



## **ANNUAL INFORMATION FORM**

For the year ended December 31, 2009

March 30, 2010

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## DEFINITIONS AND ABBREVIATIONS

In this Annual Information Form, the capitalized terms set forth below have the following meanings:

“**ABCA**” means the *Business Corporations Act* (Alberta);

“**AJM**” means AJM Petroleum Consultants;

“**AJM Evaluation**” means the independent evaluation dated February 16, 2010 of the Corporation’s oil and gas assets as at December 2009;

“**Annual Information Form**” means this Annual Information Form dated March 30, 2010;

“**Birchcliff**” or “**Corporation**” means Birchcliff Energy Ltd.;

“**COEGH**” means the Canadian Oil and Gas Evaluation Handbook;

“**Common Shares**” means common shares of the Corporation; and

“**TSX**” means Toronto Stock Exchange.

In this Annual Information Form, the abbreviations set forth below have the following meanings:

“bbl”	barrel
“boe”	barrels of oil equivalent
“bbls/day”	barrels per day
“boe/day”	barrels of oil equivalent per day
“mdbl”	1,000 barrels
“mboe”	1,000 barrels of oil equivalent
“mmboe”	1,000,000 barrels of oil equivalent
“mdbl”	1,000,000 barrels
“NGLs”	natural gas liquids
“mmcf”	1,000,000 cubic feet
“mcf”	1,000 cubic feet
“mmcf/day”	1,000,000 cubic feet per day
“mcf/day”	1,000 cubic feet per day
“bcf”	1,000,000,000 cubic feet

### Boe conversions

Barrel of oil equivalent (“**boe**”) amounts may be misleading, particularly if used in isolation. In this Annual Information Form boe amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalent and is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

This conversion basis conforms to National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators (“**NI 51-101**”).

### Currency

In this Annual Information Form, unless otherwise noted, all dollar amounts are expressed in Canadian dollars.

## FORWARD LOOKING INFORMATION

This Annual Information Form and the documents incorporated by reference herein contain certain forward-looking statements and forward-looking information (hereinafter collectively referred to as “forward-looking information”) within the meaning of applicable Canadian securities laws. These statements relate to future events or 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”, “potential”, “proposed” and other similar words, or statements that certain events or conditions “may” or “will” occur, are intended to identify forward-looking statements.

In particular, this Annual Information Form and the documents incorporated by reference herein contain forward-looking information, including among other places, under the headings “Description of the Business”, “Reserves Data and Other Information” and “Risk Factors”. This forward-looking information includes but is not limited to statements regarding: business strategy, plans and priorities; planned drilling, exploration and development; planned 2010 capital spending and sources of funding; expected production from wells in the Peace River Arch and overall production; expected capacity of the Pouce Coupe South Gas Plant; expected results from the Corporation’s portfolio of oil and gas assets; the quantity and development of oil and gas reserves; future net cash flows and discounted cash flows; expected operating, general administrative, services, environmental compliance costs and expenses; royalty rates and incentives; treatment under tax laws; and other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations or performance. 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 information.

Statements regarding oil and gas reserves contained in the “Statement of Reserves Data and Other Oil and Gas Information” incorporated by reference to this Annual Information Form and elsewhere may be deemed to be forward-looking information as such statements involve the implied assessment that the resources described can be profitably produced in the future.

With respect to such forward-looking information 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 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; 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; and various assumptions as to future prices for crude oil and natural gas, currency exchange rates, inflation rates, future well production rates, well drainage areas, success rates of future well drilling and future costs and availability of labour and services. With respect to estimates of reserves volumes and associated future net revenues and numbers of future wells to be drilled a key assumption is the validity of the commodity prices, currency exchange rates, future capital and operating costs and well production rates forecast by the Corporation’s independent reserves evaluator. With respect to the number of future wells to be drilled a key assumption is the validity of the geological and other technical interpretations that have been performed by Birchcliff’s technical staff and that indicate that commercially economic reserves can be recovered from Birchcliff’s lands as a result of drilling such future wells.

Undue reliance should not be placed on forward-looking information, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. Forward-looking information involves numerous assumptions, uncertainties and both known and unknown risks. There is a risk that such predictions, forecasts, and projections may 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. Some of those risks include: risks inherent of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and nature gas, market demand and unpredictable facilities outages; risks and uncertainties involving geology of oil and gas deposits; uncertainty of reserves and resources estimates, reserves life and underlying reservoir risk; general economic conditions in Canada, the United States and globally; changes in governmental regulation of the oil and gas industry, including environmental regulation; fluctuations in foreign exchange rates or interest rates; adverse conditions in the debt and equity markets; and competition from others for scarce resources.

The foregoing list of risk factors is not exhaustive. The forward-looking information contained in this Annual Information Form and the documents incorporated by reference herein are expressly qualified by this cautionary statement. Additional information on these and other risk factors that could affect operations or financial results are included under the heading “Risk Factors” in this Annual Information Form; in the “Statement of Reserves Data and Other Oil and Gas Information”; in the Report on Reserves Data by Birchcliff’s Independent Qualified Reserves Evaluator; and in the Report of Management and Directors on Oil and Gas Disclosure. In addition, information is available in the Corporation’s other reports filed with Canadian securities regulatory authorities.

Forward-looking information is based on estimates and opinions of management at the time the information is presented. The Corporation is not under any duty to update the forward-looking information after the date of this Annual Information Form to conform such information to actual results or to changes in the Corporation’s plans or expectations, except as otherwise required by applicable securities laws.

## **CORPORATE STRUCTURE**

Birchcliff Energy Ltd. (“**Birchcliff**” or the “**Corporation**”) was originally incorporated under the ABCA as 1116463 Alberta Ltd. on July 6, 2004 and changed its name to Birchcliff Energy Ltd. on September 10, 2004.

On January 18, 2005, Birchcliff amalgamated under the ABCA with Scout Capital Corp. (“**Scout**”), a public corporation, pursuant to a Plan of Arrangement to form an amalgamated corporation that continued under the name Birchcliff Energy Ltd.

On May 31, 2005, Birchcliff amalgamated under the ABCA with Veracel Inc. (“**Veracel**”) pursuant to a Plan of Arrangement to form an amalgamated corporation that continued under the name Birchcliff Energy Ltd.

Birchcliff has no subsidiaries.

The Common Shares of Birchcliff are listed for trading on the TSX under the trading symbol “**BIR**” and are included in the Standards and Poor’s S&P/TSX Composite Index.

The registered and head office of Birchcliff is located at 500, 630 – 4 Ave. S.W., Calgary, Alberta T2P 0J9.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

Birchcliff is an oil and gas exploration, development and production company based in Calgary, Alberta. The Corporation is focused primarily on exploration and development within the Peace River Arch area of Alberta.

Birchcliff was incorporated as a private corporation in July of 2004 and in September, 2004 it assembled a management team and began to hire a full technical team and a small complement of administrative staff.

Birchcliff’s initial startup costs were funded from \$700,000 of loans from Jeff Tonken and Larry Shaw which were repaid in January of 2005 along with all accrued interest.

On January 18, 2005 Birchcliff raised gross proceeds of approximately \$60 million from the issuance of equity and completion of the amalgamation with Scout.

Following the amalgamation with Scout, on January 19, 2005, the common shares of Birchcliff were listed for trading on the TSX Venture Exchange under the trading symbol “BIR”.

On March 29, 2005, Birchcliff contracted to acquire significant oil and natural gas properties in the Peace River Arch area of Alberta for a purchase price of approximately \$242.8 million, net of closing adjustments (the “**PRA Acquisition**”).

On May 5, 2005, Birchcliff completed its acquisition of some minor oil and natural gas assets in the Peace River Arch area of Alberta for a purchase price of approximately \$2.7 million, net of closing adjustments.

On May 31, 2005, Veracel raised \$136 million of gross proceeds from the issuance of equity and completed its amalgamation with Birchcliff.

On May 31, 2005, following its amalgamation with Veracel, Birchcliff completed the PRA Acquisition. These properties were estimated to be producing approximately 4,350 boe/day at that time. Birchcliff estimates that it acquired 8.3 million boe of proved reserves and 11.4 million boe of proved plus probable reserves as a result of this acquisition.

On May 31, 2005, in conjunction with the PRA Acquisition, Birchcliff established a \$70 million revolving credit facility with a Canadian chartered bank which is subject to the lender’s review semi-annually in May and October of each year.

