each credit facility.

(4) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit as at and during the periods ended June 30, 2013 and December 31, 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 June 30, 2013.

	2013	2014	2015 - 2018
Accounts payable and accrued liabilities	76,111	-	-
Drawn non-revolving term credit facilities	700	1,400	127,900
Drawn Revolving Credit Facilities	-	-	283,546
Office lease(1)	1,643	3,285	9,582
Transportation and processing	8,353	12,288	8,908
Estimated contractual obligations(2)	**86,807**	**16,973**	**429,936**

(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 June 30, 2013 to be approximately $138.5 million and will be incurred as follows: 2013 - $0.7 million, 2014 - $1.2 million, 2015 to 2018 - $7.2 million and $129.4 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 preferred shares, Series C, which are redeemable by their holders after June 30, 2020 have not been included in this table as they are not a contractual obligation of the Corporation. Upon receipt of a notice of redemption, the Corporation has an obligation to redeem the preferred shares, Series C 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.

OUTSTANDING SHARE INFORMATION

At June 30, 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 preferred shares, Series A and Series C 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 during the six months ended June 30, 2013.

	Common shares
Balance at December 31, 2012	141,596,279
Issue of common shares upon exercise of options	793,815
Balance at June 30, 2013	**142,390,094**

As of August 14, 2013, there were outstanding 142,455,027 common shares; 2,000,000 preferred shares, Series A; 2,000,000 preferred shares, Series C; 12,952,556 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 June 5, 2013, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A preferred share for the quarter ending June 30, 2013. The dividend is designated an eligible dividend for purposes of the *Income Tax Act* (Canada).

SUMMARY OF QUARTERLY RESULTS

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

Three months ended,	Jun. 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sep. 30, 2011
Average daily production *(boe 6:1)*	**24,141**	26,108	26,655	21,426	22,039	21,061	19,812	17,648
Realized natural gas price *($/Mcf)*	**3.78**	3.40	3.43	2.47	2.05	2.32	3.40	3.92
Realized oil price *($/bbl)*	**91.19**	84.82	83.38	82.45	81.45	90.10	95.52	86.40
Total revenues *($000)*	**79,065**	75,718	78,001	53,926	51,703	55,565	62,676	57,265
Operating costs ($ per boe)	**5.89**	5.77	5.88	6.01	6.22	6.17	6.90	6.39
Total capital expenditures *($000)*	**40,386**	81,010	32,137	88,099	58,815	119,852	81,023	71,978
Funds flow from operations *($000)*	**41,804**	39,444	39,848	28,230	25,985	26,196	30,400	33,844
Per common share - basic *($)*	**0.29**	0.28	0.28	0.20	0.19	0.21	0.24	0.27
Per common share - diluted *($)*	**0.29**	0.27	0.28	0.20	0.19	0.20	0.23	0.26
Net income *($000)*	**10,775**	7,424	6,305	2,744	416	3,731	3,333	11,411
Net income to common shareholders *($000)*[(1)]	**9,775**	6,424	5,305	2,165	416	3,731	3,333	11,411
Per common share - basic *($)*	**0.07**	0.05	0.04	0.02	-	0.03	0.03	0.09
Per common share - diluted *($)*	**0.07**	0.04	0.04	0.02	-	0.03	0.03	0.09
Total assets *($000)*	**1,513,772**	1,498,753	1,430,324	1,420,582	1,350,759	1,314,633	1,225,497	1,138,075
Long-term bank debt *($000)*	**409,091**	451,371	432,563	390,541	400,876	442,331	388,425	359,306
Total debt *($000)*[(2)]	**453,123**	502,291	462,130	468,184	455,708	529,883	437,023	386,296
Dividends on preferred shares (Series A) *($000)*	**1,000**	1,000	1,000	579	-	-	-	-
Preferred shares outstanding (Series A) *(000)*	**2,000**	2,000	2,000	2,000	-	-	-	-
Preferred shares outstanding (Series C) *(000)*	**2,000**	-	-	-	-	-	-	-
Common shares outstanding *(000)*								
Basic	**142,390**	142,096	141,596	141,535	141,434	127,006	126,746	126,680
Diluted	**164,110**	164,107	162,997	162,946	157,232	140,152	140,152	140,149
Weighted average common shares outstanding *(000)*								
Basic	**142,240**	141,821	141,585	141,474	138,426	126,754	126,732	126,630
Diluted	**145,165**	144,366	144,239	143,572	138,837	131,008	132,216	131,375

(1) Reduced for any preferred share dividends paid in the period.

