

# BIRCHCLIFF ENERGY LTD.

09-05

May 13, 2009

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## **Birchcliff Energy Ltd. Announces Record First Quarter Average Production, Continued Development of Its Montney/Doig Natural Gas Resource Play and Increased Bank Credit Facilities**

Calgary, Alberta - Birchcliff Energy Ltd. ("Birchcliff") (TSX: BIR) is pleased to announce its financial and operating results for the first quarter of 2009. The full text of Birchcliff's First Quarter Report containing the Financial Statements for the three month period ended March 31, 2009 and the related Management's Discussion and Analysis is set forth below and will be available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **FIRST QUARTER HIGHLIGHTS:**

- Record average production of 12,513 boe/day, 32% increase from the first quarter 2008, accomplished with the drill bit (72% natural gas and 28% light oil and natural gas liquids).
- Continued the expansion and development of the Montney/Doig natural gas resource play and improved the quality of our inventory of 602 net potential Montney/Doig horizontal natural gas locations.
- Drilled 5 gross (3.5 net) Montney/Doig natural gas wells, all of which were cased for 100% success.
- Recent Montney/Doig horizontal well production profiles confirm the benefit of new technology.

### **SUBSEQUENT EVENTS TO FIRST QUARTER:**

- Received approval for new Bank Credit Facilities totaling \$305 Million.
  - Received ERCB license to construct a gas plant at Pouce Coupe, a significant strategic milestone for the development of Birchcliff's Montney/Doig natural gas resource play.
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The full Text of the 2009 First Quarter Report Follows:

**Dear Shareholder**

Birchcliff is pleased to report its first quarter financial and operating results for the three months ended March 31, 2009.

Birchcliff continued to focus on the development of its two resource plays, with a primary emphasis on increasing the size of its footprint on its Montney/Doig natural gas resource play in the Pouce Coupe area of Alberta.

Birchcliff achieved record average quarterly production levels while adapting its business plan to respond to the global financial crisis and lower commodity prices. Through these challenging industry conditions, Birchcliff continues to maintain a disciplined approach to the business of developing its two resource plays, adding low cost reserves while increasing our Montney/Doig development opportunities for the future. Birchcliff expects to spend less than its anticipated cash flow in the first six months of 2009. The directors of Birchcliff will meet in June to determine the capital spending program for the second half of 2009, which will be primarily driven by future commodity prices.

I am very pleased to announce that Birchcliff's bank syndicate recently approved increased credit facilities having an aggregate limit of \$305 million. These approvals authorize the extension and increase of Birchcliff's existing credit facilities to \$255 million from \$240 million and the establishment a new \$50 million one year non-revolving term credit facility which is renewable with the consent of the bank syndicate. The existing facilities continue to have a term of one year with a two-year term-out if not renewed. Together these credit facilities will provide Birchcliff with the financial flexibility it requires to run its business.

I am equally as pleased to announce that in April the ERCB issued a license to Birchcliff to construct its 100% owned and operated natural Gas Plant in Pouce Coupe, Alberta which is located in the core of our Montney/Doig natural gas resource play. This Gas Plant approval represents a significant strategic milestone for Birchcliff.

**2009 First Quarter Results**

**Production**

First quarter production averaged 12,513 boe/day, (72% natural gas and 28% light oil and natural gas liquids) which is a quarterly production record for Birchcliff. This is a 32% increase from the first quarter 2008 which averaged 9,470 boe/day and a 9% increase from the fourth quarter of 2008, which averaged 11,524 boe/day. This average production during the quarter did not include any new wells coming on production from the first quarter drilling program. Our current production profile remains very strong.

Production averaged approximately 11,500 boe/day in April, 2009. As a result of spring breakup, declines, reduced capital spending and plant turnarounds, Birchcliff expects its second quarter average production rate to be approximately 11,000 boe/day. Birchcliff has recently tied in one (0.7 net) of the two Montney/Doig horizontal natural gas wells of the 5 gross (3.5 net) wells it drilled in the first quarter, which necessitated restricting production from other wells. Birchcliff has one (0.7 net) more Montney/Doig

horizontal natural gas well to bring on production and 3 gross (2.1 net) vertical Montney/Doig natural gas wells which are also not producing, all of which will add production in due course.

I am pleased to inform you that as a result of better technology and completion techniques the initial production rate of the last 7 Montney/Doig horizontal natural gas wells are estimated to average 880 boe/day which is a 60% increase from the first 11 Montney/Doig horizontal natural gas wells that Birchcliff drilled in 2007 and 2008. In addition, our horizontal well drilling and completion costs have been reduced and the Montney/Doig wells have demonstrated lower decline rates than originally forecast. Birchcliff is continuing to conduct a number of integrated studies including hydrodynamics, rock properties, fracture treatment modeling, micro-seismic, petrophysics and geochemistry. Birchcliff believes that this work coupled with the state of the art drilling, completions and production practices has the potential to significantly increase Birchcliff's production and ultimate reserves from this complex Montney/Doig resource play.

Birchcliff is also continuing to work on reducing drilling and completion costs.

### **Cash Flow and Earnings**

Cash flow was \$14.4 million or \$0.13 per share for the first quarter of 2009, as compared to \$27.3 million or \$0.28 per share in the first quarter of 2008. Notwithstanding record quarterly average production, cash flow and earnings were severely reduced because of lower commodity prices. Birchcliff is sensitive to commodity prices and has no hedges in place nor does it have any current intention of hedging. Accordingly, as oil and natural gas prices recover, so will our cash flow.

### **Capital Expenditures and Drilling Results**

During the first quarter of 2009, capital spending aggregated \$18.4 million. This capital spending was approximately \$4 million more than our first quarter cash flow, however Birchcliff expects its capital spending to be minimal in the second quarter bringing its total first half capital spending of 2009 to less than cash flow.

Drilling activities during the first quarter of 2009 included 5 gross (3.5 net) wells, all of which were cased for a success rate of 100%. Birchcliff drilled and cased 2 gross (1.4 net) Montney/Doig horizontal natural gas wells. The first horizontal well (0.7 net) has been completed and came on production shortly after April 1, 2009. The second (0.7 net) Montney/Doig horizontal well is standing cased and will be completed and brought on production after spring break-up.

Birchcliff's exploration program for the first quarter of 2009 included drilling 3 (2.1 net) Montney/Doig vertical natural gas wells. Results to date from these wells suggest new Montney/Doig pools were discovered. These vertical exploration wells were drilled on lands that Birchcliff had previously categorized as trend land.

The success of these vertical wells has increased our proven lands on the Montney/Doig play by 4 gross (2.8 net) sections to 59.5 net sections of land and has increased our confidence in the potential drilling locations that are proximal to these wells. These exploration successes will also result in significant new reserves and further expansion of our Montney/Doig natural gas resource play.

Proven land is land to which reserves have been allocated by our independent engineers and land that Birchcliff believes will be allocated reserves by our independent engineers at year end 2009. Trend land is land Birchcliff believes has a high likelihood of extending the Montney/Doig natural gas resource play based on technical information including geologic and geophysical data.

Birchcliff's Montney/Doig horizontal well program continues to achieve cost reductions and both production and reserves continue to increase. In addition, the quality of our inventory of 602 net potential natural gas horizontal well drilling locations on the Montney/Doig play (assuming 4 wells per section) has been improved by first quarter drilling.

### **Indebtedness**

At March 31, 2009, Birchcliff's bank credit facilities were drawn to approximately \$228.9 million. Birchcliff's working capital deficiency as at March 31, 2009 was \$24.7 million. The working capital deficiency does not reduce what Birchcliff can draw under its credit facilities.

As a result of our significant year end reserve additions, Birchcliff's bank syndicate recently approved increased credit facilities having an aggregate limit of \$305 million. These approvals authorize the extension and increase of Birchcliff's existing credit facilities to \$255 million from \$240 million and the establishment of a new \$50 million one year non-revolving term credit facility which may be drawn with the consent of the bank syndicate at the time of drawdown. Together these credit facilities will provide Birchcliff with the financial flexibility it requires to run its business.

Birchcliff is very pleased with the increase to its credit facilities considering the significant deterioration of natural gas prices since year end, tight credit environment and unstable financial markets.

### **Pouce Coupe Gas Plant**

Birchcliff has received the ERCB license to construct its Pouce Coupe Gas Plant, initially with processing capacity of 30 mmcf per day. This Gas Plant has been designed to be expandable to 60 mmcf per day. The Gas Plant will provide Birchcliff with the opportunity to control and operate its natural gas production from its key producing area in Pouce Coupe, Alberta. Birchcliff believes that the ownership and control of this Gas Plant is strategic to the long term development of its Montney/Doig natural gas resource play and will improve the economic efficiency of the play.

Birchcliff expects to obtain the following benefits from this gas plant:

- Significantly increase owned and operated gas production;
- Reduce its operating and transportation costs thereby increasing the value of its future reserves;
- Generate third party processing revenue;
- Increase its well run times; and
- Increase strategic control of regional infrastructure.

In light of current commodity prices, Birchcliff has decided to delay the commencement of the construction of the gas plant until it is comfortable that natural gas prices are recovering. Further, Birchcliff expects that the equipment and construction costs associated with the Gas Plant will continue to decline during the summer of 2009.

Birchcliff intends to review the timing of the commencement of the construction of the Gas Plant in the early fall of 2009.

## OUTLOOK

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

Our strategy has not changed, notwithstanding the weakness in commodity prices. We believe that we can economically find, develop and produce natural gas from the Montney/Doig geological zone at extremely low costs. We believe that technology advances will continue to reduce our finding costs and increase our recovery factors. We note that our 2008 finding costs were in the top decile as compared to others in the industry and 2009 results to date have been equally successful.

On February 12, 2009 Birchcliff announced a 2009 capital expenditure program of \$80 million, the majority of which is focused on the continued development of its Montney/Doig natural gas resource play. This capital budget was based on a forecast annual average natural gas price at AECO of \$6.25/mmbtu and a forecast annual average WTI oil price of US \$47.50 per barrel. We continue to manage our capital very, very carefully, only spending money on those items which require immediate attention, such as land expiries or those items which create significant long term strategic value to Birchcliff. We intend to adjust the balance of the 2009 capital spending to reflect the decline in commodity prices and to approximate our estimated 2009 cash flow.

The directors of Birchcliff will meet in June to determine a third and fourth quarter capital budget and resulting forecast production profile.

