



**BIRCHCLIFF ENERGY LTD.**

**Year Ended December 31, 2012**

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**ANNUAL INFORMATION FORM**

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**March 13, 2013**

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## DEFINITIONS

### Definitions

In this Annual Information Form, certain terms are used but not defined herein. These terms are defined in NI 51-101 and CSA Staff Notice 51-324 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101 and CSA Staff Notice 51-324. The capitalized terms set forth below have the following meanings:

**"2012 Reserves Evaluation"** means the independent evaluation dated February 8, 2013, prepared by AJM Deloitte, evaluating the Corporation's oil and natural gas reserves at December 31, 2012.

**"ABCA"** means the *Business Corporations Act* (Alberta).

**"AJM Deloitte"** means Deloitte, independent qualified reserves evaluators of Calgary, Alberta.

**"Annual Information Form"** means this Annual Information Form dated March 13, 2013.

**"Birchcliff"** or **"Corporation"** means Birchcliff Energy Ltd.

**"Board"** means the board of directors of the Corporation.

**"Common Shares"** means common shares of the Corporation.

**"Crown"** means the Government of Alberta.

**"CSA Staff Notice 51-324"** means the Canadian Securities Administrators Staff Notice 51-324 - *Glossary to NI 51-101*.

**"East District"** means the area designated by Birchcliff as "East" on the map found at page 13 of this Annual Information Form.

**"ERCB"** means the Energy Resources Conservation Board.

**"Gross"** means:

- (a) in relation to the Corporation's interest in production or reserves, the Corporation's working interest (operating or non-operating) share before deduction of royalty obligations and without including any royalty interests;
- (b) in relation to wells, the total number of wells in which the Corporation has an interest; and
- (c) in relation to properties, the total area in which the Corporation has an interest.

**"Montney/Doig Natural Gas Resource Play"** means Birchcliff's Montney and Doig formations natural gas resource play located in Birchcliff's West and East Districts.

**"Natural Gas Deep Drilling Program"** means the Government of Alberta, Department of Energy natural gas deep drilling program for royalty adjustments.

**"Net"** means:

- (a) in relation to the Corporation's interest in production or reserves, the Corporation's working interest (operating or non-operating) share after deduction of royalty obligations, plus the Corporation's royalty interests in such production or reserves;
- (b) in relation to wells, the number of wells obtained by aggregating the Corporation's working interest in each of the Corporation's gross wells; and
- (c) in relation to properties, the total area in which the Corporation has an interest multiplied by the working interest owned by the Corporation.

“**NI 51-101**” means National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities*.

“**North District**” means the area designated by Birchcliff as “North” on the map found on page 13 of this Annual Information Form.

“**PCS Gas Plant**” means the Corporation’s 100% owned and operated natural gas processing plant located in the West District, Pouce Coupe South region, at 03-22-078-12W6.

“**Peace River Arch**” means the Peace River Arch area of Alberta, a geological area centred northwest of Grande Prairie, adjacent to the British Columbia border.

“**PNG**” means petroleum and natural gas.

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

- (a) **Proved Reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (b) **Probable Reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- (c) **Possible Reserves** are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

“**SEDAR**” means the System for Electronic Document Analysis and Retrieval.

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

“**Uncertainty Ranges**” means the low, best, and high estimates for reserves described in the Canadian Oil and Gas Evaluation Handbook as follows:

- (a) **Low Estimate** is considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90 percent probability ( $P_{90}$ ) that the quantities actually recovered will equal or exceed the low estimate.
- (b) **Best Estimate** is considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50 percent probability ( $P_{50}$ ) that the quantities actually recovered will equal or exceed the best estimate;
- (c) **High Estimate** is considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10 percent probability ( $P_{10}$ ) that the quantities actually recovered will equal or exceed the high estimate.

“**West District**” means the area designated by Birchcliff as “West” on the map found on page 13 of this Annual Information Form.

“**Western Canadian Sedimentary Basin**” means the vast sedimentary basin underlying Western Canada that is the source of most of Western Canada’s current oil and gas production.

“**Working interest**” means a percentage of ownership in an oil and gas property, obligating the owner to share in the costs of exploration, development and operations and granting the owner the right to share in production revenues after royalties are paid.

“**Worsley Light Oil Resource Play**” means Birchcliff’s Charlie Lake formation light oil resource play located near the Town of Worsley in the North District.

## **ABBREVIATIONS, CONVERSIONS AND CONVENTIONS**

### **Abbreviations**

The abbreviations set forth below have the following meanings:

#### **Oil and Natural Gas Liquids**

bbl	barrel
bbls	barrels
bbls/d	barrels per day
Mbbls	thousand barrels
MMbbls	million barrels
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
Mboe	thousand barrels of oil equivalent
MMboe	million barrels of oil equivalent
NGLs	natural gas liquids
LNG	liquefied natural gas

#### **Natural Gas**

Mcf	thousand cubic feet
MMcf	million cubic feet
Bcf	billion cubic feet
Tcf	trillion cubic feet
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
m <sup>3</sup>	cubic metres
GJ	Gigajoule

#### **Other**

AECO	benchmark natural gas price determined at the AECO ‘C’ hub in southeast Alberta
WTI	West Texas Intermediate crude oil, a benchmark oil price determined at Cushing, Oklahoma
°API	the measure of the density or gravity of liquid petroleum products
psi	pounds per square inch
kPa	kilopascals
\$000	thousands of dollars
MM\$	millions of dollars

### **Conversions**

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

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

## Conventions

Unless otherwise indicated, references herein to “\$” or “dollars” are to Canadian dollars. All financial information herein has been presented in Canadian dollars in accordance with International Financial Reporting Standards (“IFRS”).

## ADVISORIES

**Non-GAAP Measures:** *This Annual Information Form and the documents incorporated by reference herein uses “netback” and “operating netback”, which do not have standardized meanings prescribed by generally accepted accounting principles (“GAAP”) and therefore may not be comparable measures to other companies where similar terminology is used. Netback or operating netback denotes petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses.*

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

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

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

**Forward-Looking Information:** *This Annual Information Form and the documents incorporated by reference herein contains forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking information relates to future events or future performance and is based upon the Corporation’s current internal expectations, estimates, projections, assumptions and beliefs. All information other than historical fact is forward-looking information. Information relating to “reserves” or “resources” contained, among other places, in the “Statement of Reserves Data and Other Oil and Gas Information”, which is incorporated by reference into this Annual Information Form, is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves or resources exist in the quantities estimated and that they will be commercially viable to produce in the future. Words such as “plan”, “expect”, “project”, “intend”, “believe”, “anticipate”, “estimate”, “may”, “will”, “potential”, “proposed” and other similar words that convey certain events or conditions “may” or “will” occur are intended to identify forward-looking information. In particular, this Annual Information Form contains 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: intention to drill and complete future wells; estimates of recoverable reserves volumes; planned production increases; planned 2013 capital spending and sources of funding; 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; and treatment under tax laws.*

*The forward-looking information is based upon assumptions as to future commodity prices, currency exchange rates, inflation rates, well production rates, well drainage areas, success rates for future drilling and availability of labour and services. With respect to estimates of reserves and resource volumes, a key assumption is the validity of the data used by AJM Deloitte in their independent reserves evaluation. With respect to estimates of numbers of future wells to be drilled a key assumption is that geological and other technical interpretations performed by the Corporation's technical staff, which indicate that commercially economic reserves can be recovered from the Corporation's lands as a result of drilling such future wells, are valid.*

*Undue reliance should not be placed on forward-looking information, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. Although the Corporation believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. As a consequence, actual results may differ materially from those anticipated.*

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

*The foregoing list of risk factors is not exhaustive. Additional information on these and other risk factors that could affect operations or financial results are included under the heading "Risk Factors" in this Annual Information Form and in other reports filed with Canadian securities regulatory authorities. Forward-looking information is based on estimates and opinions of management at the time the information is presented. The Corporation is not under any duty to update the forward-looking information after the date of this Annual 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 on July 6, 2004 under the *Business Corporations Act* (Alberta) ("**ABCA**") as 1116463 Alberta Ltd. and on September 10, 2004 changed its name to Birchcliff Energy Ltd. On January 18, 2005, the Corporation 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, the Corporation 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.

The registered and head office of the Corporation is located at 500, 630 – 4<sup>th</sup> Avenue SW, Calgary, Alberta T2P 0J9. The Common Shares of the Corporation are listed for trading on the TSX under the trading symbol "BIR" and are included in the S&P/TSX Composite Index.

The Corporation has no subsidiaries.

## GENERAL DEVELOPMENT OF THE BUSINESS

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

### Three Year History

#### 2010

January 15, 2010, the Corporation received approval from its banking syndicate to extend the maturity date of its \$50 million non-revolving one year term credit facility ("**Term Facility**") to May 21, 2011.

March 20, 2010, Phase I of the Corporation's 100% owned and operated Pouce Coupe South natural gas plant ("**PCS Gas Plant**") commenced operation, with processing capacity of 30 MMcf per day.

May 21, 2010, the Corporation terminated the Term Facility and amended its credit agreement with its banking syndicate, which increased its existing revolving credit facility (consisting of an extendible revolving term credit facility with an authorized limit of \$320 million and an extendible revolving working capital facility with an authorized limited of \$30 million) to an aggregate limit of \$350 million from \$255 million and extended the conversion date of those facilities until May 20, 2011.

September 2, 2010, the Corporation received Energy Resources Conservation Board ("**ERCB**") approval for Phase III of the PCS Gas Plant, designed to add an additional 60 MMcf per day of processing capacity, bringing the total processing capacity to 120 MMcf per day.