(2) Includes aggregate amounts outstanding under Birchcliff's Revolving Credit Facilities, non-revolving term credit facilities and working capital at the end of the period.

Production during the second quarter of 2013 was weaker than the previous two quarters, as expected, due to Montney/Doig horizontal natural gas wells, that were tied into the PCS Gas Plant during the fourth quarter of 2012, showing normal production decline and the wells from the multi-well pads drilled in the current quarter not being on production until the second half of 2013.

The increase in production from the second quarter of 2012 was a direct result of incremental production adds from new Montney/Doig horizontal natural gas wells that were drilled, completed and tied into the PCS Gas Plant, offset by natural production declines from those Montney/Doig wells and lower light oil production.

Funds flow in the second quarter of 2013 increased compared to the first quarter of 2013 mainly as a result of higher oil and natural gas prices, offset by reduced natural gas production.

Compared to the second quarter of 2012, funds flow was significantly higher predominately due to a 84% increase in realized natural gas wellhead prices and a 16% increase in natural gas production in the second quarter of 2013. Funds flow was also positively impacted by higher wellhead oil prices and negatively impacted by lower oil production, increased cash general and administrative expenses and interest costs in the current quarter. Higher average production in the second quarter of 2013 resulted in aggregate increases to royalties, production and transportation and marketing costs in that period.

Birchcliff continued to report significant positive earnings in the current quarter. Net income available to common shareholders increased by 52% from the first quarter of 2013 mainly due to higher funds flow from operations and lower net stock-based compensation, depletion and interest costs offset by higher income taxes in the second quarter of 2013.

The significant increase in net income available to common shareholders from the second quarter of 2012 was due to higher funds flow from operations and decreased net stock-based compensation costs and offset by higher depletion expense in the current quarter resulting from increased natural gas production, higher income taxes and the payment of dividends on preferred shares, Series A in the second quarter of 2013.

Total debt has decreased from December 31, 2012 as a result of the net proceeds of $47.8 million from the issuance of the preferred shares, Series C, offset by $38.8 million in capital expenditures in excess of funds flow during the Reporting Periods.

Birchcliff issued two million preferred shares, Series A in August 2012 and two million preferred shares, Series C in June 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 June 30, 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 June 30, 2013 and have concluded that the Corporation's ICFR was effective at June 30, 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 and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical Judgements in Applying Accounting Policies

The following are 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.

Reserves

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

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

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.

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.

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 J*ointly 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.

IFRS 7 *Financial Instruments*: Disclosures develop 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.

Other accounting policies

The gross proceeds from the issuance of preferred shares, Series C 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 preferred shares, Series C are initially recognized as a reduction to capital securities and subsequently amortized to profit and loss over the seven-year term of these preferred shares and included in finance expense. Any dividend distributions on preferred shares, Series C will be recorded directly to profit and loss.

ADVISORIES

Unaudited numbers: *All financial amounts referred to in this MD&A and the Corporation's second quarter report for the Reporting Periods and the Comparable Prior Periods ("**Q2 Report**") are management's best estimates and are unaudited.*

Non-GAAP measures: *This MD&A and the Q2 Report uses "funds flow", "funds flow from operations", "funds flow netback", "funds flow per common share", "netback", "operating netback", "estimated operating netback" and "operating margin", which do not have standardized meanings prescribed by generally accepted accounting principles ("**GAAP**") and therefore may not be comparable measures to other companies where similar terminology is used. Netback or operating netback denotes petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. Estimated operating netback for the PCS Gas Plant (and the components thereof) is based upon certain cost allocations and accruals directly related to the PCS Gas Plant and related wells and infrastructure, and are disclosed on a production month basis. 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-cash working capital. Funds flow, funds flow netback or funds flow from operations is also derived from net income and comprehensive income available to Birchcliff's shareholders plus income tax expense, depletion and depreciation expense, accretion expense, stock-based compensation expense, amortization of deferred financing fees and gains on divestitures. Funds flow per common share denotes funds flow divided by the weighted average number of common shares. Operating margin at the PCS Gas Plant is calculated by dividing the estimated operating netback for the period by the petroleum and natural gas revenue for the period.*

