Birchcliff Energy Ltd.

Quarterly Report Q3/09

November 12, 2009

Dear Shareholder:

Birchcliff is pleased to report its third quarter financial and operating results for the three and nine month periods ended September 30, 2009.

I am pleased to report that our two resource plays continue to meet or exceed our original expectations. We expect to increase our reserves at year end and report very good finding and development costs. Production is on track to average approximately 11,300 boe per day for 2009 and we continue to expect 2009 exit production to be approximately 11,700 boe per day, on our way to 14,000 boe per day when our new Pouce Coupe South Gas Plant ("**PCS Gas Plant**") commences operation in April 2010.

Birchcliff continued to focus its activities, and refine its strategy on its two resource plays. Third quarter activities related to the Montney/Doig natural gas resource play included the drilling and multi-stage fracturing of horizontal wells, further crown land acquisitions and significant progress on the construction of its PCS Gas Plant. The Worsley light oil resource play saw a successful drilling program including the application of multi-stage fracturing of a horizontal light oil well, infrastructure optimization and a small but strategic property acquisition during the quarter. Significant technical time and capital has been invested to further develop Birchcliff's understanding of these and other resource plays and the new technologies that are being developed to increase production rates and more effectively recover reserves from these plays.

Birchcliff continues to remain focused on the reduction of its operating costs, and that is reflected in our third quarter results.

2009 THIRD QUARTER RESULTS

Production

Production for the third quarter of 2009 averaged 10,552 boe per day. This is a 6% increase from the third quarter of 2008 and is consistent with our internal budget and previous guidance. Average production for the first nine months of the year is 11,452 boe per day which is an 18% increase over the first nine months of 2008. In light of the very limited capital that we have spent in 2009, we are pleased with this production profile which results from our strong, long life, low decline production base.

Current production is approximately 10,550 boe per day.

Cash Flow and Earnings

Cash flow was $12.2 million or $0.10 per share for the third quarter of 2009, as compared to $37.9 million or $0.34 per share for the third quarter of 2008. Cash flow was severely impaired by very weak natural gas prices in the third quarter, which averaged $2.94 per mmbtu at AECO. Birchcliff remained focused on lowering its operating costs and reduced its unit operating costs (by more than $1.00 per boe) as compared to the third quarter of 2008. Lower royalties also helped the bottom line.

Birchcliff had an earnings loss of $9.0 million or $0.07 per share for the third quarter of 2009 as compared to earnings of $16.6 million or $0.15 per share for the third quarter of 2008. The earnings loss is a result of weak commodity prices during the quarter.

Capital Expenditures

As disclosed in our press release of July 9, 2009, Birchcliff increased its capital spending to $105.2 million for 2009. Capital expenditures amounted to $33.4 million for the third quarter of 2009.

Birchcliff drilled 6 gross (5.7 net) wells in the third quarter. Five of these wells were cased and 1 (1.0 net) was abandoned for an 83.3% success rate. These wells included:

- 1 (0.7 net) Montney/Doig horizontal natural gas well in its Pouce Coupe area, which further expanded Birchcliff's Montney/Doig footprint in Pouce Coupe.
- 3 gross (3.0 net) wells on its Worsley light oil resource play, including 1 horizontal and 2 vertical light oil wells. This drilling program extended our oil pool at Worsley, which continues to provide significant cash flow to Birchcliff in this weak natural gas market.
- a 100% working interest horizontal light oil well at Teepee. This is the first horizontal well we have drilled in our Doig light oil play trend. The drilling and completion results from this well are very encouraging. We anticipate having the well on production in the fourth quarter. Pending success of this well we have a number of 100% working interest follow-up locations.

Details of our capital expenditures are set forth in the Management's Discussion and Analysis portion of the quarterly report. We remain focused on developing our two resource plays, increasing the size of our footprint around these plays, building out infrastructure and reducing operating costs.

Indebtedness

On September 30, 2009 Birchcliff had outstanding $182.6 million on its $305 million of available credit facilities. Total indebtedness at September 30, 2009 was $199.3 million.

Land

Birchcliff has continued to grow its undeveloped land base in the Peace River Arch. At September 30, 2009 it owned 402,543 gross (357,251 net) undeveloped acres, with an average working interest of 89% as compared to September 30, 2008 when it owned 370,894 gross (319,585 net) undeveloped acres with an average working interest of 86%.

Pouce Coupe South Gas Plant

During the quarter Birchcliff commenced the construction of its PCS Gas Plant which we expect to commence operations in April 2010. Clearing of the plant site is complete and the fabrication shops have made good progress in fabricating the largest components, including the compressors, refrigeration plant and amine unit. Birchcliff expects the PCS Gas Plant will add approximately 3,500 boe per day net to Birchcliff, vaulting its production to approximately 14,000 boe per day in April 2010.

Currently we remain on track, on schedule and on budget in the planning, execution and construction of the PCS Gas Plant.

OPERATIONS UPDATE

Montney/Doig Natural Gas Resource Play

Birchcliff's full cycle exploration strategy for the Montney/Doig natural gas resource play continues to be successful. Birchcliff drilled 3 vertical (2.4 net) Montney/Doig exploration wells in the first quarter 2009 on a large block of 70% working interest land to which no reserves had previously been booked. All three wells were successful in delineating 2 distinct plays, the Basal Doig/Upper Montney play as well as the Middle/Lower Montney play. These results encouraged Birchcliff to acquire further lands contiguous with the land block and offsetting these discoveries in recent Crown land sales. The results also reasoned a horizontal well program to follow-up on the discoveries in both plays. By year end we anticipate to have 4 horizontal wells drilled, cased and completed on this block, 2 wells in the Basal Doig and 2 wells in the Middle/Lower Montney. In the first quarter 2010 we will tie in these wells to the new PCS Gas Plant.

On this land block Birchcliff now expects to drill up to 4 horizontal natural gas wells in the Basal Doig/Upper Montney per section and a further 4 horizontal natural gas wells in the Middle/Lower Montney per section for a total of up to 8 horizontal natural gas wells per section. These locations will add to our inventory of over 600 net potential Montney/Doig horizontal natural gas locations. Based on the success of the Montney/Doig Birchcliff has acquired further crown lands and to date has accumulated 61.6 net sections of proven lands on the Montney/Doig natural gas resource play. Birchcliff defines proven lands as lands on which the Montney/Doig formations have been penetrated by logged well bores and lands which are adjacent to such penetrations and to which Birchcliff expects reserves to be assigned at year end. Birchcliff has also added significant trend land to the Montney/Doig natural gas play, trend land being land that Birchcliff believes has a high likelihood of extending the Montney/Doig natural gas resource play based on technical information including geological and geophysical data. To date Birchcliff has accumulated 103.9 net sections of trend land.

To date Birchcliff has drilled and cased 22 (18.76 net) horizontal wells, 20 (17.06 net) wells have been completed and 19 (16.36 net) wells are on production. By year end Birchcliff will have drilled 25 (21.16 net) Montney/Doig horizontal wells of which 21 (18.36 net) wells will be on production. Birchcliff currently has two rigs drilling Montney/Doig horizontal natural gas wells.

Technology advancements in horizontal drilling and the multi-stage fracturing of horizontal wells continue to evolve rapidly for industry and Birchcliff.

Pouce Coupe South Gas Plant – "Phase II" Expansion

As a result of Birchcliff's continued success on its Montney/Doig natural gas resource play, we have commenced the planning of the expansion of our 100% owned PCS Gas Plant, increasing the processing capacity of the plant from approximately 30 to 60 mmcf per day. Birchcliff expects that Phase II of the plant would add approximately 3,500 boe per day net to Birchcliff.

Birchcliff estimates that the construction costs of Phase II of the plant will be approximately $25 million which is a little more than half of the cost of Phase I. This cost reduction is a result of the peripheral infrastructure that has been put in place during Phase I in anticipation of further expansion. For example, the acid gas disposal well and related facilities ($5.0 million), inlet and sales gas lines ($8.2 million) and other pipeline projects will be installed as part of Phase I. Birchcliff would expect to drill 7 gross (4.9 net) horizontal Montney/Doig wells to initially fill Phase II of the plant.

Birchcliff is currently taking the steps required to obtain the necessary licenses to construct Phase II of the PCS Gas Plant and planning the logistics so that this second phase could be available for commissioning late in the fourth quarter of 2010.

Birchcliff expects to decide on the timing of construction of Phase II in early 2010. The primary determining factor in that decision will be the outlook for future natural gas prices at that time.

Worsley Light Oil Resource Play

In 2008 Birchcliff expanded its use of horizontal well mechanical isolation multi-stage fracturing technology, by applying the technology to its Worsley Charlie Lake light oil resource play. Birchcliff ran mechanical isolation tools in 3 (3.0 net) new horizontal wells drilled in 2008 and 2 (2.0 net) previously drilled open hole horizontal wells and completed multi-stage fracture stimulations on all of those wells . Birchcliff used this multi-staged fracturing technique on one of the horizontal wells drilled that has now been on production for over 15 months, the initial production rate was over 400 boe per day, and the current rate is over 200 boe per day.

In the third quarter of 2009 Birchcliff drilled a new horizontal well and applied this new multi-stage fracturing technology. This new horizontal light oil well recently came on production at approximately 400 boe per day. In addition, as part of Birchcliff's fall 2009 drilling program, Birchcliff drilled 3 (3.0 net) vertical light oil wells. All three light oil wells are now on production with early results being positive. We continue to be very pleased with the drilling results and the production performance of the Worsley asset since we acquired it in September 2007.

2009 & 2010 Production

Birchcliff confirms the previously revised 2009 capital expenditure program is expected to result in a 2009 average production rate of approximately 11,300 boe per day. Birchcliff's 2009 exit production rate is expected to be approximately 11,700 boe per day. Birchcliff's average product mix for 2009 is expected to be 72% natural gas and 28% light oil. When the PCS Gas Plant is operational in April of 2010, Birchcliff expects its production to climb to approximately 14,000 boe per day.

OUTLOOK

Birchcliff is focused on the continued development of its two resource plays. We are excited about the construction and ultimate completion of our PCS Gas Plant which will result in a step change in production and a material reduction in our per unit operating costs in the Pouce Coupe area and for Birchcliff. The PCS Gas Plant will provide Birchcliff with the strategic advantages that are enjoyed by those producers who own and operate their infrastructure.

Recently we have commenced our budgeting process for 2010. Birchcliff is currently planning a 2010 capital program that would be equal to its anticipated 2010 cash flow. However the specifics of the capital expenditure program are highly dependent on 2010 commodity prices.

Birchcliff expects to announce its 2010 capital expenditure program in January 2010 at which time the 2010 natural gas prices should be somewhat clearer than they are today. In the event natural gas prices remain weak, Birchcliff will increase its capital on its light oil resource play and other oil opportunities which Birchcliff controls today.

I am pleased with the development of our asset base and remain extremely confident that as a low cost resource finder and producer, Birchcliff will continue to create significant value for its shareholders.