November 2, 2010, Phase II of the PCS Gas Plant commenced operation, bringing the processing capacity to 60 MMcf per day.

November 30, 2010, the Corporation amended its credit agreement with its banking syndicate, which increased its existing revolving credit facility (consisting of an extendible revolving term credit facility with an authorized limit of \$345 million and an extendible revolving working capital facility with an authorized limit of \$30 million) to an aggregate limit of \$375 million from \$350 million.

## **2011**

April 26, 2011, the Corporation announced the results of an independent resource assessment dated April 20, 2011, with an effective date of December 31, 2010, conducted by AJM Deloitte on its lands that had potential for the Montney/Doig Natural Gas Resource Play.

May 18, 2011, the Corporation announced approval by the Board of Directors (the “**Board**”) of the Phase III expansion of the PCS Gas Plant. On that same date, the Corporation amended its credit agreement with its banking syndicate, which increased its existing revolving credit facilities to an aggregate limit of \$450 million from \$375 million. Concurrently, the Corporation entered into a \$70 million non-revolving five-year term credit facility, which was primarily be used to fund the construction of Phase III of the PCS Gas Plant.

October 3, 2011, the Corporation announced that as a result of unsolicited expressions of interest, the Board determined to commence a public sale process, seeking offers to purchase all of the issued and outstanding common shares of the Corporation (the “**Common Shares**”). The Corporation also announced that it had become one of the founding members of the BC LNG Export Co-Operative, which is involved in the development of a small scale liquefied natural gas (“**LNG**”) project in Kitimat, British Columbia.

## **2012**

March 14, 2012, the Corporation announced an updated Montney/Doig natural gas resource assessment dated March 8, 2012 with an effective date of December 31, 2011, conducted by AJM Deloitte.

March 29, 2012, the Corporation announced that the Board of Directors had terminated the corporate sale process as the Corporation had not received an acceptable offer reflecting the value of the Corporation. On that same date, the Corporation announced a \$110 million bought deal offering.

April 19, 2012, the Corporation raised gross proceeds of \$110 million from the issuance of 8,075,000 Common Shares pursuant to a public offering at a price of \$7.65 per Common Share, the issuance of 1,100,000 Common Shares issued on a flow-through basis at a price of \$9.20 per flow-through Common Share and the issuance of 5,000,000 Common Shares at a price of \$7.65 per Common Share to its major shareholder pursuant to a private placement.

June 26, 2012, the Corporation amended its credit agreement with its banking syndicate, which increased its existing revolving credit facility (consisting of an extendible revolving syndicated credit facility with an authorized limit of \$440 million and an extendible revolving working capital facility with an authorized limit of \$30 million) to an aggregate limit of \$470 million from \$375 million. Four additional banks were added to the bank syndicate, which consists now of nine banks led by the Bank of Nova Scotia.

August 8, 2012, the Corporation raised gross proceeds of \$50 million from the issuance of 2,000,000 preferred units at a price of \$25.00 per preferred unit. Each preferred unit consisted of one Series A Preferred Share to yield initially 8% per annum and three common share purchase warrants with each warrant providing the right to purchase one Common Share at a price of \$8.30 per Common Share until August 8, 2014.

October 2, 2012, Phase III of the PCS Gas Plant commenced operation, bringing the ERCB licensed processing capacity to 150 MMcf per day.

## Prior History

The Corporation was incorporated as a private corporation on July 6, 2004 and in September 2004 assembled a management team and began hiring a full technical team and a small complement of administrative staff. The Corporation's initial start-up costs were funded from \$700,000 of loans from Jeff Tonken and Larry Shaw, which were repaid in January 2005. On January 18, 2005, the Corporation amalgamated under the ABCA with Scout pursuant to a Plan of Arrangement to form an amalgamated corporation that continued under the name "Birchcliff Energy Ltd." and on the same day raised gross proceeds of approximately \$60 million from the issuance of equity and completion of the amalgamation with Scout. On January 19, 2005, following the amalgamation with Scout, the Common Shares were listed for trading on the TSX Venture Exchange under the trading symbol "BIR".

March 29, 2005, the Corporation contracted to acquire significant oil and natural gas properties in the Peace River Arch for a purchase price of approximately \$242.8 million (the "**PRA Acquisition**") and on May 5, 2005, the Corporation completed an acquisition of minor oil and natural gas assets in the Peace River Arch for a purchase price of approximately \$2.7 million.

May 31, 2005, the Corporation amalgamated under the ABCA with Veracel pursuant to a Plan of Arrangement to form an amalgamated corporation that continued under the name "Birchcliff Energy Ltd.", following Veracel raising approximately \$136 million of gross proceeds from the issuance of equity on that same day.

Following the amalgamation with Veracel, the Corporation completed the PRA Acquisition on May 31, 2005. The acquired properties were estimated to be producing approximately 4,350 boe per day at that time and the Corporation estimates that it acquired approximately 8.3 million boe of proved reserves and 11.4 million boe of proved plus probable reserves as a result of the PRA Acquisition. In conjunction with the PRA Acquisition, the Corporation established a \$70 million revolving credit facility with a Canadian chartered bank, subject to the lender's review semi-annually in May and October of each year.

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

July 21, 2005, the Common Shares were listed for trading on TSX under the trading symbol "BIR" and were de-listed from TSX Venture Exchange.

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.

December 20, 2005, the Corporation raised approximately \$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.

May 25, 2006, the Corporation's revolving 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 \$120 million of credit facilities were provided by a syndicate of two Canadian chartered banks.

November 22, 2006, the Corporation raised gross proceeds of approximately \$30 million 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.

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

September 27, 2007, the Corporation raised gross proceeds of approximately \$115 million from the issuance of 30,263,170 Common Shares at a price of \$3.80 per Common Share pursuant to a public offering. The net proceeds to the Corporation of approximately \$109 million were used to fund a portion of the purchase price of the Worsley Property. 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 Corporation completed the Worsley Acquisition for a net purchase price of approximately \$263 million. 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.

March 14, 2008, the Corporation 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” basis at a price of \$9.85 per Common Share, and repaid in full all amounts outstanding under the Corporation’s \$100 million non-revolving credit facility.

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

April 17, 2009, the Corporation received the necessary regulatory approval for the construction of the 100% owned and operated PCS Gas Plant in its West District, Pouce Coupe South region, with Phase I of the PCS Gas Plant designed to process 30 MMcf of natural gas per day.

May 21, 2009, the Corporation amended its credit agreement with its banking syndicate, which increased its existing revolving credit facilities (consisting 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) to an aggregate limit of \$255 million from \$240 million and extended the conversion date of those facilities until May 21, 2010. The Corporation also established a new \$50 million non-revolving one year term credit facility, subject to consent of the banking syndicate at the time of draw-down.

June 30, 2009, the Corporation raised gross proceeds of \$62 million from the issuance of 8,000,000 Common Shares pursuant to a public offering at a price of \$6.20 per Common Share and the issuance of 2,000,000 Common Shares at a price of \$6.20 per Common Share to its major shareholder pursuant to a private placement.

November 26, 2009, the Corporation received the necessary regulatory approval for the construction of Phase II of the PCS Gas Plant, designed to increase the processing capacity from 30 MMcf to 60 MMcf of natural gas per day.

### **Significant Acquisitions in 2012**

During 2012, Birchcliff completed a transaction whereby it disposed of minor assets in the Glacier area of Alberta in exchange for strategic assets acquired in the Pouce Coupe area of Alberta. The fair value of the transaction was estimated at \$25 million. As a result of the disposition, Birchcliff recorded a gain on sale of approximately \$3.9 million (\$2.9 million, net of tax) or \$0.46 per boe during the year. The Glacier assets were not material to the Corporation’s financial and operational performance.

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

## DESCRIPTION OF THE BUSINESS

### General

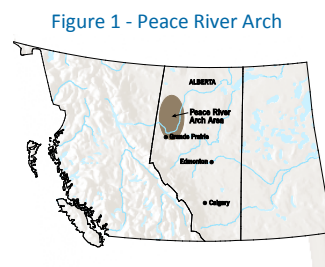
The Corporation is in the business of exploring for, developing and producing oil and natural gas resources in the Western Canadian Sedimentary Basin with operations focused in one core area of Alberta, the Peace River Arch. The Corporation's business model envisages continuous growth through drilling and the acquisition of suitable properties via asset purchases, farm-ins and corporate acquisitions or mergers.

### Principal Properties

The following is a description of the Corporation's principal oil and natural gas properties as at December 31, 2012. 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, 2012.

### *Peace River Arch*

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



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

The Corporation's strategy in the Peace River Arch is focused on developing sound exploration and development opportunities that can support extensive drilling and production growth in a repeatable, low risk manner. Birchcliff works to de-risk plays by drilling both vertical and horizontal exploration wells to develop an in-depth understanding of oil and gas pools, rock properties and petrophysical characteristics. The Corporation designs, tests and evaluates the drilling, completion and production technologies and practices to achieve continual improvements in productivity and to drive down capital and operating costs. The Corporation's pool delineation strategy de-risks future development and reduces future costs as new well pads and infrastructure are designed and built to support multiple

horizontal well locations and increased production. The Corporation has a focused strategy to acquire additional contiguous land blocks at Crown sales or through selective acquisitions. The Corporation's dominant land and infrastructure position in the Peace River Arch has helped Birchcliff develop an in-depth knowledge of the land, the geology, the reservoirs, the infrastructure and the stakeholders.

The Corporation's 2012 average production was 22,802 boe per day, with a fourth quarter production average of 26,655 boe per day. Wells in the Peace River Arch have the potential to initially produce 500 to 10,000 Mcf per day (83 to 1,666 boe per day) of natural gas or 30 to 500 bbls per day of light oil.