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

Mcfe, MMcfe, Bcfe and Tcfe conversions: *Thousands of cubic feet of gas equivalent ("**Mcfe**"), millions of cubic feet of gas equivalent ("**MMcfe**"), billions of cubic feet of gas equivalent ("**Bcfe**") and trillions of cubic feet of gas equivalent ("**Tcfe**") amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel of oil (1 bbl). Mcfe, MMcfe, Bcfe and Tcfe may be misleading, particularly if used in isolation. A 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.*

MMbtu pricing conversions: *$1.00 per MMbtu equals $1.00 per Mcf based on a standard heat value Mcf.*

Forward-looking information: *This MD&A and the Q2 Report contains forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking information relates to future events or future performance and is based upon the Corporation's current internal expectations, estimates, projections, assumptions and beliefs. All information other than historical fact is forward-looking information. Words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "potential", "proposed" and other similar words that convey certain events or conditions "may" or "will" occur are intended to identify forward-looking information. In particular, this MD&A and the Q2 Report contain forward-looking information related to planned 2013 fourth quarter and exit production; planned 2013 capital spending and sources of funding; anticipated reduction of* *operating costs on a per boe basis; the intention to drill and complete future wells; and an expansion of the PCS Gas Plant.*

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 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 reserves can be recovered from the Corporation's lands as a result of drilling such future wells, are valid. Estimates as to 2013 average fourth 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 that any future wells, scheduled to come on production in 2013, 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 MD&A and Q2 Report to conform such information to actual results or to changes in the Corporation's plans or expectations, except as otherwise required by applicable securities laws.

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF FINANCIAL POSITION

Unaudited (Expressed in thousands of Canadian dollars)

As at,	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash	16	46
Accounts receivable	29,493	27,728
Prepaid expenses and deposits	3,970	2,205
	33,479	29,979
Non-current assets:		
Exploration and evaluation *(Note 3)*	2,207	2,106
Petroleum and natural gas properties and equipment *(Note 4)*	1,478,086	1,398,239
	1,480,293	1,400,345
Total assets	**1,513,772**	1,430,324
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	76,111	58,846
Non-revolving term credit facilities *(Note 5)*	1,400	700
	77,511	59,546
Non-current liabilities:		
Non-revolving term credit facilities *(Note 5)*	127,683	68,250
Revolving credit facilities *(Note 6)*	281,408	364,313
Decommissioning obligations *(Note 7)*	78,639	68,967
Capital securities *(Note 8)*	47,831	-
Deferred income taxes	41,304	35,001
	576,865	536,531
Total liabilities	654,376	596,077
SHAREHOLDERS' EQUITY		
Share capital *(Note 8)*		
Common shares	684,553	677,802
Preferred shares	41,434	41,434
Contributed surplus	59,877	57,678
Retained earnings	73,532	57,333
	859,396	834,247
Total shareholders' equity and liabilities	**1,513,772**	1,430,324

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

Approved by the Board

(signed) "Larry A. Shaw" *(signed) "A. Jeffery Tonken"*

Larry A. Shaw
Director

A. Jeffery Tonken
Director

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

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

	Three months ended June 30,		Six months ended June 30,	
	2013	**2012**	**2013**	**2012**
REVENUE				
Petroleum and natural gas	79,065	57,729	154,783	120,562
Royalties	(7,332)	(6,026)	(13,759)	(13,294)
	71,733	51,703	141,024	107,268
EXPENSES				
Operating	12,930	12,481	26,482	24,311
Transportation and marketing	5,704	4,790	11,015	9,319
Administrative, net	6,282	5,816	12,465	15,342
Depletion and depreciation *(Note 4)*	25,336	23,017	52,370	45,194
Finance	6,637	4,565	13,391	10,323
(Gain) on sale of assets *(Note 4)*	-	-	-	(3,875)
	56,889	50,669	115,723	100,614
INCOME BEFORE TAXES	14,844	1,034	25,301	6,654
Income tax expense	4,069	618	7,102	2,507
NET INCOME AND COMPREHENSIVE INCOME	**10,775**	416	**18,199**	4,147
Net income per common share *(Note 8)*				
Basic	**$0.07**	$-	**$0.11**	$0.03
Diluted	**$0.07**	$-	**$0.11**	$0.03