Executive Appointments

I am pleased to announce that Karen Pagano, who was formerly Birchcliff's VP Operations and a significant contributor to our executive team, has accepted the position of VP Engineering. Karen has been with Birchcliff almost since its inception and has a working knowledge of all aspects of our business. We are also pleased to announce that Dave Humphreys has been appointed VP Operations. Dave has 24 years of oil and gas experience. Recently Dave was responsible for operating approximately 18,000 boe per day and had essentially the same title and job description he now enjoys at Birchcliff, welcome Dave. In September, Lawrence Backmeyer who was VP Engineering at Birchcliff, left to pursue other opportunities. We would like to take this opportunity to thank Lawrence for his contributions to Birchcliff for the past 19 months, and we wish him the best in his future endeavors.

Thank you to all our staff for their hard work and to our shareholders for their continued support.

On behalf of the Executive of Birchcliff

Respectfully,

A. Jeffery Tonken
President and Chief Executive Officer

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended September 30, 2009	Three months ended September 30, 2008	**Nine months ended September 30, 2009**	Nine months ended September 30, 2008
OPERATING				
Daily Average Production				
Light Oil – barrels	2,698	3,150	2,897	2,903
Natural Gas – thousands of cubic feet	45,210	38,924	49,367	38,415
NGLs – barrels	319	363	328	380
Total – barrels of oil equivalent (6:1)	**10,552**	**10,000**	**11,452**	**9,685**
Average Sales Price ($ Canadian)				
Light oil – per barrel	70.00	115.95	60.57	110.78
Natural Gas – per thousand cubic feet	3.20	8.47	4.13	9.25
NGLs – per barrel	57.00	108.58	52.01	104.14
Total – barrels of oil equivalent (6:1)	**33.32**	**73.44**	**34.61**	**73.98**
Undeveloped Land				
Gross (acres)	402,543	370,894	402,543	370,894
Net (acres)	357,251	319,585	357,251	319,585
NETBACK AND COST				
($ per barrel of oil equivalent at 6:1)				
Petroleum and natural gas revenue	33.42	73.85	34.79	74.39
Royalties	(3.75)	(13.59)	(3.25)	(12.27)
Operating expense	(8.76)	(9.85)	(9.27)	(10.31)
Transportation and marketing expense	(2.35)	(2.78)	(2.38)	(2.78)
Netback	**18.56**	**47.63**	**19.89**	**49.03**
General and administrative expense, net	(2.99)	(0.32)	(2.54)	(1.46)
Stock-based compensation expense	-	-	-	(0.01)
Realized loss on risk management contracts	-	(3.92)	-	(4.13)
Realized loss on foreign exchange	-	(0.31)	-	(0.16)
Interest expense	(3.01)	(1.90)	(2.45)	(3.02)
Taxes	-	-	-	-
Cash Flow Netback	**12.56**	**41.18**	**14.90**	**40.25**
Depletion and depreciation expense	(22.05)	(23.91)	(21.82)	(24.38)
Accretion expense	(0.41)	(0.43)	(0.38)	(0.40)
Stock-based compensation expense	(1.42)	(1.54)	(2.58)	(1.51)
Amortization of deferred financing fees	(0.51)	-	(0.23)	-
Unrealized gain on risk management contracts	-	10.17	-	1.78
Unrealized gain (loss) on foreign exchange	-	(0.16)	-	0.06
Future income tax recovery (expense)	2.52	(7.21)	1.84	(4.41)
Net Earnings (Loss)	**(9.31)**	**18.10**	**(8.27)**	**11.39**
FINANCIAL				
Petroleum and Natural Gas Revenue ($000)	32,446	67,942	108,761	197,407
Cash Flow from Operations ($000)	12,196	37,886	46,576	106,826
Per share – basic ($)	0.10	0.34	0.40	0.99
Per share – diluted ($)	0.10	0.33	0.40	0.95
Net Earnings (Loss) ($000)	(9,039)	16,649	(25,868)	30,253
Per share – basic ($)	(0.07)	0.15	(0.22)	0.28
Per share – diluted ($)	(0.07)	0.14	(0.22)	0.27
Common Shares Outstanding				
End of Period – basic	123,267,436	112,395,970	123,267,436	112,395,970
End of Period – diluted	134,049,987	121,451,823	134,049,987	121,451,823
Weighted Average for Period – basic	122,914,069	112,386,829	116,124,704	107,841,267
Weighted Average for Period – diluted	124,523,458	116,859,500	117,462,899	112,425,211
Capital Expenditures ($000)	33,442[1]	89,158	57,322[1]	178,163
Working Capital (Deficiency) ($000)	(16,757)	(33,647) [2]	(16,757)	(33,647) [2]
Revolving Credit Facilities ($000)	182,589[3]	180,995	182,589[3]	180,995
Total Debt ($000)	199,346	214,642	199,346	214,642

(1) An expected recovery of $3.4 million related to the new Alberta Drilling Royalty Credit Program was recorded in the three and nine months ended September 30, 2009.
(2) This amount excludes both the accrued liability for the unrealized loss of $1.9 million on oil price risk management contracts and the related future income tax asset of $0.1 million.
(3) Included in revolving credit facilities is the unamortized portion of deferred financing fees of approximately $867,000 at September 30, 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (**"MD&A"**) in respect of the three and nine month periods ended September 30, 2009 (the "**Reporting Periods**") as compared to the three and nine month periods ended September 30, 2008 (the "**Comparable Prior Periods**") is dated November 12, 2009.

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

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

All dollar amounts in Canadian dollars unless otherwise stated.

NON-GAAP MEASURES

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

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

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

BOE CONVERSION

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

OVERALL PERFORMANCE

Production

Production in the third quarter of 2009 averaged 10,552 boe per day. This is a 7% decrease from the 11,313 boe per day the Corporation averaged in the second quarter of 2009 and a 6% increase from the average of 10,000 boe per day in the third quarter of 2008. The decrease from the second quarter of 2009 was mainly due to normal production declines and scheduled plant turnarounds. The increase from the third quarter of 2008 is virtually all due to the Corporation's drilling and operational success on its two resource plays in 2008 and into the Reporting Periods, offset by normal production declines.

For the third quarter of 2009, the Corporation's production consisted of approximately 71% natural gas and 29% crude oil and natural gas liquids.

Cash Flow and Earnings

Cash flow decreased to $12.2 million ($0.10 per share) and $46.6 million ($0.40 per share) for the three and nine month Reporting Periods as compared to $37.9 million ($0.34 per share) and $106.8 million ($0.99 per share) for the Comparable Prior Periods. Birchcliff had a loss of $9.0 million ($0.07 per share) and $25.9 million ($0.22 per share) for the three and nine month Reporting Periods as compared to earnings of $16.6 million ($0.15 per share) and $30.3 million ($0.28 per share) for the Comparable Prior Periods. The decrease in cash flow and net loss resulted from lower average commodity prices realized in the Reporting Periods as compared to the Comparable Prior Periods, notwithstanding increased production volumes.

The AECO daily spot averaged $2.94 per mmbtu in the three month Reporting Period as compared to $7.73 per mmbtu during the three month Comparable Prior Period, which is a 62% decrease. Canadian Edmonton Par prices averaged $71.50 per barrel in the three month Reporting Period as compared to $121.85 per barrel during the three month Comparable Prior Period, which is a 41% decrease. Both of these commodity price decreases translate into reduced cash flow available for re-investment.

Capital Expenditures and Total Debt

Total capital expenditures for the three and nine month Reporting Periods were $33.4 million and $57.3 million as compared to $89.2 million and $178.2 million in the Comparable Prior Periods. The decrease in capital expenditures is a direct result of the Corporation's response to the drop in commodity prices in the latter part of 2008 and into the Reporting Periods. Birchcliff has spent $21.2 and $10.7 million of capital in excess of cash flow during the three and nine month Reporting Periods.

Of the $33.4 million and $57.3 million in capital spent during the three and nine month Reporting Periods, approximately $15.8 million and $18.3 million was spent on the construction of the Pouce Coupe South natural gas plant (the "**PCS Gas Plant**") and related Montney/Doig horizontal wells that will be tied into this facility. Therefore, 32% of the total capital spent in the nine month Reporting Period has no associated production until early 2010. Birchcliff is utilizing this period of low natural gas prices and service activity to ensure that it has the facilities and capacity to process its natural gas from its Montney/Doig play when natural gas prices recover. The PCS Gas Plant will provide Birchcliff with greater control over its future production growth and reduce its operating costs.

Capital expenditures for the three months ended September 30, 2009 were $33.4 million, with 29% ($9.6 million) spent on drilling and completions; 47% ($15.8 million) spent on equipment and facilities; 3% ($1.1 million) spent on land acquisitions; 1% ($0.4 million) spent on seismic and other exploration and approximately 11% ($3.5 million) spent on workovers and other, administrative assets and capitalized G&A. Acquisitions accounted for the remaining 9% ($3.0 million) of capital spent.

The Corporation's total debt (including working capital) decreased by 20% from $249.9 million at December 31, 2008 to $199.3 million at September 30, 2009. This decrease is largely due to the net proceeds from the June 30, 2009 equity financing described below which were used to pay down the Corporation's outstanding credit facilities in the third quarter of 2009. The decrease in total debt was offset by an increase in capital spending in excess of cash flow in the nine month Reporting Period. Total debt increased by $19.7 million from $179.6 million at June 30, 2009 as a result of capital spending exceeding cash flow during the three month Reporting Period.

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

- On June 30, 2009, the Corporation completed an equity financing (the "**Equity Financing**") comprised of a bought deal equity offering (the "**Bought Deal Offering**") whereby it issued 8,000,000 common shares at a price of $6.20 per share for gross proceeds of $49.6 million and a private placement (the "**Private Placement**") with its major shareholder whereby it issued 2,000,000 common shares at a price of $6.20 per share for gross proceeds of $12.4 million, for total gross proceeds of $62 million. The net proceeds of the Equity Financing were $59.3 million.
- On May 21, 2009, the Corporation amended its credit agreement with its bank syndicate which increased its existing Revolving Credit Facilities to an aggregate limit of $255 million from $240 million and extended the conversion date of those facilities until May 21, 2010. The Revolving Credit Facilities consist of an extendible revolving term credit facility with an authorized limit of

$235 million (the "**Syndicated Credit Facility**") and an extendible revolving working capital facility with an authorized limit of $20 million (the "**Working Capital Facility**").

- On May 21, 2009, the Corporation established a new $50 million non-revolving one year term credit facility (the "**Term Facility**"). The Corporation's use of the Term Facility is subject to consent of the Syndicate at the time of draw-down.
- On March 14, 2008, the Corporation completed a bought deal equity financing whereby it issued 1,522,843 flow-through common shares at a price of $9.85 per flow-through share and 14,375,000 common shares at a price of $8.00 per common share for total gross proceeds of $130 million and net proceeds of approximately $123 million. Proceeds of the offering were used to retire the $100 million syndicated non-revolving credit facility used for the Worsley Acquisition and to reduce the amount outstanding under the Corporation's revolving credit facility.