On behalf of our management team and Directors we thank our shareholders for their continued support and our staff for their hard work and dedication.

(signed) "A. Jeffery Tonken"

**A. Jeffery Tonken**

President and Chief Executive Officer

## FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended March 31, 2009	Three months ended March 31, 2008
<b>OPERATING</b>		
Daily Average Production		
Light Oil – barrels	3,154	2,827
Natural Gas – thousands of cubic feet	54,180	37,791
NGLs – barrels	329	345
<b>Total – barrels of oil equivalent (6:1)</b>	<b>12,513</b>	<b>9,470</b>
Average Sales Price (\$ Canadian)		
Light oil – per barrel	49.33	94.72
Natural Gas – per thousand cubic feet	5.27	8.35
NGLs – per barrel	46.70	88.76
<b>Total – barrels of oil equivalent (6:1)</b>	<b>36.48</b>	<b>64.83</b>
Undeveloped Land		
Gross (acres)	397,900	322,830
Net (acres)	349,382	275,340
<b>NETBACK AND COST</b>		
(\$ per barrel of oil equivalent at 6:1)		
Petroleum and natural gas revenue	36.76	65.21
Royalties	(7.68)	(10.10)
Operating expense	(10.02)	(10.32)
Transportation and marketing expense	(2.44)	(2.87)
<b>Netback</b>	<b>16.62</b>	<b>41.92</b>
General and administrative expense, net	(1.86)	(1.72)
Stock-based compensation expense	-	(0.02)
Realized loss on risk management contracts	-	(3.76)
Realized loss on foreign exchange	-	(0.04)
Interest expense	(2.02)	(4.76)
Taxes	-	0.01
<b>Cash Flow Netback</b>	<b>12.74</b>	<b>31.63</b>
Depletion and depreciation expense	(21.78)	(24.74)
Accretion expense	(0.34)	(0.35)
Stock-based compensation expense	(1.55)	(1.43)
Unrealized gain (loss) on risk management contracts	-	1.10
Unrealized gain (loss) on foreign exchange	-	0.24
Future income tax recovery (expense)	2.31	(2.03)
<b>Net Earnings (Loss)</b>	<b>(8.62)</b>	<b>4.42</b>
<b>FINANCIAL</b>		
Petroleum and Natural Gas Revenue (\$000)	41,398	56,192
Cash Flow from Operations (\$000)	14,354	27,264
Per share – basic (\$)	0.13	0.28
Per share – diluted (\$)	0.13	0.27
Net Earnings (Loss) (\$000)	(9,701)	3,828
Per share – basic (\$)	(0.09)	0.04
Per share – diluted (\$)	(0.09)	0.04
Common Shares Outstanding		
End of Period – basic	112,542,635	111,863,089
End of Period – diluted	124,618,156	121,175,691
Weighted Average for Period – basic	112,457,321	98,852,346
Weighted Average for Period – diluted	112,457,321	102,589,422
Capital Expenditures (\$000)	18,395	51,518
Working Capital (Deficiency) (\$000)	(24,677)	(36,580) <sup>(1)</sup>
Revolving Credit Facilities (\$000)	228,867	133,035
Total Debt (\$000)	253,544	169,615

(1) This amount excludes both the accrued liability for the unrealized loss of \$5.6 million on oil price risk management contracts and the related future income tax asset of \$1.7 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") in respect of the three month period ended March 31, 2009 (the "Reporting Period") as compared to the three month period ended March 31, 2008 (the "Comparable Prior Period") is dated May 13, 2009.

The following discussion and analysis is management's assessment of the historical financial and operating results of Birchcliff Energy Ltd. (the "Corporation" or "Birchcliff") and should be read in conjunction with the unaudited financial statements of the Corporation for the Reporting Period and the audited financial statements as at and for the years ended December 31, 2008 and 2007 together with the notes thereto, all of which has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com). Birchcliff is listed for trading on the Toronto Stock Exchange ("TSX") under the symbol "BIR".

All dollar amounts are stated in Canadian dollars unless otherwise stated.

### NON-GAAP MEASURES

This MD&A and the Corporation's first quarter report for 2009 make references to terms commonly used in the petroleum and natural gas industry, such as cash flow or cash flow netback, cash flow per share, operating netback and netback.

Cash flow, as discussed in this MD&A and in the Corporation's Annual Report for 2008, appears as a separate line on the Corporation's Statement of Cash Flows above "changes in non-cash working capital" and is reconciled to net earnings or loss. In the Corporation's disclosure, netback and/or operating netback denotes petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. Cash flow netback as used herein denotes net earnings plus future income tax expense (less any recovery), depletion, depreciation and accretion expense, unrealized losses from risk management contracts and foreign exchange (less unrealized gains) and non-cash stock-based compensation expense.

These terms are not defined by Generally Accepted Accounting Principles and consequently, they are referred to as non-GAAP measures. The reader should be cautioned that these amounts may not be directly comparable to measures for other companies where similar terminology is used.

### BOE CONVERSION

Barrel of oil equivalent ("boe") amounts may be misleading, particularly if used in isolation. A boe conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel and is based on an energy equivalent conversion method primarily applicable at the burner tip. It does not necessarily represent an economic value equivalency at the wellhead. This conversion basis conforms to National Instrument 51-101 *Standards for Oil and Gas Activities of the Canadian Securities Administrators*.

### OVERALL PERFORMANCE

#### Production

Production in the first quarter 2009 averaged 12,513 boe per day. This is a 9% increase from the 11,524 boe per day the Corporation averaged in the fourth quarter 2008 and a 32% increase from the average of 9,470 boe per day in the first quarter 2008. This increase results mainly from the Corporation's drilling and operational success on its two resource plays. Birchcliff had 17 Montney/Doig horizontal wells on production in the Reporting Period as compared to 4 Montney/Doig horizontal wells in the Comparable Prior Period.

For the first quarter 2009, the Corporation's production consisted of approximately 72% natural gas and 28% crude oil and natural gas liquids.

## **Cash Flow and Earnings**

Cash flow was \$14.4 million or \$0.13 per share for the Reporting Period as compared to \$27.3 million or \$0.28 per share for the Comparable Prior Period. Birchcliff had a loss of \$9.7 million or \$0.09 loss per share for the Reporting Period as compared to earnings of \$3.8 million or \$0.04 per share for the Comparable Prior Period. The decrease in cash flow and the net loss resulted from lower average commodity prices realized in the Reporting Period as compared to the Comparable Prior Period.

## **Capital Expenditures and Total Debt**

Birchcliff spent \$18.4 million of capital in the Reporting Period as compared to \$51.5 million in the Comparable Prior Period. The decrease in capital spent is a result of the Corporation's response to the drop in commodity prices in the latter part of 2008 and first quarter of 2009.

The AECO daily spot averaged \$4.95 per mmbtu in the Reporting Period as compared to \$7.98 per mmbtu during the Comparable Prior Period, which is a 38% decrease. Canadian Edmonton Par prices averaged \$49.65 per barrel in the Reporting Period as compared to \$97.50 per barrel during the Comparable Prior Period, which is a 49% decrease. Both of these commodity price decreases translate into reduced cash flow available for exploration and development.

Capital expenditures for the Reporting Period were \$18.4 million, with 58% (\$10.7 million) spent on drilling and completions; 35% (\$6.5 million) spent on equipment and facilities; 2% (\$0.3 million) spent on land acquisitions; 1% (\$0.2 million) spent on seismic and other exploration and approximately 4% (\$0.7 million) spent on workovers and other, administrative assets and capitalized G&A.

The Corporation's total debt increased by 1% from \$249.9 million at December 31, 2008 to \$253.5 million at March 31, 2009. Birchcliff continues to target its capital spending for the first half of 2009 to be less than its cash flow for the equivalent period. The Corporation expects to spend less than its cash flow during the second quarter of 2009, due to less operational activity during the spring break-up and lack of activity immediately thereafter.

## **Mergers & Acquisitions**

The Corporation continues to review potential property acquisitions, joint venture opportunities and corporate mergers and acquisitions with the intention of completing such a transaction if acceptable terms can be negotiated. As a result, Birchcliff may at any time be involved in negotiations with other parties in respect of property acquisitions, joint venture opportunities and corporate merger acquisition opportunities.

## **MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS**

On March 14, 2008, Birchcliff completed a bought deal equity financing whereby it issued 1,522,843 flow-through common shares at a price of \$9.85 per flow-through share and 14,375,000 common shares at a price of \$8.00 per common share for total gross proceeds of \$130 million and net proceeds of approximately \$123 million. Proceeds of the offering were used to retire the \$100 million syndicated non-revolving credit facility used for the Worsley Acquisition and to reduce the amount outstanding under the Corporation's revolving credit facility.

There were no major transactions in the Reporting Period.

## **LIQUIDITY AND BANK DEBT**

### **Working Capital**

The Corporation's working capital deficit decreased by 33% to \$24.7 million for the Reporting Period as compared to \$36.6 million for the Comparable Prior Period. The decrease in working capital corresponds to the decrease in operational activity during the Reporting Period in response to the lower average commodity prices during this period as compared to the Comparable Prior Period. In the Comparable Prior Period, the working capital deficit excluded an accrued liability of \$5.6 million relating to the mark-to-

market unrealized loss on oil price risk management contracts and an accrued asset of \$1.7 million relating to future income taxes on the unrealized loss of risk management contracts.

At March 31, 2009, the largest component of Birchcliff's current assets (49%) is the cash to be received from its marketers in respect of March 2009 production which was subsequently received in April 2009. In contrast, the current liabilities consist of trade payables (57%); accrued capital and operating costs (27%); royalties payable and other minor amounts.

Birchcliff manages its working capital deficiency using its cash flow and advances under its revolving credit facilities. The Corporation's working capital deficit does not reduce the amount available under the Corporation's credit facilities which have a combined limit of \$240 million at March 31, 2009. Birchcliff was compliant with all covenants under its credit facilities throughout 2008 and continues to be compliant with such covenants at the date hereof.

### **Bank Debt**

The Corporation's revolving credit facilities were drawn to \$228.9 million as at March 31, 2009 as compared to \$211.6 million as at December 31, 2008. The Corporation has drawn close to its maximum credit capacity of \$240 million during the Reporting Period, but this was anticipated due to its capital spending program exceeding cash flow for the first quarter of 2009. For the Comparable Prior Period, when the aggregate limit was \$200 million, the credit facilities were drawn to only \$133.0 million which is significantly less due to an equity issue during that period and higher commodity prices resulting in greater cash flow.

