Birchcliff Energy Ltd.

2013Q3

NINE MONTHS ENDED SEPTEMBER 30, 2013

November 13, 2013

Fellow Shareholders,

Birchcliff Energy Ltd. ("**Birchcliff**") is pleased to announce excellent financial and operational results for the third quarter of 2013 with record funds flow, significant earnings and a continued decrease in per unit operating costs. It is noteworthy that this is our 16^{th} consecutive quarter of generating earnings.

We continue to be on track to exit 2013 with production of approximately 30,000 boe per day; and fourth quarter average production in the range of 28,000 to 29,000 boe per day.

Average production for October and November to date is approximately 28,000 boe per day.

To September 30, 2013, Birchcliff has drilled and cased 111 (99.2 net) Montney/Doig horizontal natural gas wells, utilizing multi-stage fracture stimulation technology.

Birchcliff has 14 (13.17 net) horizontal wells to bring on production before year end, including 11 (11.0 net) Montney/Doig horizontal natural gas wells, one (1.0 net) Charlie Lake horizontal light oil well and two (1.17 net) Halfway horizontal light oil wells. These wells were completed utilizing the latest multi-stage fracture stimulation technology. These new wells are expected to provide Birchcliff with production momentum moving into the first quarter of 2014.

I am pleased to report that through land acquisitions, Birchcliff added a significant amount of 100% working interest land in its Elmworth/Sinclair area, which is south of Pouce Coupe, Alberta. This area has excellent potential for the development of our Montney/Doig Natural Gas Resource Play. Birchcliff had previously drilled three successful vertical exploration wells in this area prior to a recent land sale and now owns 67,680 net acres or 105.8 net sections of land in the Elmworth/Sinclair area, all at 100% working interest. There is currently access to existing third party infrastructure for the delineation stage of this project, but as part of our 2018 Five Year Plan, Birchcliff plans to build a 100% owned natural gas processing facility on or near these lands.

Also in 2013, we have added 12.5 (12.5 net) sections 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. As a result of these land acquisitions and our 2013 successful drilling program, Birchcliff now has up to 2,106 net future potential horizontal drilling locations on the Montney/Doig Natural Gas Resource Play.

Subsequent to the end of the third quarter of 2013, Birchcliff entered into an agreement with a private company to sell non-core Progress Doe Creek assets for $59 million, subject to usual closing adjustments. The sale encompasses approximately 520 boe per day of light oil production, 2.7 million proved reserves and 4.5 million proved plus probable reserves. The transaction has an effective date of May 1, 2013 and is expected to close before year end, with net proceeds of sale used to reduce debt.

Upon the closing of the Progress Doe Creek transaction, Birchcliff will realize a significant one-time gain in net income. The sale of these assets will not result in any reduction of Birchcliff's current credit facilities.

We are focused on drilling additional Montney/Doig horizontal natural gas wells that will produce, at very low cost, to the Pouce Coupe South Natural Gas Plant (the "**PCS Gas Plant**"). We continue to decrease our per unit operating costs and generate even greater returns by utilizing excess capacity at the plant, as our costs do not significantly increase as processing volumes increase.

Our strategy is to be one of the lowest cost operators in our industry. To execute this strategy, we intend to process the vast majority of our production growth at our PCS Gas Plant, where we achieve our lowest processing costs and highest netbacks.

2013 THIRD QUARTER FINANCIAL AND OPERATIONAL RESULTS

Production

Third quarter production averaged 24,662 boe per day, which is a 15% increase over production of 21,426 boe per day in the third quarter of 2012. Production per common share increased 14% from the third quarter of 2012.

Production consisted of approximately 81% natural gas and 19% crude oil and natural gas liquids in the third quarter. Approximately 71% of Birchcliff's natural gas production and 60% of corporate production was processed at the PCS Gas Plant in the first nine months of 2013.

Funds Flow and Earnings

Funds flow increased 53% from the third quarter of 2012, to $43.1 million or $0.30 per basic common share. Excluding a non-recurring $4.2 million non-refundable deposit, funds flow was $38.9 million or $0.27 per basic common share, as compared to $28.2 million or $0.20 per basic common share.

This is the 16th consecutive quarter that Birchcliff has reported earnings. Birchcliff had net income of $10.2 million as compared to $2.7 million in the third quarter of 2012, a significant increase of 270%.

Operating Costs

Operating costs in the third quarter were $5.66 per boe, down 6% from the third quarter of 2012 and down 4% from the second quarter of 2013. 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 September 30, 2013, Birchcliff's long-term bank debt was $444.7 million from available credit facilities aggregating to approximately $600 million. Total debt, including the working capital deficit of $43.0 million, was $487.7 million.

Subsequent to the end of the third quarter of 2013, Birchcliff entered into an agreement with a private company to sell non-core Progress Doe Creek assets for $59 million, subject to usual closing adjustments. The sale encompasses approximately 520 boe per day of light oil production, 2.7 million proved reserves and 4.5 million proved plus probable reserves. The transaction has an effective date of May 1, 2013 and is expected to close before year end, with net proceeds of sale used to reduce debt.

Upon the closing of the Progress Doe Creek transaction, Birchcliff will realize a significant one-time gain in net income. The sale of these assets will not result in any reduction of Birchcliff's current credit facilities.

At September 30, 2013, Birchcliff had 142,752,160 basic common shares outstanding.

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 nine months of 2013, net operating costs for natural gas processed at the PCS Gas Plant averaged $0.36 per Mcfe ($2.19 per boe) and the estimated operating netback for Birchcliff's natural gas production flowing to the PCS Gas Plant was $2.79 per Mcfe ($16.77 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	Nine months ended September 30, 2013[(1)]		Nine months ended September 30, 2012	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		86,870		51,235
Oil & NGLs *(bbls)*		427		189
Total boe *(6:1)*		**14,905**		8,729
Percentage of corporate natural gas production		*71%*		*52%*
Percentage of corporate production		*60%*		*41%*
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[(2)]	3.57	21.42	2.54	15.24
Royalty expense	(0.15)	(0.92)	(0.08)	(0.48)
Operating expense, net of recoveries	(0.36)	(2.19)	(0.33)	(1.98)
Transportation and marketing expense	(0.27)	(1.54)	(0.23)	(1.36)
Estimated operating netback	**2.79**	**16.77**	1.90	11.42
Operating margin[(3)]	**78%**	**78%**	75%	75%

(1) The PCS Gas Plant processed an average of 104 MMcf per day of gross raw gas at the inlet for the first nine months of 2013, against current licensed capacity of 150 MMcf per day at September 30, 2013.

(2) AECO natural gas price averaged $3.06 per Mcf and $2.12 per Mcf for the nine months ended September 30, 2013 and September 30, 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 Charlie Lake Light Oil Resource Play. Birchcliff actively employs the evolving technology utilized by leaders in the industry regarding horizontal well drilling and the related multi-stage fracture stimulation techniques.

During the third quarter of 2013, Birchcliff drilled 11 (10.67 net) wells, being six (6.0 net) natural gas wells and five (4.67 net) oil wells. The natural gas wells included five (5.0 net) Montney/Doig horizontal wells and one (1.0 net) Montney/Doig vertical exploration well and the light oil wells included four (4.0 net) Worsley Charlie Lake horizontal light oil wells and one (0.67 net) Halfway horizontal light oil well.

In 2013, to the end of the third quarter, Birchcliff has drilled 31 (30.17 net) wells, being 19 (19.0 net) natural gas wells and 12 (11.17 net) oil wells. The natural gas wells included 18 (18.0 net) Montney/Doig horizontal wells and one (1.0 net) Montney/Doig vertical exploration well and the light oil wells included nine (9.0 net) Worsley Charlie Lake horizontal light oil wells and three (2.17 net) Halfway horizontal light 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. Birchcliff is at various stages of drilling, completing and tying in the remaining wells in our 2013 drilling program. Birchcliff has 14 (13.17 net) horizontal wells to bring on production before year end, including 11 (11.0 net) Montney/Doig horizontal natural gas wells, one (1.0 net) Charlie Lake horizontal light oil well and two (1.17 net) Halfway horizontal light oil wells.

We continue to evolve our drilling and completion techniques, especially on the Montney/Doig Natural Gas Resource Play. We utilize a multi-disciplined approach in our business, incorporating reservoir, facility, drilling and completion engineering; geology; geophysics; hydrodynamics; petrophysics; and mineral and surface land, all focused to optimize our drilling and completion programs. As a result of this work, Birchcliff is seeing higher initial production rates, higher ultimate recoveries, lower costs per frac and a reduction of our environmental impact.

The Corporation's drilling activities to date in 2013 utilize leading edge technology for horizontal well drilling and the application of multi-stage fracture stimulation techniques. We are utilizing multi-well pad drilling to improve our drilling and completion efficiencies and provide a significant reduction in the drilling and completion costs. Another benefit of pad drilling is that we were able to drill continuously through spring break-up. On our Montney/Doig Natural Gas Resource Play we used six multi-well pads in 2013; one six-well pad; two four-well pads, one three-well pad; two two-well pads; and four single-well pads.

Land

In the third quarter of 2013, Birchcliff added 34,560 (34,560 net) acres or 54.0 net sections of undeveloped land, all at 100% working interest, for a corporate total at the end of the third quarter of 571,096 (536,771 net) acres of undeveloped land, all located on the Peace River Arch. The land purchased in the third quarter of 2013 was acquired for a total of $10.0 million and was predominantly located in the Elmworth/Sinclair area on the Montney/Doig Natural Gas Resource Play.