LIQUIDITY AND BANK DEBT

Working Capital

The Corporation's working capital deficit increased to $16.8 million at the end of the Reporting Period as compared to a $39.7 million working capital surplus at June 30, 2009. The working capital surplus at June 30, 2009 was largely comprised of cash proceeds received from the Equity Financing which were subsequently used to pay down the Corporation's Revolving Credit Facilities in the third quarter of 2009. The increase in working capital deficit also corresponds to an increase in operational activity during the third quarter of 2009.

At September 30, 2009, the major component (40%) of Birchcliff's current assets is cash to be received from its marketers in respect of September 2009 production which was subsequently received in October 2009. In contrast, the current liabilities consist of trade payables (54%) and accrued capital and operating costs (37%).

Birchcliff manages its working capital using its cash flow and advances under its Revolving Credit Facilities. The Corporation's working capital position does not reduce the amount available under the Corporation's Revolving Credit Facilities which have a combined limit of $255 million at September 30, 2009. The Corporation was compliant with all covenants under its Revolving Credit Facilities throughout 2008 and continues to be compliant with such covenants throughout 2009 at the date hereof. The Corporation did not have any liquidity issues with respect to the operation of its petroleum and natural gas business in the Reporting Periods.

Bank Debt

The amount outstanding under the Corporation's Revolving Credit Facilities decreased to $182.6 million as at September 30, 2009, with an aggregate limit of $255 million as compared to $211.6 million as at December 31, 2008, when the aggregate limit was $240 million. The level of bank debt at September 30, 2009 was reduced by the net proceeds from the Equity Financing, was increased by the capital expended during the nine month Reporting Period in excess of cash flow during that same period, and was increased by a reduction in outstanding payables during the nine month Reporting Period. At September 30, 2008, the Corporation's Revolving Credit Facilities were drawn to $181.0 million.

On May 21, 2009, the Corporation established a new $50 million one year Term Facility. The Corporation's use of this Term Facility is subject to consent of the bank syndicate at the time of draw-down. No amounts were requested to be drawn under this Term Facility during the Reporting Periods.

CASH FLOW FROM OPERATIONS

Cash flow generated by the Corporation was $12.2 million ($0.10 per share) and $46.6 million ($0.40 per share) during the three and nine month Reporting Periods as compared to $37.9 million ($0.34 per share) and $106.8 million ($0.99 per share) in the Comparable Prior Periods. The 68% and 56% decreases for the three and nine month periods were mainly due to lower average commodity prices realized in the Reporting Periods. However, these decreases were mitigated by higher average petroleum and natural gas production as a result of drilling success in 2008 and 2009. Future cash flow will be dependent mainly on production levels and commodity prices.

OUTSTANDING SHARE DATA

The common shares of Birchcliff are the only class of shares outstanding. Birchcliff's common shares began trading on the TSX Exchange on July 21, 2005 under the symbol "**BIR**" and were at the same time de-listed from the TSX Venture Exchange where they were trading under the same symbol prior to such time. The following table summarizes the common shares issued from December 31, 2008 to September 30, 2009:

	Common Shares
Balance at December 31, 2008	**112,395,970**
Issue of Common Shares upon exercise of options	146,665
Balance at March 31, 2009	**112,542,635**
Issue of Common Shares upon exercise of options	265,002
Issue of Common Shares(1)	10,000,000
Balance at June 30, 2009	**122,807,637**
Issue of Common Shares upon exercise of options	459,799
Balance at September 30, 2009	**123,267,436**

(1) Issued under a bought deal equity offering of 8,000,000 common shares and a private placement of 2,000,000 common shares on June 30, 2009.

RESULTS OF OPERATIONS

Petroleum and Natural Gas Revenue

Petroleum and natural gas revenues totaled $32.4 million for the three month Reporting Period and $108.8 million for the nine month Reporting Period as compared to $67.9 million and $197.4 million for the Comparable Prior Periods. These decreases were primarily attributable to significantly lower average commodity prices during the Reporting Periods. The following table details Birchcliff's petroleum and natural gas revenue ("**P&NG**"), production and sales prices by category for the Reporting Periods and the Comparable Prior Periods:

	Three months ended September 30, 2009				Three months ended September 30, 2008			
	Total Revenue ($000's)	Average Daily Production	%	Average ($/unit)	Total Revenue ($000's)	Average Daily Production	%	Average ($/unit)
Natural gas (mcf)	13,299	45,210	71	3.20	30,340	38,924	65	8.47
Light oil (bbls)	17,376	2,698	26	70.00	33,599	3,150	32	115.95
Natural gas liquids (bbls)	1,673	319	3	57.00	3,623	363	3	108.58
Total P&NG sales	**32,348**	**10,552**	**100**	**33.32**	**67,562**	**10,000**	**100**	**73.44**
Royalty revenue	98			0.10	380			0.41
Total P&NG revenue	**32,446**			**33.42**	**67,942**			**73.85**

	Nine months ended September 30, 2009				Nine months ended September 30, 2008			
	Total Revenue ($000's)	Average Daily Production	%	Average ($/unit)	Total Revenue ($000's)	Average Daily Production	%	Average ($/unit)
Natural gas (mcf)	55,662	49,367	72	4.13	97,361	38,415	66	9.25
Light oil (bbls)	47,900	2,897	25	60.57	88,105	2,903	30	110.78
Natural gas liquids (bbls)	4,653	328	3	52.01	10,850	380	4	104.14
Total P&NG sales	**108,215**	**11,452**	**100**	**34.61**	**196,316**	**9,685**	**100**	**73.98**
Royalty revenue	546			0.18	1,091			0.41
Total P&NG revenue	**108,761**			**34.79**	**197,407**			**74.39**

Commodity Prices

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

	Three months ended September 30, 2009	Three months ended September 30, 2008	**Nine months ended September 30, 2009**	Nine months ended September 30, 2008
Average Natural Gas Sales Price ($/mcf)	3.20	8.47	4.13	9.25
Average of the AECO Daily Spot Prices ($/mmbtu) (1)	2.94	7.92	3.78	8.71
Positive Differential	**0.26**	**0.55**	**0.35**	**0.54**

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

The price the Corporation receives for its commodity production depends on a number of factors, including AECO Canadian dollar spot market prices for natural gas, Canadian dollar Edmonton par oil prices, U.S. dollar oil prices, the U.S./Canadian dollar exchange rate, and transportation and product quality differentials. Birchcliff regularly considers managing the risks associated with fluctuating spot market prices for natural gas and U.S. dollar oil prices and the U.S./Canadian dollar exchange rate. Birchcliff currently has no fixed commodity price contracts or other hedge type contracts for its natural gas and light oil production in 2009, but entered into the following oil price risk management contracts for its 2008 light oil production for the terms noted below:

Risk Management Contracts

Term	Type	Quantity	WTI Price (USD)[2]
January 1 - March 31, 2008[1]	Put	1,000	$67.50
January 1 - March 31, 2008[1]	Call	1,000	$81.40
January 1 - December 31, 2008	Costless collar	1,000	$67.50 - $79.10

(1) Each contract was entered into separately on different dates but the two contracts essentially form a costless collar.
(2) Each contract is settled on the average of the daily NYMEX WTI US$ price.

All of the Corporation's oil price risk management contracts outstanding in 2008 were settled at December 31, 2008. The Corporation did not enter into, nor had in place, any oil price risk management contracts during the Reporting Periods. As a result of the changes in the fair value of its oil price risk management contracts during the three and nine month Comparable Prior Periods, the Corporation recorded to income a realized oil price risk management loss of $3.6 million and $11.0 million and an unrealized oil price risk management gain of $9.4 million and $4.7 million, respectively.

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

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

Royalties

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

	Three months ended September 30, 2009	Three months ended September 30, 2008	**Nine months ended September 30, 2009**	Nine months ended September 30, 2008
Oil & natural gas royalties ($000's)	3,644	12,502	10,170	32,563
Oil & natural gas royalties ($/boe)	3.75	13.59	3.25	12.27
Royalties as a percentage of sales	11%	18%	9%	17%

Birchcliff recorded a royalty expense of $3.6 million ($3.75 per boe) for the three month Reporting Period and $10.2 million ($3.25 per boe) for the nine month Reporting Period as compared to $12.5 million ($13.59 per boe) and $32.6 million ($12.27 per boe) for the Comparable Prior Periods. The overall effective royalty rate in the three and nine month Reporting Periods was 11% and 9% as compared to 18% and 17% in the Comparable Prior Periods, respectively. The decrease in the effective royalty rate in the three and nine month Reporting Periods as compared to the Comparable Prior Periods is largely due to lower average commodity prices in the Reporting Periods and the effect these lower prices have on the sliding scale royalty calculation.

New Royalty and Drilling Incentives

On July 9, 2009, the Government of Alberta approved an incentive royalty rate of 5% for the first year of production from each new conventional oil or gas well brought on production after April 1, 2009 and before March 31, 2011 up to a maximum for such well of 50,000 barrels of oil or 500 million cubic feet of natural gas.

On September 15, 2009, the Government of Alberta approved a drilling royalty credit incentive for new conventional oil and natural gas wells spud on or after April 1, 2009 and rig released before April 1, 2011. Birchcliff will be entitled to a royalty credit of $200 per meter drilled, up to a maximum of 50% of the aggregate royalties paid during that period. This incentive will provide material royalty relief with respect to Birchcliff's drilling activities. The Corporation accounts for the drilling credits as a reduction of capital. Birchcliff capitalized drilling royalty credits of $3.4 million in the three and nine months ended September 30, 2009. Birchcliff has applied for these credits but has not yet received them.

Birchcliff intends to focus its capital spending program in large part on its Montney/Doig and Worsley light oil resource plays to maximize the incentives available from these new Alberta royalty programs.

Operating Costs

Operating costs were $8.5 million ($8.76 per boe) for the three month Reporting Period and $29.0 million ($9.27 per boe) for the nine month Reporting Period as compared to $9.1 million ($9.85 per boe) and $27.4 million ($10.31 per boe) for the Comparable Prior Periods. The following table compares operating costs for the Reporting Periods and the Comparable Prior Periods:

	Three months ended September 30, 2009		Three months ended September 30, 2008	
	Total ($000's)	$/boe	Total ($000's)	$/boe
Field operating costs	9,192	9.47	9,346	10.16
Recoveries	(936)	(0.97)	(497)	(0.54)
Field operating costs, net of recoveries	8,256	8.50	8,849	9.62
Expensed workovers and other	248	0.26	212	0.23
Total operating costs	**8,504**	**8.76**	**9,061**	**9.85**

	Nine months ended September 30, 2009		Nine months ended September 30, 2008	
	Total ($000's)	$/boe	Total ($000's)	$/boe
Field operating costs	31,566	10.10	27,731	10.45
Recoveries	(3,041)	(0.98)	(1,567)	(0.59)
Field operating costs, net of recoveries	28,525	9.12	26,164	9.86
Expensed workovers and other	470	0.15	1,197	0.45
Total operating costs	**28,995**	**9.27**	**27,361**	**10.31**

The $1.09 per boe decrease in total operating costs during the three month Reporting Period as compared to the Comparable Prior Period was mainly due to higher third party recoveries ($0.43 per boe), reduced costs of supplies and services ($0.69 per boe), and offset slightly by higher costs of expensed workovers ($0.03 per boe) during the period.