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

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Unaudited (Expressed in thousands of Canadian dollars)

	Share Capital				
	Common Shares	Preferred Shares	Contributed Surplus	Retained Earnings	Total
As at December 31, 2011	567,816	-	43,070	45,716	656,602
Issue of common shares	100,024	-	-	-	100,024
Issue of flow-through common shares	8,415	-	-	-	8,415
Share issue costs, net of tax	(2,979)	-	-	-	(2,979)
Exercise of stock options	3,221	-	(1,084)	-	2,137
Stock-based compensation	-	-	4,325	-	4,325
Net income and comprehensive income	-	-	-	4,147	4,147
As at June 30, 2012	676,497	-	46,311	49,863	772,671
As at December 31, 2012	677,802	41,434	57,678	57,333	834,247
Exercise of stock options *(Notes 8 and 9)*	6,751	-	(2,122)	-	4,629
Stock-based compensation *(Note 9)*	-	-	4,321	-	4,321
Dividends on preferred shares *(Note 8)*	-	-	-	(2,000)	(2,000)
Net income and comprehensive income	-	-	-	18,199	18,199
As at June 30, 2013	**684,553**	**41,434**	**59,877**	**73,532**	**859,396**

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

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF CASH FLOWS

Unaudited (Expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2013	**2012**	**2013**	**2012**
Cash provided by (used in):				
OPERATING				
Net income and comprehensive income	10,775	416	18,199	4,147
Adjustments for items not affecting operating cash:				
Depletion and depreciation	25,336	23,017	52,370	45,194
Stock-based compensation	926	1,282	2,229	2,923
Finance	6,637	4,565	13,391	10,323
(Gain) on sale of assets	-	-	-	(3,875)
Income taxes	4,069	618	7,102	2,507
Interest paid	(5,939)	(3,913)	(12,043)	(9,038)
Decommissioning expenditures *(Note 7)*	(94)	(42)	(135)	(94)
Changes in non-cash working capital	7,245	(14,649)	3,152	(12,177)
	48,955	11,294	84,265	39,910
FINANCING				
Issue of common shares	-	110,145	-	110,145
Exercise of stock options	1,594	1,090	4,629	2,137
Issue of capital securities *(Note 8)*	50,000	-	50,000	-
Capital securities and share issue costs *(Note 8)*	(2,169)	(3,972)	(2,169)	(3,972)
Financing fees paid on credit facilities	(945)	(600)	(945)	(600)
Dividends on preferred shares	(1,000)	-	(2,000)	-
Net change in non-revolving term credit facilities	60,454	930	60,498	237
Net change in revolving credit facilities	(101,623)	(41,997)	(82,697)	12,403
	6,311	65,596	27,316	120,350
INVESTING				
Development of petroleum and natural gas properties and equipment	(40,358)	(58,694)	(121,295)	(178,484)
Additions of exploration and evaluation assets	(28)	(121)	(101)	(183)
Changes in non-cash working capital	(14,910)	(18,093)	9,785	18,388
	(55,296)	(76,908)	(111,611)	(160,279)
NET CHANGE IN CASH	(30)	(18)	(30)	(19)
CASH, BEGINNING OF PERIOD	46	64	46	65
CASH, END OF PERIOD	16	46	16	46

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

BIRCHCLIFF ENERGY LTD.
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013
(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT FOR PER SHARE INFORMATION) (UNAUDITED)

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, Preferred Shares, Series A, Preferred Shares, Series C, 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 August 14, 2013.