On June 2, 2005, Birchcliff raised \$10 million of gross proceeds from the issuance of 2 million Common Shares issued at a price of \$5.00 per Common Share on a flow-through basis.

On July 21, 2005 Birchcliff’s Common Shares were listed for trading on TSX under the trading symbol “BIR” and were de-listed from TSX Venture Exchange.

On November 1, 2005, as part of the semi-annual review process, the Corporation increased its revolving credit facility limit from \$70 million to \$80 million on the same terms as the original credit facility.

On December 20, 2005, Birchcliff raised \$13.5 million of gross proceeds from the issuance of 1,482,400 Common Shares issued at a price of \$9.12 per Common Share on a flow-through basis.

On May 25, 2006, Birchcliff’s credit facility was amended and syndicated into a syndicated extendible revolving term credit facility with an authorized limit of \$105 million and an extendible revolving working capital facility with an authorized limit of \$15 million. The mid-year review was completed in October 2006 and the credit facilities amounts remained unchanged at a combined \$120 million. The \$120 million of credit facilities were provided by a syndicate of two Canadian chartered banks.

On November 22, 2006, Birchcliff raised gross proceeds of \$30,109,000 from the issuance of 3,200,000 Common Shares at a price of \$4.40 per Common Share and 2,740,000 Common Shares issued at a price of \$5.85 per Common Share on a flow-through basis.

On September 4, 2007, Birchcliff entered into a purchase and sale agreement to acquire from Compton Petroleum Corporation, oil and natural gas assets (the “**Worsley Property**”) in the Peace River Arch area of Alberta for total cash consideration of \$270 million before closing adjustments and related costs (the “**Worsley Acquisition**”).

On September 27, 2007, Birchcliff raised gross proceeds of \$115,000,046 from the issuance of 30,263,170 Common Shares at a price of \$3.80 per Common Share. The net proceeds to the Corporation of approximately \$109,000,000 were used to fund a portion of the purchase price of the Worsley Property.

On September 27, 2007, the Corporation’s \$120 million revolving credit facilities were increased to \$200 million in aggregate and a new \$100 million non-revolving credit facility was added in conjunction with the completion of the Worsley Acquisition. The terms of the revolving credit facilities remained the same. The non-revolving credit facility was drawn in full on September 27, 2007 to fund a portion of the purchase price of the Worsley Property and had a maturity date of September 27, 2008.

On September 27, 2007, Birchcliff completed the Worsley Acquisition for a net purchase price of approximately \$263.3 million after estimated interim closing adjustments.

On March 14, 2008, Birchcliff raised gross proceeds of \$130 million from the issuance of 14,375,000 Common Shares at a price of \$8.00 per Common Share and the issuance of 1,522,843 Common Shares on a

flow-through share basis at a price of \$9.85 per Common Share and repaid in full all amounts outstanding under the \$100 million non-revolving credit facility.

On June 25, 2008 the Corporation's revolving credit facilities were increased to \$240 million in aggregate.

On April 17, 2009, Birchcliff received the necessary regulatory approval for the construction of its Pouce Coupe South natural gas processing plant.

On May 21, 2009, Birchcliff amended its credit agreement with its bank syndicate which increased its existing revolving credit facilities to an aggregate limit of \$255 million from \$240 million and extended the conversion date of those facilities until May 21, 2010. The revolving credit facilities consist of an extendible revolving term credit facility with an authorized limit of \$235 million and an extendible revolving working capital facility with an authorized limit of \$20 million.

On May 21, 2009, Birchcliff established a new \$50 million non-revolving one year term credit facility (the "**Term Facility**"). The Corporation's use of the Term Facility is subject to consent of the banking syndicate at the time of draw-down.

On June 30, 2009, Birchcliff raised gross proceeds of \$62 million from the issuance of 8,000,000 Common Shares under a prospectus at a price of \$6.20 per share and the issuance of 2,000,000 Common Shares at a price of \$6.20 per share to its major shareholder under a private placement.

On January 15, 2010, Birchcliff received the approval from its syndicate of banks to extend the maturity date of the Term Facility to May 21, 2011.

### **SIGNIFICANT ACQUISITIONS**

No significant acquisitions were completed during the financial year ended December 31, 2009.

### **DESCRIPTION OF THE BUSINESS**

Birchcliff is engaged in the business of exploring for, developing and producing oil and natural gas resources in the Western Canadian Sedimentary Basin. Birchcliff's operations are focused within the Peace River Arch area of Northern Alberta, which is one of the most prolific natural gas-producing areas of the Western Canadian Sedimentary Basin. The Peace River Arch is generally characterized by having multiple horizons with a myriad of structural, stratigraphic and hydrodynamic traps. Most significant is the abundance of prolific resource plays, related in part to the proximity of the area to the Deep Basin, where generation and trapping of hydrocarbons preferentially occurs. The Peace River Arch also provides a significant amount of all-season access that allows Birchcliff to drill, equip and tie-in wells on an almost continuous basis, excluding the spring breakup period.

Birchcliff's business model envisages continuous growth through both drilling and the acquisition of suitable properties via asset purchases, farm-ins and corporate acquisitions or mergers. The Corporation is always reviewing potential property acquisitions, joint venture opportunities and corporate mergers and acquisitions that relate to its focus area 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 and acquisition opportunities, but Birchcliff cannot be reasonably confident that it can complete any such transaction until appropriate legal documentation has been signed.

Wells in the Peace River Arch have the potential to initially produce 500-10,000 mcf/day (83-1,666 boe/day) of natural gas or 30-500 boe/day of light oil. Drilling depths on a true vertical depth basis can range from 300 meters on Birchcliff's shallower horizons to 2,700 meters on Birchcliff's deeper, higher impact targets.

The Montney/Doig natural gas resource play wells are approximately 2,300-2,500 meters for a vertical well and 4,000-5,000 meters measured depth for a horizontal well. Initial well productivity for the vertical wells is 500-1,000 mcf/day, (83-166 boe/day) while initial well productivity for the horizontals are 3,000-10,000

mcf/day (500-1,666 boe/day). As Birchcliff develops this play and increases its knowledge relating to horizontal well drilling and multi-stage fracture stimulation techniques, results continue to improve with higher production rates, improved production profiles and correspondingly increased reserves in the more recent wells.

Birchcliff continues to advance technologies that are applied to support both the Montney/Doig natural gas resource play and the Worsley light oil resource play. In addition, the capital cost for horizontal wells has continued to decrease as efficiencies are realized with utilization of multi-well pads and existing infrastructure and increased cost competitiveness in the service sector.

Typical wells for the Worsley light oil resource play are drilled to 1,400 meters for a vertical well and 2,500-3,000 meters measured depth for the horizontal wells. Initial well productivity for the Worsley vertical wells is 30-100 boe/day and for the horizontal wells is 60-400 boe/day.

### **Specialized Skill and Knowledge**

Birchcliff's business requires the application of extremely high levels of technical skill in the areas of geology and geophysics, well drilling and completions and well production operations. Birchcliff has assembled a team of skilled technical experts who provide the technical skills required to succeed in its business. At December 31, 2009, Birchcliff had 65 full time and 7 part time employees and 4 contract service providers in its head office, 21 full time employees and 7 contract service providers working out of its field office in Spirit River, Alberta and 14 employees and 4 contract service providers working out of its field office in Worsley, Alberta. Additionally, for drilling operations and many other well completion or service operations, Birchcliff hires skilled contractors to perform such operations.

Since the acquisition of the Worsley Property, Birchcliff's technical teams had been divided into four distinct business Districts called the West, Central, East and North Districts to maximize technical and operational expertise, and to optimize its assets. In early 2010, the Central District has been merged into the East District. Birchcliff also has personnel and resources for reviewing strategic acquisitions.

### **Product Sales**

The only significant products produced and sold by the Corporation are light crude oil, natural gas and natural gas liquids. Virtually all of these products are sold on a short term basis at prices that are a function of current market prices. None of the Corporation's products are sold to non-arm's length parties or to shareholders.

The following table sets forth the aggregate sale of those products produced by Birchcliff during the years ended December 31, 2008 and December 31, 2009.

<b>Product</b>	<b>2008 Sales Revenues (\$000)</b>	<b>2009 Sales Revenues (\$000)</b>
Natural Gas	128,673	74,754
Light Crude Oil	105,747	68,916
Natural Gas Liquids	12,661	6,369

### **Competition**

The oil and natural gas industry is competitive in all its phases. The Corporation competes with numerous other participants in the search for, and the acquisition of, lands, oil and natural gas projects and properties. Birchcliff's competitors include companies which have more financial resources, staff and facilities than those of the Corporation. Birchcliff believes that it has a competitive advantage in its focus areas based upon the facilities and land base it controls and the experience it has developed on the plays it pursues.