The Corporation has excellent control of and access to infrastructure in the Peace River Arch to process its light oil and natural gas production. In 2010, the Corporation commenced processing natural gas through the 100% owned PCS Gas Plant, which currently has a licensed processing capacity of 150 MMcf per day. The Corporation holds working interests in 12 gas plants, four of which are wholly owned and five of which the Corporation operates. The Corporation holds working interests in four major oil batteries, with the Corporation operating one of these, which is situated at the centre of the Worsley Light Oil Resource Play. The Corporation has a working interest in one wholly owned and operated compressor facility.

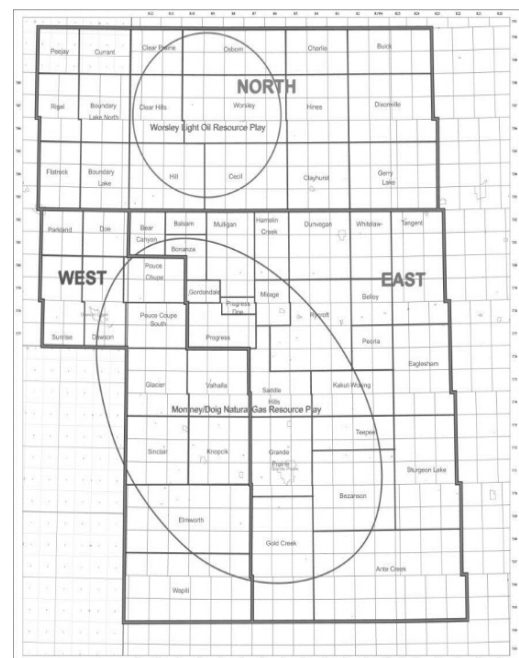
The Corporation invested \$6.6 million to expand and maintain its land position in the Peace River Arch during 2012 and at December 31, 2012 held 544,129 (506,024 net) acres of undeveloped land, with an average working interest of 93%.

In 2012, Birchcliff spent \$298.9 million on exploration and development projects (including acquisitions and dispositions) in the Peace River Arch, including the drilling of 38 (35.1 net) wells, all of which were successful. Drilling depths on a true vertical depth basis can range from 300 metres for the shallower horizons to 2,700 metres for the deeper, higher impact targets. The Corporation manages efficiencies for the capital cost of horizontal wells with multi-well pads, proximity to existing infrastructure and cost competitive pricing for services.

***Birchcliff's Districts within the Peace River Arch***

Figure 2 - Birchcliff's Districts within the Peace River Arch

Within its core area in the Peace River Arch, the Corporation utilizes three technical teams, each responsible for their own district: West District, North District and East District. Each of the districts is comprised of a number of regions.



***West District***

The West District is centred approximately 95 kilometres northwest of Grande Prairie and contains three primary producing regions: Pouce Coupe, Pouce Coupe South and Glacier. The principal asset in the West District is the Montney/Doig Natural Gas Resource Play, which, in the opinion of management, is one of the most sought after natural gas resource plays in North America.

Approximately 83.6% of Birchcliff's total proved plus probable reserves are located in the West District and provide low-risk development drilling and exploration opportunities.

The West District represented approximately 85.9% of the Corporation's natural gas production and 1.5% of the Corporation's oil production in 2012. Natural gas production is primarily from the Montney/Doig Natural Gas Resource Play from both the Montney and Doig formations. In 2012, West District production averaged 15,854 boe per day and the operating netback for this production was \$12.10 per boe. Average operating costs in the West District were \$4.11 per boe, an 18% decrease on a per boe basis from 2011.

Production from the West District flows through four operated gas plants and two non-operated gas plants. The Corporation owns and operates two gas plants in the West District; most notably the 100% owned PCS Gas Plant, which has a licensed processing capacity of 150 MMcf per day. In addition to the PCS Gas Plant, there is a 100% owned Bonanza Gas Plant, processing sweet gas in Pouce Coupe North. The Corporation also processes gas at the Progress gas plant operated by Canadian Natural Resources Northern Alberta Partnership, in which Birchcliff has a small working interest. Other gas is delivered to the Spectra gathering system, which is processed under firm service contracts at either the Fourth Creek gas plant, the Gordondale East gas plant or the Pouce Coupe gas plant. The Corporation also has a firm service contract with AltaGas for a small volume of gas delivered to and processed at the AltaGas Pouce Coupe gas plant. See "Facilities."

In 2012, the Corporation invested \$2.4 million to expand and maintain the land position in the West District. At December 31, 2012, the Corporation had interests in approximately 173,009 (148,357 net) acres of land in the West District, of which 112,492 (104,379 net) acres were undeveloped. The average working interest in undeveloped land in the West District is approximately 93%.

In 2012, the Corporation spent \$226.9 million on West District land, exploration, development and minor acquisitions, net of dispositions, including the drilling and completion of 22 (22.0 net) wells. Of the 22 wells, 21 (21.0 net) were Montney/Doig horizontal wells, 3 (3.0 net) of which were exploration horizontals, and 1 (1.0 net) was a Montney/Doig vertical exploration well. All of these wells were successful. The West District offers multiple, stacked targets down to total vertical depths of 2,700 metres.

In 2012, the West District accounted for:

- 75.9% of total corporate exploration and development expenditures.
- 69.5% of total corporate production volumes.
- 83.6% of total corporate proved plus probable reserves.
- 20.6% of total corporate net undeveloped land holdings.

### **North District**

The North District is centred approximately 250 kilometres north of Grande Prairie. Within the North District, Worsley area is the primary producing region and the most significant asset is the Worsley Light Oil Resource Play.

Approximately 11.4% of the Corporation's total proved plus probable reserves are located in the North District. Birchcliff's plans for this district are primarily focused on the Worsley Light Oil Resource Play, including the extension of the oil pool to the north and the south of the existing pool boundaries, continued utilization of the application of horizontal drilling and multi-stage fracture stimulation technology, further infill drilling and the expansion of the waterflood.

The North District represented approximately 7.4% of the Corporation's natural gas production and 75.4% of the Corporation's oil production in 2012, with production primarily from the oil rich Charlie Lake formation. In 2012, North District production averaged 4,637 boe per day and operating netback for this production was \$42.58 per boe.

The majority of the production from the North District flows through the Corporation's 100% owned and operated Worsley gas plant and oil battery, which is located in the core of the Worsley region. The Corporation also holds a 29.7% working interest in a sour gas plant in the Hill Region of the North District, which is currently decommissioned. Clean oil is trucked from the Worsley facility to truck terminals located in High Prairie, Alberta and Taylor, British Columbia, to be transported on the Pembina Peace pipeline to Edmonton. See "*Facilities.*"

In 2012, the Corporation invested \$2.5 million to expand and maintain its North District land position. As of December 31, 2012, the Corporation had interests in approximately 189,193 (181,541 net) acres of land in the North District, of which 164,553 (161,595 net) acres are undeveloped. The average working interest in undeveloped land in the North District is approximately 98%.

The Corporation spent \$54.2 million on North District land, exploration and development in 2012, including the drilling and completion of 11 (11.0 net) wells and a minor disposition. All of these wells were Charlie Lake horizontal oil wells that utilized multi-stage fracture stimulation technology and were successful. The Corporation expanded the waterflood area by converting two producing wells and one suspended well to injection wells in 2012. Currently, in excess of one third of the Birchcliff owned portion of the Worsley light oil pool is under waterflood. In addition, Birchcliff has refined and updated the petrophysical model of the pool and is currently constructing a waterflood simulation model to aid with surveillance, optimal water injection placement and infill drilling. The waterflood response has exceeded management's expectations and the Corporation expects continuing optimization of the waterflood area in 2013.

In 2012, the North District accounted for:

- 18.1% of total corporate exploration and development expenditures.
- 20.3% of total corporate production volumes.
- 11.4% of total corporate proved plus probable reserves.
- 31.9% of total corporate net undeveloped land holdings.

### **East District**

The East District is centred approximately 50 kilometres north of Grande Prairie. Progress, Progress Doe Creek and Rycroft are the primary producing regions contained within the East District. The Progress Doe Creek oil pool, Progress Halfway oil pool and the Montney/Doig Natural Gas Resource Play are the East District's primary assets. During 2012, Birchcliff initiated research, evaluation and testing of new resource plays in the East District where the Corporation has significant land holdings prospective for a number of resource plays.

The East District represented approximately 6.7% of the Corporation's natural gas production and 23.1% of the Corporation's oil production in 2012. Production is from multiple zones, from the late Devonian to the Cretaceous. In 2012, production from the East District averaged 2,311 boe per day.



The Corporation processes East District production through six operated gas plants (one of which is currently decommissioned), four non-operated gas plants and three major oil batteries. Clean oil from the Progress region is trucked to a terminal located in Gordondale and clean oil from the Progress Doe Creek region is pipeline connected to the Pembina Peace pipeline to Edmonton. See “Facilities”.

In 2012, the Corporation invested approximately \$1.7 million to expand and maintain the land position in the East District. At December 31, 2012, the Corporation had interests in approximately 354,582 (284,985 net) acres of land in the East District, of which 267,083 (240,078 net) acres were undeveloped. The average working interest in undeveloped land in the East District is approximately 90%.

The Corporation spent \$17.2 million on East District land, exploration, development and minor acquisitions net of dispositions in 2012, including the drilling and completion of 5 (2.1 net) wells. Of these 5 wells, 1 (1.0 net) was a Montney/Doig horizontal exploratory well, 1 (1.0 net) was a Montney/Doig vertical exploratory well and the other 3 (0.1 net) were low working interest non-operated Charlie Lake horizontal oil wells. All of these wells were successful.