The Corporation's revolving credit facilities at March 31, 2009 consisted of a \$20 million working capital facility and a \$220 million syndicated facility. At the end of the Reporting Period the effective interest rate applicable to the working capital facility was 3.2% as compared to 5.9% at the end of the Comparable Prior Period. The effective interest rate applicable to the bankers' acceptances in the syndicated credit facility was 2.9% for the Reporting Period as compared to 4.6% in the Comparable Prior Period.

The Corporation did not have any liquidity issues with respect to the operation of its petroleum and natural gas business in the Reporting Period.

On May 11, 2009, the Corporation was advised that the members of its bank syndicate have approved increased credit facilities having an aggregate limit of \$305 million. These approvals authorize the extension and increase of its existing credit facilities to \$255 million from \$240 million and the establishment a new \$50 million one year term credit facility which is renewable with the consent of the bank syndicate. Use of this additional \$50 million credit facility is subject to consent of the bank syndicate at the time of draw down. These credit facilities will provide liquidity to permit development of the Corporation's gas plant and Montney/Doig resource play when natural gas prices strengthen.

### **CASH FLOW FROM OPERATIONS**

Cash generated by the Corporation during the Reporting Period was \$14.4 million as compared to \$27.3 million in the Comparable Prior Period. The 47% decrease was mainly due to the lower average commodity prices during Reporting Period, offset by a 32% increase in petroleum and natural gas production as a result of the Corporation's drilling success in 2008. Future cash flow will be dependent mainly on production levels and future commodity prices.

### **OUTSTANDING SHARE DATA**

The common shares of Birchcliff are the only class of shares outstanding. Birchcliff's common shares began trading on the TSX Exchange 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. The following table summarizes the common shares issued from December 31, 2008 to March 31, 2009:

	Common Shares
<b>Balance at December 31, 2008</b>	<b>112,395,970</b>
Issue of Common Shares upon exercise of options	146,665
<b>Balance at March 31, 2009</b>	<b>112,542,635</b>

## RESULTS OF OPERATIONS

### Petroleum and Natural Gas Revenue

Petroleum and natural gas revenues totaled \$41.4 million for the Reporting Period compared to \$56.2 million for the Comparable Prior Period. The 26% decrease was primarily attributed to significantly lower average commodity prices. The following table details Birchcliff's petroleum and natural gas revenue ("P&NG"), production and sales prices by category for the Reporting Period and the Comparable Prior Period:

	Three months ended March 31, 2009				Three months ended March 31, 2008			
	Total Revenue (\$000's)	Average Daily Production	%	Average (\$/unit)	Total Revenue (\$000's)	Average Daily Production	%	Average (\$/unit)
Natural gas (mcf)	25,691	54,180	72	5.27	28,717	37,791	67	8.35
Light oil (bbls)	14,003	3,154	25	49.33	24,366	2,827	30	94.72
Natural gas liquids (bbls)	1,385	329	3	46.70	2,783	345	3	88.76
<b>Total P&amp;NG sales</b>	<b>41,079</b>	<b>12,513</b>	<b>100</b>	<b>36.48</b>	<b>55,866</b>	<b>9,470</b>	<b>100</b>	<b>64.83</b>
Royalty revenue	319			0.28	326			0.38
<b>Total P&amp;NG revenue</b>	<b>41,398</b>			<b>36.76</b>	<b>56,192</b>			<b>65.21</b>

### Commodity Prices

Birchcliff sells all of its crude oil on a spot basis. Birchcliff sells virtually all of its natural gas production for prices based on the AECO daily spot price. Birchcliff receives premium pricing for its natural gas due to its high heat content. The following table details the average sales price and differential received by Birchcliff for natural gas during the Reporting Period and Comparable Prior Period:

	Three months ended March 31, 2009	Three months ended March 31, 2008
Average Natural Gas Sales Price (\$/mcf)	5.27	8.35
Average of the AECO Daily Spot Prices (\$/mmbtu) <sup>(1)</sup>	4.95	7.98
<b>Positive Differential</b>	<b>0.32</b>	<b>0.37</b>

<sup>(1)</sup> \$1.00/mmbtu = \$1.00/mcf based on a standard heat value mcf.

The price the Corporation receives for its commodity production depends on a number of factors, including AECO Canadian dollar spot market prices for natural gas, Canadian dollar Edmonton par oil prices, U.S. dollar oil prices, the U.S./Canadian dollar exchange rate, and transportation and product quality differentials. Birchcliff regularly considers managing the risks associated with fluctuating spot market prices for natural gas and U.S. dollar oil prices and the U.S./Canadian dollar exchange rate. Birchcliff currently has no fixed commodity price contracts or other hedge type contracts for its natural gas and light oil production, but entered into the following oil price risk management contracts during 2007 for its light oil production for the terms noted below:

### Risk Management Contracts

Term	Type	Quantity	WTI Price (USD) <sup>(2)</sup>
January 1 - March 31, 2008 <sup>(1)</sup>	Put	1,000	\$67.50
January 1 - March 31, 2008 <sup>(1)</sup>	Call	1,000	\$81.40
January 1 - December 31, 2008	Costless collar	1,000	\$67.50 - \$79.10

(1) Each contract was entered into separately on different dates but the two contracts essentially form a costless collar.

(2) Each contract is settled on the average of the daily NYMEX WTI US\$ price.

All of the Corporation's oil price risk management contracts were settled at December 31, 2008. The Corporation did not enter into, nor had in place, any oil price risk management contracts during the Reporting Period.

As a result of the changes in the fair value of its oil price risk management contracts, the Corporation recorded a realized oil price risk management loss of \$3.2 million and an unrealized oil price risk management gain of \$1.0 million in the Comparable Prior Period.

Due to the significant time and costs required to document the effectiveness of commodity price risk management contracts as hedges, Birchcliff does not account for its risk management contracts as hedges in its financial statements. The oil price risk management contracts are instead recorded at their fair values (mark-to-market) at each period end date, and realized and unrealized gains or losses on risk management contracts are shown as a separate category in the statement of income.

The Corporation actively monitors the market to determine whether any additional commodity price risk management contracts are warranted. The Corporation has no current intention to enter into further commodity price risk management contracts.

### Royalties

Royalties are paid to various government entities and other land and mineral rights owners. The following table illustrates the Corporation's royalty expense:

	Three months ended March 31, 2009	Three months ended March 31, 2008
Oil & natural gas royalties (\$000's)	8,644	8,700
Oil & natural gas royalties (\$/boe)	7.68	10.10
Royalties as a percentage of sales	21%	15%

Oil and natural gas royalties totaled \$8.6 million (\$7.68 per boe) for the Reporting Period as compared to \$8.7 million (\$10.10 per boe) for the Comparable Prior Period. The overall effective royalty rate in the Reporting Period was 21% as compared to 15% in the Comparable Prior Period. The increase in the effective royalty rate is attributable to a combination of the Alberta Government using a reference price to calculate its royalty share of production which is based on the contract price for the previous month and the effect of the new royalty framework which became effective January 1, 2009. In a declining price environment, using the prior month's price to calculate the royalty amount has the effect of increasing the effective royalty rate in the current month as a percentage of sales revenues. The effective gas royalty rate in the Reporting Period is 23% as compared to 16% in the Comparable Prior Period.

Management expects that the effective royalty rate in the second quarter will be lower than the first quarter as a result of lower natural gas prices in April and the effect of the new royalty production incentive described below.

### Proposed Changes to Alberta's Royalty Regime

On April 10, 2008, the Alberta Government announced revisions to its royalty program, calling it the New Royalty Framework ("NRF") and its effective date of January 1, 2009. The NRF included increased royalty rates on conventional and non-conventional oil and natural gas production in Alberta, sliding scale royalty calculations based on a broader range of commodity prices and the elimination of royalty incentive and royalty holiday programs with the exception of specific programs relating to deep oil and natural gas drilling programs, innovative technology and enhanced recovery programs.

During November 2008, the Alberta Government announced a further royalty program or Transitional Royalty Rates ("TRR"). Wells eligible for the TRR are those wells that have a spud date on or after November 19, 2008 and the operator must elect the transition well royalty rates within the specified time period for election, which at this time has not yet been formally released by the Alberta Government. The base of the producing interval in the well event must be deeper than 1,000 meters and no deeper than

3,500 meters. The TRR well royalty formulas only apply to production obtained starting January 1, 2009 and ending December 31, 2013.

As royalties under the NRF are sensitive to both commodity prices and production levels, the estimated Alberta and corporate royalty rates under the NRF will fluctuate with commodity prices, well production rates, production decline of existing wells, and performance and location of new wells drilled. The Corporation is currently reviewing the proposal and evaluating, in detail, the impact the changes will have on Birchcliff's operating results, cash flows and reserves valuation.

### New Royalty and Drilling Incentives

On March 3, 2009 the Government of Alberta announced two new short-term royalty incentives to stimulate new and continued economic activity in Alberta. The most important aspects of these initiatives are as follows:

- a) New conventional oil and natural gas wells spud after April 1, 2009 and rig released on or before March 21, 2010 will be entitled to a royalty credit of \$200 per metre drilled, up to a maximum of 50% (in Birchcliff's case) of the aggregate royalties payable by Birchcliff during that period.
- b) An incentive royalty rate of five-per-cent for the first year of production from each new oil or gas well brought on production after April 1, 2009 and before March 31, 2010 up to a maximum for such well of 50,000 barrels of oil or 500 million cubic feet of natural gas.

The province has indicated that it will monitor the impact of the incentive program, and at the end of the year, assess whether it is necessary or appropriate for it to be continued.

These incentives will provide material royalty relief with respect to Birchcliff's drilling activities. As a result, during the one year term of the drilling royalty credit and the term of the incentive royalty rate, Birchcliff intends to focus its capital spending program in large part on its Montney/Doig horizontal wells.

At approximately 4,000 meters of measured depth, each Montney/Doig horizontal well may obtain a drilling royalty credit of up to \$800,000. This is significant and amounts to approximately 16% of the total costs of approximately \$5 million on average to drill, complete, equip and tie-in a horizontal well.

With respect to the royalty incentive rate, a typical horizontal well would attract a first year royalty rate of approximately 28%, assuming a \$4.50/mmbtu AECO natural gas price, production of 800 million cubic feet of natural gas during the first year and application of the NRF and TRR described above. The incentive rate royalty of 5% on the first 500 million cubic feet of production will result in royalty savings of up to 23% or 115 million cubic feet of natural gas for such well.