## **Seasonal Factors**

The exploration for and development of oil and natural gas reserves in Birchcliff's focus areas is dependent on access to areas where operational activities are to be conducted. Seasonal weather variations, including freeze-up and break-up can delay such access.

## **Environmental Regulation**

The oil and gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. Compliance with such legislation can require significant expenditures or result in operational restrictions. Breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage and the imposition of material fines and penalties, all of which might have a significant negative impact on earnings and overall competitiveness. See below under the headings "Risk Factors - Environmental Risks".

## **Principal Properties**

The following is a description of Birchcliff's principal oil and natural gas properties as at December 31, 2009. Unless otherwise stated, production stated is the average gross sales volumes for the period indicated in respect of the Corporation's working interest before the deduction of royalties and before royalty income volumes. Unless otherwise specified, gross and net acreage and well information is at December 31, 2009.

### ***West District***

The West District is Birchcliff's largest District, producing approximately 5,683 boe/day in 2009. It is centered approximately 95 kilometers northwest of the city of Grande Prairie and adjacent to the Alberta/British Columbia border and is comprised of the Pouce Coupe, Pouce Coupe South and Glacier regions. As of December 31, 2009 Birchcliff has interests in approximately 140,047 (117,542 net) acres of land, of which 93,426 (84,606 net) acres are undeveloped.

In addition to the 100% owned Pouce Coupe South Gas Plant ("**PCS Gas Plant**"), which recently commenced start-up operations, Birchcliff operates one 100% owned sweet gas plant and has ownership in two other sweet gas plants within the District, one at 15.0% and one at 32.9% working interest. Currently sour gas production from the area is processed at a Progress gas plant in which Birchcliff owns a small working interest or delivered to the Spectra gathering system and processed under firm service contracts at either of the Fourth Creek plant or Gordondale East plant, both of which are operated by Spectra.

The West District offers Birchcliff multiple, stacked targets down to depths of 2,700 meters. The primary natural gas horizons in the area are the deeper Kiskatinaw, Montney, Doig, Halfway and Charlie Lake formations, along with the medium depth Dunvegan, Bluesky, Gething and Nikanassin formations. Birchcliff also holds interests in a large Boundary Lake oil pool. In 2009 Birchcliff drilled 11 (8.3 net) wells in the West District, spending a total of \$72.0 million.

Birchcliff is planning to spend \$115.3 million in 2010 in the West District which would include 19 (14.8 net) wells. The program includes 2 (2.0 net) vertical exploration wells intended on expanding the Montney/Doig natural gas resource play. The program also includes 16 (12.1 net) wells that are planned to be horizontal Montney/Doig wells. The last well is a Boundary Lake development oil well that will be Birchcliff's first attempt at utilizing horizontal drilling technology in this zone. Almost one-half of the proposed wells will be drilled on lands that currently do not have any reserves assigned to them.

The majority of Birchcliff's Montney/Doig natural gas resource play exists in the West District and to a much lesser extent, in the East District. Birchcliff's full cycle exploration strategy for the Montney/Doig natural gas resource play continued to be successful in 2009. The program included 3 (2.1 net) vertical exploration wells that were all successful in finding new pools. To maximize production and reserves, Birchcliff continued to optimize horizontal natural gas drilling and multi-stage fracture stimulation operations, drilling 8 (6.2 net) horizontal natural gas wells in 2009. Birchcliff has been successful in reducing the average costs of these wells. Recently Birchcliff drilled, cased, completed, equipped and tied-in a Montney/Doig horizontal gas well off an existing pad for under \$4 million.

Most of Birchcliff's capital and efforts on the Montney/Doig natural gas resource play continue to be focused on the Basal Doig/Upper Montney zones. In an effort to expand the stratigraphic potential of the play, of the 8 horizontal natural gas wells drilled in 2009, 3 (2.4 net) were drilled in the Middle/Lower

Montney stratigraphic zones. The success of these horizontal wells and the vertical wells drilled in 2009 have significantly expanded the stratigraphic potential of the Montney/Doig natural gas resource play on Birchcliff's lands. Birchcliff and other industry competitors believe the Middle/Lower Montney reservoir characteristics are similar to the Basal Doig/Upper Montney reservoirs and Birchcliff's drilling results to date have met or exceeded Birchcliff's expectations.

Birchcliff's strategy has been focused on exploration and delineation, acquiring land and drilling vertical wells to obtain geological and reservoir information. Birchcliff then drills horizontal wells that are completed using multi-stage fracture stimulation technology to optimize production and reserves. In general, Birchcliff has been drilling only one well per section and building out the infrastructure.

A critical criteria of this Montney/Doig natural gas resource play is well spacing. Industry competitors typically have been drilling up to 4 wells per section per stratigraphic zone on 400 meter inter-well distances (160 acre spacing). Recently, various industry competitors in the Peace River Arch area are drilling up to 8 wells per section (80 acre spacing units) per stratigraphic zone or 200 meter inter-well distances.

AJM's reserve assignments to Birchcliff's lands on this play are currently based on 400 meter inter-well distances (160 acre spacing). Birchcliff has done and will continue to do significant technical work that supports reducing inter-well distances that Birchcliff expects will provide AJM sufficient evidence so that AJM will ultimately assign future horizontal locations and reserves based on reduced inter-well distances.

A significant development on the Montney/Doig natural gas resource play for Birchcliff in 2009 was proving the viability of short length horizontals which will help maximize reserve recovery. Due to the preferred orientation Birchcliff uses to drill horizontal wells and the complications of land holdings, there are corners of sections where a full length horizontal cannot be drilled. Birchcliff completed a 700 meter interval on one of its full length horizontal wells, with 7 stages of fracture stimulation, to demonstrate what a short horizontal well was capable of. With the very favorable results from this well the AJM Evaluation assigned reserves to 53 (43.9 net) future short length horizontal locations.

Birchcliff continues to put extensive capital and technical time and effort into tight gas and shale gas technologies to better understand the reservoir characteristics, optimal completion techniques and ultimate potential of these resource plays in general and the Montney/Doig natural gas resource play specifically.

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

#### ***North District***

The North District is now Birchcliff's second largest District, producing approximately 3,216 boe/day in 2009. The principal asset in the North District is the Worsley Charlie Lake light oil pool.

Birchcliff drilled 4 (4 net) light oil wells at Worsley during 2009. Of the wells drilled, 3 were vertical and 1 was horizontal, all of which were cased. The total capital spent in the North District in 2009 was \$17.7 million. In addition to the infill drilling, the drilling program was very successful in delineating extensions to the pool to the west, which increased Birchcliff's estimate of original oil in place. In 2009, Birchcliff drilled a horizontal light oil well and completed it using multi-stage fracture stimulation technology. This new horizontal light oil well came on production at approximately 400 boe per day. With this success, a sizeable number of follow up locations have been identified. Birchcliff also drilled 3 (3.0 net) vertical infill and delineation oil wells extending the pool to the west.

The Worsley pool continues to be an excellent asset. Strong production performance, successful expansion of the pool, water flood performance, application of horizontal drilling and multi-stage fracture stimulation technology, continued reserve growth as well as high netback production all contribute to this high quality

asset. Since its acquisition in late September 2007, the Worsley property has provided \$112 million of cash flow and Birchcliff has re-invested \$80 million in the property.

The North District includes strategic plant, facility and pipeline interests and 114,008 (100,130 net) acres of land of which 91,608 (84,577 net) acres are undeveloped. Birchcliff owns and operates an oil battery and oil storage facilities at Worsley with a 90.7% working interest and an associated gas plant with a 98.8% working interest. It also owns a 29.7% working interest in another sweet gas plant in this District.

Since purchasing the Worsley property in 2007 Birchcliff has significantly expanded the water flood by drilling one for-purpose injection well, and converting seven other producers to injectors. As a result of these activities, about a third of the Birchcliff owned portion of the Worsley light oil pool is under water flood. To date the water flood response has exceeded expectations and Birchcliff is committed to further expansion of the water flood.