Birchcliff has been very successful in adding to its undeveloped land base. In 2013, to the end of the third quarter, Birchcliff has purchased 72,885.3 (72,565.3 net) acres or 113.9 (113.4 net) sections of undeveloped land at a cost of $34.4 million dollars. We are delighted with the land acquisitions and pleased with the investment we have made as we see material future value associated with these lands. Acquiring this land represents a substantial investment that Birchcliff has made in its long-term business strategy.

The lands acquired in 2013 include 12.5 (12.5 net) sections right in the middle of our Pouce Coupe development area as well as 33 (33.0 net) sections in the Elmworth/Sinclair area where Birchcliff recently drilled and completed its third vertical exploration well, delineating the Montney/Doig Natural Gas Resource Play. Our confidence in this project is very high and we are currently planning for our first horizontal well in the area in 2014. In the Elmworth/Sinclair area, we now hold 67,680 net acres or 105.8 net sections of land at 100% working interest.

Montney/Doig Natural Gas Resource Play

In the third quarter of 2013, Birchcliff drilled five (5.0 net) Montney/Doig horizontal natural gas wells on the Montney/Doig Natural Gas Resource Play. In 2013, to the end of the third quarter, Birchcliff has drilled 18 (18.0 net) Montney/Doig horizontal natural gas wells and one (1.0 net) Montney/Doig vertical exploration well, continuing to expand the Montney/Doig Natural Gas Resource Play both geographically and stratigraphically. Ten (10.0 net) wells were recently completed and brought on production; six wells on the first multi-well pad and four wells on the second multi-well pad. Initial production performance on these 10 wells looks very positive.

Our budget for 2013 includes 25 (25.0 net) Montney/Doig horizontal natural gas wells and one (1.0 net) Montney/Doig vertical exploration well. Of the 25 horizontal wells, 24 (24.0 net) wells are targeting the Middle/Lower Montney Play and one (1.0 net) well is targeting the Basal Doig/Upper Montney Play.

We anticipate material reserves additions in the proved developed producing, proved and proved plus probable categories as a result of our drilling program on the Montney/Doig Natural Gas Resource Play and land purchases in the Pouce Coupe area.

Further, we anticipate material additions in resources as a result of our land purchase in the Elmworth/Sinclair and Pouce Coupe areas. We expect our year end Montney/Doig Natural Gas Resource Assessment will show material additions to the category of Total Petroleum Initially In Place, the promotion of resources from the Undiscovered category to the Discovered category and increases to our Contingent resources, as compared to our 2012 year end resource assessment.

On the Montney/Doig Natural Gas Resource Play Birchcliff currently owns 329.3 (307.1 net) sections, with an average 93.3% working interest, which have potential for the Middle/Lower Montney Play, and 267.3 (244.1 net) sections, with an average 91.3% working interest, which have potential for the Basal Doig/Upper Montney Play. Birchcliff's total land holdings on these two plays is 596.6 (551.2 net) sections.

With full development of four horizontal wells per section, per play, Birchcliff has 2,205 net drilling locations. With 99.2 net horizontal locations drilled to the end of the third quarter of 2013, there remain 2,106 net future horizontal drilling locations.

Two drilling rigs are currently drilling on our Montney/Doig Natural Gas Resource Play and we anticipate having 11 (11.0 net) additional Montney/Doig horizontal natural gas wells on production between now and year end.

PCS Gas Plant Phase IV Expansion

Birchcliff continues to plan 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 Charlie Lake Light Oil Resource Play

In the third quarter of 2013, Birchcliff drilled four (4.0 net) Charlie Lake horizontal light oil wells. In 2013, to the end of the third quarter, Birchcliff has successfully drilled nine (9.0 net) Charlie Lake horizontal light oil wells, utilizing multi-stage fracture stimulation technology. Our budget for 2013 for the Worsley area includes the drilling of 12 (12.0 net) Charlie Lake horizontal light oil wells.

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

There has been significant industry activity on the Charlie Lake Light Oil Resource Play south and east of Worsley, with increasing land costs and a number of drilling successes from various operators. This activity is adding value to Birchcliff's large undeveloped land position on the play.

One drilling rig is currently drilling on our Worsley Charlie Lake Light Oil Resource Play and we anticipate having one (1.0 net) additional Charlie Lake light oil well on production between now and year end, with the remaining two (2.0 net) on production early in 2014.

Halfway Light Oil Play

In the third quarter of 2013, Birchcliff drilled one (0.67 net) Halfway horizontal light oil well. This well was drilled from a pad and following the end of the third quarter, another well (0.5 net) was drilled from the pad and rig released. These wells were recently completed and will be on production soon. To date in 2013, Birchcliff has drilled four (2.67 net) wells on the Halfway Light Oil Play.

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.

OUTLOOK

Birchcliff expects 2013 exit production of approximately 30,000 boe per day; and fourth quarter average production in the range of 28,000 to 29,000 boe per day.

We anticipate material reserves additions in the proved developed producing, proved and proved plus probable categories as a result of our drilling program on the Montney/Doig Natural Gas Resource Play and land purchases in the Pouce Coupe area. The new proved producing reserve additions in 2013 are expected to result in future increases to Birchcliff's credit facilities, which are scheduled for renewal in May 2014.

Further, we anticipate material additions in resources as a result of our land purchases in the Elmworth/Sinclair and Pouce Coupe areas. We expect our year end Montney/Doig Natural Gas Resource Assessment will show material additions to the category of Total Petroleum Initially In Place, the promotion of resources from the Undiscovered category to the Discovered category and increases to our Contingent resources, as compared to our 2012 year end resource assessment.

The net proceeds of the sale of our non-core Progress Doe Creek assets will reduce our bank debt and the disposition of these assets will reduce our unit operating costs and allow us to stay focused on opportunities within on our 100% working interest lands.

Birchcliff continues to be bullish respecting long-term natural gas prices, however the extreme volatility in gas prices has led Birchcliff to consider a hedging program for 2014 in order to protect its cash flow and capital expenditure program. Accordingly, Birchcliff intends to hedge a portion of its natural gas for the summer months of 2014 and a portion of its oil production for the 2014 calendar year. This strategy will allow Birchcliff to participate in the upside of commodity prices, while being partially protected from weak commodity prices.

Preliminary Guidance for 2014

Birchcliff expects to have a very strong production growth profile for 2014. Initially, we will be targeting exit production between 36,000 and 38,000 boe per day. Although our 2014 Budget has not yet been finalized, on a preliminary basis, the capital expenditure required to achieve this production target is expected to be approximately $275 million. Birchcliff expects to fund its 2014 capital program using internally generated funds flow and available credit facilities and expects that the ratio of 2014 year end debt to one year's forward funds flow will decrease from year end 2013. These expectations are based on Birchcliff realizing Cdn. $90.00 per barrel of oil and Cdn. $3.50 per GJ of natural gas.

2018 Five Year Plan

Birchcliff updates its five year plan in the fall of each year. Birchcliff has recently finalized its 2018 Five Year Plan, highlights of which include exit production in 2018 of approximately 61,500 boe per day, made up of approximately 320 MMcf per day of natural gas and 8,000 barrels of oil and natural gas liquids.

Birchcliff expects to fund the 2018 Five Year Plan using internally generated funds flow and available credit facilities. Based on the forecast production rates and commodity process contained in the 2018 Five Year Plan, the ratio of year end debt to one year's forward funds flow is expected to decrease each year, based on the assumptions set out in the following table.

	2014	**2015**	**2016**	**2017**	**2018**
Annual exit production *(boe per day)*	37,100	38,300	45,300	52,600	61,500
Light oil – WTI Cushing *($CAD/bbl)*	90.00	90.00	90.00	90.00	90.00
Light oil – Edmonton Par *($CAD/bbl)*	84.00	84.00	84.00	84.00	84.00
Natural gas – AECO – C daily *($/GJ)*	3.50	3.80	4.00	4.25	4.50

Birchcliff currently owns and controls the land necessary to achieve this production growth profile, allowing it to execute the program without relying on land, asset or corporate acquisitions. We are confident that we have the asset base, the people and the capital required to successfully execute our 2018 Five Year Plan.

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.

As in the past, Birchcliff expects to release its unaudited 2013 year end financial results, 2013 year end reserves evaluation, 2013 year end Montney/Doig Natural Gas Resource Assessment, 2013 finding and development costs and 2014 Budget in the middle of February 2014.

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. Focus, low cost operations and financial flexibility has positioned Birchcliff to execute its long term strategy.