The $1.04 per boe decrease in total operating costs during the nine month Reporting Period as compared to the Comparable Prior Period was mainly due to higher third party recoveries ($0.39 per boe), lower costs of expensed workovers ($0.30 per boe), and generally reduced costs of supplies and services ($0.35 per boe). Recoveries increased on a per boe basis during the Reporting Periods mainly due to higher third party compression fees.

Birchcliff is focused on controlling and reducing operating costs on a per boe basis. Birchcliff's goal is to become a low cost producer.

Transportation and Marketing Expenses

Transportation and marketing expenses were $2.3 million ($2.35 per boe) for the three month Reporting Period and $7.4 million ($2.38 per boe) for the nine month Reporting Period as compared to $2.6 million ($2.78 per boe) and $7.4 million ($2.78 per boe) for the Comparable Prior Periods. These costs consist primarily of transportation costs. The unit cost per boe for the Reporting Periods was lower than in the Comparable Prior Periods due to a proportionate increase in gas production, which has much lower transportation costs than the trucking costs associated with the Worsley light oil field.

General and Administrative Expense

Net general and administrative costs ("**G&A**") for the three and nine month Reporting Periods were $2.9 million ($2.99 per boe) and $7.9 million ($2.54 per boe) as compared to $0.3 million ($0.32 per boe) and $3.9 million ($1.46 per boe) for the Comparable Prior Periods.

The components of G&A are as follows:

	Three months ended September 30, 2009		Three months ended September 30, 2008	
	($000's)	%	($000's)	%
Salaries, benefits and consultants	2,937	66	1,783	52
Other	1,524	34	1,665	48
G & A expense, gross	4,461	100	3,448	100
Overhead recoveries	(1,200)	(27)	(2,823)	(82)
Capitalized overhead	(357)	(8)	(331)	(10)
G & A expense, net	**2,904**	**65**	**294**	**8**
G & A expense, net per boe	**$2.99**		**$0.32**	

	Nine months ended September 30, 2009		Nine months ended September 30, 2008	
	($000's)	%	($000's)	%
Salaries, benefits and consultants	7,336	62	5,997	57
Other	4,583	38	4,610	43
G & A expense, gross	11,919	100	10,607	100
Overhead recoveries	(2,839)	(24)	(5,653)	(53)
Capitalized overhead	(1,149)	(10)	(1,080)	(10)
G & A expense, net	**7,931**	**66**	**3,874**	**37**
G & A expense, net per boe	**$2.54**		**$1.46**	

The net G&A per boe has increased in the Reporting Periods as compared to the comparable prior periods was largely due to one-time severance payments totaling $790,000 and lower overhead recoveries which are attributable to the decreased capital spent in the Reporting Periods as compared to the Comparable Prior Periods. Capital expenditures decreased by 62% and 68% in the three and nine month Reporting Periods, respectively, from $89.2 million and $178.2 million in the Comparable Prior Periods.

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

Interest Expense and Deferred Financing Fees

Interest expense and amortization of deferred financing fees for the three and nine month Reporting Periods was $3.4 million ($3.52 per boe) and $8.4 million ($2.68 per boe) as compared to $1.8 million ($1.90 per boe) and $8.0 million ($3.02 per boe) for the Comparable Prior Periods. Included in these amounts during the three and nine month Reporting Periods was $494,000 and $706,000, respectively, of amortized deferred financing fees related to amounts paid by the Corporation to establish the Term Facility and to extend the conversion date of the Revolving Credit Facilities to May 21, 2010. The amortization of deferred financing fees is a non-cash item and therefore is not deducted in determining cash flow as defined in the MD&A.

The increase in aggregate interest expense in the Reporting Periods was a result of the increased margins (that are used to determine Birchcliff's effective interest rate) that became applicable upon the establishment of the Corporation's increased credit facilities on to May 21, 2009 and Birchcliff maintaining a higher average bank debt as compared to the Comparable Prior Period.

At the end of the nine month Reporting Period, the effective rate applicable to the Working Capital facility was 5.3% as compared to 5.4% at the end of the nine month Comparable Prior Period. The overall effective interest rate applicable to the bankers' acceptances in the Syndicated Credit Facility was 4.9% in the three month Reporting Period and 3.9% in the nine month Reporting Period as compared to 3.5% and 3.8% in the Comparable Prior Periods. The Corporation's average bank debt was approximately $192.3 million and $212.2 million in the three and nine month Reporting Periods as compared to $156.6 and $182.0 million in the Comparable Prior Period, calculated as the simple average of the month end amounts.

Depletion, Depreciation and Accretion Expense

Depletion, depreciation and accretion ("**DD&A**") expenses for the three and nine month Reporting Periods were $21.8 million ($22.46 per boe) and $69.4 million ($22.20 per boe) as compared to $22.4 million

($24.34 per boe) and $65.8 million ($24.78 per boe) for the Comparable Prior Periods. The DD&A on a per boe basis is lower in the Reporting Periods as compared to the Comparable Prior Periods mainly due to the reduced cost of adding proved reserves during 2008 and into the Reporting Periods.

The components of DD&A are as follows:

	Three months ended September 30, 2009		Three months ended September 30, 2008	
	Total ($000's)	$/boe	Total ($000's)	$/boe
Depletion & depreciation	21,402	22.05	22,001	23.91
Accretion for asset retirement obligations	399	0.41	392	0.43
Total DD&A	**21,801**	**22.46**	**22,393**	**24.34**

	Nine months ended September 30, 2009		Nine months ended September 30, 2008	
	Total ($000's)	$/boe	Total ($000's)	$/boe
Depletion & depreciation	68,206	21.82	64,696	24.38
Accretion for asset retirement obligations	1,174	0.38	1,061	0.40
Total DD&A	**69,380**	**22.20**	**65,757**	**24.78**

Depletion and depreciation expense is a function of the estimated proved reserve additions and the cost of petroleum and natural gas properties in the full cost pool attributable to those proved reserves. At September 30, 2009, the Corporation excluded from its full cost pool $42.4 million (September 30, 2008 - $41.8 million) of costs for undeveloped land acquired by Birchcliff and for unproved properties acquired relating to opportunities in the probable reserve category and the potential drilling, recompletion and workover opportunities which have not yet been assigned any reserves.

Petroleum and Natural Gas Properties Impairment Test

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

Birchcliff performed an impairment review at September 30, 2009 on its petroleum and natural gas assets. Based on this review, Birchcliff determined there was no impairment of its petroleum and natural gas assets.

Taxes

Birchcliff recorded a future income tax recovery of $2.4 million ($2.52 per boe) for the three month Reporting Period and $5.7 million ($1.84 per boe) for the nine month Reporting Period, as compared to an expense of $6.6 million ($7.21 per boe) and $11.7 million ($4.41 per boe) for the Comparable Prior Periods. These recoveries were attributed to the net loss recorded during the Reporting Periods, mainly as a result of lower average commodity prices during those periods. Birchcliff incurred $NIL and $NIL Part XII.6 taxes in the three and nine month Reporting Periods as compared to $NIL and a recovery of $6,455 in the Comparable Prior Periods.

Stock-Based Compensation

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

The Corporation recorded a total non cash stock-based compensation expense of $1.4 million ($1.42 per boe) in the three month Reporting Period and $8.1 million ($2.58 per boe) in the nine month Reporting Period, relating to stock options and performance warrants. In the Comparable Prior Period, the Corporation recorded a total non cash stock-based compensation expense of $1.4 million ($1.54 per boe) and $4.0 million ($1.51 per boe).

The Corporation recorded $1.4 million and $5.0 million of stock-based compensation expense relating to stock options in the three month and nine month Reporting Periods. During the three month Reporting Period, the Corporation granted options to purchase NIL common shares (Comparable Prior Period – 249,800) at a weighted average exercise price of $NIL per common share ($12.08 in the Comparable

Prior Period). Of these options, at September 30, 2009 there remained outstanding options to purchase NIL common shares as compared to 249,800 options at September 30, 2008.

During the three month Reporting Period, the Corporation issued 459,799 common shares (Comparable Prior Period – 20,000 common shares) due to the exercise of vested stock options and stock options in respect of 682,335 common shares (Comparable Prior Period – 68,334 common shares) were forfeited or expired. In addition, there were no vested stock options cancelled in the Reporting Periods, as compared to NIL and 5,000 vested stock options in the respective Comparable Prior Periods. The cancellation of these vested stock options resulted in a cash-paid stock-based compensation expense of $NIL and $20,000 during the three and nine months ended September 30, 2008. The Corporation is no longer making cash payments for the cancellation of vested stock options. The cash-paid expense is included in the total stock-based compensation expense.

On May 28, 2009, the ultimate expiration date of the Corporation's outstanding performance warrants was extended from January 31, 2010 to January 31, 2015 (the "**Extension**"). The Corporation recorded a non-cash stock-based compensation expense of $3.1 million relating to the Extension of the performance warrants during the nine month Reporting Period. This amount represents the fair value of the Extension determined by the difference between the fair value of the outstanding performance warrants with the expiration date of January 31, 2015 and the fair value of the outstanding performance warrants with the expiration date of January 31, 2010. The fair value in each case was estimated as at May 28, 2009 using the Black-Scholes option-pricing model that takes into account: exercise price, expected life, current price, expected volatility, expected dividends, and risk-free interest rates.

CAPITAL EXPENDITURES AND CAPITAL RESOURCES

Capital expenditures amounted to $33.4 million and $57.3 million during the three and nine month Reporting Periods as compared to $89.2 million and $178.2 million during the Comparable Prior Periods. The decrease in expenditures was in response to declining average commodity prices in the Reporting Periods as compared to the Comparable Prior Periods.

Capital Expenditures

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

Three months ended September 30, ($000's)	**2009**	2008
Land	1,108	7,106
Seismic	410	2,730
Workovers and other	2,990	2,596
Drilling and completions	9,586[(1)]	52,673
Well equipment and facilities	15,773	22,530
Capitalized general and administrative expenses	357	332
Total finding and development costs (F&D)	**30,224**	**87,967**
Acquisitions, net	3,019	458
Total finding, development and acquisition costs (FD&A)	**33,243**	**88,425**
Administrative assets	199	733
Total capital expenditures	**33,442**	**89,158**

(1) Included in drilling and completions is an expected recovery of $3.4 million related to the new Alberta Drilling Royalty Credit Program recorded in the three months ended September 30, 2009.

Nine months ended September 30, ($000's)	**2009**	2008
Land	1,684	16,846
Seismic	756	6,683
Workovers and other	3,601	3,547
Drilling and completions	21,942[(1)]	97,795
Well equipment and facilities	24,596	40,898
Capitalized general and administrative expenses	1,149	1,080
Total finding and development costs (F&D)	**53,728**	**166,849**
Acquisitions, net	3,049	10,313
Total finding, development and acquisition costs (FD&A)	**56,777**	**177,162**
Administrative assets	545	1,001
Total capital expenditures	**57,322**	**178,163**

(1) Included in drilling and completions is an expected recovery of $3.4 million related to the new Alberta Drilling Royalty Credit Program recorded in the nine months ended September 30, 2009.