In 2012, the East District accounted for:

- 5.8% of total corporate exploration and development expenditures.
- 10.1% of total corporate production volumes.
- 5.1% of total corporate proved plus probable reserves.
- 47.4% of total corporate net undeveloped land holdings.

### ***Birchcliff's Resource Plays in the Peace River Arch***

Birchcliff is focused on two established resource plays within the Peace River Arch: the Montney/Doig Natural Gas Resource Play in the West and East Districts, and the Worsley Light Oil Resource Play in the North District. The Corporation has also acquired lands that are prospective for one or more new resource plays that will take time to develop. Birchcliff characterizes its resource plays as plays that have regionally pervasive, continuous, low permeability hydrocarbon accumulations or systems that usually require intensive stimulation to produce. The production characteristics of these plays include steep initial declines that rapidly trend to much lower decline rates, yielding long life production and reserves. Resource plays exhibit a statistical distribution of estimated ultimate recoveries and therefore provide a repeatable distribution of drilling opportunities. As more wells are drilled into a resource play, there is a substantial decrease in both the geological and technical risks.

### **Montney/Doig Natural Gas Resource Play**

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

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

Well spacing is an important consideration for the Montney/Doig Natural Gas Resource Play. Industry competitors typically have drilled up to four horizontal wells per section, per stratigraphic zone, on

160 acre spacing. Recently, industry competitors in the Peace River Arch area have drilled up to eight horizontal wells per section, per stratigraphic zone, using 80 acre spacing units.

Reserve assignments by AJM Deloitte to Birchcliff's lands in the Montney/Doig Natural Gas Resource Play are currently based on four wells per section, per stratigraphic zone. Birchcliff's technological analysis supports reducing inter-well spacing and in the future, the Corporation expects AJM Deloitte to assign additional future horizontal locations and reserves based on reduced inter-well spacing.

In 2012, Birchcliff drilled 22 (22.0 net) Montney/Doig horizontal natural gas wells utilizing multi-stage fracture stimulation technology. Birchcliff continues to expand the Montney/Doig Natural Gas Resource Play both geographically and stratigraphically, as 4 (4.0 net) of the 22 (22.0 net) Montney/Doig horizontal natural gas wells were exploration successes. Birchcliff also drilled 2 (2.0 net) successful Montney/Doig vertical exploration wells.

**Worsley Light Oil Resource Play**

The Worsley Light Oil Resource Play has demonstrated consistent and prolific production performance. Successful expansion of the pool, waterflood performance and the application of horizontal drilling and multi-stage fracture stimulation technology have all contributed to its continued reserve growth, production growth and high netbacks. The Corporation's assets in the Worsley Property (acquired in September 2007) have provided \$317.1 million in operating cash flow from September 2007 to December 2012, \$260.3 million of which has been invested back into the property.

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

Drilling activities during 2012 at Worsley included 11 (11.0 net) Charlie Lake horizontal oil wells utilizing multi-stage fracture stimulation technology.

**New Tight/Shale Oil Resource Play Development**

In the Corporation's core area of the Peace River Arch, numerous industry competitors have announced significant developments on a number of new tight/shale oil resource plays. Throughout 2012 and the beginning of 2013, there have been significant lands posted and acquired in the Peace River Arch and numerous new wells have been drilled, completed and brought on production, targeting these new resource plays, including the Montney, Charlie Lake, Nordegg and the Duvernay. The Corporation continues to spend a significant amount of time analyzing and evaluating various new resource plays in the Peace River Arch.

During 2012, Birchcliff acquired 76,909 (76,909 net) acres of undeveloped lands that management believes are prospective for one or more of these new resource plays. Some of these lands are also prospective for the Montney/Doig Natural Gas Resource Play or the Worsley Light Oil Resource Play.

<i>Tight/Shale Oil Resource Play Land Holdings (acres)</i>	<b>2012</b>		
	<i>WI</i>	<i>Gross</i>	<i>Net</i>
Duvernay Resource Play	98%	141,280	138,966
Nordegg Resource Play	82%	404,200	331,437
Banff/Exshaw Resource Play	92%	376,520	344,848

The Corporation is early in the development of these new resource plays, however, based on the high level of industry activity and internal technical evaluation, management is optimistic about their potential ultimate value.

## Facilities

Birchcliff holds working interests in 12 gas plants, four of which are wholly owned and five of which the Corporation operates. Birchcliff holds working interests in four major oil batteries, one of which the Corporation operates. These facilities provide low processing costs, third-party revenue, and more importantly, enable the Corporation to control production and maintain a high degree of operating flexibility in this highly competitive area. During 2012, the Corporation spent \$107.5 million throughout its core area on natural gas, oil and water facilities and production optimization projects. During 2013, the Corporation expects to spend approximately \$21.3 million on natural gas, oil and water facilities and production optimization projects. These investments will help the Corporation to control infrastructure and continue to reduce its per boe operating costs.

Facility Description	Location	Birchcliff Operated	WI%
<b>West District</b>			
Pouce Coupe South Gas Plant	03-22-078-12W6	Yes	100
Pouce Coupe North Gas Plant	11-19-079-11W6	No	15
Gordondale West Gas Plant	11-24-079-11W6	No	32.9
Pouce Coupe North Gas Plant	07-08-080-12W6	Yes	100
<b>North District</b>			
Hill Gas Plant	01-18-084-12W6	No	29.7
Worsley Oil Battery	08-21-087-09W6	Yes	100
Worsley Gas Plant	08-21-087-09W6	Yes	100
<b>East District</b>			
Bezanson Gas Plant	01-18-071-03W6	Yes	100
Rycroft Gas Plant	15-11-076-06W6	No	50
Rycroft Gas Plant (decommissioned)	07-02-077-04W6	Yes	55.5
Rycroft Gas Plant	08-25-077-06W6	No	2.4
Progress Doe Creek Oil Battery	04-33-078-08W6	No	43.4
Progress Oil Battery	10-27-078-08W6	No	6.1
Progress Gas Plant	07-22-078-09W6	No	0.3
Progress Oil Battery	08-32-078-09W6	No	0.5
Progress Gas Plant	01-01-078-10W6	No	2.6

The following is a description of the Corporation's major facilities.

### PCS Gas Plant

Birchcliff's 100% owned PCS Gas Plant, licensed to process up to 150 MMcf per day of natural gas, is located in the West District, in the heart of the Corporation's Montney/Doig Natural Gas Resource Play. The strategically situated site for the PCS Gas Plant enables the Corporation to control and operate all essential infrastructure - from wellhead to sales point.

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

total licensed processing capacity to 150 MMcf per day, commenced operation in October 2012. To operate the PCS Gas Plant at 150 MMcf per day will require some modifications to pipelines and sales metres on the NOVA pipeline system, but the capital required is not material.

The PCS Gas Plant meets or exceeds all ERCB and Alberta Environment requirements. The facility employs energy efficient equipment to optimize performance and keep operating costs low. The acid gas wells located at or near the site of the PCS Gas Plant are in a high quality reservoir for injection.

Phase III of the PCS Gas Plant, including the associated infrastructure, required a capital investment of approximately \$77.0 million, with costs incurred in 2011 and 2012.

The low operating costs of the PCS Gas Plant and related infrastructure gives the Corporation a strong competitive advantage of others paying for third party natural gas processing. The PCS Gas Plant is a key component in positioning the Corporation as a low-cost finder and producer of natural gas on the Montney/Doig Natural Gas Resource Play.

### ***Worsley Oil Battery and Gas Plant***

The Worsley oil battery and gas plant are located in the North District, in the heart of the Worsley Light Oil Resource Play. Control of infrastructure in the Worsley region allows Birchcliff to effectively manage the operating costs associated with the oil production from this region. Birchcliff wholly owns and operates the Worsley oil battery and gas plant.

### **Production**

The Corporation had an annual average production rate of approximately 22,802 boe per day in 2012.

### ***Product Sales Revenues***

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.

The following table sets forth the aggregate sale of those products produced by the Corporation during the years ended December 31, 2011 and December 31, 2012:

<b>Product</b>	<b>2012 PNG Sales</b>	<b>2011 PNG Sales</b>
Natural Gas	\$102,965,992	\$115,486,976
Light Crude Oil	\$131,963,767	\$131,118,357
Natural Gas Liquids	\$22,113,737	\$17,774,988

### **Specialized Skill and Knowledge**

The Corporation's business requires the application of extremely high levels of technical skill in the areas of geology, geophysics and reservoir engineering, 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. See "Risk Factors – Reliance on Key Personnel".

## **Competitive Conditions**

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. The Corporation'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 area of the Peace River Arch area of Alberta, based upon the facilities and land base it controls and the experience it has developed on the plays it pursues. See "*Risk Factors – Competition*".

## **Seasonal Factors**

The exploration for and development of oil and natural gas reserves in the Corporation's focus area 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. See "*Risk Factors – Seasonality*".

## **Environmental Protection**

The oil and gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. The Corporation carefully monitors such legislation and makes the required expenditures necessary to remain in compliance. See "*Risk Factors – Changes in Legislation and Risk Factors – Environmental Regulation*".

## **Employees**

At December 31, 2012, the Corporation had 90 full time and five part time employees and five contract service providers in its head office. Working in the Spirit River, Alberta area, it had 31 full time employees and 12 contract service providers. Working in the Worsley, Alberta area, it had 16 full time employees and seven contract service providers. The Corporation hires skilled contractors to perform drilling operations, well completions and other field service operations. See "*Risk Factors – Reliance on Key Personnel*".