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

THIRD QUARTER FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
OPERATING				
Average daily production				
Light oil – *(barrels)*	3,903	4,076	3,963	4,365
Natural gas – *(thousands of cubic feet)*	119,608	100,075	121,526	98,725
NGLs – *(barrels)*	824	671	747	689
Total – barrels of oil equivalent *(6:1)*	**24,662**	21,426	**24,965**	21,508
Average sales price *($ CDN)*				
Light oil – *(per barrel)*	102.82	82.45	92.90	84.77
Natural gas – *(per thousand cubic feet)*	2.60	2.47	3.26	2.28
NGLs – *(per barrel)*	95.58	79.74	90.00	85.11
Total – barrels of oil equivalent *(6:1)*	**32.06**	29.73	**33.30**	30.39
NETBACK AND COST *($ per barrel of oil equivalent at 6:1)*				
Petroleum and natural gas revenue	32.07	29.75	33.39	30.41
Royalty expense	(3.01)	(2.39)	(3.02)	(3.06)
Operating expense	(5.66)	(6.01)	(5.77)	(6.13)
Transportation and marketing expense	(2.44)	(2.33)	(2.43)	(2.36)
Netback	**20.96**	19.02	**22.17**	18.86
General & administrative expense, net	(1.67)	(2.03)	(2.06)	(2.79)
Interest expense	(2.14)	(2.67)	(2.48)	(2.43)
Other income	1.83	-	0.61	-
Funds flow netback	**18.98**	14.32	**18.24**	13.64
Stock-based compensation expense, net	(0.39)	(0.56)	(0.46)	(0.68)
Depletion and depreciation expense	(11.40)	(11.05)	(11.48)	(11.36)
Accretion expense	(0.26)	(0.23)	(0.23)	(0.22)
Amortization of deferred financing fees	(0.11)	(0.10)	(0.09)	(0.10)
Gain on sale of assets	-	-	-	0.66
Dividends on preferred shares, Series C	(0.46)	-	(0.15)	-
Income tax expense	(1.88)	(0.99)	(1.67)	(0.77)
Net income	**4.48**	1.39	**4.16**	1.17
Dividends on preferred shares, Series A	(0.44)	(0.29)	(0.44)	(0.10)
Net income to common shareholders	**4.04**	1.10	**3.72**	1.07
FINANCIAL				
Petroleum and natural gas revenue *($000's)*	72,762	58,643	227,545	179,205
Funds flow from operations *($000's)*(1)	43,053	28,230	124,301	80,411
Per common share – basic *($)*(1)	0.30	0.20	0.87	0.59
Per common share – diluted *($)*(1)	0.30	0.20	0.86	0.58
Net income *($000's)*	10,156	2,744	28,355	6,891
Net income to common shareholders *($000's)*(2)	9,156	2,165	25,355	6,312
Per common share – basic *($)*(2)	0.06	0.02	0.18	0.05
Per common share – diluted *($)*(2)	0.06	0.02	0.17	0.05
Common shares outstanding				
End of period – basic	142,752,160	141,534,645	142,752,160	141,534,645
End of period – diluted	163,395,946	162,945,783	163,395,946	162,945,783
Weighted average common shares for period – basic	142,548,847	141,474,489	142,206,017	135,572,012
Weighted average common shares for period – diluted	145,086,695	143,571,758	144,922,366	138,456,300
Dividends on preferred shares, Series A *($000's)*	1,000	579	3,000	579
Dividends on preferred shares, Series C (*$000's*)	1,038	-	1,038	-
Capital expenditures *($000's)*	76,186	88,099	197,582	266,766
Long-term bank debt *($000's)*	444,719	390,541	444,719	390,541
Working capital deficit *($000's)*	42,988	77,643	42,988	77,643
Total debt *($000's)*	487,707	468,184	487,707	468,184

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

(2) Net income to common shareholders is calculated using net income as determined in accordance with GAAP, adjusted for dividends paid on preferred shares, Series A. Per common share amounts are calculated by dividing net income to common shareholders 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 November 13, 2013. The unaudited interim condensed financial statements with respect to the three and nine months ended September 30, 2013 (the "**Reporting Periods**") as compared to the three and nine months ended September 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 dollar amounts are expressed in Canadian currency, unless otherwise stated.

OUTLOOK

Birchcliff expects 2013 exit production of approximately 30,000 boe per day; and fourth quarter average production in the range of 28,000 to 29,000 boe per day.

Average production for October and November to date is approximately 28,000 boe per day.

Birchcliff has 14 (13.17 net) horizontal wells to bring on production before year end, including 11 (11.0 net) Montney/Doig horizontal natural gas wells, one (1.0 net) Charlie Lake horizontal light oil well and two (1.17 net) Halfway horizontal light oil wells. These wells were completed utilizing the latest multi-stage fracture stimulation technology. These new wells are expected to provide Birchcliff with production momentum moving into the first quarter of 2014.

Birchcliff expects to have a very strong production growth profile for 2014. Initially, we will be targeting exit production between 36,000 and 38,000 boe per day. Although our 2014 Budget has not yet been finalized, on a preliminary basis, the capital expenditure required to achieve this production target is expected to be approximately $275 million.

Subsequent to the end of the third quarter of 2013, Birchcliff entered into an agreement with a private company to sell non-core Progress Doe Creek assets for $59 million, subject to usual closing adjustments. The sale encompasses approximately 520 boe per day of light oil production. The transaction has an effective date of May 1, 2013 and is expected to close before year end, with net proceeds from the sale used to reduce debt.

We are focused on drilling additional Montney/Doig horizontal natural gas wells that will produce, at very low cost, to the Pouce Coupe South Natural Gas Plant (the "**PCS Gas Plant**"). We continue to decrease our per unit operating costs and generate even greater returns by utilizing excess capacity at the plant, as our costs do not significantly increase as processing volumes increase.

The Corporation intends to finance its business primarily through funds flow from operations, working capital, available credit limit under its bank credit facilities and non-core property dispositions. 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's calculation of funds flow from operations is considered to be a key measure of the ability to generate the cash necessary to fund future growth through capital investments, pay dividends on preferred shares and repay debt.

The following schedule sets out the reconciliation of cash flow from operating activities, as determined in accordance with IFRS, to funds flow from operations.

	Three months ended September 30,		Nine months ended September 30,	
($000's)	**2013**	**2012**	**2013**	**2012**
Cash flow from operating activities	33,882	24,360	118,147	64,270
Adjustments:				
Decommissioning expenditures	350	212	485	306
Changes in non-cash working capital	8,821	3,658	5,669	15,835
Funds flow from operations(1)	**43,053**	28,230	**124,301**	80,411
Per common share – basic *($)*(1)(2)	**0.30**	0.20	**0.87**	0.59
Per common share – diluted *($)*(1)(2)	**0.30**	0.20	**0.86**	0.58

(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 common shares outstanding for the period.

Funds flow increased 53% from the third quarter of 2012, to $43.1 million or $0.30 per basic common share. Excluding a non-recurring $4.2 million non-refundable deposit, funds flow was $38.9 million in the third quarter of 2013, up from $28.2 million in the third quarter of 2012.

Funds flow in the current quarter was positively impacted by a 20% increase in natural gas production, higher average oil and natural gas prices realized at the wellhead, lower general and administrative expenses and reduced interest costs and negatively offset by slightly lower oil production compared to the third quarter of 2012. Higher average production in the third quarter of 2013 resulted in aggregate increases to royalties, production and transportation and marketing costs in the period.

Net Income to Common Shareholders

($000's)	Three months ended September 30, 2013	2012	Nine months ended September 30, 2013	2012
Net income	10,156	2,744	28,355	6,891
Net income to common shareholders[1]	**9,156**	2,165	**25,355**	6,312
Per common share – basic *($)*[1]	**0.06**	0.02	**0.18**	0.05
Per common share – diluted *($)*[1]	**0.06**	0.02	**0.17**	0.05

(1) Net income to common shareholders is calculated using net income as determined in accordance with IFRS, adjusted for dividends paid on perpetual preferred shares, Series A. Per common share amounts are calculated by dividing net income to common shareholders by the weighted average number of common shares outstanding for the period. Dividends paid on perpetual preferred shares, Series A, were $1.0 million and $3.0 million during the three and nine month Reporting Periods, respectively (Comparable Prior Periods - $0.6 million).

Birchcliff generated net income to common shareholders of $9.2 million in the third quarter of 2013, up 323% from third quarter of 2012. Excluding a non-recurring $4.2 million non-refundable deposit, net income to common shareholders was $5.0 million in the third quarter of 2013 compared to $2.2 million in the same period in 2012. This increase was mainly attributable to higher funds flow from operations and lower net stock-based compensation expense, offset by higher income taxes, increased payment of dividends on preferred shares and an increase in depletion expense resulting from higher average production in the current quarter.

PCS GAS PLANT NETBACKS

Processing natural gas at the 100% owned and operated low cost PCS Gas Plant has allowed Birchcliff to achieve material funds flow and net earnings, notwithstanding this low, volatile, natural gas price environment. Since the initial phase of the PCS Gas Plant, which became operational in the first quarter of 2010, Birchcliff has reported positive quarterly net earnings.

These results are largely attributed to the high netback operating margin achieved at the PCS Gas Plant. For the first three quarters of 2013, estimated operating netback for Birchcliff's natural gas production flowing to the PCS Gas Plant was $2.79 per Mcfe ($16.77 per boe), resulting in an operating margin of 78% in that period. Operating costs for natural gas processed at the PCS Gas Plant averaged $0.36 per Mcfe ($2.19 per boe) in the first three quarters of 2013.

The PCS Gas Plant processed approximately 60% of Birchcliff's corporate production for year-to-date 2013 as compared to 41% for the same period in 2012. For the first nine months of the year, approximately 71% of Birchcliff's natural gas production was processed at the PCS Gas Plant as compared to 52% during the same period in 2012.

The following table details Birchcliff's net production and estimated operating netback for wells producing to the PCS Gas Plant, on a production month basis.

Production Processed through the PCS Gas Plant	Nine months ended September 30, 2013[1]		Nine months ended September 30, 2012	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		86,870		51,235
Oil & NGLs *(bbls)*		427		189
Total boe *(6:1)*		**14,905**		8,729
Percentage of corporate natural gas production		*71%*		*52%*
Percentage of corporate production		*60%*		*41%*
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[2]	3.57	21.42	2.54	15.24
Royalty expense	(0.15)	(0.92)	(0.08)	(0.48)
Operating expense, net of recoveries	(0.36)	(2.19)	(0.33)	(1.98)
Transportation and marketing expense	(0.27)	(1.54)	(0.23)	(1.36)
Estimated operating netback	**2.79**	**16.77**	1.90	11.42
Operating margin[3]	**78%**	**78%**	75%	75%

(4) The PCS Gas Plant processed an average of 104 MMcf per day of gross raw gas at the inlet for the first nine months of 2013, against current licensed capacity of 150 MMcf per day at September 30, 2013.

(5) AECO natural gas price averaged $3.06 per Mcf and $2.12 per Mcf for the nine months ended September 30, 2013 and September 30, 2012, respectively.