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

Capital Resources

Three months ended September 30, ($000's)	**2009**	2008
Cash generated by operations	12,196	37,886
Changes in working capital from operations	3,497	5,735
Asset retirement expenditures	(36)	(89)
Equity issues, net of issue costs	1,921	94
Increase (decrease) in revolving credit facilities	(37,109)	32,074
Changes in working capital from investing	15,934	13,458
Total capital resources	**(3,597)**	**89,158**

Nine months ended September 30, ($000's)	**2009**	2008
Cash generated by operations	46,576	106,826
Changes in working capital from operations	(2,271)	(2,677)
Asset retirement expenditures	(309)	(155)
Equity issues, net of issue costs	62,676	129,764
Decrease in non-revolving credit facility	-	(98,830)
Increase (decrease) in revolving credit facilities	(28,129)	25,142
Deferred financing fees paid	(1,975)	-
Changes in working capital from investing	(19,171)	18,092
Total capital resources	**57,397**	**178,162**

SELECTED QUARTERLY INFORMATION

Quarters Ended ($000's, except share and per share amounts)	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008
Petroleum and natural gas production (boe per day)	10,552	11,313	12,513	11,524
Petroleum and natural gas commodity price ($ per boe)	33.32	33.79	36.48	47.88
Natural gas commodity price at wellhead ($ per mcf)	3.20	3.75	5.27	7.14
Petroleum commodity price at wellhead ($ per bbl)	70.00	63.84	49.33	59.10
Total petroleum and natural gas revenue	32,446	34,917	41,398	51,034
Total royalties	(3,644)	2,118	(8,644)	(8,888)
Total interest and other revenue	-	-	-	-
Total revenues, net	28,802	37,035	32,754	42,146
Total capital expenditures	33,442	5,485	18,395	58,916
Net income (loss)	(9,039)	(7,128)	(9,701)	(355)
Per share basic	($0.07)	($0.06)	($0.09)	-
Per share diluted	($0.07)	($0.06)	($0.09)	-
Cash generated by operations	12,196	20,026	14,354	24,627
Per share basic	$0.10	$0.18	$0.13	$0.22
Per share diluted	$0.10	$0.18	$0.13	$0.22
Book value of total assets	796,338	819,142	800,959	814,823
Revolving credit facilities	182,589	219,361	228,867	211,586
Total debt	199,346	179,649	253,544	249,862
Shareholders' equity	549,239	535,917	496,276	507,371
Common shares outstanding – end of period				
basic	123,267,436	122,807,637	112,542,635	112,395,970
diluted	134,049,987	134,732,322	124,618,156	121,659,923
Weighted average common shares outstanding				
basic	122,914,069	112,887,812	112,457,321	112,395,970
diluted	124,523,458	113,817,095	112,457,321	112,801,866

Quarters Ended ($000's, except share and per share amounts)	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007
Petroleum and natural gas production (boe per day)	10,000	9,583	9,470	9,260
Petroleum and natural gas commodity price ($ per boe)	73.44	83.58	64.83	54.18
Natural gas commodity price at wellhead ($ per mcf)	8.47	10.93	8.35	6.71
Petroleum commodity price at wellhead ($ per bbl)	115.95	121.39	94.72	80.94
Total petroleum and natural gas revenue	67,942	73,273	56,192	46,398
Total royalties	(12,502)	(11,361)	(8,700)	(7,804)
Total interest and other revenue	-	-	2	8
Total revenues, net	55,440	61,912	47,494	38,602
Total capital expenditures	89,158	37,487	51,518	30,306
Net income (loss)	16,649	9,776	3,828	(6,457)
Per share basic	$0.15	$0.09	$0.04	($0.07)
Per share diluted	$0.14	$0.08	$0.04	($0.07)
Cash generated by operations	37,886	41,676	27,264	19,881
Per share basic	$0.34	$0.37	$0.28	$0.21
Per share diluted	$0.33	$0.36	$0.27	$0.21
Book value of total assets	774,794	719,292	699,567	662,252
Non-revolving credit facility	-	-	-	98,830
Revolving credit facilities	180,995	148,922	133,035	155,854
Total debt	214,642	163,378	169,614	272,916
Shareholders' equity	506,742	488,579	475,453	340,756
Common shares outstanding – end of period				
basic	112,395,970	112,375,970	111,863,089	94,554,269
diluted	121,451,823	121,270,357	121,175,691	103,639,748
Weighted average common shares outstanding				
basic	112,386,829	112,234,676	98,852,346	94,486,372
diluted	116,859,500	117,074,630	102,589,422	96,548,884

Discussion of Quarterly Results

Birchcliff's average quarterly production in the third quarter of 2009 was 10,552 boe per day, which is a 7% decrease from 11,313 boe per day in the second quarter of 2009 and a 6% increase from 10,000 boe per day in the third quarter of 2008. The decrease from the second quarter of 2009 was mainly due to normal production declines and scheduled plant turnarounds. The year over year production increase is the direct result of the success of the Corporation's capital spending program in 2008 and early 2009 on its two resource plays, offset by normal production declines.

Commodity prices have decreased significantly since the quarter ended September 30, 2008, when wellhead commodity prices were at an average of $115.95 per barrel of oil and $8.47 per mcf of natural gas. For the current quarter, oil prices averaged $70.00 per barrel at the wellhead, which is a 40% decrease and natural gas prices averaged $3.20 per mcf at the wellhead, which is a 62% decrease.

Birchcliff spent $33.4 million of capital during the third quarter of 2009 as compared to $5.5 million in the second quarter of 2009 and $89.2 million during the third quarter of 2008. The increase in capital expenditures from the second quarter of 2009 was largely due to increased operational activity throughout the third quarter of 2009 and the PCS Gas Plant project. Of the $33.4 million in capital spent, $15.8 million was spent on the construction of the PCS Gas Plant and related Montney/Doig horizontal wells in the third quarter of 2009. The decrease in capital expenditures from the third quarter of 2008 is a direct result of the Corporation's response to the drop in commodity prices in the latter part of 2008 and into the Reporting Periods.

Cash flow generated by the Corporation in the third quarter of 2009 was $12.2 million, which is a 39% decrease from $20.0 million in the second quarter of 2009 and a 68% decrease from $37.9 million in the third quarter of 2008. The decrease in cash flow from the previous quarter was largely due to a $4.8 million royalty credit received during the second quarter of 2009 and lower average production volumes and natural gas prices realized by the Corporation in the third quarter of 2009. The decrease in cash flow from the third quarter of 2008 was mainly due to lower average commodity prices realized by the Corporation in the current quarter.

Weighted average basic common shares outstanding in the third quarter of 2009 increased as a result of the Equity Financing on June 30, 2009. The full impact of the issuance of the shares on the weighted average common shares outstanding was reflected in the three month Reporting Period.

OUTLOOK

Production

Birchcliff's average production rate for the third quarter of 2009 was 10,552 boe per day. The revised capital expenditure program is expected to result in a 2009 average production rate of approximately 11,300 boe per day. Birchcliff's 2009 exit production rate is expected to be approximately 11,700 boe per day.

Capital Expenditures

The Corporation revised its 2009 capital expenditure program in July 2009 to $105.2 million from its previously announced capital budget of $80 million. Birchcliff spent $57.3 million of capital in the nine month Reporting Period of which $39.0 million was spent on the Corporation's normal oil and gas operations and related infrastructure and $18.3 million was spent on the construction of the PCS Gas Plant and related Montney/Doig horizontal wells. The Corporation expects its fourth quarter of 2009 capital expenditures to be approximately $47.9 million with approximately $22.6 million budgeted for normal oil and gas operations, related infrastructure and other projects, and approximately $25.3 million to construct the PCS Gas Plant and to drill, complete and tie-in related Montney/Doig horizontal wells associated with the Plant which will not be on production until the Plant commences operation.

Working Capital

The Corporation did not have any liquidity issues with respect to the operation of its petroleum and natural gas business in the Reporting Periods, nor does it anticipate a liquidity issue in the foreseeable future. In the second quarter of 2009, the Corporation increased the aggregate limit on its Revolving

Credit Facilities to $255 million and established a new $50 million Term Facility which provides the Corporation with greater financial flexibility in managing its business activities without liquidity concerns.

Resource Plays

Birchcliff has a very strong asset base with its two main resource plays, the Montney/Doig natural gas resource play and the Worsley light oil resource play. These properties provide the Corporation with a long term and operationally reliable cash flow base, the level of which is primarily dependent on commodity prices. The construction of the 100% owned PCS Gas Plant is expected to enhance the value of the Montney/Doig resource play by increasing production growth, reducing operating costs, and increasing strategic control over its core area. The extensive portfolio of development opportunities on these properties will not expire in the near term and provides low risk long life future production additions that are readily available with the investment of additional capital. Short term commodity prices will dictate the rate at which Birchcliff invests in its resource plays and the rate at which Birchcliff can grow its production, but they do not affect the quality or the long term value of the Corporation's asset base.

CONTRACTUAL COMMITMENTS

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

Year	***$000's***
2009	802
2010	3,214
2011	3,214
2012	3,223
2013	3,331
Thereafter	13,047

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed by the Chief Executive Officer ("**CEO**") and the Chief Financial Officer ("**CFO**") to provide reasonable assurance that (i) material information relating to Birchcliff is made known to them by others, particularly during the period in which interim filings are being prepared; and (ii) information required to be disclosed by Birchcliff in its annual filings, interim filings or other reports filed or submitted by it under securities legislation was recorded, processed, summarized and reported within the time periods specified in securities legislation. It should be noted that while the Corporation's CEO and CFO believe that the Corporation's disclosure controls and procedures are effective to provide a reasonable level of assurance, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are achieved.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely financial reporting. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. There has been no change in Birchcliff's internal controls over financial reporting during the three month Reporting Period that has materially affected, or is reasonably likely to materially affect, Birchcliff's internal controls over financial reporting.

CHANGE IN ACCOUNTING POLICIES

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

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

EIC-173 *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The application of this EIC did not have a material effect on the Corporation's Financial Statements.

Section 3855 *Financial Instruments — Recognition and Measurement* and Section 3025 *Impaired Loans.* The Accounting Standards Board amended these Sections to converge with international standards (IAS 39 *Financial Instruments — Recognition and Measurement)* for impairment of debt instruments by changing the categories into which debt instruments are required or permitted to be classified. The adoption of these Sections did not have an impact on the Corporation's Financial Statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, Canada's Accounting Standards Board ("**AcSB**") confirmed that International Financial Reporting Standards ("**IFRS**") will be required for publicly accountable enterprises' interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. In order to transition to IFRS, Birchcliff retained an external advisor to assist in the initial scoping of the project, and has appointed internal personnel to lead the conversion. The transition plan consists of four main phases:

- Diagnostic phase which involves an assessment of the differences between Canadian GAAP and IFRS;
- Assessment and selection phase whereby the Corporation will determine its IFRS accounting policies;
- Evaluation of information systems, business processes, procedures and controls to support the new reporting standards; and
- Training and development.

