Birchcliff Energy Ltd.

2013Q1

THREE MONTHS ENDED MARCH 31, 2013

May 15, 2013

Fellow Shareholders,

Birchcliff Energy Ltd. ("**Birchcliff**") is pleased to report its first quarter financial and operational results for the three month period ended March 31, 2013. Birchcliff had an excellent operational quarter. Production, funds flow, earnings and revenue have increased, while cash costs per boe have decreased. Production was ahead of our internal budget.

In the first quarter of 2013, we reduced our operating costs to an average of $5.77 per boe, a decrease of 6% from the first quarter of 2012. Notably, operating costs at Birchcliff's 100% owned Pouce Coupe South natural gas plant ("**PCS Gas Plant**") were $0.28 per Mcfe ($1.68 per boe). We processed 68% of our natural gas production at the PCS Gas Plant and anticipate increasing that percentage as new Montney/Doig horizontal natural gas wells drilled in 2013 produce to the PCS Gas Plant, which will further reduce our corporate operating costs on a per boe basis.

Total cash costs per boe, including royalties, operating costs, transportation and marketing costs, general and administrative expense and interest, decreased 19% from the first quarter of 2012. This resulted in a funds flow netback of $16.79 per boe, a 23% increase from the first quarter of 2012. Notably, general and administrative costs decreased 49% to $2.08 per boe, from the first quarter of 2012.

We are extremely excited about the significant land purchase we made in the first quarter of 2013. We purchased 13.5 sections of Crown land at 100% working interest that is very proximal to our PCS Gas Plant, for $21.3 million. This is a very strategic acquisition for Birchcliff. With the success of the Montney/Doig Natural Gas Resource Play in the area, there are a limited number of sections of Crown land remaining. The newly acquired lands are contiguous with our existing land base and we expect a significant amount of probable reserves and discovered resources to be attributed to these newly acquired Crown lands at year-end.

These lands are highly prospective for both the Basal Doig/Upper Montney Play and the Middle/Lower Montney Play. On the basis of the full development of four wells per section, per Play, the recently acquired lands add 108 net future potential horizontal natural gas well drilling locations, all within the existing infrastructure reach of our PCS Gas Plant. These recent additions increase Birchcliff's number of Montney/Doig Natural Gas Resource Play future potential horizontal drilling locations to 2,032 net locations.

On May 9, 2013, Birchcliff's bank syndicate increased our credit facilities to an aggregate credit limit of $600 million by adding a new $60 million non-revolving five-year term credit facility. This credit facility better aligns Birchcliff's long-term assets with its long-term debt.

Birchcliff was profitable when AECO natural gas price averaged $2.39 per Mcf in 2012, and currently the AECO gas price is about $3.35 per Mcf. Accordingly, with our total cash costs per boe decreasing, and with increased natural gas prices, our expected future profitability outlook has materially improved.

In light of all of the above, Birchcliff's 2013 capital budget has increased to $246.6 million, from $184.6 million. We expect fourth quarter average production to be in the range of 28,000 to 29,000 boe per day (well ahead of our previous exit guidance of 28,000 boe per day). Our 2013 exit production is expected to be approximately 30,000 boe per day. This increased exit production will provide Birchcliff with momentum for a strong production profile in the first quarter of 2014. Our estimated 2013 average production guidance of 26,400 boe per day has not changed as the majority of Birchcliff's new production in 2013 will come on stream late in the year.

The expanded portion of the 2013 capital budget is primarily directed toward the drilling of 5 (5.0 net) additional Montney/Doig horizontal natural gas wells, four of which will produce to our PCS Gas Plant, and $21.3 million for our land acquisition in the Pouce Coupe area, which we purchased in the first quarter of 2013.

Birchcliff has available processing capacity at the PCS Gas Plant and with current gas prices, the economics of processing natural gas at our PCS Gas Plant are very strong. Accordingly, we are increasing our production to make use of this capacity. With the investment we have made in the PCS Gas Plant, our goal is to fully utilize its capacity and eventually fill the PCS Gas Plant with Birchcliff's natural gas production.

Increase to Credit Facilities

Birchcliff's bank syndicate approved a new $60 million non-revolving five-year term credit facility with a maturity date in May 2018, increasing the syndicated credit facilities to an aggregate of $600 million from the previous credit limit of $540 million. The terms of the other credit facilities, a $70 million non-revolving five-year term credit facility and extendible revolving credit facilities of $470, remain unchanged, including the two-year term-out feature of the revolving credit facilities. The increased aggregate credit facility amount will provide Birchcliff with increased financial flexibility.

Capital Budget Expansion

Birchcliff has expanded its capital budget for 2013 to $246.6 million from $184.6 million. The capital program will be funded from funds flow and debt. The expanded portion of the 2013 capital budget is primarily directed toward the drilling of 5 (5.0 net) additional Montney/Doig horizontal natural gas wells, four of which will produce to our PCS Gas Plant, and $21.3 million for our recent land acquisition in the Pouce Coupe area. The following table sets out a detailed comparison of the new capital budget to the original capital budget.

	Gross Wells		Net Wells		Net Capital (MM$)	
2013 Capital Budget	New	Old	New	Old	New	Old
Drilling & Development						
Basal Doig/Upper Montney Horizontal Natural Gas Wells	2	2	2.0	2.0	11.6	11.6
Middle/Lower Montney Horizontal Natural Gas Wells	20	15	20.0	15.0	119.1	89.8
Montney/Doig Vertical Exploration Gas Well	1	1	1.0	1.0	4.6	4.6
Worsley Charlie Lake Horizontal Oil Wells	11	10	11.0	10.0	39.5	34.7
Halfway Oil Wells	4	3	2.5	2.0	9.8	8.0
Total Drilling & Development	**38**	**31**	**36.5**	**30.0**	**184.6**	**148.7**
Facilities					8.5	9.6
Production Optimization					16.5	11.7
Land					28.0	9.2
Acquisitions & Dispositions					-0.5	0.0
Seismic & Other					9.5	5.4
Total Net Capital					**246.6**	**184.6**

PCS Gas Plant Phase IV Expansion

Birchcliff's Board of Directors has approved a Phase IV expansion of the PCS Gas Plant in 2014, expanding processing capacity to 180 MMcf per day from 150 MMcf per day by adding additional compression and sales pipeline capacity. The estimated cost of the Phase IV expansion is approximately $10 million, with the majority of the costs to be incurred in 2014. The anticipated start-up date of the Phase IV expansion is in the fall of 2014.

2013 FIRST QUARTER FINANCIAL AND OPERATIONAL RESULTS

Production

First quarter production averaged 26,108 boe per day, which is a 24% increase over production of 21,061 boe per day in the first quarter of 2012. Production per share increased 11% from the first quarter of 2012.

Production consisted of approximately 82% natural gas and 18% crude oil and natural gas liquids in the first quarter.

Funds Flow and Earnings

First quarter funds flow was approximately $39.4 million or $0.28 per basic common share, a 51% increase from the first quarter of 2012. This increase was largely a result of the 49% increase in the AECO natural gas spot price averaging $3.20 per Mcf for the quarter ended March 31, 2013 compared to $2.15 per Mcf for the quarter ended March 31, 2012.

In the first quarter of 2013, Birchcliff recorded net income available to shareholders of $7.4 million as compared to $3.7 million in the first quarter of 2012.

Debt and Capitalization

At March 31, 2013, Birchcliff's bank debt was $452.4 million from available credit facilities aggregating $540 million. As such, Birchcliff had significant credit capacity and financial flexibility. At March 31, 2013, Birchcliff's working capital deficiency was $50.9 million and total debt was $502.3 million.

At March 31, 2013, Birchcliff had outstanding: 142,096,130 basic common shares; 164,106,949 fully diluted common shares; and 2,000,000 Series A preferred shares. The Corporation also had 6,000,000 warrants outstanding, each warrant providing the right to purchase one common share at an exercise price of $8.30 until August 8, 2014.

Operating Costs

Operating costs in the first quarter were $5.77 per boe (excluding transportation and marketing costs), down 6% from the first quarter of 2012. This reduction of operating costs per boe was largely due to increased volumes of natural gas being processed through the PCS Gas Plant and the implementation of various optimization initiatives.

PCS Gas Plant Netbacks

Processing natural gas at the Corporation's PCS Gas Plant has materially improved Birchcliff's funds flow and net earnings.

In the first quarter of 2013, operating costs for natural gas processed at the PCS Gas Plant averaged $0.28 per Mcfe ($1.68 per boe) and the estimated operating netback for Birchcliff's natural gas production flowing to the PCS Gas Plant was $2.83 per Mcfe. Approximately 68% of Birchcliff's natural gas production and 57% of corporate production was processed at the PCS Gas Plant in the first quarter of 2013.

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

Production Processed through the PCS Gas Plant	Three months ended March 31, 2013[1]		Three months ended March 31, 2012	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		87,104		50,982
Oil & NGLs *(bbls)*		246		145
Total boe *(6:1)*		**14,763**		8,642
% of total corporate production		*57%*		*41%*
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[2]	3.57	21.40	2.56	15.35
Royalty expense	(0.22)	(1.33)	(0.12)	(0.74)
Operating expense, net of recoveries	(0.28)	(1.68)	(0.20)	(1.18)
Transportation and marketing expense	(0.24)	(1.40)	(0.23)	(1.35)
Estimated operating netback *(production month basis)*	**2.83**	**16.99**	2.01	12.08
Operating margin[3]	**79%**	**79%**	79%	79%

(1) The PCS Gas Plant processed an average of 104 MMcf per day of raw gas at the inlet during the first quarter of 2013.

(2) AECO natural gas price averaged $3.20 per Mcf and $2.15 per Mcf for the first quarter of 2013 and 2012 respectively.

(3) Operating margin at the PCS Gas Plant is determined by dividing the estimated operating netback by petroleum and natural gas revenue in the period.

OPERATIONS UPDATE

Drilling

Birchcliff's 2013 drilling program is focused on our two proven resource plays, the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play. During the first quarter of 2013, Birchcliff drilled 11 (10.5 net) wells, including 5 (5.0 net) natural gas wells, and 6 (5.5 net) oil wells.

Wells drilled year-to-date in 2013 include 16 (15.5 net) horizontal natural gas wells, all of which were completed utilizing multi-stage fracture stimulation technology, and all of which were successful. These wells consist of 10 (10.0 net) natural gas wells, and 6 (5.5 net) oil wells.

Birchcliff currently has two drilling rigs working, both in the Pouce Coupe area drilling Montney/Doig horizontal natural gas wells. A third rig will start drilling oil wells in the Worsley area immediately after spring break-up.

Land

The Corporation has been actively buying more land. We have continued to expand our undeveloped land base and held 558,454 (521,488 net) acres at March 31, 2013, with a 93% average working interest. During the first quarter of 2013, Birchcliff acquired 26,805 (26,805 net) acres of undeveloped land, all in its core area of the Peace River Arch of Alberta. Of the Crown land acquired in the first quarter of 2013, Birchcliff purchased 13.5 (13.5 net) sections of land in the Pouce Coupe area. The newly acquired lands are contiguous with our existing land base and we expect a significant amount of probable reserves and discovered resources to be attributed to these newly acquired Crown lands at year end.

Birchcliff's land base primarily consists of large contiguous blocks of high working interest acreage located near facilities owned and/or operated by Birchcliff or near third party infrastructure. During the first quarter of 2013, all of the new land has been purchased at 100% working interest.

Montney/Doig Natural Gas Resource Play

In the first quarter of 2013, Birchcliff drilled 5 (5.0 net) Montney/Doig horizontal natural gas wells and year-to-date Birchcliff has drilled 10 (10.0 net) Montney/Doig horizontal gas wells. Birchcliff continues to expand the Montney/Doig Natural Gas Resource Play both geographically and stratigraphically.