## **Environmental Policies**

The Corporation has an active program to monitor and comply with health, safety and environmental laws, rules and regulations applicable to its operations. Birchcliff's corporate policies require operational activities to be conducted in a manner which meets or exceeds regulatory requirements and industry standards to safeguard the environment and protect employees, contractors and the public at large. All employees receive pertinent health, safety and environmental training for their role. The Corporation conducts regularly scheduled operational audits and assessments to identify risks and takes steps to reduce or prevent accidents. See "*Risk Factors – Health, Safety and Environment*".

## **RISK FACTORS**

### **Exploration, Development and Production**

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time and the production therefrom, will decline over time as such existing reserves are exploited.

The Corporation remains subject to the risk that the production rate of a significant well may decrease in an unpredictable and uncontrollable manner, which could result in a decrease in the Corporation's overall production and associated cash flows. The Corporation mitigates this risk by having a large number of wells on production, reducing the ability of any one well to materially affect overall production and associated cash flow.

### **Commodity Price Volatility**

Birchcliff's liquidity and cash flow is largely impacted by petroleum and natural gas commodity prices. Oil and natural gas prices fluctuate in response to changes in the supply of and demand for crude oil and natural gas, market uncertainty and a variety of additional factors that are largely beyond the Corporation's control. The Corporation has not hedged any of its oil and natural gas production at the date hereof and although it does monitor the hedge market, its strategy is to continue to sell its oil and natural gas production at the spot market rate. Management remains optimistic about future commodity prices and believes the Corporation is well positioned to take advantage of a rising oil and natural gas price environment. If there is a significant deterioration in the price it receives for oil and natural gas, the Corporation will consider reducing its capital spending or access alternate sources of capital.

### **Variations in Foreign Exchange Rates and Interest Rates**

The Corporation is exposed to foreign currency fluctuations as its Canadian revenues are strongly linked to United States dollar denominated benchmark prices. The Corporation has not hedged any of its foreign exchange risk at the date hereof.

An increase in interest rates could result in a significant increase in the amount the Corporation pays to service debt, which could negatively impact the market price of the Common Shares of the Corporation.

### **Reserve Replacement**

Oil and natural gas reserves naturally deplete as they are produced over time. The success of the Corporation's business is highly dependent on its ability to acquire or discover new reserves in a cost efficient manner. Substantially, all of the Corporation's cash flow is derived from the sale of the petroleum and natural gas reserves it accumulates and develops. In order to remain financially viable, the Corporation must be able to replace reserves over time at a lesser cost on a per unit basis than its cash flow on a per unit basis. The reserves and costs used in this determination are estimated each year based on numerous assumptions and these estimates and costs may vary materially from the actual reserves produced or from the costs required to produce those reserves. In order to mitigate this risk, the Corporation employs a competent and experienced team of petroleum and natural gas professionals and closely monitors the capital expenditures made for the purposes of increasing its petroleum and natural gas reserves. Historically, the Corporation's finding, development and acquisition costs and reserves replacement on a proved plus probable basis have remained competitive compared to industry peers.

### **Health, Safety and Environment**

Health, safety and environment risks influence the workforce, operating costs and the establishment of regulatory standards. These risks include, but are not limited to, encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, equipment failures, human error or wilful misconduct by field workers, 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. The Corporation provides staff with the training and resources they need to complete work safely and effectively; incorporates hazard assessment and risk management as an integral part of everyday operations; monitors performance to ensure its operations comply with legal obligations and internal standards; and identifies and manages environmental liabilities associated with its existing asset base. The Corporation has a site inspection program and a corrosion risk management program designed to ensure compliance with environmental laws and regulations. The Corporation carries insurance to cover a portion of property losses, liability to third parties and business interruption resulting from unusual events.

The Corporation is subject to the risk that the unexpected failure of its equipment used in drilling, completing or producing wells or in transporting production could result in release of fluid substances that pollute or contaminate lands at or near its facilities, which could result in significant liability to the Corporation for costs of clean up, remediation and reclamation of contaminated lands. The Corporation conducts its operations with due regard for the potential impact on the environment. This includes hiring skilled personnel, providing adequate training to all staff involved with operations, and by retaining expert advice and assistance to deal with environmental remediation and reclamation work where such expertise is needed.

### **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 the Corporation is primarily dependent on the state of the economy and the health of the banking industry in Canada and the United States. There is risk that if the economy and banking industry experienced unexpected and/or prolonged deterioration, the Corporation's access to credit markets may contract or disappear altogether. 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 beyond the Corporation's control.

The Corporation is also dependent, to a certain extent, on continued access to equity capital markets. The Corporation is listed on TSX and maintains an active investor relations program. Continued access to capital is dependent on the Corporation's ability to continue to perform at a level that meets market expectations.

### **Availability of Processing and Pipeline Capacity**

The Corporation is 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. The majority of the Corporation's production passes through Birchcliff owned or third party infrastructure prior to it being ready for transfer at designated commodity sales points. There is a risk that should this infrastructure fail and cause a significant portion of the Corporation's production to be shut-in and be unable to be sold, this could have a material adverse effect on the Corporation's available cash flow. The Corporation mitigates this risk by purchasing business

interruption and property insurance policies for Birchcliff owned infrastructure and contingent business interruption insurance policies for its significant third party infrastructure.

### **Costs and Availability of Equipment and Services**

Inflation is a risk common to all businesses in Canada. During times of high commodity prices for oil and natural gas, there is a risk of substantially increased cost of operation, which impacts both the amount of capital required to perform operations 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 largely be unable to direct or control the activities of the operators. Although the Corporation strives for continuous improvement in its planning, operations and procurement of materials, unexpected changes in the market for such equipment and services could negatively affect the Corporation's financial performance.

### **Management of Growth**

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. An inability of the Corporation to effectively deal with this growth could have a material adverse impact on its business, operations and business prospects. Management mitigates this risk by continually implementing appropriate procedures and policies for its size, upgrading its systems, training its employees and providing effective supervision and management of its staff.

### **Changes in Legislation**

Government royalties, income tax laws, environmental laws and regulatory requirements can have a significant financial and operational impact on the Corporation. As an oil and natural gas producer, the Corporation is subject to a broad range of regulatory requirements. The Corporation hires and retains skilled personnel that are knowledgeable regarding changes to the regulatory regime under which it operates.

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

### **Reliance on Key Personnel**

The Corporation's 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 the Corporation. The Corporation does not have "key person" insurance in effect for management and the contributions of these individuals to the Corporation's immediate operations is 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. Shareholders must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the Corporation's management.

### **Volatility of Market Price of Common Shares**

The trading price of the Common Shares is subject to volatility as a result of factors both related and unrelated to the financial performance of the Corporation. The market price of the Common Shares of the Corporation may respond to variations in the Corporation's operating results, financial condition, liquidity and other internal factors. The market price of the Common Shares of the Corporation may also respond to factors unrelated to the Corporation's performance such as commodity prices and the market perception of the attractiveness of the oil and gas industry.

### **Insurance**

The Corporation obtains insurance in accordance with industry standards to address business risks, however such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, certain risks may not in all circumstances be insurable or, in certain circumstances, the Corporation 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 the Corporation. 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 its financial position, results of operations or prospects.

### **Hydraulic Fracturing**

Hydraulic fracturing involves the injection of water, sand and small amounts of additives under pressure into rock formations to stimulate hydrocarbon (natural gas and oil) production. The use of hydraulic fracturing is necessary to produce commercial quantities of natural gas and oil from many reservoirs. The Corporation anticipates that federal, provincial and state regulatory frameworks to address concerns related to hydraulic fracturing will continue to emerge. The implementation of new regulations with respect to water usage of hydraulic fracturing generally could lead to operational delays, as well as increase the Corporation's costs of compliance, its operating costs, and may negatively impact the Corporation's prospects, any of which may have a material adverse effect on the Corporation's business, financial condition and results of operations. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that the Corporation is ultimately able to produce from its reserves. The Corporation conducts its fracturing operations with reputable service providers, with due regard for potential impact on the environment and closely monitors and complies with the regulatory regime.

### **Expiration of Licences and Leases**

The Corporation's properties are held in the form of licences and leases and working interests in licences or leases held by others. If the Corporation or the holder of the licence or lease fails to meet specific requirements of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of licences or leases may have a material adverse effect on results of operations and business. To mitigate this risk, the Corporation carefully monitors its undeveloped land and plans operations in order to keep key licences and leases from terminating or expiring.

### **Counterparty Credit Risk**

The Corporation assumes customer credit risk associated with oil and gas sales and joint venture participants. To mitigate this risk, the Corporation performs regular reviews of receivables to minimize default or non-payment and takes the majority of its production in kind. The Corporation also puts in place security arrangements with respect to amounts owed to it by others when reviews indicate it is appropriate to do so.

### **Ability to Pay Dividends on Preferred Shares**

Dividends on the Corporation's outstanding preferred shares are payable at the discretion of the Board. The Corporation may not declare or pay a dividend if there are reasonable grounds for believing that: (i) the Corporation is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realizable value of the Corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of its outstanding shares. Additionally, the Corporation may only declare and pay cash dividends on the outstanding preferred shares if no default or event of default shall have occurred or shall occur under the credit facilities as a result of declaring such dividend.

### **Uncertainty of Reserve Estimates**

There are a number of uncertainties inherent in estimating the quantities of reserves and resources, 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 these 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 plus 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, the Corporation has used forecast prices and costs in calculating reserve quantities. 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. NI 51-101 requires the inclusion of the following statement in estimates of future net revenues based on reserves estimates: estimates of future net revenues, whether discounted or not, do not represent fair market value.