Subsequent to the first quarter of 2009, there have been no new significant developments with respect to the Alberta Royalty Regime.

### Operating Costs

Operating costs were \$11.3 million (\$10.02 per boe) for the Reporting Period as compared to \$8.9 million (\$10.32 per boe) for the Comparable Prior Period. The following table compares operating costs for the Reporting Period and the Comparable Prior Period:

	Three months ended March 31, 2009		Three months ended March 31, 2008	
	Total (\$000's)	\$/boe	Total (\$000's)	\$/boe
Field operating costs	11,880	10.55	9,418	10.93
Recoveries	(1,019)	(0.91)	(614)	(0.71)
Field operating costs, net of recoveries	10,861	9.64	8,804	10.22
Expensed workovers and other	424	0.38	87	0.10
<b>Total operating costs</b>	<b>11,285</b>	<b>10.02</b>	<b>8,891</b>	<b>10.32</b>

The \$0.30 per boe decrease in total operating costs in the Reporting Period as compared to the Comparable Prior Period was mainly due to higher third party recoveries (\$0.20 per boe) and lower costs of supplies and services (\$0.38 per boe), offset by an increase in costs related to expensed workovers (\$0.28 per boe). Recoveries increased on a per boe basis mainly due to higher third party compression fees. Birchcliff continues to implement strategies aimed at lowering its operating costs on a per boe basis.

### Transportation and Marketing Expenses

Transportation and marketing expenses were \$2.7 million (\$2.44 per boe) for the Reporting Period as compared to \$2.5 million (\$2.87 per boe) for the Comparable Prior Period. These costs consist primarily of transportation costs. The aggregate and per unit costs for the Reporting Period are lower than in the Comparable Prior Period due to an overall increase in gas production, which has much lower transportation costs than the Worsley light oil field.

### General and Administrative Expense

Net general and administrative costs (“G&A”) for the Reporting Period were \$2.1 million (\$1.86 per boe) as compared \$1.5 million (\$1.72 per boe) for the Comparable Prior Period.

The components of G&A are as follows:

	Three months ended March 31, 2009		Three months ended March 31, 2008	
	(\$000's)	%	(\$000's)	%
Salaries, benefits and consultants	2,109	59%	1,958	56%
Other	1,442	41%	1,521	44%
G & A expense, gross	<b>3,551</b>	100%	<b>3,479</b>	100%
Overhead recoveries	(1,050)	(30%)	(1,582)	(45%)
Capitalized overhead	(410)	(12%)	(415)	(12%)
G & A expense, net	<b>2,091</b>	<b>59%</b>	<b>1,482</b>	<b>43%</b>
G & A expense, net per boe	<b>\$1.86</b>		<b>\$1.72</b>	

The net G&A per boe has increased mainly due to lower overhead and capital recoveries which are attributable to the decreased capital spent in the Reporting Period as compared to the Comparable Prior Period.

The capitalization of costs in the “overhead recoveries” category reflects an industry standard charge per AFE to capitalize engineering, land, accounting and operations time spent on capital projects, whereas the “capitalized overhead” category reflects a portion of costs in relation to only Birchcliff’s exploration and geology department.

### Interest Expense

Interest expense for the Reporting Period was \$2.3 million (\$2.02 per boe) as compared to \$4.1 million (\$4.76 per boe) for the Comparable Prior Period. The decrease in aggregate interest expense and interest expense per boe was a result of the Corporation being subject to a lower effective interest rate on its working capital and revolving credit facility during the Reporting Period, offset slightly by a higher average bank debt. At the end of the Reporting Period, the effective rate applicable to the working capital facility was 3.2% as compared to 5.9% at the end of the Comparable Prior Period. The overall effective interest rate applicable to the bankers’ acceptances in the revolving credit facility was 2.9% in the Reporting Period as compared to 4.6% in the Comparable Prior Period. The Corporation’s average bank debt was approximately \$222.0 million in the Reporting Period as compared to \$223.5 million in the Comparable Prior Period calculated as the simple average of the month end amounts.

### Depletion, Depreciation and Accretion Expense

Depletion, depreciation and accretion (“DD&A”) expenses for the Reporting Period were \$24.9 million (\$22.12 per boe) as compared to \$21.6 million (\$25.09 per boe) for the Comparable Prior Period. The DD&A on a per boe basis is 12% lower in the Reporting Period than in the Comparable Prior Period mainly due to the reduced cost of adding proven reserves during 2008 and into the Reporting Period.

The components of DD&A are as follows:

DD&A Expense	Three months ended March 31, 2009		Three months ended March 31, 2008	
	Total (\$000's)	\$/boe	Total (\$000's)	\$/boe
Depletion & depreciation	24,528	21.78	21,316	24.74
Accretion for Asset Retirement Obligations	384	0.34	300	0.35
<b>Total DD&amp;A</b>	<b>24,912</b>	<b>22.12</b>	<b>21,616</b>	<b>25.09</b>

Depletion and depreciation expense is a function of the estimated proved reserve additions and the cost of petroleum and natural gas properties in the full cost pool attributable to those proved reserves. At March 31, 2009, the Corporation excluded from its full cost pool \$41.4 million (March 31, 2008 - \$28.6 million) of costs for undeveloped land acquired by Birchcliff and for unproved properties acquired relating to opportunities in the probable reserve category and the potential drilling, recompletion and workover opportunities which have not yet been assigned any reserves.

### Petroleum and Natural Gas Properties Impairment Test

The Corporation follows the full cost method of accounting which requires periodic review of capitalized costs to ensure that they do not exceed the recoverable value of the petroleum and natural gas properties and the fair value of the Corporation's assets.

Birchcliff performed an impairment review at March 31, 2009 on its petroleum and natural gas assets. Based on this calculation, Birchcliff determined there was no impairment of its petroleum and natural gas assets.

### Taxes

Birchcliff recorded a future income tax recovery of \$2.6 million (\$2.31 per boe) for the Reporting Period as compared to an expense of \$1.7 million (\$2.03 per boe) for the Comparable Prior Period. This recovery resulted primarily from the net loss recorded during the Reporting Period, mainly as a result of lower average commodity prices. Birchcliff incurred \$NIL Part XII.6 taxes in the Reporting Period as compared to a recovery of \$6,455 in the Comparable Prior Period relating to the issue of \$16,029,000 of flow-through shares in November 2006.

### Stock-Based Compensation

Birchcliff accounts for its stock-based compensation programs, including performance warrants and stock options, using the fair value method. Under this method, the Corporation records compensation expense related to the stock-based compensation programs in the income statement over the vesting period.

The Corporation recorded a \$1.7 million expense (\$1.55 per boe) for stock-based compensation relating to stock options for the Reporting Period as compared to \$1.3 million (\$1.45 per boe) for the Comparable Prior Period.

During the Reporting Period, the Corporation granted options to purchase 3,236,900 common shares (Comparable Prior Period – 1,703,100) at a weighted average exercise price of \$5.02 (Comparable Prior Period – \$7.47) per common share. Of these options, at March 31, 2009 there remained outstanding options to purchase 3,185,900 common shares as compared to 1,693,100 options at March 31, 2008.

During the Reporting Period, the Corporation issued 146,665 common shares (Comparable Prior Period – 1,410,977) due to the exercise of vested stock options, and stock options in respect of 278,667 common shares (Comparable Prior Period – 60,000) were forfeited or expired. In addition, there were no vested stock options cancelled in the Reporting Period as compared to 5,000 vested stock options in the Comparable Prior Period. The cancellation of vested stock options resulted in a cash-paid stock-based compensation expense of \$NIL for the Reporting Period as compared to \$20,000 for the Comparable Prior Period. The Corporation is no longer making cash payments for the cancellation of vested stock options. The cash-paid expense is included in the total stock-based compensation expense.

## CAPITAL EXPENDITURES AND CAPITAL RESOURCES

Capital expenditures amounted to \$18.4 million in the Reporting Period as compared to \$51.5 million in the Comparable Prior Period. The decrease in expenditures was in response to declining average commodity prices in the latter part of 2008 and first quarter of 2009, resulting in lower cash flow in the Reporting Period.

### Capital Expenditures

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

Three Months Ended March 31, (\$000's)	2009	2008
Land	324	3,036
Seismic	152	861
Workovers and other	57	2,608
Drilling and completions	10,672	34,315
Well equipment and facilities	6,507	9,962
Capitalized general and administrative expenses	410	415
<b>Total Finding and Development Costs (F&amp;D)</b>	<b>18,122</b>	<b>51,197</b>
Acquisitions, net	30	183
<b>Total Finding, Development and Acquisition Costs (FD&amp;A)</b>	<b>18,152</b>	<b>51,380</b>
Administrative assets	243	138
<b>Total Capital Expenditures</b>	<b>18,395</b>	<b>51,518</b>

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

### Capital Resources

Three Months Ended March 31, (\$000's)	2009	2008
Cash generated by operations	14,354	27,264
Changes in working capital from operations	5,750	(7,820)
Asset retirement expenditures	(251)	(114)
Equity issues, net of issue costs	608	127,669
Increase (decrease) in non-revolving credit facility	-	(98,830)
Increase in revolving credit facilities	17,282	(22,819)
Changes in working capital from investing	(19,348)	26,167
<b>Total Capital Resources</b>	<b>18,395</b>	<b>51,517</b>