Plans for 2010 include following up the successful horizontal wells drilled in the north end of the pool with 3 (3.0 net) more horizontal wells utilizing multi stage fracture stimulation technology to increase productivity. The south east end of the pool will see 5 (5.0 net) multi lateral horizontals, these wells take advantage of the current drilling credit royalty reduction program and horizontal drilling technology. In the water flood area 5 (5.0 net) wells are planned. In addition 5 (4.7 net) wells are planned for the south expansion of the water flood area. The total capital spending program for 2010 is planned to be approximately \$33.6 million.

### ***East District***

The East District is Birchcliff's third largest District producing approximately 2,318 boe/day in 2009.

To increase efficiencies and improve effective work flow Birchcliff has recently merged the previously named Central District into the East District. A primary focus of the East team is to extend Birchcliff's existing resource plays into the East District as well as to research, evaluate and test new resource plays in the area. Birchcliff has significant infrastructure, production and land within this District.

The East District is a multi-zone natural gas and oil property centered approximately 50 kilometers northeast of Grande Prairie. As of December 31, 2009, Birchcliff has interests in approximately 307,890 (231,156 net) acres of land of which 213,272 (183,966 net) acres are undeveloped. Birchcliff operates two gas plants in the East District, one sour gas plant with a 55.5% working interest, one sweet plant with a 100% working interest and has ownership interests in five other gas plants and two oil batteries within the District. Overall working interest production for the East District averaged 2,318 boe/day in 2009.

In 2009, Birchcliff spent \$7.6 million in the East District drilling 3 (3.0 net) wells. One well was a successful Montney/Doig horizontal light oil well, the second well was a successful Montney/Doig vertical light oil well, and the third well was an exploration well that resulted in a dry hole.

### **Facilities**

Birchcliff has recently completed construction of its PCS Gas Plant and startup operations are underway. This new facility is designed to be emissions free, has an initial design processing capacity of approximately 30 mmcf per day and is connected by a sales pipeline to the NOVA system. Construction of Phase I of the PCS Gas Plant cost approximately \$50 million which includes expenditures for the plant, the associated acid gas disposal well, related infrastructure including natural gas gathering and sales pipelines and other associated costs.

Birchcliff expects the PCS Gas Plant will add approximately 3,500 boe per day net to Birchcliff, vaulting its production to approximately 14,000 boe per day by the end of April, 2010.

In addition to the PCS Gas Plant, Birchcliff operates four natural gas plants within the Peace River Arch and has an interest in seven other plants. These provide third party processing revenue and, more importantly, allow control of production and operating flexibility in this highly competitive and desired operating area. Birchcliff also has interests in 29 compressors and three oil batteries, of which two oil batteries are operated by Birchcliff.

The major facilities in which Birchcliff has an interest include:

<b>Facility Description</b>	<b>Location</b>	<b>Operated</b>	<b>WI%</b>	<b>Facility Design Capacity (mmcf/day)</b>
<b>West District</b>				
Pouce Coupe South Gas Plant	03-22-078-12W6	Yes	100	30 sour
Pouce Coupe North Gas Plant	07-08-080-12W6	Yes	100	15 sweet
Gordondale West Gas Plant	11-24-079-11W6	No	32.9	26 sweet
Pouce Coupe South Gas Plant	16-07-078-11W6	No	5.2	18 sweet
<b>East District</b>				
Progress Gas Plant	01-01-078-10W6	No	2.6	142 sour
Progress Gas Plant	07-22-078-09W6	No	0.3	44 sour
Progress Oil Battery	04-33-078-08W6	No	43.4	-
Rycroft Gas Plant	07-02-077-04W6	Yes	55.5	24 sour
Bezanson Gas Plant	01-18-071-03W6	Yes	100	14 sweet
Rycroft Gas Plant	15-11-076-06W6	No	50	17 sweet
Rycroft Gas Plant	08-25-077-06W6	No	2.4	4 sour
Woking Oil Battery	14-18-075-03W6	Yes	22.5	-
<b>North District</b>				
Worsley Oil Battery and Storage Facilities	08-21-087-09W6	Yes	90.7	-
Worsley Gas Plant	08-21-087-09W6	Yes	98.8	10 sour
Boundary Lake South Gas Plant	01-18-084-12W6	No	29.7	47 sweet

#### **RESERVES DATA AND OTHER OIL AND GAS INFORMATION**

An independent evaluation dated February 16, 2010 of the Corporation's oil and gas assets as at December 31, 2009 (the "**AJM Evaluation**") was prepared by AJM in accordance with COGEH and NI 51-101.

The reserves data derived from the AJM Evaluation and other information required to be disclosed by NI 51-101 is contained in the following documents:

Form 51-101F1 Statement of Reserves Data and Other Oil and Gas Information dated March 30, 2010;

Form 51-101F3 Report of Management and Directors on Oil and Gas Disclosure; and

Form 51-101F2 Report on Reserves Data by Independent Qualified Reserves Evaluator.

Each of these documents will be filed on SEDAR contemporaneously with this Annual Information Form and each is incorporated herein by reference.

These forms can be accessed on SEDAR at [www.sedar.com](http://www.sedar.com).

## DIVIDEND POLICY

The Corporation has not paid any dividends on its Common Shares and it is unlikely to pay any dividends on its Common Shares in the foreseeable future.

## CAPITAL STRUCTURE

The authorized capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series, each without par value. At December 31, 2009, there were outstanding 123,815,002 Common Shares and there were no preferred shares outstanding. The material characteristics of each class of authorized shares are set forth below.

### Common Shares

The holders of Common Shares are entitled to receive notice of, to attend at and to vote one vote per Common Share at meetings of shareholders of the Corporation, to receive dividends declared on the Common Shares, and subject to the rights of the holders of shares ranking prior to the Common Shares, to receive *pro rata* the remaining property of Common Shares upon dissolution in equal rank with the holders of other Common Shares of the Corporation and such other rights, privileges and restrictions normally attached to Common Shares.

### Preferred Shares

The preferred shares are issuable in series and each series will have such designation, rights, privileges, restrictions and conditions as are fixed by the directors at the time of issue. As a class, the preferred shares are entitled to preference over the Common Shares with respect to the payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding-up.

The preferred shares of each series shall rank on a parity with the preferred shares of every other series provided that when any cumulative dividends or amounts payable on return of capital in respect of any series are not paid in full in accordance with their respective terms, the preferred shares of all series shall participate rateably in respect of such dividends in accordance with the sums which would be payable on such shares if all such dividends were declared and paid in full in accordance with their respective terms and on any return of capital in accordance with the sums payable on such return of capital if all sums so payable were paid in full in accordance with their terms.

## MARKET FOR SECURITIES

The Common Shares are listed for trading on TSX under the trading symbol “BIR”. The following table sets forth the price ranges and volumes of the Common Shares that were traded on TSX during 2009.

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Monthly Trading Volume</u>	<u>Average Daily Volume</u>
January	\$6.19	\$4.61	11,189,165	532,817
February	\$5.29	\$3.47	15,871,202	835,326
March	\$7.45	\$4.25	26,208,755	1,191,307
April	\$7.00	\$5.72	18,680,974	889,570
May	\$7.06	\$5.88	12,146,386	607,319
June	\$6.81	\$5.45	16,687,978	758,544
July	\$6.54	\$5.05	11,595,997	527,091
August	\$6.75	\$6.15	8,808,496	440,425
September	\$8.40	\$6.50	14,937,653	711,317
October	\$8.96	\$7.14	10,466,652	498,412
November	\$8.17	\$7.10	6,587,320	313,682
December	\$9.65	\$7.16	4,822,683	229,652

**ESCROWED SECURITIES AND SECURITIES SUBJECT  
TO CONTRACTUAL RESTRICTIONS ON TRANSFER**

There are no securities of Birchcliff being held in escrow or subject to contractual restrictions on transfer as at the date hereof.

**DIRECTORS AND OFFICERS**

The Corporation has six executive officers, one of whom also sits on the Corporation's Board of Directors (the "Board"). The balance of the Board is comprised of three outside directors. The Corporation's Board has an Audit Committee, a Compensation Committee and a Reserves Evaluation Committee, each of which is comprised of the three independent directors, namely Gordon W. Cameron, Larry A. Shaw, and Werner A. Siemens. Because of the small size of the Board, the Corporation does not have separate corporate governance or executive committees. Unless he resigns, each director will hold office until the Corporation's next annual meeting of shareholders or until his successor is duly elected or appointed.

At December 31, 2009, the directors and officers of the Corporation and their immediate families, as a group, beneficially owned, or exercised control or direction over, directly or indirectly, 6,475,771 Common Shares representing approximately 5.2% of the 123,815,002 Common Shares issued and outstanding at that date.