To date, the Corporation has completed its IFRS diagnostic assessment and has commenced analysis and identification of accounting policy choices, including assessing the impacts of these policies on information systems and business processes. Based on the high-level scoping study, the following IFRS standards are expected to have the most significant impact on Birchcliff's financial reporting:

- IFRS 1 – First-time Adoption of IFRS
- IAS 36 – Impairment of Assets
- IFRS 6 – Exploration and Evaluation of Mineral Resources
- IAS 16 – Property, Plant and Equipment
- IAS 37 – Provisions, Contingent Liabilities and Contingent Assets
- IFRS 2 – Share Based Payments
- IAS 12 – Income Taxes
- ED 9 – Joint Arrangements (replacing IAS 31 – Interests in Joint Ventures)

During the third quarter of 2009, a detailed Cost Generating Unit ("**CGU"**) analysis was performed and Birchcliff has since finalized its determination of CGU's and is currently evaluating its accounting policy choices under IFRS, in particular those pertaining to the Corporation's property, plant and equipment.

Birchcliff provided an introductory training session to a wide group of staff during the second quarter of 2009 and individuals responsible for financial reporting attend peer group sessions and IFRS information seminars on a regular basis.

The Corporation intends to generate financial information in accordance with IFRS throughout 2010 in order to provide comparative information for the 2011 financial statements. As such, Birchcliff will prepare a transition balance sheet as at December 31, 2009 (to be representative of the opening January 1, 2010 balance sheet) in accordance with IFRS.

The transition from Canadian GAAP to IFRS is a significant undertaking that may materially affect the Corporation's reported financial position and results of operations. As Birchcliff has not yet determined its accounting policies, it is not possible to quantify the impact of adopting IFRS on its financial statements at this time. In addition, due to anticipated changes to IFRS and International Accounting Standards prior to adoption of IFRS, the Corporation's plan is subject to change based on new facts and circumstances that arise after the date of this MD&A.

MERGERS & ACQUISITIONS

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

FORWARD LOOKING STATEMENTS

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

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

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

All such forward-looking statements necessarily involve risks associated with oil and gas exploration, production and marketing which may cause actual results to differ materially from those anticipated in the forward-looking statements. Some of those risks include; general economic conditions in Canada, the United States and globally; industry conditions, including fluctuations in the price of oil and natural gas;

changes in governmental regulation of the oil and gas industry, including environmental regulation; fluctuations in foreign exchange rates or interest rates; geological, technical, drilling and processing problems and other difficulties in producing reserves; unanticipated operating events which can damage facilities or reduce production or cause production to be shut in or delayed; failure to obtain regulatory approvals in a timely manner; adverse conditions in the debt and equity markets; competition from others for scarce resources; and other factors disclosed under "Risk Factors" in this MD&A.

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

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

	September 30, 2009	December 31, 2008
ASSETS		
CURRENT		
Cash	**140**	65
Accounts receivable	**19,594**	29,836
Prepaid and other	**4,927**	3,031
	24,661	32,932
Deferred financing fees (Note 5)	**402**	-
Petroleum and natural gas properties and equipment (Note 3)	**771,275**	781,891
	796,338	814,823
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**41,418**	71,208
	41,418	71,208
Revolving credit facilities (Note 6)	**182,589**	211,586
Asset retirement obligations (Note 9)	**22,357**	21,223
Future income tax liability	**735**	3,435
Commitments (Note 12)		
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	**538,747**	477,482
Contributed surplus (Note 11)	**19,455**	12,984
Retained earnings (deficit)	**(8,963)**	16,905
	549,239	507,371
	796,338	814,823

See accompanying notes to the financial statements.

APPROVED BY THE BOARD

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

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

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

	Three months ended September 30		**Nine months ended September 30**	
	2009	2008	**2009**	2008
REVENUE				
Petroleum and natural gas	**32,446**	67,942	**108,761**	197,407
Royalties	**(3,644)**	(12,502)	**(10,170)**	(32,563)
Interest and other	**-**	-	**-**	2
	28,802	55,440	**98,591**	164,846
Gain (loss) on risk management contracts (Note 8)				
Realized	**-**	(3,610)	**-**	(10,956)
Unrealized	**-**	9,352	**-**	4,737
	-	61,182	**-**	158,627
EXPENSES				
Production	**8,504**	9,061	**28,995**	27,361
Transportation and marketing	**2,284**	2,555	**7,413**	7,368
General and administrative, net	**2,904**	294	**7,931**	3,874
Stock-based compensation (Note 11)	**1,374**	1,419	**8,067**	4,019
Depletion, depreciation and accretion (Notes 3 and 9)	**21,801**	22,393	**69,380**	65,757
Realized foreign exchange loss (Note 8)	**-**	284	**-**	432
Unrealized foreign exchange (gain) loss (Note 8)	**-**	145	**-**	(157)
Interest and amortization of deferred financing fees (Notes 4, 5 and 6)	**3,408**	1,750	**8,382**	8,016
	40,275	37,901	**130,168**	116,670
INCOME (LOSS) BEFORE TAXES	**(11,473)**	23,281	**(31,577)**	41,957
TAXES				
Other taxes (recovery)	**-**	-	**-**	(7)
Future income taxes (recovery) expense	**(2,434)**	6,632	**(5,709)**	11,711
	(2,434)	6,632	**(5,709)**	11,704
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**(9,039)**	16,649	**(25,868)**	30,253
RETAINED EARNINGS (DEFICIT), BEGINNING OF PERIOD	**76**	611	**16,905**	(12,993)
RETAINED EARNINGS (DEFICIT), END OF PERIOD	**(8,963)**	17,260	**(8,963)**	17,260
Net income (loss) per common share				
basic	**$(0.07)**	$0.15	**$(0.22)**	$0.28
diluted	**$(0.07)**	$0.14	**$(0.22)**	$0.27
Weighted average common shares				
basic	**122,914,069**	112,386,829	**116,124,704**	107,841,267
diluted	**122,914,069**	116,859,500	**116,124,704**	112,425,211

See accompanying notes to the financial statements

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

	Three months ended September 30		Nine months ended September 30	
	2009	2008	**2009**	2008
OPERATING				
Net income (loss)	**(9,039)**	16,649	**(25,868)**	30,253
Adjustments for items not affecting cash:				
Depletion, depreciation and accretion (Notes 3 and 9)	**21,801**	22,393	**69,380**	65,757
Stock-based compensation (Note 11)	**1,374**	1,419	**8,067**	3,999
Unrealized risk management contracts (gain) (Note 8)	**-**	(9,352)	**-**	(4,737)
Unrealized foreign exchange (gain) loss (Note 8)	**-**	145	**-**	(157)
Amortization of deferred financing fees (Notes 5 and 6)	**494**	-	**706**	-
Future income taxes (recovery) expense	**(2,434)**	6,632	**(5,709)**	11,711
	12,196	37,886	**46,576**	106,826
Changes in non-cash working capital (Note 13)	**3,497**	5,735	**(2,271)**	(2,677)
Asset retirement expenditures incurred (Note 9)	**(36)**	(89)	**(309)**	(155)
	15,657	43,532	**43,996**	103,994
FINANCING				
Decrease in non-revolving credit facility (Note 4)	**-**	-	**-**	(98,830)
Deferred financing fees paid (Notes 5 and 6)	**-**	-	**(1,975)**	-
Increase (decrease) in revolving credit facilities (Note 6)	**(37,109)**	32,074	**(28,129)**	25,142
Issuance of share capital (Notes 10 and 11)	**1,921**	94	**65,371**	136,676
Share issue costs (Note 10)	**-**	-	**(2,695)**	(6,912)
	(35,188)	32,168	**32,572**	56,076
INVESTING				
Purchase of petroleum and natural gas properties and equipment	**(3,019)**	(458)	**(3,049)**	(10,313)
Development of petroleum and natural gas properties and equipment	**(30,423)**	(88,700)	**(54,273)**	(167,850)
Changes in non-cash investing working capital (Note 13)	**15,934**	13,458	**(19,171)**	18,092
	(17,508)	(75,700)	**(76,493)**	(160,071)
NET INCREASE (DECREASE) IN CASH	**(37,039)**	-	**75**	(1)
CASH, BEGINNING OF PERIOD	**37,179**	65	**65**	66
CASH, END OF PERIOD	**140**	65	**140**	65
Cash interest paid	**2,914**	1,750	**7,676**	8,016
Cash taxes paid	**-**	-	**-**	254

See accompanying notes to the financial statements

1. BASIS OF PRESENTATION

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

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

2. CHANGES IN ACCOUNTING POLICIES

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

- Section 3064, *Goodwill and intangible assets,* replacing Section 3062*, Goodwill and other intangible assets* and Section 3450*, Research and development costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new Section is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Corporation adopted these new standards for its fiscal year beginning January 1, 2009. The adoption of this Section did not have an impact on the Corporation's Financial Statements.
- EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. In January 2009, the CICA issued EIC-173 which provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC is effective for the Corporation's fiscal periods ending on or after January 20, 2009 with retrospective application. The application of this EIC did not have a material effect on the Corporation's Financial Statements.
- Section 3855, *Financial Instruments — Recognition and Measurement* and Section 3025, *Impaired Loans.* In August 2009, the Accounting Standards Board ("**ACSB**") amended these Sections to converge with international standards (IAS 39, *Financial Instruments: Recognition and Measurement)* for impairment of debt instruments by changing the categories into which debt instruments are required or permitted to be classified. These amendments are effective for annual financial statements relating to fiscal years beginning on or after November 1, 2008. The Corporation is permitted to apply these amendments to interim financial statements relating to periods within the fiscal year of adoption only if those interim financial statements are issued on or after August 20. Accordingly, Birchcliff has adopted these new standards for its fiscal year beginning January 1, 2009. The adoption of these Sections did not have an impact on the Corporation's Financial Statements.

Recent Accounting Pronouncements

In February 2008, the ACSB confirmed the changeover to International Financial Reporting Standards ("**IFRS**") from GAAP will be required for publicly accountable enterprises' interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The Corporation has completed a high level IFRS impact study and established a preliminary timeline for the execution and completion of its conversion project. At this time, Birchcliff is evaluating the impact of these differences and assessing the need for amendments to existing accounting policies in order to comply with IFRS. Birchcliff expects to be IFRS compliant by January 1, 2011.

Future Accounting Policy Changes

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

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, *Financial Instruments — Disclosures*. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS. The Corporation will include these additional disclosures in its annual financial statements for the year ending December 31, 2009.

3. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

($000's)			**September 30, 2009**
	Cost	**Accumulated Depletion and Depreciation**	**Net Book Value**
Petroleum and natural gas assets	1,053,072	(283,423)	769,649
Office furniture and equipment	3,325	(1,699)	1,626
	1,056,397	**(285,122)**	**771,275**

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

As at September 30, 2009, the cost of petroleum and natural gas properties includes $42.4 million (December 31, 2008 – $49.7 million) relating to unproved properties which have been excluded from costs subject to depletion and depreciation.