On our Montney/Doig Natural Gas Resource Play we are currently utilizing multi-well pad drilling, allowing us to drill continuously right through spring break-up. We are currently drilling six horizontal natural gas wells from one pad and four horizontal natural gas wells from another pad.

The expanded budget for 2013 includes 22 (22.0 net) Montney/Doig horizontal wells and 1 (1.0 net) Montney/Doig vertical exploration well. Of the 22 (22.0 net) horizontal wells, 20 (20.0 net) wells are targeting the Middle/Lower Montney Play and 2 (2.0 net) are targeting the Basal Doig/Upper Montney Play. We anticipate all but one of these wells to produce to the PCS Gas Plant by year-end, which we expect will fill the PCS Gas Plant to its current licenced capacity of 150 MMcf per day.

Worsley Light Oil Resource Play

On the Worsley Light Oil Resource Play, in the first quarter of 2013, Birchcliff drilled 5 (5.0 net) Charlie Lake horizontal oil wells, utilizing multi-stage fracture stimulation technology.

The increased budget for 2013 now includes 11 (11.0 net) Charlie Lake horizontal oil wells, from 10 (10.0 net) wells, utilizing multi-stage fracture stimulation technology.

On the Worsley Light Oil Resource Play in 2013, we are expanding the water flood area and are conducting the field operations necessary to convert two wells to injectors and install associated facility infrastructure.

Halfway Light Oil Play

On the Halfway Light Oil Play, in the first quarter of 2013, Birchcliff drilled 1 (0.5 net) Halfway horizontal light oil well utilizing multi-stage fracture stimulation technology. Birchcliff has drilled 4 (2.66 net) wells on the Play to date, all of which have been successful. The average initial month one production (IP_{30}) for these wells was 330 boe per day. Well costs, on average, were approximately $4.5 million per well, which includes equip and tie-in costs.

With our continued success on the Halfway Light Oil Play, the increased budget includes 3 (2.0 net) additional wells, for a total of 4 (2.5 net) Halfway horizontal light oil wells in 2013. This will bring Birchcliff’s total number of Halfway horizontal light oil wells on the Halfway Light Oil Play to 7 (4.66 net) wells since 2011. In the first quarter of 2013, Birchcliff continued to add to its land position on the Halfway Light Oil Play.

New Tight/Shale Oil Resource Play Development

In Birchcliff's core area of the Peace River Arch, numerous industry competitors have announced significant developments on a number of new tight/shale oil resource plays. Throughout 2011, 2012 and the beginning of 2013, there has been significant industry activity acquiring land in the Peace River Arch, with numerous new wells being drilled and completed targeting new resource plays, including the Montney, Charlie Lake, Nordegg and the Duvernay. We believe that virtually all of our undeveloped land has potential in at least one of these new resource plays. Accordingly, we continue to spend significant time analyzing and evaluating various new resource plays, with a focus on oil opportunities and the application of horizontal drilling and multi-stage fracture stimulation technology.

Tight/Shale Oil Resource Play Land Holdings (acres)	**March 31, 2013**			**December 31, 2012**	
	WI	*Gross*	*Net*	*Gross*	*Net*
Duvernay Resource Play	99%	154,080	153,235	141,280	138,966
Nordegg Resource Play	84%	409,280	345,381	404,200	331,437
Banff/Exshaw Resource Play	99%	428,640	422,952	376,520	344,848

SHAREHOLDER SUPPORT

We thank Mr. Seymour Schulich, our largest shareholder, for his ongoing financial and moral support. Mr. Schulich holds 40 million common shares representing 28.2% of the current issued and outstanding common shares.

OUTLOOK

We are very pleased and excited with the current and future outlook for Birchcliff. Our production and opportunity portfolio continue to increase while our cost structure continues to decrease. We have added a significant amount of contiguous land and additional drilling locations in the heart of our Pouce Coupe area on the Montney/Doig Natural Gas Resource Play, adjacent to our PCS Gas Plant and existing infrastructure. We now have up to 2,032 net future potential horizontal drilling locations on the Montney/Doig Natural Gas Resource Play. In addition, significant valuable intellectual capital has been created as a result of utilizing the talent and effort of our people, which is allowing Birchcliff to consistently achieve excellent results on a repeatable basis. Birchcliff has now drilled 103 (91.2 net) Montney/Doig horizontal natural gas wells, utilizing the latest multi-stage fracture stimulation technology.

Birchcliff's 2013 capital budget has increased to $246.6 million, from $184.6 million. Fourth quarter average production in 2013 is expected to be in the range of 28,000 to 29,000 boe per day and exit production is expected to be approximately 30,000 boe per day, setting us up for a very healthy and active 2014. Our yearly average production guidance of 26,400 boe per day has not changed as the majority of Birchcliff's new production in 2013 will commence late in the year. Drilling more Montney/Doig horizontal natural gas wells and continuing to fill our PCS Gas Plant, which has spare capacity, as gas price rises and our per unit operating costs come down, is very profitable.

Birchcliff's Board of Directors has approved a Phase IV expansion of the PCS Gas Plant in 2014, expanding processing capacity to 180 MMcf per day from 150 MMcf per day by adding additional compression and sales pipeline capacity. The estimated cost of the Phase IV expansion is approximately $10 million, with the majority of the costs to be incurred in 2014. The anticipated start-up date of the Phase IV expansion will be in the fall of 2014. This expansion positions Birchcliff with continued visible production growth in 2014.

Birchcliff continues to be focused on improving capital efficiency. We are utilizing multi-well pad drilling on our Montney/Doig Natural Gas Resource Play to improve drilling and completion efficiencies and reduce the cost per well; drilling six horizontal natural gas wells from one pad and four horizontal natural gas wells from another. The reduction in drilling and completion costs is significant. Drilling is continuing through spring break-up on these multi-well pads.

It is very important to understand the timing of Birchcliff's production additions in 2013 in order to maintain continued confidence in Birchcliff's production profile and execution. We continue to expect our 2013 average production to be approximately 26,400 boe per day.

We expect production in the second quarter to be weak as existing wells will show normal production declines and wells from the multi-well pads will not be on production until late in the third quarter. As well, in the second quarter, there are scheduled turn-arounds of both the PCS Gas Plant and the main Worsley oil battery. Further we are currently experiencing the effects of unscheduled turn-arounds by third party gas processors, which negatively affects our production and reinforces the principle that owning and controlling your own infrastructure and processing facilities is very important and carries strategic value. Accordingly, and I repeat for emphasis, second quarter production will be weak and should not cause reason for concern.

Production growth during 2013 will come in large increments in the third and fourth quarter as multiple wells from the multi-wells pads are brought on production at the same time. Material production growth will be seen when wells from the first multi-well pad come on production in August and wells from the second multi-well pad come on production in September.

We remain focused on our business – growth by the drill bit, in our core area of the Peace River Arch of Alberta – not by large acquisitions. We continue to use the same services, in the same area, directed by the same experienced Birchcliff staff, which provides consistency, repeatability and reliability in our operations.

On behalf of our Management Team and Directors, thank you to the Birchcliff staff for their loyalty, dedication and continued hard work to help us achieve our corporate goals. Thank you to our shareholders for their continued support and trust in our strategy and our management.

(signed) "*A. Jeffery Tonken*"

A. Jeffery Tonken, President and Chief Executive Officer

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended March 31, 2013	Three months ended March 31, 2012
OPERATING		
Average daily production		
Light oil – *(barrels)*	4,047	4,575
Natural gas – *(thousands of cubic feet)*	128,101	95,242
NGLs – *(barrels)*	710	612
Total – barrels of oil equivalent *(6:1)*	**26,108**	21,061
Average sales price *($ CDN)*		
Light oil – *(per barrel)*	84.82	90.10
Natural gas – *(per thousand cubic feet)*	3.40	2.32
NGLs – *(per barrel)*	86.80	93.08
Total – barrels of oil equivalent *(6:1)*	**32.21**	32.77
Undeveloped land		
Gross *(acres)*	558,454	533,642
Net *(acres)*	521,488	496,094
NETBACK AND COST *($ per barrel of oil equivalent at 6:1)*		
Petroleum and natural gas revenue	32.22	32.78
Royalty expense	(2.74)	(3.79)
Operating expense	(5.77)	(6.17)
Transportation and marketing expense	(2.25)	(2.36)
Netback	**21.46**	20.46
General & administrative expense, net	(2.08)	(4.11)
Interest expense	(2.59)	(2.68)
Funds flow netback	**16.79**	13.67
Stock-based compensation expense, net	(0.55)	(0.86)
Depletion and depreciation expense	(11.51)	(11.57)
Accretion expense	(0.20)	(0.22)
Amortization of deferred financing fees	(0.08)	(0.10)
Gain on sale of assets	-	2.02
Income tax expense	(1.29)	(0.99)
Net income	3.16	1.95
Preferred share dividends	(0.43)	-
Net income available to common shareholders	**2.73**	1.95
FINANCIAL		
Petroleum and natural gas revenue *($000)*	75,718	62,833
Funds flow from operations *($000)*(1)	39,444	26,196
Per common share – basic *($)*(1)	0.28	0.21
Per common share – diluted *($)*(1)	0.27	0.20
Net income *($000)*	7,424	3,731
Net income available to common shareholders *($000)*(2)	6,424	3,731
Per common share – basic *($)*(2)	0.05	0.03
Per common share – diluted *($)*(2)	0.04	0.03
Common shares outstanding		
End of period – basic	142,096,130	127,005,577
End of period – diluted	164,106,949	140,152,250
Weighted average common shares for period – basic	141,821,280	126,753,764
Weighted average common shares for period – diluted	144,366,102	131,008,290
Capital expenditures *($000)*	81,010	119,852
Dividends on preferred shares *($000)*	1,000	-
Working capital deficit *($000)*	50,920	87,552
Non-revolving five-year term credit facility *($000)*	67,979	68,267
Revolving credit facilities *($000)*	383,392	374,064
Total debt *($000)*	502,291	529,883

(1) Funds flow from operations and per common share amounts are non-GAAP measures that represent cash flow from operating activities as per the Statements of Cash Flows before the effects of changes in non-cash working capital and decommissioning expenditures.

(2) Net income per common share amounts are calculated using net income available to Birchcliff's shareholders, adjusted for any preferred share dividends paid and divided by the weighted average number of common shares outstanding for the period.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is a Calgary, Alberta based intermediate oil and natural gas company with operations concentrated in its one core area, the Peace River Arch of Alberta. Additional information relating to the Corporation, including its Annual Information Form, is available on the SEDAR website at www.sedar.com and on the Corporation's website at www.birchcliffenergy.com. Birchcliff's common shares are listed for trading on the Toronto Stock Exchange ("**TSX**") under the symbol "**BIR**" and are included in the S&P/TSX Composite Index.

The following Management's Discussion and Analysis ("**MD&A**") is dated May 15, 2013. The unaudited interim condensed financial statements with respect to the three months ended March 31, 2013 (the "**Reporting Period**") as compared to the three months ended March 31, 2012 (the "**Comparable Prior Period**") and this MD&A have been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the interim condensed financial statements and related notes for the Reporting Period and the 2012 Annual Report. All financial information is expressed in thousands of Canadian dollars, unless otherwise stated.

2013 OUTLOOK

Birchcliff's 2013 capital budget increased to $246.6 million from $184.6 million. The expanded portion of the 2013 capital budget will primarily be directed toward the drilling of 5 (5.0 net) additional Montney/Doig horizontal natural gas wells, four of which will produce to the Corporation's 100% owned and operated Pouce Coupe South natural gas plant (the "**PCS Gas Plant**") and $21.3 million for the Corporation's recent land acquisition in the Pouce Coupe area on the Montney/Doig Natural Gas Resource Play.