At December 31, 2009, just the directors and officers of the Corporation, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 4,922,983 Common Shares representing approximately 4% of the 123,815,002 Common Shares issued and outstanding at that date.

At December 31, 2009, the directors and officers, as a group, also held options to purchase 2,550,400 Common Shares and performance warrants to purchase 2,939,732 Common Shares. Therefore the fully diluted holdings of directors and officers as a group were 10,413,115 Common Shares or approximately 7.7% of the 134,464,987 Common Shares that were outstanding on a fully diluted basis at that date.

The following table sets forth the name, province and country of residence, year first elected to the Board and principal occupation during the past five years of each of the current directors of the Corporation.

<b>Name, Province and Country of Residence</b>	<b>Position with Birchcliff</b>	<b>Principal Occupations During the Past Five Years</b>
<b>A. Jeffery Tonken Alberta, Canada</b>	President, Chief Executive Officer and Director since January 18, 2005	President and Chief Executive Officer of Birchcliff since January 2005.
<b>Larry A. Shaw<sup>(1)</sup> Alberta, Canada</b>	Director and Chairman of the Board since January 18, 2005	President of Shaw Automotive Group Ltd.
<b>Werner A. (Vern) Siemens<sup>(1)</sup> Alberta, Canada</b>	Director since January 18, 2005	Independent businessman.
<b>Gordon W. (Scotty) Cameron<sup>(1)</sup> Alberta, Canada</b>	Director since January 18, 2005	Independent businessman.

(1) Member of the Audit Committee, the Compensation Committee and the Reserves Evaluation Committee

The following table sets forth the name, province and country of residence, position with the Corporation, and principal occupation during the past five years of each of the executive officers of the Corporation who is not a director.

<b>Name, Province and Country of Residence</b>	<b>Position with Birchcliff</b>	<b>Principal Occupations During the Past Five Years</b>
<b>Bruno P. Geremia Alberta, Canada</b>	Vice-President and Chief Financial Officer	Vice-President and Chief Financial Officer of Birchcliff since January 2005.
<b>Myles R. Bosman Alberta, Canada</b>	Vice-President, Exploration and Chief Operating Officer	Vice-President, Exploration and Chief Operating Officer of Birchcliff since January 2005.
<b>Karen A. Pagano Alberta, Canada</b>	Vice-President, Engineering	Vice-President, Engineering since September 8, 2009. Prior thereto, Vice-President, Operations of Birchcliff since January 2007. Prior thereto, Senior Exploitation Engineer with Birchcliff since May, 2005. Prior thereto, Manager of Operations at Koch Exploration from April 2001 to May 2005.
<b>David M. Humphreys Alberta, Canada</b>	Vice-President, Operations	Vice-President, Operations of Birchcliff since October 9, 2009. Prior thereto, Vice-President, Operations at Highpine Oil & Gas Ltd. since February 2006. Prior thereto, Vice President, Operations of White Fire Energy Ltd since May 2005. Prior thereto, Vice President Operations at Virtus Energy Ltd. since April 2003.

#### **Additional Information**

In the ten years preceding the date of this Annual Information Form, none of the directors or executive officers of the Corporation has been a director, chief executive officer or chief financial officer of any company that: (a) was subject to a cease trade or similar order or an order that denied the issuer access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days (collectively, an “**Order**”) that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (b) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer. In addition, none of the directors or executive officers of the Corporation or a shareholder holding a sufficient number of securities of Corporation to affect materially the control of the Corporation: (a) is, as at the date of this Annual Information Form, or has been within the 10 years before the date of this Annual Information Form, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the 10 years before the date of the Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder except for Mr. Surbey who was a director of AC Energy Inc. until May 21, 2003 and within a year of his resignation as a director, a secured lender enforced its security and appointed a receiver of that corporation. He was also a director of Fair Sky Resources Ltd.

until he resigned on December 5, 2007 and within a year of his resignation as a director, a secured lender enforced its security and appointed a receiver of that corporation.

None of the directors or executive officers of the Corporation or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

There are potential conflicts of interest to which the directors and officers of the Corporation will be subject in connection with the operations of Birchcliff. In particular, certain directors and officers of the Corporation may be involved as investors or in director positions with other oil and gas companies whose operations may, from time to time, be in direct competition with those of Birchcliff or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of the Corporation. Conflicts, if any, will be subject to the procedures and remedies available under the ABCA, which provides that in the event a director or officer has an interest in a contract or proposed contract or agreement, the director or officer shall disclose his or her interest in such contract or agreement and, in the case of a director, such director shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by that statute.

## **RISK FACTORS**

### **Volatility of Oil and Natural Gas Prices**

The results of Birchcliff's operations and financial condition are dependent on the prices received for its oil and natural gas resources. Oil and natural gas prices have fluctuated widely during recent years and are subject to fluctuations in response to relatively small changes in supply, demand, market uncertainty and other factors that are beyond the Corporation's control. These factors include, but are not limited to, worldwide political instability, foreign supply of oil and natural gas, the level of consumer product demand, government regulations and taxes, the price and availability of alternative fuels and the overall economic environment. Any significant decline in oil or natural gas prices could have a material adverse effect on Birchcliff's operations, financial condition, proved reserves and the level of development of Birchcliff's oil and natural gas reserves. No assurance can be given that oil and natural gas prices will remain at levels which will generate profits for the Corporation or be sufficient to fund its further growth. In addition, management regularly assesses the carrying value of Birchcliff's assets in accordance with Canadian generally accepted accounting principles under the full cost method. If oil and natural gas prices become depressed or decline materially, the carrying value the Corporation's assets could be subject to downward revision.

### **Production Risks**

Birchcliff believes it has a stable production base from a large number of producing wells and that an adverse event affecting production at any single well would not cause a liquidity issue. Nonetheless, Birchcliff remains subject to the risk that production rates of its most significant wells may decrease in an unpredictable and uncontrollable manner, which could result in a material decrease in the Corporation's overall production and associated cash flows.

### **Replacement of Reserves**

Birchcliff's future oil and gas reserves and production, and cash flows are highly dependent upon management's success in exploiting Birchcliff's current reserve base and acquiring or discovering additional reserves. Without reserve additions through exploration, acquisition or development activities, Birchcliff's reserves and production will decline over time as reserves are produced. The replacement of reserves by exploration, development or acquisition requires significant capital. To the extent cash flows from operations are insufficient and external sources of capital become limited or unavailable, Birchcliff's ability to make the necessary capital investments to maintain and expand its oil and natural gas reserves

will be impaired. In addition, there can be no assurance that Birchcliff will be able to find and develop or acquire additional reserves to replace production at an acceptable cost.

### **Operating Hazards and Other Uncertainties**

Acquiring, developing and exploring for oil and natural gas involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to manage effectively. These risks include, but are not limited to, encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, equipment failures, human error or willful misconduct by field workers, and other accidents, cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution, other environmental risks, fires and spills. Like other oil and natural gas companies, the Corporation attempts to conduct its business and financial affairs so as to protect against operational, political and economic risks applicable to operations in the relevant area, but there can be no assurance that the Corporation will be successful in this regard. The Corporation is also subject to deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and the possible inability to secure space on gathering systems that deliver production to processing facilities and on pipelines which deliver oil and natural gas to commercial markets. Although prior to drilling Birchcliff will obtain insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, Birchcliff may elect not to obtain insurance to deal with specific risks due to high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to Birchcliff. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on our financial position, results of operations or prospects.

### **Reliance on Key Personnel**

Our success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on Birchcliff. Birchcliff does not have key person insurance in effect for management and the contributions of these individuals to Birchcliff's immediate operations are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of Birchcliff's management.

### **Uncertainty of Reserves Estimates**

There are a number of uncertainties inherent in estimating the quantities of proved and probable reserves, including many factors beyond the control of the Corporation. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary considerably from actual results. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom, prepared by different engineers or by the same engineer at different times, may vary substantially. The actual production, revenues, taxes and development and operating expenditures of the Corporation with respect to these reserves will vary from such estimates, and such variances could be material. Estimates with respect to proved and probable reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be substantial, in the estimated reserves. Consistent with the securities disclosure legislation and policies of Canada, as interpreted by the securities regulatory authorities in Canada, the Corporation has used forecast prices and costs in calculating reserve quantities included herein. Actual future net cash flows also will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulations or taxation and the impact of inflation on costs.