(6) 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.

Credit Facilities

On May 16, 2013, Birchcliff's bank syndicate approved a $60 million non-revolving five-year term credit facility with a maturity date on May 25, 2018. Birchcliff also has outstanding a $70 million non-revolving five-year term credit facility maturing on May 25, 2016. This facility requires principle repayments of $350,000 per quarter which commenced on July 1, 2013. The conversion date of the $470 million revolving credit facilities was extended from May 17, 2013 to May 16, 2014 (the "**Revolving Credit Facilities**"). The Revolving Credit Facilities are made up of an extendible revolving credit facility of $440 million and an extendible revolving working capital facility of $30 million, both of which have a two-year term-out feature. The aggregate maximum credit limit available under Birchcliff's credit facilities totals approximately $600 million.

DISCUSSION OF OPERATIONS

Petroleum and Natural Gas Revenues

Petroleum and natural gas ("**P&NG**") revenues totalled $72.8 million ($32.07 per boe) for the three month Reporting Period and $227.5 million ($33.39 per boe) for the nine month Reporting Period as compared to $58.6 million ($29.75 per boe) and $179.2 million ($30.41 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 September 30, 2013				Three months ended September 30, 2012			
	Total Revenue *($000)*	**Average Daily Production**	*(%)*	**Average** *($/unit)*	Total Revenue *($000)*	Average Daily Production	*(%)*	Average *($/unit)*
Light oil *(bbls)*	36,917	3,903	16	102.82	30,917	4,076	19	82.45
Natural gas *(Mcf)*	28,572	119,608	81	2.60	22,766	100,075	78	2.47
Natural gas liquids *(bbls)*	7,249	824	3	95.58	4,920	671	3	79.74
Total P&NG sales *(boe)*	72,738	**24,662**	100	32.06	58,603	21,426	100	29.73
Royalty revenue	24			0.01	40			0.02
P&NG revenues	**72,762**			**32.07**	58,643			29.75

	Nine months ended September 30, 2013				Nine months ended September 30, 2012			
	Total Revenue *($000)*	**Average Daily Production**	*(%)*	**Average** *($/unit)*	Total Revenue *($000)*	Average Daily Production	*(%)*	Average *($/unit)*
Light oil *(bbls)*	100,517	3,963	16	92.90	101,389	4,365	20	84.77
Natural gas *(Mcf)*	108,048	121,526	81	3.26	61,641	98,725	77	2.28
Natural gas liquids *(bbls)*	18,363	747	3	90.00	16,073	689	3	85.11
Total P&NG sales *(boe)*	226,928	**24,965**	100	33.30	179,103	21,508	100	30.39
Royalty revenue(1)	617			0.09	102			0.02
P&NG revenues	**227,545**			**33.39**	179,205			30.41

(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 nine month Reporting Period.

Production

Production averaged 24,662 boe per day in the three month Reporting Period and 24,965 boe per day in the nine month Reporting Period, a 15% and 16% 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.

Production consisted of 81% natural gas and 19% crude oil and natural gas liquids in the third quarter of 2013 as compared to 78% natural gas and 22% crude oil and natural gas liquids during the same period in 2012.

Commodity Prices

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Average benchmark prices:				
Light oil – WTI Cushing *($USD/bbl)*	105.83	92.22	98.14	96.21
Light oil – Edmonton Par *($/bbl)*	104.69	84.33	95.13	86.84
Natural gas – AECO – C daily *($/MMbtu)*(1)	2.44	2.30	3.06	2.12
Exchange rate – *(USD$/CAD$)*	0.96	0.99	0.98	1.00
Birchcliff's average realized prices:				
Light oil *($/bbl)*	102.82	82.45	92.90	84.77
Natural gas *($/Mcf)*	2.60	2.47	3.26	2.28
NGLs *($/bbl)*	95.58	79.74	90.00	85.11
Barrels of oil equivalent *($/boe)*	32.06	29.73	33.30	30.39

(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, 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.

Due to the AECO basis differential from NYMEX widening significantly in the third quarter as a result of changes to the TransCanada Pipelines toll structure, the AECO natural gas spot price averaged $2.44 per Mcf in the third quarter of 2013 as compared to $3.54 per Mcf in the second quarter of 2013. Early in the fourth quarter the AECO basis differential returned to its historical range. Birchcliff's realized natural gas sales price at the wellhead averaged $2.60 per Mcf in the current quarter, which is a $0.16 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 September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Average realized natural gas sales price *($/Mcf)*	2.60	2.47	3.26	2.28
Average natural gas – AECO – C daily *($/MMbtu)*(1)	2.44	2.30	3.06	2.12
Positive differential	**0.16**	0.17	**0.20**	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.

Birchcliff continues to be bullish respecting long-term natural gas prices, however the extreme volatility in gas prices has led Birchcliff to consider a hedging program for 2014 in order to protect its cash flow and capital expenditure program. Accordingly, Birchcliff intends to hedge a portion of its natural gas and oil production for the summer months of 2014 and a portion of its oil production for the 2014 calendar year. This strategy will allow Birchcliff to participate in the upside of commodity prices, while being partially protected from weak commodity prices.

Royalties

Birchcliff recorded a royalty expense of $6.8 million ($3.01 per boe) for the three month Reporting Period and $20.6 million ($3.02 per boe) for the nine month Reporting Period as compared to $4.7 million ($2.39 per boe) and $18.0 million ($3.06 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 September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
Oil & natural gas royalties *($000's)*	6,820	4,717	20,579	18,011
Oil & natural gas royalties *($/boe)*	3.01	2.39	3.02	3.06
Effective royalty rate *(%)*[1]	9%	8%	9%	10%

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

The increase in the effective royalty rate from the three month Comparable Prior Period was mainly due to 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.

Other Income

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

Operating Costs

Operating costs were $12.8 million ($5.66 per boe) for the three month Reporting Period and $39.3 million ($5.77 per boe) for the nine month Reporting Period as compared to $11.8 million ($6.01 per boe) and $36.2 million ($6.13 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 September 30,				Nine months ended September 30,			
	2013		**2012**		**2013**		**2012**	
	($000's)	*$/boe*	*($000's)*	*$/boe*	*($000's)*	*$/boe*	*($000's)*	*$/boe*
Field operating costs	14,729	6.49	13,417	6.81	44,146	6.48	41,138	6.98
Recoveries	(1,945)	(0.86)	(1,571)	(0.80)	(5,304)	(0.78)	(5,201)	(0.88)
Field operating costs, net	12,784	5.63	11,846	6.01	38,842	5.70	35,937	6.10
Expensed workovers and other	52	0.02	(3)	-	476	0.07	217	0.03
Operating costs	**12,836**	**5.66**	11,843	6.01	**39,318**	**5.77**	36,154	6.13

Corporate operating costs per boe decreased by 6% from the third 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 $2.19 per boe at the PCS Gas Plant during the first nine months of 2013, where 71% of Birchcliff's total natural gas production was processed during that same period.

Transportation and Marketing Expenses

Transportation and marketing expenses were $5.6 million ($2.44 per boe) for the three month Reporting Period and $16.6 million ($2.43 per boe) for the nine month Reporting Period as compared to

$4.6 million ($2.33 per boe) and $13.9 million ($2.36 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 Charlie Lake Light Oil Resource Play and on a corporate basis.

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
Montney/Doig Natural Gas Resource Play[(1)]:				
Average daily production, net:				
Natural gas *(Mcf)*	106,438	85,444	107,562	83,648
Oil & NGLs *(bbls)*	676	564	576	548
Total boe *(6:1)*	**18,415**	14,805	**18,503**	14,489
% of corporate production[(2)]	***75%***	*69%*	***74%***	*67%*
Netback and cost *($ per Mcfe):*				
Petroleum and natural gas revenue	3.11	2.89	3.63	2.73
Royalty expense	(0.02)	(0.07)	(0.11)	(0.08)
Operating expense, net of recoveries	(0.60)	(0.69)	(0.64)	(0.72)
Transportation and marketing expense	(0.28)	(0.25)	(0.25)	(0.23)
Operating netback	**2.21**	1.88	**2.63**	1.70
Worsley Charlie Lake Light Oil Resource Play[(1)]:				
Average daily production, net:				
Natural gas *(Mcf)*	7,783	7,148	7,918	8,042
Oil & NGLs *(bbls)*	3,206	3,156	3,215	3,334
Total boe *(6:1)*	**4,503**	4,347	**4,535**	4,674
% of corporate production[(2)]	***18%***	*20%*	***18%***	*22%*
Netback and cost *($ per boe):*				
Petroleum and natural gas revenue	77.32	64.09	72.03	64.32
Royalty expense	(12.12)	(7.25)	(10.46)	(8.37)
Operating expense, net of recoveries	(9.35)	(8.71)	(9.35)	(8.27)
Transportation and marketing expense	(5.78)	(5.41)	(6.23)	(5.43)
Operating netback	**50.07**	42.72	**45.99**	42.25
Total Corporate:				
Average daily production, net:				
Natural gas *(Mcf)*	119,608	100,075	121,526	98,725
Oil & NGLs *(bbls)*	4,727	4,747	4,710	5,054
Total boe *(6:1)*	**24,662**	21,426	**24,965**	21,508
Netback and cost *($ per boe)*				
Petroleum and natural gas revenue	32.07	29.75	33.39	30.41
Royalty expense	(3.01)	(2.39)	(3.02)	(3.06)
Operating expense, net of recoveries	(5.66)	(6.01)	(5.77)	(6.13)
Transportation and marketing expense	(2.44)	(2.33)	(2.43)	(2.36)
Operating netback	**20.96**	19.02	**22.17**	18.86

(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 individually significant during the Reporting Periods and Comparable Prior Periods.