### **Failure to Realize Anticipated Benefits of Acquisitions and Dispositions**

The Corporation makes acquisitions and dispositions of oil and gas properties in the ordinary course of business. 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. 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, the Corporation often assumes certain environmental and other risk liabilities in connection with acquired properties. There are numerous uncertainties inherent in estimating quantities of proved plus 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. Management continually assesses the value of the Corporation's assets and may dispose of non-core assets so that the Corporation can focus its efforts and resources more efficiently. Depending on the state of the market, there is a risk that certain non-core assets could realize less than their carrying value in the Corporation's financial statements. The Corporation manages the risk associated with acquisitions and disposition through a careful due diligence review of available information in order to make prudent business decisions.

### **Litigation**

In the normal course of the Corporation's operations, it may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to personal injuries, property damage, property tax, land rights, the environment and contract disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Corporation and as a result, could have a material adverse effect on the Corporation's assets, liabilities, business, financial condition and results of operations. Even if the Corporation prevails in any such legal proceeding, the proceeding could be costly and time-consuming and may divert attention of management and key personnel from the Corporation's business operations. Specific disclosure of current legal proceedings is disclosed under the heading "*Legal Proceedings and Regulatory Actions*" in this Annual Information Form.

### **Competition**

The oil and natural gas industry is highly competitive, particularly as it pertains to the exploration for and development of new sources of oil and natural gas reserves. The industry also competes with other industries in supplying non-petroleum energy products. The Corporation actively competes for land, production and reserve acquisitions, exploration leases, licences 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 the Corporation.

### **Environmental Regulation**

The oil and gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. A breach of any such legislation may result in the imposition of fines or other penalties, as well as the responsibility to remedy environmental problems caused by the Corporation's operations. A serious breach could result in the Corporation being required to suspend operations or enter into interim compliance measure which restrict the Corporation's ability to conduct operations.

Political and economic events may significantly affect the scope and timing of climate change measures that are put in place. Some of the Corporation's facilities may be subject to future provincial or federal climate change regulations to manage emissions and there can be no assurance that the compliance costs will be immaterial.

## **Title to Assets**

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 the Corporation's ownership claims, which could result in the Corporation losing all or a portion of its right title and interest in and to the properties to which the title defects relate.

## **Seasonality**

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. A mild winter or wet spring may result in limited access and, as a result, reduced operations or a cessation of operations. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consist of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity.

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

An independent evaluation dated February 8, 2013 of the Corporation's oil and gas assets as at December 31, 2012 was prepared by AJM Deloitte in accordance with the Canadian Oil and Gas Evaluation Handbook and NI 51-101.

The reserves data derived from the 2012 Reserves Evaluation and other information required to be disclosed by NI 51-101 is contained in the following documents:

- (i) Form 51-101F1 – *Statement of Reserves Data and Other Oil and Gas Information* dated March 13, 2013;
- (ii) Form 51-101F2 – *Report on Reserves Data by Independent Qualified Reserves Evaluator* dated March 13, 2013; and
- (iii) Form 51-101F3 – *Report of Management and Directors on Oil and Gas Disclosure* dated March 13, 2013.

Each of these documents is filed on SEDAR contemporaneously with this Annual Information Form and can be accessed on SEDAR at [www.sedar.com](http://www.sedar.com). Each of these documents is incorporated by reference herein.

## **DIVIDEND AND DISTRIBUTION POLICY**

### **Common Shares**

The Corporation has never paid any dividends on its Common Shares or made distributions to holders of Common Shares and it is unlikely to pay any dividends on its Common Shares or make distributions to holders of Common Shares in the foreseeable future.

### **Preferred Shares**

The decision whether or not to pay dividends on preferred shares and the amount of any such dividend is subject to the discretion of the Board. All dividends will be reviewed by the Board and may be increased, reduced or suspended from time to time. Payment of dividends will be dependent on,

among other things, the cash flow, results of operations and financial condition of the Corporation, the need for funds to finance ongoing operations and other considerations as the Board considers relevant. In the event of the liquidation, dissolution or winding up of the Corporation, the holders of preferred shares are entitled to all accrued and unpaid dividends thereon, before any amount is paid or any property or assets are distributed to holders of the Common Shares.

## **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, 2012, there were outstanding: 141,596,279 basic Common shares, 162,997,383 fully diluted Common Shares and 2,000,000 Preferred Shares, Series A.

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 and to attend all meetings of the shareholders of the Corporation and to vote one vote per Common Share at such meetings. The holders of Common Shares are entitled to receive dividends declared on the Common Shares declared by the Board and subject to the rights of the holders of shares ranking prior to the Common Shares, to receive pro rata the distribution of assets of the Corporation in the event of liquidation, dissolution or winding up in equal rank with the holders of other 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 Board 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 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 that 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.

### ***Preferred Shares, Series A***

The holders of the outstanding Preferred Shares, Series A are entitled to receive, as and when declared by the Board out of moneys of the Corporation properly applicable to the payment of dividends, fixed cumulative preferential cash dividends for the initial period from and including the date of issue of the Preferred Shares, Series A to, but excluding, September 30, 2017, at an annual rate of \$2.00 per Series A Preferred Share, payable quarterly on the last day of March, June, September and December in each year (less any tax required to be deducted or withheld by the Corporation).

For each five year period after the initial period, the holders of Preferred Shares, Series A will be entitled to receive, as and when declared by the Board, fixed cumulative preferential cash dividends, payable quarterly on the last day of March, June, September and December in each year, in the amount per

share determined by multiplying \$25.00 by one-quarter of the annual fixed dividend rate, which is the annual rate of interest equal to the sum of the yield to maturity of a five-year Government of Canada bond on the applicable calculation date and 6.83% (less any tax required to be deducted or withheld by the Corporation), 30 days prior to the start of such period.

The Preferred Shares, Series A will not be redeemable prior to September 30, 2017. On September 30, 2017, and on September 30 in every fifth year thereafter, the Corporation may, at its option, upon not less than 30 days and not more than 60 days prior written notice, redeem for cash all or any number of the outstanding Preferred Shares, Series A by the cash payment of \$25.00 per Series A Preferred Share plus all accrued and unpaid dividends (less any tax required to be deducted or withheld by the Corporation). The holders of the Preferred Shares, Series A are not entitled to any voting rights or to receive notice of or to attend shareholders' meetings unless and until the first time at which the Board has not declared the dividend in full on the Preferred Shares, Series A in any quarter. Until all arrears of dividends have been paid, holders of Preferred Shares, Series A shall be entitled to receive notice of and to attend all shareholders' meetings (other than separate meetings of holders of another class or series of shares) and to one vote in respect of each Series A Preferred Share held with respect to the resolutions being voted on.

In the event of the liquidation, dissolution or winding-up of the Corporation or any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs, the holders of the Preferred Shares, Series A shall be entitled to receive \$25.00 per Series A Preferred Share plus all accrued and unpaid dividends thereon (less any tax required to be deducted or withheld by the Corporation) before any amount shall be paid or any property or assets of the Corporation shall be distributed to the holders of Common Shares or to the holders of any other shares ranking junior to the Preferred Shares, Series A in any respect. After payment to the holders of the Preferred Shares, Series A of the amount so payable to them, they shall not, as such, be entitled to share in any further distribution of the property or assets of the Corporation.

The holders of the Preferred Shares, Series A will have the right to convert all or any of their shares into cumulative redeemable preferred shares, Preferred Shares, Series B of the Corporation, subject to certain conditions, on September 30, 2017 and on September 30 in every fifth year thereafter. The holders of the Preferred Shares, Series B will be entitled to receive, as and when declared by the Board, quarterly floating rate cumulative preferential cash dividends payable on the last day of March, June, September and December in each year in the amount per share determined by multiplying \$25 by the annual rate of interest equal to the sum of the average annual rate of a 90 day Government of Canada treasury bill on the applicable calculation date and 6.83%, and multiplying that product by a fraction, the numerator of which is the actual number of days in the quarterly floating rate period and the denominator of which is 365 or 366, depending upon the actual number of days in the applicable year (less any tax required to be deducted or withheld by the Corporation).

The Preferred Shares, Series A and the Preferred Shares, Series B are series of shares in the same class. The conversion right entitles holders to elect periodically which of the two series they wish to hold and does not entitle holders to receive a different class or type of securities. Other than the different dividend rights, redemption rights and conversion rights attached thereto, the Preferred Shares, Series A and the Preferred Shares, Series B are identical in all material respects.

## 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 the financial year ended December 31, 2012.

Month	High	Low	Monthly Trading Volume
January	14.09	11.91	10,861,800
February	14.10	11.00	14,800,900
March	11.35	6.57	16,878,600
April	7.35	5.73	15,374,800
May	7.34	5.90	10,771,500
June	6.80	5.12	9,043,300
July	7.25	5.65	6,274,600
August	7.40	6.52	4,148,300
September	6.89	6.40	7,821,800
October	8.80	6.66	12,191,800
November	8.42	7.11	3,979,200
December	8.00	7.26	3,752,400

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

There are no securities of the Corporation being held in escrow or subject to contractual restrictions on transfer.