2. BASIS OF PREPARATION

These unaudited interim condensed financial statements present Birchcliff's financial results of operations and financial position under International Financial Reporting Standards ("**IFRS**") as at and for the three and six months ended June 30, 2013, including the 2012 comparative periods. The financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**").

These financial statements have been prepared following the same IFRS accounting policies and methods of computation as disclosed in the annual audited financial statements for the year ended December 31, 2012, except as noted below. Certain information and disclosures normally required to be included in the notes to the annual audited financial statements have been condensed, omitted or have been disclosed on an annual basis only. Accordingly, these financial statements should be read in conjunction with the annual audited financial statements and the notes thereto for the year ended December 31, 2012.

On January 1, 2013, the Birchcliff 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). The adoption of these standards had no impact on the amounts recorded in the financial statements as at January 1, 2013 or on the comparative periods.

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 thousands of Canadian dollars, except for per share information. There are no subsidiary companies.

3. EXPLORATION AND EVALUATION ASSETS

The continuity for Exploration and Evaluation ("**E&E**") assets are as follows:

	E&E[1]
As at December 31, 2011	1,858
Additions	248
As at December 31, 2012	2,106
Additions	101
As at June 30, 2013	**2,207**

(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 the three and six months ended June 30, 2013.

4. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

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

	P&NG Assets	Corporate Assets	Total
Cost:			
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	130,747	1,470	132,217
As at June 30, 2013[2]	1,740,507	8,318	1,748,825
Accumulated depletion and depreciation:			
As at December 31, 2011	(120,609)	(3,497)	(124,106)
Depletion and depreciation expense	(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	(51,937)	(433)	(52,370)
As at June 30, 2013	(265,967)	(4,772)	(270,739)
Net book value:			
As at December 31, 2012	1,395,730	2,509	1,398,239
As at June 30, 2013	1,474,540	3,546	**1,478,086**

(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) 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.

5. NON- REVOLVING TERM CREDIT FACILITIES

On May 16, 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 June 30, 2013.

The Corporation also has outstanding 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 commencing July 1, 2013. The current portion due under this facility is $1.4 million at June 30, 2013.

The aggregate amount outstanding under Birchcliff's long-term non-revolving term credit facilities at June 30, 2013 was $127.7 million, which is net of $0.9 million in unamortized interest and fees. The interest costs and financing fees associated with these credit facilities have been deferred and netted against the amounts drawn, and are being amortized to profit or loss using the effective interest rate method over the applicable term.

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.

6. REVOLVING CREDIT FACILITIES

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

As at,	June 30, 2013	December 31, 2012
Syndicated credit facility	273,000	351,000
Working capital facility	10,546	17,654
Drawn revolving credit facilities	283,546	368,654
Unamortized prepaid interest on bankers' acceptances	(1,726)	(4,137)
Unamortized deferred financing fees	(412)	(204)
Revolving credit facilities	**281,408**	364,313

At June 30, 2013, the revolving credit facilities consisted of a revolving syndicated credit facility with an authorized limit of $440 million and revolving working capital facility with an authorized limit of $30 million. The debt covenants applicable to the Corporation's credit facilities are disclosed in Note 10 to these financial statements.

7. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is provided below:

As at,	June 30, 2013	December 31, 2012
Balance, beginning	68,967	64,023
Obligations incurred	1,558	2,166
Obligations acquired, net dispositions	-	(26)
Changes in estimate[1]	7,272	1,712
Accretion expense	977	1,770
Actual expenditures	(135)	(678)
Balance, ending[2]	**78,639**	68,967

(1) Change due to an increase in abandonment cost estimates for Birchcliff's oil and natural gas wells which was recorded in the first quarter of 2013.

(2) A risk-free rate of 2.6% and an inflation rate of 2.0% were used to calculate the discounted fair value of decommissioning liabilities at June 30, 2013, (December 31, 2012 – 2.6% and 2.0%, respectively).

8. 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 in share capital, net of any tax effects.