Montney/Doig Natural Gas Resource Play

Birchcliff's production from the Montney/Doig Natural Gas Resource Play was 18,415 boe per day in the three month Reporting Period, a 24% 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 75% of the total corporate production in the three month Reporting Period.

Birchcliff's operating netback from the Montney/Doig Natural Gas Resource Play was $2.21 per Mcfe ($13.26 per boe) in the three month Reporting Period, an 18% increase from the three month Comparable Prior Period. This increase was largely due to higher realized natural gas wellhead prices in the third quarter of 2013 compared to the same period in 2012.

Worsley Charlie Lake Light Oil Resource Play

Birchcliff's production from the Worsley Charlie Lake Light Oil Resource Play was 4,503 boe per day in the three month Reporting Period, a 4% increase from the three month Comparable Prior Period. This increase was largely due to the Corporation expanding its infrastructure during the Reporting Periods 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 Charlie Lake Light Oil Resource Play accounted for 18% of the total corporate production in the three month Reporting Period.

Operating netback from the Worsley Charlie Lake Light Oil Resource Play was $50.07 per boe in the three month Reporting Period, a 17% 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 an increase in per unit royalty, operating and transportation costs in the current quarter.

Administrative Expenses

Net administrative expenses were $4.7 million ($2.06 per boe) for the three month Reporting Period and $17.1 million ($2.52 per boe) for the nine month Reporting Period as compared to $5.1 million ($2.59 per boe) and $20.5 million ($3.47 per boe) for the Comparable Prior Periods. The components of net administrative expenses are detailed in the table below.

	Three months ended September 30,				Nine months ended September 30,			
	2013		2012		2013		2012	
	($000's)	*%*	*($000's)*	*%*	*($000's)*	*%*	*($000's)*	*%*
Cash:								
Salaries and benefits(1)(2)	3,818	62	3,408	58	11,608	56	13,035	61
Other(3)	2,316	38	2,516	42	9,241	44	8,234	39
	6,134	100	5,924	100	20,849	100	21,269	100
Operating overhead recoveries	(208)	(3)	(202)	(3)	(720)	(3)	(659)	(3)
Capitalized overhead(4)	(2,126)	(35)	(1,718)	(29)	(6,094)	(29)	(4,187)	(20)
General & administrative, net	3,800	62	4,004	68	14,035	68	16,423	77
General & administrative, net per boe	$1.67		$2.03		$2.06		$2.79	
Non-cash:								
Stock-based compensation(5)	1,249	100	2,422	100	5,571	100	6,748	100
Capitalized stock-based compensation(4)	(367)	(29)	(1,309)	(54)	(2,459)	(44)	(2,712)	(40)
Stock-based compensation, net	882	71	1,113	46	3,112	56	4,036	60
Stock-based compensation, net per boe	$0.39		$0.56		$0.46		$0.68	
Administrative expenses, net	**4,682**		5,117		**17,147**		20,459	
Administrative expenses, net per boe	**$2.06**		$2.59		**$2.52**		$3.47	

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

(2) During the nine months ended September 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.

(5) Stock-based compensation expense decreased from the three month Comparable Prior Period due to a higher number of options forfeited in the third quarter of 2013.

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

	Three months ended September 30, 2013		Nine months ended September 30, 2013	
	Number	**Exercise Price(1)**	**Number**	**Exercise Price(1)**
Outstanding at beginning of period	12,779,955	$8.11	12,463,872	$8.06
Granted	377,000	$8.16	2,787,700	$7.52
Exercised	(362,066)	($5.34)	(1,155,881)	($5.68)
Forfeited	(945,035)	($8.62)	(1,275,037)	($8.56)
Expired	(145,800)	($12.24)	(1,116,600)	($8.15)
Outstanding, September 30, 2013	**11,704,054**	**$8.11**	**11,704,054**	**$8.11**

(1) Determined on a weighted average basis.

At September 30, 2013, there were 2,939,732 performance warrants outstanding with an exercise price of $3.00 and 6,000,000 warrants outstanding (issued in conjunction with the August 2012 preferred unit equity offering) with an exercise price of $8.30. 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 $25.9 million ($11.40 per boe) for the three month Reporting Period and $78.2 million ($11.48 per boe) for the nine month Reporting Period as compared to $21.8 million ($11.05 per boe) and $67.0 million ($11.36 per boe) for the Comparable Prior Periods. D&D expenses were higher on an aggregate basis mainly due to a 15% and 16% increase in production from the three and nine 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 September 30, 2013.

Finance Expenses

Finance expenses were $5.7 million ($2.51 per boe) for the three month Reporting Period and $19.1 million ($2.80 per boe) for the nine month Reporting Period as compared to $5.9 million ($3.00 per boe) and $16.2 million ($2.75 per boe) for the Comparable Prior Periods. The components of the Corporation's finance expenses are shown in the table below.

	Three months ended September 30,				Nine months ended September 30,			
	2013		2012		2013		2012	
	($000's)	*$/boe*	*($000's)*	*$/boe*	*($000's)*	*$/boe*	*($000's)*	*$/boe*
Cash:								
Interest on credit facilities	4,850	2.14	5,265	2.67	16,893	2.48	14,303	2.43
Non-cash:								
Accretion on decommissioning obligations	579	0.26	448	0.23	1,556	0.23	1,321	0.22
Amortization of deferred financing fees	259	0.11	187	0.10	630	0.09	599	0.10
Finance expenses	**5,688**	**2.51**	5,900	3.00	**19,079**	**2.80**	16,223	2.75

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 5.0% 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 4.2% in the three month Reporting Period and 5.2% in the nine month Reporting Period as compared to 5.4% and 4.8% in the three and nine month Comparable Prior Periods. The effective interest rate applicable to the bankers' acceptances issued under the non-revolving term credit facilities was 5.1%

and 5.4% in the three and nine month Reporting Periods as compared to 5.8% and 5.0% in the Comparable Prior Periods.

Birchcliff's average outstanding total credit facilities balance was approximately $431 million and $438 million in the three and nine month Reporting Periods, respectively, as compared to $395 million and $401 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 nine 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 $0.66 per boe in the nine 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 $4.3 million ($1.88 per boe) for the three month Reporting Period and $11.4 million ($1.67 per boe) for the nine month Reporting Period as compared to $2.0 million ($0.99 per boe) and $4.5 million ($0.77 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 on taxable preferred share dividends recorded in the Reporting Periods. The components of income tax expense are shown in the table below.

	Three months ended September 30,		Nine months ended September 30,	
($000's)	**2013**	**2012**	**2013**	**2012**
Deferred income tax expense	3,459	1,727	9,761	4,234
Part VI.1 dividend tax on preferred share dividends	815	231	1,615	231
Income tax expense	**4,274**	1,958	**11,376**	4,465

The Corporation's estimated income tax pools were $1.26 billion at September 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.

($000's)	**Tax pools as at September 30, 2013**
Canadian oil and gas property expense	273,217
Canadian development expense	300,049
Canadian exploration expense	197,774
Undepreciated capital costs	218,902
Non-capital losses	268,668
Financing costs	4,773
Estimated income tax pools	**1,263,383**

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 September 30, 2013. The resolution of the disputed assessments may impact deferred income tax expense but will not impact cash taxes payable by the Corporation. Management believes that it will be successful in defending its tax position respecting the Veracel transaction, and as such, the Corporation has not recognized a related provision for deferred income tax liability at September 30, 2013.

Capital Expenditures

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

	Three months ended September 30,		Nine months ended September 30,	
($000's)	**2013**	**2012**	**2013**	**2012**
Land	9,877	1,575	34,994	6,192
Seismic	221	144	574	594
Workovers	2,127	1,457	5,860	7,124
Drilling and completions	48,435	52,889	120,644	153,107
Well equipment and facilities	14,778	31,827	33,374	99,303
Finding and development costs (F&D)	75,438	87,892	195,446	266,320
Acquisitions(1)	451(2)	-	451(2)	25,006
Dispositions(1)	-	-	(4)	(24,942)
Finding, development and acquisition costs (FD&A)	75,889	87,892	195,893	266,384
Administrative assets	297	207	1,689	382
Capital expenditures	**76,186**	88,099	**197,582**	266,766

(1) During the nine 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.

(2) Purchase price of predominately undeveloped land.

Capital expenditures totalling $76.2 million in the three month Reporting Period included approximately $10.3 million (14%) on land expenditures and $33.4 million (44%) on the drilling and completion of new Montney/Doig horizontal natural gas wells that will be tied into the PCS Gas Plant. The remaining $32.5 million (42%) in capital was spent on other infrastructure, expansion of the Montney/Doig Natural Gas Resource Play and the Worsley Charlie Lake Light Oil Resource Play and on other oil and gas exploration and development projects in the Peace River Arch.

During the third quarter of 2013, Birchcliff drilled 11 (10.67 net) wells, being six (6.0 net) natural gas wells and five (4.67 net) oil wells. The natural gas wells included five (5.0 net) Montney/Doig horizontal wells and one (1.0 net) Montney/Doig vertical exploration well and the light oil wells included four (4.0 net) Worsley Charlie Lake horizontal wells and one (0.67 net) Halfway horizontal well.