## DIRECTORS AND OFFICERS

### Directors

The directors of the Corporation are elected annually at the annual meeting of shareholders. The following table sets forth the name, province and country of residence, year first elected to the Board, principal occupation during the past five years or more, educational background and other current directorships of each of the directors of the Corporation:

Name, Province and Country of Residence	Director Since	Present Position, Principal Occupations During the Past Five Years or More, Educational Qualifications and Other Directorships
<b>Larry A. Shaw</b> <sup>(1)(2)(3)</sup> <i>Alberta, Canada</i> Independent Director	January 18, 2005	Mr. Shaw is the Chairman of the Board of Birchcliff and is a member of the Audit Committee, Compensation Committee and Reserves Evaluation Committee. He has more than 25 years of experience in the oil and gas industry and is one of the Corporation's founders. Prior to joining Birchcliff, Mr. Shaw served as Chairman of the Board of Case Resources Inc., Big Bear Exploration Ltd. and Stampeder Exploration Ltd. He was President of Shaw Automotive Group Ltd. and Shaw G.M.C. Pontiac Buick Hummer Ltd. Mr. Shaw received his Honors Degree in Business Administration from the University of Western Ontario.
<b>Gordon W. (Scotty) Cameron</b> <sup>(1)(2)(3)</sup> <i>Alberta, Canada</i> Independent Director	January 18, 2005	Mr. Cameron is a Director of Birchcliff and is a member of the Audit Committee, Compensation Committee and Reserves Evaluation Committee. He has more than 43 years of experience in the oil and gas industry and is one of the Corporation's founders. Prior to joining Birchcliff, Mr. Cameron served as a director of Case Resources Inc., Big Bear Exploration Ltd., Transwest Energy Inc., Stampeder Exploration Ltd. and as director and Chairman of the Board of Novagas Clearinghouse Ltd. and Maximum Energy Trust. He was President and Chief Executive Officer of Pan-Alberta Gas Ltd. and Chairman of the Energy Council of Canada. Mr. Cameron received his Bachelor of Commerce Degree and his Doctor of Laws Degree from the University of Saskatchewan. Mr. Cameron received the Order of Canada in 1995 in recognition of his contributions to the Canadian business community and his extensive philanthropic work.



Name, Province and Country of Residence	Director Since	Present Position, Principal Occupations During the Past Five Years or More, Educational Qualifications and Other Directorships
<b>Kenneth N. (Ken) Cullen</b> <sup>(1)(2)(3)</sup> <i>Alberta, Canada</i> Independent Director	February 16, 2011	Mr. Cullen is a Director of Birchcliff and is a member of the Audit Committee, Compensation Committee and Reserves Evaluation Committee. He has more than 31 years of experience working with companies in the oil and gas industry as a partner at Deloitte & Touche LLP in the Assurance and Advisory (Audit) group prior to his retirement in 2006. Mr. Cullen currently serves as a director of each of Southern Pacific Resource Corp. and Parkbridge Lifestyle Communities Inc. Mr. Cullen received his Chartered Accountant Designation from the Institute of Chartered Accountants of British Columbia.
<b>Werner A. (Vern) Siemens</b> <sup>(1)(2)(3)</sup> <i>Alberta, Canada</i> Independent Director	January 18, 2005	Mr. Siemens is a Director of Birchcliff and is a member of the Audit Committee, Compensation Committee and Reserves Evaluation Committee. He has more than 25 years of experience in the oil and gas industry and is one of the Corporation's founders. Prior to joining Birchcliff, Mr. Siemens served as a Director of Case Resources Ltd., Big Bear Exploration Ltd. and Stampeder Exploration Ltd. He was Vice-President of Agra Industries Ltd. and President and Chief Executive Officer of Blue Label Beverages Ltd.
<b>A. Jeffery Tonken</b> <i>Alberta, Canada</i> Director	January 18, 2005	See Mr. Tonken's biography under " <i>Executive Officers</i> ".

**Notes:**

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Reserves Evaluation Committee

The Corporation's Board has an Audit Committee, a Compensation Committee and a Reserves Evaluation Committee, each of which is comprised of the four independent directors, namely Mr. Cameron, Mr. Cullen, Mr. Shaw and Mr. Siemens. Because of the small size of the Board, the Corporation does not have separate corporate governance or executive committees.

## Executive Officers

The following table sets forth the name, province and country of residence, position with the Corporation, and principal occupation during the past five years or more and educational background of each of the executive officers of the Corporation.

<b>Name, Province and Country of Residence</b>	<b>Current Position with Birchcliff</b>	<b>Principal Occupations During the Past Five Years or More and Educational Qualifications</b>
<b>A. Jeffery Tonken</b> <i>Alberta, Canada</i>	President and Chief Executive Officer	Mr. Tonken is the President and Chief Executive Officer and a Director of Birchcliff. He has more than 32 years of experience in the oil and gas industry and is one of the Corporation's founders. Prior to creating Birchcliff, Mr. Tonken founded and served as President and Chief Executive Officer of Case Resources Inc., Big Bear Exploration Ltd. and Stampeder Exploration Ltd. Mr. Tonken was previously a Partner of the law firm Howard, Mackie (now Borden Ladner Gervais LLP). Mr. Tonken is a former Governor of the Canadian Association of Petroleum Producers (CAPP). Mr. Tonken received his Bachelor of Commerce degree from the University of Alberta and his Bachelor of Laws degree from the University of Wales.
<b>Myles R. Bosman</b> <i>Alberta, Canada</i>	Vice-President, Exploration and Chief Operating Officer	Mr. Bosman is Vice-President, Exploration and Chief Operating Officer and is a Professional Geologist. He has more than 22 years of experience in the oil and gas industry and is one of the Corporation's founders. Prior to joining Birchcliff, Mr. Bosman served as Vice-President, Exploration and Chief Operating Officer of Case Resources Inc.; Exploration Manager of Summit Resources Ltd.; and as an Exploration Geologist with both Numac Energy Inc. and Canadian Hunter Exploration. Mr. Bosman received his Bachelor of Science degree in Geology from the University of Calgary and his Resource Engineering diploma from the Northern Alberta Institute of Technology.

Name, Province and Country of Residence	Current Position with Birchcliff	Principal Occupations During the Past Five Years or More and Educational Qualifications
<b>Bruno P. Geremia</b> <i>Alberta, Canada</i>	Vice-President and Chief Financial Officer	Mr. Geremia is Vice-President and Chief Financial Officer and is a Chartered Accountant. He has more than 21 years of experience in the oil and gas industry and is one of the Corporation's founders. Prior to joining Birchcliff, Mr. Geremia served as Vice-President and Chief Financial Officer of both Case Resources Inc. and Big Bear Exploration Ltd.; as Director, Commercial of Gulf Canada Resources; and as Manager, Special Projects of Stampeder Exploration Ltd. Mr. Geremia was previously a Chartered Accountant with Deloitte & Touche LLP. Mr. Geremia received his Bachelor of Commerce degree from the University of Calgary.
<b>David M. Humphreys</b> <i>Alberta, Canada</i>	Vice-President, Operations	Mr. Humphreys is Vice-President, Operations and has more than 26 years of experience in the oil and gas industry. Prior to joining Birchcliff in 2009, he served as Vice-President, Operations of Highpine Oil & Gas Ltd., White Fire Energy Ltd., and Virtus Energy Ltd.; Production Manager of both Husky Oil Operations Ltd. and Ionic Energy; and as a Senior Production Engineer with Northrock Resources Ltd. Mr. Humphreys received his Hydrocarbon Engineering Technology diploma from the Northern Alberta Institute of Technology.
<b>Karen A. Pagano</b> <i>Alberta, Canada</i>	Vice-President, Engineering	Ms. Pagano is Vice-President, Engineering and is a Professional Engineer with more than 24 years of experience in the oil and gas industry. She previously served as Vice-President, Operations and as a Senior Exploitation Engineer with Birchcliff. Prior to joining Birchcliff in 2005, she was Manager of Operations of Koch Exploration; a Senior Production Engineer with Upton Resources Inc.; and a Senior Drilling and Completions Engineer with Alberta Energy Company. Ms. Pagano received her Bachelor of Electrical Engineering degree, with distinction, from the University of Saskatchewan.

Name, Province and Country of Residence	Current Position with Birchcliff	Principal Occupations During the Past Five Years or More and Educational Qualifications
James W. Surbey <i>Alberta, Canada</i>	Vice-President, Corporate Development	Mr. Surbey is Vice-President, Corporate Development and is a member of the Law Society of Alberta. He has more than 35 years of experience in the oil and gas industry and is one of the Corporation's founders. Prior to joining Birchcliff he served as Vice-President, Corporate Development of Case Resources Inc.; Senior Vice-President, Corporate Development of Big Bear Exploration Ltd.; and Vice-President, Corporate Development of Stampeder Exploration Ltd. Mr. Surbey was previously a Senior Partner of the law firm Howard, Mackie (now Borden Ladner Gervais LLP). Mr. Surbey received his Bachelor of Engineering degree and Bachelor of Laws degree from McGill University.

#### Shareholdings of Directors and Executive Officers

At December 31, 2012, the directors and executive officers of the Corporation, as a group, beneficially owned, or exercised control or direction over, directly or indirectly, 5,206,559 Common Shares representing approximately 3.7% of the 141,596,279 Common Shares issued and outstanding at that date. The directors and executive officers and their families, as a group, beneficially owned or exercised control or direction over, directly or indirectly, 6,759,347 Common Shares representing approximately 4.8% of the 141,596,279 Common Shares issued and outstanding at that date. The directors and executive officers as a group, also held options to purchase 4,168,934 Common Shares, performance warrants to purchase 2,939,732 Common Shares and warrants to purchase 229,800 Common Shares.

The fully diluted holdings of directors and executive officers, as a group, were 12,545,025 Common Shares or approximately 7.7% of the 162,997,383 Common Shares that were outstanding on a fully diluted basis at December 31, 2012. The fully diluted holdings of directors and executive officer and their families, as a group, beneficially owned or exercised control or direction over, directly or indirectly, 14,187,813 Common Shares, representing approximately 8.7% of the 162,997,383 Common Shares issued and outstanding at that date.