Average production in the fourth quarter of 2013 will be in the range of 28,000 to 29,000 boe per day, which significantly exceeds previous exit guidance of 28,000 boe per day. Exit production for 2013 has increased to approximately 30,000 boe per day.

Birchcliff's bank syndicate approved a new $60 million non-revolving five-year term credit facility, increasing the syndicated credit facilities to an aggregate of $600 million from the previous credit limit of $540 million.

The Board of Directors have approved a Phase IV expansion of the PCS Gas Plant in 2014, expanding natural gas processing capacity to 180 MMcf per day from 150 MMcf per day by adding additional compression and sales pipeline capacity. The estimated cost of the Phase IV expansion is approximately $10 million, with the majority of the costs be incurred in 2014. The anticipated start-up date of the Phase IV expansion will be in the fall of 2014.

Birchcliff continues to focus on improving capital efficiency. The Corporation is utilizing multi-well pad drilling on the Montney/Doig Natural Gas Resource Play to improve drilling and completion efficiencies and reduce the cost per well; drilling six horizontal natural gas wells from one pad and four horizontal natural gas wells from another. The reduction in drilling and completion costs is significant. Drilling is continuing through spring break-up on these multi-well pads.

Corporate operating costs, on a per boe basis, will continue to decrease throughout 2013 as a greater portion of Birchcliff's natural gas production is processed at the PCS Gas Plant.

It is very important to understand the timing of Birchcliff's production additions in 2013 in order to maintain continued confidence in Birchcliff's production profile and execution. Average production in

2013 will be approximately 26,400 boe per day, with significant production increases in late 2013, resulting from the production from wells drilled on multi-well pads.

Production in the second quarter will be weak as existing wells will show normal production declines and wells from the multi-well pads will not be on production until late in the third quarter. As well, in the second quarter, there are scheduled turn-arounds of both the PCS Gas Plant and the main Worsley oil battery. Further, the Corporation is experiencing the effects of unscheduled turn-arounds by third party processors, which negatively affects production and reinforces the positive attributes of controlling infrastructure and processing facilities.

Production growth during 2013 will come in large increments in the third and fourth quarter as multiple wells from the multi-well pads are brought on production at the same time. Material production growth will be seen when wells from the first multi-well pad come on production in August and wells from the second multi-well pad come on production in September.

The Corporation intends to finance its business primarily through funds flow from operations, working capital, potential sales of minor assets and available credit limit under its bank credit facilities. Should commodity prices deteriorate materially, Birchcliff may adjust its capital spending accordingly. Birchcliff does not anticipate it will require additional common equity, but it may contemplate equity financing arrangements to fund a significant acquisition or to significantly increase its capital spending well beyond its funds flow from operations. Management expects to be able to continue to obtain debt financing and, should the need arise, raise additional equity and/or alternate financing arrangements sufficient to meet both its short term and long-term growth requirements. The Corporation does not foresee any liquidity issues with respect to the operation of its oil and natural gas business in 2013 and expects to meet its future obligations as they become due.

Birchcliff's resource plays provide the Corporation with a long-term and operationally reliable production base, the funds flow from which is primarily dependent on commodity prices. Commodity prices therefore affect the pace at which Birchcliff invests in its resource plays and the rate at which its production will grow. Weak short-term commodity prices do not affect the quality or long-term value of the Corporation's long-life asset base.

FUNDS FLOW AND NET EARNINGS

Funds Flow from Operations

Funds flow from operations and funds flow per common share are non-GAAP measures defined as cash flow from operating activities before changes in non-cash working capital and decommissioning expenditures. Birchcliff considers funds flow from operations to be a key measure as it demonstrates the ability to generate the cash necessary to fund future growth through capital investments, pay dividends on preferred shares and repay debt.

The following schedule sets out the reconciliation of cash from operating activities to funds flow from operations.

	Three months ended March 31, 2013	Three months ended March 31, 2012
Cash flow from operating activities	35,310	28,616
Adjustments:		
Decommissioning expenditures	41	52
Changes in non-cash working capital	4,093	(2,472)
Funds flow from operations(1)	**39,444**	26,196
Per common share – basic *($)*(1)(2)	**0.28**	0.21
Per common share – diluted *($)*(1)(2)	**0.27**	0.20

(1) Funds flow from operations and funds flow per common share amounts as presented do not have any standardized meaning prescribed by International Financial Reporting Standards ("**IFRS**") and therefore it may not be comparable with the calculations of similar measures for other issuers. Funds flow from operations is not intended to represent cash flow from operating activities, net income or other measures of financial performance calculated in accordance with IFRS.

(2) Per common share amounts are calculated by dividing funds flow from operations by the weighted average number of basic and diluted common shares outstanding for the period.

The 51% increase in aggregate funds flow from the Comparable Prior Period was largely due to improved natural gas prices, with the average AECO daily natural gas spot price increasing by 49% to $3.20 per Mcf in the Reporting Period as compared to $2.15 per Mcf in the Comparable Prior Period. Funds flow was also positively impacted by a significant increase in natural gas production, large reduction in cash general and administrative costs and lower royalty expenses and negatively offset by lower realized oil wellhead prices, a decrease in oil production, higher interest expense and an increase in operating and transportation and marketing costs resulting from higher average production in the Reporting Period.

Birchcliff has continued to focus on controlling cash costs. On a per boe basis, total cash costs were 19% lower than the Comparable Prior Period, with general and administrative costs decreasing 49%, royalty costs decreasing 28%, operating costs decreasing 6%, transportation and marketing costs decreasing 5%, and interest expense decreasing 3%.

Net Earnings

	Three months ended March 31, 2013	Three months ended March 31, 2012
Net income	7,424	3,731
Net income available to common shareholders	**6,424** (1)	3,731
Per common share – basic *($)*(2)	**0.05**	0.03
Per common share – diluted *($)*(2)	**0.04**	0.03

(1) Reduced for dividends paid on preferred shares totalling $1.0 million during the Reporting Period.

(2) Per common share amounts are calculated using net income available to Birchcliff's shareholders, adjusted for any preferred share dividends paid and divided by the weighted average number of common shares outstanding for the period.

The 72% increase in net income available to common shareholders from the Comparable Prior Period was mainly attributable to higher funds flow from operations and lower net stock-based compensation expense offset by higher income taxes, payment of dividends on preferred shares and an increase in depletion expense resulting from higher average production in the current quarter.

PCS GAS PLANT NETBACKS

Processing natural gas at the Corporation's PCS Gas Plant has materially improved Birchcliff's funds flow and net earnings.

In the first quarter of 2013 operating costs for natural gas processed at the PCS Gas Plant averaged $0.28 per Mcfe ($1.68 per boe) and the estimated operating netback for Birchcliff's natural gas production flowing to the PCS Gas Plant was $2.83 per Mcfe. Approximately 68% of Birchcliff's natural gas production and 57% of corporate production was processed at the PCS Gas Plant in the first quarter of 2013.

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

Production Processed through the PCS Gas Plant	**Three months ended March 31, 2013**[1]		**Three months ended March 31, 2012**	
Average daily production, net to Birchcliff:				
Natural gas *(Mcf)*		87,104		50,982
Oil & NGLs *(bbls)*		246		145
Total boe *(6:1)*		**14,763**		8,642
% of total corporate production		*57%*		*41%*
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[2]	3.57	21.40	2.56	15.35
Royalty expense	(0.22)	(1.33)	(0.12)	(0.74)
Operating expense, net of recoveries	(0.28)	(1.68)	(0.20)	(1.18)
Transportation and marketing expense	(0.24)	(1.40)	(0.23)	(1.35)
Estimated operating netback *(production month basis)*	**2.83**	**16.99**	2.01	12.08
Operating margin[3]	**79%**	**79%**	79%	79%

(1) The PCS Gas Plant processed an average of 104 MMcf per day of raw gas at the inlet during the first quarter of 2013.

(2) AECO natural gas price averaged $3.20 per Mcf and $2.15 per Mcf for the first quarter of 2013 and 2012 respectively.

(3) Operating margin at the PCS Gas Plant is determined by dividing the estimated operating netback by petroleum and natural gas revenue in the period.

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

Credit Facilities

Birchcliff's bank syndicate approved a new $60 million non-revolving five-year term credit facility with a maturity date in May 2018, increasing the syndicated credit facilities to an aggregate of $600 million from the previous credit limit of $540 million.

The terms of the other credit facilities, a $70 million non-revolving five-year term credit facility and extendible revolving credit facilities of $470, remain unchanged. The $70 million non-revolving five-year term credit facility matures on May 25, 2016 and requires principle payments of $350,000 per quarter commencing July 1, 2013. The conversion date of the $470 million revolving credit facilities was extended from May 17, 2013 to May 16, 2014 (the "**Revolving Credit Facilities**"). The Revolving Credit Facilities are made up of an extendible revolving credit facility of $440 million and an extendible revolving working capital facility of $30 million, both of which have a two-year term-out feature. The increased aggregate credit facility amount will provide Birchcliff with increased financial flexibility.

DISCUSSION OF OPERATIONS

Petroleum and Natural Gas Revenues

Petroleum and Natural Gas ("**P&NG**") revenues totalled $75.7 million ($32.22 per boe) for the Reporting Period as compared to $62.8 million ($32.78 per boe) for the Comparable Prior Period. The increase in P&NG revenues from the Comparable Prior Period was largely due to higher natural gas production and an increase in realized natural gas wellhead prices offset by lower oil production and a decrease in realized oil wellhead prices during the current quarter.

The following table details Birchcliff's P&NG revenues, production and percentage of production and sales prices by category.

	Three months ended March 31, 2013				Three months ended March 31, 2012			
	Total Revenue *($000)*	Average Daily Production	*(%)*	Average *($/unit)*	Total Revenue *($000)*	Average Daily Production	*(%)*	Average *($/unit)*
Light oil *(bbls)*	30,897	4,047	16	84.82	37,513	4,575	22	90.10
Natural gas *(Mcf)*	39,228	128,101	82	3.40	20,099	95,242	75	2.32
Natural gas liquids *(bbls)*	5,549	710	2	86.80	5,185	612	3	93.08
Total P&NG sales *(boe)*	75,674	**26,108**	100	32.21	62,797	21,061	100	32.77
Royalty revenue	44			0.01	36			0.01
P&NG revenues	**75,718**			**32.22**	62,833			32.78

Production

Production averaged 26,108 boe per day in the Reporting Period as compared to 21,061 boe per day in the Comparable Prior Period. The 24% increase in production from the Comparable Prior Period was predominately due to incremental production added from new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant during the fourth quarter of 2012 and into the Reporting Period. Light oil production was also down from the Comparable Prior Period largely due to infrastructure limitations in a portion of the Worsley field which are currently being addressed.

Production consisted of 82% natural gas and 18% crude oil and natural gas liquids in the Reporting Period as compared to 75% natural gas and 25% crude oil and natural gas liquids in the Comparable Prior Period. The PCS Gas Plant processed approximately 57% of Birchcliff's corporate production in the Reporting Period as compared to 41% in the Comparable Prior Period.

Commodity Prices

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

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

	Three months ended March 31, 2013	Three months ended March 31, 2012
Average benchmark prices:		
Light oil – WTI Cushing *($USD/bbl)*	94.37	102.93
Light oil – Edmonton Par *($/bbl)*	88.16	92.23
Natural gas – AECO – C daily *($/MMbtu)*(1)	3.20	2.15
Exchange rate – *(USD$/CAD$)*	0.99	1.01
Birchcliff's average realized prices:		
Light oil *($/bbl)*	84.82	90.10
Natural gas *($/Mcf)*	3.40	2.32
NGLs *($/bbl)*	86.80	93.08
Barrels of oil equivalent *($/boe)*	32.21	32.77

(1) $1.00/MMbtu = $1.00/Mcf based on a standard heat value Mcf.