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources

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

	Three months ended September 30,		Nine months ended September 30,	
($000's)	**2013**	**2012**	**2013**	**2012**
Funds flow from operations	43,053	28,230	124,301	80,411
Changes in non-cash working capital from operations	(8,821)	(3,658)	(5,669)	(15,835)
Decommissioning expenditures	(350)	(212)	(485)	(306)
Issue of common shares	-	-	-	110,145
Issue of preferred shares and warrants	-	50,000	-	50,000
Exercise of stock options	1,931	486	6,560	2,623
Issue of capital securities	-	-	50,000	-
Capital securities and share issue costs	-	(1,886)	(2,169)	(5,858)
Financing fees paid on credit facilities	-	-	(945)	(600)
Dividends paid on preferred shares	(2,038)	(579)	(4,038)	(579)
Net change in non-revolving term credit facilities	(272)	(403)	60,226	(166)
Net change in Revolving Credit Facilities	35,718	(10,118)	(46,979)	2,285
Changes in non-cash working capital from investing	7,045	26,239	16,830	44,627
Capital resources	**76,266**	88,099	**197,632**	266,747

Working Capital

The Corporation's working capital deficit (current assets minus current liabilities) increased to $43.0 million at September 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 September 30, 2013, the major components of Birchcliff's current assets were joint interest billings to be received from its partners (20%) and revenue to be received from its marketers in respect of September 2013 production (72%), which was subsequently received in October 2013. In contrast, current liabilities largely consisted of trade and joint venture payables (60%) and accrued capital and operating costs (37%). Birchcliff routinely assesses the financial strength of its marketers and joint venture partners in accordance with the Corporation's credit risk guidelines. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations.

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

Long-Term Bank Debt

At September 30, 2013, the amount outstanding under the Corporation's long-term bank credit facilities was $444.7 million (December 31, 2012 - $432.6 million), which is net of $2.8 million (December 31, 2012 - $5.4 million), in unamortized interest and fees. Birchcliff's available credit facilities aggregate to approximately $600 million at September 30, 2013.

Total debt, including the working capital deficit of $43.0 million, was $487.7 million at September 30, 2013, up from $462.1 million at December 31, 2012. Total debt from December 31, 2012 was reduced by net proceeds of $47.8 million from the June Financing and increased by capital spent in excess of funds flow of approximately $73.4 million during the nine month Reporting Period.

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

As at, *($000's)*	September 30, 2013	December 31, 2012
Maximum borrowing base limit[(1)(2)]:		
Non-revolving term credit facilities[(3)]	129,650	70,000
Revolving Credit Facilities	470,000	470,000
	599,650	540,000
Principal amount utilized:		
Drawn non-revolving term credit facilities[(4)]	(129,650)	(70,000)
Drawn Revolving Credit Facilities[(4)]	(319,242)	(368,654)
Outstanding letters of credit[(5)]	(184)	(184)
	(449,076)	(438,838)
Unused credit	**150,574**	101,162

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

(2) The quarterly financial covenants applicable to the Corporation's credit facilities include (i) an interest coverage ratio, which is calculated on a historical rolling four quarter basis, as earnings before interest and non-cash items including income taxes, stock-based compensation, gains and losses on sale of assets 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 September 30, 2013, Birchcliff's EBITDA to interest expense was 6.7:1.0 and Debt to EBITDA was 2.3:1.0. The Corporation was compliant with all financial covenants under its credit facilities as at September 30, 2013.

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

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

(5) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit in the Reporting Periods and Comparable Prior Periods.

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 September 30, 2013.

($000's)	2013	2014	2015 - 2018
Accounts payable and accrued liabilities	72,813	-	-
Drawn non-revolving term credit facilities	350	1,400	127,900
Drawn Revolving Credit Facilities	-	-	319,242
Office lease[(1)]	821	3,285	9,581
Transportation and processing	3,531	12,180	8,594
Estimated contractual obligations[(2)]	**77,515**	**16,865**	**465,317**

(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 September 30, 2013 to be approximately $140.2 million and will be incurred as follows: 2015 to 2018 - $9.1 million and $131.1 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 contractual obligations of the Corporation. Upon receipt of a notice of redemption, the Corporation has an obligation to redeem the preferred shares, Series C, at its option, in cash or common shares.

Off-Balance Sheet Transactions

Birchcliff was not involved in any off-balance sheet transactions that would result in a material change to its financial position, performance or cash flows during the Reporting Periods.

OUTSTANDING SHARE INFORMATION

At September 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 nine months ended September 30, 2013.

	Common shares
Balance at December 31, 2012	141,596,279
Issue of common shares upon exercise of options	1,155,881
Balance at September 30, 2013	**142,752,160**

As of November 13, 2013, there were outstanding 142,857,860 common shares; 2,000,000 preferred shares, Series A; 2,000,000 preferred shares, Series C; 11,645,821 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 September 6, 2013, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A preferred share and $1.038 million or $0.519 per Series C preferred share for the quarter ending September 30, 2013. These dividends are designated eligible dividends 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,	Sep. 30, 2013	Jun. 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011
Average daily production *(boe 6:1)*	**24,662**	24,141	26,108	26,655	21,426	22,039	21,061	19,812
Realized natural gas price *($/Mcf)*	**2.60**	3.78	3.40	3.43	2.47	2.05	2.32	3.40
Realized oil price *($/bbl)*	**102.82**	91.19	84.82	83.38	82.45	81.45	90.10	95.52
Total revenues *($000's)*	**72,762**	79,065	75,718	78,001	58,643	57,729	62,833	62,676
Operating costs *($ per boe)*	**5.66**	5.89	5.77	5.88	6.01	6.22	6.17	6.90
Total capital expenditures *($000's)*	**76,186**	40,386	81,010	32,137	88,099	58,815	119,852	81,023
Funds flow from operations *($000's)*	**43,053**	41,804	39,444	39,848	28,230	25,985	26,196	30,400
Per common share - basic *($)*	**0.30**	0.29	0.28	0.28	0.20	0.19	0.21	0.24
Per common share - diluted *($)*	**0.30**	0.29	0.27	0.28	0.20	0.19	0.20	0.23
Net income *($000's)*	**10,156**	10,775	7,424	6,305	2,744	416	3,731	3,333
Net income to common shareholders *($000's)*(1)	**9,156**	9,775	6,424	5,305	2,165	416	3,731	3,333
Per common share - basic *($)*	**0.06**	0.07	0.05	0.04	0.02	-	0.03	0.03
Per common share - diluted *($)*	**0.06**	0.07	0.04	0.04	0.02	-	0.03	0.03
Total assets *($000's)*	**1,558,456**	1,513,772	1,498,753	1,430,324	1,420,582	1,350,759	1,314,633	1,225,497
Long-term bank debt *($000's)*	**444,719**	409,091	451,371	432,563	390,541	400,876	442,331	388,425
Total debt *($000's)*(2)	**487,707**	453,123	502,291	462,130	468,184	455,708	529,883	437,023
Dividends on preferred shares (Series A) *($000's)*	**1,000**	1,000	1,000	1,000	579	-	-	-
Dividends on preferred shares (Series C) *($000's)*	**1,038**	-	-	-	-	-	-	-
Preferred shares outstanding (Series A) *(000's)*	**2,000**	2,000	2,000	2,000	2,000	-	-	-
Preferred shares outstanding (Series C) *(000's)*	**2,000**	2,000	-	-	-	-	-	-
Common shares outstanding *(000's)*								
Basic	**142,752**	142,390	142,096	141,596	141,535	141,434	127,006	126,746
Diluted	**163,396**	164,110	164,107	162,997	162,946	157,232	140,152	140,152
Weighted average common shares outstanding *(000's)*								
Basic	**142,549**	142,240	141,821	141,585	141,474	138,426	126,754	126,732
Diluted	**145,087**	145,165	144,366	144,239	143,572	138,837	131,008	132,216

(1) Reduced for perpetual preferred share dividends, Series A, 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 was higher compared to the second quarter of 2013 due to new natural gas wells from the multi-well pads drilled in the first half of 2013 that were brought on production during the current quarter, offset by natural production declines. The increase in production from the third 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 during the Reporting Periods, offset by natural production declines from those Montney/Doig wells and lower light oil production.

Excluding a non-recurring $4.2 million non-refundable deposit, funds flow was $38.9 million in the third quarter of 2013, down from $41.8 million in the second quarter of 2013 mainly as a result of significantly lower realized natural gas wellhead prices, offset by an increase in natural gas production and higher realized oil wellhead prices.

Compared to the third quarter of 2012, funds flow was higher predominately due to higher realized oil and natural gas wellhead prices, significant increase in natural gas production and lower general and administrative expenses and interest costs, offset by lower oil production in the third quarter of 2013. Higher average production in the third quarter of 2013 resulted in aggregate increases to royalties, production and transportation and marketing costs in that period.

Birchcliff continued to report positive earnings in the current quarter. Excluding the $4.2 million non-refundable deposit recorded as income in the current quarter, net income to common shareholders was down 49% to $5.0 million in the third quarter of 2013 compared to $9.8 million in the second quarter of 2013. The decrease from the previous quarter was mainly due to significantly lower natural gas wellhead prices which reduced funds flow, higher depletion expense and the payment of dividends on the preferred shares, Series C.

The increase in net income to common shareholders from the third quarter of 2012 was largely due to higher funds flow and lower net stock-based compensation costs, offset by higher depletion expense and income taxes and increased dividend payments on preferred shares in the third quarter of 2013.

POTENTIAL TRANSACTIONS

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Corporation has established and maintained disclosure control and procedures ("**DC&P**") that have been designed by, or under the supervision of, the Corporation's Chief Executive Officer and the Chief Financial Officer ("**Certifying Officers**") to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosure. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's DC&P at September 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 September 30, 2013 and have concluded that the Corporation's ICFR was effective at September 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 as a finance expense. Dividend distributions on capital securities are recorded as an expense directly to profit and loss.