## SELECTED QUARTERLY INFORMATION

Quarters Ended (\$000's, except share and per share amounts)	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008
Petroleum and natural gas production (boe per day)	12,513	11,524	10,000	9,583
Petroleum and natural gas commodity price (\$ per boe)	36.48	47.88	73.44	83.58
Natural gas commodity price at wellhead (\$ per mcf)	5.27	7.14	8.47	10.93
Petroleum commodity price at wellhead (\$ per bbl)	49.33	59.10	115.95	121.39
Total petroleum and natural gas revenue	41,398	51,034	67,942	73,273
Total royalties	(8,644)	(8,888)	(12,502)	(11,361)
Total interest and other revenue	-	-	-	-
Total revenues, net	32,754	42,146	55,440	61,912
Total capital expenditures	18,395	58,916	89,158	37,487
Net income (loss)	(9,701)	(355)	16,649	9,776
Per share basic	(\$0.09)	-	\$0.15	\$0.09
Per share diluted	(\$0.09)	-	\$0.14	\$0.08
Cash generated by operations	14,354	24,627	37,886	41,676
Per share basic	\$0.13	\$0.22	\$0.34	\$0.37
Per share diluted	\$0.13	\$0.22	\$0.33	\$0.36
Book value of total assets	800,959	814,823	774,794	719,292
Non-revolving credit facility	-	-	-	-
Revolving credit facilities	228,867	211,586	180,995	148,922
Total debt	253,544	249,862	214,642	163,378
Shareholders' equity	496,276	507,371	506,742	488,579
Common shares outstanding – end of period				
Basic	112,542,635	112,395,970	112,395,970	112,375,970
Diluted	124,618,156	121,659,923	121,451,823	121,270,357
Weighted average common shares outstanding				
Basic	112,457,321	112,395,970	112,386,829	112,234,676
Diluted	112,457,321	112,801,866	116,859,500	117,074,630

  

Quarters Ended (\$000's, except share and per share amounts)	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007
Petroleum and natural gas production (boe per day)	9,470	9,260	6,014	5,712
Petroleum and natural gas commodity price (\$ per boe)	64.83	54.18	40.10	48.20
Natural gas commodity price at wellhead (\$ per mcf)	8.35	6.71	5.48	7.39
Petroleum commodity price at wellhead (\$ per bbl)	94.72	80.94	76.95	69.92
Total petroleum and natural gas revenue	56,192	46,398	22,467	25,462
Total royalties	(8,700)	(7,804)	(4,007)	(3,233)
Total interest and other revenue	2	8	-	-
Total revenues, net	47,494	38,602	18,460	22,229
Total capital expenditures	51,518	30,306	288,321	13,727
Net income (loss)	3,828	(6,457)	(5,707)	(707)
Per share basic	\$0.04	(\$0.07)	(\$0.09)	(\$0.01)
Per share diluted	\$0.04	(\$0.07)	(\$0.09)	(\$0.01)
Cash generated by operations	27,264	19,881	9,327	13,641
Per share basic	\$0.28	\$0.21	\$0.14	\$0.21
Per share diluted	\$0.27	\$0.21	\$0.14	\$0.21
Book value of total assets	699,567	662,252	644,876	359,423
Non-revolving credit facility	-	98,830	97,431	-
Revolving credit facilities	133,035	155,854	153,360	88,833
Total debt	169,614	272,916	262,557	92,218
Shareholders' equity	475,453	340,756	342,451	240,250
Common shares outstanding – end of period				
Basic	111,863,089	94,554,269	94,472,583	64,189,413
Diluted	121,175,691	103,639,748	103,046,582	72,709,078
Weighted average common shares outstanding				
Basic	98,852,346	94,486,372	65,521,290	64,189,413
Diluted	102,589,422	96,548,884	66,152,795	65,394,368

## **Discussion of Quarterly Results**

Birchcliff increased its average quarterly production to 12,513 boe per day in the first quarter 2009, which is a 9% increase from 11,524 boe per day in the fourth quarter 2008 and a 32% increase from 9,470 boe per day in the first quarter 2008. These increases are the direct result of the success of the Corporation's 2008 capital spending program on its two resource plays.

Cash flow generated by the Corporation in the first quarter 2009 was \$14.4 million, which is a 41% decrease from \$24.6 million in the fourth quarter 2008 and a 47% decrease from \$27.3 million in the first quarter 2008. These decreases were mainly due to the lower average commodity prices realized by the Corporation in the first quarter of 2009.

Birchcliff spent \$18.4 million of capital in the Reporting Period as compared to \$51.5 million in capital spent in the Comparable Prior Period. The decrease in capital expenditures is a direct result of the Corporation's response to the drop in commodity prices in the latter part of 2008 and first quarter of 2009. Birchcliff continues to invest its cash flow on natural gas infrastructure and its Montney/Doig resource play.

## **OUTLOOK**

### **Production**

During the first quarter, capital spending was below the amount originally budgeted. Notwithstanding the reduced investment, the average production rate in the first quarter was 12,513 boe/day. As a result of spring breakup, declines, reduced capital spending and plant turnarounds, Birchcliff expects its second quarter average production rate to be approximately 11,000 boe/day.

The directors of Birchcliff will meet in June to determine a third and fourth quarter capital budget and resulting forecast production profile.

### **Working Capital**

The Corporation did not have any liquidity issues with respect to the operation of its petroleum and natural gas business in the Reporting Period, nor does it anticipate a liquidity issue in the foreseeable future. The Corporation has received approval from its bank syndicate for an increase in its credit facilities which will provide the Corporation with greater financial flexibility in managing its business activities without liquidity concerns. Birchcliff expects to continue to have a working capital deficit into the foreseeable future as a result of its continuing capital program in the Peace River Arch area. However, as capital expenditures are decreased in light of the current economic environment, the amount of working capital deficit will decrease correspondingly. Birchcliff intends to carefully monitor its cash flow and capital spending to ensure that the capital spent in 2009 does not exceed its cash flow.

### **Bank Debt**

Notwithstanding weak natural gas prices in April, 2009 Birchcliff expects total debt to decrease during the second quarter of 2009 to be slightly below the level it was at December 31, 2008 as capital expenditures are reduced and operations are restricted during spring break-up.

Given the depressed commodity prices, the Corporation intends to finance its oil and natural gas business primarily through cash generated from operations, and to the extent required, proceeds from long-term debt and equity financing arrangements. Birchcliff is now at a size that it anticipates it will not require additional equity except to fund a significant acquisition or projects or to significantly increase its capital spending beyond its cash flow.

Birchcliff has a very strong asset base with its two main resource plays, the Montney/Doig natural gas resource play and the Worsley light oil resource play. These properties provide the Corporation with a

long term and operationally reliable cash flow base, the level of which is primarily dependent on commodity prices. The extensive portfolio of development opportunities on these properties will not expire in the near term and provides low risk long life future production additions that are readily available with the investment of additional capital. The short term commodity prices will dictate the rate at which Birchcliff invests in its resource plays and the rate at which Birchcliff can grow its production, but short term commodity prices do not affect the quality or the long term value of the Corporation's asset base.

### CONTRACTUAL COMMITMENTS

The Corporation is committed under a premises lease which commenced December 1, 2007 and which expires on November 30, 2017. Birchcliff does not presently use all of the leased premises and has sublet the excess space to an arms' length party on a basis that recovers approximately 40% of the rental costs for the first five years. The Corporation is committed to the following aggregate minimum lease payments (not reduced by sublease rents receivable by the Corporation):

Year	\$000's
2009	2,410
2010	3,214
2011	3,214
2012	3,223
2013	3,331
Thereafter	13,045

### DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Corporation is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have evaluated the effectiveness of the Corporation's disclosure controls and procedures as at March 31, 2009 and have concluded that such disclosure controls and procedures were effective as at that date to provide reasonable assurance that material information relating to Birchcliff is made known to them by others within the Corporation possessing such information. It should be noted that while the Corporation's CEO and CFO believe that the Corporation's disclosure controls and procedures are effective to provide a reasonable level of assurance, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are achieved.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. The Corporation's Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's internal control over financial reporting as required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*. The Certifying Officers concluded that the Corporation's internal control over financial reporting was effective at March 31, 2009, based on that evaluation.

### CHANGE IN ACCOUNTING POLICIES

On January 1, 2009 the Corporation prospectively adopted the following Canadian Institute of Chartered Accountant ("CICA") Handbook Sections:

**Section 3064 Goodwill and Intangible Assets**, which defines the criteria for the recognition of intangible assets. The adoption of this section had no impact on the Corporation's financial statements.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In February 2008, the CICA Accounting Standards Board ("ACSB") confirmed the changeover to International Financial Reporting Standards ("IFRS") from GAAP will be required for publicly accountable enterprises' interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The transition from current GAAP to IFRS is a significant undertaking that may materially affect the Corporation's reported financial position and operations. The Corporation has appointed internal staff to lead the IFRS conversion project. The Corporation has retained an external advisor to assist in the initial scoping and has prepared a diagnostic analysis that identifies the differences between Birchcliff's current accounting policies and IFRS. At this time, Birchcliff is evaluating the impact of these differences and assessing the need for amendments to existing accounting policies in order to comply with IFRS. Birchcliff expects to be IFRS compliant by January 1, 2011.

Birchcliff has not yet prepared a complete IFRS changeover plan (the "IFRS Plan"), but has completed a high-level scoping study to consider the potential impact of the implementation of IFRS on the Corporation's financial reporting. IFRS will not only impact the presentation and disclosure of items in the financial statements of Birchcliff but also the determination of future net income and the measurement of balance sheet items. The next stage for Birchcliff will be to develop a detailed IFRS Plan. This IFRS Plan will include modeling the impact of individual IFRS standards and related interpretations on the financial statements of Birchcliff. As part of the Corporation's IFRS Plan, it will be required to prepare a transition balance sheet as at December 31, 2009 (to be representative of the opening January 1, 2010 balance sheet) in accordance with IFRS. This opening balance sheet will form the opening position of the Corporation's comparative financial statements when it reports under IFRS. Based on the high-level scoping study, the following IFRS standards are expected to have the most significant impact on Birchcliff.

- IFRS 1 – First-time adoption of IFRS
- IFRS 2 – Share Based Payments
- IFRS 6 – Exploration and evaluation of mineral resources
- IAS 12 – Income Taxes (as pertains to Flow Through Shares)
- IAS 16 – Property, plant and equipment
- ED 9 – Joint arrangements (replacing IAS 31 – Interests in joint ventures)
- IAS 36 – Impairment of Assets
- IAS 37 – Provisions, contingent liabilities and contingent assets (Flow Through Shares)

Once the detailed IFRS Plan is complete, Birchcliff will begin to design and build its IFRS framework, which includes decisions on available accounting policy choices, formulate policy positions and execution and roll-out of communications strategy. Once the design and build phase is complete Birchcliff will move to the implement and review phase which includes, preparation of IFRS opening balance sheet, compilation of comparative data, preparation of quarterly financial statements and disclosures, preparation of annual financial statements and disclosures, monitoring evolving IFRS, conducting post implementation review and communicating ongoing requirements.