The average benchmark prices for crude oil and natural gas are impacted by global and regional events that dictate the level of supply and demand for these commodities. The principle benchmark trading exchanges that Birchcliff compares its oil price to are the US benchmark West Texas Intermediate at Cushing, Oklahoma ("**WTI**") spot price and the Canadian Edmonton Par spot price. The differential between WTI USD and Canadian Edmonton Par oil price can widen due to a number of factors including, but not limited to, downtime in North American refineries which can negatively impact demand, rising domestic production, regional bottlenecks and curtailment of key processing infrastructure, high inventory levels in North America and lack of pipeline infrastructure connecting key consuming oil markets.

Natural gas prices have recently improved on increased demand and tightening of supplies in North America which has resulted in higher funds flow in the Reporting Period as compared to the Comparable Prior Period. The AECO natural gas spot price averaged $3.20 per Mcf for the Reporting Period, a 49% increase from the Comparable Prior Period. Birchcliff's realized natural gas sales price at the wellhead averaged $3.40 per Mcf in the Reporting Period which is higher than the posted average benchmark price for that period. The following table details Birchcliff's average realized sales price and premium pricing received for its natural gas production due to its high heat content.

	Three months ended March 31, 2013	Three months ended March 31 2012
Average realized natural gas sales price *($/Mcf)*	3.40	2.32
Average natural gas – AECO – C daily *($/MMbtu)*(1)	3.20	2.15
Positive differential	**0.20**	0.17

(1) $1.00/MMbtu = $1.00/Mcf based on a standard heat value Mcf.

Birchcliff did not have any financial derivatives such as commodity price risk management contracts, forward exchange rate contracts or interest rate swaps in place during the Reporting Period and Comparable Prior Period, but it actively monitors the market to determine if any are required.

Royalties

Birchcliff recorded a royalty expense of $6.4 million ($2.74 per boe) for the Reporting Period as compared to $7.3 million ($3.79 per boe) for the Comparable Prior Period. Royalties are paid primarily to the Alberta Government. The following table details the Corporation's royalty expense.

	Three months ended March 31, 2013	Three months ended March 31, 2012
Oil & natural gas royalties *($000)*	6,427	7,268
Oil & natural gas royalties *($/boe)*	2.74	3.79
Effective royalty rate *(%)*(1)	8%	12%

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

The decrease in the effective royalty rate from the Comparable Prior Period was mainly due to production royalty incentives for a number of new wells brought on production that are receiving a 5% royalty rate and lower average realized oil prices at the wellhead in the current quarter and the effect these lower prices have on the sliding scale royalty calculation.

Operating Costs

Operating costs were $13.6 million ($5.77 per boe) for the Reporting Period as compared to $11.8 million ($6.17 per boe) for the Comparable Prior Period. The following table provides a breakdown of operating costs.

	Three months ended March 31, 2013		Three months ended March 31, 2012	
	($000)	*($/boe)*	*($000)*	*($/boe)*
Field operating costs	14,855	6.32	13,645	7.12
Recoveries	(1,679)	(0.71)	(1,942)	(1.01)
Field operating costs, net	13,176	5.61	11,703	6.11
Expensed workovers and other	376	0.16	127	0.06
Operating costs	**13,552**	**5.77**	11,830	6.17

Corporate operating costs per boe decreased by 6% from the Comparable Prior Period largely due to the cost benefits achieved from processing additional incremental Montney/Doig natural gas to Phase III of the PCS Gas Plant, which began operation in the fourth quarter of 2012, offset by lower recoveries in the Reporting Period.

On a production month basis, the PCS Gas Plant processed 68% of Birchcliff's natural gas production during the first quarter of 2013, at an average operating cost of $1.68 per boe. A greater proportion of Birchcliff's natural gas production was processed at the PCS Gas Plant during the Reporting Period.

Birchcliff continues to focus on controlling the infrastructure it uses to produce its oil and natural gas and on reducing operating costs on a per boe basis.

Transportation and Marketing Expenses

Transportation and marketing expenses were $5.3 million ($2.25 per boe) for the Reporting Period as compared to $4.5 million ($2.36 per boe) for the Comparable Prior Period. The aggregate costs consist primarily of transportation expenses that were higher in the Reporting Period mainly due to an increase in average daily production.

Operating Netbacks

The following table details Birchcliff's net production and operating netbacks for the Montney/Doig Natural Gas Resource Play, the Worsley Light Oil Resource Play and on a total corporate basis.

	Three months ended March 31, 2013	Three months ended March 31, 2012
Montney/Doig Natural Gas Resource Play[(1)]:		
Average daily production, net:		
Natural gas *(Mcf)*	113,240	80,763
Oil & NGLs *(bbls)*	512	481
Total boe *(6:1)*	**19,386**	13,941
% of total corporate production[(2)]	*74%*	*66%*
Netback and cost *($ per Mcfe):*		
Petroleum and natural gas revenue	3.70	2.78
Royalty expense	(0.14)	(0.12)
Operating expense, net of recoveries	(0.66)	(0.70)
Transportation and marketing expense	(0.24)	(0.25)
Operating netback	**2.66**	1.71

	Three months ended March 31, 2013	Three months ended March 31, 2012
Worsley Light Oil Resource Play[1]**:**		
Average daily production, net:		
Natural gas *(Mcf)*	8,165	8,691
Oil & NGLs *(bbls)*	3,257	3,444
Total boe *(6:1)*	**4,617**	4,893
% of total corporate production[2]	*18%*	*23%*
Netback and cost *($ per boe):*		
Petroleum and natural gas revenue	65.70	67.53
Royalty expense	(8.77)	(9.60)
Operating expense, net of recoveries	(9.06)	(8.45)
Transportation and marketing expense	(6.04)	(5.35)
Operating netback	**41.83**	44.13
Total Corporate:		
Average daily production, net:		
Natural gas *(Mcf)*	128,101	95,242
Oil & NGLs *(bbls)*	4,757	5,187
Total boe *(6:1)*	**26,108**	21,061
Netback and cost *($ per boe)*		
Petroleum and natural gas revenue	32.22	32.78
Royalty expense	(2.74)	(3.79)
Operating expense, net of recoveries	(5.77)	(6.17)
Transportation and marketing expense	(2.25)	(2.36)
Operating netback	**21.46**	20.46

(1) Most resource plays produce both oil and natural gas, therefore a resource play is categorized as either a natural gas resource play or an oil resource play based upon the predominate production or play type in that area.

(2) Production from Birchcliff's other conventional oil and natural gas properties were not significant during the Reporting Period and Comparable Prior Period.

Montney/Doig Natural Gas Resource Play

Birchcliff's production from the Montney/Doig Natural Gas Resource Play was 19,386 boe per day in the Reporting Period, a 39% increase from the Comparable Prior Period. This increase was largely due to incremental production adds from new Montney/Doig horizontal natural gas wells that were tied into the expanded PCS Gas Plant during the fourth quarter of 2012 and into the Reporting Period. The PCS Gas Plant is strategically situated on the Montney/Doig Natural Gas Resource Play and processes gas predominately from the Pouce Coupe and Glacier areas. Production from the Montney/Doig Natural Gas Resource Play accounted for 74% of the total corporate production in the Reporting Period.

Birchcliff's operating netback from the Montney/Doig Natural Gas Resource Play was $2.66 per Mcfe ($15.96 per boe) in the Reporting Period, a 56% increase from the Comparable Prior Period. This increase was largely due to higher realized natural gas prices in the Reporting Period.

Worsley Light Oil Resource Play

Birchcliff's production from the Worsley Light Oil Resource Play was 4,617 boe per day in the Reporting Period, a 6% decrease from the Comparable Prior Period. This decrease was due to infrastructure limitations in a portion of the Worsley field which are currently being addressed. Birchcliff's production from the Worsley Light Oil Resource Play accounted for 18% of the total corporate production in the Reporting Period.

Operating netback from the Worsley Light Oil Resource Play was $41.83 per boe in the Reporting Period, a 5% decrease from the Comparable Prior Period. On a per boe basis, the decrease in operating netback was due to lower realized petroleum prices and higher per unit operating and transportation costs, offset by lower royalty costs in the current quarter.

Administrative Expenses

Net administrative expenses were $6.2 million ($2.63 per boe) for the Reporting Period as compared to $9.5 million ($4.97 per boe) for the Comparable Prior Period. The components of net administrative expenses are detailed in the table below.

	Three months ended March 31, 2013		Three months ended March 31, 2012	
	($000)	*(%)*	*($000)*	*(%)*
Cash:				
Salaries and benefits[1]	3,989	56	6,510	69
Other[2]	3,080	44	2,925	31
	7,069	100	9,435[4]	100
Operating overhead recoveries	(220)	(3)	(192)	(2)
Capitalized overhead[3]	(1,969)	(28)	(1,358)	(14)
General & administrative, net	4,880	69	7,885	84
General & administrative, net *($/boe)*	$2.08		$4.11	
Non-cash:				
Stock-based compensation	2,368	100	2,493	100
Capitalized stock-based compensation[3]	(1,065)	(45)	(852)	(34)
Stock-based compensation, net	1,303	55	1,641	66
Stock-based compensation, net *($/boe)*	$0.55		$0.86	
Administrative expenses, net	**6,183**		9,526	
Administrative expenses, net *($/boe)*	**$2.63**		$4.97	

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

(2) Includes costs such as rent, legal, tax, insurance, minor computer hardware and software and other general business expenses incurred by the Corporation.

(3) Includes a portion of cash salaries and benefits and non-cash stock-based compensation directly attributed to the exploration and development activities which have been capitalized.

(4) Includes non-recurring costs of $2.9 million incurred in respect of the corporate sale process, which was terminated on March 29, 2012.

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

	Number	Weighted Average Exercise Price *($)*
Outstanding, December 31, 2012	12,463,872	8.06
Granted	2,147,700	7.33
Exercised	(499,851)	(6.07)
Forfeited	(93,834)	(7.27)
Expired	(946,800)	(7.41)
Outstanding, March 31, 2013	**13,071,087**	**8.07**

There are outstanding and exercisable 2,939,732 performance warrants with an exercise price of $3.00 per common share and 6,000,000 warrants (issued in conjunction with the preferred unity equity offering) with an exercise price of $8.30 per common share at the end of the Reporting Period. Each stock option, performance warrant and warrant entitles the holder to purchase one common share at the exercise price.

Depletion and Depreciation Expenses

Depletion and depreciation ("**D&D**") expenses were $27.0 million ($11.51 per boe) for the Reporting Period as compared to $22.2 million ($11.57 per boe) for the Comparable Prior Period. D&D expenses were higher on an aggregate basis mainly due to a 24% increase in average daily production from the Comparable Prior Period.

D&D is a function of the estimated proved plus probable reserve additions, the finding and development costs attributable to those reserves, the associated future development capital required to recover those reserves and production in the period. The Corporation determines its D&D expenses on an area basis.

Asset Impairment Test

The Corporation's cash-generating units are reviewed at each reporting date for indicators of potential impairment. Such indicators may include, but are not limited to, changes in the Corporation's business plan, deterioration in commodity prices or a significant downward revision of estimated recoverable reserves. If indicators of asset impairment exist, an impairment test is performed by comparing the carrying value of Birchcliff's CGU's to its recoverable amount.

Birchcliff performed an impairment assessment of its petroleum and natural gas assets on a cash-generating unit basis and determined there were no impairment triggers identified in the Reporting Period. As a result, no impairment test was required at March 31, 2013.