ADVISORIES

Unaudited numbers: *All financial amounts referred to in this MD&A and the Corporation's third quarter report for the Reporting Periods and the Comparable Prior Periods ("**Q3 Report**") are management's best estimates and are unaudited.*

Non-GAAP measures: *This MD&A and the Q3 Report uses 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. Operating costs at the PCS Gas Plant are calculated on a production month basis. Estimated operating netback of the PCS Gas Plant (and the components thereof) is based upon certain cost allocations and accruals directly related to the PCS Gas Plant and the related wells and infrastructure, calculated 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 derived from net income 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 is calculated by dividing the estimated operating netback for the period by the petroleum and natural gas revenue for the period.*

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

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

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

2012 Reserves Evaluation: *The reserves volumes disclosed are based on a reserves evaluation prepared by Deloitte LLP ("**Deloitte**"), independent qualified reserves evaluators of Calgary, Alberta, effective December 31, 2012 in respect of Birchcliff's oil and natural gas properties, which is contained in a report dated February 8, 2013 (the "**2012 Reserves Evaluation**"). The 2012 Reserves Evaluation has been prepared in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook ("**COGEH**") and National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities ("**NI 51-101**").*

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

2012 Resource Assessment: *The resource volumes disclosed are based on a resource assessment prepared by Deloitte effective December 31, 2012 in respect of Birchcliff's lands that have potential for the Montney/Doig Natural Gas Resource Play, which is contained in a report dated February 12, 2013 (the "**2012 Resource Assessment**"). The 2012 Resource Assessment has been prepared in accordance with the standards contained in COGEH and NI 51-101.*

Discovered Resources: *With respect to the discovered resources (including contingent resources) described in this MD&A and the Q3 Report, there is no certainty that it will be commercially viable to produce any portion of the resources.*

Undiscovered Resources: *With respect to the undiscovered resources (including prospective resources) described in this MD&A and the Q3 Report, there is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.*

Forward-Looking Information: *This MD&A and the Q3 Report contains forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking information relates to future events or future performance and is based upon the Corporation's current internal expectations, estimates, projections, assumptions and beliefs. All information other than historical fact is forward-looking information. Information relating to reserves and resources is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves and resources exist in the quantities estimated and that they will be commercially viable to produce in the future. Words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "potential", "proposed" and other similar words that convey certain events or conditions "may" or "will" occur are intended to identify forward-looking information. In particular, this MD&A and the Q3 Report contains forward-looking information relating to 2013 average fourth quarter and exit production expectations; 2014 exit production, capital expenditures and sources of funding; 2018 exit production and sources of funding; expected decrease in the ratio of year-end debt to one year's forward funds flow; the anticipated closing of the sale of the Progress Doe Creek assets and the subsequent reduction of debt; anticipated reduction of operating costs of a per unit basis; the intention to drill and complete future wells; an expansion of the PCS Gas Plant in 2014; and expected reserves and resource additions at year-end; and 2014 production and capital spending and the Corporation's 2018 Five Year Plan production targets.*

The forward-looking information is based upon assumptions as to future commodity prices, currency exchange rates, inflation rates, well production rates, well drainage areas, success rates for future drilling and availability of labour and services. With respect to estimates of reserves and resource volumes, a key assumption is the validity of the data used by Deloitte in their independent reserves evaluation and resource assessments. With respect to numbers of future wells to be drilled, a key assumption is that geological and other technical interpretations performed by the Corporation's technical staff, which indicate that commercially economic volumes can be recovered from the Corporation's lands as a result of drilling future wells, are valid. Estimates as to 2013, fourth quarter and average expectations exit production, average fourth quarter and annual 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 future wells scheduled to come on production in 2013 meet timing and production expectations. Estimates as to 2014 exit production and 2018 exit production assume future wells meet production expectations. Estimates as to sources of funding and a falling debt ratio assume the Corporation realizes certain production and commodity price assumptions set out in the preliminary 2014 Budget and in the 2018 Five Year Plan.

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 the Q3 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,	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash	96	46
Accounts receivable	28,632	27,728
Prepaid expenses and deposits	2,497	2,205
	31,225	29,979
Non-current assets:		
Exploration and evaluation *(Note 3)*	2,244	2,106
Petroleum and natural gas properties and equipment *(Note 4)*	1,524,987	1,398,239
	1,527,231	1,400,345
Total assets	**1,558,456**	1,430,324
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	72,813	58,846
Non-revolving term credit facilities *(Note 5)*	1,400	700
	74,213	59,546
Non-current liabilities:		
Non-revolving term credit facilities *(Note 5)*	127,469	68,250
Revolving credit facilities *(Note 6)*	317,250	364,313
Decommissioning obligations *(Note 7)*	75,118	68,967
Capital securities *(Note 8)*	47,909	-
Deferred income taxes	44,764	35,001
	612,510	536,531
Total liabilities	686,723	596,077
SHAREHOLDERS' EQUITY		
Share capital *(Note 8)*		
Common shares	687,271	677,802
Preferred shares *(perpetual)*	41,434	41,434
Contributed surplus	60,340	57,678
Retained earnings	82,688	57,333
	871,733	834,247
Total shareholders' equity and liabilities	**1,558,456**	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 September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
REVENUE				
Petroleum and natural gas	72,762	58,643	227,545	179,205
Royalties	(6,820)	(4,717)	(20,579)	(18,011)
Other income *(Note 9)*	4,157	-	4,157	-
	70,099	53,926	211,123	161,194
EXPENSES				
Operating	12,836	11,843	39,318	36,154
Transportation and marketing	5,560	4,584	16,575	13,903
Administrative, net	4,682	5,117	17,147	20,459
Depletion and depreciation *(Note 4)*	25,865	21,780	78,235	66,974
Finance	5,688	5,900	19,079	16,223
Dividends on capital securities *(Note 8)*	1,038	-	1,038	-
(Gain) on sale of assets *(Note 4)*	-	-	-	(3,875)
	55,669	49,224	171,392	149,838
INCOME BEFORE TAXES	14,430	4,702	39,731	11,356
Income tax expense	4,274	1,958	11,376	4,465
NET INCOME AND COMPREHENSIVE INCOME	**10,156**	2,744	**28,355**	6,891
Net income per common share *(Note 8)*				
Basic	**$0.06**	$0.02	**$0.18**	$0.05
Diluted	**$0.06**	$0.02	**$0.17**	$0.05

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 preferred shares	-	42,891	-	-	42,891
Issue of warrants	-	-	7,109	-	7,109
Issue of flow-through common shares	8,415	-	-	-	8,415
Share issue costs, net of tax	(2,979)	(1,414)	-	-	(4,393)
Dividends on perpetual preferred shares	-	-	-	(579)	(579)
Exercise of stock options	3,971	-	(1,348)	-	2,623
Stock-based compensation	-	-	6,748	-	6,748
Net income and comprehensive income	-	-	-	6,891	6,891
As at September 30, 2012	677,247	41,477	55,579	52,028	826,331
As at December 31, 2012	677,802	41,434	57,678	57,333	834,247
Dividends on perpetual preferred shares *(Note 8)*	-	-	-	(3,000)	(3,000)
Exercise of stock options *(Notes 8 and 10)*	9,469	-	(2,909)	-	6,560
Stock-based compensation *(Note 10)*	-	-	5,571	-	5,571
Net income and comprehensive income	-	-	-	28,355	28,355
As at September 30, 2013	**687,271**	**41,434**	**60,340**	**82,688**	**871,733**

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 September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
Cash provided by (used in):				
OPERATING				
Net income and comprehensive income	10,156	2,744	28,355	6,891
Adjustments for items not affecting operating cash:				
Depletion and depreciation	25,865	21,780	78,235	66,974
Stock-based compensation	882	1,113	3,111	4,036
Finance	5,688	5,900	19,079	16,223
(Gain) on sale of assets	-	-	-	(3,875)
Income taxes	4,274	1,958	11,376	4,465
Interest paid	(4,850)	(5,265)	(16,893)	(14,303)
Dividends on capital securities	1,038	-	1,038	-
Decommissioning expenditures *(Note 7)*	(350)	(212)	(485)	(306)
Changes in non-cash working capital	(8,821)	(3,658)	(5,669)	(15,835)
	33,882	24,360	**118,147**	64,270
FINANCING				
Issue of common shares	-	-	-	110,145
Issue of preferred shares and warrants	-	50,000	-	50,000
Exercise of stock options	1,931	486	6,560	2,623
Issue of capital securities *(Note 8)*	-	-	50,000	-
Capital securities and common share issue costs *(Note 8)*	-	(1,886)	(2,169)	(5,858)
Financing fees paid on credit facilities	-	-	(945)	(600)
Dividends on perpetual preferred shares *(Note 8)*	(1,000)	(579)	(3,000)	(579)
Dividends on capital securities *(Note 8)*	(1,038)	-	(1,038)	-
Net change in non-revolving term credit facilities	(272)	(403)	60,226	(166)
Net change in revolving credit facilities	35,718	(10,118)	(46,979)	2,285
	35,339	37,500	**62,655**	157,850
INVESTING				
Development of petroleum and natural gas properties and equipment	(76,149)	(88,056)	(197,444)	(266,540)
Additions of exploration and evaluation assets	(37)	(43)	(138)	(226)
Changes in non-cash working capital	7,045	26,239	16,830	44,627
	(69,141)	(61,860)	**(180,752)**	(222,139)
NET CHANGE IN CASH	80	-	50	(19)
CASH, BEGINNING OF PERIOD	16	46	46	65
CASH, END OF PERIOD	**96**	46	**96**	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 NINE MONTHS ENDED SEPTEMBER 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 November 13, 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 nine months ended September 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 Canadian dollars, unless otherwise stated. There are no subsidiary companies.