#### Cease Trade Orders, Bankruptcies, Penalties or Sanctions

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, at the date of this Annual Information Form or within 10 years before the date of this Annual Information Form: (a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to an exemption under securities laws that was in effect for a period of more than 30 days (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.

Except as disclosed below, 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 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 became 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.

Mr. Surbey resigned from his role as a director of Fair Sky Resources Ltd. in December 2007 and within a year of his resignation, 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**

Directors and executive officers of the Corporation are investors in or directors of other oil and gas companies or entities that may provide financing to, or make equity investments in competitors of the Corporation, which may give rise to conflicts of interest. In accordance with the ABCA, directors and executive officers of the Corporation are required to disclose the nature and extent of any interest that they have in a material contract or material transaction, and in the case of a director, such director will refrain from voting on any matter in respect of such contract or transaction, unless otherwise provided by the ABCA.

## **AUDIT COMMITTEE**

### **Audit Committee**

The Audit Committee is comprised of Mr. Cameron, Mr. Cullen, Mr. Shaw and Mr. Siemens. Each of the members of the Audit Committee is “independent” within the meaning of NI 52-110. Mr. Shaw is Chairman of the Audit Committee. Mr. Cullen is a Chartered Accountant and a former Partner of Deloitte and Touche LLP and the other 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 under the heading “*Directors and Officers – Directors*”.

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 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.

The Charter adopted by the Audit Committee of the Corporation is attached hereto as Schedule A.

#### **Audit Fees**

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

The only fees billed to the Corporation by the auditors for audit services in each of the last two fiscal years were: \$169,950 in 2012 of which \$103,000 for the 2012 audit and \$66,950 was for the 2011 audit; and \$194,796 in 2011 of which \$75,705 was for the 2011 audit and \$119,091 was for the 2010 audit. The Corporation expects to receive further billings in respect of the 2012 audit in 2013.

#### **Audit Related Fees**

In 2012, the auditors billed the Corporation \$37,080 related to the review of the Corporation's quarterly financial statements. In 2011, the auditors billed the Corporation \$41,066 related to the review of the Corporation's quarterly financial statements. Audit related fees were for assurance and related services not reported under the heading audit fees above.

#### **Tax Fees**

In 2012, the auditors billed the Corporation \$27,980 in respect of their services provided in connection with the preparation and filing of the corporate income tax return and other tax related work. The auditors billed the Corporation \$41,407 in respect of their tax services in 2011.

#### **Other Fees**

In 2012, the auditors billed the Corporation an aggregate of \$89,450 in respect of their services provided in connection with the 2012 equity financings, including their review of the prospectus and their attendance at due diligence meetings, and review Birchcliff's continuous disclosure documents. In 2011, the auditors billed the Corporation an aggregate of \$45,410 in respect of their services provided in connection with their review of Birchcliff's accounting policies under International Financial Reporting Standards. 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.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

The Corporation's 2006 and 2007 income tax filings have been reassessed by the Canada Revenue Agency ("**CRA**"). The reassessments are based on the CRA's determination that the tax pools available to Veracel, prior to its amalgamation with the Corporation on May 31, 2005, ceased to be available after the amalgamation. See "*Corporate Structure*." The tax pools under review total \$39.9 million. There are no other material legal proceedings that the Corporation is or was a party to, or that any of its property

is or was the subject of, during the most recently completed financial year or that the Corporation knows to be contemplated.

There are no (a) penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory body during the most recently completed financial year; (b) any other penalties or sanctions imposed by a court or regulatory body against the Corporation that would be considered important to a reasonable investor in making an investment decision; or (c) any settlement agreements the Corporation entered into before a court relating to securities legislation or with a securities regulatory authority during the most recently completed financial year.

#### **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Within the three most recently completed financial years or during the current financial year, no director or executive officer of the Corporation; any person or company who beneficially owns, or controls or directs, directly or indirectly, more than 10% of the Common Shares; or any associate or affiliate of such person or company had any material interest, directly or indirectly, in any transaction that has materially affected or is reasonably expected to materially affect the Corporation.

#### **TRANSFER AGENT AND REGISTRAR**

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

#### **MATERIAL CONTRACTS**

The Corporation has not entered into any material contracts during the most recently completed financial year other than those entered into in the ordinary course of business.

#### **INTERESTS OF EXPERTS**

The Corporation's auditors are KPMG LLP, Chartered Accountants. KPMG LLP performed the audit in respect of the annual consolidated financial statements of the Corporation as at and for the years ended December 31, 2012 and December 31, 2011. KPMG LLP is considered independent of the Corporation in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta.

Deloitte, qualified independent petroleum engineers, prepared reserves estimates referred to in the Corporation's annual filings in respect of the fiscal year ended December 31, 2012. As at the date hereof, the principals of Deloitte, as a group, beneficially own, directly or indirectly, less than 1% of the securities of the Corporation.

Other than as set out above, there is no person or company whose profession or business gives authority to a report, valuation, statement or opinion made by them, who was named in the filing made under National Instrument 51-102 – *Continuous Disclosure Obligations* by the Corporation during, or related to, the Corporation's most recently completed financial year.

#### **ADDITIONAL INFORMATION**

Additional information about the Corporation can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Corporation's website at [www.birchcliffenergy.com](http://www.birchcliffenergy.com).

Additional information including directors' and officers' remuneration and indebtedness, principal holders of Common Shares, and securities authorized for issuance under equity compensation plans is

contained in the Information Circular of the Corporation for the most recent annual meeting of shareholders, which was held on May 16, 2012.

Additional financial information relating to the Corporation is provided in the Corporation's Financial Statements and Management's Discussion and Analysis for the year ended December 31, 2012.



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

**AUDIT COMMITTEE CHARTER**

**1) Purpose**

The purpose of the Audit Committee is to assist the Board of Directors in overseeing:

- (a) The preparation of the financial statements of the Corporation and the conduct of any audit thereof.
- (b) The Corporation's compliance with applicable financial reporting requirements.
- (c) The independence and performance of the Auditor.
- (d) The Corporation's compliance with the Corporation's policies and guidelines.

**2) Definitions**

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.
- (e) **"Corporation"** means Birchcliff Energy Ltd.

**3) Election and Composition**

- (a) The Board shall appoint annually from among its members a Committee to be known as the "Audit Committee".
- (b) The Audit Committee shall be comprised of at least three Directors, of whom a majority shall not be officers or employees of the Corporation or an affiliate of the Corporation. All committee members 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*.
- (c) The Audit Committee shall select from its members a Chairperson of the Committee.
- (d) 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) Meetings**

- (a) The Audit Committee shall meet at least four times annually, or more frequently as circumstances dictate.

- (b) 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.
- (c) 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.
- (d) Notice of any meeting or any irregularity in any meeting or the notice thereof may be waived by any member.
- (e) A quorum for meetings of the Audit Committee shall be at least two members of the Committee who are not officers or employees of the Corporation or an affiliate of the Corporation.
- (f) 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.
- (g) 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) **Responsibilities**

- (a) The Committee shall recommend to the Board:
  - (i) 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
  - (ii) the compensation of the Auditor.
- (b) 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.
- (c) 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.
- (d) 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.
- (e) 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:

- (i) reviewing changes in accounting principles, or in their application, which may have a material impact on a current or future year's financial statements;
  - (ii) reviewing significant accruals, reserves or other estimates such as any ceiling test calculation;
  - (iii) reviewing the accounting treatment of unusual or non-recurring transactions;
  - (iv) reviewing disclosure of commitments and contingencies;
  - (v) reviewing adjustments suggested by the Auditor, whether or not included in the financial statements;
  - (vi) reviewing unresolved differences between management and the Auditors; and
  - (vii) obtain explanations of significant variances with comparative reporting periods.
- (f) 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.
- (g) 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(e), and shall periodically assess the adequacy of those procedures.
- (h) The Committee shall oversee management's reporting on internal controls and shall advise the Board of any material failures to of the internal controls.
- (i) The Committee shall establish procedures:
- (i) for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
  - (ii) 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 Exhibit A. Prior to adopting any changes to the Whistleblower Policy, the Committee shall advise the Directors of the proposed changes.

- (j) The Committee shall review and approve the employment by the Corporation of any current or former partner or employee of the Auditor.
- (k) The Committee shall review the corporate systems that identify and manage principal business risks.

- (l) The Committee shall review and, if necessary, update this Charter periodically, at least annually, as conditions dictate.

6) **Authority**

- (a) The Committee is authorized in carrying out its duties to:
  - (i) engage independent counsel and other advisors as it determines necessary to carry out its duties;
  - (ii) set and pay the compensation for any advisors employed by the Committee; and
  - (iii) communicate directly with the Auditors.
- (b) Prior to exercising the authority in subsection 6(a)(i) or (ii), 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.
- (c) 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.
- (d) 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.
- (e) 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.
- (f) 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.
- (g) 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) **Records**

- (a) 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.

**EXHIBIT 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 Committees (“**MI 52-110**”) has outlined certain aspects of audit committee responsibility and the Audit Committee understands the importance of the responsibilities described in MI 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 Chairman of the Audit Committee (the “**Designated Contact**”).

*Procedure for Reporting Concerns*

The reporting individual should describe his or her concerns 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”**

Mr. Larry Shaw, Chairman of the Audit Committee  
c/o of Birchcliff Energy Ltd.  
Suite 500, 630 – 4th Avenue S.W.  
Calgary, Alberta T2P 0J9

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 Mr. Larry Shaw, Chairperson of the Audit Committee and Designated Contact. He can be reached for this purpose by telephone at (403) 206-3330.

[www.birchcliffenergy.com](http://www.birchcliffenergy.com) | TSX:BIR