Finance Expenses

Finance expenses were $6.8 million ($2.87 per boe) for the Reporting Period as compared to $5.8 million ($3.00 per boe) for the Comparable Prior Period. The components of the Corporation's finance expenses are shown in the table below.

	Three months ended March 31, 2013		Three months ended March 31, 2012	
	($000)	*($/boe)*	*($000)*	*($/boe)*
Cash:				
Interest on credit facilities	6,104	2.59	5,125	2.68
Non-cash:				
Accretion on decommissioning obligations	462	0.20	434	0.22
Amortization of deferred financing fees	188	0.08	199	0.10
Finance expenses	**6,754**	**2.87**	5,758	3.00

The aggregate interest expense is impacted by pricing margins established under Birchcliff's bank credit agreements that are used to determine Birchcliff's average effective interest rate and the average balance outstanding under its bank credit facilities during the period.

The effective interest rate applicable to the revolving Working Capital Facility was 6.0% at the end of the Reporting Period as compared to 5.0% at the end of the Comparable Prior Period. The effective interest rate applicable to the bankers' acceptances issued under the revolving Syndicated Credit Facility was 5.5% in the Reporting Period as compared to 4.7% for the Comparable Prior Period. The effective interest rate applicable to the bankers' acceptances issued under the $70 million non-revolving five-year term facility was 5.6% in the Reporting Period as compared to 4.9% in the Comparable Prior Period.

Birchcliff's average outstanding total credit facilities balance was approximately $439 million in the Reporting Period as compared to $415 million in the Comparable Prior Period, calculated as the simple average of the month end amounts.

Sale of Assets

There were no assets disposed of during the Reporting Period.

During the Comparable Prior Period, Birchcliff completed a transaction whereby it disposed of minor assets in the Glacier area of Alberta in exchange for strategic assets acquired in the Pouce Coupe area of Alberta. The fair value of the swap transaction was estimated at $25 million. As a result of the disposition, Birchcliff recorded a gain on sale of approximately $3.9 million ($2.9 million, net of tax) or $2.02 per boe in the Comparable Prior Period. The Glacier assets were not material to the Corporation's financial and operational performance.

Income Taxes

Income taxes are impacted by the Corporation's net income before taxes and, to a lesser extent, include Part VI.I dividend tax on preferred share dividend distributions in the Reporting Period.

Birchcliff recorded an income tax expense of $3.0 million ($1.29 per boe) for the Reporting Period as compared to $1.9 million ($0.99 per boe) for the Comparable Prior Period. The increase from the Comparable Prior Period was due to higher recorded net income before taxes which resulted in a deferred income tax expense of $2.6 million and a dividend tax of $0.4 million recorded in the Reporting Period (Comparable Prior Period - $1.9 million and $nil, respectively).

The Corporation's estimated income tax pools were $1.22 billion at March 31, 2013. Management expects that future taxable income will be available to utilize the accumulated tax pools. Birchcliff's estimated tax pools at March 31, 2013 are show below.

	Tax pools as at March 31, 2013
Canadian oil and gas property expense	277,825
Canadian development expense	253,235
Canadian exploration expense	191,454
Undepreciated cost of capital	229,631
Non-capital losses	268,668
Financing costs	3,452
Estimated income tax pools	**1,224,265**

The disputed 2006 and 2007 income tax fillings by Canada Revenue Agency, in respect of $39.3 million of denied tax pools relating to the Veracel transaction, still remain outstanding at March 31, 2013. The resolution of the disputed assessments may impact future income tax expense but will not impact cash taxes payable by the Corporation. Management believes that it will be successful in defending its tax position respecting the Veracel transaction, and as such, the Corporation has not recognized a related provision for deferred income tax liability at March 31, 2013.

Capital Expenditures

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

	Three months ended March 31, 2013	Three months ended March 31, 2012
Land	24,264	2,479
Seismic	121	333
Workovers	1,944	4,907
Drilling and completions	42,145	69,718
Well equipment and facilities	12,039	42,256
Finding and development costs (F&D)	80,513	119,693
Acquisitions	-	25,006(1)
Dispositions	(4)	(24,942)(1)
Finding, development and acquisition costs (FD&A)	80,509	119,757
Administrative assets	501	94
Capital expenditures	**81,010**	119,851

(1) During the Comparable Prior Period, Birchcliff completed a transaction whereby it disposed of a minor asset in the Glacier area of Alberta in exchange for strategic assets acquired in the Pouce Coupe area of Alberta. The fair value of the exchange transaction was estimated at $25 million.

Capital expenditures totalling $81.0 million in the Reporting Period included $27.4 million (34%) on the drilling and completion of new Montney/Doig horizontal natural gas wells that will produce to the PCS Gas Plant and $23.2 million (29%) on land acquisitions on the Montney/Doig Natural Gas Resource Play. The remaining $30.4 million (37%) in capital was spent on other infrastructure, expansion of the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play and on other oil and gas exploration and development projects in the Peace River Arch.

Birchcliff drilled a total of 11 (10.5 net) wells in the Reporting Period with 100% drilling success rate. Of the 11 wells, Birchcliff drilled 5 (5.0 net) Montney/Doig horizontal natural gas wells, 5 (5.0 net) Charlie Lake horizontal oil wells and 1 (0.5 net) Halfway horizontal light oil well.

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources

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

	Three months ended March 31, 2013	Three months ended March 31, 2012
Funds flow from operations	39,444	26,196
Changes in non-cash working capital from operations	(4,093)	2,472
Decommissioning expenditures	(41)	(52)
Exercise of stock options	3,035	1,046
Dividends paid on preferred shares	(1,000)	-
Net change in non-revolving five-year term Facility	44	(692)
Net change in Revolving Credit Facilities	18,926	54,400
Changes in non-cash working capital from investing	24,695	36,481
Capital resources	**81,010**	119,851

Working Capital

The Corporation's working capital deficit (current assets minus current liabilities) increased to $50.9 million at March 31, 2013 from $29.6 million at December 31, 2012. The deficit at the end of the Reporting Period largely comprised of costs incurred on the drilling and completion of new Montney/Doig horizontal natural gas wells.

At March 31, 2013, the major components of Birchcliff's current assets were joint interest billings to be received from its partners (22%) and revenue to be received from its marketers in respect of March 2013 production (71%), which was subsequently received in April 2013. In contrast, current liabilities largely consisted of trade and joint venture payables (65%) and accrued capital and operating costs (31%). Birchcliff routinely assesses the financial strength of its marketers and joint venture partners in accordance with the Corporation's credit risk guidelines. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations.

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

Bank Debt

Total debt (including the working capital deficit) was $502.3 million at March 31, 2013, up from $462.1 million at December 31, 2012 and down from $529.9 million at March 31, 2012. Total debt from the end of 2012 increased by $40.2 million, largely due to capital spent in excess of funds flow in the Reporting Period.

The amount outstanding under Birchcliff's long-term bank credit facilities at March 31, 2013 (as disclosed on the condensed Statements of Financial Position of the Corporation) was $451.4 million (December 31, 2012 – $432.6 million), which is net of $5.5 million (December 31, 2012 – $5.4 million) in unamortized interest and fees.

A significant portion of the funds drawn under Birchcliff's bank credit facilities during the Reporting Period was to pay costs relating to the drilling and completions of new Montney/Doig horizontal natural gas wells and on the expansion of the Montney/Doig Resource Natural Gas Play and the Worsley Light Oil Resource Play.

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

As at,	March 31, 2013	December 31, 2012
Maximum borrowing base limit(1)(2):		
Non-revolving five-year term facility	70,000	70,000
Revolving Credit Facilities	470,000	470,000
	540,000	540,000
Principal amount utilized:		
Drawn non-revolving five-year term facility(3)	(70,000)	(70,000)
Drawn Revolving Credit Facilities(3)	(387,914)	(368,654)
Outstanding letters of credit(4)	(184)	(184)
	(458,098)	(438,838)
Unused credit(2)	**81,902**	101,162

(1) The Corporation's credit facilities are subject to a semi-annual review of the borrowing base limit, which is directly impacted by the value of Birchcliff's petroleum and natural gas reserves. In May 2013, Birchcliff was advised that each member of its bank syndicate approved an increase to the maximum borrowing base limit under the aggregate credit facilities to $600 million from $540 million.

(2) The quarterly financial covenants applicable to the Corporation's credit facilities include (i) an interest coverage ratio, which is calculated on a historical rolling four quarter basis, as earnings before interest and non-cash items including income taxes, stock-based compensation, gains and losses on sale of assets and depletion, depreciation and amortization ("**EBITDA**") divided by interest expense and (ii) a debt to EBITDA ratio. Debt for this purpose means indebtedness for borrowed money, as determined at the end of the reporting period, and includes outstanding debt under the Corporation's credit facilities as shown on the Statements of Financial Position before unamortized deferred financing fees and including outstanding letters of credit but does not include working capital deficiency.

The Corporation is required to ensure that on the last day of each reporting period, the ratio of EBITDA to interest expense, determined on a historical rolling four quarter basis equals or exceeds 3.5:1.0 and the ratio of debt to EBITDA, determined on a historical rolling four quarter basis does not exceed 4.0:1.0. At March 31, 2013, Birchcliff's EBITDA to interest expense coverage was 7.2:1.0 and Debt to EBITDA was 2.9:1.0. The Corporation was compliant with all financial covenants under its credit facilities as at March 31, 2013 and December 31, 2012.

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

(4) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit as at and during the periods ended March 31, 2013 and December 31, 2012.

Contractual Obligations

The Corporation enters into contractual obligations in the ordinary course of conducting its day-to-day business. The following table lists Birchcliff's estimated material contractual obligations at March 31, 2013.

	2013	2014	2015 - 2017
Accounts payable and accrued liabilities	84,844	-	-
Drawn non-revolving five-year term facility	700	1,400	67,900
Drawn Revolving Credit Facilities	-	-	387,914
Office lease(1)	2,463	3,285	9,582
Transportation and processing	11,453	9,507	8,111
Estimated contractual obligations(2)	**99,460**	**14,192**	**473,507**

(1) The Corporation is committed under an operating lease relating to its office premises, beginning December 1, 2007 and expiring on November 30, 2017. Commencing November 2012, Birchcliff is committed to the entire leased premise and has not sublet any excess space to an arms' length party.

(2) Contractual commitments that are routine in nature and form part of the normal course of operations for Birchcliff are not included. The Corporation's decommissioning obligations are excluded from the table as these obligations arise from a regulatory requirement rather than from a contractual arrangement. Birchcliff estimates the total undiscounted cash flow to settle its decommissioning obligations at March 31, 2013 to be approximately $137.5 million and will be incurred as follows: 2013 - $0.7 million, 2014 - $1.2 million, 2015 to 2017 - $5.4 million and $130.2 million thereafter. The estimate for undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

Off-Balance Sheet Transactions

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

OUTSTANDING SHARE INFORMATION

The common shares and preferred shares of Birchcliff are the only classes of shares outstanding as at March 31, 2013. Birchcliff's common shares began trading on the TSX on July 21, 2005 under the symbol "**BIR**" and were at the same time de-listed from the TSX Venture Exchange where they were trading under the same symbol prior to such time. Birchcliff's common shares are included in the S&P/TSX Composite Index. Birchcliff's Series A preferred shares and warrants began trading on August 8, 2012 and are individually listed on the TSX under the symbols BIR.PR.A and BIR.WT, respectively.

The following table summarizes the common shares issued in the Reporting Period.

	Common shares
Balance at December 31, 2012	141,596,279
Issue of common shares upon exercise of options	499,851
Balance at March 31, 2013	**142,096,130**

At May 15, 2013, there were outstanding 142,187,929 common shares, 2,000,000 Series A preferred shares, 12,896,721 stock options to purchase an equivalent number of common shares, 2,939,732 performance warrants to purchase an equivalent number of common shares and 6,000,000 warrants to purchase an equivalent number of common shares.