3. EXPLORATION AND EVALUATION ASSETS

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

($000's)	**E&E[1]**
As at December 31, 2011	1,858
Additions	248
As at December 31, 2012	2,106
Additions	138
As at September 30, 2013	**2,244**

(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 nine months ended September 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:

($000's)	**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	203,458	1,525	204,983
As at September 30, 2013[2]	1,813,218	8,373	1,821,591
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	(77,554)	(681)	(78,235)
As at September 30, 2013	(291,584)	(5,020)	(296,604)
Net book value:			
As at December 31, 2012	1,395,730	2,509	1,398,239
As at September 30, 2013	**1,521,634**	**3,353**	**1,524,987**

(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

In May 2013, the Corporation entered into a $60 million non-revolving five-year term credit facility with a maturity date of May 25, 2018. This facility is provided by a syndicate of banks and is fully drawn at September 30, 2013.

The Corporation also has a $70 million non-revolving five-year term credit facility with a maturity date of May 25, 2016. This facility requires principle repayments of $350,000 per quarter which commenced July 1, 2013. The current portion due under this facility is $1.4 million at September 30, 2013.

The aggregate amount outstanding under Birchcliff's long-term non-revolving term credit facilities at September 30, 2013 was $127.5 million, which is net of $0.8 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, *($000's)*	**September 30, 2013**	**December 31, 2012**
Syndicated credit facility	294,000	351,000
Working capital facility	25,242	17,654
Drawn revolving credit facilities	319,242	368,654
Unamortized prepaid interest on bankers' acceptances	(1,703)	(4,137)
Unamortized deferred financing fees	(289)	(204)
Revolving credit facilities	**317,250**	364,313

At September 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 11 to these financial statements.

7. DECOMMISSIONING OBLIGATIONS

A risk-free rate of 3.2% and an inflation rate of 2% were used to calculate the discounted fair value of decommissioning liabilities at September 30, 2013 (December 31, 2012 – 2.6% and 2.0%, respectively).

A reconciliation of the decommissioning obligations is provided below:

As at, *($000's)*	**September 30, 2013**	**December 31, 2012**
Balance, beginning	68,967	64,023
Obligations incurred	2,033	2,166
Obligations acquired, net dispositions	-	(26)
Changes in estimate[1]	3,047	1,712
Accretion expense	1,556	1,770
Actual expenditures	(485)	(678)
Balance, ending	**75,118**	68,967

(1) Change due to upward revision in risk-free discount rate and an increase in abandonment cost estimates for Birchcliff's oil and natural gas wells.

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. Dividend distributions on perpetual preferred shares are recorded directly to equity.

	September 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	1,155,881	675,702
Outstanding at end of period	**142,752,160**	141,596,279
Preferred shares *(perpetual):*		
Outstanding at beginning of period - Jan 1	2,000,000	-
Issue of Series A	-	2,000,000
Outstanding at end of period	**2,000,000**	2,000,000

Capital Securities

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 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 Statement 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 as a finance expense. Dividend distributions on capital securities are recorded as an expense 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 September 6, 2013, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A preferred share and $1.038 million or $0.519 per Series C preferred share for the calendar quarter ending September 30, 2013. Both dividends are designated as 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 September 30, 2013.

Per Common Share

The Corporation calculates basic and diluted per common share amounts using net income and comprehensive income, reduced for any dividends paid on perpetual preferred shares 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 September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
Net income and comprehensive income *($000's)*	10,156	2,744	28,355	6,891
Dividends on perpetual preferred shares, Series A *($000's)*	(1,000)	(579)	(3,000)	(579)
Net income to common shareholders *($000's)*	9,156	2,165	25,355	6,312
Weighted average common shares *(000's)*:				
Weighted average common shares outstanding (basic)	142,549	141,475	142,206	135,572
Effect of dilutive stock options & performance warrants	2,538	2,097	2,716	2,884
Weighted average common shares outstanding (diluted)[(1)]	145,087	143,572	144,922	138,456
Net income per common share				
Basic	**$0.06**	$0.02	**$0.18**	$0.05
Diluted	**$0.06**	$0.02	**$0.17**	$0.05

(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 September 30, 2013 excludes 7,716,268 (September 30, 2012 – 9,202,635) stock options and 6,000,000 (September 30, 2012 – 6,000,000) 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. OTHER INCOME

During the three months ended September 30, 2013, Birchcliff recorded $4.2 million as income, representing the receipt of a non-refundable deposit from a third party for a non-core property disposition that failed to close.

10. SHARE-BASED PAYMENTS

Stock Options

During the three and nine months ending September 30, 2013, the Corporation recorded $0.9 million and $3.1 million (September 30, 2012 – $1.1 million and $4.0 million) of non-cash stock-based compensation expense, net of $0.4 million and $2.5 million (September 30, 2012 – $1.3 million and $2.7 million) in capitalized amounts directly attributable to the exploration and development of the Corporation's assets. In determining the stock-based compensation expense for options issued during the three months ended September 30, 2013, the Corporation applied a weighted average estimated forfeiture rate of 13% (September 30, 2012 – 14%).

At September 30, 2013, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of a maximum of 14,275,216 (September 30, 2012 – 14,153,465) common shares. At September 30, 2013, there remained available for issuance options in respect of 2,571,162 (September 30, 2012 – 1,682,059) common shares. For stock options exercised during the three months ended September 30, 2013, the weighted average share trading price was $7.46 (September 30, 2012 – $6.61) per common share.

A summary of the outstanding stock options is presented below:

	Three months ended September 30, 2013		Nine months ended September 30, 2013	
	Number	**Exercise Price**(1)	**Number**	**Exercise Price**(1)
Outstanding at beginning of period	12,779,955	$8.11	12,463,872	$8.06
Granted	377,000	$8.16	2,787,700	$7.52
Exercised	(362,066)	($5.34)	(1,155,881)	($5.68)
Forfeited	(945,035)	($8.62)	(1,275,037)	($8.56)
Expired	(145,800)	($12.24)	(1,116,600)	($8.15)
Outstanding, September 30, 2013	**11,704,054**	**$8.11**	**11,704,054**	**$8.11**

(1) Determined on a weighted average basis.

The weighted average fair value per option granted during the three months ended September 30, 2013 was $2.93 (September 30, 2012 – $2.71). The weighted average assumptions used in calculating the Black-Scholes fair values are set forth below.

Three months ended,	September 30, 2013	September 30, 2012
Risk-free interest rate	1.5%	1.2%
Option life *(years)*	3.9	3.8
Expected volatility	44.3%	51.8%

A summary of the stock options outstanding and exercisable under the plan at September 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	3,811,786	2.54	$5.67	2,055,441	1.66	$5.42
$6.01	$9.00	3,505,167	3.88	$7.67	556,998	1.31	$8.29
$9.01	$12.00	4,205,101	1.84	$10.48	3,507,919	1.74	$10.32
$12.01	$13.26	182,000	2.72	$12.89	121,331	2.72	$12.89
		11,704,054	**2.69**	**$8.11**	**6,241,689**	**1.69**	**$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 September 30, 2013.

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

11. 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 September 30, 2013.

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

As at, *($000's)*	**September 30, 2013**	**December 31, 2012**
Maximum borrowing base limit[(1)(2)]:		
Non-revolving term credit facilities[(3)]	129,650	70,000
Revolving credit facilities	470,000	470,000
	599,650	540,000
Principal amount utilized:		
Drawn non-revolving term credit facilities	(129,650)	(70,000)
Drawn revolving credit facilities	(319,242)	(368,654)
Outstanding letters of credit[(4)]	(184)	(184)
	(449,076)	(438,838)
Unused credit[(2)]	**150,574**	101,162

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

(2) The quarterly financial covenants applicable to the Corporation's credit facilities include (i) an interest coverage ratio, which is calculated on a historical rolling four quarter basis, as earnings before interest and non-cash items including income taxes, stock-based compensation, gains and losses on sale of assets 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 September 30, 2013, Birchcliff's EBITDA to interest expense was 6.7:1.0 and Debt to EBITDA was 2.3:1.0. The Corporation was compliant with all financial covenants under its credit facilities as at September 30, 2013.

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

(4) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit in the Reporting Periods and Comparable Prior Periods.

The capital structure of the Corporation is as follows.

As at, *($000's)*	Sept. 30, 2013	Dec. 31, 2012	Change
Shareholders' equity(1)	871,733	834,247	
Capital securities	47,909	-	
Shareholders' equity & capital securities	919,642	834,247	10%
Shareholders' equity & capital securities as a % of total capital(2)	65%	64%	
Working capital deficit(3)	41,588	28,867	
Drawn non-revolving term credit facilities	129,650	70,000	
Drawn revolving credit facilities	319,242	368,654	
Drawn debt	490,480	467,521	5%
Drawn debt as a % of total capital	35%	36%	
Capital	**1,410,122**	1,301,768	8%

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

(2) Of the 65%, approximately 58% 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.

12. 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 September 30, 2013. The resolution of the disputed assessments may impact deferred income tax expense but will not impact cash taxes payable by the Corporation. Management believes that it will be successful in defending its tax position respecting the Veracel transaction, and as such, the Corporation has not recognized a related provision for deferred income tax liability at September 30, 2013.

13. SUBSEQUENT EVENT

Subsequent to the end of the third quarter of 2013, Birchcliff entered into an agreement with a private company to sell non-core Progress Doe Creek assets for proceeds of $59 million, subject to usual closing adjustments. The transaction has an effective date of May 1, 2013 and is expected to close before year end, with net proceeds from the sale to be used to reduce debt.

CORPORATE INFORMATION

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David M. Humphreys
Vice President, Operations

James W. Surbey
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HSBC Bank Canada

Union Bank

Alberta Treasury Branch

The Toronto Dominion Bank

National Bank of Canada

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United Overseas Bank

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