	June 30, 2013	December 31, 2012
Common shares:		
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	793,815	675,702
Outstanding at end of period	**142,390,094**	141,596,279
Preferred shares *(perpetual):*		
Outstanding at beginning of period - Jan 1	2,000,000	-
Issue of perpetual preferred shares - Series A	-	2,000,000
Outstanding at end of period	**2,000,000**	2,000,000

Capital Securities

On June 14, 2013, Birchcliff completed a $50 million preferred share issue. The Corporation issued 2,000,000 preferred shares, Series C, at a price of $25.00 per share (the "**June Financing**"). The preferred shares, Series C 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 gross proceeds from the issuance of preferred shares, Series C, which are presented as "capital securities" on the Statements of Financial Position, are classified as "other financial liabilities" under IFRS. The incremental costs directly attributable to the issuance of preferred shares, Series C are initially recognized as a reduction to capital securities and subsequently amortized to profit and loss over the seven-year term of these preferred shares and included in finance expense. Any dividend distributions on preferred shares, Series C will be recorded directly to profit and loss.

The preferred shares, Series C 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 preferred shares, Series C 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 preferred shares, Series C are not redeemable by the holders of the preferred shares prior to June 30, 2020. On and after June 30, 2020, a holder of preferred shares, Series C may, at its option, redeem for cash, all or any number of preferred shares, Series C 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 preferred shares, Series C 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 preferred shares, Series C into common shares.

Dividends

On June 5, 2013, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A preferred share for the calendar quarter ending June 30, 2013. The dividend is designated an eligible dividend for purposes of the *Income Tax Act* (Canada).

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 June 30, 2013.

Per Common Share

The Corporation calculates basic and diluted per common share amounts using net income available to Birchcliff's shareholders, reduced for any preferred shares dividends paid and divided by the weighted average number of common shares outstanding. The following table presents the computation of net income per common share.

	Three months ended June 30,		Six months ended June 30,	
	2013	**2012**	**2013**	**2012**
Net income and comprehensive income	10,775	416	18,199	4,147
Dividends on preferred shares, Series A	(1,000)	-	(2,000)	-
Net income available to Birchcliff's common shareholders	9,775	416	16,199	4,147
Weighted average common shares (000's):				
Weighted average common shares outstanding (basic)	142,240	138,426	142,032	132,588
Effect of dilutive stock options & performance warrants	2,925	411	2,757	1,298
Weighted average common shares outstanding (diluted)[(1)]	145,165	138,837	144,789	133,886
Net income per common share				
Basic	**$0.07**	$-	**$0.11**	$0.03
Diluted	**$0.07**	$-	**$0.11**	$0.03

(1) Diluted per common 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 common share is made if the result of these calculations is anti-dilutive. The weighted average diluted common shares outstanding at June 30, 2013 excludes 8,190,101 (June 30, 2012 – 9,451,968) stock options and 6,000,000 (June 30, 2012 – nil) warrants that are anti-dilutive. The average market value of the Corporation's shares for the purpose of calculating the dilutive effect was based on average quoted market prices for the time that the Securities were outstanding during the period.

9. SHARE-BASED PAYMENTS

Stock Options

During the three and six months ending June 30, 2013, the Corporation recorded $0.9 million and $2.2 million (June 30, 2012 – $1.3 million and $2.9 million) of non-cash stock-based compensation expense, net of $1.0 million and $2.1 million (June 30, 2012 – $0.6 million and $1.4 million) in capitalized amounts directly attributable to the exploration and development of the Corporation's assets. In determining the stock-based compensation expense for options issued during the three months ended June 30, 2013, the Corporation applied a weighted average estimated forfeiture rate of 13% (June 30, 2012 – 14%).

At June 30, 2013, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of a maximum of 14,239,009 (June 30, 2012 – 14,143,364) common shares. At June 30, 2013, there remained available for issuance options in respect of 1,459,054 (June 30, 2012 – 1,284,624) common shares. For stock options exercised during the three months ended June 30, 2013, the weighted average share trading price was $8.20 (June 30, 2012 – $6.26) per common share.