On March 13, 2013, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A preferred share, payable to the shareholders of record as at the close of business on March 26, 2013. These dividends are designated an eligible dividend for purposes of the *Income Tax Act* (Canada).

SUMMARY OF QUARTERLY RESULTS

The following are the quarterly results of the Corporation for the eight most recently completed quarters.

Three months ended,	Mar. 31, 2013	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sep. 30, 2011	Jun. 30, 2011
Average daily production *(boe 6:1)*	**26,108**	26,655	21,426	22,039	21,061	19,812	17,648	17,324
Realized natural gas price *($/Mcf)*	**3.40**	3.43	2.47	2.05	2.32	3.40	3.92	4.15
Realized oil price *($/bbl)*	**84.82**	83.38	82.45	81.45	90.10	95.52	86.40	99.31
Total revenues *($000)*	**75,718**	78,001	53,926	51,703	55,565	62,676	57,265	58,663
Total capital expenditures *($000)*	**81,010**	32,137	88,099	58,815	119,852	81,023	71,978	32,300
Funds flow from operations *($000)*	**39,444**	39,848	28,230	25,985	26,196	30,400	33,844	34,269
Per common share - basic *($)*	**0.28**	0.28	0.20	0.19	0.21	0.24	0.27	0.27
Per common share - diluted *($)*	**0.27**	0.28	0.20	0.19	0.20	0.23	0.26	0.26
Net income *($000)*	**7,424**	6,305	2,744	416	3,731	3,333	11,411	10,117
Net income to common shareholders *($000)*	**6,424**	5,305	2,165	416	3,731	3,333	11,411	10,117
Per common share - basic *($)*	**0.05**	0.04	0.02	-	0.03	0.03	0.09	0.08
Per common share - diluted *($)*	**0.04**	0.04	0.02	-	0.03	0.03	0.09	0.08
Total assets *($000)*	**1,498,753**	1,430,324	1,420,582	1,350,759	1,314,633	1,225,497	1,138,075	1,080,314
Total debt *($000)*(1)	**502,291**	462,130	468,184	455,708	529,883	437,023	386,296	349,190
Dividends on preferred shares *($000)*	**1,000**	1,000	579	-	-	-	-	-
Preferred shares outstanding *(000)*	**2,000**	2,000	2,000	-	-	-	-	-
Common shares outstanding *(000)*								
Basic	**142,096**	141,596	141,535	141,434	127,006	126,746	126,680	126,497
Diluted	**164,107**	162,997	162,946	157,232	140,152	140,152	140,149	140,137
Weighted average common shares outstanding *(000)*								
Basic	**141,821**	141,585	141,474	138,426	126,754	126,732	126,630	126,323
Diluted	**144,366**	144,239	143,572	138,837	131,008	132,216	131,375	131,381

(1) Aggregate amounts outstanding under Birchcliff's Revolving Credit Facilities, non-revolving five-year term facility and working capital at the end of the period

First quarter 2013 production was down from the fourth quarter of 2012 largely due to natural production declines from Montney/Doig horizontal natural gas wells that were tied into Phase III expansion of the PCS Gas Plant during the fourth quarter offset by new Montney/Doig wells that were brought on stream during the current quarter.

The increase in production from the first quarter of 2012 was a direct result of increased incremental production adds from new Montney/Doig horizontal natural gas wells that were drilled, completed and tied into Phase III of the PCS Gas Plant, which began operation in October 2012, offset by lower light oil production. Light crude oil production was down from the first quarter of 2012, due to infrastructure limitations in a portion of the Worsley field that are currently being addressed.

Funds flow is comparable to the fourth quarter of 2012 and was mainly impacted by lower natural gas production offset by reduced cash general administrative expenses in the first quarter of 2013.

Compared to the first quarter of 2012, funds flow was significantly higher predominately due to a 35% increase in natural gas production and a 47% increase in realized natural gas wellhead prices in the first quarter of 2013. Funds flow was also positively impacted by lower royalty and cash general and administrative expenses and negatively impacted by decreased oil production, lower realized oil wellhead prices and higher interest costs in the first quarter of 2013. Higher average production in the first quarter of 2013 resulted in aggregate increases to production and transportation and marketing costs in that period.

Birchcliff continued to report positive earnings in the current quarter. Net income available to common shareholders increased from the fourth quarter of 2012 due to lower recorded depletion expense offset by higher net stock-based compensation expense in the first quarter of 2013. The increase in net income available to common shareholders from the first quarter of 2012 was due to higher funds flow from operations and lower net stock-based compensation expense offset by higher depletion expense in the current quarter resulting from increased natural gas production, higher income taxes and the payment of dividends on preferred shares in the first quarter of 2013.

Total debt from the end of 2012 increased predominately due to capital spending in excess of funds flow during the first quarter of 2013. A significant portion of the capital spent in the current quarter was on the drilling and completion of new Montney/Doig wells and on land acquisitions in the Montney/Doig Natural Gas Resource Play.

As a result of the April 2012 common share equity issue, both the end of period and weighted average common shares outstanding at March 31, 2013 increased from March 31, 2012. Birchcliff also issued 2,000,000 Series A preferred shares in August 2012.

POTENTIAL TRANSACTIONS

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Corporation has established and maintained disclosure control and procedures ("**DC&P**") that have been designed by, or under the supervision of, the Corporation's Chief Executive Officer and the Chief Financial Officer ("**Certifying Officers**") to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosure. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's DC&P at March 31, 2013 and have concluded that the Corporation's DC&P are appropriately designed and operating effectively to provide reasonable assurance that information required by securities legislation to be disclosed is made known to them by others, to allow timely decisions regarding the required disclosure.

While the Certifying Officers believe that the Corporation's DC&P provide a reasonable level of assurance and are effective, they do not expect that the DC&P will prevent all errors and fraud. A control system, no matter how well conceived, maintained and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met.

Internal Controls over Financial Reporting

The Corporation has established and maintains internal controls over financial reporting ("**ICFR**") that have been designed using the Committee of Sponsoring Organizations "Internal Control Over Financial Reporting - Guidance for Smaller Public Companies". The control framework was designed by, or under the supervision of, the Corporation's Certifying Officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the generally accepted accounting principles applicable to the Corporation and to provide reasonable assurance that all assets are safeguarded and transactions are appropriately authorized and recorded to facilitate the preparation of relevant, reliable and timely information. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's ICFR at March 31, 2013 and have concluded that the Corporation's ICFR was effective at March 31, 2013 for the purposes described above. No changes were made to the Corporation's ICFR during the Reporting Period that have materially affected, or are reasonably likely to materially affect the Corporation's ICFR.

While the Certifying Officers believe that the Corporation's ICFR provide a reasonable level of assurance and are effective, they do not expect that the ICFR will prevent all errors and fraud. A control system, no matter how well conceived, maintained and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The following are critical judgments and estimations that management has made in the process of applying the Corporation's IFRS accounting policies and that have the most significant effect on the amounts recognized in these financial statements:

Critical Judgements in Applying Accounting Policies

Reserves

Reported recoverable quantities of proved and probable reserves include judgmental assumptions regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Corporation's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from Birchcliff's petroleum and natural gas interests are independently evaluated by reserve engineers at least annually.

The Corporation's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proven and probable if producibility is supported by either production or conclusive formation tests. Birchcliff's oil and gas reserves are determined in accordance with the standards contained in National Instrument 51-101 *Standard of Disclosures for Oil and Gas Activities* and the *Canadian Oil and Gas Evaluation Handbook*.

Identification of cash-generating units

Birchcliff's assets are aggregated into CGU's for the purpose of calculating impairment based on their ability to generate largely independent cash inflows. CGU's have been determined based on similar geological structure, shared infrastructure, geographical proximity, operating structure, commodity type and similar exposures to market risks. By their nature, these assumptions are subject to management's judgement and may impact the carrying value of the Corporation's assets in future periods.

Identification of impairment indicators

IFRS requires Birchcliff to assess, at each reporting date, whether there are any indicators that its assets may be impaired. Birchcliff is required to consider information from both external sources (such as negative downturn in commodity prices, significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in reserves, significant adverse effect on the financial and operational performance of a CGU, evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgement and may impact the carrying value of the Corporation's assets in future periods.

Tax uncertainties

IFRS requires Birchcliff, at each reporting date, to make certain judgements on uncertain tax positions by relevant tax authorities. Judgements include determining whether the Corporation will "more likely than not" be successful in defending its tax positions by considering information from relevant tax interpretations and tax laws in Canada. As such, this recognition threshold is subject to management's judgement and may impact the carrying value of the Corporation's deferred tax assets and liabilities at the end of the reporting period.

Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities within the next financial year:

Share-based payments

All equity-settled, share-based awards issued by the Corporation are fair valued using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

Decommissioning obligations

The Corporation estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires an estimate regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

Income taxes

Birchcliff files corporate income tax, goods and service tax and other tax returns with various provincial and federal taxation authorities in Canada. There can be differing interpretations of applicable tax laws and regulations. The resolution of these tax positions through negotiations or litigation with tax authorities can take several years to complete. The Corporation does not anticipate that there will be any material impact upon the results of its operations, financial position or liquidity.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. Estimates of future taxable income are based on forecasted cash flows from operations. To the extent that any interpretation of tax law is challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability of Birchcliff to realize the deferred tax assets recorded at the balance sheet date could be impacted.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2013, the Birchcliff adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7).

IFRS 10 *Consolidated Financial Statements* builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 replaces those parts of IAS 27 *Consolidated and Separate Financial Statements (revised 2011)* that address when and how an entity should prepare consolidated financial statements and replaces SIC 12 *Consolidation – Special Purpose Entities* in its entirety. IAS 27 retains the current guidance for separate financial statements. The adoption of IFRS 10 did not have an impact on the Corporation's financial statements.

IFRS 11 *Joint Arrangements* provides for a more substance based reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. IAS 28 *Investments in Associates and Joint Ventures* (revised 2011) has been amended to conform to changes based on the issuance of IFRS 10 and IFRS 11. The adoption of IFRS 11 did not have an impact on the Corporation's financial statements.

IFRS 12 *Disclosure of Interests in Other Entities* requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. The effective date of IFRS 12 is January 1, 2013 but entities are permitted to incorporate any of the new disclosures in their financial statements before that date. The adoption of IFRS 12 did not have an impact on the Corporation's financial statements.

IFRS 13 *Fair Value Measurement* establishes a single framework for measuring fair values. This standard applies to all transactions and balances (whether financial or non-financial) for which IFRS requires or permits fair value measurements, with the exception of share-based payment transactions accounted for under IFRS 2 *Share-based Payment* and leasing transactions within the scope of IAS 17 *Leases*. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. The adoption of IFRS 13 did not have an impact on the Corporation's financial statements.

IFRS 7 *Financial Instruments: Disclosures* develop common disclosure requirements for financial assets and financial liabilities that are offset in the financial statements, or that are subject to enforceable master netting arrangements or similar agreements. The adoption of IFRS 7 did not have an impact on the Corporation's financial statements.