### **Reliability of Necessary Facilities**

The Corporation's ability to produce its wells is dependent upon its ability to transport and process its production through its own facilities and the facilities of others.

A significant portion of the Corporation's production is processed at two plants owned and operated by a midstream operator. Any significant outage of these facilities would have a material adverse effect on the Corporation's production volumes and resulting cash flows. The Corporation carries business interruption insurance to mitigate these processing plant risks but an extended outage exceeding six months would significantly and adversely affect the Corporation's cash flows and business plan.

### **Acquisition Risks**

The Corporation seeks out opportunities for the acquisition of oil and natural gas properties. Typically, once an opportunity is identified, a review of available information relating to the properties is conducted with most of the review effort being focused on the most significant properties. Lesser properties involved are reviewed on a higher level basis for reasonableness. There is a risk that even a detailed review of records and properties may not necessarily reveal every existing or potential problem, nor will it permit the Corporation to become sufficiently familiar with the properties to assess fully their deficiencies and potential. Inspections may not always be performed on every well, and environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, Birchcliff often assumes certain environmental and other risk liabilities in connection with acquired properties. There are numerous uncertainties inherent in estimating quantities of proved and probable oil and gas reserves and actual future production rates and associated costs with respect to acquired properties, and actual results may vary substantially from those assumed in estimates.

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat Birchcliff's ownership claims which could result in a reduction of the revenue received by Birchcliff.

### **Environmental Risks**

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and Canadian federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of the applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation intends to be in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects.

### **Costs and Availability of Equipment, Services and Qualified Personnel**

Inflation is a risk common to all businesses in Canada. Specific to the oil and gas sector during times of high commodity prices for oil and natural gas is the risk of substantially increased cost of operations which impacts on both the amount of capital required to perform operation and the netback the Corporation achieves from its production sales. Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities. To the extent the Corporation is not the operator of its oil and gas properties, the Corporation will be dependent on other

operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

### **Additional Funding Requirements**

The cash flow from the Corporation's reserves may not be sufficient to fund the Corporation's ongoing activities at all times. From time to time, Birchcliff may require additional financing in order to carry out its oil and natural gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate the Corporation's operations. If the revenues from the Corporation's reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace the Corporation's reserves or to maintain the Corporation's production. If Birchcliff's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to the Corporation.

### **Competition**

The oil and natural gas industry is highly competitive particularly as it pertains to the exploration for and development of new sources of crude oil and natural gas reserves. The industry also competes with other industries in supplying non-petroleum energy products. Birchcliff actively competes for land, production and reserve acquisitions, exploration leases, licenses and concessions and skilled technical and operating personnel with a substantial number of other oil and natural gas companies, many of which have greater financial resources than Birchcliff.

### **Governmental Regulation**

The oil and natural gas industry is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and possibly expropriation or cancellation of contract rights. As well, governments may regulate or intervene with respect to prices, taxes, royalties and the exportation of oil and natural gas. Such regulation may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for oil and natural gas, increase costs and have a material adverse impact on the Corporation's business.

All of Birchcliff's properties are currently located within the province of Alberta. There is a risk that although the Corporation believes it is making an economic investment at the time all of the upfront capital is invested in facilities or drilling, completing and equipping an oil or natural gas well, the Government may at any point in the economic life of that project, expropriate without compensation a portion of the expected profit under a new royalty/tax regulation or regime with no grandfathering provisions. Without grandfathering provisions this may cause that particular project to become uneconomic once the new royalties or taxes take effect. This type of possible future government action is unpredictable and cannot be forecast by the Corporation.

### **Kyoto Protocol**

Canada is signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". Any legislation or regulations imposed under this initiative may result in direct or indirect costs that may adversely affect the business of the Corporation.

### **Access to Credit Markets**

Due to the nature of the Corporation's business it is necessary from time to time for the Corporation to access other sources of capital beyond its internally generated cash flow in order to fund the development and acquisition of its long term asset base. As part of this strategy the Corporation obtains some of this necessary capital by incurring debt and therefore the Corporation is dependent to a certain extent on continued availability of the credit markets.

The continued availability of the credit markets for Birchcliff is primarily dependent on the state of the economies and the health of the banking industry in Canada and United States. There is risk that should these economies and banking industry see unexpected and/or prolonged deterioration, then Birchcliff's access to credit markets may contract or disappear all together. The Corporation tries to mitigate this risk by dealing with reputable lenders and tries to structure its lending agreements to give it the most flexibility possible should these situations arise. However, the situations that may give rise to credit markets tightening or disappearing are ultimately uncontrollable by Birchcliff.

### **Climate Change Risks**

North American climate change policy is evolving at both regional and national levels and recent political and economic events may significantly affect the scope and timing of new climate change measures that are ultimately put in place. Although it is not the case today, the Corporation expects that some of its significant facilities may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage greenhouse gas ("GHG") emissions.

The Specified Gas Emitters Regulation, which came into effect in Alberta, in 2007, requires large industrial facility emitters of GHG to reduce GHG emissions intensities by 12 per cent. Each of Birchcliff's facilities is below the 100,000 tonnes per year threshold that this regulation applies to.

Last year the Government of Alberta released its climate change strategy which sets a target to reduce GHG emissions in Alberta by 50% by 2050. Implementing carbon capture and storage technology across industrial sectors is a large component of the strategy, along with energy-efficiency measures, clean energy technologies, and expanding the use of renewable sources of energy. Details of specific requirements and proposed regulations are not yet available and therefore the impact on the Corporation's business remains uncertain at this time.

The Canadian government has expressed interest in pursuing the development of a North American cap and trade system for GHG emissions. In April 2007, the Government of Canada released the Regulatory Framework for Air Emissions ("Framework"). The Framework outlines short, medium and long-term objectives for managing both GHG emissions and air pollutants in Canada. It is uncertain how the Framework will fit within a North American cap and trade system and what the specific requirements for industrial emitters such as Birchcliff will be. Proposed regulations have not yet been released and therefore it is uncertain whether the impacts from such future regulations will be material to the Corporation.

In addition there are a number of regional initiatives being pursued by various provinces and US states such as the Western Climate Initiative which involves seven western US states and Alberta and three other Canadian provinces which are focused on the implementation of a cap and trade program. The Corporation anticipates a number of its facilities may be affected by these initiatives, however, the level of impact is uncertain as key details remain unknown.

## **AUDITORS**

The auditors of the Corporation are Deloitte & Touche LLP, Chartered Accountants, Calgary, Alberta. Deloitte & Touche LLP is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

### **Audit Fees**

Audit fees were for professional services rendered by the auditors for the audit of the annual financial statements of Birchcliff Energy Ltd.

The only fees billed to the Corporation by the auditors for audit services in each of the last two fiscal years were: \$130,380 in 2009 of which \$42,400 was for the 2009 audit and \$87,980 was for the 2008 audit; and \$132,500 in 2008, of which \$42,400 was for the 2008 audit and \$90,100 was for the 2007 audit. The Corporation expects to receive further billings in respect of the 2009 audit in 2010.

### **Audit Related Fees**

Audit related fees were for assurance and related services not reported under the heading audit fees above.

In 2009, the auditors billed the Corporation \$37,842 related to the review of the Corporation's quarterly financial statements. In 2008, the auditors billed the Corporation \$35,934 related to the review of the Corporation's quarterly financial statements.

In 2009, the auditors billed the Corporation an aggregate of \$47,965 in respect of their services provided in connection with an equity financing including their attendances at due diligence meetings and CEO/CFO certification assistance project. In 2008, the auditors billed the Corporation an aggregate of \$113,208 in respect of services provided in connection with an equity financing, including their attendances at due diligence meetings, CEO/CFO certification assistance project, and phase 1 scoping of International Financial Reporting Standards transition.

#### **Tax Fees**

The auditors did not provide any service to the Corporation in respect of property tax reviews in 2009 and 2008.

#### **All Other Fees**

There were no fees paid to the auditors that would be considered "Other Fees" in 2009 or 2008. Fees to be disclosed under this category would be for products and services other than those described under the heading audit fees, audit related fees and tax fees above.

### **TRANSFER AGENT AND REGISTRAR**

Olympia Trust Company, located at 2300, 125 - 9<sup>th</sup> Avenue S.E., Calgary, Alberta, T2G 0P6, is the transfer agent and registrar of Birchcliff.