## **FORWARD LOOKING STATEMENTS**

*This MD&A contains certain forward-looking statements and forward-looking information (hereinafter collectively referred to as "forward-looking statements") within the meaning of applicable Canadian securities laws. These statements relate to future events or our future performance and are based upon the Corporation's current internal expectations, estimates, projections, assumptions and beliefs. All statements other than statements of historical fact are forward-looking statements. In some cases, words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "would",*

*“potential”, “proposed” and other similar words, or statements that certain events or conditions “may” or “will” occur, are intended to identify forward-looking statements.*

*Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions and known and unknown risks and uncertainties that the predictions, forecasts, projections and other forward-looking statements will not 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. The Corporation cannot guarantee future results, levels of activity, performance or achievements. Consequently, there is no representation by the Corporation that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements. Such forward-looking statements in this MD&A speak only as of the date of this.*

*In particular, this MD&A contains forward-looking statements pertaining to the following: drilling inventory, drilling plans and timing of drilling, re-completion and tie-in of wells; plans for facilities construction and completion of the timing and method of funding thereof; productive capacity of wells, anticipated or expected production rates and anticipated dates of commencement of production; drilling, completion and facilities costs; results of projects of the Corporation; ability to lower costs borne by the Corporation; production growth expectations; timing of development of undeveloped reserves; the tax horizon of the Corporation; the future performance and characteristics of the Corporation’s oil and natural gas properties; oil and natural gas production levels; the quantity of oil and natural gas reserves; planned capital expenditure programs; supply and demand for oil and natural gas; commodity prices; the impact of Canadian federal and provincial governmental regulation on the Corporation; weighting of production between different commodities; expected levels of royalty rates and incentives, operating costs, general administrative costs, costs of services and other costs and expenses; expectations regarding the Corporation’s ability to raise capital and to add to reserves through acquisitions, exploration and development; and treatment under tax laws. With respect to such forward-looking statements the key assumptions on which the Corporation relies are; that future prices for crude oil and natural gas, future currency exchange rates and interest rates and future availability of debt and equity financing will be at levels and costs that allow the Corporation to manage, operate and finance its business and develop its properties and meet its future obligations; that will be at levels; that the regulatory framework in respect of royalties, taxes and environmental matters applicable to the Corporation will not become so onerous as to preclude the Corporation from viably managing, operating and financing its business and the development of its properties; and that the Corporation will continue to be able to identify, attract and employ qualified staff and obtain the outside expertise and specialized and other equipment it requires to manage, operate and finance its business and develop its properties.*

*All such forward-looking statements necessarily involve risks associated with oil and gas exploration, production and marketing which may cause actual results may differ materially from those anticipated in the forward-looking statements. Some of those risks include; general economic conditions in Canada, the United States and globally; industry conditions, including fluctuations in the price of oil and natural gas; changes in governmental regulation of the oil and gas industry, including environmental regulation; fluctuations in foreign exchange rates or interest rates; geological, technical, drilling and processing problems and other difficulties in producing reserves; unanticipated operating events which can damage facilities or reduce production or cause production to be shut in or delayed; failure to obtain regulatory approvals in a timely manner; adverse conditions in the debt and equity markets; competition from others for scarce resources; and other factors disclosed under “Risk Factors” in this MD&A.*

*Readers are cautioned that the foregoing list of factors is not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Corporation is not under any duty to update any of the forward-looking statements after the date of this MD&A to conform such statements to actual results or to changes in the Corporation’s plans or expectations, except as otherwise required by applicable securities laws.*

**BIRCHCLIFF ENERGY LTD.**  
**Balance Sheets**  
**(Unaudited) (\$000's)**

	March 31, 2009	December 31, 2008
<b>ASSETS</b>		
CURRENT		
Cash and cash equivalents	65	65
Accounts receivable	21,321	29,836
Prepaid and other	3,752	3,031
	<b>25,138</b>	<b>32,932</b>
Petroleum and natural gas properties and equipment (Note 3)	775,821	781,891
	<b>800,959</b>	<b>814,823</b>
<b>LIABILITIES</b>		
CURRENT		
Accounts payable and accrued liabilities	49,815	71,208
	<b>49,815</b>	<b>71,208</b>
Revolving credit facilities (Note 5)	228,867	211,586
Asset retirement obligations (Note 8)	21,420	21,223
Future income tax liability	4,581	3,435
Commitments (Note 11)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	474,620	477,482
Contributed surplus (Note 10)	14,452	12,984
Retained earnings	7,204	16,905
	<b>496,276</b>	<b>507,371</b>
	<b>800,959</b>	<b>814,823</b>

See accompanying notes to the financial statements.

**APPROVED BY THE BOARD**

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

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

**BIRCHCLIFF ENERGY LTD.**  
**Statements of Net Income (Loss), Comprehensive Income (Loss) and Retained Earnings (Deficit)**  
**(Unaudited) (\$000's)**

	Three months ended March 31, 2009	Three months ended March 31, 2008
<b>REVENUE</b>		
Petroleum and natural gas	41,398	56,192
Royalties	(8,644)	(8,700)
Interest and other	-	2
	<b>32,754</b>	47,494
Gain (loss) on risk management contracts (Note 7)		
Realized	-	(3,239)
Unrealized	-	952
	<b>32,754</b>	45,207
<b>EXPENSES</b>		
Production	11,285	8,891
Transportation and marketing	2,748	2,470
General and administrative, net	2,091	1,482
Stock-based compensation (Note 10)	1,747	1,250
Depletion, depreciation and accretion (Notes 3 and 8)	24,912	21,616
Realized foreign exchange loss (Note 7)	-	34
Unrealized foreign exchange gain (Note 7)	-	(204)
Interest	2,276	4,101
	<b>45,059</b>	39,640
<b>INCOME (LOSS) BEFORE TAXES</b>	<b>(12,305)</b>	5,567
<b>TAXES</b>		
Other taxes (recovery)	-	(7)
Future income taxes (recovery)	(2,604)	1,746
	<b>(2,604)</b>	1,739
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)</b>	<b>(9,701)</b>	3,828
<b>RETAINED EARNINGS (DEFICIT), BEGINNING OF PERIOD</b>	<b>16,905</b>	(12,993)
<b>RETAINED EARNINGS (DEFICIT), END OF PERIOD</b>	<b>7,204</b>	(9,165)
Net income (loss) per common share		
Basic	(\$0.09)	\$0.04
Diluted	(\$0.09)	\$0.04
Weighted average common shares		
Basic	112,457,321	98,852,346
Diluted	112,457,321	102,589,422

See accompanying notes to the financial statements

**BIRCHCLIFF ENERGY LTD.**  
**Statements of Cash Flows**  
**(Unaudited) (\$000's)**

	Three months ended March 31, 2009	Three months ended March 31, 2008
<b>OPERATING</b>		
Net income (loss)	(9,701)	3,828
Adjustments for items not affecting cash:		
Depletion, depreciation and accretion	24,912	21,616
Stock-based compensation	1,747	1,230
Unrealized risk management contracts gain	-	(952)
Unrealized foreign exchange gain	-	(204)
Future income taxes (recovery)	(2,604)	1,746
	<b>14,354</b>	<b>27,264</b>
Changes in non-cash working capital (Note 12)	5,750	(7,820)
Asset retirement expenditures incurred (Note 8)	(251)	(114)
	<b>19,853</b>	<b>19,330</b>
<b>FINANCING</b>		
Decrease in non-revolving credit facility (Note 4)	-	(98,830)
Increase (decrease) in revolving credit facility (Note 5)	17,282	(22,819)
Issuance of share capital, net of issue costs (Note 9)	608	127,669
	<b>17,890</b>	<b>6,020</b>
<b>INVESTING</b>		
Purchase of petroleum and natural gas properties and equipment	(30)	(183)
Development of petroleum and natural gas properties and equipment	(18,365)	(51,335)
Changes in non-cash investing working capital (Note 12)	(19,348)	26,167
	<b>(37,743)</b>	<b>(25,351)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>-</b>	<b>(1)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>65</b>	<b>66</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>65</b>	<b>65</b>
Cash interest paid	2,276	4,101
Cash taxes paid	-	254

See accompanying notes to the financial statements

## 1. BASIS OF PRESENTATION

Birchcliff Energy Ltd. (“Birchcliff” or the “Corporation”) is engaged in the exploration for and the development, production and acquisition of, petroleum and natural gas reserves in Western Canada. Birchcliff’s financial year end is December 31.

The interim financial statements of Birchcliff Energy Ltd. have been prepared by management in accordance with accounting principles generally accepted in Canada and are unaudited. The interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the period ended December 31, 2008 except as discussed in Note 2. The disclosures which follow do not include all disclosures required for the annual financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2008.

## 2. CHANGES IN ACCOUNTING POLICIES

On January 1, 2009 the Corporation adopted the following Canadian Institute of Chartered Accountant (“CICA”) Handbook Sections:

- Section 3064, *Goodwill and intangible assets*, replacing Section 3062, *Goodwill and other intangible assets* and Section 3450, *Research and development costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new Section is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Corporation adopted the new standards for its fiscal year beginning January 1, 2009. The adoption of this Standard did not have an impact on the Corporation’s Financial Statements.
- EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. In January 2009, the CICA issued EIC-173 which provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This standard is effective for the Corporation’s fiscal periods ending on or after January 20, 2009 with retrospect application. The application of this EIC did not have a material effect on the Corporation’s Financial Statements.

### Recent Accounting Pronouncements

In February 2008, the CICA Accounting Standards Board (“**ACSB**”) confirmed the changeover to International Financial Reporting Standards (“**IFRS**”) from GAAP will be required for publicly accountable enterprises’ interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. At this time, Birchcliff is evaluating the impact of these differences and assessing the need for amendments to existing accounting policies in order to comply with IFRS. Birchcliff expects to be IFRS compliant by January 1, 2011.

### Future Accounting Policy Changes

In December 2008, the CICA issued Section 1582, *Business Combinations*, which will replace CICA Section 1581 of the same name. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Corporation is currently evaluating the impact of this changeover on its Financial Statements.

**3. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT**

(\$000's)	March 31, 2009		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas assets	1,014,244	(240,076)	774,168
Office furniture and equipment	3,023	(1,370)	1,653
	<b>1,017,267</b>	<b>(241,446)</b>	<b>775,821</b>

(\$000's)	December 31, 2008		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas assets	996,028	(215,719)	780,309
Office furniture and equipment	2,780	(1,198)	1,582
	<b>998,808</b>	<b>(216,917)</b>	<b>781,891</b>

As at March 31, 2009, the cost of petroleum and natural gas properties includes \$41.4 million (December 31, 2008 – \$49.7 million) relating to unproved properties which have been excluded from costs subject to depletion and depreciation.