ADVISORIES

Unaudited numbers: *All financial amounts referred to in this "MD&A" and the Corporation's first quarter report for the Reporting Period and the Comparable Prior Period ("**Q1 Report**") are management's best estimates and are unaudited.*

Non-GAAP measures: *This MD&A and the Q1 Report uses "funds flow", "funds flow from operations", "funds flow netback", "funds flow per common share", "netback", "operating netback", "estimated operating netback" and "operating margin", which do not have standardized meanings prescribed by generally accepted accounting principles ("**GAAP**") and therefore may not be comparable measures to other companies where similar terminology is used. Netback or operating netback denotes petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. Estimated operating netback for the PCS Gas Plant (and the components thereof) is based upon certain cost allocations and accruals directly related to the PCS Gas Plant and related wells and infrastructure, and are disclosed on a production month basis. Funds flow, funds flow netback or funds flow from operations denotes cash flow from operating activities as it appears on the Corporation's Condensed Statements of Cash Flows before decommissioning expenditures and changes in non-cash working capital. Funds flow, funds flow netback or funds flow from operations is also derived from net income and comprehensive income available to Birchcliff's shareholders plus income tax expense, depletion and depreciation expense, accretion expense, stock-based compensation expense, amortization of deferred financing fees and gains on divestitures. Funds flow per common share denotes funds flow divided by the weighted average number of common shares. Operating margin at the PCS Gas Plant is calculated by dividing the estimated operating netback for the period by the petroleum and natural gas revenue for the period.*

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

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

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

Forward-looking information: *This MD&A and the Q1 Report contains forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking information relates to future events or future performance and is based upon the Corporation's current internal expectations, estimates, projections, assumptions and beliefs. All information other than historical fact is forward-looking information. Words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "potential", "proposed" and other similar words that convey certain events or conditions "may" or "will" occur are intended to identify forward-looking information. In particular, this MD&A and the Q1 Report contains forward-looking information related to planned fourth quarter and exit production increases; planned 2013 capital spending and sources of funding; anticipated reduction of operating costs on a per boe basis; the intention to drill and complete future wells; and an expansion of the PCS Gas Plant.*

The forward-looking information is based upon assumptions as to future commodity prices, currency exchange rates, inflation rates, well production rates, well drainage areas, success rates for future drilling and availability of labour and services. With respect to estimates of numbers of future wells to be drilled a key assumption is that geological and other technical interpretations performed by the Corporation's technical staff, which indicates that commercially economic reserves can be recovered from the Corporation's lands as a result of drilling such future wells, are valid. Estimates as to 2013 average fourth quarter and exit production rates assume that no unexpected outages occur in the infrastructure that the Corporation relies on to produce its wells, that existing wells continue to meet production expectations and that any future wells, scheduled to come on production in 2013, meet timing and production expectations.

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

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

The foregoing list of risk factors is not exhaustive. Additional information on these and other risk factors that could affect operations or financial results are included in the Corporation's most recent Annual Information Form and in other reports filed with Canadian securities regulatory authorities. Forward-looking information is based on estimates and opinions of management at the time the information is presented. The Corporation is not under any duty to update the forward-looking information after the date of this MD&A and Q1 Report to conform such information to actual results or to changes in the Corporation's plans or expectations, except as otherwise required by applicable securities laws.

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF FINANCIAL POSITION

Unaudited (Expressed in thousands of Canadian dollars)

As at,	March 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash	46	46
Accounts receivable	32,989	27,728
Prepaid expenses and deposits	1,939	2,205
	34,974	29,979
Non-current assets:		
Exploration and evaluation *(Note 4)*	2,179	2,106
Petroleum and natural gas properties and equipment *(Note 5)*	1,461,600	1,398,239
	1,463,779	1,400,345
Total assets	**1,498,753**	1,430,324
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	84,844	58,846
Non-revolving five-year term facility *(Note 6)*	1,050	700
	85,894	59,546
Non-current liabilities:		
Non-revolving five-year term facility *(Note 6)*	67,979	68,250
Revolving credit facilities *(Note 7)*	383,392	364,313
Decommissioning obligations *(Note 8)*	77,779	68,967
Deferred income taxes	37,635	35,001
	566,785	536,531
Total liabilities	**652,679**	596,077
SHAREHOLDERS' EQUITY		
Share capital *(Note 9)*		
Common shares	682,261	677,802
Preferred shares	41,434	41,434
Contributed surplus	58,622	57,678
Retained earnings	63,757	57,333
	846,074	834,247
Total shareholders' equity and liabilities	**1,498,753**	1,430,324

The accompanying notes are an integral part of these interim condensed financial statements.

Approved by the Board

(signed) "Larry A. Shaw" *(signed) "A. Jeffery Tonken"*

Larry A. Shaw
Director

A. Jeffery Tonken
Director

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

Unaudited (Expressed in thousands of Canadian dollars, except per share information)

Three months ended,	March 31, 2013	March 31, 2012
REVENUE		
Petroleum and natural gas	75,718	62,833
Royalties	(6,427)	(7,268)
	69,291	55,565
EXPENSES		
Operating	13,552	11,830
Transportation and marketing	5,311	4,529
Administrative, net	6,183	9,526
Depletion and depreciation *(Note 5)*	27,034	22,177
Finance	6,754	5,758
(Gain) on sale of assets *(Note 5)*	-	(3,875)
	58,834	49,945
INCOME BEFORE TAXES	10,457	5,620
Income tax expense	3,033	1,889
NET INCOME AND COMPREHENSIVE INCOME AVAILABLE TO BIRCHCLIFF'S SHAREHOLDERS	**7,424**	3,731
Net income per common share *(Note 9)*		
Basic	**$0.05**	$0.03
Diluted	**$0.04**	$0.03

The accompanying notes are an integral part of these interim condensed financial statements.

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Unaudited (Expressed in thousands of Canadian dollars)

	Share Capital				
	Common Shares	**Preferred Shares**	**Contributed Surplus**	**Retained Earnings**	**Total**
As at December 31, 2011	567,816	-	43,070	45,716	656,602
Exercise of stock options	1,575	-	(529)	-	1,046
Stock-based compensation	-	-	2,493	-	2,493
Net income and comprehensive income	-	-	-	3,731	3,731
As at March 31, 2012	569,391	-	45,034	49,447	663,872
As at December 31, 2012	677,802	41,434	57,678	57,333	834,247
Exercise of stock options *(Notes 9 and 10)*	4,459	-	(1,424)	-	3,035
Stock-based compensation *(Note 10)*	-	-	2,368	-	2,368
Dividends on preferred shares *(Note 9)*	-	-	-	(1,000)	(1,000)
Net income and comprehensive income	-	-	-	7,424	7,424
As at March 31, 2013	**682,261**	**41,434**	**58,622**	**63,757**	**846,074**

The accompanying notes are an integral part of these interim condensed financial statements.

BIRCHCLIFF ENERGY LTD.
CONDENSED STATEMENTS OF CASH FLOWS

Unaudited (Expressed in thousands of Canadian dollars)

Three months ended,	**March 31, 2013**	**March 31, 2012**
Cash provided by (used in):		
OPERATING		
Net income	7,424	3,731
Adjustments for items not affecting operating cash:		
Depletion and depreciation	27,034	22,177
Stock-based compensation	1,303	1,641
Finance	6,754	5,758
(Gain) on sale of assets	-	(3,875)
Income taxes	3,033	1,889
Interest paid	(6,104)	(5,125)
Decommissioning expenditures *(Note 8)*	(41)	(52)
Changes in non-cash working capital	(4,093)	2,472
	35,310	28,616
FINANCING		
Exercise of stock options	3,035	1,046
Dividends on preferred shares	(1,000)	-
Net change in non-revolving five-year term facility	44	(692)
Net change in revolving credit facilities	18,926	54,400
	21,005	54,754
INVESTING		
Development of petroleum and natural gas properties and equipment	(80,937)	(119,790)
Additions of exploration and evaluation assets	(73)	(62)
Changes in non-cash working capital	24,695	36,481
	(56,315)	(83,371)
NET CHANGE IN CASH	-	(1)
CASH, BEGINNING OF PERIOD	46	65
CASH, END OF PERIOD	46	64

The accompanying notes are an integral part of these interim condensed financial statements.

BIRCHCLIFF ENERGY LTD.
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2013
(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT FOR PER SHARE INFORMATION) (UNAUDITED)

1. NATURE OF OPERATIONS

Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") is domiciled and incorporated in Canada. Birchcliff is engaged in the exploration for and the development, production and acquisition of petroleum and natural gas reserves in Western Canada. The Corporation's financial year end is December 31. The address of the Corporation's registered office is 500, 630 – 4th Avenue SW, Calgary, Alberta, Canada T2P 0J9. Birchcliff's Common Shares, Preferred Shares, Series A and Warrants are listed for trading on the Toronto Stock Exchange under the symbols "**BIR**", "**BIR.PR.A**" and "**BIR.WT**", respectively.

These financial statements were approved and authorized for issuance by the Board of Directors on May 15, 2013.

2. BASIS OF PREPARATION

These unaudited interim condensed financial statements present Birchcliff's financial results of operations and financial position under International Financial Reporting Standards ("**IFRS**") as at and for the three months ended March 31, 2013, including the 2012 comparative period. The financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**").

These financial statements have been prepared following the same IFRS accounting policies and methods of computation as disclosed in the annual audited financial statements for the year ended December 31, 2012, except as noted below. Certain information and disclosures normally required to be included in the notes to the annual audited financial statements have been condensed, omitted or have been disclosed on an annual basis only. Accordingly, these financial statements should be read in conjunction with the annual audited financial statements and the notes thereto for the year ended December 31, 2012.

Birchcliff's financial statements are prepared on a historical cost basis, except for certain financial and non-financial assets and liabilities, which have been measured at fair value. The Corporation's financial statements include the accounts of Birchcliff only and are expressed in thousands of Canadian dollars, except for per share information. There are no subsidiary companies.

3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2013, the Birchcliff adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards had no impact on the amounts recorded in the financial statements as at January 1, 2013 or on the comparative periods.

4. EXPLORATION AND EVALUATION ASSETS

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

	E&E[1]
As at December 31, 2011	1,858
Additions	248
As at December 31, 2012	2,106
Additions	73
As at March 31, 2013	**2,179**

(1) E&E assets consist of the Corporation's exploration activities which are pending the determination of economic quantities of commercially producible proven reserves. Additions represent the Corporation's net share of costs incurred on E&E activities during the period. A review of each exploration project by area is carried out at each reporting date to ascertain whether economical quantities of proven reserves have been discovered and whether such costs should be transferred to depletable petroleum and natural gas components. There were no exploration costs reclassified from the E&E category to petroleum and natural gas properties and equipment category during the three months ended March 31, 2013.

5. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

The continuity for Petroleum and Natural Gas ("**P&NG**") Properties and Equipment are as follows:

	P&NG Assets	Corporate Assets	Total
Cost:			
As at December 31, 2011	1,301,478	6,263	1,307,741
Additions	306,036	585	306,621
Acquisitions[1]	24,984	-	24,984
Dispositions[1]	(22,738)	-	(22,738)
As at December 31, 2012	1,609,760	6,848	1,616,608
Additions	89,894	501	90,395
As at March 31, 2013[2]	1,699,654	7,349	1,707,003
Accumulated depletion and depreciation:			
As at December 31, 2011	(120,609)	(3,497)	(124,106)
Depletion and depreciation expense	(94,942)	(842)	(95,784)
Dispositions[1]	1,521	-	1,521
As at December 31, 2012	(214,030)	(4,339)	(218,369)
Depletion and depreciation expense	(26,841)	(193)	(27,034)
As at March 31, 2013	(240,871)	(4,532)	(245,403)
Net book value:			
As at December 31, 2012	1,395,730	2,509	1,398,239
As at March 31, 2013	1,458,783	2,817	**1,461,600**

(1) In 2012, Birchcliff completed a transaction whereby it disposed of minor assets in the Glacier area of Alberta in exchange for strategic assets acquired in the Pouce Coupe area of Alberta. The fair value of the exchange transaction was estimated at $25 million. As a result of the disposition, Birchcliff recorded a gain on the sale of approximately $3.9 million in 2012.