### **MATERIAL CONTRACTS**

The Corporation has, in the ordinary course of business, entered into the following material contracts during the most recently completed financial year:

1. By a Second Amending Agreement dated May 21, 2009, between Birchcliff and its syndicate of banks, Birchcliff amended its credit agreement which:
  - (a) increased its existing revolving credit facilities to an aggregate limit of \$255 million from \$240 million and extended the conversion date of those facilities until May 21, 2010; and
  - (b) established a new \$50 million non-revolving one year term credit facility (the "**Term Facility**"), the use of which is subject to consent of the syndicate at the time of draw-down.
2. On June 9, 2009, Birchcliff entered into an Underwriting Agreement with a syndicate of underwriters dated effective June 9, 2009 relating to the issuance of 8,000,000 Common Shares of Birchcliff for gross proceeds of \$49.6 million.
3. By a Third Amending Agreement dated January 15, 2010 between Birchcliff and its syndicate of banks, Birchcliff extended the maturity of the Term Facility to May 21, 2011 and the syndicate consented to Birchcliff's drawdown under the Term Facility.

### **INTERESTS OF EXPERTS**

AJM prepared reserves estimates referred to in the Corporation's annual filings in respect of the fiscal year ended December 31, 2009. As at the date hereof, the principals of AJM, as a group, beneficially own, directly or indirectly, less than 1% of the securities of the Corporation.

## AUDIT COMMITTEE

### **Audit Committee**

The Board has established an Audit Committee comprised of Mr. Gordon W. Cameron, Mr. Larry A. Shaw and Mr. Werner A. Siemens. The Charter adopted by the Audit Committee of the Corporation is attached hereto as Schedule A.

Each of the members of the Audit Committee is “independent” within the meaning of National Instrument 52-110. Mr. Shaw is Chairman of the Audit Committee. While no member of the Audit Committee has formal accounting training, all three members of the Audit Committee have had long and successful business careers, have been the chief executive officer or chief operating officer of a substantial business enterprise and have been a director and member of the Audit Committee for several oil and natural gas exploration and production companies in the past. As a result, they are all “financially literate” in that they have an ability to read and understand financial statements that present a breadth and level of complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements. Details of the relevant education and experience of each of the members of the Audit Committee are set forth below.

#### ***Larry A. Shaw***

Mr. Shaw has a Bachelor of Arts degree with Honours in Business Administration from the University of Western Ontario. Throughout his career he has had extensive management and ownership experience in the automobile retail business and as such has familiarity with financial statements and their preparation and significance.

Mr. Shaw is the President of Shaw Automotive Group Ltd. since December 1997 and prior thereto he was for many years President of Shaw G.M.C. Pontiac Buick Hummer Ltd. (an automobile dealership). He also operated an automobile and truck lease and rental company for many years.

In addition, Mr. Shaw has been a director and a member of the audit committee of several public corporations over the last 10 years.

Mr. Shaw has been active in industry as well as community affairs. He is past President of both the Calgary and Alberta Motor Dealers Association, and was the 1991 recipient of the National Time Quality Dealers Award. He has served on numerous community related boards and committees and is past President of the Calgary Stampeder Football Club.

#### ***Werner A. (Vern) Siemens - Director***

Mr. Siemens worked for Agra Industries Ltd. (a publicly traded manufacturing, construction and engineering company with international operations) (“**Agra**”) for 31 years. He managed Blue Label Beverages Ltd., an Agra subsidiary for 7 years and served as the President and Chief Executive Officer for 10 years. In these capacities he was responsible for all reporting functions of that business unit, including the financial reporting functions and the preparation of financial statements. Ultimately, Mr. Siemens became a Vice President of Agra and had responsibility for its entire Beverage Division and for the Agra Industries Resource Recovery and Recycling Division in both Alberta and California. In this capacity he was responsible for all financial reporting and financial statement preparation for these divisions.

Mr. Siemens has served as a director and a member of the audit committee for several public Corporations in the past.

Mr. Siemens has also served on numerous community related boards and committees including acting as President and General Manager of the Calgary Stampeder Football Club and a Director of the same club.

#### ***Gordon W. (Scotty) Cameron - Director***

Mr. Cameron graduated from the University of Saskatchewan with a Bachelors degree in Economics and Commerce and in 1996 was awarded a Doctorate of Laws from that university in recognition of his contribution to the community.

Mr. Cameron had a long career in the oil and natural gas industry. For many years until 1996, he was the President and Chief executive Officer of Pan-Alberta Gas Ltd. a major natural gas exporter and marketer. He also served as Chairman of the Board of Novagas Clearinghouse Ltd., a natural gas service company, from March 1995 to May 1996. Mr. Cameron was the 1992 - 1993 Chairman of the Energy Council of Canada.

Mr. Cameron has been a director of several public corporations and has been a member of several audit committees.

Mr. Cameron has served on numerous community related boards and committees and is the recipient of many community distinctions including the Order of Canada in 1995.

The Audit Committee meets with the Chief Financial Officer and the Corporation's auditors and reviews the Corporation's annual and interim financial statements prior to their presentation to the full board of directors for approval. The Audit Committee also reviews the Corporation's systems of internal controls and reviews any proposed engagement of the Corporation's auditors to provide non-audit services to the Corporation.

The Audit Committee also meets with the Corporation's auditors separately from management and management members of the board to both plan and review the audit process.

#### **ADDITIONAL INFORMATION**

Additional information, including information regarding directors' and officers' remuneration and indebtedness, principal holders of Common Shares, and securities authorized for issuance under share compensation plans is contained in the Management Information Circular of the Corporation dated March 31, 2010 provided for the Annual Meeting of Shareholders to be held on May 12, 2010.

Additional financial information relating to the Corporation is provided in the Corporation's financial statements and related Management's Discussion and Analysis for the Corporation's most recently completed financial year.

Additional Information relating to the Corporation may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**SCHEDULE A**  
**To the Annual Information Form of Birchcliff Energy Ltd.**

**AUDIT COMMITTEE CHARTER**

**1.0 Purpose**

- 1.1 The purpose of the Audit Committee is to assist the Board of Directors in overseeing:
- (1) the preparation of the financial statements of the Corporation and the conduct of any audit thereof;
  - (2) the Corporation's compliance with applicable financial reporting requirements;
  - (3) the independence and performance of the Auditor; and
  - (4) the Corporation's compliance with the Corporation's policies and guidelines.

**2.0 Definitions**

- 2.1 For the purposes of this Charter:
- (a) **"Auditor"** means the auditor appointed to prepare an Audit Report in respect of the annual financial statements of the Corporation;
  - (b) **"Board"** means the Board of Directors of the Corporation;
  - (c) **"Chairperson"** means Chairperson of the Audit Committee;
  - (d) **"Committee"** means the Audit Committee of the Board; and
  - (e) **"Corporation"** means Birchcliff Energy Ltd.

**3.0 Election and Composition**

- 3.1 The Board shall appoint annually from among its members a Committee to be known as the **"Audit Committee"**.
- 3.2 The Audit Committee shall be comprised of three Directors, all of whom shall be **"independent"** (as such term is used in Multilateral Instrument 52-110 – Audit Committees). All members of the Committee shall comply with the financial literacy requirements of Multilateral Instrument 52-110 – Audit Committees.
- 3.3 The Audit Committee shall select from its members a Chairperson of the Committee.
- 3.4 Any member of the Committee may be removed or replaced at any time by the Board and shall automatically cease to be a member of the Committee upon ceasing to be a Director of the Corporation.

**4.0 Meetings**

- 4.1 The Audit Committee shall meet at least four times annually, or more frequently as circumstances dictate.
- 4.2 The Chairperson of the Committee or any member may at any time convene a meeting of the Committee, and the Chairperson or any member of the Committee shall convene a meeting at the request of the Auditor.
- 4.3 Notice of meetings shall be delivered, mailed, faxed or sent by any other form of transmitted or recorded message to each member not less than forty-eight hours before the meeting is to take place.
- 4.4 Notice of any meeting or any irregularity in any meeting or the notice thereof may be waived by any member.
- 4.5 A quorum for meetings of the Audit Committee shall be a majority of members of the Committee.
- 4.6 Meetings may be held at any time without formal notice if all the members are present, or if a quorum is present and those members who are absent signify their consent to the meeting being held in their absence. Any resolution passed or action taken at such a meeting shall be valid and effectual as if it had been passed or taken at a meeting duly called and constituted.
- 4.7 Questions arising at any meeting of the Committee shall be decided by the majority of votes. In the case of an equality of votes, the Chairperson shall have the casting vote.