Birchcliff capitalized general and administrative costs directly related to exploration and development activities of approximately $357,000 and $1.1 million in the three and nine months ended September 30, 2009 (three and nine months ended September 30, 2008 - $332,000 and $1.1 million).

On September 15, 2009, the Government of Alberta approved a drilling royalty incentive for conventional oil and natural gas wells drilled on or after April 1, 2009, but before April 1, 2011. The Corporation accounts for the drilling credits as a reduction of petroleum and natural gas properties. Birchcliff capitalized drilling royalty credits of $3.4 million in the nine months ended September 30, 2009.

4. NON-REVOLVING ACQUISITION FACILITY

Birchcliff entered into an Acquisition Credit Agreement (the "**Acquisition Facility**") with a syndicate of banks on September 4, 2007. The agreement allowed for Birchcliff to make a one-time draw of up to $100 million on a non-revolving credit facility for the purpose of closing the Worsley Acquisition. On September 27, 2007, the Corporation gave notice to draw the entire amount of the credit facility in bankers' acceptances. The drawn amount at December 31, 2007 was $98.8 million with the $1.2 million difference being the discounted value from the $100 million credit facility limit based on the market interest rate at that time for bankers' acceptances. On March 14, 2008 the facility was repaid in full and cancelled, following the completion of the equity financing described in Note 10(d).

5. NON-REVOLVING TERM FACILITY

On May 21, 2009, the Corporation entered into a $50 million non-revolving one year term credit facility (the "**Term Facility**"). The Term Facility is provided by a syndicate of four banks (the "**Syndicate**"). No amounts have been drawn on the Term Facility as at September 30, 2009. The Corporation paid $625,000 in financing fees to the Syndicate to establish the Term Facility. These fees have been deferred as a non current asset and are being amortized to income equally over the one year term beginning May 21, 2009. During the three and nine months ended September 30, 2009, the Corporation amortized to income approximately $156,000 and $223,000 in deferred financing fees applicable to the Term Facility. As at September 30, 2009, the unamortized portion of the deferred financing fees applicable to the Term Facility was approximately $402,000.

The Corporation's use of the Term Facility is subject to consent of the Syndicate at the time of the draw-down. The Corporation did not request a draw-down of the Term Facility during the three and nine months ended September 30, 2009. The Term Facility allows for prime rate loans, US base rate loans, bankers' acceptances, letters of credit and LIBOR loans. The interest rates applicable to the Term Facility are based on a pricing grid and will increase as a result of the increased ratio of outstanding indebtedness to earnings before interest, taxes, depreciation and amortization. The Term Facility is secured by a fixed and floating charge debenture, an instrument of pledge, and a general security agreement encompassing all of the Corporation's assets for a consideration equal to the draw-down amount.

6. REVOLVING CREDIT FACILITIES

($000's)	**September 30, 2009**	December 31, 2008
Syndicated credit facility	174,430	197,410
Working capital facility	9,026	14,176
Unamortized deferred financing fees	(867)	-
Revolving Credit Facilities	**182,589**	**211,586**

On May 21, 2009, Birchcliff amended its agreement with its bank syndicate which increased the Corporation's existing Revolving Credit Facilities from $240 million to an aggregate limit of $255 million. The Revolving Credit Facilities consist of an extendible revolving term credit facility with an authorized limit of $235 million (the "**Syndicated Credit Facility**") and an extendible revolving working capital facility with an authorized limit of $20 million (the "**Working Capital Facility**"). The $235 million Syndicated Credit Facility is provided by the Syndicate. The $20 million Working Capital Facility is provided by the lead bank in the current Syndicate. As at September 30, 2009, the amount outstanding under the Corporation's Revolving Credit Facilities were $182.6 million.

As at September 30, 2009, the effective rate applicable to the Working Capital Facility was 5.3% (December 31, 2008 – 4.7%). The overall effective interest rate applicable to the bankers' acceptances in the Syndicated Credit Facilities were 4.9% and 3.9% for the three and nine months ended September 30, 2009 (three and nine months ended September 30, 2008 – 3.5% and 3.8%). Also included as a reduction of the available Working Capital Facility are letters of credit issued to various service providers in the amount of $2.1 million at September 30, 2009 (December 31, 2008 – $1.8 million).

The Corporation paid $1.35 million in financing fees to the Syndicate to extend the conversion date of the Revolving Credit Facilities to May 21, 2010. These fees have been deferred and netted against the Revolving Credit Facilities and are being amortized to income over the one year extension period. During the three and nine months ended September 30, 2009, the Corporation amortized to income approximately $338,000 and $483,000 in deferred financing fees applicable to the Revolving Credit Facilities. As at September 30, 2009, the unamortized portion of the deferred financing fees included in the Revolving Credit Facilities was approximately $867,000.

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

The Revolving Credit Facilities are subject to the Syndicate's redetermination of the borrowing base twice each year as of November 15 and the conversion date. Upon any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall, Birchcliff must eliminate the borrowing base shortfall amount. The Revolving Credit Facilities are secured by a fixed and floating charge debenture, an instrument of pledge, and a general security agreement encompassing all of the Corporation's assets.

Syndicated Credit Facility

The Syndicated Credit Facility has a conversion date of May 21, 2010 and a maturity date which is two years after the conversion date. Birchcliff may request an extension of the conversion date with such an extension not exceeding 364 days, in order to maintain the revolving Syndicated Credit Facility. If the Syndicate does not grant an extension of the conversion date, then upon the expiry of the conversion date, the revolving Syndicated Credit Facility will convert to a term loan whereby all principal and interest will be required to be repaid at the maturity date.

Working Capital Facility

The Working Capital Facility has a conversion date of May 21, 2010 and a maturity date which is two years after the conversion date. Birchcliff may request an extension of the conversion date with such an extension not exceeding 364 days, in order to maintain the revolving Working Capital Facility. If the Syndicate does not grant an extension of the conversion date, then upon four months after the expiry of the conversion date, the revolving Working Capital Facility will convert to a term loan whereby all principal and interest will be required to be repaid at the maturity date.

7. CAPITAL MANAGEMENT

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations, including potential obligations arising from additional acquisitions; to maintain a capital structure that allows Birchcliff to favour the financing of its growth strategy using internally-generated cash flow and its debt capacity; and to optimize the use of its capital to provide an appropriate investment return to its shareholders.

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

The capital structure of the Corporation is as follows:

($000's)	September 30, 2009	December 31, 2008	Change %
Total shareholders' equity[1]	549,239	507,371	8%
Total shareholders' equity as a % of total capital	73%	67%	
Working capital (deficit)[2]	(16,757)	(38,276)	
Revolving credit facilities[3]	182,589	211,586	
Total debt	199,346	249,862	(20%)
Total debt as a % of total capital	27%	33%	
Total Capital	**748,585**	**757,233**	**(1%)**

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

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

(3) Included in revolving credit facilities is the unamortized portion of deferred financing fees of approximately $867,000 at September 30, 2009.

During the nine month period ended September 30, 2009, total shareholders' equity increased mainly due to the issuance of common shares (Note 10(f)); exercise of options (Note 10); and offset by an increase in reported net loss during the period.

Total debt decreased during the nine month period ended September 30, 2009 largely due to the equity proceeds of $59.3 million (Note 10(f)) which were used to pay down the Corporation's Revolving Credit Facilities. Also during the period, total debt increased by $10.7 million as a result of capital spent in excess of cash flow.

8. FINANCIAL INSTRUMENTS & RISK MANAGEMENT CONTRACTS

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

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

Credit Risk

A substantial portion of the Corporation's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers. Of the Corporation's significant individual accounts receivable at September 30, 2009, approximately 39% was due from two marketers (December 31, 2008 - 21%, one marketer). Of the Corporation's revenues during the three and nine months ended September 30, 2009, approximately 73% was received from three marketers and 83% was received from four marketers. During the three and nine months ended September 30, 2008, approximately 78% was received from four marketers and 71% was received from four marketers. Typically, Birchcliff's maximum credit exposure to customers is revenue from two months of commodity sales.

The following table illustrates the Corporation's receivables:

($000's)	September 30, 2009	December 31, 2008
Marketers	9,792	15,265
Joint venture partners	8,716	14,500
Other	1,086	71
Total Receivables	**19,594**	**29,836**

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

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

The carrying amounts of cash and accounts receivable represent the maximum credit exposure. As at September 30, 2009, the Corporation has a $NIL allowance for doubtful accounts (December 31, 2008 – $99,000).

The Corporation's accounts receivables are aged as follows:

($000's)	**September 30, 2009**	December 31, 2008
Current (less than 30 days)	15,855	20,175
30 to 60 days	1,819	3,723
61 to 90 days	838	4,771
Over 90 days	1,082	1,167
Total Receivables	**19,594**	**29,836**

Liquidity Risk

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

The following table lists the contractual maturities of the Corporation's financial liabilities as at September 30, 2009:

($000's)	< 1 Year	1 – 2 Years	2 – 5 Years	Thereafter
Accounts payable and accrued liabilities	41,418	-	-	-
Revolving credit facilities (1)	-	-	182,589	-
Total Financial Liabilities	**41,418**	**-**	**182,589**	**-**

(1) The Revolving Credit Facilities bear interest at a floating rate and includes $9.0 million drawn on the Working Capital Facility and $174.5 million drawn on the Syndicated Credit Facility, net of $0.9 million in related unamortized deferred financing fees.

Birchcliff prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Petroleum and natural gas production is monitored weekly and is used to provide monthly current cash flow estimates. To facilitate the capital expenditure program, the Corporation has a revolving reserves-based credit facility, as outlined in Note 6, which is reviewed at least annually by the lender. Birchcliff also attempts to match its payment cycle with collection of petroleum and natural gas revenues.

Market Risk

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

Commodity Price Risk

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

Birchcliff had no oil price risk management contracts in place as at or during the three and nine months ended September 30, 2009. For the three and nine months ended September 30, 2008, the realized and unrealized gain (loss) ("total gain (loss)") related to the oil price risk management contracts was a $5.7 million total gain and $6.2 million total loss, respectively. Included in the three and nine months ended September 30, 2008 total gain (loss) was a net cash outlay of $3.6 million and $11.0 million relating to the actual monthly settlements incurred during the period. An unrealized gain of approximately $9.4 million and $4.7 million for the three and nine months ended September 30, 2008, respectively, was also included within the total gain (loss), identified as "unrealized risk management contracts (gain)" on the statements of cash flows.

The fair value of the Corporation's risk management liabilities at September 30, 2009 was $NIL (September 30, 2008 - $1.9 million). As of September 30, 2009 if WTI crude oil prices had been $1.00 USD higher or lower, with all other variables held constant, the change in the fair value of the risk management contracts would have resulted in net income (loss) and other comprehensive income (loss) that was $NIL and $NIL (September 30, 2008 - $86,000 and $352,000) higher or lower for the three and nine month periods.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows attributed to the Corporation's risk management contracts will fluctuate as a result of changes in foreign currency exchange rates. During the three and nine months ended September 30, 2009, the Corporation was not exposed to any foreign currency fluctuations with respect to its WTI oil option contracts. As at September 30, 2008, if the US dollar had depreciated 10% against the Canadian dollar with all other variables held constant, Birchcliff's net income and other comprehensive income for the three and nine months ended September 30, 2008 would have been $921,000 lower and $190,000 higher with respect to the US dollar denominated WTI oil price risk management contracts.