(2) The Corporation's P&NG properties and equipment were pledged as security for its credit facilities. Although the Corporation believes that it has title to its petroleum and natural gas properties, it cannot control or completely protect itself against the risk of title disputes and challenges. There were no borrowing costs capitalized to P&NG properties and equipment.

6. NON- REVOLVING TERM CREDIT FACILITIES

In 2011, the Corporation entered into a $70 million non-revolving five-year term credit facility with a maturity date on May 25, 2016. This facility is provided by a syndicate of banks and requires principle payments of $350,000 per quarter commencing July 1, 2013. The current portion due under the non-revolving five-year term facility is $1.05 million at March 31, 2013.

7. REVOLVING CREDIT FACILITIES

The components of the Corporation's revolving credit facilities include:

As at,	March 31, 2013	December 31, 2012
Syndicated credit facility	373,000	351,000
Working capital facility	14,914	17,654
Drawn revolving credit facilities	387,914	368,654
Unamortized prepaid interest on bankers' acceptances	(4,471)	(4,137)
Unamortized deferred financing fees	(51)	(204)
Revolving credit facilities	**383,392**	364,313

At March 31, 2013, the revolving credit facilities consisted of a revolving syndicated credit facility with an authorized limit of $440 million and revolving working capital facility with an authorized limit of $30 million. The debt covenants applicable to the Corporation's credit facilities are disclosed in Note 11 to these financial statements.

8. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is provided below:

As at,	March 31, 2013	December 31, 2012
Balance, beginning	68,967	64,023
Obligations incurred	1,119	2,166
Obligations acquired, net dispositions	-	(26)
Changes in estimate(1)	7,272	1,712
Accretion expense	462	1,770
Actual expenditures	(41)	(678)
Balance, ending	**77,779**	68,967

(1) Change due to an increase in abandonment cost estimates for Birchcliff's oil and natural gas wells.

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

9. SHAREHOLDERS' EQUITY

Share Capital

(a) Authorized:

Unlimited number of voting common shares, with no par value

Unlimited number of preferred shares, with no par value

Common shares and preferred shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a reduction in share capital, net of any tax effects. The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

(b) Number of Shares Issued:

	March 31, 2013	December 31, 2012
Preferred shares - Series A:		
Outstanding at beginning of period – Jan 1	2,000,000	-
Issue of preferred shares – Series A	-	2,000,000
Outstanding at end of period	**2,000,000**	2,000,000
Common shares:		
Outstanding at beginning of period – Jan 1	141,596,279	126,745,577
Issue of common shares	-	13,075,000
Issue of flow-through common shares	-	1,100,000
Exercise of stock options	499,851	675,702
Outstanding at end of period	**142,096,130**	141,596,279

Warrants

In August 2012, Birchcliff issued 6,000,000 warrants as part of a preferred unit equity offering. Each warrant is exercisable until August 8, 2014 at a price of $8.30 to purchase one common share of Birchcliff. There were 6,000,000 warrants outstanding at March 31, 2013.

Preferred Share Dividends

On March 13, 2013, the Board of Directors declared a quarterly cash dividend of $1.0 million or $0.50 per Series A preferred share for the calendar quarter ending March 31, 2013. The dividend is designated an eligible dividend for purposes of the *Income Tax Act* (Canada).

Per Common Share Amounts

The Corporation calculates basic and diluted per common share amounts using net income available to Birchcliff's common shareholders, adjusted for preferred share dividend distributions and divided by the weighted average number of common shares outstanding. The following table presents the computation of net income per common share:

Three months ended,	March 31, 2013	March 31, 2012
Net income	7,424	3,731
Dividends on preferred share	(1,000)	-
Net income available to Birchcliff's common shareholders	6,424	3,731
Weighted average common shares (000's):		
Weighted average common shares outstanding (basic)	141,821	126,754
Effect of dilutive stock options & performance warrants	2,545	4,254
Weighted average common shares outstanding (diluted)[1]	144,366	131,008
Net income per common share		
Basic	**$0.05**	$0.03
Diluted	**$0.04**	$0.03

(1) Diluted per common share information is calculated using the treasury stock method, which assumes that any proceeds from the exercise of "in-the-money" stock options, performance warrants or warrants (the "securities"), plus the unamortized stock-based compensation expense amounts, would be used to purchase common shares at the average market price during the period. No adjustment to diluted earnings per common share is made if the result of these calculations is anti-dilutive. The weighted average diluted common shares outstanding at March 31, 2013 excludes 8,246,601 (March 31, 2012 – 3,183,000) stock options and 6,000,000 (March 31, 2012 – nil) warrants that are anti-dilutive. The average market value of the Corporation's shares for the purpose of calculating the dilutive effect was based on average quoted market prices for the time that the securities were outstanding during the period.

10. SHARE-BASED PAYMENTS

(a) Stock Options

During the three months ending March 31, 2013, the Corporation recorded $1.3 million (March 31, 2012 – $1.6 million) of non-cash stock-based compensation expense, net of $1.1 million (March 31, 2012 – $0.9 million) in capitalized amounts directly attributable to the exploration and development of the Corporation's assets. In determining the stock-based compensation expense for options issued during the three months ended March 31, 2013, the Corporation applied a weighted average estimated forfeiture rate of 14%. There were no options granted in the three months ended March 31, 2012.

At March 31, 2013, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of a maximum of 14,209,613 (March 31, 2012 – 12,700,558) common shares. At March 31, 2013, there remained available for issuance options in respect of 1,138,526 (March 31, 2012 – 2,493,617) common shares. For stock options exercised during the three months ended March 31, 2013, the weighted average share trading price was $7.71 (March 31, 2012 – $10.92) per common share.

A summary of the outstanding stock options is presented below:

	Number	Weighted Average Exercise Price *($)*
Outstanding, December 31, 2012	12,463,872	8.06
Granted	2,147,700	7.33
Exercised	(499,851)	(6.07)
Forfeited	(93,834)	(7.27)
Expired	(946,800)	(7.41)
Outstanding, March 31, 2013	**13,071,087**	**8.07**

The weighted average fair value per option granted during the three months ended March 31, 2013 was $2.73. The weighted average assumptions used in calculating the Black-Scholes fair values are set forth below:

Three months ended,	March 31, 2013
Risk-free interest rate	1.3%
Option life *(years)*	3.9
Expected volatility	47%
Dividend yield	-

A summary of the stock options outstanding and exercisable under the plan at March 31, 2013 is presented below:

Exercise Price		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$4.53	$6.00	4,725,486	2.91	$5.64	1,672,486	0.81	$5.05
$6.01	$9.00	3,164,867	4.22	$7.53	533,499	1.61	$8.39
$9.01	$12.00	4,882,934	2.31	$10.49	4,005,415	2.21	$10.34
$12.01	$13.60	297,800	2.27	$12.84	164,465	1.51	$12.78
		13,071,087	**2.99**	**$8.07**	**6,375,865**	**1.77**	**$8.85**

(b) Performance Warrants

Performance warrants were issued on January 14, 2005 as part of the Corporation's initial restructuring to become a public entity. Birchcliff issued 4,049,665 performance warrants with an exercise price of $3.00 with an amended expiration date of January 31, 2015. There are 2,939,732 performance warrants outstanding and exercisable at March 31, 2013 (March 31, 2012 - 2,939,732).

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

11. CAPITAL MANAGEMENT

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations, including potential obligations arising from additional acquisitions; to maintain a capital structure that allows Birchcliff to finance its growth strategy using primarily internally-generated cash flow and its available debt capacity; and to optimize the use of its capital to provide an appropriate investment return to its shareholders. There were no changes in the Corporation's approach to capital management during the three months ended March 31, 2013.

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

As at,	**March 31, 2013**	**December 31, 2012**
Maximum borrowing base limit(1)(2):		
Non-revolving five-year term credit facility	70,000	70,000
Revolving credit facilities	470,000	470,000
	540,000	540,000
Principal amount utilized:		
Drawn non-revolving five-year term credit facility	(70,000)	(70,000)
Drawn revolving credit facilities	(387,914)	(368,654)
Outstanding letters of credit(3)	(184)	(184)
	(458,098)	(438,838)
Unused credit(2)	**81,902**	101,162

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

(2) The quarterly financial covenants applicable to the Corporation's credit facilities include (i) an interest coverage ratio, which is calculated on a historical rolling four quarter basis, as earnings before interest and non-cash items including income taxes, stock-based compensation, gains and losses on sale of assets and depletion, depreciation and amortization ("**EBITDA**") divided by interest expense and (ii) a debt to EBITDA ratio. Debt for this purpose means indebtedness for borrowed money, as determined at the end of the reporting period, and includes outstanding debt under the Corporation's credit facilities as shown on the Statements of Financial Position before unamortized deferred financing fees and including outstanding letters of credit, but does not include working capital deficiency.

(3) The Corporation is required to ensure that on the last day of each quarter, the ratio of EBITDA to interest expense, determined on a historical rolling four quarter basis equals or exceeds 3.5:1.0 and the ratio of debt to EBITDA, determined on a historical rolling four quarter basis does not exceed 4.0:1.0. At March 31, 2013, Birchcliff's EBITDA to interest expense was 7.2:1.0 and Debt to EBITDA was 2.9:1.0. The Corporation was compliant with all financial covenants under its credit facilities as at March 31, 2013.

(4) Letters of credit are issued to various service providers. There were no amounts drawn on the letters of credit during the three months ended March 31, 2013.

The capital structure of the Corporation is as follows:

As at,	March 31, 2013	December 31, 2012	Change
Shareholders' equity[1]	846,074	834,247	1%
Shareholders' equity as a % of total capital	62%	64%	
Working capital deficit[2]	49,870	28,867	
Drawn non-revolving five-year term credit facility	70,000	70,000	
Drawn revolving credit facilities	387,914	368,654	
Drawn debt	507,784	467,521	9%
Drawn debt as a % of total capital	38%	36%	
Capital	**1,353,858**	1,301,768	4%

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

(2) Working capital deficit is defined as current assets less current liabilities, excluding the current portion of the non-revolving five-year term credit facility.

12. CONTINGENT LIABILITY

The disputed 2006 and 2007 income tax fillings by Canada Revenue Agency, in respect of $39.3 million of denied tax pools relating to the Veracel transaction, still remain outstanding at March 31, 2013. The resolution of the disputed assessments may impact future income tax expense but will not impact cash taxes payable by the Corporation. Management believes that it will be successful in defending its tax position respecting the Veracel transaction, and as such, the Corporation has not recognized a related provision for deferred income tax liability at March 31, 2013.

CORPORATE INFORMATION

OFFICERS

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President & Chief Executive Officer

Myles R. Bosman
Vice President, Exploration & Chief Operating Officer

Bruno P. Geremia
Vice President & Chief Financial Officer

David M. Humphreys
Vice President, Operations

Karen A. Pagano
Vice President, Engineering

James W. Surbey
Vice President, Corporate Development

DIRECTORS

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Gordon W. Cameron
Calgary, Alberta

Kenneth N. Cullen
Calgary, Alberta

Werner A. Siemens
Calgary, Alberta

A. Jeffery Tonken
President & Chief Executive Officer
Calgary, Alberta

SOLICITORS

Borden Ladner Gervais LLP
Calgary, Alberta

AUDITORS

KPMG LLP, Chartered Accountants
Calgary, Alberta

RESERVES EVALUATOR

Deloitte (AJM Deloitte)
Calgary, Alberta

BANKERS

The Bank of Nova Scotia

HSBC Bank Canada

Union Bank

Alberta Treasury Branch

The Toronto Dominion Bank

National Bank of Canada

Business Development Bank of Canada

United Overseas Bank

ICICI Bank Canada

Canadian Imperial Bank of Commerce

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