## **5.0 Responsibilities**

- 5.1 The Committee shall recommend to the Board:
- (a) the person or firm to be nominated as Auditor for the purposes of preparing or issuing an Auditor's report or performing other audit, review or attest services for the Corporation;  
and
  - (b) the compensation of the Auditor.
- 5.2 The Committee shall be directly responsible for overseeing the work of the Auditor engaged for the purpose of preparing or issuing an Auditor's Report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the Auditor regarding financial reporting.
- 5.3 When there is to be a change in Auditor, the Committee shall review the issues related to the change and shall approve the information to be included in the required notice to securities regulators of such change.
- 5.4 The Committee shall pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by the Corporation's Auditor. The Committee may delegate this function to one of its independent members, who shall report to the Committee on any such approvals.
- 5.5 The Committee shall review and report to the Board on the Corporation's interim and annual financial statements, and all related management discussions and analysis, before those materials are filed with the regulators and published. If authorized by the Board, the Committee may approve the interim financial statements and the related management discussion and analysis, before those materials are filed with regulators and published. The Committee's review process should include, but not be limited to:
- (a) reviewing changes in accounting principles, or in their application, which may have a material impact on a current or future year's financial statements;
  - (b) reviewing significant accruals, reserves or other estimates such as any ceiling test calculation;
  - (c) reviewing the accounting treatment of unusual or non-recurring transactions;
  - (d) reviewing disclosure of commitments and contingencies;
  - (e) reviewing adjustments suggested by the Auditor, whether or not included in the financial statements;
  - (f) reviewing unresolved differences between management and the Auditors; and
  - (g) obtain explanations of significant variances with comparative reporting periods.
- 5.6 The Committee shall review the annual and interim earnings press releases and any press releases or other documents for public disclosure containing information extracted from financial statements that have not previously been reviewed by the Committee, before the Corporation publicly discloses this information.
- 5.7 The Committee shall ensure that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to in subsection 5.5, and shall periodically assess the adequacy of those procedures.
- 5.8 The Committee shall oversee management's reporting on internal controls and shall advise the Board of any material failures to of the internal controls.
- 5.9 The Committee shall establish procedures:
- (a) for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters and;
  - (b) for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

Until the Committee determines otherwise, the Committee adopts the Whistleblower Policy attached hereto as Schedule A. Prior to adopting any changes to the Whistleblower Policy the Committee shall advise the Directors of the proposed changes.

- 5.10 The Committee shall review and approve the employment by the Corporation of any current or former partner or employee of the Auditor.
- 5.11 The Committee shall review the corporate systems that identify and manage principal business risks.
- 5.12 The Committee shall review and, if necessary, update this Charter periodically, at least annually, as conditions dictate.

## **6.0 Authority**

- 6.1 The Committee is authorized in carrying out its duties to:
  - (a) engage independent counsel and other advisors as it determines necessary to carry out its duties;
  - (b) set and pay the compensation for any advisors employed by the Committee; and
  - (c) communicate directly with the Auditors.
- 6.2 Prior to exercising the authority in subsection 6.1 (a) or (b), the Committee shall notify the Board of its proposed action and also consult with the Chief Financial Officer with respect to the engagement of any independent counsel or other advisors.
- 6.3 The Board may refer to the Committee such matters and questions relating to the financial position of the Corporation and its affiliates as the Board from time to time sees fit.
- 6.4 The members of the Committee have the right for the purpose of performing their duties of inspecting any of the books and records of the Corporation and its affiliates.
- 6.5 The Committee may require the Auditor, any Director, officer or employee of the Corporation to appear before it to discuss the accounts and records and/or financial position of the Corporation.
- 6.6 The Auditor shall be given notice of every meeting of the Committee and shall have the right to attend and be heard thereat. The Auditor shall report directly to the Audit Committee.
- 6.7 Members of the Committee may rely upon the accuracy of any statement or report prepared by the Auditor or upon any other statement or report including any appraisal report prepared by a qualified person and shall not be responsible or held liable for any loss or damage in respect of any action taken on the basis of such statement or report.

## **7.0 Records**

- 7.1 The Audit Committee shall keep such records as it may deem necessary of its proceedings and shall report regularly its activities and recommendations to the Board of Directors as appropriate.

**SCHEDULE A**  
**To the Audit Committee Charter of Birchcliff Energy Ltd.**

**WHISTLEBLOWER POLICY**

**Scope of the Whistleblower Policy**

The Audit Committee (the “**Audit Committee**”) of the Board of Directors of Birchcliff Energy Ltd. (the “**Corporation**”) is responsible under Canadian securities laws for the integrity of the financial reporting of the Corporation and for the system of internal controls, the audit process and monitoring compliance with the financial reporting laws applicable to the Corporation and to all other corporations, trusts, partnerships or other entities which may be established by the Corporation (the “**Other Entities**”). The integrity of the financial information of the Corporation is of paramount importance to the Committee and to the Board of Directors.

Multilateral Instrument 52-110 “Audit Committee” (“**52-110**”) has outlined certain aspects of audit committee responsibility and the Audit Committee understands the importance of the responsibilities described in 52-110 and intends to be in compliance with such responsibilities. One such responsibility relates to the implementation of procedures for addressing complaints regarding questionable accounting or auditing matters.

This document outlines the procedure which the Committee is establishing for the confidential, anonymous submission by employees of the Corporation and the Other Entities of any concerns which individuals may have regarding questionable accounting or auditing matters.

Individuals are encouraged to submit all good faith concerns and complaints in respect of the accuracy and integrity of the Corporation’s accounting, auditing and financial reporting, without fear of retaliation of any kind. If an individual has any concerns about accounting, audit, internal controls or financial reporting matters which he or she considers to be questionable, incorrect, misleading or fraudulent, the individual is urged to come forward as contemplated by this Policy with any such information, complaints or concerns, without regard to the instructions or objections of the person or persons responsible for the subject matter of the relevant complaint or concern.

The designated contact to receive completed reports from employees is Mr. Larry Shaw, the Chairperson of the Audit Committee (the “**Designated Contact**”).

**Procedure for Reporting Concerns**

The reporting individual should describe his or her concern in writing and should include sufficient information to allow the Audit Committee to understand and review the written concern. If the reporting individual wishes to remain anonymous, the written communication should clearly indicate this wish for anonymity. All concerns should be forwarded to Larry Shaw, Chairperson of the Audit Committee, at the address noted below, in a sealed envelope labeled as follows:

**“PRIVATE AND CONFIDENTIAL - To be opened by the addressee only”**

Larry Shaw, Chairperson of the Audit Committee of Birchcliff Energy Ltd.  
227 Lake Placid Green SE  
Calgary, Alberta  
T2J 5G6

If the reporting individual wishes to discuss the matter with the Audit Committee, this request should be indicated in the submission. In order to facilitate such a discussion, the reporting individual should include a telephone number at which he or she can be contacted.

**Anonymous Submissions**

If the reporting individual wishes to remain anonymous, the individual may indicate this request for anonymity on the submission and should remove any items that may inadvertently disclose his or her identity.

**Handling of Concerns Raised**

Promptly following the receipt of any complaints submitted to it, the Audit Committee will investigate each complaint and take corrective actions it considers appropriate in the circumstances.

**Authority of Audit Committee**

The Audit Committee has the authority to:

- (a) conduct any investigation which it considers appropriate, and has direct access to the external auditor of the Corporation, as well as officers and employees of the Corporation and Other Entities, as applicable; and
- (b) retain, at the Corporation's expense, special legal, accounting or such other advisors, consultants or experts it deems necessary in the performance of its duties.

In conducting any investigation, the Audit Committee shall use reasonable efforts to protect the anonymity of the reporting individual to the extent so requested.

**Records**

The Audit Committee will retain as part of its records, any complaints or concerns for a period of no less than seven years. The Audit Committee will keep written record of such reports or inquiries and make quarterly reports to the Board on any ongoing investigation which will include steps taken to satisfactorily address each complaint.

**Employee Protection**

All employees are assured that no retaliation of any kind is permitted against the applicable individual for complaints or concerns made in good faith. No employee will be adversely affected because the employee refuses to carry out a directive which, in fact, constitutes corporate fraud, or is a violation of a federal or provincial law.

**Questions about this Policy**

Questions regarding the policy may be directed to Larry Shaw, Chairperson of the Audit Committee and Designated Contact. He can be reached for this purpose by telephone at 403-206-3330.