Birchcliff capitalized general and administrative costs of \$410,000 in the three months ended March 31, 2009 (three months ended March 31, 2008 - \$415,000) directly relating to exploration and development activities.

**4. NON-REVOLVING CREDIT FACILITY**

Birchcliff entered into an Acquisition Credit Agreement with a syndicate of banks on September 4, 2007. The agreement allowed for Birchcliff to make a one time draw of up to \$100 million on a non-revolving credit facility for the purpose of closing the Worsley Acquisition. On September 27, 2007 the Corporation gave notice to draw the entire amount of the credit facility in bankers' acceptances. The drawn amount at December 31, 2007 was \$98.8 million with the \$1.2 million difference being the discounted value from the \$100 million credit facility limit based on the market interest rate at that time for bankers' acceptances. On March 14, 2008 the facility was repaid in full and cancelled, following the completion of the equity financing described in Note 9(d).

**5. REVOLVING CREDIT FACILITIES**

(\$000's)	March 31, 2009	December 31, 2008
Syndicated credit facility	216,950	197,410
Working capital facility	11,917	14,176
<b>Revolving Credit Facilities</b>	<b>228,867</b>	<b>211,586</b>

The Corporation has available to it an extendible revolving term credit facility with an authorized limit of \$220 million and an extendible revolving working capital facility with an authorized limit of \$20 million. The \$220 million syndicated credit facility is provided by a syndicate of four banks (the "Syndicate"). The \$20 million working capital facility is provided by the lead bank in the current bank syndicate. As at March 31, 2009, the effective rate applicable to the working capital facility was 3.2% (March 31, 2008 - 5.9%). The overall effective interest rate applicable to the bankers' acceptances in the revolving credit facility was 2.9% for the period ended March 31, 2009 (March 31, 2008 – 4.6%). As at March 31, 2009, Birchcliff had drawn \$228.9 million on its credit facilities. Also included as a reduction of the available working capital facility are letters of credit issued to various service providers in the amount of \$1.6 million at March 31, 2009 (December 31, 2008 – \$1.8 million).

The credit facilities allow for prime rate loans, US base rate loans, bankers' acceptances, letters of credit and LIBOR loans. The interest rates applicable to the drawn loans are based on a pricing grid and will increase as a result of the increased ratio of outstanding indebtedness to earnings before interest, taxes, depreciation and amortization.

The credit facilities are subject to the Syndicate's redetermination of the borrowing base twice a year as of October 31 and the conversion date. Upon any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall, Birchcliff must eliminate the borrowing base shortfall amount. The facility is secured by a fixed and floating charge debenture, an instrument of pledge, and a general security agreement encompassing all of the Corporation's assets.

### Syndicated Credit Facilities

The syndicated credit facility has a conversion date of May 22, 2009 and a maturity date which is two years after the conversion date. Birchcliff may request an extension of the conversion date with such an extension not exceeding 364 days, in order to maintain the revolving term facility. If the Syndicate does not grant an extension of the conversion date, then upon the expiry of the conversion date, the revolving term facility will convert to a term loan whereby all principal and interest will be required to be repaid at the maturity date.

### Working Capital Facility

The working capital facility has a conversion date of May 22, 2009 and a maturity date which is two years after the conversion date. Birchcliff may request an extension of the conversion date with such an extension not exceeding 364 days, in order to maintain the revolving working capital facility. If the Syndicate does not grant an extension of the conversion date, then upon four months after the expiry of the conversion date, the revolving working capital facility will convert to a term loan whereby all principal and interest will be required to be repaid at the maturity date.

## 6. 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 favour the financing of its growth strategy using internally-generated cash flow and its debt capacity; and to optimize the use of its capital to provide an appropriate investment return to its shareholders.

Birchcliff strives to properly exploit its current asset base and to acquire top quality assets. To that end, the Corporation is not averse to maintaining a high ratio of debt to total capital if management determines the assets it is acquiring or the projects it is drilling are of high quality.

The capital structure of the Corporation is as follows:

(\$000's)	March 31, 2009	December 31, 2008	Change %
Total shareholders' equity <sup>(1)</sup>	496,276	507,371	(2%)
Total shareholders' equity as a % of total capital	66%	67%	
Working capital deficit <sup>(2)</sup>	24,677	38,276	
Revolving credit facilities	228,867	211,586	
Total debt	253,544	249,862	1%
Total debt as a % of total capital	34%	33%	
<b>Total Capital</b>	<b>749,820</b>	<b>757,233</b>	<b>(1%)</b>

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

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

## 7. FINANCIAL INSTRUMENTS & RISK MANAGEMENT CONTRACTS

Birchcliff is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. This Note presents information about the Corporation's exposure to each of these risks, as well as Birchcliff's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and periodically reviews the results of all risk management activities and all outstanding positions. Management identifies and analyzes the risks faced by the Corporation and may utilize financial instruments to mitigate these risks.

### Credit risk

A substantial portion of the Corporation's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers. Of the Corporation's significant individual accounts receivable at March 31, 2009, approximately 39% was due from two marketers (December 31, 2008 - 21%, one marketer). Of the Corporation's revenues during the three months ended March 31, 2009, approximately 71% was received from three marketers and during the three months ended March 31, 2008 approximately 77% was received from four marketers. Typically, Birchcliff's maximum credit exposure to customers is revenue from two months of commodity sales.

The following table illustrates the Corporation's receivables:

(\$000's)	March 31, 2009	December 31, 2008
Marketers	12,229	15,265
Joint venture partners	8,124	14,500
Other	968	71
<b>Total Receivables</b>	<b>21,321</b>	<b>29,836</b>

Receivables from marketers are normally collected on the 25th day of the month following production. Birchcliff's policy to mitigate credit risk associated with these balances is to establish marketing relationships with credit worthy purchasers, to obtain guarantees from their ultimate parent companies and to obtain letters of credit as appropriate. The Corporation historically has not experienced any material collection issues with its marketers.

Cash and cash equivalents consist of bank balances and short term deposits maturing in less than 90 days. Historically the Corporation has not carried short term investments. Should this change in the future, counterparties will be selected based on credit ratings and management will monitor all investments to ensure a stable return, and complex investment vehicles with higher risk will be avoided.

The carrying amounts of accounts receivable and cash and cash equivalents represent the maximum credit exposure. As at March 31, 2009, the Corporation has a \$NIL allowance for doubtful accounts (December 31, 2008 – \$99,000).

The Corporation's accounts receivables are aged as follows:

(\$000's)	March 31, 2009	December 31, 2008
Current (less than 30 days)	16,716	20,175
30 to 60 days	3,618	3,723
61 to 90 days	764	4,771
Over 90 days	223	1,167
<b>Total Receivables</b>	<b>21,321</b>	<b>29,836</b>

## Liquidity Risk

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

The following table lists the contractual maturities of the Corporation's financial liabilities as at March 31, 2009:

(\$000's)	< 1 Year	1 – 2 Years	2 – 5 Years	Thereafter
Accounts payable and accrued liabilities	49,815	-	-	-
Revolving Credit Facilities <sup>(1)</sup>	-	-	228,867	-
<b>Total Financial Liabilities</b>	<b>49,815</b>	<b>-</b>	<b>228,867</b>	<b>-</b>

(1) The revolving credit facilities bear interest at a floating rate and includes a \$11.9 million working capital facility and a \$217.0 million syndicated credit facility.

Birchcliff prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Petroleum and natural gas production is monitored weekly and is used to provide monthly current cash flow estimates. To facilitate the capital expenditure program, the Corporation has a revolving reserves-based credit facility, as outlined in Note 5, which is reviewed at least annually by the lender. Birchcliff also attempts to match its payment cycle with collection of petroleum and natural gas revenues.

## Market Risk

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

### Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can materially impact the Corporation's borrowing base under its credit facility. Lower commodity prices can also reduce the Corporation's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Corporation may attempt to mitigate commodity price risk through the use of financial derivatives.

Birchcliff had no risk management contracts in place as at or during the three months ended March 31, 2009.

For the three months ended March 31, 2009, the realized and unrealized gain (loss) ("total gain (loss)") related to the oil price risk management contracts, recognized in net income, was \$NIL (March 31, 2008 - \$2.3 million loss). Included in the total loss for three months ended March 31, 2008 was a net cash outlay of \$3.2 million relating to the actual monthly settlements incurred during the period. An unrealized gain of approximately \$1.0 million for the three months ended March 31, 2008 was also included within the total loss, identified as "unrealized risk management contracts gain" on the statements of cash flows. The unrealized gain represents the change in the fair value of the contracts related to its expected future settlements.

The fair value of the Corporation's risk management liabilities at March 31, 2009 was \$NIL (March 31, 2008 - \$5.6 million). As of March 31, 2009 if WTI crude oil prices had been \$1.00 USD higher or lower, with all other variables held constant, the change in the fair value of the risk management contracts would have resulted in net income (loss) and other comprehensive income (loss) that was \$NIL (March 31, 2008 - \$177,300) higher or lower for the period.

### Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. During the three months ended March 31, 2009, the Corporation was not exposed to any foreign currency fluctuations with respect to its WTI oil option contracts. As at March 31, 2008 if the US dollar had depreciated 10% against the Canadian dollar with all other variables held constant, Birchcliff's net income and other comprehensive income for the three months would have been \$564,000 higher.

The Corporation had no forward exchange rate contracts in place as at or during the three months ended March 31, 2008 and 2009.

### Interest Rate Risk

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

For the three months ended March 31, 2009 if the interest rate had changed 1% with all other variables held constant, Birchcliff's net income (loss) and other comprehensive income (loss) would have changed by \$548,000 (March 31, 2008 - \$579,000). A sensitivity of 1% is considered reasonable given the current level of the bank prime rate and market expectations for future movements. The Corporation considers this risk to be limited and thus does not hedge its interest rate risk.

The Corporation had no interest rate swaps or financial contracts in place as at or during the three months ended March 31, 2008 and 2009.

### Fair Value of Financial Instruments

Birchcliff's financial instruments are classified as cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued liabilities, risk management contracts, and revolving credit facilities on the balance sheet.

The carrying value and fair value of these financial instruments at March 31, 2009 is disclosed below by financial instrument category, as well as any related loss and interest expense for the period.