The Corporation had no forward exchange rate contracts in place as at or during the three and nine months ended September 30, 2009 and 2008.

Interest Rate Risk

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

As at September 30, 2009, if the interest rate had changed 1% with all other variables held constant, Birchcliff's net income (loss) and other comprehensive income (loss) for the three and nine months ended September 30, 2009 would have changed by $477,000 and $1.6 million (three and nine months ended September 30, 2008 - $386,000 and $1.3 million). A sensitivity of 1% is considered reasonable given the current level of the bank prime rate and market expectations for future movements. The Corporation considers this risk to be limited and thus does not hedge its interest rate risk.

The Corporation had no interest rate swaps or financial contracts in place as at or during the three and nine months ended September 30, 2009 and 2008.

Fair Value of Financial Instruments

Birchcliff's financial instruments are classified as cash, accounts receivable, accounts payable and accrued liabilities and Revolving Credit Facilities on the balance sheet.

The carrying value and fair value of these financial instruments at September 30, 2009 is disclosed below by financial instrument category, as well as any related loss and interest expense for the period:

($000's)	Carrying Value(1)	Fair Value(1)	Loss	Interest Expense(2)
Assets Held for Trading				
Cash	140	140	-	-
Loans and Receivables				
Accounts receivable	19,594	19,594	-	-
Other Liabilities				
Accounts payable and accrued liabilities	41,418	41,418	-	-
Revolving credit facilities	182,589	182,589	-	8,382

(1) Due to the short term nature of cash, accounts receivable, accounts payable and accrued liabilities, their carrying values approximate their fair values. The revolving credit facilities bear interest at a floating rate and accordingly the fair market value approximates the carrying value before the carrying value is reduced for the remaining deferred financing costs. Included in revolving credit facilities is the unamortized portion of deferred financing fees of approximately $867,000 at September 30, 2009.
(2) Included in interest expense on the statements of net income (loss), comprehensive income (loss) and retained earnings (deficit) is amortization of deferred financing fees of approximately $706,000 for the nine months ended September 30, 2009.

9. ASSET RETIREMENT OBLIGATIONS

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas properties including well sites, gathering systems and processing facilities. Birchcliff estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations as at September 30, 2009 to be approximately $69.3 million (December 31, 2008 – $68.1 million) which will be incurred between 2009 and 2057. A credit-adjusted risk-free interest rate of 8% and an inflation rate of 2% were used to calculate the fair value of the asset retirement obligation.

A reconciliation of the asset retirement obligations is provided below:

($000's)	**September 30, 2009**	December 31, 2008
Balance, January 1	21,223	18,806
Obligations incurred	252	1,778
Obligations acquired	17	89
Changes in estimate	-	166
Accretion expense	1,174	1,466
Actual expenditures incurred	(309)	(1,082)
Ending Balance	**22,357**	**21,223**

10. SHARE CAPITAL

(a) Authorized:

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

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

(b) Issued:

	Number of Common Shares	Amount $
Balance, December 31, 2007	**94,554,269**	**342,818,621**
Issued upon exercise of stock options	1,133,925	6,009,537
Issued upon exercise of warrants (Note (c))	809,933	3,596,103
Issued, net of costs (Note (d))	15,897,843	123,088,169
Tax effect of share issue costs (Note (e))	-	1,970,000
Balance, December 31, 2008	**112,395,970**	**477,482,430**
Issued upon exercise of stock options	146,665	887,404
Tax effect of flow through shares (Note (d))	-	(3,750,000)
Balance, March 31, 2009	**112,542,635**	**474,619,834**
Issued upon exercise of stock options	265,002	1,249,887
Issued, net of costs (Note (f))	10,000,000	59,304,600
Tax effect of share issue costs (Note (g))	-	743,000
Balance, June 30, 2009	**122,807,637**	**535,917,321**
Issued upon exercise of stock options	459,799	2,829,560
Balance, September 30, 2009	**123,267,436**	**538,746,881**

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

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

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

(f) On June 30, 2009, Birchcliff issued 10,000,000 common shares at a price of $6.20 per share for total net proceeds of $59,304,600.

(g) Birchcliff recognized a future income tax benefit of $743,000 in respect of share issue costs of $2,695,400 incurred with respect to the issuance of 10,000,000 common shares on June 30, 2009.

11. STOCK-BASED COMPENSATION

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

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

Stock Options

For the three and nine months ended September 30, 2009, the Corporation recorded $1.4 million and $5.0 million (three and nine months ended September 30, 2008 - $1.4 million and $4.0 million) of non-cash stock-based compensation expense and a corresponding increase to contributed surplus related to the issuance of stock options. During the three and nine months ended September 30, 2009, the Corporation also recorded a cash stock-based compensation expense of $NIL and $NIL (three and nine months ended September 30, 2008 - $NIL and $20,000) related to cash paid to cancel vested stock options during the period.

Using the fair value method, the weighted average fair value of stock options granted during the three and nine months ended September 30, 2009 was $NIL and $2.78 (three and nine months ended September 30, 2008 - $6.48 and $5.02) per option, respectively. No stock options were granted during the three months ended September 30, 2009.

At September 30, 2009, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of 12,326,744 common shares (September 30, 2008 – 11,239,597). At September 30, 2009, there remained available for issuance options in respect of 4,483,925 common shares (September 30, 2008 – 5,123,476)

A summary of the Corporation's outstanding stock options during the nine months ended September 30, 2009 is presented below:

	Number	Weighted Average Exercise Price ($)
Outstanding, December 31, 2008	**6,324,221**	**5.58**
Granted	3,236,900	5.02
Exercised	(146,665)	(4.15)
Forfeited	(278,667)	(6.02)
Outstanding, March 31, 2009	**9,135,789**	**5.40**
Granted	208,000	6.46
Exercised	(265,002)	(3.18)
Forfeited	(93,834)	(4.52)
Outstanding, June 30, 2009	**8,984,953**	**5.50**
Granted	-	-
Exercised	(459,799)	(4.18)
Forfeited	(682,335)	(6.64)
Outstanding, September 30, 2009	**7,842,819**	**5.47**

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

	September 30, 2009	December 31, 2008
Risk-free interest rate	1.9%	3.1%
Expected maturity (years)	5.0	5.0
Expected volatility	63.4%	52.0%
Dividend yield	0%	0%

A summary of the stock options outstanding and exercisable under the plan at September 30, 2009 is presented below:

Exercise Price		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$3.00	$6.00	5,749,552	3.12	$4.53	2,010,027	1.51	$3.79
$6.01	$9.00	1,747,367	3.40	$7.29	558,733	3.07	$7.38
$9.01	$12.00	158,100	3.85	$10.68	52,699	3.85	$10.68
$12.01	$14.25	187,800	3.78	$13.07	62,600	3.78	$13.07
		7,842,819	**3.21**	**$5.47**	**2,684,059**	**1.93**	**$4.89**

Performance Warrants

On January 14, 2005, as part of the Corporation's initial restructuring to become a public entity, the Corporation issued performance warrants with an exercise price of $3.00 and an expiration date of January 31, 2010 to members of its executive team. Each performance warrant entitles the holder to purchase one common share at the exercise price. At September 30, 2009, there were 2,939,732 performance warrants outstanding and exercisable (September 30, 2008 – 2,939,732). Because the performance conditions were fulfilled in 2005, resulting in the performance warrants vesting, the full related expense was recorded in the statement of net income (loss) and retained earnings (deficit) in that year.

On May 28, 2009, the Corporation's outstanding performance warrants were amended to extend the ultimate expiration date from January 31, 2010 to January 31, 2015 (the "**Extension**"). The Corporation recorded a non-cash stock-based compensation expense of $3.1 million relating to the Extension of the performance warrants for the nine months ended September 30, 2009. This amount represents the fair value of the Extension determined by the difference between the fair value of the outstanding performance warrants with the expiration date of January 31, 2015 (the "extended term") and the fair value of the outstanding performance warrants with the expiration date of January 31, 2010 (the "original term"). The fair value in each case was estimated as at May 28, 2009 using the Black-Scholes option-pricing model. The fair value of each extended term and original term performance warrant was $4.27 and $3.23, respectively.

The assumptions used in calculating the fair value of the extended and original term performance warrants at May 28, 2009 are set forth below:

	Extended Term Performance Warrants	Original Term Performance Warrants
Risk-free interest rate	2.1%	2.1%
Expected maturity (years)	5.0	0.72
Expected volatility	63.0%	63.0%
Dividend yield	0%	0%

A summary of the changes during the three and nine months ended September 30, 2009 and the Corporation's outstanding performance warrants as at September 30, 2009 is presented below:

	Number	Weighted Average Exercise Price ($)
Outstanding, December 31, 2008	**2,939,732**	**3.00**
Issued	-	**-**
Exercised	-	-
Outstanding, March 31, June 30, and September 30, 2009	**2,939,732**	**3.00**

Contributed Surplus Continuity

	$000's
Balance, December 31, 2007	**10,930**
Stock-based compensation expense – stock options [(1)]	5,004
Exercise of stock options	(2,930)
Cancellation of stock options[(2)]	(20)
Balance, December 31, 2008	**12,984**
Stock-based compensation expense – stock options [(1)]	1,747
Exercise of stock options	(279)
Balance, March 31, 2009	**14,452**
Stock-based compensation expense – stock options[(1)]	1,886
Stock-based compensation expense – performance warrants	3,060
Exercise of stock options	(408)
Balance, June 30, 2009	**18,990**
Stock-based compensation expense – stock options [(1)]	1,374
Exercise of stock options	(909)
Balance, September 30, 2009	**19,455**

(1) Included in the stock-based compensation expense is the non cash impact of forfeitures and cancellations during the period.
(2) Included in the cancellation of stock options is cash paid to cancel 5,000 vested stock options during 2008.

12. COMMITMENTS

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

Year	***$000's***
2009	802
2010	3,214
2011	3,214
2012	3,223
2013	3,331
Thereafter	13,047

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

13. SUPPLEMENTARY CASH FLOW INFORMATION

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

	Three months ended September 30		**Nine months ended September 30**	
($000's)	**2009**	**2008**	**2009**	**2008**
Provided by (used in)				
Accounts receivable	(2,863)	6,950	10,243	(4,878)
Prepaid and other	715	536	(1,896)	(263)
Accounts payable and accrued liabilities	21,579	11,707	(29,789)	20,556
	19,431	**19,193**	**(21,442)**	**15,415**
Provided by (used in)				
Operating	3,497	5,735	(2,271)	(2,677)
Investing	15,934	13,458	(19,171)	18,092
	19,431	**19,193**	**(21,442)**	**15,415**

Q3/09

Q3/09

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