A summary of the outstanding stock options is presented below:

	Number	Weighted Average Exercise Price *($)*
Outstanding, December 31, 2012	12,463,872	8.06
Granted	2,147,700	7.33
Exercised	(499,851)	(6.07)
Forfeited	(93,834)	(7.27)
Expired	(946,800)	(7.41)
Outstanding, March 31, 2013	13,071,087	8.07
Granted	263,000	8.21
Exercised	(293,964)	(5.42)
Forfeited	(236,168)	(8.85)
Expired	(24,000)	(12.27)
Outstanding, June 30, 2013	**12,779,955**	**8.11**

The weighted average fair value per option granted during the three months ended June 30, 2013 was $2.98 (June 30, 2012 – $2.44). The weighted average assumptions used in calculating the Black-Scholes fair values are set forth below.

Three months ended,	**June 30, 2013**	**June 30, 2012**
Risk-free interest rate	1.3%	1.5%
Option life *(years)*	3.9	3.8
Expected volatility	45.5%	52.7%

A summary of the stock options outstanding and exercisable under the plan at June 30, 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	4,413,854	2.75	$5.66	2,417,507	1.86	$5.41
6.01	9.00	3,352,867	4.06	$7.59	525,665	1.41	$8.39
9.01	12.00	4,757,434	2.06	$10.51	3,958,250	1.96	$10.35
12.01	13.60	255,800	2.16	$12.87	170,465	1.73	$12.83
		12,779,955	**2.82**	**$8.11**	**7,071,887**	**1.88**	**$8.58**

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 June 30, 2013 and June 30, 2012.

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

10. CAPITAL MANAGEMENT

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations, including potential obligations arising from additional acquisitions; to maintain a capital structure that allows Birchcliff to finance its growth strategy using primarily internally-generated cash flow and its available debt capacity; and to optimize the use of its capital to provide an appropriate investment return to its shareholders. There were no changes in the Corporation's approach to capital management during the three months ended June 30, 2013.

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

As at,	June 30, 2013	December 31, 2012
Maximum borrowing base limit[(1)(2)]:		
Non-revolving term credit facilities	130,000	70,000
Revolving credit facilities	470,000	470,000
	600,000	540,000
Principal amount utilized:		
Drawn non-revolving term credit facilities	(130,000)	(70,000)
Drawn revolving credit facilities	(283,546)	(368,654)
Outstanding letters of credit[(3)]	(184)	(184)
	(413,730)	(438,838)
Unused credit[(2)]	**186,270**	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. On May 16, 2013, the Corporation added a $60 million non-revolving five-year term credit facility with a maturity date of May 25, 2018.

(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 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.

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 June 30, 2013, Birchcliff's EBITDA to interest expense was 6.4:1.0 and Debt to EBITDA was 2.3:1.0. The Corporation was compliant with all financial covenants under its credit facilities as at June 30, 2013.

(3) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit during the three months ended June 30, 2013.

The capital structure of the Corporation is as follows.

As at,	June 30, 2013	Dec. 31, 2012	Change
Shareholders' equity[(1)]	859,396	834,247	
Capital securities	47,831	-	
Shareholders' equity & capital securities	907,227	834,247	9%
Shareholders' equity & capital securities as a % of total capital[(2)]	67%	64%	
Working capital deficit[(3)]	42,632	28,867	
Drawn non-revolving term credit facilities	130,000	70,000	
Drawn revolving credit facilities	283,546	368,654	
Drawn debt	456,178	467,521	(2%)
Drawn debt as a % of total capital	33%	36%	
Capital	**1,363,405**	1,301,768	5%

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

(2) Of the 67%, approximately 60% 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 any current portion due under Birchcliff's credit facilities.

11. CONTINGENT LIABILITY

The disputed 2006 and 2007 income tax fillings by Canada Revenue Agency, in respect of $39.3 million of denied tax pools relating to the Veracel transaction, still remain outstanding at June 30, 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 June 30, 2013.

CORPORATE INFORMATION

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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

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Kenneth N. Cullen
Calgary, Alberta

Werner A. Siemens
Calgary, Alberta

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

SOLICITORS

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Calgary, Alberta

AUDITORS

KPMG LLP, Chartered Accountants
Calgary, Alberta

RESERVES EVALUATOR

Deloitte (AJM Deloitte)
Calgary, Alberta

BANKERS

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

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