Financial Instrument <sup>(1)</sup> (\$'000's)	Carrying Value	Fair Value	Loss	Interest Expense <sup>(2)</sup>
<b>Assets Held for Trading</b>				
Cash and cash equivalents	65	65	-	-
<b>Loans and Receivables</b>				
Accounts receivable and other current assets	21,321	21,321	-	-
<b>Other Liabilities</b>				
Accounts payable and accrued liabilities	49,815	49,815	-	-
Revolving credit facilities	228,867	228,867	-	2,276

(1) Due to the short term nature of cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued liabilities, their carrying values approximate their fair values. The revolving credit facilities bear interest at a floating rate and accordingly the fair market value approximates the carrying value before the carrying value is reduced for the remaining deferred financing costs.

(2) Included in interest expense on the statements of net income (loss), comprehensive income (loss) and retained earnings (deficit).

## 8. ASSET RETIREMENT OBLIGATIONS

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas properties including well sites, gathering systems and processing facilities. Birchcliff estimates the total undiscounted amount of cash flows required to settle its asset retirement obligation as at March 31, 2009 to be approximately \$68.5 million (December 31, 2008 - \$68.1 million) which will be incurred between 2009 and 2057. A credit-adjusted risk-free interest rate of 8% and an inflation rate of 2% were used to calculate the fair value of the asset retirement obligation.

A reconciliation of the asset retirement obligations is provided below:

(\$000's)	March 31, 2009	December 31, 2008
Balance, January 1	21,223	18,806
Obligations incurred	64	1,778
Obligations acquired	-	89
Changes in estimate	-	166
Accretion expense	384	1,466
Actual expenditures incurred	(251)	(1,082)
<b>Balance, December 31</b>	<b>21,420</b>	<b>21,223</b>

## 9. SHARE CAPITAL

### (a) Authorized:

Unlimited number of voting common shares  
 Unlimited number of non-voting preferred shares

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

### (b) Issued:

	Number of Common Shares	Amount \$
<b>Balance, December 31, 2007</b>	<b>94,554,269</b>	<b>342,818,621</b>
Issued upon exercise of stock options	1,133,925	6,009,537
Issued upon exercise of warrants (Note (c))	809,933	3,596,103
Issued, net of costs (Note (d))	15,897,843	123,088,169
Tax effect of share issue costs (Note (e))	-	1,970,000
<b>Balance, December 31, 2008</b>	<b>112,395,970</b>	<b>477,482,430</b>
Issued upon exercise of stock options	146,665	887,404
Tax effect of flow through shares (Note (d))	-	(3,750,000)
<b>Balance, March 31, 2009</b>	<b>112,542,635</b>	<b>474,619,834</b>

(c) In January 2008, 809,933 common shares were issued to a former officer in exchange for 809,933 performance warrants with an exercise price of \$3.00 for gross proceeds to the Corporation of \$2,429,799. In addition, \$1,166,304 of non-cash costs attributable to these warrants, which was previously recorded to contributed surplus, was reclassified from contributed surplus to share capital.

(d) On March 14, 2008, Birchcliff issued 1,522,843 flow-through shares at a price of \$9.85 per share and 14,375,000 common shares at a price of \$8.00 per share for total net proceeds of \$123,088,169. As at December 31, 2008, the commitment to spend and renounce \$15 million of qualified 100% deductible tax pools with respect to the flow-through shares was fulfilled.

(e) Birchcliff recognized a future income tax benefit of \$1,970,000 in respect of share issue costs of \$6,911,832 incurred with respect to the issuance of 15,897,843 shares on March 14, 2008.

## 10. STOCK-BASED COMPENSATION

The Corporation has established a stock-based compensation plan whereby officers, employees, directors and consultants may be granted options to purchase common shares at a fixed price not less than the fair market value of the stock at the time of grant, subject to certain conditions being met. Stock options granted under this plan vest over a three year period at the rate of one-third

on each anniversary date of the stock option grant. All stock options granted are for a five year term.

In order to calculate the compensation expense, the fair value of the stock options or performance warrants is estimated using the Black-Scholes option-pricing model that takes into account, as of the grant date: exercise price, expected life, current price, expected volatility, expected dividends, and risk-free interest rates.

### Stock Options

For the three months ended March 31, 2009, the Corporation recorded \$1.7 million (March 31, 2008 - \$1.2 million) of non-cash stock-based compensation expense and a corresponding increase to contributed surplus related to the issuance of stock options. During the three months ended March 31, 2009, the Corporation also recorded cash stock-based compensation expense of \$NIL (three months ended March 31, 2008 - \$20,000) related to cash paid to cancel vested stock options during the year.

Using the fair value method, the weighted average fair value of stock options granted during the three months ended March 31, 2009 was \$2.73 (three months ended March 31, 2008 - \$4.49) per option.

At March 31, 2009 the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of 11,254,264 common shares (March 31, 2008 - 11,186,308). At March 31, 2009, there remained available for issuance options in respect of 2,118,475 common shares (March 31, 2008 - 4,813,438).

A summary of the Corporation's outstanding stock options during the three months ended March 31, 2009 is presented below:

	Number	Weighted Average Exercise Price (\$)
<b>Outstanding, December 31, 2007</b>	<b>5,335,814</b>	<b>4.00</b>
Granted	2,330,000	8.23
Exercised	(1,133,925)	(3.74)
Forfeited	(202,668)	(4.75)
Cancelled	(5,000)	(3.75)
<b>Outstanding, December 31, 2008</b>	<b>6,324,221</b>	<b>5.58</b>
Granted	3,236,900	5.02
Exercised	(146,665)	(4.15)
Forfeited	(278,667)	(6.02)
<b>Outstanding, March 31, 2009</b>	<b>9,135,789</b>	<b>5.40</b>

The fair value of each option was determined on the date of the grant using the Black-Scholes option-pricing model. The weighted average assumptions used in calculating the fair values are set forth below:

	March 31, 2009	December 31, 2008
Risk-free interest rate	1.8%	3.1%
Expected maturity (years)	5.0	5.0
Expected volatility	63.4%	52.0%
Dividend yield	0%	0%

A summary of the stock options outstanding and exercisable under the plan at March 31, 2009 is presented below:

Exercise Price		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$3.00	\$6.00	6,812,522	3.46	\$4.43	2,517,829	1.80	\$3.65
\$6.01	\$9.00	1,877,367	3.73	\$7.24	667,732	3.58	\$7.23
\$9.01	\$12.00	158,100	4.35	\$10.68	9,033	3.95	\$9.57
\$12.01	\$14.25	287,800	4.26	\$13.24	-	-	-
		<b>9,135,789</b>	<b>3.56</b>	<b>\$5.40</b>	<b>3,194,594</b>	<b>2.18</b>	<b>\$4.41</b>

### Performance Warrants

In January 2005, as part of the Corporation's initial restructuring to become a public entity, the Corporation issued performance warrants with an exercise price of \$3.00 to members of its management team as a long term incentive. Each performance warrant entitles the holder to purchase one common share at the exercise price. At March 31, 2009 there were 2,939,732 performance warrants outstanding and exercisable (March 31, 2008 – 2,939,732).

In order to calculate the compensation expense, the fair value of the performance warrants was estimated using the Black-Scholes option-pricing model that takes into account, as of the grant date: exercise price, expected life, current price, expected volatility, expected dividends, and risk-free interest rates. Because the performance conditions were fulfilled in 2005, resulting in the performance warrants vesting and the full related expense being recorded in net income (loss) in that year, the Corporation recorded no compensation expense in the statement of net income (loss) relating to stock based compensation for the performance warrants for the three months ended March 31, 2009 and March 31, 2008.

A summary of the changes during the three months ended March 31, 2009 and the Corporation's outstanding performance warrants as at March 31, 2009 is presented below:

	Number	Weighted Average Exercise Price (\$)
<b>Outstanding, December 31, 2008</b>	<b>2,939,732</b>	3.00
Issued	-	-
Exercised	-	-
<b>Outstanding, March 31, 2009</b>	<b>2,939,732</b>	<b>3.00</b>

Date of Grant	Number Outstanding	Date of Expiry	Exercise Price	Number
January 14, 2005	2,939,732	January 31, 2010	\$ 3.00	2,939,732

### Contributed Surplus Continuity

	\$000's
<b>Balance, December 31, 2007</b>	<b>10,930</b>
Stock-based compensation expense <sup>(1)</sup>	5,004
Exercise of stock options	(2,930)
Cancellation of stock options <sup>(2)</sup>	(20)
<b>Balance, December 31, 2008</b>	<b>12,984</b>
Stock-based compensation expense <sup>(1)</sup>	1,747
Exercise of stock options	(279)
<b>Balance, March 31, 2009</b>	<b>14,452</b>

(1) Included in the stock-based compensation expense is the non cash impact of forfeitures and cancellations during the period.

(2) Included in the cancellation of stock options is cash paid to cancel 5,000 vested stock options during 2008

## 11. COMMITMENTS

The Corporation is committed under an operating lease beginning December 1, 2007 which expires on November 30, 2017. Birchcliff does not use all of the space and has sublet the excess

space to an arms' length party on a basis that recovers approximately 40% of the rental costs for the first five years. The Corporation is committed to the following aggregate minimum lease payments (not reduced by rents receivable by the Corporation):

Year	\$000s
2009	2,410
2010	3,214
2011	3,214
2012	3,223
2013	3,331
Thereafter	13,045

The Corporation is also committed to March 29, 2011 under an operating lease for another premise that it does not use and has sublet to an arm's length party on a basis that recovers all of its rental costs.

## 12. SUPPLEMENTARY CASH FLOW INFORMATION

The following table details the components of non-cash working capital:

Three months ended (\$000's)	Three months ended March 31, 2009	Three months ended March 31, 2008
Provided by (used in)		
Accounts receivable	8,515	(5,920)
Prepaid and other	(720)	(485)
Accounts payable and accrued liabilities	(21,393)	24,752
	<b>(13,598)</b>	<b>18,347</b>
Operating	5,750	(7,820)
Investing	(19,348)	26,167
	<b>(13,598)</b>	<b>18,347</b>

**Forward Looking Statements:** *This document contains forward-looking statements regarding the business and operations of Birchcliff Energy Ltd. Please see the information and warnings regarding such forward looking statements set forth above in Management's Discussion and Analysis.*

Birchcliff is a publicly traded company that trades on the TSX Exchange under the symbol "BIR".

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